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

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.

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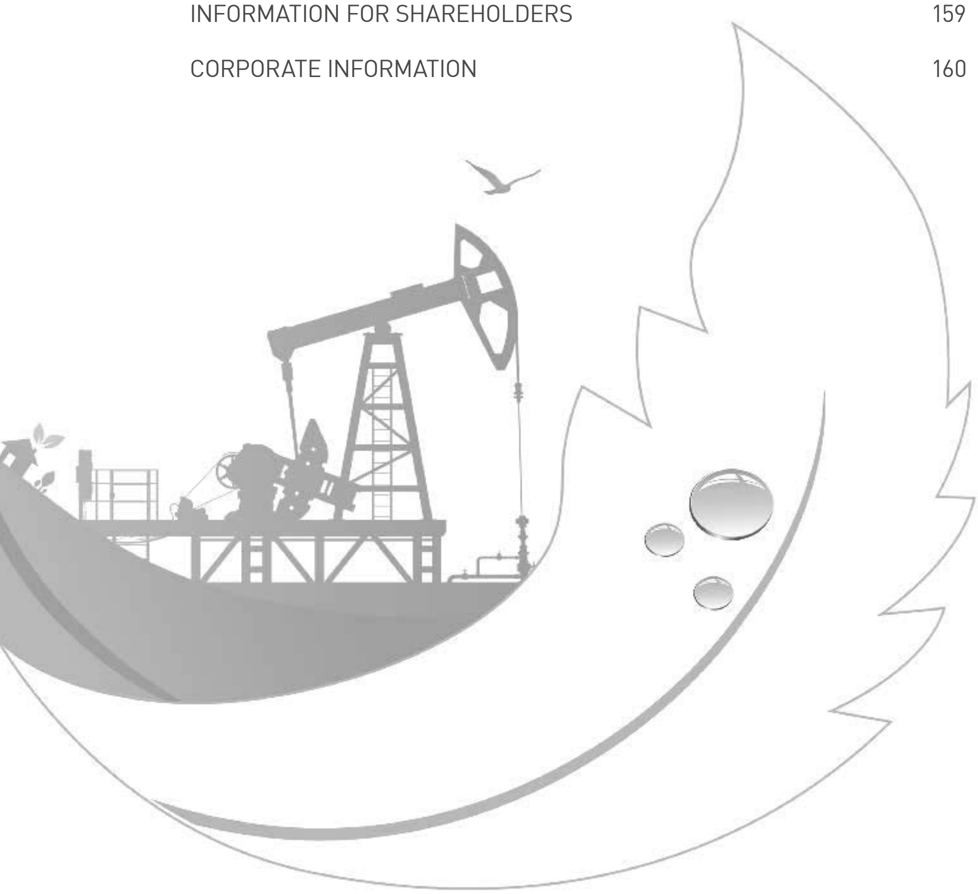

CHAIRMAN'S STATEMENT

Market Analysis

The overcapacity situation of the shipping market did not experience a fundamental change in 2016. Fettered by various factors, including the lower prices of newbuildings, the significant increase in cost of raw materials, the frequent order amendment practice of ship owners and high finance costs, shipbuilders in China were generally faced with excess capacity and significant decrease in profitability and still confronted with numerous challenges in production and operations. Meanwhile, as the international benchmark pricing of crude oil has been under pressure since 2014, the oil exploration and production companies had to timely adjust their production plan in response to the volatile industry condition.

To confront the prevailing sluggish shipbuilding market and the production slowdown in the shipbuilding business, we, on the one hand, had deployed our existing production facilities and amenities and human resources to broaden our source of revenue by developing diversified business and resale of vessels under construction; on the other hand, we managed to reduce daily operating costs, mitigate production pressure, and maintain stable operation of the shipbuilding manufacturing base through effective measures, such as streamlining organizational structure, optimizing personnel reallocation and strengthening cost management and control. Also, we, being supported by the satisfactory development results in 2015, carried out oilfields development and adopted various measures to maintain production capabilities, reinforced cost control measures and rationalised on-site operation and management, actively responding to the financial constraints and volatile industry conditions.

Prospects

Looking forward to 2017, the sluggish pace of recovery of the global economy is unlikely to change in the near future. The supply and demand for global oil market is gradually reaching a balance, but still subject to much uncertainty. Besides, the "Made in China 2025" initiative and "Action Plans of Strengthening Structural Adjustment and Accelerating Transformation and Upgrade of Shipbuilding Industry (2016-2020)" have both been attached great importance and supported the development of the shipbuilding industry in China. With the capacity cut as the core and the smart production as the principal direction, the shipbuilding industry will undergo moderate diversification and non-vessel business development in the future, thereby enhancing its international competitiveness and sustainability.

The difficulties faced by the industry also bring the opportunities for the Group to restructure and upgrade. Working on the foundation of our existing shipbuilding and energy businesses, and leveraging on our strengths in corporate resources, we will continue to promote our business transformation and accelerate the upgrade of our Group into a comprehensive energy service heavy industry enterprise. At the same time, the Company will continue to facilitate the proposal of disposal of liabilities with creditors, in order to ease the debt burden of the Company, improve the operation of shipbuilding business and mitigate the adverse effect of the high gearing of the Group on its expansion in the energy service industry.

Acknowledgements

I would like to take this opportunity to express my sincere gratitude to our employees for their concerted effort, and to our shareholders and all creditors and relevant institutions for their patience and ardent support.

Chen Qiang
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2016 (the "**Period**"), the Group recorded a negative revenue of RMB4,118.8 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 RMB738.5 million for the year ended 31 December 2015 (the "**Comparative Period**"). Loss attributable to the equity holders of the Company for the Period was RMB3,564.8 million, while loss attributable to the equity holders of the Company for the Comparative Period was RMB6,542.9 million.

Shipbuilding and Offshore Engineering

For the Period, the shipbuilding segment of the Company recorded a negative revenue of RMB4,152.3 million. For the Period, we sold 4 vessels with a revenue of approximately RMB140.8 million. As at 31 December 2016, our total orders on hand consisted of 6 vessels, representing a total volume of approximately 455,000 DWT with a total contract value of approximately USD204.5 million. They included 5 Panamax bulk carriers and 1 Panamax crude oil tanker.

Faced with the slowdown of production of the shipbuilding business, the Company utilised its existing production facilities and human resources to develop diversified business, including seeking opportunities in the construction of hulls, 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, we completed the acquisition of 60% interests in the project (the "**Kyrgyzstan Project**") involving four oilfields located in the Fergana Valley of the Republic of Kyrgyzstan. For the Period, the Kyrgyzstan Project recorded 188,161 barrels (bbl) of light crude oil. Revenue from the energy exploration and production segment was RMB31.6 million for the Period, an increase of 10.1% from RMB28.7 million for the Comparative Period.

Marine Engine Building and Engineering Machinery

For the Period, suffered from the continuously sluggish shipbuilding market and marine engine market, the Company utilised its production facilities, equipment, human resources and techniques to diversify its business. Intersegment sales revenue was RMB0.7 million for the Period (for the Comparative Period: RMB0.9 million). Because of the cancellation of shipbuilding contracts, as at 31 December 2016, our orders on hand for marine engine building segment decreased to 6 engines (for the Comparative Period: 26 orders on hand).

For the Period, revenue from the engineering machinery segment was RMB1.9 million (for the Comparative Period: RMB0.7 million). Revenue mainly came from sales of in-stock excavators, idle assets and stagnant inventory.

Financial Review

Revenue

For the Period, we recorded a negative revenue of RMB4,118.8 million as compared to the revenue of RMB738.5 million for the Comparative Period. It was primarily attributable to the reversal of revenue from cancellation of shipbuilding contracts. For the Period, revenue from sales of vessels was RMB140.8 million (for the Comparative Period: RMB402.9 million). Revenue from shipbuilding and other contracts was RMB135.8 million as compared to RMB306.9 million for the Comparative Period, representing a year-on-year decrease of approximately 55.8%. Revenue from sales of crude oil was RMB31.6 million (for the Comparative Period: RMB28.7 million). During the Period, revenue reversed from the cancellation of the shipbuilding contracts was RMB4,427.0 million (for the Comparative Period: nil).

Cost of Sales

For the Period, cost of sales decreased by approximately 78.9% to RMB467.9 million (for the Comparative Period: RMB2,215.2 million), which was primarily attributable to reversal of cost of goods sold from cancellation of shipbuilding contracts. Cost of sales reversed from the cancellation of the shipbuilding contracts for the Period was RMB3,669.4 million (for the Comparative Period: nil).

Selling and Marketing Expenses

For the Period, selling and marketing expenses decreased by approximately 27.6% to RMB5.5 million (for the Comparative Period: RMB7.6 million), which was primarily in alignment with the Group's strategic transformation by reducing selling and marketing expenses of the shipbuilding segment and attributable to the implementation of cost control measures.

General and Administrative Expenses

For the Period, general and administrative expenses decreased by approximately 42.7% to RMB748.3 million (for the Comparative Period: RMB1,304.9 million). This was mainly attributable to the implement of cost control measures by the Group, including significant cutback of workforce.

Reversal of/(Provision for) Impairments and Delayed Penalties

For the Period, reversal of impairments and delayed penalties was RMB175.3 million (for the Comparative Period: provision for impairments and delayed penalties of RMB2,298.0 million). It was mainly due to the reversal of impairment of trade receivables of RMB152.1 million, reversal of impairment of other receivables and prepayments of RMB48.0 million, offset with the provision for impairment of amounts due from customers for contract works of RMB6.7 million and provision for delayed penalties of RMB18.1 million. The reversal of impairment of trade receivables for the Period was mainly due to the settlement of trade receivables during the Period.

Reversal of Impairments Related to the Cancellation of the Construction Contracts

For the Period, reversal of impairments related to the cancellation of the construction contracts was RMB3,886.1 million (for the Comparative Period: Nil). It was mainly due to the cancellation of certain construction contracts during the Period.

Other Gains – Net

For the Period, other gains – net increased by approximately 15.6% to RMB123.5 million (for the Comparative Period: gains of RMB106.8 million), primarily due to the fair value change on embedded derivatives of convertible bonds of RMB305.2 million (for the Comparative Period: RMB59.5 million).

Finance Costs – Net

Finance income for the Period, which mainly came from imputed interest income on interest-free loans, decreased by approximately 26.8% to RMB13.1 million (for the Comparative Period: RMB17.9 million). Finance costs for the Period increased by approximately 15.7% to RMB2,518.2 million (for the Comparative Period: RMB2,177.1 million). The increase was due to the increase in interest for the Company's convertible bonds for the Period.

Gross Loss

During the Period, we recorded a gross loss of RMB4,586.6 million (for the Comparative Period: RMB1,476.7 million). As a result of depressed shipbuilding market conditions and the lower prices of newbuildings, 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 as a result of a reduction of our production activities while having to maintain a considerable fixed production cost.

Total Comprehensive Loss for the Period

During the Period, we recorded total comprehensive loss of RMB3,567.5 million (for the Comparative Period: RMB7,053.4 million), of which loss attributable to equity holders of the Company was RMB3,454.8 million (for the Comparative Period: RMB6,448.3 million). Loss attributable to the equity holders of the Company is the result of gross loss, the considerable finance costs and relatively fixed administrative expenses.

Liquidity and Going Concern

During the Period, the Group incurred a net loss of approximately RMB3,677.9 million. As at 31 December 2016, the Group had a total deficit of RMB9,263.8 million and the Group's current liabilities exceeded its current assets by RMB31,293.9 million. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,897.9 million, out of which RMB21,904.6 million current bank borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements. The Group's current borrowings also included a convertible bond with outstanding principal totaling HKD103.5 million (equivalent to approximately RMB92.6 million) as at 31 December 2016, which was immediately redeemable by the bondholder according to the terms and conditions of the convertible bond.

However, a series of plans and measures have been taken to mitigate liquidity pressure and to improve the financial positions 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 borrowings by issuing shares of the Company to satisfy certain of the Group's outstanding debts. The Company has proposed to effect the disposal of liabilities by (1) entering into bank creditor subscription agreements with certain bank creditors or their designated entities to subscribe for up to 14,108,000,000 Shares at HKD1.20 per subscription share, to satisfy the relevant borrowings in an aggregate amount up to RMB14,108.0 million due by the Group to these bank creditors; and (2) entering into supplier creditor subscription agreements with certain supplier creditors to subscribe for up to 3,000,000,000 Shares at HKD1.20 per subscription share in order to settle the payables in an aggregate amount up to RMB3,000.0 million due by 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 section headed "Going Concern Basis" in Note 2.1(a) to the consolidated financial statements.

Borrowings and Finance Lease Liabilities

Our short-term borrowings and finance lease liabilities increased by RMB1,663.1 million from RMB22,234.8 million as at 31 December 2015 to RMB23,897.9 million as at 31 December 2016. Our long-term borrowings and finance lease liabilities decreased by RMB415.2 million from RMB445.2 million as at 31 December 2015 to RMB30.0 million as at 31 December 2016.

As at 31 December 2016, our total borrowings and finance lease liabilities were RMB23,927.9 million (as at 31 December 2015: RMB22,680.0 million), of which RMB19,645.5 million (82.2%) was denominated in RMB and the remaining RMB4,282.4 million (17.8%) was denominated in other currencies such as USD and HKD. Certain borrowings were secured by our land use rights, buildings, construction contracts, pledged deposits, guarantee from certain related parties and guarantee from a subsidiary of the Group.

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 HKD1.20 per subscription 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. Please also refer to the section headed "Going Concern Basis" in Note 2.1(a) to the consolidated financial statements.

Inventories

Our inventories decreased by RMB366.6 million to RMB643.5 million as at 31 December 2016 (as at 31 December 2015: RMB1,010.1 million). The decrease in inventories was the result of the Group actively releasing the asset through sales.

Amounts Due from Customers for Contract Works

The amounts due from customers for contract works decreased to nil as at 31 December 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. In addition, the Group also had significant borrowings denominated in foreign currency. The cash flow of unmatched currencies is subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimise the impact of foreign exchange fluctuations on our business operations. The Group incurred net foreign exchange loss of RMB388.4 million due to the depreciation of RMB against USD during the Period, which resulted in exchange loss on certain USD-denominated liabilities, such as accounts payable and borrowings of the Group.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB42.7 million (for the Comparative Period: RMB10.2 million), which was mainly used as expenses of facilities in the Energy Exploration and Production segment.

Gearing Ratio

Our gearing ratio (measured by total borrowings and finance lease liabilities divided by the sum of total borrowings and finance lease liabilities and total deficit) increased from 133.6% as at 31 December 2015 to 163.2% as at 31 December 2016. Affected by the accumulated losses of RMB23,906.4 million as at 31 December 2016, the total deficit was RMB9,263.8 million as at 31 December 2016 (total deficit as at 31 December 2015: RMB5,703.0 million).

Contingent Liabilities

As at 31 December 2016, we had contingent liabilities of RMB130.4 million (as at 31 December 2015: RMB79.5 million), which resulted from refund guarantees issued to, litigation and financial guarantees provided to our customers.

Credit Assessment and Risk Management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 31 December 2016, all of the Group's cash and bank balances, short-term and long-term bank deposits and pledged deposits were placed with reputable banks which management believes are of high creditworthiness and without significant credit risk.

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

As at 31 December 2016, trade receivables of RMB2,578.1 million (as at 31 December 2015: RMB3,398.2 million) and RMB374.8 million (as at 31 December 2015: RMB383.5 million) related to certain customers of the shipbuilding segment and the engineering machinery segment were impaired and provided for respectively, as a result of the management's assessment on the recoverability of the balances.

Human Resources

As at 31 December 2016, we had approximately 785 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.

Details in relation to the remuneration policies and the bonus and share option schemes are set out in the sections headed "Remuneration Policy" and "Share Option Schemes", respectively, in the "Report of the Directors" contained in this annual report. Further details in relation to the remuneration are set out in the section headed "Employee benefit expenses (including directors' emoluments)" in Note 24 to the consolidated financial statements.

Key Risks and Uncertainties

The Group's business, financial condition and results of operations are subject to various business risks and uncertainties. The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. In dealing with these risk factors and uncertainties, the Group remains in touch with its stakeholders with the aim of understanding and addressing their concerns. Further descriptions in relation to the internal control and risk management of the Group are set out in the corporate governance report of this annual report. There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Global Economy

The Group is exposed to the development of the global economy as well as the industries and geographical markets in which it operates. As a result, the Group's financial condition and results of operations may be influenced by the general state of the global economy or the general state of a specific market or economy.

Market Risk

As mentioned in the paragraphs "Market Analysis" and "Prospects" under the section headed "Chairman's Statement" of this annual report, the overcapacity situation of the shipping market did not experience a fundamental change in 2016. Shipbuilders in China were generally faced with the excess capacity and significant decrease in profitability and still confronted with numerous challenges in production and operations. To confront the prevailing sluggish shipbuilding market and the production slowdown in the shipbuilding business, we, on the one hand, had deployed our existing production facilities and amenities and human resources to broaden our source of revenue by developing diversified business and resale of vessels under construction; on the other hand, we managed to reduce daily operating costs, mitigate production pressure, and maintain stable operation of the shipbuilding manufacturing base through effective measures, such as streamlining organizational structure, optimizing personnel reallocation and strengthening cost management and control.

The development of our energy exploration and production business is dependent on the prices received for its crude oil products and the additional fund investments for drilling wells and exploration. as the international benchmark pricing of crude oil has been under pressure since 2014, the oil exploration and production companies had to timely adjust their production plan in response to the volatile industry condition. Lower prices for crude oil could adversely affect the value of oil reserves and the results of our energy exploration and production business.

Details and management's response in relation to the Group's market risk are set out in the sections "Chairman's Statement" and "Management Discussion and Analysis" contained in this annual report. Please also refer to the section headed "Going Concern Basis" in Note 2.1(a) to the consolidated financial statements.

Liquidity Risk and Going Concern

Details and management's response in relation to the Group's liquidity risk and going concern are set out in the paragraph "Liquidity and Going Concern" under the section headed "Financial Review" and in the sections headed "Going Concern Basis" in Note 2.1(a) and "Liquidity Risk" in Note 3.1(c) to the consolidated financial statements.

Credit Risk

Details and management's response in relation to the Group's liquidity risk are set out in the paragraph "Credit Assessment and Risk Management" under the section headed "Financial Review" and in the section headed "Credit Risk" in Note 3.1(b) to the consolidated financial statements.

Foreign Exchange Risk

The Group's currency exposure mainly arises from our shipbuilding business which recorded revenue from contract prices mainly denominated in USD while about part of the production costs were denominated in USD. Further details and management's response in relation to the Group's foreign exchange risk are set out in the paragraph "Foreign Exchange Risks" under the section headed "Financial Review".

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

The Board, which oversees the Company's operations through several committees, has ultimate responsibility for the administration of the affairs of the Company. The Board consists of eight Directors, five of whom are executive Directors, and three of whom are independent non-executive Directors.

Executive Directors

Mr. CHEN Qiang (陳強)

Chairman of the Board,
Executive Director and Chief Executive Officer

Mr. Chen Qiang, aged 55, an executive Director, the Chairman and chief executive officer of the Company. Mr. Chen joined the Group in 2004 and was appointed as an executive Director on 24 October 2010. He was further appointed as the Chairman with effect from 26 November 2012. He is also the chairman of our finance and investment committee, a member of our corporate governance committee and a member of our remuneration committee. He is responsible for overseeing the overall operations of the Group and is a director of a subsidiary of the Company. In 2002, Mr. Chen obtained his doctorate degree in naval architecture and ocean engineering from Harbin Engineering University (哈爾濱工程大學) and an MBA degree from China Europe International Business School (中歐國際工商學院). Mr. Chen obtained a master's degree in professional accounting (EMPAcc) (專業會計碩士) from the Chinese University of Hong Kong and was awarded the CFO Qualifying Certificate from the Shanghai National Accounting Institute (上海國家會計學院) in 2010. He also obtained a bachelor's degree in marine power engineering from Shanghai Jiao Tong University (上海交通大學) in 1982. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. Mr. Chen once served as an assistant to the general manager and subsequently a deputy manager of Jiangnan Shipbuilding Group Co., Ltd. (江南造船集團有限公司). He was an executive deputy general manager and subsequently the vice-chairman to the board of directors and general manager of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司), and was one of the founders of the company. Mr. Chen is one of the experts on the national expert database of the PRC and was named as one of the "one hundred entrepreneurial talents" by the Jiangsu provincial government. In 2011, he was also a top-tier chief scientist enrolled in the 4th "333 Talents Cultivation Project" of Jiangsu Province. In 2010, the prestigious Norwegian shipping magazine "TradeWinds" ranked him the 41st among the "100 Most Influential People in Shipping Today". In 2012, Lloyd's List ranked him the 88th among the "100 Most Influential People in Global Shipping Industry of 2012". Mr. Chen enjoys special government allowances granted by the State Council and has won many domestic awards and has been granted many honorary titles, for example, the State Scientific and Technological Progress Second Class Award (國家科學技術進步二等獎) in 1990. Mr. Chen is the vice-president of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), the president of the Jiangsu Association of Offshore Engineering (江蘇省海洋工程協會), a vice chairman of the Nantong Association for Science and Technology of Jiangsu Province (江蘇省南通市科協), a committee member of the Jiangsu Shipbuilding and Offshore Engineering Assessment Panel of Professional Qualification (江蘇省船舶與海洋工程高級專業技術資格評審會). He is also a member of the council of CCS (中國船級社) and a member of the technology committee of the four biggest ship classification societies, namely, DNV GL, ABS, LR and CCS.

Mr. HONG Liang (洪樑)

Executive Director

Mr. Hong Liang, aged 45, is an executive Director of the Company. Mr. Hong joined the Group in 2006 and was appointed as an executive Director on 24 October 2010. He is a member of our finance and investment committee. He is also a director of certain subsidiaries of the Company. Mr. Hong is primarily responsible for investment and financing, capital as well as cost and budget management. Mr. Hong obtained his bachelor's degree in accounting from Shanghai University (上海大學) in 1994. He obtained the Master of Executive Professional Accountancy (EMPAcc) from Shanghai National Accounting Institute and The Chinese University of Hong Kong in August 2010. He also completed the Rongsheng

Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. Mr. Hong has 20 years of experience in corporate finance and strategic investment gained from his service at investment banks. Mr. Hong worked at Shenyin and Wanguo Securities (申銀萬國證券公司) as an assistant manager of division two of the Shanghai investment banking department from 1994 to 1997, the deputy general manager of the Shanghai investment banking division of CITIC Securities Limited (中信證券有限責任公司), the general manager of the investment banking division of United Securities Company Limited (聯合證券股份公司) from 1998 to 1999, the deputy manager of the investment banking division of CITIC Securities Limited (中信證券股份公司) from 1999 to 2002, the general manager of the investment and development division of Shanghai Sun Glow Investment Co., Ltd. (上海陽光投資集團有限公司) from 2002 to 2004, and the deputy general manager of the strategic investment division of Shanghai Dasheng Holdings Limited (上海大盛資產公司) from 2004 to 2005.

Mr. WANG Tao (王濤)

Executive Director

Mr. Wang Tao, aged 44, is an executive Director. Mr. Wang joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is a member of our corporate governance committee. He is also a director of certain subsidiaries of the Company. Mr. Wang is primarily responsible for legal affairs. He obtained his bachelor's degree in law from China University of Political Science and Law (中國政法大學) in 1994. Mr. Wang obtained his certificate in world economics from the Department of Economics of Renmin University of China (中國人民大學研究生院經濟學院) in 2005 and graduated from an advanced course in ship finance law (船舶融資法律實務高級研修班) from Shanghai Jiao Tong University (上海交通大學) in 2010. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. From 1999 to 2008, Mr. Wang had held various positions in Shanghai Sun Glow Investment Group Co., Ltd. (上海陽光投資集團有限公司), namely, legal consultant, assistant to the president, vice-president and assistant to the chairman of the board. Mr. Wang qualified as a lawyer in the PRC in 1999.

Ms. ZHU Wen Hua (朱文花)

Executive Director

Ms. Zhu Wen Hua, aged 48, is an executive Director. Ms. Zhu was appointed as an executive Director on 31 December 2013. She is a member of our nomination committee. She has served as vice-chairman of Rongsheng Heavy Industries since May 2015. She served as an assistant supervisor of the supervisory audit department and a supervisor of the bidding control department of Rongsheng Heavy Industries, a subsidiary of the Company, since 2009 and January 2012 respectively. She also has served as an assistant to the president of Rongsheng Heavy Industries since October 2013. Since March 2014, she has served as vice-president of Rongsheng Heavy Industries, as well as head of the cost control department and director of the bidding office. She is also a director of certain subsidiaries of the Company. Ms. Zhu graduated from the Graduate School of the Shanghai University (上海大學研究生部) in May 2010 studying a professional postgraduate course in Management Science & Engineering. She also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012.

Mr. ZHANG Ming (張明)

Executive Director

Mr. Zhang Ming, aged 60, is an executive Director. Mr. Zhang was appointed as an executive Director on 24 October 2016. He is a member of our finance and investment committee and corporate governance committee. Mr. Zhang has over 30 years of experience in the shipping and shipbuilding businesses. Mr. Zhang has previous joined the Group in May 2006 until leaving as the executive vice-president of Rongsheng Heavy Industries in July 2010. He rejoined the Group in November 2015 as the vice-president of Rongsheng Heavy Industries and became the president of Rongsheng Heavy Industries since September 2016. Prior to joining the Group, Mr. Zhang once served as an assistant supervisor of engineering and maintenance department in Qingdao Ocean Shipping Co., Ltd. (青島遠洋運輸有限公司), the general manager of Coscoship (Qingdao) Co., Ltd. (青島遠洋船舶國際貿易有限公司), the deputy general manager of Nantong COSCO KHI

Ship Engineering Co., Ltd. (南通中遠川崎船舶工程有限公司), the president of Shanghai Bestway Marine Technology Development Co., Ltd. (上海佳豪船舶科技發展有限公司) and the general manager of Shanghai Bestway Yacht Development Co., Ltd. (上海佳豪遊艇發展有限公司). Mr. Zhang obtained a bachelor's degree in ship design and manufacturing from Dalian University of Technology (大連理工大學) in 1982; and obtained a master's degree in transportation management and engineering from Dalian Maritime University (大連海事大學) in 1998. He has been acting as a visiting professor of Dalian Maritime University since November 2004.

Independent Non-executive Directors

Mr. WANG Jin Lian (王錦連)

Independent Non-executive Director

Mr. Wang Jin Lian, aged 71, is an independent non-executive Director. He was appointed as an independent non-executive Director on 31 July 2013. He is the chairman of our corporate governance committee and nomination committee and a member of our audit committee, finance and investment committee and remuneration committee. He was the secretary general of China Association of the National Shipbuilding Industry from May 2006 to August 2014, and he is currently a consultant for China Association of the National Shipbuilding Industry. Mr. Wang has over 40 years of experience in shipbuilding industry. He is currently a member of Shanghai International Maritime Center Construction Committee. He previously held various senior positions, including deputy director general of the international bureau of China State Shipbuilding Corporation (中國船舶工業總公司), director general of the planning and development department of China State Shipbuilding Corporation (中國船舶工業集團公司), vice chairman of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司) and vice chairman of Hudong Heavy Machinery Co., Ltd. (滬東重機股份有限公司). He is currently an independent director of Shanghai CSR Hange Shipping Engineering Co., Ltd. (上海南車漢格船舶工程有限公司). Mr. Wang holds the senior engineer (researcher level) qualification in China. He graduated from Beijing Institute of Aeronautics (currently named as Beihang University) (北京航空學院，現為北京航空航天大學) in 1969.

