CHINA HUARONG ENERGY
COMPANY LIMITED

中國華榮能源股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101

2016

INTERIM REPORT

ABOUT HUARONG ENERGY

China Huarong Energy Company 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 has 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.

CONTENTS

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

For the six months ended 30 June 2016 (the "**Period**"), China Huarong Energy Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") recorded a negative revenue of RMB3,478.0 million, which was primarily attributable to the decrease in revenue from sales of vessels and the reversal of revenue from cancellation of shipbuilding contracts compared to the revenue of RMB379.1 million for the six months ended 30 June 2015 (the "**Comparative Period**"). Loss attributable to the equity holders of the Company was RMB1,963.1 million for the Period, while loss attributable to the equity holders of the Company was RMB2,035.8 million for the Comparative Period.

Shipbuilding and Offshore Engineering

The Company's shipbuilding segment recorded a negative revenue of RMB3,494.8 million for the Period. During the Period, we delivered 2 vessels with a total sales revenue of approximately RMB60.0 million. As at 30 June 2016, our total orders on hand consisted of 12 vessels, representing a total volume of approximately 918,700 DWT with a total contract value of approximately USD437.3 million. They included 9 Panamax bulk carriers, 1 Panamax crude oil tanker and 2 7,000-TEU containerships.

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

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

Energy Exploration and Production

In September 2014, the Company 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. For the Period, the Kyrgyzstan Project recorded 78,422 barrels (bbl) of light crude oil. Revenue from the energy exploration and production segment was RMB14.9 million for the Period, an increase of 263.4% from RMB4.1 million for the Comparative Period.

Marine Engine Building and Engineering Machinery

In the first half of 2016, while the sluggish shipping market has continuously suffered from the excess capacity of the industry, sales of marine engines were also affected by the downturn of the shipbuilding industry. There was no revenue from external customers of our marine engine building segment for both years. Inter-segment revenue was RMB0.7 million for the Period (for the Comparative Period: RMB0.9 million). As at 30 June 2016, our marine engine building segment had orders on hand for a total of 27 engines (for the Comparative Period: total of 26 orders on hand).

Engineering machinery market was picking up slightly in the first half of 2016. For the Period, revenue from the engineering machinery segment was RMB1.9 million, an increase of 850.0% from RMB0.2 million for the Comparative Period.

Financial Review

Revenue

For the Period, the Group recorded a negative revenue of RMB3,478.0 million (for the Comparative Period: a revenue of RMB379.1 million). It was primarily attributable to the reversal of revenue from cancellation of shipbuilding contracts. For the Period, revenue from sales of vessels was RMB60.0 million (for the Comparative Period: RMB361.4 million). Revenue from shipbuilding and other contracts was RMB89.8 million as compared to RMB13.6 million for the Comparative Period, representing a year-on-year increase of approximately 560.3%. Revenue from sales of crude oil was RMB14.9 million (for the Comparative Period: RMB4.1 million). During the Period, revenue reversed from the cancellation of shipbuilding contracts was 3,642.7 million (for the Comparative Period: nil).

Cost of Sales

For the Period, our cost of sales decreased by approximately 34.9% to RMB551.8 million (for the Comparative Period: RMB847.9 million), which was primarily attributable to the reversal of cost of goods sold from cancellation of shipbuilding contracts. Cost of sales reversed from cancellation of shipbuilding contracts for the Period was RMB3,037.1 million (for the Comparative Period: nil).

Selling and Marketing Expenses

For the Period, selling and marketing expenses increased slightly by approximately 3.1% to RMB3.3 million (for the Comparative Period: RMB3.2 million), which was primarily in line with the Group's strategic transformation by maintaining selling and marketing expenses of the energy exploration and production business.

General and Administrative Expenses

For the Period, general and administrative expenses decreased by approximately 18.1% to RMB305.0 million (for the Comparative Period: RMB372.6 million). This was mainly attributable to the implementation of cost control measures by the Group.

Reversal of/(Provision for) Impairments and Delayed Penalties

For the Period, reversal of impairments and delayed penalties was RMB3,318.3 million (for the Comparative Period: provision for impairments and delayed penalties of RMB166.4 million). It was mainly due to the reversal of impairment of trade receivables of RMB1,043.9 million, reversal of impairment of other receivables and prepayments of RMB34.8 million, and reversal of impairment of amounts due from customers for contract works of RMB2,239.6 million, respectively. The reversal of impairment of trade receivables for the Period was mainly due to the collection of trade receivables.

Other Gains – Net

For the Period, other gains – net was RMB168.5 million (for the Comparative Period: losses of RMB2.0 million), primarily due to fair value gain of RMB213.9 million on embedded derivatives in convertible bonds recorded for the Period (for the Comparative Period: RMB4.8 million).

Finance Costs – Net

Finance income for the Period, which mainly derived from the bank interest income, decreased by approximately 98.6% to RMB0.2 million (for the Comparative Period: RMB14.0 million). Our finance costs for the Period increased by approximately 8.6% to RMB1,182.4 million (for the Comparative Period: RMB1,089.2 million). The increase was mainly due to the increase in borrowings of the Company for the Period.

Gross Loss

During the Period, we recorded a gross loss of RMB4,029.8 million (for the Comparative Period: RMB468.8 million). As a result of depressed shipbuilding market conditions and the lower prices of new buildings, the profitability of conventional shipbuilding business has diminished. We cancelled some shipbuilding contracts in response to the market downturn and to mitigate risk. In addition, in order to align with the strategic transformation of the Group, a gross loss was incurred by the Company 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 a total comprehensive loss for the Period of RMB1,993.2 million (for the Comparative Period: RMB2,085.8 million), of which comprehensive loss for the Period attributable to equity holders of the Company was RMB1,928.3 million (for the Comparative Period: RMB2,036.3 million). Comprehensive loss for the Period attributable to the equity holders of the Company is the result of gross loss, finance cost and the considerable fixed administrative expenses.

Liquidity and Going Concern

During the Period, the Group incurred a loss of approximately RMB2,027.9 million. As at 30 June 2016, the Group had a total deficit of RMB7,686.9 million and the current liabilities exceeded its current assets by approximately RMB29,748.4 million. On the same date, the Group's total current borrowings and financial lease liabilities amounted to RMB22,973.2 million, of which RMB18,509.2 million were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also included the convertible bonds issued by the Company with outstanding principal totaling Hong Kong dollars ("**HKD**") 2,440.0 million (equivalent to approximately RMB2,085.4 million) as at 30 June 2016 which were immediately redeemable after reaching the one-year non-redemption period.

However, a series of plans and measures have been taken by us to mitigate liquidity pressure and to improve the financial position of the Group. In order to accelerate and facilitate the progress of the Group's restructuring plan and to enhance the liquidity and financial position of the Group, the Group plans to reduce its liabilities by issuing shares of the Company to satisfy certain of the Group's outstanding borrowings owed to institutional creditors. The Company has proposed to effect the disposal of liabilities by (1) entering into certain bank creditor subscription agreements with certain bank creditors or their designated entities to subscribe for, up to 14,108,000,000 shares of HKD0.50 each (the "**Shares**") at the subscription price of HKD1.20 per Share, to satisfy the relevant borrowings in an aggregate amount of up to RMB14,108.0 million due from the Group to these bank creditors; and (2) entering into certain supplier creditor subscription agreements with certain supplier creditors or their designated entities to subscribe for, up to 3,000,000,000 Shares at the subscription price of HKD1.20 per Share to satisfy the relevant payables in an aggregate amount of up to RMB3,000.0 million due from the Group to these supplier creditors. The disposal of liabilities and the subscriptions will enable the Group to ease its debt burden immediately and to enhance the flexibility of fund utilization.

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

Borrowings and Finance Lease Liabilities

Our short-term borrowings and finance lease liabilities increased by RMB738.4 million from RMB22,234.8 million as at 31 December 2015 to RMB22,973.2 million as at 30 June 2016. Our long-term borrowings and finance lease liabilities decreased by RMB306.6 million from RMB445.2 million as at 31 December 2015 to RMB138.6 million as at 30 June 2016.

As at 30 June 2016, our total borrowings and finance lease liabilities were RMB23,111.8 million (as at 31 December 2015: RMB22,680.0 million), of which RMB19,602.0 million (84.8%) was denominated in RMB and the remaining RMB3,509.8 million (15.2%) was denominated in USD and HKD. Certain borrowings were secured by the Group's land use rights, buildings, construction contracts, pledged deposits, guarantee from related parties and companies within the Group. About half of the borrowings bear interests at fixed rates. Details of the repayment schedule of the Group's borrowings are set out in Note 15 to the condensed consolidated interim financial information.

The Company intends to enter into certain bank creditor subscription agreements with certain bank creditors or their designated entities to subscribe for, up to 14,108,000,000 Shares at the subscription price of HKD1.20 per Share, to satisfy the relevant borrowings in an aggregate amount of up to RMB14,108.0 million due from the Group to these bank creditors, details of which are set out in the circular of the Company dated 9 March 2016 (the "**Circular**").

Inventories

Our inventories decreased by RMB405.4 million to RMB604.7 million as at 30 June 2016 (as at 31 December 2015: RMB1,010.1 million). The inventory turnover days increased from 280 days as at 31 December 2015 to 299 days as at 30 June 2016.

Amounts Due from Customers for Contract Works

Our amounts due from customers for contract works decreased by RMB172.1 million to nil as at 30 June 2016 (as at 31 December 2015: RMB172.1 million). The decrease in amounts due from customers for contract works was the result of the reduction 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 flow of unmatched currencies is subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimize the impact of foreign exchange fluctuations on our business operations, although the Group currently does not have a foreign currency hedging policy. The Group incurred foreign exchange losses of RMB17.9 million due to the depreciation of RMB against USD during the Period, which resulted in foreign exchange losses on certain USD-denominated liabilities, such as accounts payable of the Group.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB3.1 million (for the Comparative Period: RMB60.9 million), which was mainly used as relevant expenses of facilities.

Gearing Ratio

Our gearing ratio (as calculated by total loans and finance lease liabilities divided by the sum of total loans and finance lease liabilities and total deficit) increased from 133.6% as at 31 December 2015 to 149.8% as at 30 June 2016, subject to the losses of RMB2,027.9 million for the Period. The total deficit was RMB7,686.9 million as at 30 June 2016 (as at 31 December 2015: RMB5,703.0 million).

Contingent Liabilities and Commitments

As at 30 June 2016, we had contingent liabilities of RMB79.5 million (as at 31 December 2015: RMB79.5 million), which resulted from refund guarantees issued to and financial guarantees provided to our customers. Details of the commitments of the Group are set out in Note 26 to the condensed consolidated interim financial information.