Ms. ZHOU Zhan (周展)

Independent Non-executive Director

Ms. Zhou Zhan, aged 55, is an independent non-executive Director. She was appointed as an independent non-executive Director on 21 May 2014. She is the chairman of our audit committee and remuneration committee and a member of our finance and investment committee and nomination committee. She is currently a partner at Beijing Promise Certified Public Accountants General Partnership (北京京重信會計師事務所). She participated in founding Sino-Reality Certified Public Accountants (華實會計師事務所) in 1997, where she served as a partner from 1997 to 2013. Ms. Zhou has more than 30 years of experience in auditing, accounting and taxation. Ms. Zhou holds Certified Public Accountant and Certified Public Tax Advisor qualifications in the PRC. She graduated from Zhongnan University of Economics and Law (中南財經政法大學) with a bachelor's degree in economics in 1983.

Mr. LAM Cheung Mau (林長茂)

Independent Non-executive Director

Mr. Lam Cheung Mau, aged 60, is an independent non-executive Director. Mr. Lam was appointed as an independent non-executive Director on 18 November 2015. He is a member of our audit committee and corporate governance committee. Mr. Lam has over 30 years of experience in the auditing and finance. He previously held various positions, as officers in the audit department of Hua Chiao Commercial Bank, in the corporate planning and budgeting division of the finance department of Bank of China (Hong Kong) and was an audit manager of Han's Laser Technology Industry Group Co., Ltd. Mr. Lam graduated in 1982 from the accounting division of Xiamen University (廈門大學) with a bachelor's degree in economics. Mr. Lam is currently an independent non-executive director of China Smarter Energy Group Holdings Limited (a company listed on the Hong Kong Stock Exchange) and a member of its audit committee, remuneration committee and nomination committee.

Senior Management Team

Mr. LIU Bu Ruo (劉步若)

Mr. Liu Bu Ruo, aged 56, serves as a director and general manager of КыргызжерНефтегаз ("Kyrgyzjer Neftegaz Limited Liability Company"), an indirect non-wholly owned subsidiary of the Company, upon the completion of the acquisition of 60% interests in the Kyrgyzstan Project on 11 September 2014. Mr. Liu is responsible for overseeing the energy exploration and production business of the Group. Mr. Liu has over 30 years of experience in the energy industry. Mr. Liu obtained his engineering degree from Tongji University (同濟大學) in 1983, and he started his career at the Baosteel Group (寶鋼集團). In 2001, Mr. Liu joined Tongda Energy Group (通達能源集團公司) and has held various senior management roles in the group including general manager, vice president and directorship. Mr. Liu was with Tongda Energy Group from 2001 to 2007 and from 2011 to 2014. This group is involved in city gas pipeline network engineering. It is also involved in gas production and marketing of petroleum products. Mr. Liu also served as a director of LNG technology development and business development at Furui Special Equipment Engineering Technology Centre (Shanghai) (富瑞特裝上海工程技術中心) between 2009 and 2011, and was responsible for the research and development of LNG and business development.

Mr. CAO Shi Yong (曹式永)

Mr. Cao Shi Yong, aged 42, has served as a vice-president of Rongsheng Heavy Industries since January 2012. He is mainly responsible for carrying out corporate production management work, quality, safety and environmental protection work, and takes charge of production management department and quality and safety department. He joined Rongsheng Heavy Industries in May 2006 and has served as the assistant to the head of shipbuilding business division and the general manager of general management since October 2007. He has served as the deputy head of production management division of Rongsheng Heavy Industries since February 2008, the deputy head of business first department of Rongsheng Heavy Industries since June 2008, the general manager of plating department of Rongsheng Heavy Industries since April 2009, the senior general manager of section manufacturing department and head of general management department of Rongsheng Heavy Industries since April 2011. Mr. Cao graduated from Harbin Engineering University (哈爾濱工程大學) in 1998, majoring in ship and marine engineering. He has over 18 years of experience in the field of shipbuilding and was granted the title of senior engineer in December 2011. Before joining Rongsheng Heavy Industries, he served as the supervisor of engineering department of Jiangnan Shipbuilding Group Co., Ltd. (江南造船集團有限公司) and a director of marine engineering department of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司).

REPORT OF THE DIRECTORS

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The Group is principally engaged in the businesses of shipbuilding, marine engine building, offshore engineering, engineering machinery and energy exploration and production focusing on oil and gas related customers and markets.

Details of the analysis of the Group's turnover and contribution to gross loss for the year, by operating segments, are set out in Note 5 to the consolidated financial statements.

Business Review

A fair review of the business of the Group as required pursuant to Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), comprising analysis of the Group performance during the year, description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016 as well as indication of likely future development in the business of the Group are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" contained in this annual report.

The financial risk management objectives and policies of the Group are set out in Note 3 to the consolidated financial statements. An analysis of the Group's performance using financial key performance indicators is shown in the section headed "Five-Year Financial Summary" of this annual report.

Results

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on pages 48 to 49 of this annual report.

Dividends

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

Closure of Register of Members

The register of members of the Company will be closed during the period from Wednesday, 31 May 2017 to Monday, 5 June 2017 (both days inclusive), during which no transfers will be registered, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on 5 June 2017 ("**2017 AGM**"). In order to be eligible to attend and vote at the 2017 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 29 May 2017.

Share Capital

Details of the movements in the share capital of the Company are set out in Note 16 to the consolidated financial statements.

Share Consolidation and Increase in Authorised Share Capital

At the extraordinary general meeting of the Company held on 24 March 2016 (the "**EGM**"), ordinary resolutions were passed to conditionally approve, (i) the consolidation of every five ordinary shares of HKD0.10 each in the issued and unissued share capital of the Company 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 increase in the authorised share capital of the Company 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.

Change in Board Lot Size

With effect from 29 March 2016, the board lot size for trading in the Shares on the Hong Kong Stock Exchange has been changed from 500 Shares to 2,000 Shares (the "**Change in Board Lot Size**").

Disposal of Liabilities

At the EGM, (i) a specific mandate was conditionally granted to the Directors to allot and issue up to an aggregate of not more than 14,108,000,000 new Shares at HKD1.20 per Shares 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 to allot and issue up to an aggregate of not more than 3,000,000,000 new Consolidated Shares at HKD1.20 per Consolidated Shares 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). The Company and the creditors (or their designated entities) have not yet entered into any definitive agreement in respect of the Disposal of Liabilities when the specific mandates expired on 24 September 2016. Please also refer to the section headed "Going Concern Basis" in Note 2.1(a) to the consolidated financial statements".

Details of the Share Consolidation, the Increase in Authorised Share Capital, the Change in Board Lot Size and the Disposal of Liabilities are set out in the announcements dated 7 March 2016, 24 March 2016 and 14 September 2016 and the circular dated 9 March 2016 of the Company.

Issue and Conversion of Convertible Bonds

During the year ended 31 December 2016, all the convertible bonds due 2016 issued by the Company with an aggregate outstanding principal amount of HKD3,050,000,000 matured respectively. During the year ended 31 December 2016, the Company issued 7.0% convertible bonds due 2018 with an aggregate principal amount of HKD103,500,000 (the "**2018 Convertible Bonds**") on 31 October 2016. The 2018 Convertible Bonds were issued in exchange for the existing indebtedness of the Company owing to the holder of the convertible bonds due 2016 issued by the Company on 30 April 2014. As a result, no proceeds shall be received by the Company in respect of the issue of the 2018 Convertible Bonds. The initial conversion price of the 2018 Convertible Bonds is HKD1.05 per conversion share (subject to adjustment). During the year ended 31 December 2016, there were no conversion of the convertible bonds issued by the Company into Share by the bondholder.

As at 31 December 2016, the outstanding principal amount of all convertible bonds was HKD103,500,000. Based on the conversion price of the convertible bonds as at 31 December 2016, a maximum number of 98,571,428 Shares would be allotted and issued upon exercise of the conversion rights attaching to the outstanding convertible bonds in full, which represent approximately 4.54% of the then existing issued share capital of the Company as at 31 December 2016, and approximately 4.34% of the issued share capital of the Company as enlarged by the issue of the Shares. Mr. Zhang Zhi Rong, a substantial shareholder of the Company, has guaranteed the payment obligations of the Company under the 2018 Convertible Bonds. During the Period, there was no dilutive effect attributable to the convertible bonds on the loss per share. Additional information of the convertible bonds issued by the Company, including but not limited to, analysis on the financial and liquidity position of the Group and discussion on the ability of the Company to meet its redemption obligations under the convertible bonds are set out in the paragraph "Liquidity and Going Concern" under the section headed "Financial Review" and Notes 2.1(a), 3.1(c), 4(d), 4(e) and 20 to the consolidated financial statements in this annual report.

Please also refer to the details of the convertible bonds issued by the Company after the year ended 31 December 2016 set out in the paragraph headed "Events After the Balance Sheet Date" in this report.

Distributable Reserves

As at 31 December 2016, the reserves of the Company available for distribution to shareholders amounted to RMB9,161.9 million (2015: RMB9,510.6 million).

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2016 and for the previous four financial years are set out in the Five-Year Financial Summary section on page 155 of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Share Option Schemes

Pre-IPO Share Option Scheme

On 24 October 2010, the Company conditionally approved and adopted the Pre-IPO Share Option Scheme.

As at 31 December 2016 and, 30 March 2017, being the date of this report, the total number of Shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 4,100,000 Shares, representing approximately 0.19% of the total issued share capital of the Company comprising 2,171,591,507 Shares. No further options will be offered or granted by the Company pursuant to the Pre-IPO Share Option Scheme. The exercise price per Share of the options granted under the Pre-IPO Share Option Scheme is HKD20.00.

The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to acquire a personal stake in the Company and help motivate such participants to optimise their performance and efficiency, and also to help retain the participants whose contributions are important to the long-term growth and profitability of the Group. The maximum number of Shares issued and to be issued upon exercise of the options granted under the Pre-IPO Share Option Scheme to any one Participant (including both exercised and unexercised options) in any 12-month period shall not exceed 1% of the Shares in issue as at the date of grant.

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 year ended 31 December 2016:

		Number of share options						
Names of grantees	**Date of grant**	**As at 1 January 2016**[2]	**Exercised**	**Cancelled**	**Lapsed**	**As at 31 December 2016**	**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[4]	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[5]	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	–	–	725,000	2,275,000	20.00	Note[1]
Total		5,475,000	–	–	1,375,000	4,100,000		

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 HKD0.10 each into one consolidated ordinary 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 HKD20.00 per Share upon the Share Consolidation taking effect from 29 March 2016.

4 Mr. Sean S J Wang resigned as an executive director and the chief financial officer of the Company on 24 October 2016.

5 Mr. Wei A Ning resigned as an executive director of the Company on 24 October 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. Under the Share Option Scheme, the maximum number of Shares which may be issued by the Company pursuant to the exercise of the share options under the Share Option Scheme and adjusted upon the Share Consolidation taking effect from 29 March 2016 is 140,000,000 Shares, representing 10% of the total issued share capital of the Company on the Listing Date. As at 31 December 2016, the total number of Shares in respect of the outstanding options granted under the Share Option Scheme was 32,124,000 Shares, representing approximately 1.48% of the total issued share capital of the Company comprising 2,171,591,507 Shares. The exercise price per Share of the options granted under the Share Option Scheme is HKD9.70. During the Period, no share options had been granted under the Share Option Scheme.

As at 30 March 2017, being the date of this report, the maximum number of Shares which may be issued by the Company pursuant to the exercise of the share options under the Share Option Scheme (after taking into account of any lapse of share options thereunder) was 32,124,000 Shares, representing approximately 1.48% of the total issued share capital of the Company comprising 2,171,591,507 Shares. The maximum number of shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and unexercised options) in any 12-month period shall not exceed 1% of the Shares in issue as at the date of grant.

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 year ended 31 December 2016:

		Number of share options						
Name of grantee	Date of grant	As at 1 January 2016[2]	Exercised	Cancelled	Lapsed	As at 31 December 2016	Exercise price[3] (HKD)	Exercisable period
Mr. Chen Qiang	30 April 2012	14,000,000	–	–	–	14,000,000	9.70	Note[1]
Mr. Hong Liang	30 April 2012	2,800,000	–	–	–	2,800,000	9.70	Note[1]
Mr. Sean S J Wang[4]	30 April 2012	1,400,000	–	–	1,400,000	–	9.70	Note[1]
Mr. Wang Tao	30 April 2012	1,276,000	–	–	–	1,276,000	9.70	Note[1]
Mr. Wei A Ning[5]	30 April 2012	1,276,000	–	–	1,276,000	–	9.70	Note[1]
Ms. Zhu Wen Hua	30 April 2012	900,000	–	–	–	900,000	9.70	Note[1]
Senior Management and other employees (in aggregate)	30 April 2012	17,468,000	–	–	4,320,000	13,148,000	9.70	Note[1]
Total		39,120,000	–	–	6,996,000	32,124,000		

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 ordinary 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.

4 Mr. Sean S J Wang resigned as an executive director and the chief financial officer of the Company on 24 October 2016.

5 Mr. Wei A Ning resigned as an executive director of the Company on 24 October 2016.

Particulars of the Company's Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 17 to the consolidated financial statements.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2016 are set out in Note 37 to the consolidated financial statements.

Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following transactions are connected transactions or continuing connected transactions under the Listing Rules which are subject to the disclosure requirements under Chapter 14A of the Listing Rules.

Structure Agreements

According to the Foreign Investment Industries Catalogue, foreign ownership in a ship repair, design and manufacturing company in PRC may not exceed 49%. Additionally, foreign ownership in companies which repair, design and manufacture marine engineering equipment and those that design and manufacture low-speed and medium-speed marine diesel engines may not exceed 49%.

In view of the abovementioned foreign ownership restrictions, Rongsheng Heavy Industries only owns a 49% equity interest in Rongsheng Shipbuilding and Rongsheng Investment (renamed as Xuming Investment) owns the remaining 51% equity interest. Similarly, Rong An Power Machinery is owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Mr. Zhang Zhi Rong, who is currently a substantial shareholder of the Company and who was formerly the Chairman and a non–executive director of the Company prior to his resignation on 26 November 2012, is the ultimate controlling shareholder of Rongsheng Investment. Particulars of Rongsheng Heavy Industries and Rongsheng Shipbuilding are set out in Note 37 to the consolidated financial statements.

In order to enable us to govern and control the financial and operating policies of Rongsheng Shipbuilding and for Rongsheng Heavy Industries to enjoy 100% of the economic benefits of Rongsheng Shipbuilding, we have entered into a shareholders' agreement (the "**Shareholder Agreement**") through Rongsheng Heavy Industries with Rongsheng Investment dated 8 January 2009 but effective as at 21 May 2008 and a supplemental agreement in relation thereto through Rongsheng Heavy Industries with Rongsheng Investment dated 18 October 2010 but effective as at 21 May 2008.

On 20 October 2010, a services agreement (the "**Services Agreement**") was entered into amongst Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment, the key provisions of which are as follows:

(1) Rongsheng Heavy Industries agreed to provide shipbuilding technology guidance, support and improvements, engineering supervision, acceptance testing and other support work-related consulting services to Rongsheng Shipbuilding (the "**Services**");

(2) Rongsheng Investment agreed to pay Rongsheng Heavy Industries a services fee equivalent to all of the economic benefits flowing from the dividend income received from Rongsheng Shipbuilding as a result of its 51% interest in the share capital of Rongsheng Shipbuilding (which is due and payable on the same date when Rongsheng Shipbuilding pays any dividend to its shareholders); and

(3) Rongsheng Investment undertakes not to retain any parties other than Rongsheng Heavy Industries to provide similar services to Rongsheng Shipbuilding without the prior written consent of Rongsheng Heavy Industries.

The Group does not have a controlling equity interest in Rongsheng Shipbuilding and therefore can only rely on contractual arrangements under the Shareholders' Agreement and the Services Agreement (collectively, the "**Structure Agreements**") to carry out its shipbuilding operations. The PRC governmental authorities may in the future interpret or issue laws, regulations or policies that result in the contractual arrangements under the Structure Agreements being deemed to be in violation of the existing or then prevailing PRC laws and regulations, which would materially impact on the Group's entitlement to the economic benefits of Rongsheng Shipbuilding, as a result of which the Group's business, financial condition and results of operations may be materially and adversely affected. In addition, the contractual arrangement under the Structure Agreements may not give the Group as effective control and power as direct legal and beneficial ownership of 100% of Rongsheng Shipbuilding. In the event of any breach or default by Rongsheng Investment and/or Rongsheng Shipbuilding, the Group would need to resort to legal remedies under PRC laws to enforce its rights, which may or may not be effective to provide the Group with adequate remedies.

To reduce the above-mentioned risks to the Group, the Company regularly monitors compliance by Rongsheng Investment with the Structure Agreements and internal controls are in place over Rongsheng Shipbuilding to safeguard its interests under the Structure Agreements. The Company's legal department also works closely with its external PRC counsel to monitor the PRC regulatory environment and seek to reduce risks associated under the Structure Agreements. In the event that there are changes to PRC laws such that the Group is permitted to have legal and beneficial ownership of Rongsheng Shipbuilding without the Structure Agreements, the Group shall seek to unwind the Structure Agreements in accordance with applicable laws and regulations.

During the year ended 31 December 2016, Rongsheng Investment had not received any dividend income from Rongsheng Shipbuilding.

The Services Agreement and the terms of the transactions thereunder during the year ended 31 December 2016 have been reviewed by the independent non-executive Directors who have confirmed that, pursuant to the terms of the Services Agreement:

(1) the transactions carried out during the year ended 31 December 2016 were entered into in accordance with the relevant provisions of the Services Agreement and had been operated so that any profits generated by Rongsheng Shipbuilding had been retained by the Group;

(2) no dividends or other distributions were made by Rongsheng Shipbuilding to the holders of its equity interests other than the Group (or to the extent that they were made, they had been forwarded to Rongsheng Heavy Industries by way of payment of the fee for the Services); and

(3) Rongsheng Heavy Industries had obtained its entitlement under the Services Agreement.

Exempt Connected Transactions

During the year ended 31 December 2016, the Company entered into certain related party transactions which also constitute fully exempt connected transaction under Chapter 14A of the Listing Rules, details of which are set out below:

During the year ended 31 December 2016, Mr. Zhang Zhi Rong (a substantial Shareholder of the Company) and/or entities controlled by him or his close family members, agreed to provide security-free and interest-free loan facilities to the Group for working capital purposes for an aggregate amount up to RMB3,053.1 million.

During the year ended 31 December 2016, directors and substantial shareholders of the Company or entities controlled by them provided guarantees and security in respect of certain bank borrowings and refund guarantees of the Group.

As the above financial assistance was provided by connected persons for the benefit of the Company on normal commercial terms (or better to the Company) and no security over the assets of the Group is granted in respect of the financial assistance, the financial assistance constitutes connected transactions of the Company exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in Note 36 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules are set out in the section headed "Connected Transactions" above, and the Company has complied with the applicable requirements in accordance with Chapter 14A of the Listing Rules.

Events After the Balance Sheet Date

On 16 January 2017, the Company as issuer, Mr. Zhang Zhi Rong, a substantial shareholder of the Company, as guarantor and Action Phoenix Limited as subscriber entered into two subscription agreements, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, or procure its nominee(s) to subscribe for, the 7% convertible bonds due 2019 in an aggregate principal amount of up to HKD751,000,000 (the "**2019 Convertible Bonds**"). The 2019 Convertible Bonds will be issued in exchange for the existing indebtedness of the Company owing to the holder of the convertible bonds due 2016 issued by the Company on 7 August 2013, subject to and in accordance with the terms and conditions of the respective subscription agreements.

The initial conversion price of the 2019 Convertible Bonds is HKD0.50 per conversion share (subject to adjustment). Assuming full conversion of the 2019 Convertible Bonds at the initial conversion price of HKD0.50 per conversion share, the 2019 Convertible Bonds will be convertible into up to 1,502,000,000 Shares.

The new Shares to be issued upon conversion of the 2019 Convertible Bonds shall be allotted and issued by the Company pursuant to the specific mandate sought to be granted to the Directors by the Shareholders at an extraordinary general meeting of the Company. The issue of the 2019 Convertible Bonds and the Conversion Shares by the Company are subject to approval of the shareholders of the Company.

Pursuant to the terms and conditions of the 2018 Convertible Bonds, the initial conversion price of the 2018 Convertible Bonds is expected to be adjusted to HKD0.50 per Share upon completion of the subscription agreements of the 2019 Convertible Bonds. Based on the new conversion price of HKD0.50 per Share, the maximum number of Shares to be issued by the Company upon full conversion of the 2018 Convertible Bonds shall be 207,000,000 Shares.

Major Customers and Suppliers

During the year ended 31 December 2016, the Group had no purchases from major suppliers since the operations of the Group were minimal. The percentages of sales, excluding cancellation of construction contracts, attributable to the Group's largest customer and the five largest customers were 14% and 58%, respectively. During the year ended 31 December 2016, none of the Directors or any of their associates, or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any interest in any of the Group's five largest suppliers or customers.

Remuneration Policy

The remuneration of directors are recommended by the remuneration committee of the Company and approved by the Board, based on prevailing market conditions and with reference to other companies of a similar size, business nature and scope as the Company. In addition, the Company may grant share options to eligible directors and employees as incentives for their contributions to the Group.

The primary goal of our policy for remuneration packages is to ensure that Directors are fairly rewarded and they receive appropriate incentives to maintain high standards of performance.

The principal elements of the Directors' remuneration package include:

- basic salary and other benefits;
- contribution to pension schemes;
- discretionary bonus; and
- share options granted under an approved option scheme.

Details of the Directors' emoluments, the five highest-paid individuals and senior management of the Group for the year ended 31 December 2016 are set out in Notes 24 and 30, respectively, to the consolidated financial statements.

Directors

Directors of the Company during the year ended 31 December 2016 and up to the date of this report are as follows:

Executive Directors

Mr. Chen Qiang *(Chairman and Chief Executive Officer)*
Mr. Hong Liang
Mr. Sean S J Wang *(Chief Financial Officer)* (resigned on 24 October 2016)
Mr. Wang Tao
Mr. Wei A Ning (resigned on 24 October 2016)
Ms. Zhu Wen Hua
Mr. Zhang Ming (appointed on 24 October 2016)

Independent Non-executive Directors

Mr. Wang Jin Lian
Ms. Zhou Zhan
Mr. Lam Cheung Mau

Mr. Chen Qiang, Ms. Zhu Wen Hua and Mr. Wang Jin Lian are due to retire from the Board by rotation at the 2017 AGM in accordance with Article 16.18 of the Articles of Association. Mr. Zhang Ming shall hold office only until the 2017 AGM in accordance with Article 16.2 of the Articles of Association. All the retiring Directors, being eligible, will offer themselves for re-election.

The biographical details of the Directors and senior management of the Company as at the date of this Report are set out in the Directors and Senior Management section on pages 10 to 13 of this annual report.

Directors' Service Contracts

During the year ended 31 December 2016, all the executive Directors (other than Mr. Sean S J Wang and Mr. Wei A Ning) entered into renewed service contracts with the Company for a term of three years commencing on 24 October 2016 with changes in directors' emoluments. Mr. Zhang Ming was appointed as an executive Director on 24 October 2016 and entered into a service contract with the Company for a term of three years commencing on 24 October 2016. Mr. Sean S J Wang and Mr. Wei A Ning resigned as executive Directors on 24 October 2016 upon the expiry of their service contracts respectively.

During the year ended 31 December 2016, none of the Directors had entered into a service contract with the Group which was not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Material Interests in Transactions, Arrangements and Contracts that are Significant in Relation to the Company's Business

Save for the contracts described under the section headed "Connected Transactions" above, no contracts of significance (as defined in Appendix 16 to the Listing Rules) or arrangements in relation to the Group's business to which the Company or its holding company or a subsidiary of the Company or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2016.

Directors' Interests in Competing Business

As at 31 December 2016, none of the Directors were interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

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 31 December 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 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				
Name of Director	Personal interest	Corporate Interest	Equity derivatives (share options)[2]	Total	Percentage of issued share capital[3]
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. Wang Tao	–	–	2,151,000	2,151,000	0.10%
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 percentages have been compiled based on the total number of issued shares of the Company of 2,171,591,507 as at 31 December 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 31 December 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 31 December 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 Hong Kong Stock Exchange pursuant to the Model Code.

(C) Share Options

The interests of the Directors and chief executive in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the section headed "Share Option Schemes" above.

Save as disclosed above, at no time during the year, the Directors and chief executive (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares, warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

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

As at 31 December 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	Percentage of issued share capital[3]
Fine Profit Enterprises Limited[1]	409,181,031	18.84%
Mr. Zhang Zhi Rong[1]	409,181,031	18.84%
Gallop Sun Limited[2]	160,000,000	7.37%
Mr. Zhang De Huang[2]	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 Gallop Sun Limited is 100% directly beneficially owned by Mr. Zhang De Huang, the father of Mr. Zhang Zhi Rong.

3 These percentages have been compiled based on the total number of issued shares of the Company of 2,171,591,507 as at 31 December 2016 and rounded to two decimal places.

Save as disclosed above, as at 31 December 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.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2016 and as at the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact to the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees from time to time. As far as the Company is aware, it has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

Environmental Policies and Performance

Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. We encourage environmental protection and comply with environmental regulation and promotes awareness towards environmental protection to the employees. During the year ended 31 December 2016, the operation of the Group has been minimal owing to the shortage of funds to and the lack of availability of banking facilities required for accepting new orders and drilling wells and exploration, the Group considers the environmental impact to the Group was not significant in 2016.

In the course of its daily operations, the Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances. The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operations of the Group's businesses to enhance environmental sustainability.

For details, please refer to the relevant sections in the "Environmental, Social and Governance Report" of this annual report.

Relationship with Customers and Suppliers

The Group has been maintaining friendly negotiation with its customers and suppliers to develop long-term relationships. Further details in relation to the major customers and suppliers identified during the Period are disclosed in the paragraph headed "Major Customers and Suppliers" in this report and in the section headed "Operation Practices" in the "Environmental, Social and Governance Report" of this annual report.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 27 to 36 of this annual report.

Permitted Indemnity Provisions

The Articles of Association provides that every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of the relevant legal actions against the Directors.

Auditor

The consolidated financial statements for the year ended 31 December 2016 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the 2017 AGM. PricewaterhouseCoopers, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the 2017 AGM.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group.

On behalf of the Board

Chen Qiang
Chairman

Hong Kong, 30 March 2017

The Board and the management of the Company strictly adhere to the principles of good corporate governance, which is vital to prudent management and the enhancement of shareholder value. These principles emphasise transparency, accountability and independence. Set out below are those principles of corporate governance adopted by the Company.

During the year ended 31 December 2016, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules, save for the deviations as described in this Corporate Governance Report.

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 had performed both the roles of Chairman and chief executive officer of the Company in deviation from code provision A.2.1 of the Code during the year ended 31 December 2016. The Company believes that it is more efficient and effective for the Company to develop its long term strategies and in the execution of its business plans if Mr. Chen Qiang serves as both the Chairman and the chief executive officer of the Company.

The Board

Board Composition

The Board currently comprises five executive Directors, namely Mr. Chen Qiang (Chairman and Chief Executive Officer), Mr. Hong Liang, Mr. Wang Tao, Ms. Zhu Wen Hua and Mr. Zhang Ming, and three independent non-executive Directors, namely, Mr. Wang Jin Lian, Ms. Zhou Zhan and Mr. Lam Cheung Mau. The Board considers this composition to be balanced, and reinforces a strong independent review and monitoring function on overall management practices.

Full details of changes in the Board during the year and to the date of this report are provided in the Report of the Directors on page 22 of this annual report.

The Directors' biographical details are set out in the Directors and Senior Management section on pages 10 and 13 of this annual report.

Roles and Responsibilities of the Board

The Board is responsible for formulating the overall strategies as well as reviewing the operation and financial performance of the Group. The Board is responsible for considering and deciding on matters covering the Group's overall strategies, major acquisitions and disposals, annual and interim results, approving Directors' appointments to the Board, major capital transactions and other significant operational and financial matters.

Our independent non-executive Directors offer diverse industry expertise, serve the important functions of advising the management on strategies, ensuring that the Board fulfils high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management. Major responsibilities include:

- execution of business and operational strategies and initiatives adopted by the Board;
- preparation of reports and accounts for the Board's approval before publication;
- adoption of the remuneration policy approved by the Board;
- implementation of internal control and risk management procedures; and
- compliance with relevant statutory requirements, rules and regulations.

Attendance Records of Directors and Board Committee Members

During the year ended 31 December 2016, the Board held six Board meetings. The agendas and accompanying board papers are given to all Directors in a timely manner. The Chairman of the Board shall ensure Directors being properly briefed on issues arising at Board meetings.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with all independent non-executive Directors, without the presence of the other executive Directors.

	Meetings Attended/Held							Continuous Professional Development
	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	Annual General Meeting	Extraordinary General Meeting	Type of Training (Notes)
Executive Directors								
Mr. Chen Qiang *(Chairman)*	6/6[(C)]		2/2		2/2	1/1	0/1	A
Mr. Hong Liang	6/6					1/1	1/1	A
Mr. Sean S J Wang[1] (resigned on 24 October 2016)	5/6		2/2			0/1	1/1	A
Mr. Wang Tao	6/6		2/2			0/1	0/1	A
Mr. Wei A Ning[2] (resigned on 24 October 2016)	6/6			2/2		0/1	0/1	A
Ms. Zhu Wen Hua[3]	6/6			0/0		0/1	0/1	A
Mr. Zhang Ming[4] (appointed on 24 October 2016)	0/0		0/0			0/0	0/0	B
Independent non-executive Directors								
Mr. Wang Jin Lian	6/6	2/2	2/2[(C)]	2/2[(C)]	2/2	0/1	0/1	A
Ms. Zhou Zhan	5/6	2/2[(C)]		2/2	2/2[(C)]	0/1	0/1	A
Mr. Lam Cheung Mau	6/6	2/2	2/2			1/1	0/1	A

Notes relating to attendance records of meetings:

1 Attendance of meetings of Mr. Sean S J Wang is stated with reference to the number of the meetings held during the period from 1 January 2016 to 24 October 2016 (his date of resignation as an executive Director, and of cessation as a member of each of the Corporate Governance Committee and the Finance and Investment Committee of the Company).

2 Attendance of meetings of Mr. Wei A Ning is stated with reference to the number of the meetings held during the period from 1 January 2016 to 24 October 2016 (his date of resignation as an executive Director, and of cessation as a member of the Nomination Committee).

3 Attendance of meetings of the Nomination Committee of Ms. Zhu Wen Hua is stated with reference to the number of the meetings held during the period from 24 October 2016 (her date of appointment as a member of the Nomination Committee) to 31 December 2016.

4 Attendance of meetings of Mr. Zhang Ming is stated with reference to the number of the meetings held during the period held during the period from 24 October 2016 (his date of appointment as an executive Director and a member of each of the Corporate Governance Committee and the Finance and Investment Committee) to 31 December 2016.

5 Chairmen of the Board and the Board Committees are indicated by (C).

Notes relating to attendance records of trainings:

A Reviewing training materials prepared by the Company's external legal advisor.

B Keeping abreast of matters relevant to his role as a director by means of induction training and studying materials.

Continuous Professional Development

Code Provision A.6.5 of the Code stipulates that all directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Group also makes available continuous professional development to Directors at the expense of the Company and to ensure that their contribution to the Board remains informed and relevant.

The Group has also regularly organised and conducted continuous training and development programmes to executive Directors and senior management staff through lectures, seminars and/or workshops by internal or external speakers with professional expertise and experience, covering areas in financial, industrial, commercial, management, legal and regulatory, risk management and control and anti-corruption education. Directors received their training by attending either in person or via telephone and/or by studying the training materials at their own leisure.

Directors irregularly receive training from the Company's external legal advisor on corporate governance requirements and statutory disclosure obligations. During the year ended 31 December 2016, all directors have reviewed training materials prepared by the Company's external legal advisor with emphasis on the roles and duties of directors of the Company as well as the applicable legal and regulatory requirements and the Company's policies and practices on corporate governance. The newly appointed Director has received the induction programme and briefing on directors' duties and obligations on corporate governance and regulatory requirements prepared and delivered by our external legal advisor immediately prior to his date of appointment.

Independence of Independent Non-executive Directors

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Director, whereby at least one of whom possesses appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each independent non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and is satisfied with the independence of all the independent non-executive Directors.

Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence.

Appointment and Re-election of Directors

The procedures for appointing and re-electing directors are set out in the Articles of Association. The Board is responsible for selecting and recommending candidates for directorship, taking into consideration factors such as appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills.

Under the Articles of Association, one-third of the Directors who have served longest on the Board must retire, and if eligible, may be subject to re-election at each AGM. To further reinforce accountability, any further re-appointment of an independent non-executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by shareholders.

In accordance with the Articles of Association, Mr. Chen Qiang, Ms. Zhu Wen Hua, Mr. Zhang Ming and Mr. Wang Jin Lian will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the 2017 AGM.

During the year ended 31 December 2016, all the executive Directors (other than Mr. Sean S J Wang and Mr. Wei A Ning) entered into renewed service contracts with the Company for a term of three years commencing on 24 October 2016 with changes in directors' emoluments. Mr. Zhang Ming was appointed an executive Director on 24 October 2016 and entered into a service contract with the Company for a term of three years commencing on 24 October 2016.

Each of Ms. Zhou Zhan and Mr. Lam Cheung Mau has entered into a letter of appointment for a term of three years commencing on each of their dates of appointment on 21 May 2014 and 18 November 2015 respectively. Mr. Wang Jin Lian has entered into a letter of appointment for a further one year term commencing on 31 July 2016 upon the expiry of his three year term of appointment.

Directors' Interests in Shares

Details of Directors' interests in the Shares are set out in the Report of the Directors section on pages 23 to 24 of this annual report.

Model Code on Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2016.

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities undertaken for the Company. During the year ended 31 December 2016, no claim was made against the Directors.

Board Committees

The Board has established an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**"), a nomination committee (the "**Nomination Committee**"), a corporate governance committee (the "**Corporate Governance Committee**") and a finance and investment committee (the "**Finance and Investment Committee**") with defined terms of reference. Details and reports of the committees are set out below.

Audit Committee

The Audit Committee was established to review the Group's financial reporting, risk management and internal control systems and make relevant recommendations to the Board. The Audit Committee comprises of three members: Ms. Zhou Zhan, being chairman of the Audit Committee, Mr. Wang Jin Lian and Mr. Lam Cheung Mau, all of whom are independent non-executive Directors. Ms. Zhou Zhan, as the chairman of the Audit Committee, possesses appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

Pursuant to the terms of reference of the Audit Committee, the main duties of the Audit Committee are to audit and supervise the financial reporting procedures of the Group, consider the appointment, re-appointment and remuneration of the auditor and any matters related to the removal and resignation of the auditor. In addition, the Audit Committee is responsible for examining and inspecting the effectiveness of the Group's risk management and internal control systems, including conducting reviews, on a regular basis, in respect of the risk management and internal control over various corporate structures and business procedures, and considering their potential risks and imminence, so as to ensure the effectiveness of the Company's business operations and to achieve its corporate objectives and strategies. The scope of such reviews covers finance, operations, compliance and regulations.

During the year ended 31 December 2016, the Audit Committee held two meetings. The following is a summary of the work of the Audit Committee during the year:

- review of and recommendation for the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2015;

- review of and recommendation for the Board's approval the Group's interim condensed consolidated financial information for the six months ended 30 June 2016;

- review of the reports from the external auditor;
- review of the risk management and internal control systems of the Group;
- review of the reports from the internal auditor;
- approval of the internal audit plan for the year ended 31 December 2016;
- review of the effectiveness of the internal audit function; and
- review of the external auditor's remuneration and terms of engagement.

The consolidated financial statements of the Group for the year ended 31 December 2016 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2016.

Remuneration Committee

The Remuneration Committee was established on 24 October 2010 and has been delegated with the responsibility of determining the remuneration policy and structure for all Directors and senior management, reviewing and approving the specific remuneration packages of all Directors and making recommendations to the Board regarding the remuneration of independent non-executive Directors. The Remuneration Committee comprises three members: Ms. Zhou Zhan (an independent non-executive Director) being the chairman of the Remuneration Committee, Mr. Chen Qiang (Chairman of the Board and an executive Director) and Mr. Wang Jin Lian (an independent non-executive Director).

During the year ended 31 December 2016, the Remuneration Committee held two meetings. The following is a summary of the work of the Remuneration Committee during the year:

- annual review of the remuneration packages of the Directors and senior management of the Company;
- review of and recommendation for the Board's approval of the remuneration package under a service contract of the newly appointed executive Director; and
- review of and recommendation for the Board's approval the revised remuneration packages on renewal of service contracts of executive Directors.

The particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Notes 24 and 30 to the consolidated financial statements respectively.

Pursuant to B.1.5 of the Code, the remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands (RMB)	Number of persons
Below 1,000,000	2
1,000,001 to 2,000,000	1

Nomination Committee

The Nomination Committee was established on 1 April 2012 with written terms of reference. The Nomination Committee comprises of three members, namely Mr. Wang Jin Lian (an independent non-executive Director) being the chairman of the Nomination Committee, Ms. Zhu Wen Hua (an executive Director) and Ms. Zhou Zhan (an independent non-executive Director).

Mr. Wei A Ning ceased to be a member of the Nomination Committee upon his resignation as an executive Director with effect from 24 October 2016 respectively. Ms. Zhu Wen Hua was appointed as a member of the Nomination Committee with effect from 24 October 2016.

The key duties of the Nomination Committee are as follows:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select, or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors;

(d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and

(e) to determine the policy, procedures and criteria for the nomination of directors.

During the year ended 31 December 2016, the Nomination Committee held two meetings. The meetings were held, amongst other things, to review and recommend for the Board's approval the new appointment of an executive Director and the new appointment of members of the Corporate Governance Committee, the Nomination Committee and the Finance and Investment Committee.

Nomination Procedures and Criteria

A shareholder may at any general meeting nominate a candidate for directorship if, within the 7 days commencing the day after the despatch of the notice of such general meeting, such shareholder (being entitled to attend and vote at such general meeting and not being the candidate) gives to the company secretary a written notice of his/her intention to propose such candidate for election and also a written notice signed by such candidate of his/her willingness to be elected.

Other than the nomination of directors by shareholders, at present, candidates for directorship may be nominated by the Chief Executive Officer of the Company, who will provide the Nomination Committee with notice of such nomination once a candidate has been identified.

The Nomination Committee is responsible for making recommendations to the Board with respect to the nomination of candidates for directorship by making reference to the Company's Board Diversity Policy, which was adopted by the Board on 26 March 2013 and various aspects of the candidate, including (but not limited to) his/her education background, professional experience, experience in the relevant industry and past directorships. In particular, for candidates to be independent non-executive directors, the Nomination Committee assesses his/her independence under Rule 3.13 of the Listing Rules. Then, the Nomination Committee will make its recommendations to the Board for consideration and approval.

Corporate Governance Committee

The Corporate Governance Committee was established on 1 April 2012 with written terms of reference. The Corporate Governance Committee comprises of five members, namely Mr. Wang Jin Lian (an independent non-executive Director) being the chairman of the Corporate Governance Committee, Mr. Chen Qiang (Chairman of the Board and an executive Director), Mr. Wang Tao (an executive Director), Mr. Zhang Ming (an executive Director) and Mr. Lam Cheung Mau (an independent non-executive Director).

Mr. Sean S J Wang ceased to be a member of the Corporate Governance Committee upon his resignation as an executive Director with effect from 24 October 2016. Mr. Zhang Ming was appointed as a member of the Corporate Governance Committee with effect from 24 October 2016.

The key duties of the Corporate Governance Committee are as follows:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the Code on Corporate Governance Practices (Appendix 14 to the Listing Rules) and disclosure in the Corporate Governance Report.

During the year ended 31 December 2016, the Corporate Governance Committee held two meetings. The meetings were held to:

- review the compliance with the Code and the relevant disclosure in the draft 2015 Annual Report and the draft 2016 interim report; and
- review the training and continuous professional development of Directors and senior management.

Finance and Investment Committee

The Finance and Investment Committee was established on 1 April 2012 with written terms of reference. The Finance and Investment Committee comprises of five members, namely Mr. Chen Qiang (Chairman of the Board and an executive Director) being the chairman of the Finance and Investment Committee, Mr. Hong Liang (an executive Director), Mr. Zhang Ming (an executive Director), Mr. Wang Jin Lian (an independent non-executive Director) and Ms. Zhou Zhan (an independent non-executive Director).

Mr. Sean S J Wang ceased to be a member of the Finance and Investment Committee upon his resignation as an executive Director with effect from 24 October 2016. Mr. Zhang Ming was appointed as a member of the Finance and Investment Committee with effect from 24 October 2016.

The key responsibilities of the Finance and Investment Committee are as follows:

(a) to develop and review the Company's investment policies, financial strategies and objectives and make recommendations to the Board;

(b) to consider, evaluate and review major project investments, acquisitions and disposals of the Group and to make recommendations to the Board;

(c) to conduct post-investment evaluations on investment projects of the Group;

(d) to arrange and approve banking facilities, loans, financial instruments, guarantees and indemnities of the Group;

(e) to approve the opening and cancellation of bank or securities accounts of the Group and to approve the authorised signatories and mode of operations of the accounts;

(f) to oversee the overall management of all the risks of the Group, including, without limitation, the financial and operational risks by setting and formulating risk management policies and strategies; and

(g) to review and assess the adequacy and effectiveness and risk management policies and framework in identifying, measuring, monitoring and controlling risks.

Board Diversity Policy

The Board Diversity Policy was adopted by the Company pursuant to the resolutions passed at a Board meeting held on 26 March 2013. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the nomination and the board appointments during the year ended 31 December 2016 were made after considering the board diversity in a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

Risk Management and Internal Control

The Board places great importance on internal controls and is responsible for the risk management and internal control systems and reviewing the effectiveness of those risk management and internal control. The Company has provided directors training materials, which contain, amongst other things, inside information regulatory requirements, prepared by the Company's external legal advisor in order to ensure the company is compliance with regulatory requirements.

The risk management and internal control systems are designed to manage the risk of failure to achieve corporate objectives and to protect the Group's assets and information. It aims to provide reasonable assurance against material misstatements, losses, damages or fraud and to manage rather than eliminate risks of failure in operations systems. The Board has delegated the design, implementation and ongoing assessment of risk management and internal control systems to the management, while the Board, through its Audit Committee, oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures in place. Qualified personnel of the Group maintain and monitor these systems of controls on an ongoing basis.

The Board reviewed the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance control and risk management systems. The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board reviewed the adequacy and effectiveness of the Group's risk management and internal control systems semi-annually through the Audit Committee. During the year ended 31 December 2016, no irregularity or material weakness was noted within any function or process. The Audit Committee is satisfied that the risk management and internal control systems had functioned effectively as intended.

The Company had established internal audit function and regularly carries out reviews on the effectiveness of the risk management and internal control in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

The Board considers the risk management and internal control systems are effective and adequate for the Group as a whole. The Board further considers that there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions of the Group.

Inside Information

The Company has established a disclosure committee to oversee disclosure of inside information in accordance with a policy on disclosure of inside information (the "**Disclosure Policy**"). The Disclosure Policy sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner and in such a way so as not to place any person in a privileged dealing position and to allow sufficient time for the market to price the listed securities of the Company with the latest available information of the Company.

All directors and employees of the Company must comply with the Disclosure Policy which provides guidelines to the directors, senior officers and other relevant employees of the Group to ensure proper safeguards in place to prevent the Company from breaching the statutory disclosure requirements of inside information. The Disclosure Policy also includes appropriate internal control and reporting systems to identify and assess potential inside information and relevant steps to be taken.

The Disclosure Policy also stipulates that dissemination of inside information of the Company shall be conducted by publication of the relevant information on the websites of Hong Kong Exchanges and Clearing Limited and the Company, according to the requirements of the SFO and the Listing Rules.

Company Secretary

The company secretary, Ms. Lee Man Yee, is a full time employee of the Group and reports to the Chief Executive Officer of the Company. All Directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable laws, rules and regulations, are followed. During the year ended 31 December 2016, the company secretary had taken no less than 15 hours of relevant professional training.

External Auditor

The Company has engaged PricewaterhouseCoopers as its external auditor. The aggregate remuneration in respect of services provided by PricewaterhouseCoopers for the year ended 31 December 2016 was approximately HKD5.2 million (2015: HKD5.3 million), of which HKD5 million (2015: HKD5 million) represents annual audit and other audit-related services and HKD0.2 million (2015: HKD0.3 million) represents fees for certain non-audit related services, which mainly consist of taxation, review, consultancy and other reporting services.

Directors' Responsibility for Financial Statements and Auditor's Responsibility

All Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2016 and of ensuring that the preparation of the consolidated financial statements of the Company is in accordance with the applicable standards and requirements.

The statement of the auditor about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 45 of this annual report.

Going Concern and Mitigation Measures

During the Period, the Group had incurred a net loss of approximately RMB3,677.9 million. As at 31 December 2016, the Group had a total deficit of RMB9,263.8 million and the Group's current liabilities exceeded its current assets by RMB31,293.9 million. The cash and cash equivalents of the Group were RMB107.3 million as at 31 December 2016 (as at 31 December 2015: RMB69.2 million). As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,897.9 million, out of which RMB21,904.6 million current bank borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements. The Group's current borrowings also included a convertible bond with outstanding principal of HKD103.5 million (equivalent to approximately RMB92.6 million) as at 31 December 2016, which was immediately redeemable by the bondholder according to the terms and conditions of the convertible bond. These conditions, together with others described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. However, a number of measures have been undertaken to improve the Group's liquidity and financial position, to refinance its operations and to restructure its debts. For further details of these measures, please refer to Note 2.1 (a) to the consolidated financial statements.

Shareholders' Rights

Under the Articles of Association, in addition to regular Board meetings, Directors of the Company, on the written requisition of two or more shareholders of the Company holding not less than 10% of the paid-up capital of the Company which carry voting rights, shall convene an extraordinary general meeting to address specific issues of the Company.

The requisition must (i) specify the objects of the meeting, the name of the requisitionist(s), their contact details and the number of ordinary shares in the Company held by them, (ii) be signed by the requisitionist(s) and (iii) be deposited at the Company's principal place of business in Hong Kong.

The Directors must, within 21 days from the date of the deposit of the requisition, proceed to convene an extraordinary general meeting to be held within a further 21 days. If the Directors fail to convene the extraordinary general meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department whose contact details are as follows:

Investor Relations Department

China Huarong Energy Company Limited
Room 2201, 22nd Floor, China Evergrande Centre,
38 Gloucester Road, Wanchai, Hong Kong
Email: ir@rshi.cn
Tel no.: +852 3900 1888
Fax no.: +852 2180 7880

The Investor Relations Department will forward the shareholders' enquiries and concerns to the Board and/or the relevant Board committees and answer any shareholders' questions (where applicable and appropriate).

Shareholders' Meetings

The Company regards the AGM as an important event as it provides an invaluable opportunity for the Board to communicate with the shareholders of the Company. All shareholders are given at least 20 clear business days' prior notice to attend the AGM. During the AGM, the Directors are available to answer questions which shareholders may have. Poll results are published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in a timely manner.

All shareholders of the Company have the right to be informed and participate in material matters of the Company as prescribed by laws and the Articles of Association.

Investor Relations

The Group is committed to regular and proactive communication with its shareholders. It has adopted a policy of disclosing clear, adequate and relevant information to its shareholders in a timely manner through various channels.

The Board communicates with its shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at annual general meetings and other general meetings.

Investor Relations Department responds in a timely manner to letters and telephone enquiries from shareholders and investors of the Company. An email contact (ir@rshi.cn) is available to shareholders and investors of the Company.

The Company's website (http://www.huarongenergy.com.hk) facilitates effective communications with shareholders, investors and other stakeholders of the Company by making up-to-date information relating to the Group's business developments, operations, financial information, corporate governance practices and other information available electronically and on a timely basis.

Introduction

The Group is pleased to announce the Environmental, Social and Governance Report. We are committed to promote the sustainable development management and strive to provide our customers with environment-friendly and highly efficient vessel products and services. We adhered to green shipbuilding concepts to allow ship owners to operate their businesses with lower fuel consumption and high efficiency, thus reducing the emission of hazardous substances. We also endeavoured to implement more environmental protection measures in the manufacturing base to create a low-carbon community with the shipping industry and support sustainable development for the society. Therefore, environmental protection is the Group's focus for the sustainable development. In order to minimise our impact to the environment, we strictly implemented the production standards and integrated environmental protection and community engagement into our management model. With the efforts from the management and employees, the Group not only achieved business development, but also brought positive influence to the environment and community.

This report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules of the Hong Kong Stock Exchange. Given the significant revenue contribution and the number of employees of our shipbuilding segment, and the minimal operations of other business segments, this report focus on the shipbuilding segment, based on the materiality principle, and outlines the measures taken by the Company and Rongsheng Heavy Industries for environmental protection, community investment and corporate governance during the Period.

Stakeholders Engagement

To improve our management level and operational efficiency, we engaged with our stakeholders to understand their expectation in various aspects for the Group. Stakeholders are identified through our value chain, which includes investors, employees, suppliers and customers. Their opinions are very important to our daily operation. We communicate with our stakeholders in different methods with different frequencies based on their situations.

Communications with Our Major Stakeholders

Investors	Email, Announcement, Financial Report, General Meeting of Shareholders, Website
Customers	Email, Conference, Customer Satisfaction Survey, Daily Operation, Website
Employees	Email, Employee Communication Conference, Labour Union, Annual Appraisal, Website
Suppliers	Email, Conference, On-site Visit, Website

Environmental Protection

The Group is committed to adhering to the philosophy of green production by providing customers with low fuel consumption and low emission vessels. The Safety Production Management Committee is the leading body of the Group for environmental protection work. The Research and Design Institute ensure that the ship designs meet the international maritime conventions. The Safety and Environmental Protection Department is responsible for monitoring the Group's operational compliance with national and Jiangsu's laws and regulations on environmental protection, reviewing the environmental protection plan, participating in discussion of major environmental protection measures, inspecting and supervising the implementation of environmental protection plan and reviewing the opinions on reward and punishment of environmental protection works. We ensure that the vessels we built are in compliance with the international and national requirements. We also seek to go above and beyond in our operation and products to bring greater benefits to our customers. For operation management, we formulated departmental working guidelines with reference to the conventions of International Maritime Organization under the United Nations, which specified the respective responsibilities and implementation measures of environmental protection of different departments. No non-compliance was recorded during the Period.

Greenhouse Gas Emission

Our greenhouse gas emission is mainly attributed to energy consumption. As such, we are doing our best to build a low emission manufacturing base with environment-friendly and energy-saving designs by using wind power and solar panel to reduce energy consumption. The use of fuel oil during the sailing of vessel will generate a large amount of greenhouse gas. Therefore, we have to improve the waste gas emission standard of the vessel engine, lower the emission of pollutants including greenhouse gas and ensure that the waste gas emission during the sailing of vessel is in compliance with the standards of relevant conventions. For this purpose, a series of tests must be performed before the diesel engine is installed. It will not be installed if it falls below the requirements. The facilities of the vessel enable full utilization of various kinds of energy generated during the sailing and reduce the consumption of fuel in a more efficient manner. For example, the boiler powered by fuel and waste gas can generate steam with the utilization of heat from the waste gas emitted by the main engine to heat the water for crew members.

Use of Resources

The Group endeavoured to improve the production process and study feasible proposals to minimise the impact to the environment during the production and sailing. The Safety and Environmental Protection Department and Research and Design Institute joined force with the Production Department to carry out studies and formulate effective production plans based on the requirements of the customers and implement the measures and plans for prevention of pollution from waste gas, waste water, radiation and other pollutants. Shipbuilding projects consume large amount of steel and energy. As such, we integrate the procurement process based on the designs and specifications of different vessel models to improve the utilisation rate of steel, thereby reducing the waste of materials. Vessel coating would directly contact with the sea water and therefore has direct impact on the ocean. The technical specifications and various performance indicators of the coating paints have to fulfill the requirements of international and national standards. The dockyard must be washed with tap water after the leaving of vessel. However, tap water is costly and in low pressure. Based on the calculation by the Engineering Department, the consumption of water and electricity could be reduced by using the deep-well booster pump at Road No.5 river embankment area in the Group's manufacturing base in Nantong for washing the dockyard. Nantong manufacturing base is equipped with sewage pool for temporary storage of waste water, which will be processed by professional contractors.

Wastes

Wastes are produced in any manufacturing industries. Some materials required for shipbuilding could be toxic and inflammable. Inappropriate disposal of toxic wastes would significantly affect the nearby environment and ecology. All employees must be aware of the methods for disposal. Trainings are provided for staff who involved with waste disposal to prevent leakage.

The Safety and Environmental Protection Department is responsible for monitoring the amount and discharge of wastes. When a large amount of wastes are required to be discharged, the relevant department should inform the Safety and Environmental Protection Department and file with the local environment authority. In consideration of the leakage and storage of poisonous wastes, Nantong manufacturing base is equipped with pollution prevention facilities to avoid soil and sea pollution. Wastes are sorted and collected into the designated containers that are clearly labelled. The temporary collecting site for hazardous wastes must be clearly marked on the layout plan of site. Collecting containers must be covered and delivered to the designated recycling site every day. Nantong manufacturing base is located near the river bank, toxic wastes are likely to be dissolved in rainwater then flow into the Yangtze River. Therefore, the waste collecting site must be far away from the riverside and the drinking water channel.