Credit Assessment and Risk Management

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, pledged deposits, outstanding trade receivables, other receivables and amounts due from customers for contract works. As at 30 June 2016, all of our 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.

We conduct customer credit checks prior to entering into shipbuilding contracts and request 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 offer credit lines after evaluating the customer's credit profiles, financial conditions, past experiences and other factors.

As at 30 June 2016, based on the management's assessment on the recoverability, trade receivables of RMB2,419.5 million (as at 31 December 2015: RMB3,398.2 million) and RMB383.9 million (as at 31 December 2015: RMB383.5 million) related to certain customers of the shipbuilding segment and the engineering machinery segment were provided for respectively.

Human Resources

As at 30 June 2016, we had approximately 958 employees (as at 31 December 2015: approximately 2,028 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 Group remunerated its employees mainly based on their performance, experience and prevailing market conditions.

Market Analysis and Prospects

In light of the impact of the global economic slowdown and the overcapacity in the shipping market, the shipbuilding industry was still facing tremendous challenges in production and operations during the first half of 2016. The shipbuilding industry in China had entered into a period of structural adjustment. Financial institutions followed a stringent credit policy persistently towards the shipbuilding industry. Fundamentals of the overall operating environment had not yet improved. Meanwhile, the international prices on crude oil had rebounded from the low prices in the beginning of the year, however, this rally was, under downside pressure. The oil exploration and production industry also encountered difficulties given the volatile market conditions.

To confront the prevailing sluggish shipbuilding market, the Company had deployed its existing production facilities and amenities and human resources to develop and diversify into various types of operating business. We also proactively promoted the resale of vessels under construction and had delivered 2 vessels, with a total volume of 233,000 DWT, in the first half of the year, so as to enable us to maintain the fundamental operation of our manufacturing base.

Looking forward to the second half of the year, while the global energy market is still complicated and volatile, the shipbuilding market has yet to reveal any positive sign for revival. Nevertheless, in pursuit of the national strategies for "One Belt One Road" and "Made in China 2025", the high-end equipment manufacturing sector receives favourable policies support as the country's strategic emerging industry. The Group, together with its restructuring and upgrading strategy, will embrace and seize this new round of policy opportunities. Simultaneously, with various parties contributing to accelerating support from financial institutions on the implementation of policies in the development of the shipbuilding industry, and also strengthening communication and co-operation in all aspects amongst government authorities, financial institutions and shipbuilding enterprises, it is expected to rekindle the hope of the shipbuilding industry and to survive in this tough time.

The Company has proposed to conduct the Disposal of Liabilities (as defined in the Circular) which involves an allotment of Shares to certain bank and supplier creditors to satisfy the relevant borrowings and payables due from the Group, the amount of which was RMB17,108.0 million, with a specific mandate granted by the shareholders of the Company. With the implementation of the proposed for Disposal of Liabilities, it is expected that the Group would be able to ease its debt burden immediately, enhance the flexibility of fund utilisation, improve the operation of shipbuilding business, as well as mitigate the adverse effect of the high gearing of the Group on its expansion in the energy service industry. We are now actively procuring and materialising the Disposal of Liabilities with the bank and supplier creditors in order to pursue the best interests for the Company and its shareholders as a whole.

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 an opportunity to attend, and for all other board meetings, reasonable notice should be given. During the Period, less than 14 days' notice was given for two 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.

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.

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. Wang Jin Lian and Mr. Lam Cheung Mau. The Audit Committee has reviewed the accounting principles and practices adopted by the Company, and discussed internal control and financial reporting matters including review of the unaudited interim results of the Group for the Period.

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 2016 (for the Comparative period: nil).

Share Consolidation and Increase in Authorised Share Capital

Pursuant to ordinary resolutions passed at an extraordinary general meeting of the Company held on 24 March 2016, (i) every 5 ordinary shares of HKD0.10 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HKD0.50 each in the issued and unissued share capital of the Company (the "**Share Consolidation**"); and (ii) the authorised share capital of the Company has been increased from HKD3,800,000,000 divided into 7,600,000,000 Shares to HKD30,000,000,000 divided into 60,000,000,000 Shares by the creation of an additional 52,400,000,000 Shares in the share capital of the Company (the "**Increase in Authorised Share Capital**"). The Share Consolidation and the Increase in Authorised Share Capital have become effective from 29 March 2016.

Disposal of Liabilities

Pursuant to ordinary resolutions passed at an extraordinary general meeting of the Company held on 24 March 2016, (i) a specific mandate was conditionally granted to the directors of the Company to allot and issue up to an aggregate of not more than 14,108,000,000 new Shares at the subscription price of HKD1.20 per Share to certain bank creditors or their designated entities, for the settlement of the relevant borrowings in an aggregate amount of up to RMB14,108.0 million due from the Group to these bank creditors (the "**Disposal of Borrowings**"); and (ii) a specific mandate was conditionally granted to the directors of the Company to allot and issue up to an aggregate of not more than 3,000,000,000 new Shares at the subscription price of HKD1.20 per Share to certain supplier creditors or their designated entities, for the settlement of relevant payables in an aggregate amount of up to RMB3,000.0 million due from the Group to these supplier creditors (the "**Disposal of Payables**", together with the Disposal of Borrowings was referred to as the "**Disposal of Liabilities**"). Please refer to the announcements of the Company dated 7 March 2016 and 24 March 2016 and the Circular of the Company dated 9 March 2016 for details.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Specified Undertaking of the Company

As at 30 June 2016, the Directors and chief executive of the Company had the following interests in the Shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**"):

(A) Long Positions in Shares and Underlying Shares of the Company

	Number of shares interested[3]				
Name of Director	**Personal interest**	**Corporate interest**	**Equity derivatives (share options)[2]**	**Total**	**Percentage of issued share capital[4]**
Mr. Chen Qiang	–	209,200,000[1]	14,000,000	223,200,000	10.28%
Mr. Hong Liang	–	–	3,675,000	3,675,000	0.17%
Mr. Sean S J Wang	–	–	1,900,000	1,900,000	0.09%
Mr. Wang Tao	–	–	2,151,000	2,151,000	0.10%
Mr. Wei A Ning	–	–	1,426,000	1,426,000	0.07%
Ms. Zhu Wen Hua	–	–	975,000	975,000	0.04%

Notes:

1 Among 209,200,000 Shares (before taking into account the 14,000,000 Shares that may be granted to Mr. Chen Qiang pursuant to share options), 27,200,000, 84,000,000 and 98,000,000 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" above.

3 These interests have been adjusted upon the Share Consolidation on the basis of every five ordinary shares of HKD0.10 each into one consolidated share of HKD0.50 each taking effect from 29 March 2016.

4 These percentages have been compiled based on the total number of issued Shares of 2,171,591,507 as at 30 June 2016 and rounded to two decimal places.

(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]	1.5%

Note:

1 As at 30 June 2016, 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 2016, 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 2016, 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 2016, 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 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[7]	Percentage of issued share capital[8]
Fine Profit Enterprises Limited [1]	409,181,031	18.84%
Mr. Zhang Zhi Rong [1]	409,181,031	18.84%
Kingwin Victory Investment Limited [2]	259,689,237	11.96%
Mr. Wang Ping [2]	259,689,237	11.96%
Vogel Holding Group Limited [3]	172,073,587	7.92%
Ms. Shi Jing [3]	172,073,587	7.92%
Mr. Shi Yuzhu [3]	172,073,587	7.92%
Partners Kingwin Fund (I) [4]	171,029,443	7.88%
Partners and Kingwin Asset Management Limited [4]	171,029,443	7.88%
Bullion Riches Limited [4]	171,029,443	7.88%
Partners Financial Holdings Limited [4]	171,029,443	7.88%
Winnex International Investments Limited [4]	171,029,443	7.88%
Mr. Cheng Kin Ming [4]	171,029,443	7.88%
Bright Hope Global Investments Limited [4]	171,029,443	7.88%
Mr. Zhang Yi [4]	171,029,443	7.88%
Bank of China Limited [5]	168,830,655	7.77%
Central Huijin Investment Ltd [5]	168,830,655	7.77%
Bank of China Group Investment Limited [5]	168,830,568	7.77%
Goldway Financial Corp. [5]	168,830,568	7.77%
Star Team Enterprises Inc. [5]	168,830,568	7.77%
Gallop Sun Limited [6]	160,000,000	7.37%
Mr. Zhang De Huang [6]	160,000,000	7.37%

Notes:

1 Among 409,181,031 shares, 387,436,231 shares are directly held by Fine Profit Enterprises Limited and 21,744,800 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 4 below) in the 171,029,443 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 Vogel Holding Group Limited in the 130,841,121 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.

4 These interests are derivative interests directly held by Partners Kingwin Fund (I) in the 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 50% and 44% directly beneficially owned by Winnex International Investments Limited and Bright Hope Global Investments Limited, respectively. Each of Winnex International Investments Limited and Bright Hope Global Investments Limited is a company 100% directly beneficially owned by Mr. Cheng Kin Ming and Mr. Zhang Yi respectively.

5 Among these interests include derivative interests directly held by Star Team Enterprises Inc. in the 157,692,307 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.

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

7 These interests have been adjusted upon the Share Consolidation on the basis of every five ordinary shares of HKD0.10 each into one consolidated share of HKD0.50 each taking effect from 29 March 2016.

8 These percentages have been compiled based on the total number of issued Shares of 2,171,591,507 as at 30 June 2016 and rounded to two decimal places.

Save as disclosed above, as at 30 June 2016, 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 2016, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 4,900,000 Shares, representing approximately 0.23% of the total issued share capital of the Company. 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 their movements during the Period:

Name of grantee	Date of grant	Number of share options: As at 1 January 2016[2]	Exercised	Cancelled	Lapsed	As at 30 June 2016[2]	Exercise price[3] (HKD)	Exercisable period
Mr. Hong Liang	24 October 2010	875,000	–	–	–	875,000	20.00	Note[1]
Mr. Sean S J Wang	24 October 2010	500,000	–	–	–	500,000	20.00	Note[1]
Mr. Wang Tao	24 October 2010	875,000	–	–	–	875,000	20.00	Note[1]
Mr. Wei A Ning	24 October 2010	150,000	–	–	–	150,000	20.00	Note[1]
Ms. Zhu Wen Hua	24 October 2010	75,000	–	–	–	75,000	20.00	Note[1]
Senior management and other employees (in aggregate)	24 October 2010	3,000,000	–	–	575,000	2,425,000	20.00	Note[1]
Total		5,475,000	–	–	575,000	4,900,000		

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 The number of the outstanding share options and the exercise price per share of such outstanding share options granted have been adjusted upon the Share Consolidation on the basis of every five ordinary shares of HK$0.10 each into one consolidated share of HK$0.50 each taking effect from 29 March 2016.