Employees' Participation in Environmental Protection

The green production cannot be realised without the cooperation of employees. In order to raise employees' awareness and monitor non-compliance, the Group actively promote environmental protection and provide training for employees. Environmental protection performance indicators are included into the departmental appraisal. The Group also held environmental protection competitions to reward the departments with high resource saving rates and punish the departments and employees with resource wasting behaviors.

Caring Our Employees

We provide a suitable working environment to our employees and care about their needs.

We formulate the human resources management measures with reference to relevant laws and regulations. A fair recruitment and promotion policy is adopted by the Group. Candidates or employees are considered based on their qualifications and work experiences regardless of gender, age and race. Illegal acts or child labours are prohibited within the Group. Identification documents of the candidates would be checked during interview to ensure they have reached the legal working age. Relevant departments will formulate the production schedule based on the delivery time of vessels, and the supervisors will communicate with the employees on work arrangement based on the actual situations of different departments and will not require the employees to work overtime against their will. Flexible working hours might apply for some positions based on production needs.

Remuneration and Welfare

The Group offers competitive remuneration package and welfare in accordance with work experience, skills and other relevant factors of the employees. All employees were required to carry out annual appraisal for their work performance. The Group encourages a work-life balance living style and arranges various benefits and activities for the employees. In 2016, souvenirs, shopping cards and other benefits were given out to our employees on the International Working Women's Day on 8 March and the anniversary celebration of the manufacturing base on 28 October to promote the corporate culture and enhance the sense of belonging of our employees.

Certain employees in our manufacturing base come from other provinces and cannot meet their families very often. We offer special leave which enable them to spend time with their families. The Group also care about the family members of employees and has set up the Mutual Fund Foundation to provide relief fund to help out for any employees' family members suffered from serious illness. The foundation helped eight employees with financial difficulties to improve our employees and their families' livelihood in 2016.

Occupational Health and Safety

Shipbuilding is a labour-intensive and specialised heavy industry. Certain employees are required to work at height and operate with large tools. Certain parts of working procedure may be exposed to radioactive, inflammables or other hazardous substances and dust. In addition, the accident rate in the heavy industry is higher than that of the general manufacturing industry. As such, we make our best efforts to prevent the occurrence of accidents with an aim of zero industry accident during the production process. Therefore, in addition to basic insurance coverage, the Group would engage insurance coverage for employees based on different work natures so as to provide extra protection to the employees in case of accident. Shipbuilding may involve outdoor work which poses certain requirements for the physical conditions. As such, employees shall receive body check at our expense prior to the engagement so as to ensure that they are strong enough to perform relevant tasks. We pay great attention to the environmental impact on the employees' health, and arrange body check for employees once every two years based on the requirement of relevant positions. In case of abnormal results, appropriate work arrangements and medical follow-up will be made. No serious industrial accident occurred during the Period.

To prevent and minimise the risk of industrial accidents, the Group provided necessary protective equipment to the employees. All employees are required to participate in our annual occupational safety training. The Safety and Environmental Protection Department will visit different departments from time to time to ensure that all employees work in a safe environment. However, it is difficult to avoid all industrial accidents. As such, the Safety and Environmental Protection Department and all production departments identify the accident risk and formulate relevant plans to respond to the accidents of employees.

Development and Training

To support business development and upgrade the skill of our employee, we develop annual training program and budget. The Group also arranged its employee to obtain the relevant professional qualifications according to their work duties. In order to help our new staff undertaking our corporate culture and position responsibilities, the Human Resources Department arranged detailed induction training. External experts are engaged for training related to the new technologies to keep abreast of market development. Priorities are given to current employees to fill out the position for any vacancies. External recruitment would be conducted only when internal employees fail to fill up. The Group also provided prospective training courses to the employees based on their abilities and arranged industry visitation to broaden their visions. To retain technology and talents, we clearly explained the promotion opportunities to our staff and assess their competence through the annual assessment.

Operation Practices

Supplier Management

Shipbuilding projects relies on not only the dedication of the Group's employees, but also the cooperation with our suppliers. We select and build up close relationship with quality suppliers, to ensure effective management and quality standards of our products. Shipbuilding projects involve huge amount of capital investment. The Tender and Bid Committee and Office of the Group are responsible for conducting initial professional reviews for new suppliers. The review adopts both international and national standards which cover not only general requirements on product quality, but also aspects including corporate integrity, environmental friendliness, occupational health and safety, accident rate and contingencies, for ensuring their products could cope with the standard requirements. The suppliers are subject to annually or quarterly review, with reports submitted to the Tender and Bid Committee to confirm their qualification as competent suppliers. The committee comprises of representatives from various departments and is responsible for the review and approval process in the annual appraisal of suppliers. Incompetent suppliers concluded in the annual appraisal shall be removed from our supplier register.

Given the complex shipbuilding production process, the time management of the suppliers may have vital impact on the overall production planning. Close communication with the suppliers could help the procurement staff understanding situation and introduce mitigation measures in advance which would ensure quality supply and on-time shipment. The responsible team shall prepare for contingency plan in response to any possible situations and minimise the adverse impact caused.

Product Responsibility and Quality Control

Shipbuilding may take years with the complex process which requires a great amount of time and money investment. All employees must strictly comply with relevant requirements. Once any problem is found, it must be reported according to relevant procedures. Quality Management Committee is a cross-department body designed to further improve the quality management of the Group and lead the professional experts to enhance the flexibility and efficiency of operation of each department. The entire production process is required to receive repeating inspection and examination before the next process is started. Errors are difficult to be identified if the inspection is conducted by the production department. With the coordination of the Quality Assurance Department, three inspections are arranged, that is, first tested by the production department and followed by cross checking with another department, finally by professional inspector. All the inspection processes were documented and carefully investigated to prevent the occurrence of similar incidents in the future.

Oil spills may happened in case of accident on a sailing ship, which will affect marine ecology and cause large-scale claims. As such, before delivering the vessel to customers, it must be re-examined by expert teams and undergo trial voyage to minimise the risk. After delivery, we continued to follow up with customers on the ship design and other services and carry out internal discussions for improvement and enhancement of customer satisfaction. Warranty services are provided for the delivered vessels. The warranty is different from production as it will be conducted according to different conditions. The Group will arrange the team to handle the cases based on actual conditions in a flexible manner.

Anti-Corruption

Zero tolerance policy is adopted by the Group towards any bribery, extortion, fraud and money-laundering. To ensure an effective operation with integrity, the Group established the relevant working rules and management practices, and the structure and governance practices are monitored by the Discipline Inspection and Auditing Centre. For any employee violating the rules, the Discipline Inspection and Supervision Office shall carry out investigation after the investigation procedure being initiated and provide report and accountable recommendations to the management team.

Community Investment

The Group undertakes the social responsibilities in parallel with business development by using existing resources and advantages to bring benefit to the communities. We provided supports in many aspects in the past. For instance, to address the challenges from international competitors and the changing regulations and policies and provide assistance for improvement in national shipbuilding technology, the Group strongly supported the educational development by cultivating talents together with colleges and universities and sharing industrial knowledge with students, so as to introduce new technologies and talents to the industry. The Group's Labour Union also organised the "Chinese New Year Caring and Visits" activities to promote the poverty alleviation works. In 2016, we visited underprivileged employees' families to provide support and bring joy to their children and elderly.

羅兵咸永道

TO THE SHAREHOLDERS OF CHINA HUARONG ENERGY COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of China Huarong Energy Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 46 to 154, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group because we have not been able to obtain sufficient appropriate audit evidence and due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in Note 2.1(a) to the consolidated financial statements, the Group incurred a net loss of approximately RMB3,677,940,000 during the year ended 31 December 2016. As at the same date, the Group had a deficit of RMB9,263,758,000 and the Group's current liabilities exceeded its current assets by RMB31,293,878,000. Its current borrowings and finance lease liabilities amounted to RMB23,897,867,000 while its cash and cash equivalents amounted to RMB107,263,000 only. In addition, loan principals and interests of RMB2,924,608,000 were overdue, and based on the financial position of the Group as at 31 December 2016, the Group was not in compliance with certain restrictive financial covenants of a current borrowing amounted to RMB693,700,000. These caused the relevant bank loans to become immediately repayable in accordance with the respective loan agreements. In addition, as a result of the above-mentioned overdue of principal and interest repayments and non-compliance with the loan covenants, current borrowings totaling RMB18,503,372,000 as at 31 December 2016 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bond, and certain non-current borrowings have been classified as current liabilities. These conditions, together with others described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

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Report on the Audit of the Consolidated Financial Statements

(Continued)

Basis for Disclaimer of Opinion (Continued)

Multiple Uncertainties Relating to Going Concern (Continued)

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, to refinance its operations and to restructure its debts which are set out in Note 2.1(a) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) whether the Group can timely complete the proposed disposal of liabilities (the "**Disposal of Liabilities**") as described in Note 2.1(a) for the subscription of the Company's shares to satisfy certain of the debts due by the Group to certain bank and supplier creditors, which requires executing the shares subscription agreements and finalising and agreeing the detailed terms and conditions with the banks and supplier creditors, and obtaining the necessary and relevant regulatory approvals; (ii) whether the Group can dispose of its core assets and liabilities of the shipbuilding, offshore engineering and marine engine building businesses (the "**Potential Transaction**"), which requires executing a definitive agreement with the potential buyers and obtaining the necessary approvals from the regulatory authorities and shareholders; (iii) whether the Group can successfully implement a business plan for the businesses to be excluded from the potential disposal as described in (ii) above; (iv) whether the Group is able to convince the banks and lenders not to demand for repayment of the outstanding loans before completion of the Disposal of Liabilities and subsequent to the Disposal of Liabilities for the remaining outstanding loans, to secure available financing from banks and lenders through successful negotiations for extension or renewal, including those with overdue principal and interests, and obtaining from the banks and lenders waivers from complying with certain restrictive financial covenants and due payments of loan principal and interests pursuant to the cross-default terms for certain borrowings; (v) whether the Group is able to convince the note holders and the convertible bondholder not to early redeem and not to demand repayment of the outstanding promissory notes and convertible bond in year 2017; (vi) whether the Group is able to implement its operation plan to generate cashflows from its operations; and (vii) whether the Group can secure additional sources of financing, including those to finance its energy exploration and production business.

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

Impairment of land use rights, property, plant and equipment, intangible assets and the Company's investments in subsidiaries and amounts due from subsidiaries

As at 31 December 2016, the carrying amount of the Group's land use rights, property, plant and equipment and intangible assets amounted to RMB3,745,196,000, RMB16,582,181,000 and RMB1,688,437,000, respectively. As described in Note 2.1(a) to the consolidated financial statements, the Group is still in discussion with potential buyers and plans to dispose of its core assets and liabilities of the shipbuilding, offshore engineering and marine engine building businesses in the PRC. In addition, after the completion of the proposed Disposal of Liabilities as mentioned above, the directors of the Company believe that the Group's liquidity and financial position will be significantly improved and the Group can obtain new sources of financing for its energy exploration and production business.

Report on the Audit of the Consolidated Financial Statements

(Continued)

Basis for Disclaimer of Opinion (Continued)

Impairment of land use rights, property, plant and equipment, intangible assets and the Company's investments in subsidiaries and amounts due from subsidiaries (Continued)

In determining the recoverable amounts of the non-current assets including land use rights and property, plant and equipment under the shipbuilding, offshore engineering and marine engine building segments amounted to RMB19,534,585,000, the directors of the Company consider that these assets will be included in the Potential Transaction as described in Note 2.1(a), and therefore has taken into account the estimated consideration of the Potential Transaction when assessing whether any impairment charge is necessary. In determining the recoverable amounts of the non-current assets including property, plant and equipment and intangible assets under the energy exploration and production segment amounted to RMB2,299,529,000, the directors of the Company used value-in-use calculations, taking into consideration the proven oil reserve and new sources of financing for oil exploration after the completion of the proposed Disposal of Liabilities.

As the estimated consideration of the Potential Transaction exceeded the carrying value of the non-current assets of the shipbuilding, offshore engineering and marine engine building segments, and that the value-in-use amounts for the energy exploration and production segment exceeded the carrying values of the corresponding non-current assets, the directors of the Company are of the opinion that there was no impairment of these non-current assets amounted to RMB21,834,114,000 as at 31 December 2016.

However, with respect to the non-current assets of the shipbuilding, offshore engineering and marine engine building segments, completion of the Potential Transaction is subject to, amongst others, the execution of a definitive transaction agreement, the final terms and conditions of which are still under further negotiations and agreement by both parties, and the necessary approvals by the regulatory authorities and shareholders. With respect to the non-current assets of the energy exploration and production segment, the recoverable amounts are estimated on the assumption that the Group will obtain new sources of financing for oil exploration in the future. We were unable to obtain sufficient appropriate audit evidence we consider necessary to assess the recoverable amounts of these non-current assets. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of these land use rights of RMB3,563,496,000, property, plant and equipment of RMB16,582,181,000 and intangible assets of RMB1,688,437,000, totaling RMB21,834,114,000 and whether any impairment charge should be made. Any impairment provision for these non-current assets found to be necessary would affect the Group's net assets as at 31 December 2016, the Group's net loss for the year then ended and the related note disclosures to the consolidated financial statements. In addition, as these assets were held by various material subsidiaries, any impairment provision for these assets found to be necessary would also affect the carrying amounts of the Company's investments in subsidiaries and amounts due from subsidiaries as well as the Company's accumulated losses, which amounted to RMB1,514,444,000, RMB13,094,433,000 and RMB1,290,069,000, respectively, as at 31 December 2016 and the related disclosures in the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("**IFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Report on the Audit of the Consolidated Financial Statements

(Continued)

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements (Continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because we have not been able to obtain sufficient appropriate audit evidence and due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

The engagement partner on the audit resulting in this independent auditor's report is Fong Wan Huen.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**3,745,196**	3,827,234
Property, plant and equipment	7	**16,582,181**	16,996,889
Intangible assets	8	**1,688,437**	1,583,048
Long-term deposits	13	**–**	60,000
Prepayments for non-current assets	13	**4,110**	13,626
Available-for-sale financial asset	10	**40,199**	39,676
		22,060,123	22,520,473
Current assets			
Inventories	11	**643,453**	1,010,147
Amounts due from customers for contract works	12	**–**	172,062
Trade receivables	13	**9,387**	163,462
Other receivables, prepayments and deposits	13	**454,360**	644,124
Pledged deposits	14	**37,538**	72,573
Cash and cash equivalents	15	**107,263**	69,227
		1,252,001	2,131,595
Total assets		**23,312,124**	24,652,068
DEFICIT			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**905,191**	905,191
Share premium	16	**10,430,533**	10,430,533
Other reserves	18	**3,744,776**	3,628,129
Accumulated losses		**(23,906,421)**	(20,341,666)
		(8,825,921)	(5,377,813)
Non-controlling interests	37	**(437,837)**	(325,159)
Total deficit		**(9,263,758)**	(5,702,972)

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	**30,003**	150,328
Finance lease liabilities – non-current	20	**–**	294,852
Advance from a related party	36(ii)	**–**	14,427
		30,003	459,607
Current liabilities			
Trade and other payables	19	**8,293,615**	7,001,501
Advances from related parties	36(ii)	**334,303**	340,234
Borrowings	20	**23,321,770**	21,892,265
Derivative financial instruments	21	**17,045**	292,691
Provision for warranty	22	**3,049**	26,214
Finance lease liabilities – current	20	**576,097**	342,528
		32,545,879	29,895,433
Total liabilities		**32,575,882**	30,355,040
Total deficit and liabilities		**23,312,124**	24,652,068

The consolidated financial statements on pages 46 to 154 were approved by the Board of Directors on 30 March 2017 and signed on its behalf by

Chen Qiang
Director

Hong Liang
Director

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue			
– Revenue from sales of crude oil		**31,597**	28,655
– Revenue from sales of vessels		**140,752**	402,867
– Revenue from shipbuilding and other contracts		**135,816**	306,943
– Revenue related to the cancellation of the construction contracts		**(4,426,956)**	–
	5	**(4,118,791)**	738,465
Cost of sales			
– Cost of crude oil sold		**(26,781)**	(18,407)
– Cost of vessels sold		**(552,675)**	(1,108,642)
– Cost of shipbuilding and other sales		**(320,692)**	(1,088,112)
– Cost of sales related to the cancellation of the construction contracts		**3,669,366**	–
– Provision for inventories related to the cancellation of the construction contracts		**(3,237,075)**	–
	23	**(467,857)**	(2,215,161)
Gross loss		**(4,586,648)**	(1,476,696)
Selling and marketing expenses	23	**(5,520)**	(7,554)
General and administrative expenses	23	**(748,299)**	(1,304,880)
Research and development expenses	23	**(16,224)**	(38,308)
Reversal of/(provisions for) impairments and delayed penalties	23	**175,314**	(2,298,006)
Reversal of impairments related to the cancellation of the construction contracts	23	**3,886,086**	–
Other (loss)/income	25	**(1,051)**	29,735
Other gains – net	26	**123,541**	106,837
Operating loss		**(1,172,801)**	(4,988,872)
Finance income	27	**13,052**	17,900
Finance costs	27	**(2,518,191)**	(2,177,142)
Finance costs – net	27	**(2,505,139)**	(2,159,242)
Loss before income tax		**(3,677,940)**	(7,148,114)
Income tax expense	28	**–**	–
Loss for the year		**(3,677,940)**	(7,148,114)
Loss attributable to:			
Equity holders of the Company		**(3,564,755)**	(6,542,869)
Non-controlling interests		**(113,185)**	(605,245)
		(3,677,940)	(7,148,114)

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December **2016** **RMB'000**	 2015 RMB'000
Other comprehensive income for the year:			
Items that may be reclassified to profit or loss			
– Fair value gain on an available-for-sale financial asset		**523**	3,302
– Exchange difference on translation of foreign operations		**109,890**	91,365
Other comprehensive income for the year, net of tax		**110,413**	94,667
Total comprehensive loss for the year		**(3,567,527)**	(7,053,447)
Attributable to:			
Equity holders of the Company		**(3,454,849)**	(6,448,325)
Non-controlling interests		**(112,678)**	(605,122)
		(3,567,527)	(7,053,447)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	31	**(1.64)**	(3.17)

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						
	Note	Share capital RMB'000 (Note 16)	Share premium RMB'000 (Note 16)	Other reserves RMB'000 (Note 18)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total deficit RMB'000
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 year		–	–	–	(3,564,755)	(3,564,755)	(113,185)	(3,677,940)
Other comprehensive income								
Fair value gain on an available-for-sale financial asset	10	–	–	504	–	504	19	523
Exchange difference on translation of foreign operations		–	–	109,402	–	109,402	488	109,890
Total comprehensive income/(loss) for the year		–	–	109,906	(3,564,755)	(3,454,849)	(112,678)	(3,567,527)
Transactions with equity holders in their capacity as owners								
Share-based payments	17	–	–	6,741	–	6,741	–	6,741
Total transactions with owners in their capacity as owners		–	–	6,741	–	6,741	–	6,741
Balance at 31 December 2016		905,191	10,430,533	3,744,776	(23,906,421)	(8,825,921)	(437,837)	(9,263,758)

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

	Note	Share capital RMB'000 (Note 16)	Share premium RMB'000 (Note 16)	Other reserves RMB'000 (Note 18)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity/ (deficit) RMB'000
		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 year		–	–	–	(6,542,869)	(6,542,869)	(605,245)	(7,148,114)
Other comprehensive income								
Fair value gain on an available-for-sale financial asset	10	–	–	3,184	–	3,184	118	3,302
Exchange difference on translation of foreign operations		–	–	91,360	–	91,360	5	91,365
Total comprehensive income/(loss) for the year		–	–	94,544	(6,542,869)	(6,448,325)	(605,122)	(7,053,447)
Transactions with equity holders in their capacity as owners								
Share-based payments	17	–	–	10,861	–	10,861	–	10,861
Issue shares upon conversion of convertible bonds	20	107,895	918,023	–	–	1,025,918	–	1,025,918
Total transactions with owners in their capacity as owners		107,895	918,023	10,861	–	1,036,779	–	1,036,779
Balance at 31 December 2015		905,191	10,430,533	3,628,129	(20,341,666)	(5,377,813)	(325,159)	(5,702,972)

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**65,457**	248,816
Interest paid		**(6,045)**	(401,018)
Net cash generated from/(used in) operating activities		**59,412**	(152,202)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(42,743)**	(10,153)
Interest received		**375**	3,316
Decrease in pledged deposits		**24,227**	47,247
Proceeds from sale of property, plant and equipment		**39,225**	–
Proceeds from sale of land use rights		**427**	–
Net cash generated from investing activities		**21,511**	40,410
Cash flows from financing activities			
Proceeds from bank borrowings		**–**	3,218,998
Proceeds from other borrowings		**54,178**	321,153
Proceeds from a shareholder		**–**	44,613
Repayment of other borrowings		**(3,578)**	(14,427)
Repayment of bank borrowings		**(73,429)**	(1,503,694)
Repayment of medium term notes		**–**	(2,000,000)
Repayments of finance lease liabilities		**–**	(2,721)
Advances from a related party		**–**	26,156
Repayment to a related party		**(20,358)**	(53,124)
Net cash (used in)/generated from financing activities		**(43,187)**	36,954
Net increase/(decrease) in cash and cash equivalents		**37,736**	(74,838)
Cash and cash equivalents at beginning of the year		**69,227**	143,101
Exchange difference on cash and cash equivalents		**300**	964
Cash and cash equivalents at end of the year	15	**107,263**	69,227

The notes on pages 53 to 154 are an integral part of these consolidated financial statements.

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, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 37 to the consolidated financial statements.

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

2 Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Going concern basis

During the year ended 31 December 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, whether they have been fully completed or still in the progress of construction, through sale. Separately, the development of the Energy Exploration and Production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration. Although management has already implemented measures to significantly reduce costs, the Group was still experiencing high level of finance costs for its existing borrowings, which would need to be accrued for even though they have not been paid. As a result, the Group had incurred a net loss of approximately RMB3,677,940,000 for the year ended 31 December 2016.

As at 31 December 2016, the Group had a total deficit of RMB9,263,758,000 and the Group's current liabilities exceeded its current assets by RMB31,293,878,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,897,867,000, out of which RMB21,904,636,000 current bank borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements. The Group's current borrowings also included a convertible bond with outstanding principal of HKD103,500,000 (equivalent to approximately RMB92,582,000) as at 31 December 2016, which was immediately redeemable by the bondholder according to the terms and conditions of the convertible bond, while the Group only maintained cash and cash equivalents of RMB107,263,000.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

As at 31 December 2016, loan principal repayments and interest payments totaling RMB2,924,608,000 were overdue. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB11,686,000 have been classified as current liabilities. Subsequent to 31 December 2016, additional loan principal and interest payments totaling RMB1,324,301,000 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 31 December 2016, the Group was not in compliance with certain restrictive financial covenants of a current bank borrowing amounted to RMB693,700,000 as at 31 December 2016. The Group is in the process of negotiating with the bank to re-financing this borrowing subsequent to 31 December 2016. In addition, bank and other borrowings of RMB22,296,916,000 and a convertible bond with principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000), totaling RMB22,389,498,000, contain cross default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,503,372,000 as at 31 December 2016 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bond; and in this connection, non-current borrowings totaling RMB1,904,474,000 have been classified as current liabilities. As at the date of the approval of these consolidated financial statements, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholder; nor have these banks and bondholder taken any action against the Group to demand immediate repayment.

The Group had certain convertible bonds with principal amounts of HKD3,050,000,000 (equivalent to approximately RMB2,728,256,000) matured in 2016, of which principal amounts of HKD2,950,000,000 (equivalent to approximately RMB2,638,805,000) were settled by promissory notes with due dates and as extended ranging from January 2017 to June 2017 issued by the Group. Subsequent to 31 December 2016, certain promissory notes amounting to HKD933,462,000 (equivalent to approximately RMB834,991,000) were not renewed nor repaid upon the scheduled repayment dates and thus became overdue. The Company is in the process of negotiating with these promissory note holders to extend the due dates of these promissory notes to June 2017. During the year, the Group had issued a new convertible bond with a principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000) maturing in October 2018 and the convertible bond serves to extend the maturity of an overdue convertible bond and interest accrued thereon. Since the bondholder has an early redemption option to require the Company to redeem the bond at any time before the maturity date, the new convertible bond is classified as current liabilities.

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

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

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

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

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

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.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (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 ("**Stock Exchange**") granting the listing of, and permission to deal in, the subscription shares under the relevant subscription agreements. The Group had obtained the shareholders' approval for the share consolidation as well as increase in authorised share capital of the Company on 24 March 2016.