3 The exercise price of the outstanding share options granted has been adjusted to HK$20.00 per Share upon the Share Consolidation taking effect from 29 March 2016.

Share Option Scheme

On 24 October 2010, the Company also conditionally approved and adopted a 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 2016, the total number of Shares in respect of the outstanding options granted under the Share Option Scheme was 36,322,000 Shares, representing approximately 1.67% 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 movements during the Period:

		Number of share options						
Name of grantee	Date of grant	As at 1 January 2016[2]	Exercised	Cancelled	Lapsed	As at 30 June 2016[2]	Exercise price[3] (HKD)	Exercisable period
Mr. Chen Qiang	24 October 2010	14,000,000	–	–	–	14,000,000	9.70	Note[1]
Mr. Hong Liang	24 October 2010	2,800,000	–	–	–	2,800,000	9.70	Note[1]
Mr. Sean S J Wang	24 October 2010	1,400,000	–	–	–	1,400,000	9.70	Note[1]
Mr. Wang Tao	24 October 2010	1,276,000	–	–	–	1,276,000	9.70	Note[1]
Mr. Wei A Ning	24 October 2010	1,276,000	–	–	–	1,276,000	9.70	Note[1]
Ms. Zhu Wen Hua	24 October 2010	900,000	–	–	–	900,000	9.70	Note[1]
Senior management and other employees (in aggregate)	24 October 2010	17,468,000	–	–	2,798,000	14,670,000	9.70	Note[1]
Total		39,120,000	–	–	2,798,000	36,322,000		

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 The number of the outstanding share options and the exercise price per share of such outstanding share options granted have been adjusted upon the Share Consolidation on the basis of every five ordinary shares of HKD0.10 each into one consolidated share of HKD0.50 each taking effect from 29 March 2016.

3 The exercise price of the outstanding share options granted has been adjusted to HKD9.70 per Share upon the Share Consolidation taking effect from 29 March 2016.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	9	**3,786,404**	3,827,234
Property, plant and equipment	7	**16,755,729**	16,996,889
Intangible assets	8	**1,615,430**	1,583,048
Long-term deposits	11(b)	**–**	60,000
Prepayments for non-current assets	11(b)	**5,673**	13,626
Available-for-sale financial asset		**40,515**	39,676
		22,203,751	22,520,473
Current assets			
Inventories		**604,689**	1,010,147
Amounts due from customers for contract works	10	**–**	172,062
Trade receivables	11(a)	**27,616**	163,462
Other receivables, prepayments and deposits	11(b)	**502,656**	644,124
Pledged deposits		**38,981**	72,573
Cash and cash equivalents		**62,840**	69,227
		1,236,782	2,131,595
Total assets		**23,440,533**	24,652,068
DEFICIT			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	**905,191**	905,191
Share premium	12	**10,430,533**	10,430,533
Other reserves		**3,672,244**	3,628,129
Accumulated losses		**(22,304,797)**	(20,341,666)
		(7,296,829)	(5,377,813)
Non-controlling interests		**(390,039)**	(325,159)
Total deficit		**(7,686,868)**	(5,702,972)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	**138,576**	150,328
Finance lease liabilities – non-current	15	**–**	294,852
Advance from a related party	27(b)	**3,675**	14,427
		142,251	459,607
Current liabilities			
Trade and other payables	14	**7,570,032**	7,001,501
Advances from related parties	27(b)	**353,795**	340,234
Borrowings	15	**22,395,833**	21,892,265
Derivative financial instruments	16	**81,380**	292,691
Provision for warranty	17	**6,730**	26,214
Finance lease liabilities – current	15	**577,380**	342,528
		30,985,150	29,895,433
Total liabilities		**31,127,401**	30,355,040
Total deficit and liabilities		**23,440,533**	24,652,068

The notes on pages 21 to 63 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Unaudited for the six months ended 30 June 2016 RMB'000	2015 RMB'000
Revenue			
– Revenue from sales of vessels	6	**60,000**	361,350
– Revenue from shipbuilding and other contracts	6	**89,830**	13,581
– Revenue from sales of crude oil	6	**14,946**	4,126
– Revenue related to the cancellation of the construction contracts	6	**(3,642,744)**	–
		(3,477,968)	379,057
Cost of sales			
– Cost of vessels sold	18	**(554,356)**	(519,432)
– Cost of shipbuilding and other sales	18	**(416,462)**	(325,251)
– Cost of crude oil sold	18	**(13,290)**	(3,197)
– Cost of sales related to the cancellation of the construction contracts	18	**3,037,086**	–
– Provision for inventories related to the cancellation of the construction contracts	6,18	**(2,604,794)**	–
		(551,816)	(847,880)
Gross loss		**(4,029,784)**	(468,823)
Selling and marketing expenses	18	**(3,334)**	(3,227)
General and administrative expenses	18	**(304,974)**	(372,562)
Research and development expenses	18	**(12,621)**	(18,443)
Reversal of/(provisions for) impairments and delayed penalties	18	**221,505**	(166,352)
Reversal of impairments related to the cancellation of the construction contracts	6,18	**3,096,830**	–
Other income	19	**18,178**	21,268
Other gains/(losses) – net	20	**168,476**	(2,011)
Operating loss		**(845,724)**	(1,010,150)
Finance income	21	**224**	14,040
Finance costs	21	**(1,182,442)**	(1,089,209)
Finance costs – net	21	**(1,182,218)**	(1,075,169)
Loss before income tax		**(2,027,942)**	(2,085,319)
Income tax expense	22	**–**	–
Loss for the period		**(2,027,942)**	(2,085,319)

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Note	Unaudited for the six months ended 30 June **2016** **RMB'000**	 2015 RMB'000
Loss attributable to:			
Equity holders of the Company		**(1,963,131)**	(2,035,847)
Non-controlling interests		**(64,811)**	(49,472)
		(2,027,942)	(2,085,319)
Other comprehensive income/(loss) for the period:			
Items that may be reclassified to profit or loss			
– Fair value gain/(loss) on an available-for-sale financial asset		**839**	(495)
– Exchange difference on translation of foreign operations		**33,885**	–
Other comprehensive income/(loss) for the period, net of tax		**34,724**	(495)
Total comprehensive loss for the period		**(1,993,218)**	(2,085,814)
Attributable to:			
Equity holders of the Company		**(1,928,338)**	(2,036,324)
Non-controlling interests		**(64,880)**	(49,490)
		(1,993,218)	(2,085,814)
Loss per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	23	**(0.90)**	(1.04)

The notes on pages 21 to 63 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 2016

	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 deficit RMB'000
		Unaudited						
		Attributable to equity holders of the Company						
Balance at 1 January 2016		905,191	10,430,533	3,628,129	(20,341,666)	(5,377,813)	(325,159)	(5,702,972)
Loss for the period ended 30 June 2016		-	-	-	(1,963,131)	(1,963,131)	(64,811)	(2,027,942)
Other comprehensive income/(loss)								
Fair value gain on an available-for-sale financial asset		-	-	809	-	809	30	839
Exchange difference on translation of foreign operations		-	-	33,984	-	33,984	(99)	33,885
Total comprehensive income/(loss) for the six months ended 30 June 2016		-	-	34,793	(1,963,131)	(1,928,338)	(64,880)	(1,993,218)
Transactions with equity holders in their capacity as owners								
Share-based payment	13	-	-	9,322	-	9,322	-	9,322
Total transactions with owners in their capacity as owners		-	-	9,322	-	9,322	-	9,322
Balance at 30 June 2016		905,191	10,430,533	3,672,244	(22,304,797)	(7,296,829)	(390,039)	(7,686,868)

	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 an 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
Total transactions with owners in their capacity as owners		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)

The notes on pages 21 to 63 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2016

	Unaudited	
	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**26,107**	(248,891)
Net cash used in investing activities	**(57)**	(25,287)
Net cash (used in)/generated from financing activities	**(32,549)**	208,714
Net decrease in cash and cash equivalents	**(6,499)**	(65,464)
Exchange gain on cash and cash equivalents	**112**	14
Cash and cash equivalents at beginning of the period	**69,227**	143,101
Cash and cash equivalents at end of the period	**62,840**	77,651

The notes on pages 21 to 63 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 30 August 2016.

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 2016 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 2015, which was prepared in accordance with International Financial Reporting Standards ("IFRS").

2.1 Going concern basis

During the six months ended 30 June 2016, the operation of the Group's shipbuilding business continued to be minimal, except for the continuous effort in collecting outstanding receivables and realising existing inventories through sale. The development of the Energy Exploration and Production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration and the sustaining depression of the oil price. Although management has already implemented measures to significantly reduce costs, the Group was still experiencing high level of finance costs for its existing borrowings, which would need to be accrued for even though they have not been paid. As a result, the Group had incurred a net loss of approximately RMB2,027,942,000 for the six months ended 30 June 2016.

As at 30 June 2016, the Group had a total deficit of RMB7,686,868,000 and the Group's current liabilities exceeded its current assets by RMB29,748,368,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB22,973,213,000, out of which RMB18,509,222,000 current borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also included convertible bonds with outstanding principals totaling HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000) as at 30 June 2016, which were immediately redeemable by the bondholders after reaching the one-year non-redemption period, while the Group only maintained cash and cash equivalents of RMB62,840,000.

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 principals and interests, certain loan principal repayments and interest payments totaling RMB1,138,710,000 were still overdue as at 30 June 2016. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB11,686,000 have been classified as current liabilities. Subsequent to 30 June 2016, additional loan principals and interest payments totaling RMB584,569,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. Moreover, based on the financial position of the Group as at 30 June 2016, the Group was not in compliance with certain restrictive financial covenants of a current bank borrowings amounted to RMB663,120,000 as at 30 June 2016. The Group has obtained a waiver for compliance with such financial covenants subsequent to 30 June 2016. In addition, bank and other borrowings of RMB19,710,736,000 and convertible bonds with principal amount of HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000), totaling RMB21,796,131,000 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 RMB21,446,840,000 as at 30 June 2016 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 RMB2,843,815,000 have been classified as current liabilities. As at the date of the approval of this condensed consolidated interim financial information, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholders; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group had five outstanding convertible bonds with principal amounts totaling HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000) as at 30 June 2016 (31 December 2015: six outstanding convertible bonds with principal amounts totaling HKD3,050,000,000 (equivalent to approximately RMB2,555,229,000)). During the six months ended 30 June 2016, no convertible bond was converted into equity. According to the bond agreements, the bondholders have early redemption options to request the Company to redeem the outstanding convertible bonds when the respective convertible bonds reached the one-year non-redemption period. As at 30 June 2016, all the Group's outstanding convertible bonds already reached their one-year non-redemption period and became immediately repayable should the bondholders request for early redemption (in addition to their rights to request for early repayment because of the triggering of the cross-default terms described in the preceding paragraph). Furthermore, a parcel of convertible bonds with an outstanding principal of HKD610,000,000 (equivalent to approximately RMB521,349,000) matured in February 2016 was settled by a promissory note due in May 2016 (as further extended to August 2016 by a deed of amendment). The Company is in the process of negotiating with the relevant promissory note holder to extend the maturity date of this promissory note to September 2016. In addition, a balance of interest payable for a parcel of convertible bonds with an amount of HKD57,557,000 (equivalent to approximately RMB49,192,000) was due in June 2016. The Company is in the process of negotiating with the relevant convertible bondholder and planned to settle the outstanding interest by a promissory note to be matured in September 2016. Subsequent to the six months ended 30 June 2016, a parcel of convertible bonds with an outstanding principal of HKD500,000,000 (equivalent to approximately RMB427,335,000) matured in July 2016 was settled by a promissory note due in October 2016. The remaining outstanding convertible bonds will mature over the period from October to December 2016, if the relevant bondholders do not request for early repayments.

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

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

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

(i) In order to accelerate and facilitate the progress of the Group's restructuring plan and to enhance the liquidity and financial position of the Group, the Group plans to reduce its borrowings by issuing shares of the Company to satisfy certain of the Group's outstanding debts.

On 19 November 2015, the Company also entered into conditional letters of intent in relation to the disposal of liabilities and other related matters with each of more than 10 major institutional creditors, pursuant to which the Company and the institutional creditors agreed that the entire or partial amount of borrowings of the institutional creditors owed by the Company and the Company's shipbuilding segment subsidiaries will be settled through issuance of shares of the Company to the relevant institutional creditors or its designated related companies (the "Disposal of Liabilities").

On 7 March 2016, the Company proposed to effect the Disposal of Liabilities by (1) entering into bank creditor subscription agreements with certain bank creditors or their designated entities pursuant to which these bank creditors or their designated entities will agree to subscribe for up to 14,108,000,000 shares of the Company at HKD1.20 per subscription share, to satisfy the relevant borrowings in an aggregate amount up to RMB14,108,000,000 due by the Group to these bank creditors; and (2) entering into supplier creditor subscription agreements with certain supplier creditors pursuant to which these supplier creditors or their designated entities will agree to subscribe for up to 3,000,000,000 shares of the Company at HKD1.20 per subscription share in order to settle the payables in an aggregate amount up to RMB3,000,000,000 due by the Group to these supplier creditors.

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

At the same time, the Company also proposed to implement a share consolidation on the basis that every five issued and unissued shares of HKD0.10 each of the Company will be consolidated into one consolidated share of HKD0.50 each.

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

(i) (Continued)

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

The Group had obtained the shareholders' approval for the proposal of the Disposal of Liabilities and share consolidation as well as the increase in authorised share capital on 24 March 2016. With the said shareholders' approval obtained, the directors of the Company are working with the bank and supplier creditors to execute and complete the proposal for the Disposal of Liabilities, which are subject to finalisation and agreement of the detailed terms and conditions on the subscription arrangements as well as obtaining the necessary and relevant regulatory approvals. During the six months ended 30 June 2016, the directors of the Company expect that the Disposal of Liabilities will be completed in year 2016. For the bank loans which will remain outstanding subsequent to the Disposal of Liabilities, the Group will continue to negotiate with the respective banks to further extend or renew those loans as and when they fall due (see Note (iv) to (vi) below);

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

(iii) During the six months ended 30 June 2016, a parcel of convertible bonds with a total principal amount of HKD610,000,000 (equivalent to approximately RMB521,349,000) matured in February 2016. On 29 March 2016, the Company issued a promissory note to this convertible bondholder, pursuant to which the Company promised to repay the principal together with interest accrued thereon, to the bondholder on or before 31 May 2016 (as further extended to August 2016 by a deed of amendment). The Company is in the process of negotiating with this promissory note holder to further extend the maturity date to September 2016. In addition, a parcel of convertible bonds with a total principal amount of HKD500,000,000 (equivalent to approximately RMB427,335,000) matured in July 2016. On 11 July 2016, the Company issued a promissory note to the bondholder, pursuant to which the Company promised to repay the principal together with interest accrued thereon, to the respective bondholder in October 2016. The remaining outstanding convertible bonds will mature over the period from October to December 2016, if the relevant bondholders do not request for early repayments. The Company is in discussion with the respective bondholders and has requested them not to redeem the convertible bonds until 20 December 2016 and will continue to negotiate with the promissory note holders for further arrangement so as to enable it to meet its financial obligations of the outstanding promissory notes when they fall due in August 2016 and October 2016, respectively;

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

(iv) Pursuant to the Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement (《江蘇熔盛重工有限公司債務優化銀團框架協議》) (the "Jiangsu Framework Agreement") entered into with a group of banks in the Jiangsu Province of the People's Republic of China ("PRC"), the Group has continuously been able to extend the repayment of and renewal terms of the existing bank loans that had original maturity in 2016 to new maturity dates ranging from July 2016 to January 2017. During the six months ended 30 June 2016, pursuant to this framework agreement, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB1,659,849,000 (inclusive of principal amount of RMB1,399,038,000 and interest amount of RMB260,811,000), which would be due after June 2016. As at 30 June 2016, the Group's total outstanding current borrowings with respect to the Jiangsu Framework Agreement amounted to RMB12,674,988,000, of which RMB195,792,000 have been overdue since January 2016, and of which RMB12,479,196,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities, and will further negotiate with these banks, after the completion of the Disposal of Liabilities, for renewal and extension of the remaining outstanding bank loans which are not settled as and when they fall due during the year 2016. Subsequent to 30 June 2016, loans of RMB997,250,000 were successfully extended and will be repayable in year 2017;

(v) Pursuant to the Debt Optimisation Framework Agreement for China Rongsheng's Entities in Hefei (《中國熔盛系合肥企業債務優化銀團框架協議》) (the "Hefei Framework Agreement") entered into with a group of banks in Hefei, Anhui Province of the PRC, the Group continued to be able to extend the repayment and renewal terms of the existing bank loans that had original maturity in 2016 to new maturity dates ranging from September 2016 to June 2017. During the six months ended 30 June 2016, the Group successfully renewed and extended loans, totaling RMB445,192,000 (inclusive of principal amount of RMB394,420,000 and interest amount of RMB50,772,000), which would be due after June 2016. As at 30 June 2016, the Group's total outstanding current borrowings with respect to this Hefei Framework Agreement amounted to RMB3,778,106,000, of which RMB218,287,000 have been overdue since 2014 and RMB46,000,000 have been overdue since 2015, and, of which RMB3,347,115,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities; and will further negotiate with these banks, after the completion of Disposal of Liabilities, for renewal and extension of the remaining outstanding bank loans which are not settled as and when they fall due during the year 2016;

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 RMB4,911,629,000 and RMB138,576,000 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 2016 to new maturity dates ranging from August 2016 to October 2017. During the period, the Group has successfully extended the repayment dates of and renewed certain loans amounted to RMB2,899,213,000 (inclusive of principal amount of RMB2,634,038,000 and interest amount of RMB265,175,000), so that these loans are now repayable after June 2016. As at 30 June 2016, total current loans from these lenders amounted to RMB4,911,629,000, of which RMB395,242,000 have been overdue, and of which RMB2,963,697,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these lenders not to demand for repayment of the outstanding loans before the completion of the Disposal of Liabilities; and will further negotiate with these lenders, after the completion of Disposal of Liabilities, for renewal and extension of the remaining outstanding loans which are not settled as and when they fall due during the year 2016;

(vii) During the six months ended 30 June 2016, the Group obtained security-free and interest-free loans from entities controlled by Mr. Zhang Zhi Rong ("Mr. Zhang") or a close family member of Mr. Zhang amounted to RMB57,554,000, which will be repayable ranging from August 2016 to August 2018;

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

(ix) The Group has actively diversified its operation through continuous development of the Energy Exploration and Production segment. During the six months ended 30 June 2016, a number of wells were developed in the Republic of Kyrgyzstan ("Kyrgyzstan") and management expects to realise an increase of oil output through further development and expansion of this segment and thereby generate steady operating cash flows, especially in view of the rebound of the oil price during the first half of 2016; 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 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) timely executing the subscription agreements with the bank and supplier creditors for the subscription of the Company's shares for the satisfaction of debts due by the Group to these bank and supplier creditors. The successful completion of the Disposal of Liabilities would include the finalisation and agreement of the detailed terms and conditions with the bank and supplier creditors on the subscription arrangement as well as obtaining the necessary and relevant regulatory approvals, including among other things, the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the subscription shares under the relevant subscription agreements;

(ii) convincing the banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities; and further negotiating with these banks after the completion of the Disposal of Liabilities for renewal and extension of the remaining outstanding bank loans as and when they fall due in year 2016;

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

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

(v) convincing the convertible bondholders not to exercise their redemption options to request the Company to redeem the outstanding convertible bonds when they mature over the period from October to December 2016, and negotiating with the note holders of the outstanding promissory notes of HKD1,110,000,000 (equivalent to approximately RMB948,684,000), together with accrued interests thereon for further arrangement so as to enable the Company to meet its financial obligations when it falls due in year 2016;

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

(vi) negotiating with the relevant banks for the renewal or extension for repayments beyond the period ending 30 June 2017 for those loans that (i) are scheduled for repayment (either based on the original agreement or the existing arrangements) in next twelve-month period; (ii) were overdue at 30 June 2016 because the Group failed to repay on or before the scheduled repayment dates; and (iii) became or might become overdue in next twelve-month period;

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

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

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any 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 2015, 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 2016:

- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation
- Amendment to IAS 27 – Equity method in separate financial statements
- Annual improvements 2014
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception
- Amendments to IAS 1 – Disclosure initiative

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 this 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 2015.

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 2015.

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

5.2 Liquidity risk

During the six months ended 30 June 2016, the Group had incurred a loss of approximately RMB2,027,942,000.

As at 30 June 2016, the Group had a total deficit of RMB7,686,868,000 and the Group's current liabilities exceeded its current assets by RMB29,748,368,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB22,973,213,000, out of which RMB18,509,222,000 current borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also included convertible bonds with outstanding principal totaling HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000) as at 30 June 2016, which were immediately redeemable by the bondholders after reaching the one-year non-redemption period, while the Group only maintained a cash and cash equivalents of RMB62,840,000.