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

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

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

iii) During the year ended 31 December 2016, convertible bonds with a total principal amount of HKD3,050,000,000 (equivalent to approximately RMB2,728,256,000) matured in 2016, of which principal amounts of HKD2,950,000,000 (equivalent to approximately RMB2,638,805,000) were settled by promissory notes with due dates and as extended ranging from January 2017 to June 2017 issued by the Group. Subsequent to 31 December 2016, certain promissory notes totaling HKD933,462,000 (equivalent to approximately RMB834,991,000) became overdue. The Company is in the process of negotiating with these promissory note holders to extend the due dates of these promissory notes to June 2017. The Company will continue to negotiate with all existing promissory note holders with a total principal amount of HKD3,367,193,000 (equivalent to approximately RMB3,011,988,000) for further arrangement so as to enable the Company to meet its financial obligations of the outstanding promissory notes when they fall due. During the year, the Group had issued a new convertible bond with a principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000) which will mature in October 2018 provided that the bondholder does not exercise the early redemption option. The Company will convince the bondholder not to exercise the early redemption option.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

On 16 January 2017, the Company has also proposed to issue convertible bonds with principal amounts up to HKD751,000,000 (equivalent to approximately RMB671,777,000) due in 2019 in exchange for certain existing indebtedness and the expected despatch date of the circular for shareholders' approval will be falling on or before 30 April 2017.

iv) Pursuant to the Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement (《江蘇熔盛重工有限公司債務優化銀團框架協議》) (the "**Jiangsu Framework Agreement**") entered into with a group of banks in the Jiangsu Province of the People's Republic of China ("**PRC**"), the Group has continuously been able to extend the repayment of and renewal terms of the existing bank loans that had original maturity in 2016 to new maturity dates ranging from January to November 2017. During the year, pursuant to this framework agreement, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB12,625,801,000 (inclusive of principal amount of RMB11,350,725,000 and interest amount of RMB1,275,076,000), which will be due during the period from January 2017 to November 2017. As at 31 December 2016, the Group's total outstanding current borrowings with respect to the Jiangsu Framework Agreement amounted to RMB12,673,704,000, of which RMB975,316,000 have been overdue since 2016, and of which RMB12,468,388,000 were attributable to bank creditors that have already entered into the letters of intent to participate in the Disposal of Liabilities as described in (i) above. The Group will continue to convince these banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities, and will further negotiate with these banks, after the completion of the Disposal of Liabilities, for renewal and extension of the remaining outstanding bank loans which are not settled as and when they fall due during the year 2017. Subsequent to 31 December 2016, loans of RMB633,890,000 were successfully extended and will be repayable ranging from September to October 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 overdue bank loans to new maturity dates ranging from June 2017 to September 2017. During the year ended 31 December 2016, the Group successfully renewed and extended loans, totaling RMB1,079,200,000 (inclusive of principal amount of RMB500,000,000 and interest amount of RMB579,200,000), which would be due during June 2017 to September 2017. As at 31 December 2016, the Group's total outstanding current borrowings with respect to this Hefei Framework Agreement amounted to RMB3,778,103,000, of which RMB218,287,000 have been overdue since 2014 and RMB46,000,000 have been overdue since 2015, and RMB847,816,000 have been overdue during the year 2016, and, of which RMB3,347,112,000 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 2017;

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

vi) The Group has also been actively negotiating with the lenders regarding the borrowings (other than convertible bond and promissory notes) of RMB4,387,004,000 not covered in the above Jiangsu Framework Agreement and Hefei Framework Agreement (together with "**Framework Agreements**") to extend the repayment and amend the terms of these existing loans. During the year, the Group has successfully renewed and extended the repayment dates of certain loans amounted to RMB3,459,889,000 (inclusive of principal amount of RMB3,071,667,000 and interest amount of RMB388,222,000), so that these loans are now repayable after December 2016. As at 31 December 2016, total current loans from these lenders amounted to RMB4,357,001,000 of which RMB517,119,000 have been overdue, and of which RMB2,962,328,000 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 2017;

vii) During the year, 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 RMB36,940,000 which will be repayable ranging from May 2017 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 year, a number of wells were developed in the Republic of Kyrgyzstan ("**Kyrgyzstan**") and management expects to realise an increase of oil output through further development and expansion of this segment and thereby generate steady operating cash flows; and

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

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

The directors have reviewed the Group's cash flow projections prepared by management that covered a period of not less than twelve months from 31 December 2016. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the statement of financial position. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

i) timely executing the subscription agreements with the banks and supplier creditors for the subscription of the Company's shares for the satisfaction of debts due by the Group to these bank and supplier creditors. The successful completion of the Disposal of Liabilities would include the finalisation and agreement of the detailed terms and conditions with the bank and supplier creditors on the subscription arrangement as well as obtaining the necessary and relevant regulatory approvals, including among other things, the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the subscription shares under the relevant subscription agreements;

ii) convincing the banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities; and further negotiating with these banks after the completion of the Disposal of Liabilities for renewal and extension of the remaining outstanding bank loans as and when they fall due in year 2017;

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

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

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

v) negotiating with all existing promissory note holders of outstanding principal of HKD3,367,193,000 (equivalent to RMB3,011,988,000), together with accrued interests thereon for further arrangement, so as to enable the Company to meet its financial obligations when they fall due in year 2017, and convincing the convertible bondholder of the outstanding principal of HKD103,500,000 (equivalent to approximately RMB92,582,000) not to exercise the early redemption option, and successful issuance of proposed convertible bonds with principal amounts up to HKD751,000,000 (equivalent to approximately RMB671,777,000) due in 2019 in exchange for certain existing indebtedness;

vi) negotiating with the relevant banks for the renewal or extension for repayments beyond the year ending 31 December 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 31 December 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 Energy Exploration and Production segment and to generate adequate cash flows.

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

(b) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"). The consolidated financial statements have been prepared under the historical cost convention, except as modified by the accounting policies stated below.

The preparation of the consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(c) New and amended standards adopted by the Group:

During the year ended 31 December 2016, the Group has adopted the following new standards, amendments and interpretations to standards which are mandatory for accounting periods beginning on 1 January 2016:

IAS 1 (Amendment)	Disclosure Initiative
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27 (Amendment)	Equity Method in Separate Financial Statements
IFRS 10, IFRS 12 and IAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exemption
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
Annual Improvements 2014	Annual Improvements 2012-2014 Cycle

The adoption of these amendments to standards does not have significant impact to the Group's results of operation and financial position.

(d) New standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2016 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IAS 7 (Amendment)	Statement of Cash Flows	1 January 2017
IAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the above new standards and amendments to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2 Principal accounting policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 Principal accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors of the Company who make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the Company's functional and the Group's presentation currency.

2 Principal accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings are presented in the profit or loss within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the profit or loss within 'other gains – net'.

Translation differences on non-monetary financial assets and liabilities such as derivative financial instruments are recognised as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in the profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

2 Principal accounting policies (Continued)

2.5 Oil properties

The successful efforts method of accounting is used for oil exploration and production activities. Costs are accumulated on a field-by-field basis. All costs for development wells, support equipment and facilities, and proved mineral interests in oil properties are capitalised within construction in progress under property, plant and equipment. Geological and geophysical costs are expensed when incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised within construction in progress until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to the profit or loss.

Once commercial reserves are found, construction in progress relevant to oil properties are tested for impairment, or whenever facts and circumstances indicate impairment. No depreciation and depletion is charged during the exploration and evaluation phase. When development is completed on a specific field, it is transferred to oil properties.

An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

Oil properties are depreciated and depletion using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil reserves estimated to be recovered from existing facilities using current operating methods. Oil volumes are considered to be part of production once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Proven oil properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.6 Property, plant and equipment

The Group's buildings, including buildings under construction, are stated at revalued amount. All other property, plant and equipment, except for construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition and construction of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the profit or loss during the financial period in which they are incurred.

2 Principal accounting policies (Continued)

2.6 Property, plant and equipment (Continued)

Except for oil properties, the depreciation of which is calculated using the unit-of-production method, depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	50 years
Plant and machinery	5-20 years
Computer equipment	3-5 years
Office equipment	5 years
Motor vehicles	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Buildings comprise mainly factories, shipyards and offices.

Plant and equipment under construction or pending installation are stated at cost impairment losses, if any. No depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit or loss.

2.7 Land use rights

Land use rights represented upfront payments made for the use of land and the attached coastal line, if any, and are stated at cost and amortised over the period of the lease and the rights to use the land ranged from 5 to 50 years on a straight-line basis. Leases of land are classified as operating leases as the risks and rewards incidental to the ownership have not been passed. Amortisation of land use rights are expensed in the profit or loss.

2.8 Intangible assets

(a) Patents

Separately acquired patents are shown at historical cost. Patents acquired in a business combination are recognised at fair value at the acquisition date. Patents have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of 5 years.

(b) Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their respective estimated useful lives of 2 to 10 years.

2 Principal accounting policies (Continued)

2.8 Intangible assets (Continued)

(c) Research and development costs

Expenditure on research shall be recognised as an expense as it incurred. An intangible asset arising from development shall be recognised if, and only if, the Group can demonstrate all of the followings:

(i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) Its intention to complete the intangible asset;

(iii) Its ability to use or sell the intangible asset;

(iv) How the intangible asset will generate probable future economic benefits that among other things, the Group can demonstrate the existence of a market for the output of the intangible assets or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation of development costs is calculated on a straight-line basis over the estimated useful lives of 5 years from the date that they are available for use. The useful lives of intangible assets that are not being amortised are reviewed at the end of each reporting period to determine whether events and circumstances continue to support definite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(d) Co-operation Rights

The Co-operation Rights represent rights to cooperate with the national oil company (already defined on page 58) 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. The Co-operation Rights are amortised using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil reserves estimated to be recovered from existing facilities using current operating methods. Oil volumes are considered to be part of production once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

2 Principal accounting policies (Continued)

2.8 Intangible assets (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses on goodwill are not reversed. Gains and losses on the disposals of an entity include the carrying amount of goodwill relating to the entity disposed of or sold.

Goodwill is allocated to cash-generating units ("**CGUs**") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivables', 'other receivables', 'pledged deposits' and 'cash and cash equivalents' in the consolidated statement of financial position.

(b) Available-for-sale financial asset

Available-for-sale financial asset are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months after the end of the reporting period.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financials assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 Principal accounting policies (Continued)

2.9 Financial assets (Continued)

2.9.2 Recognition and measurement (Continued)

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as other gains– net.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

2.9.3 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2 Principal accounting policies (Continued)

2.9 Financial assets (Continued)

2.9.3 Impairment of financial assets (Continued)

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (a CGU). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately within "other gains – net" in the profit or loss.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 Principal accounting policies (Continued)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Pledged deposits and cash and cash equivalents

Pledged deposits represent the amount of cash pledged as collateral to the banks for issuing refund guarantees or providing additional financings.

Cash and cash equivalents include cash in bank and deposits held at call with banks.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 Principal accounting policies (Continued)

2.18 Convertible bonds

(a) Convertible bonds without equity component

Convertible bonds without equity component are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract. At initial recognition, the embedded derivative of the convertible bonds is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability under the contract. The derivative component is subsequently carried at fair value and changes in fair value are recognised in the profit or loss. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion, redemption or maturity. When the convertible bonds are converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible bonds are redeemed, any difference between the redemption amount and the carrying amounts of both components are recognised in the profit or loss.

(b) Convertible bonds issued for unidentified services

If the identifiable consideration received by the Company appears to be less than the fair value of the convertible bonds issued, the Company measures the unidentifiable services received (to be received) as the difference between the fair value of the convertible bond issued and that of the identifiable consideration received, and the difference is recognised in the profit or loss immediately unless qualified for capitalisation.

The debt component (i.e. the bondholder's right to demand payment in cash) of the convertible bond will be accounted for as a cash-settled share-based payment transaction while the equity component (i.e. the bondholder's right to demand settlement in the Company's shares) of the convertible bonds will be accounted for as an equity settled share-based payment transaction. The entity first measures the fair value of the liability component, and then measure the fair value of the equity component by taking into account that the bondholder must forfeit the right to receive cash in order to receive the equity instrument. Subsequent to initial recognition, the debt component of the convertible bond is stated at fair value, with changes recorded in the income statement under other gains/(losses), net. The equity component is not re-measured subsequent to initial recognition.

2 Principal accounting policies (Continued)

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for warranties granted by the Group on shipbuilding products and undertakings to repair or replace items that fail to perform satisfactorily are recognised at the end of each reporting period for expected warranty claims for repairs and returns based on industry practice and past experience of the Group.

2.20 Current and deferred income tax

Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in the profit or loss or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Principal accounting policies (Continued)

2.20 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract works, claims and incentive payments (if any) are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

2 Principal accounting policies (Continued)

2.21 Construction contracts (Continued)

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of each reporting period as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the amounts due from customers for contract works for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers are included within "trade receivables".

The Group presents as a liability the amounts due to customers for contract works for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

When the construction contract is cancelled either mutually or unilaterally, revenue recognised up to the cancellation date together with the corresponding cost of sales are reversed in the period in which the cancellation takes place.

2.22 Employee benefits

(a) Pension and employee social security and benefits obligations

The group companies in the PRC participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employees in the PRC. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The employees receive equity instruments of the Company as consideration for their services rendered to the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, including any market performance conditions; excluding the impact of any service and non-market performance vesting conditions; and including the impact of any non-vesting conditions. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of equity instrument that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision of original estimates, if any, in the profit or loss with a corresponding adjustment to equity.

2 Principal accounting policies (Continued)

2.22 Employee benefits (Continued)

(b) Share-based compensation (Continued)

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(c) Bonus plan

The Group recognises a provision for bonus when contractually obliged or when there is a past practice that has created a constructive obligation.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Revenue from construction contracts

Please refer to Note 2.21 "Construction contracts" for the accounting policy on revenue from construction contracts.

(b) Sale of marine engines and engineering machineries

Revenue from sale of marine engines and engineering machineries is recognised when the products are delivered to customers which generally coincides with the time when the customer has accepted the products and the related risks and rewards of ownership. If product sales are subject to customer acceptance, revenue is not recognised until customer acceptance occurs. Revenue is recorded after deduction of any discounts.

(c) Sale of crude oil

Sales are recognised upon delivery of products and customer acceptance, net sales taxes and discounts. Revenue is recognised only when the Group has transferred to the buyers significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

2 Principal accounting policies (Continued)

2.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

2.25 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants to compensate the current year expenses are recognised in the profit or loss in the same year through offsetting the corresponding expenses by the grants to match them with the costs that they are intended to compensate.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the leases.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has retained substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in finance lease liabilities. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 Principal accounting policies (Continued)

2.28 Financial guarantees

The Group provides guarantees to certain banks in respect of mortgage loans drawn by customers to finance their purchase of equipment from the Group's Engineering Machinery segment. Financial guarantee contracts where the Group is a guarantor are initially recognised at fair value on the date the guarantee is issued and the fair value of at inception is equal to the premium received for the issued guarantee. The premium received is amortised on a straight-line basis over the life of the guarantee.

Subsequent to initial recognition, the Group's liability under such guarantees are measured at the higher of the initial amount, less amortisation of premium, and the best estimate of the amount required to settle the guarantee. Any increase in the liability relating to guarantees is recognised as general and administrative expenses in the profit or loss.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

3.1 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.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising primarily from the transactions in its shipbuilding business with contract prices denominated in US dollar ("**USD**") and borrowings denominated in USD and Hong Kong dollar ("**HKD**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency.

The Group's entities under Engineering Machinery and Marine Engine Building segments mainly operate in the PRC with most of the transactions denominated in RMB. For the entities under Energy Exploration and Production segment, they mainly operate in Kyrgyzstan with most of the transactions denominated in their functional currency which is USD. Therefore, the volatility against changes in exchange rate for these entities would not be significant.

The shipbuilding business generates a major portion of its revenue with the contract prices denominated in USD and incurs substantial portion of its manufacturing costs in RMB. The unmatched currency cash flows are subject to foreign exchange risk. Management continually assesses the Group's exposure to foreign exchange rate risks to mitigate the impact of currency exchange rate fluctuations for the operating business.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

Certain trade, bills and other receivables, deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings are denominated in USD and HKD which are also exposed to foreign exchange risk. Details of the Group's trade and other receivables, deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings denominated in foreign currencies are disclosed in Notes 13, 14, 15, 19 and 20 respectively.

At 31 December 2016, if RMB had weakened/strengthened by 2% against the USD and HKD respectively with all other variables held constant, post-tax loss for the year would have been approximately RMB98,835,000 (2015: RMB67,580,000) higher/lower, mainly as a result of foreign exchange differences on translation of USD and HKD denominated monetary assets and liabilities.

(ii) Interest rate risk

The Group has no significant interest-bearing assets except for pledged deposits, cash and cash equivalents with short maturities. Certain Group's short-term borrowings at fixed rates expose the Group to fair value interest-rate risk. Since all fixed-rate borrowings are current and at market interest rate, the directors are of the opinion that the fair value interest-rate risk is minimal. Certain borrowings have variable rate interest and expose the Group to cash flow interest risk. The Group analyses its interest rate exposure on a dynamic basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

At 31 December 2016, if interest rate had increased/decreased by 100 basis points with all other variables held constant, post-tax loss for the year would have been approximately RMB101,598,000 (2015: RMB102,216,000) higher/lower.

(b) Credit risk

Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables, prepayments and amounts due from customers for contract works. As at 31 December 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

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 93% (2015: over 79%) of the total trade receivables (before provisions) of the Group as at 31 December 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 RMB 2,952,894,000 (2015: RMB3,781,778,000) and provision for amounts due from customers for contract works of RMB224,896,000 (2015: RMB3,252,036,000) as at 31 December 2016.

For customers of the Engineering Machinery 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 31 December 2016, trade receivables of RMB374,768,000 (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 31 December 2016, other receivables and prepayments amounted to RMB2,345,626,000 was impaired and provided for (2015: RMB2,344,311,000).

(c) Liquidity risk

During the year ended 31 December 2016, the Group had incurred a loss of approximately RMB3,677,940,000 and had a net operating cash outflow of approximately RMB59,412,000 for the year ended 31 December 2016.

As at 31 December 2016, the Group had a total deficit of RMB9,263,758,000 and the Group's current liabilities exceeded its current assets by RMB31,293,878,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,897,867,000, out of which RMB21,904,636,000 current bank borrowings were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements. The Group's current borrowings also included a convertible bond with outstanding principal totaling HKD103,500,000 (equivalent to approximately RMB92,582,000) as at 31 December 2016, which was immediately redeemable by the bondholder according to the subscription agreement, while the Group only maintained a cash and cash equivalents of RMB107,263,000.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

As at 31 December 2016, loan principal repayments and interest payments totaling RMB2,924,608,000 were overdue. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB11,686,000 have been classified as current liabilities. Subsequent to 31 December 2016, additional loan principal and interest payments totaling RMB1,324,301,000 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 31 December 2016, the Group was not in compliance with certain restrictive financial covenants of a current bank borrowing amounted to RMB693,700,000 as at 31 December 2016. The Group is in the process of negotiating with the bank to re-financing this borrowing subsequent to 31 December 2016. In addition, bank and other borrowings of RMB22,296,916,000 and a convertible bond with principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000), totaling RMB22,389,498,000 contain cross default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,503,372,000 as at 31 December 2016 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bond; and in this connection, non-current borrowings totaling RMB1,904,474,000 have been classified as current liabilities. As at the date of the approval of these consolidated financial statements, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholder; nor have these banks and bondholder taken any action against the Group to demand immediate repayment.

The Group had certain convertible bonds with principal amounts of HKD3,050,000,000 (equivalent to approximately RMB2,728,256,000) matured in 2016, of which principal amounts of HKD2,950,000,000 (equivalent to approximately RMB2,638,805,000) were settled by promissory notes with due dates and as extended ranging from January 2017 to June 2017 issued by the Group. Subsequent to 31 December 2016, certain promissory notes amounting to HKD933,462,000 (equivalent to approximately RMB834,991,000) were not renewed nor repaid upon the scheduled repayment dates and thus became overdue. The Company is in the process of negotiating with these promissory note holders to extend the due dates of these promissory notes to June 2017. During the year, the Group had issued a new convertible bond with a principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000) maturing in October 2018 and the convertible bond serves to extend the maturity of an overdue convertible bond and interest accrued thereon. Since the bondholder has an early redemption option to require the Company to redeem the bond at any time before the maturity date, the new convertible bond is classified as current liabilities.

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

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) 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 these consolidated financial statements 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:

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.

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 year ended 31 December 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 2017 with a group of banks under Jiangsu Framework Agreement and Hefei Framework Agreement. Management will continue to convince these 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 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

In relation to the convertible bond which will mature in 2018, the Group is in discussion with the bondholders and has requested them not to exercise their redemption option to request the Company to redeem the outstanding convertible bond in year 2017.

Group	Repayable on demand/ less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 31 December 2016				
Borrowings	**39,355,180**	**30,003**	**–**	**39,385,183**
Finance lease liabilities	**623,633**	**–**	**–**	**623,633**
Derivative financial instruments	**17,045**	**–**	**–**	**17,045**
Trade and other payables	**7,442,534**	**–**	**–**	**7,442,534**
Advances from related parties	**334,303**	**–**	**–**	**334,303**
At 31 December 2015				
Borrowings	22,982,391	87,664	69,519	23,139,574
Finance lease liabilities	362,705	322,430	–	685,135
Derivative financial instruments	292,691	–	–	292,691
Trade and other payables	6,087,046	–	–	6,087,046
Advances from related parties	340,234	14,427	–	354,661

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Maturity Analysis – borrowings based on scheduled repayments

Certain borrowings contain a repayment on demand clause which can be exercised at the bank's sole discretion. Taking into account the Group's situation, arrangement and proposed plan for Disposal of Liabilities as described in Note 2.1(a)(i), the directors do not consider that it is probable that the banks will exercise their discretion to immediate repayment. The analysis below shows the cash outflows based on the scheduled repayment. The amount includes interest payments computed using contractual rates. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Group	Less than 1 year	Between 1 and 2 years	More than 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016	**20,937,684**	**737,239**	**2,542,632**	**24,217,555**
At 31 December 2015	20,072,790	834,934	3,147,177	24,054,901

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of shareholders' equity. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. This ratio is calculated as total liabilities divided by total assets.

3 Financial risk management (Continued)

3.2 Capital management (Continued)

The Group's total liabilities and total assets positions and debt-asset ratio at 31 December 2016 and 2015 were as follows:

	2016 **RMB'000**	2015 RMB'000
Total liabilities	**32,575,882**	30,355,040
Total assets	**23,312,124**	24,652,068
Debt-asset ratio	**1.40**	1.23

3.3 Fair value estimation

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

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(b) 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).

(c) 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 assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale financial asset	**–**	**–**	**40,199**	**40,199**
Total assets	**–**	**–**	**40,199**	**40,199**
Liabilities				
Financial derivative component of borrowings	**–**	**(17,045)**	**–**	**(17,045)**
Total liabilities	**–**	**(17,045)**	**–**	**(17,045)**

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that were measured at fair value at 31 December 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial asset	–	–	39,676	39,676
Total assets	–	–	39,676	39,676
Liabilities				
Financial derivative component of borrowings	–	(292,691)	–	(292,691)
Total liabilities	–	(292,691)	–	(292,691)

There were no transfers between levels 2 and 3 during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in levels 2 and 3

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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 fair value 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.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in levels 2 and 3 (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Available-for-sale financial asset RMB'000
Balance at 1 January 2015	36,374
Fair value gain on revaluation recognised in other comprehensive income	3,302
Balance at 31 December 2015	39,676
Balance at 1 January 2016	**39,676**
Fair value gain on revaluation recognised in other comprehensive income	**523**
Balance at 31 December 2016	**40,199**

(c) Details of the fair value of the building and building under construction are disclosed in Note 7.

4 Critical accounting estimates, assumptions and judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4 Critical accounting estimates, assumptions and judgement

(Continued)

(a) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. This method places considerable importance on accurate estimates of the extent of progress towards completion. The Group measures the stage of completion of construction contracts by reference to the contract costs incurred to date compared to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs and in making these estimates, management has relied on past experience and industry knowledge. Management monitors the progress of the construction and reviews periodically the estimated total costs for each contract as the contract progresses. If the actual costs differ from management's estimates, the revenue, cost of sales and provision for foreseeable losses would be adjusted.

The Group commences recognition of profit for each shipbuilding construction contract when the construction of the relevant vessels reaches a stage where the outcome of the contract can be reasonably ascertained and the total contract costs attributable to the contract can be measured reliably by management.

The Group has assessed on a case-by-case basis whether it is probable contracts to construct vessels for all shipbuilding customers, including those with long aged trade receivables, will generate future economic benefits that will flow to the Group. The assessment includes evaluation of customer's reputation, credit profile, historical performance and relationship with the Group.

(b) Impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets" to determine when assets are impaired, which requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of assets is less than their carrying balance, including factors such as the industry performance and changes in operational and financing cash flows. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (a CGU). The recoverable amount of the CGU has been determined based on value-in-use calculations or fair value less cost to sell, whichever is higher. These calculations require the use of estimates, including operating results, income and expenses of the business, future economic conditions on growth rates and future returns. Significant changes in the key assumptions on which the recoverable amount of the assets is based could significantly affect the Group's financial position and results of operations. Based on management's assessment, no impairment charge was recognised during the year ended 31 December 2016 (2015: impairment provision of RMB119,468,000). Details of which have been disclosed in Note 7.

(c) Impairment of trade and other receivables, prepayments and amounts due from customers for contract works

Provision for impairment of trade and other receivables, prepayments and amounts due from customers for contract works is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgement, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each debtor/customer and the current market conditions (Note 3.1 (b)).

4 Critical accounting estimates, assumptions and judgement

(Continued)

(d) Convertible bond classification

The Group's convertible bonds are financial instruments, which were all accounted for under International Accounting Standard 32 – "Financial Instruments: Presentation" ("**IAS 32**") and International Accounting Standard 39 – "Financial Instruments: Recognition and Measurement" ("**IAS 39**"). During the year ended 31 December 2015, the Company issued five guaranteed convertible bonds and the net proceeds from these convertible bonds were HKD103,500,000 (equivalent to approximately RMB92,582,000) in aggregate. A convertible bonds were issued during the year ended 31 December 2016. The considerations of the convertible bonds were lower than the aggregate fair value of the host debt contract and the embedded derivative (Note 4(e)) at the respective completion dates. Such difference may imply that unidentifiable services or goods could be received by the Group, where the convertible bonds could be accounted for in accordance with International Financial Reporting Standard 2 – "Share-based Payment" (Note 2.18). After taking into account of the Group's current financial performance, liquidity position and other appropriate factors, management concluded that there were no unidentifiable services received and have accounted for the convertible bonds in accordance with IAS 32 and IAS 39.

(e) Estimated fair value of convertible bond

Convertible bond consisted of host debt contracts and embedded derivatives. The fair value of the host contract and embedded derivative are determined based on the directors' estimation in light of the latest information obtained relating to the convertible bond and with reference to independent valuer assessment. Any new development in the convertible redeemable bond or the market conditions and changes in assumptions and estimates, including but not limited to the Company's share price and its volatility, interest rates, the likelihood of the exercise of the conversion right and redemption rights of the convertible redeemable bond by the bondholder and the Company, could affect the fair value of such host contract and embedded derivative and as a result affect the Group's financial position and results of operations.

(f) Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation expense for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation expense where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expense in future periods.