5 Financial risk management (Continued)

5.2 Liquidity risk (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 principals and interests, certain loan principal repayments and interest payments totaling RMB1,138,710,000 were still overdue as at 30 June 2016. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB11,686,000 have been classified as current liabilities. Subsequent to 30 June 2016, additional loan principals and interest payments totaling RMB584,569,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. Moreover, based on the financial position of the Group as at 30 June 2016, the Group was not in compliance with certain restrictive financial covenants of a current bank borrowings amounting to RMB663,120,000 as at 30 June 2016. The Group has obtained a wavier for compliance with such financial covenants subsequent to 30 June 2016. In addition, bank and other borrowings of RMB19,710,736,000 and convertible bonds with principal amount of HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000), totaling RMB21,796,131,000 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 RMB21,446,840,000 as at 30 June 2016 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 RMB2,843,815,000 have been classified as current liabilities. As at the date of the approval of this condensed consolidated interim financial information, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholders; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group had five outstanding convertible bonds with principal amounts totaling HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000, as at 30 June 2016 (31 December 2015: six convertible bonds with principal amounts totaling HKD3,050,000,000 (equivalent to approximately RMB2,555,229,000)). During the six months ended 30 June 2016, no convertible bonds was converted into equity. According to the bond agreements, the bondholders have early redemption options to request the Company to redeem the outstanding convertible bonds when the respective convertible bonds reached the one-year non-redemption period. As at 30 June 2016, all the Group's outstanding convertible bonds already reached their one-year non-redemption period and became immediately repayable should the bondholders request for early redemption (in addition to their rights to request for early repayment because of the triggering of the cross-default terms described in the preceding paragraph). Furthermore, a parcel of convertible bonds with an outstanding principal of HKD610,000,000 (equivalent to approximately RMB521,349,000) matured in February 2016 was settled by a promissory note due in May 2016 (as further extended to August 2016 by a deed of amendment). The Company is in the process of negotiating with the relevant promissory note holder to extend the maturity date of this promissory note to September 2016. In addition, a balance of interest payable for a parcel of convertible bonds with an amount of HKD57,557,000 (equivalent to approximately RMB49,192,000) was due in June 2016. The Company is in the process of negotiating with the relevant convertible bondholder and planned to settle the outstanding interest by a promissory note to be matured in September 2016. Subsequent to the six months ended 30 June 2016, a parcel of convertible bonds with an outstanding principal of HKD500,000,000 (equivalent to approximately RMB427,335,000) matured in July 2016 was settled by a promissory note due in October 2016. The remaining outstanding convertible bonds will mature over the period from October to December 2016, if the relevant bondholders do not request for early repayments.

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

In view of such circumstances, the directors of the Company have during the year and up to the date of the approval of this condensed consolidated financial information taken the following measures to mitigate the liquidity pressure and to improve financial position of the Group.

In order to accelerate and facilitate the progress of the Group's restructuring plan and to enhance the liquidity and financial position of the Group, the Company entered into conditional letters of intent with certain institutional creditors in relation to the Disposal of Liabilities on 19 November 2015. The proposal for the Disposal of Liabilities was approved by shareholders of the Company on 24 March 2016. The completion of the Disposal of Liabilities is subject to certain conditions, details of which are set out in Note 2.1.

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

During the six months ended 30 June 2016, the Group had extended the repayment of and renewal terms of the existing bank loans that had original maturity in 2016 to various dates in 2016 or 2017 with a group of banks under Jiangsu Framework Agreement and Hefei Framework Agreement. Management will continue to convince banks not to demand for repayment of the outstanding loans before the completion of the Disposal of Liabilities; and will further negotiate with these banks for the renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates.

The Group will also continue to convince other lenders, which are not covered in the Framework Agreements, not to demand repayment of outstanding loans before the completion of Disposal of Liabilities; and will further negotiate with these lenders to extend the repayment and renewal terms of the existing bank loans that had original maturity in 2016 to various dates in 2016 or 2017.

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.

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

In relation to convertible bonds which will mature in year 2016, the Group is in discussion with the bondholders and has requested them not to exercise their redemption options to request the Company to redeem the outstanding convertible bonds in year 2016. Furthermore, a parcel of convertible bonds with an outstanding principal of HKD610,000,000 (equivalent to approximately RMB521,349,000) matured in February 2016 was settled by a promissory note due in May 2016 (as further extended to August 2016 by a deed of amendment). The Company is in the process of negotiating with the relevant promissory note holder to extend the maturity date of this promissory note to September 2016. In addition, a balance of interest payable for a parcel of convertible bonds with an amount of HKD57,557,000 (equivalent to approximately RMB49,192,000) was due in June 2016. The Company is in the process of negotiating with the relevant convertible bondholder and planned to settle the outstanding interest by a promissory note to be matured in September 2016. Subsequent to the six months ended 30 June 2016, a parcel of convertible bonds with an outstanding principal of HKD500,000,000 (equivalent to approximately RMB427,335,000) matured in July 2016 was settled by a promissory note due in October 2016. The remaining outstanding convertible bonds will mature over the period from October to December 2016, if the relevant bondholders do not request for early repayments.

5.3 Credit risk

Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade and other receivables, prepayments and amounts due from customers for contract works. As at 30 June 2016, 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 89% (31 December 2015: over 79%) of the total trade receivables (before impairment provisions) of the Group as at 30 June 2016. 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 RMB2,419,522,000 as at 30 June 2016 (31 December 2015: RMB3,398,249,000).

5 Financial risk management (Continued)

5.3 Credit risk (Continued)

For customers of the Engineering Machinery segment and the 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 2016, trade receivables of RMB383,862,000 (31 December 2015: RMB383,529,000) 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 2016, other receivables and prepayments amounted to RMB2,349,778,000 were impaired and provided for (31 December 2015: RMB2,344,311,000).

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 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Available-for-sale financial asset	–	–	40,515	40,515
Total asset	–	–	40,515	40,515
Liability				
Financial derivative component of borrowings	–	(81,380)	–	(81,380)
Total liability	–	(81,380)	–	(81,380)

5 Financial risk management (Continued)

5.4 Fair value estimation (Continued)

The following table presents the Group's financial asset and liability that are measured at fair value at 31 December 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Asset				
Available-for-sale financial asset	–	–	39,676	39,676
Total asset	–	–	39,676	39,676
Liability				
Financial derivative component of borrowings	–	(292,691)	–	(292,691)
Total liability	–	(292,691)	–	(292,691)

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.

The following table presents the changes in level 3 instruments for the six months ended 30 June 2016.

	Available-for-sale financial asset RMB'000
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
Balance at 1 January 2016	39,676
Fair value gain on revaluation recognised in other comprehensive income	839
Balance at 30 June 2016	40,515

6 Segment information

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both geographic and product perspectives. The Shipbuilding segment derives its revenue primarily from the construction and sales of vessels, and the Offshore Engineering segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while the Marine Engine Building segment derives its revenue from building marine engines. The Energy Exploration and Production segment derive its revenue from sales of crude oil. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. Segment results are calculated by offsetting segment revenue from external customers with segment cost of sales and including loss on cancellation of the construction contracts. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2016 and 2015 was as follows:

	Shipbuilding For the six months ended 30 June		Offshore Engineering For the six months ended 30 June		Engineering Machinery For the six months ended 30 June		Marine Engine Building For the six months ended 30 June		Energy Exploration and Production For the six months ended 30 June		Total For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Revenue												
– Revenue from sales of vessels	**66,000**	361,350	**-**	-	**-**	-	**-**	-	**-**	-	**60,000**	361,350
– Revenue from shipbuilding and other contracts	**87,962**	13,389	**-**	-	**1,868**	192	**660**	855	**-**	-	**90,490**	14,436
– Revenue from sales of crude oil	**-**	-	**-**	-	**-**	-	**-**	-	**14,946**	4,126	**14,946**	4,126
– Reversal of revenue related to the cancellation of the shipbuilding contracts	**(3,642,744)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(3,642,744)**	-
Segment revenue	**(3,494,782)**	374,739	**-**	-	**1,868**	192	**660**	855	**14,946**	4,126	**(3,477,308)**	379,912
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**(660)**	(855)	**-**	-	**(660)**	(855)
Revenue from external customers	**(3,494,782)**	374,739	**-**	-	**1,868**	192	**-**	-	**14,946**	4,126	**(3,477,968)**	379,057
Segment results	**(4,033,469)**	(405,083)	**-**	-	**11,846**	(46,191)	**(9,816)**	(18,478)	**1,655**	929	**(4,029,784)**	(468,823)
Selling and marketing expenses											**(3,334)**	(3,227)
General and administrative expenses											**(304,974)**	(372,562)
Research and development expenses											**(12,621)**	(18,443)
Reversal of/(provisions for) impairments and delayed penalties											**221,505**	(166,352)
Reversal of impairments and delayed penalties related to the cancellation of construction contracts											**3,096,830**	-
Other income											**18,178**	21,268
Other gains/(losses) – net											**168,476**	(2,011)
Finance costs – net											**(1,182,218)**	(1,075,169)
Loss before income tax											**(2,027,942)**	(2,085,319)

6 Segment information (Continued)

During the six months ended 30 June 2016, revenue from the top customer of the Shipbuilding segment, excluding cancellation of construction contracts, amounted to RMB38,890,000 (for the six months ended 30 June 2015: RMB325,516,000), representing 23.6% of the total revenue (for the six months ended 30 June 2015: 85.9%).

No customers of the Engineering Machinery, Marine Engine Building and Energy Exploration and Production segments individually accounted for ten percent or more of the Group's consolidated revenue for the six months ended 30 June 2016 (for the six months ended 30 June 2015: same).

The top three customers of the Group amounted to RMB98,890,000 (for the six months ended 30 June 2015: RMB370,039,000), representing 60.0% of the total revenue, excluding cancellation of construction contracts for the six months ended 30 June 2016 (for the six months ended 30 June 2015: 97.6%).

During the six months ended 30 June 2016, the Group terminated 19 shipbuilding contracts (for the six months ended 30 June 2015: nil). Accordingly, the Group reversed revenue and cost of sales of RMB3,642,744,000 and RMB3,037,086,000 respectively. In relation to such cancellations, the Group reversed impairments of trade receivables and amounts due from customers for contract works amounted to RMB3,096,830,000 and correspondingly provided for inventories amounting to RMB2,604,794,000 respectively.

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

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
China	**136,404**	49,415
Kyrgyzstan	**14,946**	4,126
Others	**13,426**	–
Norway	**–**	325,516
	164,776	379,057

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

7 Property, plant and equipment

	RMB'000
For the six months ended 30 June 2016	
Revalued amounts	
Opening amounts as at 1 January 2016	**16,996,889**
Additions	**27,661**
Disposals	**(90,510)**
Depreciation (Note 18)	**(190,622)**
Exchange difference	**12,311**
Closing amounts as at 30 June 2016	**16,755,729**
For the 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

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

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment under Shipbuilding, Offshore Engineering and Marine Engine Building segments amounting to RMB19,758,853,000 as at 30 June 2016, which were based on the fair value less costs to sell of these assets, the directors made reference to the estimated consideration of these assets under the Potential Transaction. The estimated consideration of these assets under the Potential Transaction is dependent on the scope of assets and liabilities to be included in the Potential Transaction, and the directors expect that consideration would be no less than the aggregate carrying amount of the net assets to be disposed of under the Potential Transaction. Therefore, the directors are of the view that the estimated consideration to be allocated to each individual asset would exceed the carrying value of such asset and hence, no impairment charge with respect to the non-current assets of Shipbuilding, Offshore Engineering and Marine Engine Building segments is necessary.

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

7 Property, plant and equipment (Continued)

In determining the recoverable amount of the land use rights under the Engineering Machinery segment amounting to RMB183,676,000 as at 30 June 2016, which was based on the fair value less costs to sell, the directors made reference to the current market price of the land use rights in Hefei, Anhui Province. Since the fair value of the land use rights exceeds the carrying value of the land use rights and hence, no impairment charge is necessary.

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

8 Intangible assets

	RMB'000
For the six months ended 30 June 2016	
Opening amounts as at 1 January 2016	**1,583,048**
Amortisation (Note 18)	**(1,145)**
Exchange difference	**33,527**
Closing amounts as at 30 June 2016	**1,615,430**
For the 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

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 year ended 31 December 2015, certain wells have entered into production stage. As a result, amortisation of RMB1,145,000 has been charged to the profit or loss during the six months ended 30 June 2016 (for the six months ended 30 June 2015: RMB333,000) based on the units-of-production method.

During the six months ended 30 June 2016, the development of the Energy Exploration and Production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration.

8 Intangible assets (Continued)

In determining the recoverable amounts of the Co-operation Rights and property, plant and equipment under the Energy Exploration and Production segment amounting to RMB1,615,430,000 and RMB599,604,000, respectively, the directors have evaluated the recoverable amounts based on value-in-use calculations using pre-tax cash flow projections. Key assumptions are crude oil price of USD40-60 per barrel (31 December 2015: USD40-60 per barrel) and a discount rate of 18% (31 December 2015: 18%).

As a result of the above assessment, the recoverable amounts of the intangible assets and property, plant and equipment under the Energy Exploration and Production segment as estimated by the directors exceeded the carrying amounts of these assets and therefore, the directors are of the opinion that no impairment charge is considered necessary as at 30 June 2016.

9 Land use rights

	RMB'000
For the six months ended 30 June 2016	
Opening amounts as at 1 January 2016	**3,827,234**
Amortisation (Note 18)	**(40,830)**
Closing amounts as at 30 June 2016	**3,786,404**
For the 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

10 Amounts due from customers for contract works

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**1,379,709**	4,942,202
Less: Provision for amounts due from customers for contract works	**(959,392)**	(3,252,036)
Less: Progress billings	**(420,317)**	(1,518,104)
Net position for ongoing contracts	**–**	172,062
Presented as:		
Amounts due from customers for contract works	**–**	172,062
	–	172,062

No bank borrowings (31 December 2015: RMB103,898,000) were secured by vessels under construction as at 30 June 2016.

As at 30 June 2016, amounts due from customers for contact works of the Shipbuilding segment amounted to RMB959,392,000 (31 December 2015: RMB3,252,036,000) were impaired and provided for after management assessed the recoverability of these construction contracts and consideration of the future construction plan.

11 Trade receivables, other receivables, prepayments and deposits

(a) Trade receivables

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Trade receivables	**2,831,000**	3,945,240
Less: Provision for doubtful debts	**(2,803,384)**	(3,781,778)
Total	**27,616**	163,462

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

(a) Trade receivables (Continued)

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

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Not yet due	–	1,036
Past due		
1 – 180 days	18,726	23,166
181 – 360 days	5,720	18,662
Over 360 days	3,170	120,598
Total	27,616	163,462

As at 30 June 2016, trade receivables of RMB27,616,000 (31 December 2015: RMB162,426,000) were past due but not impaired. The ageing analysis of these trade receivables by invoice date is listed above.

As at 30 June 2016, trade receivables of RMB2,419,522,000 (31 December 2015: RMB3,398,249,000) and RMB383,862,000 (31 December 2015: RMB383,529,000) related to certain customers of the Shipbuilding and Engineering Machinery segments were impaired and provided for respectively. These trade receivables are aged over 360 days.

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

The carrying amounts of trade receivables approximate their fair values.

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

(b) Other receivables, prepayments and deposits

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Receivables from agents (i)	**316,510**	312,747
Other receivables		
– Third parties	**319,395**	314,298
– Deposits for the Framework Agreements (ii)	**167,284**	167,284
VAT receivables	**915,416**	874,404
Deposits (iii)	**33,183**	139,912
Prepayments for property, plant and equipment and land use rights		
– Third parties	**258,335**	259,082
Prepayments for raw materials and production costs		
– Third parties (iv)	**838,229**	981,368
Prepayments – others		
– Third parties	**9,755**	12,966
Less: Allowance for impairment of other receivables and prepayments (v)	**(2,349,778)**	(2,344,311)
	508,329	717,750
Less: Non-current portion of deposits and prepayments	**(5,673)**	(73,626)
Current portion	**502,656**	644,124

(i) The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure 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 2016, receivables from agents amounted to RMB316,510,000 (31 December 2015: RMB312,747,000) were impaired, as a result of the management assessment on the recoverability of these receivables.

(ii) As at 30 June 2016, according to the Framework Agreements, the Shipbuilding segment and the Marine Engine segment placed deposits of RMB50,000,000 (31 December 2015: same) and RMB117,284,000 (31 December 2015: same) into bank accounts 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 a refundable deposit with an aggregate carrying value of RMB20,800,000 as at 30 June 2016 (31 December 2015: RMB80,800,000).

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

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

(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 2016, the Group prepaid RMB634,749,000 to the five largest suppliers (31 December 2015: RMB774,082,000). During the six months ended 30 June 2016, a reversal of provision of RMB35,418,000 (for the six months ended 30 June 2015: nil) has been made as a result of the management's assessment on the recoverability of these deposits and prepayments.

(v) Except as described above, the provision for impairment of other receivables and prepayments represented provision for certain prepayments for raw materials and property, plant and equipment, other receivables and VAT receivable, on which management has performed assessment on the recoverability of these balances. Based on management's assessment, there may be risks that the Group cannot utilise the respective prepayments or other receivables through its production plan. As a result, a total provision of RMB37,122,000 (for the six months ended 30 June 2015: RMB58,986,000) was provided for these prepayments and other receivables during the six months ended 30 June 2016.

As at 30 June 2016, no other receivables were past due (31 December 2015: nil) but not impaired. 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 HKD	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised:					
Ordinary shares of HKD0.50 each	60,000,000,000	30,000,000,000	–	–	–
For the six months ended 30 June 2016					
Issued:					
Ordinary shares of HKD0.10 each at 1 January 2016	10,857,957,535	1,085,795,753	905,191	10,430,533	11,335,724
Share consolidation (Note a)	(8,686,366,028)	–	–	–	–
Ordinary shares of HKD0.50 each at 30 June 2016	2,171,591,507	1,085,795,753	905,191	10,430,533	11,335,724

Note a: On 7 March 2016, the Company proposed to implement a share consolidation on the basis that every five issued and unissued shares of HKD0.10 each of the Company will be consolidated into one consolidated share of HKD0.50 each. The proposed share consolidation was approved by the Company's shareholders at the Extraordinary General Meeting held on 24 March 2016 and the share consolidation became effective on 29 March 2016.

12 Share capital and premium (Continued)

	Number of ordinary shares	Nominal value of ordinary shares HKD	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised:					
Ordinary shares of HKD0.1 each	38,000,000,000	3,800,000,000	–	–	–
For the six months ended 30 June 2015					
Issued:					
Ordinary shares of HKD0.10 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 b)	1,145,540,714	114,554,072	90,366	767,942	858,308
Ordinary shares of HKD0.10 each at 30 June 2015	10,635,735,313	1,063,573,531	887,662	10,280,452	11,168,114

Note b: 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

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 shall be equal to a 50% discount to the offer price at the initial public offering (i.e. HKD4.00 per share) (the exercise price of the outstanding share options granted has been adjusted to HKD20.00 per consolidated share of HKD0.50 each with effect from 29 March 2016). Each of the Pre-IPO Share Option has a 10-year exercisable period, from 19 November 2010 ("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 2016, the number of outstanding share options granted has been adjusted for the effect of share consolidation and 4,900,000 share options were exercisable (31 December 2015: 27,375,000 before the share consolidation adjustment being effective) after the share consolidation adjustment.

The fair value of the share options granted on 24 October 2010, determined using the binominal model (the "Model"), ranged from HKD4.38 to HKD5.17 per option. The significant inputs into the Model were the share price of HKD8.00 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 10 years and expected volatility of 55.00%. 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.

13 Share Option Schemes (Continued)

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 2015	4	36,750
Granted	–	–
Exercised	–	–
Lapsed	4	(1,750)
At 30 June 2015	4	35,000
At 1 January 2016	**4**	**27,375**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**4**	**(2,875)**
Adjustment arising from share consolidation	**16**	**(19,600)**
At 30 June 2016	**20**	**4,900**

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 of the share options granted under the Share Option Scheme is HKD1.94 per share of HKD0.10 each (the exercise price of the outstanding share options granted has been adjusted to HKD9.70 per consolidated share of HKD0.50 each with effect from 29 March 2016). 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 2016, the number of outstanding share options granted has been adjusted for the effect of share consolidation and 36,322,000 share options were exercisable (31 December 2015: 117,360,000 before the share consolidation adjustment being effective) after the share consolidation adjustment.

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 10 years and expected volatility of 54.50%. 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.