4 Critical accounting estimates, assumptions and judgement

(Continued)

(g) Current income tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

(h) Estimation of oil reserves

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

5 Segment information

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The Shipbuilding segment derives its revenue primarily from the construction 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 derives its revenue from sales of crude oil since this segment has commenced commercial production during the year ended 31 December 2015. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. Segment results are calculated by offsetting segment revenue from external customers with segment cost of sales. The segment information provided to the Executive Directors for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

5 Segment information (Continued)

	Shipbuilding		Offshore Engineering		Engineering Machinery		Marine Engine Building		Energy Exploration and Production		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from sales of crude oil	**-**	-	**-**	-	**-**	-	**-**	-	**31,597**	28,655	**31,597**	28,655
Revenue from sales of vessels	**140,752**	402,867	**-**	-	**-**	-	**-**	-	**-**	-	**140,752**	402,867
Revenue from shipbuilding and other contracts	**133,948**	306,223	**-**	-	**1,868**	720	**660**	855	**-**	-	**136,476**	307,798
Reversal related to the cancellation of the construction contracts	**(4,426,956)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(4,426,956)**	-
Segment revenue	**(4,152,256)**	709,090	**-**	-	**1,868**	720	**660**	855	**31,597**	28,655	**(4,118,131)**	739,320
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**(660)**	(855)	**-**	-	**(660)**	(855)
Revenue from external customers	**(4,152,256)**	709,090	**-**	-	**1,868**	720	**-**	-	**31,597**	28,655	**(4,118,791)**	738,465
Segment results	**(4,605,597)**	(1,191,297)	**-**	-	**24,295**	(68,426)	**(10,162)**	(227,221)	**4,816**	10,248	**(4,586,648)**	(1,476,696)
Selling and marketing expenses											**(5,520)**	(7,554)
General and administrative expenses											**(748,299)**	(1,304,880)
Research and development expenses											**(16,224)**	(38,308)
Reversal of/(provisions for) impairments and delayed penalties											**175,314**	(2,298,006)
Reversal of improvements and delayed penalties related to the cancellation of construction contracts											**3,886,086**	-
Other(loss)/income											**(1,051)**	29,735
Other gains -net											**123,541**	106,837
Finance costs – net											**(2,505,139)**	(2,159,242)
Loss before income tax											**(3,677,940)**	(7,148,114)

5 Segment information (Continued)

	Shipbuilding		Offshore Engineering		Engineering Machinery		Marine Engine Building		Energy Exploration and Production		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**15,145**	1,378,167	**1,044,984**	1,065,835	**193,749**	231,460	**2,887,019**	2,956,372	**2,320,833**	2,172,362	**6,461,730**	7,804,196
Unallocated											**16,850,394**	16,847,872
Total assets											**23,312,124**	24,652,068
Segment liabilities	**-**	-	**193,776**	185,754	**434,220**	296,608	**4,925,071**	4,597,938	**734,200**	627,521	**6,287,267**	5,707,821
Unallocated											**26,288,615**	24,647,219
Total liabilities											**32,575,882**	30,355,040
Other segment disclosures:												
Depreciation	**339,404**	387,496	**75**	5,695	**429**	11,498	**56,098**	58,738	**18,828**	12,448	**414,834**	475,875
Amortisation	**75,266**	75,267	**-**	-	**3,803**	3,287	**2,740**	2,741	**2,596**	1,652	**84,405**	82,947
Additions to non-current assets	**-**	-	**-**	-	**429**	633	**53**	15,047	**53,048**	1,907,009	**53,530**	1,922,689

5 Segment information (Continued)

The unallocated items mainly included prepayments and deposits and cash and cash equivalents. Unallocated assets also included inventories and property, plant and equipment jointly used by the Shipbuilding and Offshore Engineering segments.

Unallocated liabilities mainly included trade and other payables and borrowings, which are jointly shared by the Shipbuilding and Offshore Engineering segments.

During the year ended 31 December 2016, revenue from the top customer of the Shipbuilding segment, excluding cancellation of construction contracts, amounted to RMB44,274,000 (2015: RMB325,516,000), representing 14.4% of the total revenue excluding revenue related to the cancellation of the construction contracts (2015: 44.1%).

No customers of the Engineering Machinery and the Marine Engine Building segments individually accounted for 10% or more of the Group's consolidated revenue for the year ended 31 December 2016 (2015: nil).

There are 4 individual customer contributed more than 10% revenue of the Group's revenue, excluding cancellation of construction contracts, for the year ended 2016 (2015: 3). The revenue of these customers during the year are RMB44,274,000, RMB42,000,000, RMB32,479,000 and RMB32,401,000 (2015: RMB325,516,000, RMB99,691,000 and RMB84,130,000).

The top three customers of the Group amounted to RMB118,753,000 (2015: RMB509,337,000), representing 38.5% of the total revenue, excluding cancellation of construction contracts (2015: 69.0%).

During the year, the Group terminated 25 shipbuilding contracts (2015: nil). Accordingly, the Group reversed revenue and cost of sales of RMB4,426,956,000 and RMB3,669,366,000 respectively. In relation to such cancellations, the Group reversed impairments of trade receivables and amounts due from customers for contract work amounted to RMB3,886,086,000 and correspondingly provided for inventories amounting to RMB3,237,075,000.

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

5 Segment information (Continued)

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

	2016 **RMB'000**	2015 RMB'000
China	**228,562**	334,317
Greece	**48,006**	44,560
Kyrgyzstan	**31,597**	28,655
Norway	**–**	325,516
Brazil	**–**	5,076
	308,165	738,124

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

6 Land use rights – Group

The Group's interests in land use rights represented prepaid operating lease payments and their net book values are analysed as follows:

	2016 RMB'000	2015 RMB'000
Opening net book amount	**3,827,234**	3,955,560
Amortisation (Note 23)	**(81,809)**	(81,295)
Disposals	**(229)**	(47,031)
Closing net book amount	**3,745,196**	3,827,234
In the PRC, held on:		
Leases between 10 to 50 years	**3,745,196**	3,827,234

Borrowings and refund guarantee are secured by certain land use rights with an aggregate carrying value of RMB3,712,349,000 as at 31 December 2016 (2015: RMB3,801,977,000) (Notes 20 and 34(a)).

As at 31 December 2016, the Group was in the process of renewing and obtaining the certificate of a coastal line in the PRC with carrying amount of approximately RMB2,998,170,779 (2015: RMB3,054,255,000). In the opinion of directors, the absence of the certificate of a coastal line does not impair its carrying value to the Group and the probability of being prohibited to use in the absence of the certificate of the coastal line is remote.

Amortisation of the Group's land use rights has been charged to the consolidated statement of comprehensive income as general and administrative expenses (Note 23).

7 Property, plant and equipment

	Construction in progress RMB'000	Oil properties RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Computer equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2016								
Opening net book amount	**4,741,807**	**231,267**	**10,029,823**	**1,973,208**	**916**	**6,805**	**13,063**	**16,996,889**
Additions	**52,668**	**–**	**–**	**429**	**38**	**83**	**312**	**53,530**
Disposals	**(55,324)**	**–**	**(2,213)**	**(34,159)**	**–**	**(3)**	**(659)**	**(92,358)**
Transfer	**(103,639)**	**98,202**	**5,437**	**–**	**–**	**–**	**–**	**–**
Depreciation (Note 23)	**–**	**(18,615)**	**(226,849)**	**(161,942)**	**(536)**	**(4,549)**	**(2,343)**	**(414,834)**
Exchange difference	**19,702**	**19,190**	**–**	**–**	**1**	**31**	**30**	**38,954**
Closing net book amount	**4,655,214**	**330,044**	**9,806,198**	**1,777,536**	**419**	**2,367**	**10,403**	**16,582,181**
At 31 December 2016								
Cost or valuation	**4,655,214**	**363,326**	**10,058,302**	**3,481,937**	**45,492**	**59,291**	**38,207**	**18,701,769**
Accumulated depreciation and impairment loss	**–**	**(33,282)**	**(252,104)**	**(1,704,401)**	**(45,073)**	**(56,924)**	**(27,804)**	**(2,119,588)**
Net book amount	**4,655,214**	**330,044**	**9,806,198**	**1,777,536**	**419**	**2,367**	**10,403**	**16,582,181**
Year ended 31 December 2015								
Opening net book amount	4,676,329	–	10,301,378	2,176,148	3,518	17,359	18,165	17,192,897
Additions	416,927	–	–	480	51	463	270	418,191
Disposals	(33,234)	–	(15,538)	(650)	(712)	(167)	(692)	(50,993)
Transfer	(284,487)	230,535	970	52,982	–	–	–	–
Depreciation (Note 23)	–	(12,256)	(228,542)	(217,717)	(1,833)	(10,823)	(4,704)	(475,875)
Exchange difference	19,089	12,988	–	–	5	31	24	32,137
Impairment loss	(52,817)	–	(28,445)	(38,035)	(113)	(58)	–	(119,468)
Closing net book amount	4,741,807	231,267	10,029,823	1,973,208	916	6,805	13,063	16,996,889
At 31 December 2015								
Cost or valuation	4,741,807	243,523	10,029,823	3,516,096	45,439	59,100	37,408	18,673,196
Accumulated depreciation and impairment loss	–	(12,256)	–	(1,542,888)	(44,523)	(52,295)	(24,345)	(1,676,307)
Net book amount	4,741,807	231,267	10,029,823	1,973,208	916	6,805	13,063	16,996,889

7 Property, plant and equipment (Continued)

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

Depreciation of the Group's property, plant and equipment has been recognised as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	**35,024**	320,612
Selling and marketing expenses	**5**	50
General and administrative expenses	**379,805**	155,213
Charged to the profit or loss (Note 23)	**414,834**	475,875

Borrowings and refund guarantee are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB5,360,145,000 as at 31 December 2016 (2015: RMB5,665,872,000) (Notes 20 and 34(a)).

Plant and machinery include the following amounts where the Group is a lessee under finance lease:

	2016 RMB'000	2015 RMB'000
Cost – capitalised finance lease	**1,416,645**	1,416,645
Accumulated depreciation	**(334,999)**	(298,485)
Accumulated impairment	**(23,849)**	(23,849)
Net book amount	**1,057,797**	1,094,311

As at 31 December 2016, certain plant and machineries under non-cancellable leases, with costs of RMB1,416,645,000 (2015: RMB1,416,645,000), were held by the Group under certain sale and leaseback arrangements. These leases have a bargain purchase option and with terms of 3 to 5 years where substantial risks and rewards of ownership of the assets retained with the Group.

At 31 December 2016, the Group was in the process of obtaining the property ownership certificates in respect of certain properties held under medium term land use rights in the PRC with carrying amount of approximately RMB711,568,312 (2015: RMB726,646,000). In the opinion of directors, the absence of the property ownership certificates of these properties does not impair their carrying values to the Group as the Group has paid the purchase consideration of these properties in full and the probability of being evicted on the ground of an absence of property ownership certificates is remote.

7 Property, plant and equipment (Continued)

Included in the construction in progress are Exploration and Evaluation assets of RMB279,979,000 as at 31 December 2016 (2015: RMB335,717,000) in respect of the Co-operation Rights in Kyrgyzstan.

For the year ended 31 December 2016, the operation of the Group has been minimal owing to the shortage of funds to and the lack of availability of banking facilities required for accepting new orders. The Group is still in discussion with potential buyers to sell the related core assets and liabilities of the onshore shipbuilding, offshore engineering and marine engine building businesses in the PRC.

Management has therefore performed an impairment assessment of the Group's land use rights and property, plant and equipment at the CGU level. The CGUs are Shipbuilding and Offshore Engineering, Engineering Machinery, Marine Engine Building and Energy Exploration and Production segments of the Group.

The Group's land use rights and property, plant and equipment are analysed as follows:

	Shipbuilding and Offshore Engineering Segment	**Engineering Machinery Segment**	**Marine Engine Building Segment**	**Energy Exploration and Production Segment**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights	3,443,247	181,700	120,249	–	3,745,196
Property, plant and equipment	13,390,586	–	2,580,503	611,092	16,582,181
Total	16,833,833	181,700	2,700,752	611,092	20,327,377

7 Property, plant and equipment (Continued)

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment under Shipbuilding, Offshore Engineering and Marine Engine Building segments amounting to RMB19,534,585 as at 31 December 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.

In determining the recoverable amount of the land use rights under Engineering Machinery segment amounting to RMB181,700,000 as at 31 December 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 Cooperation Rights.

8 Intangible assets

	As at 31 December											
	2016						2015					
	Goodwill RMB'000	Co-operation Rights RMB'000	Patents RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000	Goodwill RMB'000	Co-operation Rights RMB'000	Patents RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000
At 1 January costs	55,139	1,584,768	21,644	77,517	514,191	2,253,259	55,139	1,493,345	21,644	77,517	514,191	2,161,836
Accumulated impairment	(55,139)	-	(3,535)	(35,122)	(409,780)	(503,576)	(55,139)	-	(3,535)	(35,122)	(409,780)	(503,576)
Accumulated amortisation	-	(1,720)	(18,109)	(42,395)	(104,411)	(166,635)	-	-	(18,109)	(42,395)	(104,411)	(164,915)
Net book amount	-	1,583,048	-	-	-	1,583,048	-	1,493,345	-	-	-	1,493,345
Movement during the year												
Amortisation charge (Note 23)	-	(2,596)	-	-	-	(2,596)	-	(1,652)	-	-	-	(1,652)
Exchange difference	-	107,985	-	-	-	107,985	-	91,355	-	-	-	91,355
	-	105,389	-	-	-	105,389	-	89,703	-	-	-	89,703
At 31 December costs	55,139	1,692,980	21,644	77,517	514,191	2,361,471	55,139	1,584,768	21,644	77,517	514,191	2,253,259
Accumulated impairment	(55,139)	-	(3,535)	(35,122)	(409,780)	(503,576)	(55,139)	-	(3,535)	(35,122)	(409,780)	(503,576)
Accumulated amortisation	-	(4,543)	(18,109)	(42,395)	(104,411)	(169,458)	-	(1,720)	(18,109)	(42,395)	(104,411)	(166,635)
Closing net book amount	-	1,688,437	-	-	-	1,688,437	-	1,583,048	-	-	-	1,583,048

The intangible assets represent rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oil fields zones ("**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. As at 31 December 2016, 35 wells were at production stage. As a result, amortisation of RMB2,596,000 has been charged to the profit or loss during year (2015: RMB1,652,000) based on the unit-of-production method.

During the year ended 31 December 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.

In determining the recoverable amounts of the Co-operation Rights and property, plant and equipment under Energy Exploration and Production segment amounting to RMB1,688,436,000 and RMB611,093,000, 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 (2015: USD40-60 per barrel) and a discount rate of 18% (2015: 18%).

8 Intangible assets (Continued)

As a result of the above assessment, the recoverable amounts of the intangible assets and property, plant and equipment under 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 31 December 2016.

9 Financial instruments by category

The following is an analysis of financial instruments by category:

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Assets as per consolidated statement of financial position			
As at 31 December 2016			
Trade receivables (Note 13(a))	**–**	**9,387**	**9,387**
Other receivables and deposits	**–**	**39,284**	**39,284**
Available-for-sale financial asset (Note 10)	**40,199**	**–**	**40,199**
Pledged deposits (Note 14)	**–**	**37,538**	**37,538**
Cash and cash equivalents (Note 15)	**–**	**107,263**	**107,263**
Total	**40,199**	**193,472**	**233,671**
As at 31 December 2015			
Trade receivables (Note 13(a))	–	163,462	163,462
Other receivables and deposits	–	64,070	64,070
Available-for-sale financial asset (Note 10)	39,676	–	39,676
Pledged deposits (Note 14)	–	72,573	72,573
Cash and cash equivalents (Note 15)	–	69,227	69,227
Total	39,676	369,332	409,008

9 Financial instruments by category (Continued)

	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Liabilities as per consolidated statement of financial position			
As at 31 December 2016			
Trade and other payables	**–**	**7,365,517**	**7,365,517**
Advances from related parties (Note 36(ii))	**–**	**334,303**	**334,303**
Borrowings (Note 20)	**–**	**23,351,773**	**23,351,773**
Derivative financial instruments (Note 21)	**17,045**	**–**	**17,045**
Finance lease liabilities (Note 20)	**–**	**576,097**	**576,097**
Total	**17,045**	**31,627,690**	**31,644,735**
As at 31 December 2015			
Trade and other payables	–	6,062,400	6,062,400
Advances from related parties (Note 36(ii))	–	354,661	354,661
Borrowings (Note 20)	–	22,042,593	22,042,593
Derivative financial instruments (Note 21)	292,691	–	292,691
Finance lease liabilities (Note 20)	–	637,380	637,380
Total	292,691	29,097,034	29,389,725

10 Available-for-sale financial asset

	2016	2015
	RMB'000	RMB'000
Unlisted equity investment outside Hong Kong at fair value	**40,199**	39,676

The fair value of unlisted securities amounted to RMB40,199,000 (2015: RMB39,676,000) is determined based on the valuation prepared by management using inputs that are not observable in active market.

A bank borrowing is secured by the available-for-sale financial asset with an amount of RMB40,199,000 as at 31 December 2016 (2015: RMB39,676,000).

11 Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**1,099,132**	1,173,151
Work in progress	**220,377**	222,141
Finished goods	**197,684**	226,678
Vessels under construction	**4,507,071**	1,780,475
Provision for inventories	**(5,380,811)**	(2,392,298)
	643,453	1,010,147

Movements on the Group's provision for impairment of inventories are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**2,392,298**	2,386,038
Reversal during the year	**(338,613)**	(908,908)
Provision made during the year	**3,352,052**	915,168
Written off during the year	**(24,926)**	–
At 31 December	**5,380,811**	2,392,298

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,048,005,000 for the year ended 31 December 2016 (2015: RMB877,849,000).

As at 31 December 2016, vessels under construction of RMB4,286,771,000 (2015: RMB1,230,549,000) of the Shipbuilding segment were impaired with respect to the inventories pursuant to the cancelled contracts.

Bank borrowings are secured by certain inventories with an aggregate amount of RMB887,516,000 as at 31 December 2016 (2015: RMB939,023,000).

12 Construction contracts

	2016 RMB'000	2015 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**645,212**	4,942,202
Less: Provision for amounts due from customers for contract works	**(224,896)**	(3,252,036)
Less: Progress billings	**(420,316)**	(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 and refund guarantee are secured by certain vessels under construction. (2015: RMB103,898,000) (Note 34(a)).

As at 31 December 2016, RMB219,872,000 (2015: RMB3,252,036,000) amounts due from customers for contract works of the Shipbuilding segment were impaired and provided after management assessed the recoverability of these construction contracts and consideration of the future construction plan.

13 Trade receivables, other receivables, prepayments and deposits

(a) Trade receivables

	31 December 2016 RMB'000	2015 RMB'000
Trade receivables	**2,962,281**	3,945,240
Less: Provision for doubtful receivables	**(2,952,894)**	(3,781,778)
	9,387	163,462

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

(a) Trade receivables (Continued)

At 31 December 2016 and 2015, the ageing analysis of the trade receivables based on invoice date were as follows:

	31 December 2016 RMB'000	2015 RMB'000
Undue	**2,061**	1,036
Past due 1-180 days	**1,044**	23,166
Past due 181- 360 days	**–**	18,662
Over 361 days	**6,282**	120,598
	9,387	163,462

Movements on the provision for doubtful receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**3,781,778**	2,808,297
Provision for the year (Note 23)	**27,664**	960,145
Reversal during the year (Note 23)	**(1,031,986)**	(101,068)
Exchange difference	**175,438**	114,404
At 31 December	**2,952,894**	3,781,778

The creation and release of provision for doubtful receivables have been included within provisions of impairments and delayed penalties in the profit or loss.

As at 31 December 2016, trade receivables of RMB2,578,126,000 (2015: RMB3,398,249,000) and RMB374,768,000 (2015: RMB383,529,000) related to certain customers of the Shipbuilding segment and the Engineering Machinery segment were impaired and provided for respectively. Trade receivables impaired and provided for were past due over 361 days.

As at 31 December 2016, trade receivables of RMB7,326,000 (2015: RMB162,426,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is listed above.

During the year ended 31 December 2016, no trade receivables were written off directly (2015: RMB285,000).

The carrying amounts of trade receivables approximate their fair values. The maximum exposure to credit risk at the reporting date is the fair value of RMB9,387,000 (2015: RMB163,462,000).

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

(a) Trade receivables (Continued)

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

The carrying amounts of trade receivables are denominated in the following currencies:

	31 December 2016 RMB'000	2015 RMB'000
RMB	**7,326**	32,659
USD	**2,061**	130,803
	9,387	163,462

(b) Other receivables, prepayments and deposits

	31 December 2016 RMB'000	2015 RMB'000
Receivables from agents (i)	**324,987**	312,747
Other receivables		
– Third parties	**358,684**	314,298
– Deposits for the Framework Agreements (ii)	**167,284**	167,284
VAT receivable	**860,326**	874,404
Deposits (iii)	**17,649**	139,912
Prepayments for property, plant and equipment and land use rights		
– Third parties	**249,949**	259,082
Prepayments for raw materials and production costs		
– Third parties (iv)	**824,655**	981,368
Prepayments – others		
– Third parties	**564**	12,966
Less: allowance for impairment of other receivables and prepayments	**(2,345,628)**	(2,344,311)
	458,470	717,750
Less: non-current deposits and prepayments	**(4,110)**	(73,626)
Current portion	**454,360**	644,124

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

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

(i) The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contracts and procure the relevant refund guarantees. Pursuant to the agency contracts, the customers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the customers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents. As at 31 December 2016, receivables from agents amounted to RMB324,987,000 (2015: RMB312,747,000) were impaired, as a result of the management's assessment on the recoverability of these receivables.

(ii) As at 31 December 2016, according to the Framework Agreements, Shipbuilding Segment and Marine Engine Building segment placed deposits of RMB50,000,000 and RMB117,284,000 (2015: RMB50,000,000 and RMB117,284,000) into bank accounts which were under the name of the Jiangsu and Anhui government respectively. Such deposits are to be used for the payments of the Group's operating expenses and the renewal of the Group's bank borrowings.

(iii) Finance lease is secured by certain refundable deposits with an aggregate carrying value of RMB3,337,000 as at 31 December 2016 (2015: RMB80,800,000).

(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 31 December 2016, the Group prepaid RMB730,481,000 to the five largest suppliers (2015: RMB774,082,000). During the year ended 31 December 2016, a provision of RMB441,298,000 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 impairments 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 their recoverability. 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 RMB1,579,341,000 (2015: RMB1,565,580,000) was provided for these prepayments and other receivables during the year.

As at 31 December 2016, no other receivables were past due (2015: nil) but not impaired. The carrying amounts of receivables from agents, other receivables and current 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.

The carrying amounts of other receivables, prepayments and convent deposits are denominated in the following currencies:

	31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**438,887**	698,582
HKD	**619**	1,887
USD	**18,964**	11,924
Japanese Yen	**–**	5,357
	458,470	717,750

14 Pledged deposits

Pledged deposits are denominated in the following currencies:

	2016	2015
	RMB'000	RMB'000
RMB	**37,538**	70,874
USD	**–**	1,699
	37,538	72,573

Pledged deposits are held in dedicated bank accounts pledged as security for the Group's refund guarantee and borrowings.

As at 31 December 2016, the weighted average effective interest rate 1.49% per annum (2015: 0.97% per annum).

15 Cash and cash equivalents

	31 December	
	2016	2015
	RMB'000	RMB'000
Cash on hand	**128**	290
Cash at banks	**107,135**	68,937
Total cash and cash equivalents	**107,263**	69,227
Maximum exposure to credit risk	**107,135**	68,937

Cash and cash equivalents are denominated in the following currencies:

	31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**106,454**	58,921
USD	**211**	8,729
HKD	**183**	1,212
Singapore dollar ("**SGD**")	**103**	99
Others	**312**	266
	107,263	69,227

15 Cash and cash equivalents (Continued)

Cash at banks and short-term bank deposits are placed in major financial institutions located in Hong Kong, the PRC, Kyrgyzstan and Singapore where there is no history of default.

As at 31 December 2016, the Group had cash at banks and short-term bank deposits amounting to approximately RMB106,627,322 (2015: RMB59,118,666) which are denominated in RMB and USD and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

16 Share capital and share 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 HKD0.5 each at 31 December 2016 (Note a)	60,000,000,000	30,000,000,000	–	–	–
Ordinary shares of HKD0.1 each at 31 December 2015	38,000,000,000	3,800,000,000	–	–	–
Issued:					
Ordinary shares of HKD0.1 each at 1 January 2015	9,490,194,599	949,019,459	797,296	9,512,510	10,309,806
Issue shares upon conversion of convertible bonds	1,367,762,940	136,776,294	107,895	918,023	1,025,918
Ordinary shares of HKD0.1 each at 31 December 2015	10,857,957,539	1,085,795,753	905,191	10,430,533	11,335,724
Ordinary shares of HKD0.1 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 HKD0.5 each at 31 December 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 HKD0.1 each of the Company will be consolidated into one consolidated share of HKD0.5 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. Accordingly, the number of authorised shares decreased from 38,000,000,000 to 7,600,000,000. On the same date, the authorised share capital increased from HK$3,800,000,000 divided into 7,600,000,000 consolidated shares of HK$0.5 each to HK$30,000,000,000 divided into 60,000,000,000 consolidated shares of HK$0.5 each by the creation of an additional 52,400,000,000 consolidated shares.

17 Share-based payment – Group and Company

(a) Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees were granted a total share options of 62,500,000 shares (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 Options shall be equal to a 50% discount to the Offer Price (i.e. HKD4 per share, the exercise price of the outstanding share options granted has been adjusted to HKD20.00 per consolidated share of HK0.50 each with effect from 29 March 2016). Each of the Pre-IPO Share Options 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 31 December 2016, the number of outstanding share options granted has been adjusted for the effect of share consolidation and 4,100,000 share options was exercisable (31 December 2015: 5,475,000 share options as if the share consolidation adjustment had been effective as at 31 December 2015) after the share consolidation adjustment.

Commencing from the date on which trading in the shares of the Company first commenced on the Main Board of the Hong Kong Stock Exchange, being 19 November 2010 ("**Listing Date**"), the expiry of first, second, third, and fourth anniversaries of the Listing Date, the relevant grantee may exercise options up to 20%, 40%, 60%, 80% and 100% respectively. No additional share options were granted pursuant to the Pre-IPO Share Option Scheme during the year.

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 at the Listing Date, exercise price shown above, expected dividend yield rate of 1.32%, risk-free rate of 2.09%, an expected option life of ten years and expected volatility of 55.0%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

17 Share-based payment – Group and Company (Continued)

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

Movements in the number of share options outstanding and their related exercise prices 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	(9,375)
At 31 December 2015	4	27,375
At 1 January 2016	**4**	**27,375**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**4**	**(6,125)**
Adjustment arising from share consolidation	**16**	**(17,150)**
At 31 December 2016	**20**	**4,100**

(b) Share Option Scheme

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

Pursuant to the written resolutions of the Directors dated 30 April 2012, selected employees were granted a total of 348,580,000 share options under the Share Option Scheme. The exercise price per share under the Share Option Scheme is HKD1.94 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 31 December 2016, the number of outstanding share options granted has been adjusted for the effect of share consolidation and 32,124,000 share options were exercisable (31 December 2015: 23,472,000 share options as if the share consolidation adjustment had been effective as at 31 December 2015) after the share consolidation adjustment.

17 Share-based payment – Group and Company (Continued)

(b) Share Option Scheme (Continued)

The fair value of the share options granted on 30 April 2012, determined using the Model, ranged from HKD0.63 to HKD0.64 per option. The significant inputs into the Model were the share price of HKD1.94 at the New Grant Date, the exercise price shown above, expected dividend yield rate of 4.66%, riskfree 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.