13 Share Option Schemes (Continued)

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 2015	1.94	237,700
Granted	–	–
Exercised	–	–
Lapsed	1.94	(12,435)
At 30 June 2015	1.94	225,265
At 1 January 2016	**1.94**	**195,600**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**1.94**	**(13,990)**
Adjustment arising from share consolidation	**7.76**	**(145,288)**
At 30 June 2016	**9.70**	**36,322**

The total expense recognised in the interim consolidated statement of comprehensive income for share options granted to directors and employees was approximately RMB9,322,000 during the six months ended 30 June 2016 (for the six months ended 30 June 2015: RMB11,747,000). During the six months ended 30 June 2016, no expense (for the six months ended 30 June 2015: nil) is recognised for the Pre-IPO Share Option Scheme and RMB9,322,000 (for the six months ended 30 June 2015: RMB11,747,000) 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 2016 RMB'000	As at 31 December 2015 RMB'000
Trade payables	**1,890,862**	2,234,242
Other payables for purchase of property, plant and equipment		
– Third parties	**416,166**	439,313
– Related parties (Note 27(a))	**484,759**	520,433
Other payables		
– Third parties	**1,457,730**	1,017,063
– Related parties (Note 27(a))	**41,062**	36,038
Receipt in advance	**75,850**	87,210
Accrued expenses		
– Payroll and welfare	**165,982**	128,393
– Interests	**2,190,729**	1,575,764
– Exploration costs	**14,307**	23,328
– Others	**67,666**	112,472
Provision for litigation cases	**749,235**	771,911
Provision for delayed penalties	**–**	9,571
VAT payable	**126**	4,003
Other tax-related payables	**15,558**	41,760
Current trade and other payables	**7,570,032**	7,001,501

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

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
0 – 30 days	**12,350**	108,378
31 – 60 days	**5,325**	133,918
61 – 90 days	**1,359**	132,783
Over 90 days	**1,871,828**	1,859,163
	1,890,862	2,234,242

15 Borrowings

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Non-current		
Bank borrowings	**131,297**	128,574
Borrowings from a related party	**5,949**	–
Borrowings from a shareholder	**1,330**	1,293
Other borrowings	**–**	20,461
Finance lease liabilities	**–**	294,852
	138,576	445,180
Current		
Bank borrowings	**19,669,350**	19,724,291
Borrowings from a related party	**4,786**	–
Borrowings from a shareholder	**45,490**	43,320
Convertible bonds	**1,608,490**	1,722,708
Other borrowings	**312,793**	286,109
Promissory notes	**754,924**	115,837
Finance lease liabilities	**577,380**	342,528
	22,973,213	22,234,793
Total borrowings	**23,111,789**	22,679,973

Movements in borrowings are analysed as follows:

	RMB'000
For the six months ended 30 June 2016	
Opening amounts as at 1 January 2016	**22,679,973**
Proceeds from new borrowings from related parties	**10,735**
Imputed interest expenses	**5,404**
Proceeds from promissory note	**118,822**
Repayments of other borrowings	**(3,419)**
Repayments of bank borrowings	**(73,429)**
Repayments of finance lease liabilities	**(60,000)**
Convertible bonds – liability component (Note a)	**366,744**
Exchange difference	**66,959**
Closing amounts as at 30 June 2016	**23,111,789**

15 Borrowings (Continued)

	RMB'000
For the 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 borrowings from a shareholder	90,070
Proceeds from new borrowings 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

Note a: The movements of convertible bonds are shown in the session of convertible bonds.

As 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 2016 RMB'000	As at 31 December 2015 RMB'000
Within 1 year	**22,973,213**	22,234,793
Between 1 and 2 years	**138,576**	377,652
Between 2 and 5 years	**–**	67,528
	23,111,789	22,679,973

15 Borrowings (Continued)

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

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Within 1 year	**20,106,025**	19,089,382
Between 1 and 2 years	**571,666**	1,611,855
Between 2 and 5 years	**2,434,098**	1,978,736
	23,111,789	22,679,973

Borrowings and finance lease liabilities amounting to RMB22,908,638,000 as at 30 June 2016 (31 December 2015: RMB22,508,986,000) 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 2016, a current borrowings amounted to USD100,000,000 (equivalent to approximately RMB663,120,000) of the Group required the Group to maintain i) consolidated tangible net worth at any time of not less than RMB5,000,000,000; and ii) the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 4.0 to 1.0. As at 30 June 2016, 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 RMB1,390,324,000, which were overdue and have not been renewed or repaid subsequent to 30 June 2016.

Bank and other borrowings of RMB19,710,736,000 and convertible bonds with principal amount of HKD2,440,000,000 (equivalent to approximately RMB2,085,395,000), totaling RMB21,796,131,000 contain cross-default terms in their respective financing agreements. As a result of overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB21,446,840,000 as at 30 June 2016 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 RMB2,843,815,000 have been classified as current liabilities. As at the date of the approval of this condensed consolidated interim financial information, the Group has not obtained waviers 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.

In order to accelerate and facilitate the progress of the Group's restructuring plan and to enhance the liquidity and financial position of the Group, the Group plans to reduce its borrowings by issuing shares of the Company to satisfy certain of the Group's outstanding debts.

15 Borrowings (Continued)

On 19 November 2015, the Company entered into conditional letters of intent in relation to the disposal of liabilities and other related matters with each of more than 10 major institutional creditors, respectively, pursuant to which the Company and the institutional creditors agreed that the entire or partial amount of borrowings of the institutional creditors owed by the Company and the Company's shipbuilding segment subsidiaries will be settled through an issuance of shares of the Company to the relevant institutional creditors or its designated related companies.

On 7 March 2016, the Company proposed to effect the Disposal of Liabilities by (1) entering into bank creditor subscription agreements with certain bank creditors or their designated entities pursuant to which these bank creditors or their designated entities will agree to subscribe for up to 14,108,000,000 shares of the Company at HKD1.20 per subscription share, to satisfy the relevant borrowings in an aggregate amount up to RMB14,108,000,000 due from the Group to these bank creditors; and (2) entering supplier creditor subscription agreements with certain supplier creditors or their designated entitles pursuant to which these supplier creditors or their designated entities will agree to subscribe for up to 3,000,000,000 shares of the Company at HKD1.20 per subscription share in order to settle the payables in an aggregate amount up to RMB3,000,000,000 due from the Group to these supplier creditors.

As at the date of the announcement for the proposal of the Disposal of Liabilities, 12 out of 22 bank creditors had entered into non-binding letters of intent with the Company to express their support towards the proposal for subscription of shares of the Company for the satisfaction of debt, covering approximately RMB12,598,000,000 or 89.3% of the maximum subscription amount of RMB14,108,000,000. The maximum subscription amount for supplier creditors of RMB3,000,000,000 is associated with more than 1,000 supplier creditors and approximately RMB323,200,000 were attributable to supplier creditors which have entered into non-binding letters of intent with the Company to express their support towards the proposal for subscription of shares of the Company for the satisfaction of debt. Up to the date of this report, the directors of the Company are in active discussion with the creditors for materialising the proposal of the Disposal of the Liabilities and expect that the Disposal of Liabilities will be completed in year 2016.

Up to the date of this report, the directors of the Company are still in active discussion with the Institution creditor for the proposal of the Disposal of the liabilities and expect that the Disposal of liabilities will be completed in year 2016.

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

The Group has the following undrawn borrowings facilities:

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Expiring within one year	**1,676**	410,107
Expiring beyond one year	**–**	1,676
	1,676	411,783

15 Borrowings (Continued)

Convertible bonds

As at 30 June 2016, the Group had five (31 December 2015: 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 as at 30 June 2016	Issuance and closing date	Maturity date	Conversion period	Conversion price as at 30 June 2016
1st	HKD500,000,000	9 January 2014	30 months after the closing date	After issue date up to maturity date	HKD4.70 per share
2nd	HKD100,000,000	30 April 2014	30 months after the closing date	After issue date up to maturity date	HKD4.85 per share
3rd	HKD320,000,000	20 May 2014	30 months after the closing date	After issue date up to maturity date	HKD4.95 per share
4th	HKD820,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	HKD5.20 per share
5th	HKD700,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	HKD5.35 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.

15 Borrowings (Continued)

Convertible bonds (Continued)

The redemption price of all 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 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. The redemption price of all convertible bonds is equal to 100% of the principal amount plus the unpaid interest and the Compensation Amount.

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 HKD0.60 based on the par value of HKD0.10 each before share consolidation effective 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.

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 six months ended 30 June 2016, the Group recognised a gain on fair value of the embedded derivatives amounted to RMB213,913,000 (for the six months ended 30 June 2015: a gain of RMB4,792,000).

All of the convertible bonds are guaranteed by 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).

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

15 Borrowings (Continued)

Convertible bonds (Continued)

	RMB'000
For the six months ended 30 June 2016	
Opening amount as at 1 January 2016	**1,722,708**
Interest expenses (Note 21)	**535,718**
Interest paid	**(168,974)**
Fully settled and discharged	**(521,349)**
Exchange difference	**40,387**
Closing amount as at 30 June 2016	**1,608,490**
For the six months ended 30 June 2015	
Opening amount 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 difference	(1,023)
Closing amount as at 30 June 2015	1,426,399

The fair value of the liability component of the convertible bonds as at 30 June 2016 amounted to RMB2,023,835,000 (31 December 2015: RMB2,382,752,000). The fair value is calculated using the market price of the convertible bonds on the date of the statement of financial position (or the nearest day of trading).

During the six months ended 30 June 2016, a parcel of convertible bonds with a total principal amount of HKD610,000,000 (equivalent to approximately RMB521,349,000) matured in February 2016. On 29 March 2016, the Company issued a promissory note to this convertible bondholder, pursuant to which the Company promised to repay the principal together with interest accrued thereon, to the bondholder on or before 31 May 2016 (as further extended to August 2016 by a deed of amendment).

Subsequent to 30 June 2016, a parcel of convertible bonds with an outstanding principal of HKD500,000,000 (equivalent to approximately RMB427,335,000) matured in July 2016 was settled by a promissory note due in October 2016.

15 Borrowings (Continued)

Promissory notes

	RMB'000
For the six months ended 30 June 2016	
Opening amounts as at 1 January 2016	**115,837**
Issue of promissory notes	**640,170**
Repayment of promissory notes	**(3,419)**
Exchange difference	**2,336**
Closing amounts as at 30 June 2016	**754,924**
For the six months ended 30 June 2015	
Opening amounts as at 1 January 2015	–
Issue of promissory notes	70,622
Closing amounts as at 30 June 2015	70,622

During the six months ended 30 June 2016, the Company issued 6 promissory notes (as further extended by deeds of amendment) with aggregate principal amount of HKD820,217,000 (equivalent to approximately RMB701,014,000) to convertible bondholders as a consideration of settlement of principal and interests on convertible bonds due. The Company is in the process of negotiating with the relevant promissory notes holder to further extend the maturity date of these promissory notes. All promissory notes carry interests at 7% per annum and are wholly repayable over the maturity period from July to August 2016.

Subsequent to 30 June 2016, promissory notes totaling RMB109,164,000 were successfully extended and will be repayable over the period from September to October 2016.

Promissory notes totaling RMB584,569,000 were overdue and have been subject to further renewal and extension subsequent to 30 June 2016.