	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	(42,100)
At 31 December 2015	1.94	195,600
At 1 January 2016	**1.94**	**195,600**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**1.94**	**(27,370)**
Adjustment arising from share consolidation	**7.76**	**(136,106)**
At 31 December 2016	**9.70**	**32,124**

The total expense recognised in the consolidated statement of comprehensive income for share options granted to directors and employees was approximately RMB6,741,000 during the year ended 31 December 2016 (2015: RMB10,861,000). No expense (2015: Nil) is recognised for the Pre-IPO Share Scheme and RMB6,741,000 (2015: RMB10,861,000) is recognised for the Share Option Scheme. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

18 Other reserves

	Capital reserve RMB'000	Available-for-sale financial asset reserve RMB'000	Share based payment reserve RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2015	2,462,930	(404)	572,452	498,854	(11,108)	3,522,724
Available-for-sale financial asset reserve	–	3,184	–	–	–	3,184
Share-based payment reserve (Note 17)	–	–	10,861	–	–	10,861
Exchange difference on translation of foreign operations	–	–	–	–	91,360	91,360
At 31 December 2015	2,462,930	2,780	583,313	498,854	80,252	3,628,129
At 1 January 2016	**2,462,930**	**2,780**	**583,313**	**498,854**	**80,252**	**3,628,129**
Available-for-sale financial asset reserve	**–**	**504**	**–**	**–**	**–**	**504**
Share-based payment reserve (Note 17)	**–**	**–**	**6,741**	**–**	**–**	**6,741**
Exchange difference on translation of foreign operations	**–**	**–**	**–**	**–**	**109,402**	**109,402**
At 31 December 2016	**2,462,930**	**3,284**	**590,054**	**498,854**	**189,654**	**3,744,776**

19 Trade and other payables

	31 December 2016 RMB'000	2015 RMB'000
Trade payables	**1,632,352**	2,234,242
Other payables for purchase of property, plant and equipment		
– Third parties	**429,266**	439,313
– Related parties (Note 36)	**477,761**	520,433
Other payables		
– Third parties	**1,856,269**	1,017,063
– Related parties (Note 36)	**39,239**	36,038
Receipt in advance	**72,829**	87,210
Accrued expenses		
– Payroll and welfare	**122,556**	128,393
– Interest	**2,647,269**	1,575,764
– Exploration costs	**30,836**	23,328
– Others	**129,969**	112,472
Provision for litigation cases	**821,978**	771,911
Provision for delayed penalties	**27,624**	9,571
VAT payable	**109**	4,003
Other tax-related payables	**5,558**	41,760
Total trade and other payables	**8,293,615**	7,001,501

At 31 December 2016 and 2015, the ageing analysis of the trade payables based on invoice date were as follows:

	31 December 2016 RMB'000	2015 RMB'000
0 – 30 days	**44,570**	108,378
31 – 60 days	**13,190**	133,918
61 – 90 days	**15,463**	132,783
Over 90 days	**1,559,129**	1,859,163
	1,632,352	2,234,242

19 Trade and other payables (Continued)

Trade and other payables are denominated in the following currencies:

	31 December 2016 RMB'000	2015 RMB'000
RMB	**7,490,605**	6,245,448
USD	**592,498**	659,708
HKD	**178,808**	50,329
Euro	**15,266**	31,028
Others	**16,438**	14,988
	8,293,615	7,001,501

20 Borrowings

	31 December 2016 RMB'000	2015 RMB'000
Non-current		
Bank borrowings	**–**	128,574
Borrowings from a shareholder	**1,368**	1,293
Finance lease liabilities	**–**	294,852
Other borrowings	**28,635**	20,461
	30,003	445,180
Current		
Bank borrowings	**19,846,156**	19,724,291
Finance lease liabilities	**576,097**	342,528
Borrowings from a shareholder	**46,282**	43,320
Convertible bonds	**77,071**	1,722,708
Promissory notes	**3,011,988**	115,837
Other borrowings	**340,273**	286,109
	23,897,867	22,234,793
Total borrowings	**23,927,870**	22,679,973

20 Borrowings (Continued)

Borrowings and finance lease liabilities amounting to RMB23,500,212,000 as at 31 December 2016 (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 31 December 2016 and 2015, a current borrowing totaling RMB693,700,000 of the Group required the Group to maintain consolidated tangible net worth at any time of not less than RMB5,000,000,000, and the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 4.0 to 1.0. As at 31 December 2016, the Group failed to comply with these covenants. The Group is in the process of negotiating with the bank to re-financing this borrowing subsequent to 31 December 2016.

Included in the Group's borrowings were certain current bank loans of approximately RMB2,315,584,000 which were overdue and have not been renewed or repaid subsequent to 31 December 2016. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB11,686,000 have been classified as current liabilities.

Bank and other borrowings of RMB22,296,916,000 and a convertible bond with principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000), totaling RMB22,389,498,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,503,372,000 as at 31 December 2016 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bond; and in this connection, non-current borrowings totaling RMB1,904,474,000 have been classified as current liabilities. As at the date of the approval of these consolidated financial statements, the Group has not obtained waivers to comply with these cross-default terms from the relevant banks and bondholder; nor have these banks and bondholder 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.

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 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.

20 Borrowings (Continued)

As at the date of the announcement of 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.

The Group's borrowings, after taking into account of repayable on demand clauses of certain borrowings, are repayable as follows:

	31 December 2016 RMB'000	2015 RMB'000
Within 1 year	**23,897,867**	22,234,793
Between 1 and 2 years	**30,003**	377,652
Between 2 and 5 years	**–**	67,528
	23,927,870	22,679,973

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

	31 December 2016 RMB'000	2015 RMB'000
Within 1 year	**20,909,169**	19,089,382
Between 1 and 2 years	**609,305**	1,611,855
Between 2 and 5 years	**2,409,396**	1,978,736
Over 5 years	**–**	–
	23,927,870	22,679,973

20 Borrowings (Continued)

The weighted average effective interest rates at the end of each reporting period were as follows:

	31 December 2016 RMB'000	2015 RMB'000
Finance lease liabilities	**4.11%**	4.01%
Bank borrowings	**4.86%**	4.62%
Other borrowings	**6.95%**	4.73%

Borrowings from a shareholder are interest-free and will be repayable ranging from August 2017 to August 2018.

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

The carrying amounts of the borrowings are denominated in the following currencies:

	31 December 2016 RMB'000	2015 RMB'000
RMB	**19,645,432**	19,734,067
HKD	**1,037,873**	1,957,450
USD	**3,244,565**	988,456
	23,927,870	22,679,973

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	31 December 2016 RMB'000	2015 RMB'000
6 months or less	**15,151,196**	6,705,470
6 – 12 months	**8,661,228**	13,173,353
1 – 5 years	**115,446**	2,801,150
	23,927,870	22,679,973

20 Borrowings (Continued)

The Group has the following undrawn borrowing facilities:

	2016 RMB'000	2015 RMB'000
Expiring within one year	**35,251**	410,107
Expiring beyond one year	**–**	1,676
	35,251	411,783

Finance lease liabilities – Group

Finance lease liabilities are effectively secured by the rights to the leased assets revert to the lessor in the event of default.

	2016 RMB'000	2015 RMB'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**623,633**	362,705
Later than 1 year and no later than 5 years	**–**	322,430
	623,633	685,135
Future finance charges on finance lease	**(47,536)**	(47,755)
Present value of finance lease liabilities	**576,097**	637,380
The present value of finance lease liabilities are as follows:		
No later than 1 year	**576,097**	342,528
Later than 1 year and no later than 5 years	**–**	294,852
	576,097	637,380

Convertible bonds

The Company had certain convertible bonds with principal amounts of HKD3,050,000,000 (equivalent to approximately RMB2,728,256,000) matured in 2016, of which principal amounts of HKD2,950,000,000 (equivalent to approximately RMB2,638,805,000) were settled by promissory notes with due date ranging from January 2017 to June 2017 issued by the Company. During the year ended 31 December 2016, the Company had also issued a new convertible bond with a principal amount of HKD103,500,000 (equivalent to approximately RMB92,582,000) which will mature in October 2018 and the convertible bond serves to extend the maturity of an overdue convertible bond and interest accrued thereon. Since the bondholder has an early redemption option to require the Company to redeem the bond at any time before the maturity, the new convertible bond is classified as current liabilities.

20 Borrowings (Continued)

Convertible bonds (Continued)

The table below summarised the details and features of the guaranteed convertible bonds:

Guaranteed convertible bonds	Principal as at 31 December 2016	Principal as at 31 December 2015	Issuance and closing date	Maturity date	Conversion period	Conversion price as at 31 December 2016	Conversion price as at 31 December 2015 (Note)
1st	-	HKD610,000,000	7 August 2013	30 months after the closing date	After issue date up to maturity date	N/A	HKD0.90 per share
2nd	-	HKD500,000,000	9 January 2014	30 months after the closing date	After issue date up to maturity date	N/A	HKD0.94 per share
3rd	-	HKD100,000,000	30 April 2014	30 months after the closing date	After issue date up to maturity date	N/A	HKD0.97 per share
4th	-	HKD320,000,000	20 May 2014	30 months after the closing date	After issue date up to maturity date	N/A	HKD0.99 per share
5th	-	HKD820,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	N/A	HKD1.04 per share
6th	-	HKD700,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	N/A	HKD1.07 per share
7th	**HKD103,500,000**	-	31 October 2016	24 months after the closing date	After issue date up to maturity date	HKD1.05 per share	N/A

Note: Conversion price as at 31 December 2015 was before the share consolidation adjustment.

For the 7th convertible bond, 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 bond outstanding. (1) The Company may redeem the respective convertible bond 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 bond outstanding is equal to or less than 10% of its original aggregate principal amount issued by the Company. The redemption price of the convertible bond is equal to 100% of the principal amount plus the unpaid interest. (2) The Company may redeem the respective bond at any time on or after the eighteen from the closing date and up to the third business day prior to the maturity date. The redemption price of the convertible bond is equal to 100% of the principal amount plus the unpaid interest.

20 Borrowings (Continued)

Convertible bonds (Continued)

Subject to certain conditions, the bondholder has the right to require the Company to redeem all or part of the convertible bond. Bondholder may at any time on or after the closing date and 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 bond at a value at 100% of the principal amount plus the unpaid interest.

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

The conversion feature of the 7th convertible bond 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 21.

The fair value of the 7th convertible bond was determined by an independent qualified valuer based on the Effective Interest Method and Black-Scholes 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 profit or loss. During the year ended 31 December 2016, changes in fair value of the embedded derivatives amounted to RMB305,241,000 (2015: RMB59,522,000) which included a gain from de-recognition of the derivative financial instruments related to the convertible bonds due in 2016 amounted to RMB292,691,000.

The convertible bond is guaranteed by Mr. Zhang Zhi Rong ("**Mr. Zhang**"), the Company's single largest shareholder (before taking into account full conversion of the convertible bonds and exercise of the share options issued by the Company).

20 Borrowings (Continued)

Convertible bonds (Continued)

The movements of convertible bonds (excluding the embedded derivatives that were separately accounted for) recognised in the consolidated statement of financial position are shown as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount as at 1 January	**1,722,708**	1,856,286
Issuance of convertible bonds	**91,201**	–
Fair value of the embedded derivatives	**(19,630)**	–
Conversion to ordinary shares	**–**	(827,038)
Interest expenses (Note 27)	**1,101,341**	865,603
Interest paid	**(247,290)**	(260,629)
Fully settled and discharged via promissory notes	**(2,614,305)**	–
Exchange losses	**43,046**	88,486
Carrying amount as at 31 December	**77,071**	1,722,708

The fair value of the host liability component of the convertible bond at 31 December 2016 amounted to RMB77,215,000 (31 December 2015: RMB2,382,752,000). The fair value is calculated using the market rate of the convertible bonds on the date of the statement of the financial position (or the nearest day of trading).

Promissory notes

	RMB'000
For the year ended 31 December 2015	
Opening amounts as at 1 January 2015	–
Issue of promissory notes	115,837
Closing amounts as at 31 December 2015	115,837
For the year ended 31 December 2016	
Opening amount as at 1 January 2016	**115,837**
Issue of promissory notes	**2,888,307**
Exchange difference	**7,844**
Closing amount as at 31 December 2016	**3,011,988**

20 Borrowings (Continued)

Promissory notes (Continued)

During the year ended 31 December 2016, the Company issued 15 promissory notes (as further extended by deeds of amendment) with aggregate principal amount of HKD3,228,926,000 (equivalent to approximately RMB2,888,307,000) (2015: HKD138,267,000 (equivalent to approximately RMB115,837,000)) to convertible bondholders as a consideration of settlement of principal and interests on convertible bonds due. All promissory notes carry interests at 7% per annum and are wholly repayable over the maturity period after 2016.

Promissory notes totaling RMB834,991,000 were overdue subsequent to 31 December 2016. The Company is in the process of negotiating with the these promissory note holders to extend the due dates of these promissory notes to June 2017.

21 Derivative financial instruments

	31 December 2016		31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Embedded derivatives in convertible bond	**–**	**17,045**	–	292,691
	–	**17,045**	–	292,691

21 Derivative financial instruments (Continued)

The fair value of the embedded derivatives in convertible bonds as at 31 December 2015 and 31 December 2016 are determined using the Binomial Model. The tables below show the significant inputs into the Binomial Model:

As at 31 December 2015

Guaranteed convertible bonds	Principal as at 31 December 2015	Issuance date	Stock price as at 31 December 2015 of the underlying shares (Note) (HKD)	Exercise price (Note) (HKD)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
1st	HKD610,000,000	7 August 2013	0.244	0.90	0.1	0.0218	0	42
2nd	HKD500,000,000	9 January 2014	0.244	0.94	0.5	0.1012	0	58
3rd	HKD100,000,000	30 April 2014	0.244	0.97	0.8	0.1330	0	63
4th	HKD320,000,000	20 May 2014	0.244	0.99	0.9	0.1389	0	63
5th	HKD820,000,000	20 June 2014	0.244	1.04	1.0	0.1473	0	63
6th	HKD700,000,000	20 June 2014	0.244	1.07	1.0	0.1473	0	63

Note: Stock price as at 31 December 2015 of the underlying shares and exercise price were before the share consolidation adjustment.

As at 31 December 2016

Guaranteed convertible bonds	Principal as at 31 December 2016	Issuance date	Stock price as at 31 December 2016 of the underlying shares (HKD)	Exercise price (HKD)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
7th	HKD103,500,000	31 October 2016	0.445	1.05	1.83	1.6851	0	80

The 1st to 6th convertible bonds with aggregate principal amount of HK$3,050,000,000 (equivalent to approximately RMB2,728,256,000) matured respectively during the year ended 31 December 2016. Details of settlement arrangements are disclosed in Note 20.

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

22 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 each 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:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**26,214**	38,112
Provision for the year		
– Charged to profit or loss (Note 23)	**–**	11,731
– Utilisation during the year	**–**	(5,246)
– Reversal during the year upon expiring of the warranty period (Note 23)	**(23,165)**	(18,383)
At 31 December	**3,049**	26,214

23 Expenses by nature

	2016 RMB'000	2015 RMB'000
Amortisation of intangible assets (Note 8)	**2,596**	1,652
Amortisation of land use rights (Note 6)	**81,809**	81,295
Advertising, promotion and marketing expenses	**670**	1,684
Auditors' remuneration (Note b)		
– audit services	**5,581**	6,000
– non-audit services	**154**	300
Bank charges (include refund guarantee charges)	**123**	32,874
Commission expense	**–**	3,311
Consultancy and professional fees	**31,188**	53,670
Cost of sales reversed from the cancellation of the construction contracts	**(3,669,366)**	–
Cost of vessels and inventories	**1,041,452**	577,137
Depreciation of property, plant and equipment (Note 7)	**414,834**	475,875
Employee benefits expenses (Note 24)	**180,425**	264,347
Raw materials and consumable used	**6,553**	300,712
(Reversal of provision for)/impairment provisions of		
– trade receivables, net (Note 13(a))	**(1,004,322)**	859,077
– other receivables and prepayments (Note 13(b))	**(10,924)**	1,337,973
– amounts due from customers for contract works	**(3,027,140)**	816,067
– property, plant and equipment (Note 7)	**–**	119,468
Inspection fees	**450**	623
Insurance premiums	**1,544**	4,424
Miscellaneous expenses	**29,263**	218,817
Operating lease payments	**3,073**	32,843
Outsourcing and processing costs	**34,285**	113,224
Over provision for other tax-related expenses and customs duties	**(32,693)**	–
Provision for delayed penalties	**18,054**	11,941
Provision for inventories (Note 11)	**3,013,439**	6,260
Provision and compensation for litigations	**78,506**	549,768
Provision/(reversal of provision) for warranty		
– charged for the year (Note 22)	**–**	11,731
– reversal upon expiring of the warranty period (Note 22)	**(23,165)**	(18,383)
Storage and handling charges	**111**	934
Trade receivables written off	**–**	285
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses and (reversal of)/provision for impairment	**(2,823,500)**	5,863,909

23 Expenses by nature (Continued)

Notes:

(a) The research and development expenses incurred during the year ended 31 December 2016 were RMB16,224,000 (2015: RMB38,308,000), no research and development expenses were capitalised in intangible assets during the year (2015: Nil).

(b) Including remunerations for the Company's auditor and remunerations for auditors of the Company's subsidiaries in the PRC.

24 Employee benefit expenses (including directors' emoluments)

	2016 RMB'000	2015 RMB'000
Salaries and wages	**144,839**	215,993
Social security costs	**22,713**	27,532
Contribution to pension plans	**4,580**	4,487
Other benefits	**1,552**	5,474
Share-based compensation (Note 17)	**6,741**	10,861
	180,425	264,347

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 are five directors (2015: Four directors and one senior management personnel). The emoluments of the five directors (2015: Four directors) are reflected in the analysis presented in Note 30. For the year ended 31 December 2015, the emoluments of the senior management personnel was approximately RMB4,477,000 including basic salaries, housing allowances, other allowances and benefit-in-kind of RMB4,456,000 and contribution to pension plan of RMB21,000.

(b) During the year ended 31 December 2016, no directors or the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2015: same).

25 Other (loss)/income

	2016 RMB'000	2015 RMB'000
Government grants (Note a)	**100**	3,287
Others	**(1,151)**	26,448
	(1,051)	29,735

Note:

(a) Government grants represented cash received from Jiangsu and Anhui Government authorities during the years ended 31 December 2016 and 2015.

26 Other gains – net

	2016 RMB'000	2015 RMB'000
Fair value change on derivative instruments – embedded derivative in convertible bonds	**305,241**	59,522
Net foreign exchange (losses)/gains (Note 29)	**(152,672)**	51,703
Gain/(loss) on disposal of land use rights	**198**	(2,326)
Loss on disposal of property, plant and equipment	**(29,226)**	(2,062)
Total	**123,541**	106,837

27 Finance income and costs

	2016 RMB'000	2015 RMB'000
Finance income:		
Interest income from bank deposits	**375**	3,316
Imputed interest income	**12,677**	14,584
	13,052	17,900
Finance costs:		
Interest expenses		
– Borrowings and finance lease liabilities	**(1,182,412)**	(1,173,491)
– Convertible bonds	**(1,101,341)**	(865,603)
Net foreign exchange losses on financing activities (Note 29)	**(235,711)**	(139,535)
Less: borrowing costs capitalised	**1,273**	1,487
	(2,518,191)	(2,177,142)
Net finance costs	**(2,505,139)**	(2,159,242)

28 Income tax

No Hong Kong profits tax has been provided for the years ended 31 December 2016 and 2015 as the Group had no assessable profit in Hong Kong. All PRC subsidiaries are subject to EIT rate of 25%.

The tax on the Group's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated entities as follows:

	2016 RMB'000	2015 RMB'000
Loss before income tax	**(3,677,940)**	(7,148,114)
Tax calculated at domestic tax rates applicable to profit of respective companies	**(820,919)**	(1,622,021)
Income not subject to tax	**(2,830)**	(11,732)
Expenses not deductible for tax purposes	**47,154**	4,282
Items which no deferred income tax asset was recognised	**776,595**	1,629,471
Tax credit	**–**	–

28 Income tax (Continued)

The weighted average applicable tax rate was 22% for the year ended 31 December 2016 (2015: 23%).

As at 31 December 2016, the Group did not recognise deferred income tax assets of RMB3,282,488,000 (2015: RMB3,292,851,000) in respect of certain provisions and accruals amounting to RMB14,706,432,000 (2015: RMB14,511,330,000) as future profitability of the respective entities tax is not probable.

As at 31 December 2016, the Group did not recognise deferred income tax assets of RMB3,525,787,000 (2015: RMB2,869,537,000) in respect of losses amounting to RMB14,681,693,000 (2015: RMB11,189,373,000) that can be carried forward and utilised against future taxable income.

As at 31 December 2016, management is of the view that undistributed earnings of a Group's subsidiary in the PRC totaling RMB659,579,000 (2015: RMB714,597,000) are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of RMB65,958,000 (2015: RMB71,460,000) have not been recognised for the withholding tax that would be payable upon distribution of profits of the subsidiary.

The Group's PRC tax losses have expiration period of five years as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**143,899**	33,466
Within 2 years	**3,674,378**	143,899
Within 3 years	**4,468,093**	3,674,378
Within 4 years	**2,869,537**	4,468,093
Within 5 years	**3,525,787**	2,869,537
	14,681,694	11,189,373

29 Net foreign exchange (losses)/gains

The exchange differences (charged)/credited in the profit or loss are included as follows:

	2016 **RMB'000**	2015 RMB'000
Net foreign exchange (losses)/gains taken to:		
Other (losses)/gains – net (Note 26)	**(152,672)**	51,703
Finance costs (Note 27)	**(235,711)**	(139,535)
	(388,383)	(87,832)

30 Benefits and interest of directors

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2016:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking							
	Fee RMB'000	Basic salaries, housing allowances, other allowance and benefit-in-kind RMB'000	Discretionary bonuses RMB'000	Estimated money value of share based payment RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
2016								
Executive directors								
Chen Qiang (i)	-	5,153	-	2,938	99	-	-	8,190
Hong Liang	-	1,649	-	588	99	-	-	2,336
Sean S J Wang (ii)	-	3,893	-	-	13	-	-	3,906
Wang Tao	-	1,649	-	268	99	-	-	2,016
Wei A Ning (iii)	-	1,461	-	-	-	-	-	1,461
Zhu Wen Hua	-	1,649	5	189	83	-	-	1,926
Zhang Ming (iv)	-	188	-	-	-	-	-	188
Independent non-executive directors								
Wang Jin Lian	309	-	-	-	-	-	-	309
Zhou Zhan	309	-	-	-	-	-	-	309
Lam Cheung Mau	309	-	-	-	-	-	-	309
Total emoluments	927	15,642	5	3,983	393	-	-	20,950

Notes:

(i) Being the Chief Executive Officer of the Company.

(ii) Resigned as an executive director and the chief financial officer of the Company on 24 October 2016.

(iii) Resigned as an executive director of the Company on 24 October 2016.

(iv) Appointed as an executive director of the Company on 24 October 2016.

30 Benefits and interest of directors (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2015:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking							
	Fee RMB'000	Basic salaries, housing allowances, other allowance and benefit-in-kind RMB'000	Discretionary bonuses RMB'000	Estimated money value of share based payment RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Remunerations paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
2015								
Executive directors								
Chen Qiang	-	6,000	233	3,199	90	-	-	9,522
Wu Zhen Guo (v)	-	899	-	-	-	-	-	899
Hong Liang	-	1,800	69	640	90	-	-	2,599
Sean S J Wang	-	4,703	-	320	10	-	-	5,033
Wang Tao	-	1,794	-	291	90	-	-	2,175
Wei A Ning	-	1,800	43	291	-	-	-	2,134
Zhu Wen Hua	-	1,800	118	206	81	-	-	2,205
Independent non-executive directors								
Xia Da Wei (vi)	334	-	-	-	-	-	-	334
Hu Wei Ping (vii)	190	-	-	-	-	-	-	190
Wang Jin Lian	370	-	-	-	-	-	-	370
Zhou Zhan	370	-	-	-	-	-	-	370
Lam Cheung Mau (viii)	36	-	-	-	-	-	-	36
Total emoluments	1,300	18,796	463	4,947	361	-	-	25,867

30 Benefits and interest of directors (Continued)

(a) Directors' emoluments (Continued)

Notes:

(v) Resigned as an executive director and vice chairman of the Company on 1 July 2015.

(vi) Resigned as an independent non-executive director of the Company on 18 November 2015.

(vii) Resigned as an independent non-executive director of the Company on 1 July 2015.

(viii) Appointed as an independent non-executive director of the Company on 18 November 2015.

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2015: nil).

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, the Company did not pay consideration to any third parties for making available directors' services (2015: nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealing arrangements in favour of directors, controlled bodies corporate by and controlled entities with such directors (2015: nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: nil).

31 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 year.

	2016	2015
Loss attributable to equity holders of the Company (RMB'000)	**3,564,755**	6,542,869
Weighted average number of ordinary shares in issue	**2,171,592,507**	2,062,701,637
Basic loss per share (RMB per share)	**1.64**	3.17

The shares consolidation pursuant to the shareholders resolutions dated 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 year (2015: same).

32 Dividends

The Board has resolved not to declare for the payment of final dividend for the year 2016 (2015: nil).

33 Notes to the consolidated statement of cash flows

(a) Cash generated from operations

	2016 RMB'000	2015 RMB'000
Loss before income tax	**(3,677,940)**	(7,148,114)
Adjustments for:		
– Amortisation of land use rights (Note 6)	**81,809**	81,295
– Amortisation of intangible assets (Note 8)	**2,596**	1,652
– Depreciation (Note 7)	**414,834**	475,875
– Share-based compensation (Note 17)	**6,741**	10,861
– Fair value gain on derivative financial instruments (Note 26)	**(305,241)**	(59,522)
– Trade receivables written off (Note 13(a))	**–**	285
– Provision for inventories (Note 11)	**3,013,439**	6,260
– Provision for delayed penalties	**–**	11,941
– (Reversal of provision for)/impairment provisions of trade		
receivables (Note 13(a))	**(1,004,322)**	859,077
other receivables and prepayment (Note 13(b))	**(10,924)**	1,337,973
amounts due from customers for contract works	**(3,027,140)**	816,067
property, plant and equipment (Note 7)	**–**	119,468
– Reversal of provision for warranty (Note 22)	**(23,165)**	(6,652)
– Interest income	**(13,052)**	(17,900)
– Interest expense	**2,518,191**	2,177,142
– Loss on disposal of property, plant and equipment	**29,226**	2,062
– (Loss)/gain on disposal of land use rights	**(198)**	2,326
– Unrealised exchange losses/(gains)	**152,672**	(51,703)
Changes in working capital:		
– Inventories	**538,391**	1,323,898
– Amounts due from customers for contract works	**–**	177,242
– Trade receivables, and other receivables, prepayments and deposits	**220,694**	401,234
– Trade and other payables	**1,148,846**	(266,705)
– Provision for warranty (Note 22)	**–**	(5,246)
Cash generated from operations	**65,457**	248,816

(b) Non-cash transactions

During the year ended 31 December 2016, the Group disposed of certain property, plant and equipment to its creditors with net book values of RMB23,908,000, which was settled through the payables due from the Group to the creditors.

34 Contingencies

	2016 RMB'000	2015 RMB'000
Contingencies:		
Refund guarantees (Note a)	**51,767**	51,767
Litigation (Note b)	**51,365**	–
Financial guarantees (Note c)	**27,235**	27,739
	130,367	79,506

Notes:

(a) **Refund guarantee**

Refund guarantee relates to the guarantee provided by a bank to the Group's customer in respect of advance received from a customer. In the event of non-performance, the customer may call upon the refund guarantee and the Group would be liable to the bank in respect of the refund guarantee provided. As at 31 December 2016, a refund guarantee is 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 31 December 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 RMB451,834,000 (2015: RMB406,945,000). Provision amounted to RMB451,834,000 had been provided for in respect of the claims as at 31 December 2016 (2015: RMB406,945,000) as management has determined, on the basis of internal legal advice from the Group 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 31 December 2016, the Group was in dispute with one of its subcontractors in relation to a shipbuilding contract. The alleged claim against the Group amounted to approximately RMB51,365,000. No provision has been provided for in respect of this claim as at 31 December 2016 as management has determined, on the basis of legal advice from the Group's internal legal counsel that it is not probable that this claim would result in an outflow of economic benefits from the Group.