16 Derivative financial instruments

	As at 30 June 2016		As at 31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Embedded derivatives in convertible bonds	**–**	**81,380**	–	292,691

16 Derivative financial instruments (Continued)

The fair value of the embedded derivatives in convertible bonds as at 30 June 2016 is determined using the Binomial Model. The table below shows the significant inputs into the Binomial Model:

Guaranteed convertible bonds	Principal as at 30 June 2016	Issuance date	Stock price as at 30 June 2016 of the underlying shares (HKD)	Exercise price (HKD)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
1st	HKD500,000,000	9 January 2014	0.51	4.70	0.02	0.06	0	89
2nd	HKD100,000,000	30 April 2014	0.51	4.85	0.30	0.23	0	104
3rd	HKD320,000,000	20 May 2014	0.51	4.95	0.40	0.24	0	102
4th	HKD820,000,000	20 June 2014	0.51	5.20	0.50	0.25	0	106
5th	HKD700,000,000	20 June 2014	0.51	5.35	0.50	0.25	0	106

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 the 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:

	As at 30 June 2016 RMB'000	As at 30 June 2015 RMB'000
At 1 January	**26,214**	38,112
Provision for the period		
– Charged for the period (Note 18)	**–**	5,569
– Utilised during the period	**–**	(5,246)
– Reversed during the period upon expiring of the warranty period (Note 18)	**(19,484)**	(1,999)
At 30 June	**6,730**	36,436

18 Expenses by nature

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Agency fees	**32**	478
Amortisation of land use rights (Note 9)	**40,830**	40,822
Amortisation of intangible assets (Note 8)	**1,145**	333
Auditors' remunerations	**861**	4,113
Bank charges (include refund guarantee charges)	**62**	5,488
Commission expenses	**–**	17,249
Reversal of cost of sales related to the cancellation of the construction contracts (Note 6)	**(3,037,086)**	–
Cost of vessels and inventories	**554,356**	210,857
Depreciation of property, plant and equipment (Note 7)	**190,622**	249,891
Employee benefit expenses	**110,091**	166,613
Legal and consultancy fees	**16,930**	31,085
Miscellaneous expenses	**15,015**	90,106
Operating lease payments	**4,415**	9,801
Outsourcing and processing costs	**21,207**	52,954
Over provision for other tax-related expenses and customs duties	**(40,606)**	–
Provision for inventories	**2,972,333**	186,945
Provision for delayed penalties	**–**	9,571
Raw materials and consumables used	**5,222**	79,459
Provision for warranty		
– charged for the period (Note 17)	**–**	5,569
– reversal upon expiring of the warranty period (Note 17)	**(19,484)**	(1,999)
(Reversal of)/provision for impairment		
– trade receivables	**(1,043,932)**	245,392
– amounts due from customers for contract works	**(2,239,594)**	(29,625)
– other receivables and prepayments	**1,704**	(58,986)
Provision for litigations	**287**	92,348
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses and (reversal of)/provision for impairments and reversal of impairments related to the cancellation of the construction contract	**(2,445,590)**	1,408,464

19 Other income

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Government grants (Note a)	**100**	82
Rental income (Note b)	**3,169**	3,459
Others	**14,909**	17,727
Total	**18,178**	21,268

Notes:

(a) Government grants represented cash received from Jiangsu Government authority during the six months ended 30 June 2016 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 2016 and 2015.

20 Other gains/(losses) – net

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Fair value gain on derivative instruments – embedded derivatives in convertible bonds	**213,913**	4,792
Loss on disposal of land use rights and property, plant and equipment, net	**(27,548)**	(2,326)
Net foreign exchange losses	**(17,889)**	(4,477)
Total	**168,476**	(2,011)

21 Finance income and costs

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**224**	881
Imputed interest income for interest-free loans	**–**	11,355
Net foreign exchange gains on financing activities	**–**	1,804
	224	14,040
Finance costs:		
Interest expenses		
– Borrowings and finance lease liabilities	**580,481**	659,990
– Convertible bonds (Note 15)	**535,718**	429,985
Net foreign exchange losses on financing activities	**66,959**	–
Less: borrowings costs capitalised	**(716)**	(766)
	1,182,442	1,089,209
Net finance costs	**(1,182,218)**	(1,075,169)

22 Income tax expense

No Hong Kong, PRC and Kyrgyzstan profits tax have been provided for during the six months ended 30 June 2016 (for the six months ended 30 June 2015: nil) as the Group had no assessable profit in Hong Kong, PRC and Kyrgyzstan.

Income tax expense is recognised based on management's estimation of the weighted average annual income tax rate expected for the full financial year. Management expected that there is no income tax expense for the six months ended 30 June 2016 since it is not expected to have any tax assessable profit (for the six months ended 30 June 2015: 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.

	For the six months ended 30 June	
	2016	2015 (Adjusted)
Loss attributable to equity holders of the Company (RMB'000)	**(1,963,131)**	(2,035,847)
Weighted average number of ordinary shares in issue	**2,171,591,507**	1,957,201,542
Loss per share (RMB per share)	**(0.90)**	(1.04)

The share consolidation pursuant to the shareholders' resolutions passed at an extraordinary general meeting of the Company held on 24 March 2016 is adjusted in the weighted average number of ordinary shares in issue as if the share consolidation had occurred at 1 January 2015, the beginning of the earliest period reported.

(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 2016 and 2015.

24 Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: nil).

25 Contingencies

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Contingencies:		
Refund guarantees (Note a)	**51,749**	51,767
Litigation (Note b)	**–**	–
Financial guarantees (Note c)	**27,739**	27,739
	79,488	79,506

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 2016, 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.

(b) Litigation

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

As at 30 June 2016, 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 RMB379,091,000 (31 December 2015: RMB406,945,000). Provision and respective trade and other payables totaling RMB379,091,000 had been provided for in respect of the claims as at 30 June 2016 (31 December 2015: RMB406,945,000) 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 2016, 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 RMB243,199,000 (31 December 2015: USD36,675,000, equivalent to approximately RMB238,153,000), plus the interest of the instalments received. A provision of RMB370,144,000 has been provided for in respect of this claim as at 30 June 2016 based on the legal advice from the Group's internal legal counsel.

(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 2016, the total value of the guaranteed borrowings outstanding was RMB29,673,000 (31 December 2015: RMB29,673,000) in which the Group had made a provision of RMB1,934,000 (31 December 2015: RMB1,934,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB27,739,000 (31 December 2015: 27,739,000) 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 balance sheet date but not yet incurred is as follows:

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
Property, plant and equipment		
– Contracted but not provided for	**788,927**	755,652
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 2016, 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 condensed consolidated statement of financial position.

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

The Group leases various offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2016 RMB'000	As at 31 December 2015 RMB'000
No later than 1 year	**119**	5,516

27 Related party transactions

Fine Profit Enterprises Limited ("Fine Profit"), a company incorporated in the British Virgin Islands, owned 18.84% of the issued shares of the Company as at 30 June 2016 (31 December 2015: 18.90%). Fine Profit was wholly-owned by Mr. Zhang as at 30 June 2016.

The directors of the Company are of the view that the following companies were related parties that had balances with the Group during the six months ended 30 June 2016:

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
Smart Frontier Limited	Entity controlled by a close family member of Mr. Zhang
Rongying Capital Management Limited 熔盈資本管理有限公司	Entity ultimately controlled by 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
Nantong Rongsheng Infrastructure Accessories Co., Ltd. 南通熔盛基礎設施配套工程有限公司	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 controlled by a close family member of Mr. Zhang
Zhang Jiping 張繼平	Director of a subsidiary

During the six months ended 30 June 2016, no transactions with the related parties were carried out by the Group.

27 Related party transactions (Continued)

(a) Balances with related parties

As at 30 June 2016 and 31 December 2015, the balances are interest-free, unsecured, and repayable on demand. The carrying amounts of these balances approximate their fair values.

	As at 30 June 2016 RMB'000	As at 31 December 2015 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	**484,759**	520,433
Other payables – non-trade (Note 14)		
– Entities controlled by Mr. Zhang or a shareholder/close family member of Mr. Zhang	**20,386**	15,920
– Non-controlling interest shareholder of a subsidiary	**20,676**	20,118
	41,062	36,038

(b) Advances from related parties

During the six months ended 30 June 2016, the single largest shareholder (before taking into account full conversion of the convertible bonds and exercise of the share options issued by the Company) 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 2016, RMB325,744,000 (31 December 2015: RMB328,505,000) has been drawn down by the Group and is repayable on demand.

During the six months ended 30 June 2016, the shareholder provided security-free facilities up to USD5,000,000 (equivalent to approximately RMB33,156,000) for use by the Group for working capital purposes. As at 30 June 2016, USD4,784,000 (equivalent to approximately RMB31,726,000) (31 December 2015: USD4,028,000, equivalent to approximately RMB26,156,000) has been drawn down by the Group and is repayable by year 2017.

(c) Guarantee by a director

As at 30 June 2016, certain bank borrowings are secured by a director of the Group (31 December 2015: same).

(d) Guarantee by the shareholder and related parties

As at 30 June 2016, certain borrowings and convertible bonds are secured by the shareholder and related parties (31 December 2015: same).

(e) Guarantee by a director of a subsidiary

As at 30 June 2016, no borrowings (31 December 2015: RMB13,000,000) is secured by a director of a subsidiary.

(f) Borrowings from a director of a subsidiary

During the six months ended 30 June 2016, a director of a subsidiary provided security-free and interest-free facilities up to RMB47,255,000 (for the six months ended 30 June 2015: RMB46,306,000) for working capital purposes.

(g) Borrowings from related parties

During the six months ended 30 June 2016, related parties provided security-free and interest-free facilities up to HKD11,810,000 (equivalent to approximately RMB10,094,000) (for the six months ended 30 June 2015: nil) 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

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International Commerce Centre,
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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

WANG Jin Lian

ZHOU Zhan

LAM Cheung Mau

Audit Committee

ZHOU Zhan
(Chairman)

WANG Jin Lian

LAM Cheung Mau

Corporate Governance Committee

WANG Jin Lian
(Chairman)

CHEN Qiang

Sean S J WANG

WANG Tao

LAM Cheung Mau

Nomination Committee

WANG Jin Lian
(Chairman)

WEI A Ning

ZHOU Zhan

Remuneration Committee

ZHOU Zhan
(Chairman)

CHEN Qiang

WANG Jin Lian

Finance and Investment Committee

CHEN Qiang
(Chairman)

HONG Liang

Sean S J WANG

WANG Jin Lian

ZHOU Zhan

Company Secretary

LEE Man Yee

Auditor

PricewaterhouseCoopers

Principal Bankers

China Minsheng Banking Corp., Ltd.
(Shanghai Branch)

China Development Bank Corporation
(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

http://www.huarongenergy.com.hk

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