As at 31 December 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 RMB238,153,000 (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 31 December 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 31 December 2016, the total value of the guaranteed borrowings outstanding was RMB29,673,000 (2015: RMB29,673,000) in which the Group has made a provision of RMB2,438,000 (2015: RMB1,934,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB27,235,000 (2015: RMB27,739,000) 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.

35 Commitments

(a) Capital commitments

Capital expenditure committed at the end of each reporting period but not yet incurred is as follows:

	2016 **RMB'000**	2015 RMB'000
Property, plant and equipment		
– Contracted but not provided for	**755,172**	755,652
Other capital commitment		
– 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 On 16 January 2012, the Group entered into an agreement with 6 strategic investors for the Fund, where the Group proposed to invest RMB200,000,000 into the Fund, representing 6.66% of the total capital of the Fund. As at 31 December 2016, the Group has paid the first instalment of RMB40,000,000 (2015: RMB40,000,000) to the Fund which is classified as available-for-sale financial asset in the consolidated statement of the financial position (Note 10).

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

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

	2016 **RMB'000**	2015 RMB'000
No later than 1 year	**422**	5,156
Later than 1 year and no later than 5 years	**–**	–
	422	5,156

36 Related party transactions

Fine Profit Enterprises Limited (a company incorporated in the British Virgin Islands) ("**Fine Profit**") owned 18.9% of the issued shares of the Company as at 31 December 2016 (2015: 18.9%). Fine Profit was wholly-owned by Mr. Zhang as at 31 December 2016, and is the single largest shareholder of the Company.

The directors of the Company are of the view that the following companies were related parties that had transactions or balances with the Group during the year:

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
Crystal Mont Limited	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

36 Related party transactions (Continued)

During the year ended 31 December 2016, the Group carried out the following transactions with the related parties:

(i) Year-end balances with related parties

As at 31 December 2016 and 2015, the balances are interest-free, unsecured and approximate their fair values. All these balances are repayable on demand.

	2016 RMB'000	2015 RMB'000
Other payables for property, plant and equipment (Note 19):		
– Entities controlled by Mr. Zhang or a shareholder/close family members of Mr. Zhang	**477,761**	520,433
Other payables – non-trade (Note 19):		
– Entities controlled by Mr. Zhang or a shareholder/close family members of Mr. Zhang	**17,800**	15,920
– A director of a subsidiary	**21,439**	20,118
	39,239	36,038

(ii) Advances from related parties

During the year ended 31 December 2016, the single largest shareholder (before taking into account full conversion of the convertible bond 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 31 December 2016, RMB334,303,000 (2015: RMB328,505,000) has been drawn down by the Group and is repayable on demand.

(iii) Guarantee by a director

As at 31 December 2016, certain bank borrowings totaling RMB2,706,602,000 (2015: RMB2,737,356,000) are secured by a director of the Group.

36 Related party transactions (Continued)

(iv) Guarantee by the shareholders and related parties

As at 31 December 2016, certain borrowings totaling RMB8,896,832,000 (2015: RMB7,672,811,000) are secured by certain shareholders and the controlling entities of certain shareholders.

(v) Guarantee by a director of a subsidiary

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

(vi) Borrowings from a director of a subsidiary

As at 31 December 2016, a director of a subsidiary provided security-free and interest-free borrowings totaling RMB47,650,000 for working capital purposes and repayable from ranging of August 2017 to August 2018.

(vii) Borrowings from related parties

As at 31 December 2016, certain related parties provided security-free facilities up to USD5,000,000 and HKD20,000,000 (totaling equivalent to approximately RMB53,112,000) for use by the Group for working capital purposes.

(viii) Key management compensation

Key management includes directors. Details of key management compensation are disclosed in Note 30.

37 Particulars of principal subsidiaries

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group	
						2016	2015
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27/07/07	Limited liability company	Investment holding; Hong Kong	HKD100,000	**98.50%**	98.50%
Rongsheng Engineering Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Power Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Capital Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Clear Joy International Limited	British Virgin Islands	02/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Nice In Holdings Limited	British Virgin Islands	13/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Charm Dragon Holdings Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Grace Shine International Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**100%**	100%
Head Park Group Limited	British Virgin Islands	25/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
New Sea Enterprises Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**100%**	100%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group 2016	2015
Mega New International Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Host Rich International Enterprise Limited	British Virgin Islands	13/05/09	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	100%
System Advance Limited	British Virgin Islands	12/01/10	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Ocean Sino Holdings Limited	British Virgin Islands	18/01/10	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	100%
Power Shine Investment Limited	British Virgin Islands	07/01/10	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Capital Sign International Limited	British Virgin Islands	26/03/09	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Dragon Courage Investments Limited	British Virgin Islands	02/04/09	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Xcellcrest Holdings Pte. Ltd.	Singapore	01/11/12	Limited liability company	Investment holding; Singapore	SGD1	**100%**	100%
Rongsheng Offshore & Marine Pte. Ltd.	Singapore	05/04/12	Limited liability company	Installation of industrial machinery and equipment; Manufacture and repair of marine engine and ship parts; Singapore	SGD1,000,000	**95%**	95%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group 2016	2015
Hinco International Limited	Hong Kong	12/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Pacific Atlantic Limited	Hong Kong	24/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Wenca Development Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Asiafair International Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Wellbo Holdings Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Profit On International Development Limited	Hong Kong	15/05/09	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Yes Power Corporation Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Ocean Power International Industrial Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Glory Source Limited	Hong Kong	25/01/10	Limited liability company	Dormant	HKD1	**98.50%**	98.50%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group	
						2016	2015
World Profit Corporation Limited	Hong Kong	05/02/10	Limited liability company	Dormant	HKD1	**98.50%**	98.50%
Jiangsu Rongsheng Shipbuilding Co., Ltd. 江蘇熔盛造船有限公司 (Note 1)	PRC	21/06/07	Limited liability company	Manufacturing, maintaining and machining of shipping; Trading of self-produced products; PRC	RMB778,784,897	**96.38%**	96.38%
Nantong Rongsheng Painting Co., Ltd. 南通熔盛塗裝有限公司	PRC	21/06/07	Limited liability company	Painting, coating and fabrication of shipping; Manufacturing and trading of self-produced products; PRC	USD29,500,000	**93.58%**	93.58%
Nantong Rongye Ship Mechanical and Equipment Installation Co., Ltd. 南通熔燁船舶機電安裝有限公司	PRC	21/06/07	Limited liability company	Manufacturing mechanical and electrical equipments and accessories for shipping production; Trading of self-produced products; PRC	USD29,600,000	**95%**	95%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group	
						2016	2015
Nantong Rongye Storage Co., Ltd. 南通熔燁倉儲有限公司	PRC	21/06/07	Limited liability company	Storing of shipping material; Carry cargo; PRC	USD99,700,000	**97.76%**	97.76%
Jiangsu Rongsheng Offshore Engineering Co., Ltd. 江蘇熔盛海洋工程有限公司	PRC	22/06/07	Limited liability company	Manufacturing and installing of pipeline and shipping equipments; Trading of self-produced products; PRC	USD29,900,000	**95%**	95%
Jiangsu Rongsheng Heavy Industries Co., Ltd. 江蘇熔盛重工有限公司	PRC	08/06/06	Limited liability company	Manufacturing of shipping; Trading of self-produced products; Providing services of shipping; PRC	USD701,000,000	**96.38%**	96.38%
Jiangsu Rongsheng shipbuilding Engineering Research and Design Company Limited 江蘇熔盛船舶工程研究設計院有限公司	PRC	04/03/08	Limited liability company	Researching, designing and providing consultation for shipbuilding; PRC	RMB10,000,000	**96.38%**	96.38%
Nantong Rongjin Steel Construction Engineering Company Limited 南通熔錦鋼結構工程有限公司	PRC	16/03/05	Limited liability company	Steel construction engineering; manufacture, processing and sales of steel and accessories and sales of building materials; PRC	RMB50,000,000	**96.38%**	96.38%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group 2016	2015
Shanghai Rongsheng Shipbuilding Trading Company Limited 上海熔盛船舶貿易有限公司	PRC	27/03/07	Limited liability company	Trading of vessel accessories; PRC	RMB100,000,000	**96.38%**	96.38%
Rongsheng Machinery Company Limited 熔盛機械有限公司	PRC	11/03/10	Limited liability company	Manufacturing and sales of engineering machineries; PRC	USD78,000,000	**100%**	100%
Hefei Zhenyu Engineering Machinery Company Limited 合肥振宇工程機械有限公司	PRC	10/12/98	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB100,000,000	**99.79%**	95%
Hefei Zhenyu Yida Engineering Machinery Company Limited 合肥振宇意達工程機械有限公司	PRC	18/04/03	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB10,000,000	**99.79%**	95%
Hefei Rong An Power Machinery Co., Ltd. 合肥熔安動力機械有限公司	PRC	15/08/07	Limited liability company	Building of marine engines; PRC	RMB1,232,300,000	**95.70%**	95.70%
Shanghai Rong An Mechanical & Electrical Equipment Company Limited 上海熔安機電設備有限公司	PRC	10/11/09	Limited liability company	Wholesale and retail sales of electronic machinery, PRC	RMB10,000,000	**95.70%**	95.70%
Jiangsu Bosheng Industrial Trading Development Co., Ltd. 江蘇博盛興業貿易發展有限公司	PRC	26/04/11	Limited liability company	Manufacturing and sales of metal proceeding products; PRC	RMB200,000,000	**96.38%**	96.38%
Nantong Rongsheng Shipowners Club Construction Co., Ltd. 南通熔盛船東會所建設有限公司	PRC	20/06/11	Limited liability company	Building of shipowners club; PRC	RMB100,000,000	**96.38%**	96.38%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group 2016	2015
Hefei Rong An Heavy Machinery Co., Ltd. 合肥熔安重機有限公司	PRC	06/12/11	Limited liability company	Manufacturing and sales of metal proceeding products such as cast iron, steel, etc.; PRC	RMB37,917,000	**95.92%**	95.92%
Rongsheng Machinery Hefei Sales Co., Ltd 熔盛機械合肥銷售有限公司	PRC	17/09/13	Limited liability company	Wholesale and retail sale of engineering machinery; PRC	RMB100,000	**100%**	100%
Radiant Business Global Limited 盛業環球有限公司	British Virgin Islands	03/09/14	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	100%
КыргызжерНефтегаз "Kyrgyzjer Neftegaz Limited Liability Company" 吉爾吉斯大陸油氣有限公司*	Kyrgyzstan	13/08/13	Limited liability company	Oil and gas exploration and production and sales of petroleum product; Kyrgyzstan	KGS100,000	**60%**	60%
Crown Winner Investment Limited	Hong Kong	8/11/13	Limited liability company	Investment holding; Hong Kong	HKD10,000	**60%**	60%
Central Point Worldwide Inc.	British Virgin Islands	19/06/14	Limited liability company	Investment holding; Hong Kong	USD100	**60%**	60%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2016, the Company has direct and indirect interests in the following subsidiaries: (Continued)

Shares held directly by the Company

* For identification purpose only

Note:

(1) Relevant PRC laws and regulations requires PRC domestic entities to have not less than 51% of the equity interest in a company of repairing, designing and manufacturing of vessels. The Group acquired, through Jiangsu Rongsheng Heavy Industries Co., Ltd. ("**Rongsheng Heavy Industries**"), 49% of the equity interest in Jiangsu Rongsheng Shipbuilding Co., Ltd, ("**Rongsheng Shipbuilding**") and the remaining 51% equity interest in Rongsheng Shipbuilding is owned by Jiangsu Xu Ming Investment Group Co., Ltd.. The Group has obtained confirmations from Jiangsu Xu Ming Investment Group Co., Ltd. where Jiangsu Xu Ming Investment Group Co., Ltd. has undertaken to vote in accordance with Rongsheng Heavy Industries in any shareholders' meetings of Rongsheng Shipbuilding and Jiangsu Xu Ming Investment Group Co., Ltd. will not transfer any of its interest in Rongsheng Shipbuilding to any third party without Rongsheng Heavy Industries' consent. Pursuant to confirmations and undertakings, the Group is able to govern and control the finance and operating policies of Rongsheng Shipbuilding. Accordingly, Rongsheng Shipbuilding has been consolidated as a subsidiary of the Company. While Rongsheng Heavy Industries entitles 100% the economic benefits of Rongsheng Shipbuilding, Jiangsu Xu Ming Investment Group Co., Ltd. does not share profit or loss of Rongsheng Shipbuilding.

(b) Material non-controlling interests

Material non-controlling interests amounting to RMB60,277,000 (2015: equity of RMB80,696,000) mainly represented an 51% equity interest in Rongsheng Shipbuilding held by Jiangsu Xu Ming Investment Group Co., Ltd.. Such non-controlling interest was recognised on the date when the Group had control over the finance and operating policies of Rongsheng Shipbuilding in relation to the restructuring before the initial public offering of the Company in year 2010.

Pursuant to certain confirmations and undertakings obtained from Mr. Zhang, the Company's substantial shareholder and also the controlling shareholder of Jiangsu Xu Ming Investment Group Co., Ltd., the Group is entitled to 51% of the economic benefits of Rongsheng Shipbuilding held by Jiangsu Xu Ming Investment Group Co., Ltd.. Accordingly, Rongsheng Shipbuilding has been consolidated as a subsidiary of the Company and Jiangsu Xu Ming Investment Group Co., Ltd. does not share any profit or loss of Rongsheng Shipbuilding after the restructuring.

As at 31 December 2016, the Group held 96.4% equity interest in Rongsheng Shipbuilding (2015: 96.4%).

Except for the above, there were no other individually material non-controlling interests as at 31 December 2016.

37 Particulars of principal subsidiaries (Continued)

(c) Summarised financial information on a subsidiary with material non-controlling interests

Set out below is the summarised financial information of the subsidiary that has non-controlling interest which is material to the Group.

Material non-controlling interests

Summarised statement of financial position

	Rongsheng Shipbuilding	
	2016	2015
	RMB'000	RMB'000
Current		
Assets	**1,992,966**	2,026,571
Liabilities	**(7,781,133)**	(7,366,960)
Net current liabilities	**(5,788,167)**	(5,340,389)
Non-current		
Assets	**4,178,445**	4,294,724
Liabilities	**–**	–
Net non-current assets	**4,178,445**	4,294,724
Net liabilities	**(1,609,722)**	(1,045,665)

The information above is the amount before inter-company eliminations.

37 Particulars of principal subsidiaries (Continued)

(c) Summarised financial information on a subsidiary with material non-controlling interests (Continued)

Material non-controlling interests (Continued)

Summarised statement of comprehensive income

	Rongsheng Shipbuilding	
	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Revenue	**15,397**	101,147
Loss before income tax	**(564,057)**	(655,507)
Income tax	**–**	–
Total comprehensive loss	**(564,057)**	(655,507)
Total comprehensive loss allocated to non-controlling interest	**(20,419)**	(23,729)
Dividends paid to non-controlling interests	**–**	–

37 Particulars of principal subsidiaries (Continued)

(c) Summarised financial information on a subsidiary with material non-controlling interests (Continued)

Material non-controlling interests (Continued)

Summarised cash flows

	Rongsheng Shipbuilding	
	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Net cash used in operating activities	**(1,164)**	(55,123)
Net cash generated from investing activities	**16,832**	11,147
Net cash generated from financing activities	**–**	4,607
Net increase/(decrease) in cash and cash equivalents	**15,668**	(39,369)
Cash and cash equivalents at beginning of the year	**8,243**	47,612
Cash and cash equivalents at end of the year	**23,911**	8,243

The information above is the amount before inter-company eliminations.

38 Statement of financial position and reserve movement of the Company

Statement of financial position of the Company

	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**1,514,444**	1,514,444
Current assets		
Other receivables and prepayments	**524**	1,861
Amounts due from subsidiaries	**13,094,433**	12,272,769
Cash and cash equivalents	**114**	280
	13,095,071	12,274,910
Total assets	**14,609,515**	13,789,354
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	**905,191**	905,191
Share premium	**10,451,980**	10,451,980
Other reserves (Note a)	**353,478**	346,737
Accumulated losses (Note a)	**(1,290,069)**	(941,409)
Total equity	**10,420,580**	10,762,499
LIABILITIES		
Non-Current liability		
Amount due to a related company	**–**	14,427
	–	14,427
Current liabilities		
Other payables	**208,637**	74,007
Amount due to a related company	**–**	13,070
Amounts due to subsidiaries	**202,470**	144,755
Borrowings	**3,760,783**	2,487,905
Derivative financial instruments	**17,045**	292,691
	4,188,935	3,012,428
Total liabilities	**4,188,935**	3,026,855
Total equity and liabilities	**14,609,515**	13,789,354

The Company's statement of financial position was approved by the Board of Directors on 30 March 2017 and signed on its behalf by

Chen Qiang
Director

Hong Liang
Director

38 Statement of financial position and reserve movement of the Company (Continued)

Note (a)

	Other reserves				
	Capital reserve	Share-based payment reserve	Total	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	33	335,843	335,876	(662,233)	(326,357)
Share-based payment reserve	–	10,861	10,861	–	10,861
Loss and total comprehensive loss for the year	–	–	–	(279,176)	(279,176)
At 31 December 2015	33	346,704	346,737	(941,409)	(594,672)
Share-based payment reserve	–	6,741	6,741	–	6,741
Loss and total comprehensive loss for the year	–	–	–	(348,662)	(348,662)
At 31 December 2016	**33**	**353,445**	**353,478**	**(1,290,071)**	**(936,593)**

39 Subsequent events

On 16 January 2017, the Company as issuer, Mr. Zhang Zhi Rong, a substantial shareholder of the Company, as guarantor and Action Phoenix Limited as subscriber entered into two subscription agreements, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, or procure its nominee(s) to subscribe for, the 7% convertible bonds due 2019 in an aggregate principal amount of up to HKD751,000,000 (equivalent to approximately RMB671,777,000) due 2019 (the "**2019 Convertible Bonds**"). The 2019 Convertible Bonds will be issued in exchange for the existing indebtedness of the Company (owing to the bondholder of the 7% convertible bonds due 2016 issued by the Company on 7 August 2013), subject to and in accordance with the terms and conditions of the respective subscription agreements.

The initial conversion price of the 2019 Convertible Bonds is HKD0.50 per conversion share (subject to adjustment). Assuming full conversion of the 2019 Convertible Bonds at the initial conversion price of HKD0.50 per conversion share, the 2019 Convertible Bonds will be convertible into up to 1,502,000,000 Shares.

The 2019 Convertible Bonds and the new Shares to be issued upon conversion of the 2019 Convertible Bonds (The "**Conversion Shares**") shall be allotted and issued by the Company pursuant to the specific mandate sought to be granted to the Directors by the shareholders of the Company at an extraordinary general meeting of the Company. The subscription of the 2019 Convertible Bonds and the issue of the Conversion Shares by the Company are subject to the approval of the shareholders of the Company.

Consolidated results

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**(4,118,791)**	738,465	(3,802,365)	1,343,566	7,956,347
Gross (loss)/profit	**(4,586,648)**	(1,476,696)	(4,114,023)	(1,432,925)	1,140,697
Operating (loss)/profit	**(1,172,801)**	(4,988,872)	(6,057,678)	(8,230,542)	225,656
Total comprehensive (loss)/income for the year	**(3,567,527)**	(7,053,447)	(8,091,175)	(8,951,888)	(562,035)
Attributable to:					
Equity holders of the Company	**(3,454,849)**	(6,448,325)	(7,756,819)	(8,683,688)	(572,577)
Non-controlling interests	**(112,678)**	(605,122)	(334,356)	(268,200)	10,542

Consolidated assets and liabilities

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**23,312,124**	24,652,068	30,006,256	35,974,744	50,168,837
Non-current assets	**22,060,123**	22,520,473	22,878,155	21,789,896	22,190,689
Current assets	**1,252,001**	2,131,595	7,128,101	14,184,848	27,978,148
Total liabilities	**32,575,882**	30,355,040	29,692,560	29,805,692	35,080,632
Non-current liabilities	**30,003**	459,607	1,841,204	8,937,697	9,480,157
Current liabilities	**32,545,879**	29,895,433	27,851,356	20,867,995	25,600,475
Total (deficit)/equity	**(9,263,758)**	(5,702,972)	313,696	6,169,052	15,088,205

GLOSSARY

"2017 AGM"	the annual general meeting of the Company to be held on 5 June 2017
"ABS"	American Bureau of Shipping, a classification society founded in the United States in 1862, is a non-profit organization that provides marine and offshore classification services
"Articles of Association"	the amended and restated articles of association of the Company adopted by special resolution passed on 24 October 2010 which become effective upon the Company's listing on the Hong Kong Stock Exchange, as amended from time to time.
"bbl"	barrels
"Board"	the board of Directors of our Company
"bulk carrier"	a vessel that is designed to carry unpacked cargo, usually consisting of a dry commodity, such as grain or coal
"CCS"	China Classification Society, a classification society founded in the PRC in 1956, is a specialised non-profit organization providing classification service
"China" or "PRC"	the People's Republic of China excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan
"Company", "our Company" or "Huarong Energy"	China Huarong Energy Company Limited (中國華榮能源股份有限公司) (formerly known as China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司)), a company incorporated as an exempted company with limited liability in the Cayman Islands on 3 February 2010
"Consolidated Share(s)" or "Share(s)"	ordinary share(s) of HKD0.50 each in the share capital of the Company upon the Share Consolidation becoming effective on 29 March 2016
"containership"	cargo ship that carry all of its load in truck-size containers, in a technique called containerisation
"crude oil tanker"	a vessel which is designed to carry crude oil or other petroleum products in big tanks
"Director(s)"	director(s) of our Company
"DNV GL"	Det Norse Veritas is a classification society founded in 1864 and originally a Norwegian-based organization that inspected and evaluated the technical condition of merchant vessels there. Since then, the core competencies have expanded to cover the identification, assessment and advisement on managing risks in a variety of industries (including maritime vessels); Germanisher Lloyd is a classification society founded in 1867, which is a Germanbased organization that serves a wide range of industries in both the maritime and energy sectors. DNV and GL signed an agreement to merge in December 2012. The new entity will be called DNV GL Group

"DWT"	one DWT equals 1,000 kilogrammes, a unit of measurement of the maximum permitted load of a vessel, including the weight of cargo, passengers, fuel, stores and crew, when loaded to its maximum summer load line
"Foreign Investment Industries Catalogue"	the Catalogue for the Guidance of Foreign investment industries (外商投資產業指導目錄) (promulgated by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the Ministry of Commerce of the PRC (中華人民共和國商務部) on 31 October 2007) which became effective on 1 December 2007
"Group", "our Group", "we" or "us"	the Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing"	the listing of the ordinary shares of HKD0.10 each of the Company on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	19 November 2010, being the date on which the ordinary shares of HKD0.10 each of the Company are listed on the Main Board of the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended and supplemented from time to time
"LR"	Lloyd's Register Society, a classification society and independent risk management organization founded in 1760 in the United Kingdom, is a non-profit organization that provides risk assessment and mitigation services and management systems certification
"Panamax"	ships classified as Panamax are of the maximum dimensions that will fit through the locks of the Panama Canal, each of which is 1,000 feet long by 110 feet wide and 85 feet deep. Accordingly, a Panamax ship will usually have dimension of approximately 965 feet (294.0 meters) long, 106 feet (32.3 meters) wide and a draft of 39.5 feet (12.0 meters)
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally approved and adopted by our Company pursuant to a resolution passed by our Shareholders on 24 October 2010
"RMB" or "Renminbi"	the lawful currency of the PRC
"Rong An Power Machinery"	Hefei Rong An Power Machinery Co., Ltd. (合肥熔安動力機械有限公司), a company established under the laws of the PRC on 15 August 2007, and our non-wholly owned subsidiary

"Rongye Mechanical"	Nantong Rongye Ship Mechanical and Electrical Equipment Installation Co., Ltd (南通熔燁船舶機電安裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by us as to 95% and owned by Rongsheng Investment as to 5%, now renamed as Nantong Rongye Mechanical and Electrical Equipment Co., Ltd (南通熔燁機電設備有限公司)
"Rongsheng Heavy Industries" or "Jiangsu Rongsheng Heavy Industries"	Jiangsu Rongsheng Heavy Industries Co., Ltd. (江蘇熔盛重工有限公司), a company established under the laws of the PRC on 8 June 2006 and a company owned by Rongsheng Heavy Industries Holdings as to 97.85% and Rongsheng Investment as to 2.15%
"Rongsheng Heavy Industries Holdings"	Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司), a company incorporated in the Cayman islands with limited liability on 27 July 2007 and owned by the Company as to 98.5%
"Rongsheng Investment" or "Xuming Investment"	Jiangsu Rongsheng Investment Group Co., Ltd. (江蘇熔盛投資集團有限公司), a company established under the laws of the PRC on 12 February 2004 and ultimately controlled by Mr. Zhang, renamed as Jiangsu Xuming Investment Group Co., Ltd. (江蘇旭明投資集團有限公司)
"Rongsheng Shipbuilding"	Jiangsu Rongsheng Shipbuilding Co., Ltd. (江蘇熔盛造船有限公司), a company established under the laws of the PRC on 21 June 2007 and owned by Rongsheng Heavy Industries as to 49% and Rongsheng Investment as to 51% and a non-wholly owned subsidiary of the Company
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
"Share Consolidation"	with effect from 29 March 2016, the consolidation of every five issued and unissued shares of HKD0.10 each in the existing share capital of the Company into one Consolidated Share of HKD0.50 each
"Share Option Scheme"	the share option scheme we conditionally adopted pursuant to a resolution passed by our Shareholders on 24 October 2010
"USD"	United States dollars, the lawful currency of the United States

INFORMATION FOR SHAREHOLDERS

Listing Information

Listing : Hong Kong Stock Exchange
Stock Code : 01101

Principal Share Registrar and Transfer Agent

Conyers 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

Room 2201, 22nd Floor,
China Evergrande Centre,
38 Gloucester Road,
Wanchai, Hong Kong

Contact Enquiries

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

CORPORATE INFORMATION

Executive Directors

CHEN Qiang *(Chairman and Chief Executive Officer)*
HONG Liang
WANG Tao
ZHU Wen Hua
ZHANG Ming

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
WANG Tao
ZHANG Ming
LAM Cheung Mau

Nomination Committee

WANG Jin Lian *(Chairman)*
ZHU Wen Hua
ZHOU Zhan

Remuneration Committee

ZHOU Zhan *(Chairman)*
CHEN Qiang
WANG Jin Lian

Finance and Investment Committee

CHEN Qiang *(Chairman)*
HONG Liang
ZHANG Ming
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