ANNUAL REPORT 2017

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 four oilfields 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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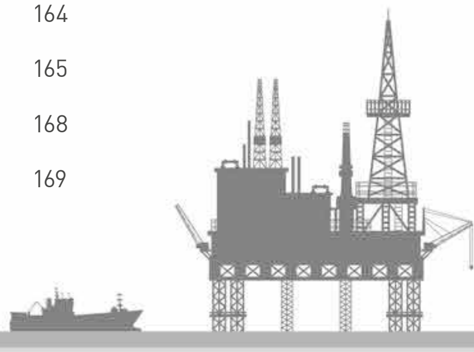


CHAIRMAN'S STATEMENT

Market Analysis

The recovery of the shipbuilding market in China remains modest in 2017, and is continuously restrained by the development of global economy and trade and the insignificant improvement of the overcapacity problem in the shipping market. The demand of newly-built vessels in the shipbuilding market still remained at a relatively low level. Meanwhile, as the supply and demand for global crude oil market is gradually reaching a balance, the international benchmark pricing of crude oil has experienced an upward trend with volatility within a narrow range. This upward trend of the oil price signals a relatively steady condition in the international crude oil market. The global oil and gas exploration and development industry conditions were slowly recovering.

To cope with the shipbuilding market condition, the Group had deployed its existing production facilities and amenities and human resources to develop and diversify into various types of operating business. Meanwhile, the Group also promoted the resale of vessels under construction to enable us to maintain the fundamental operation of our manufacturing bases and broaden our source of revenue. The Group managed to reduce daily operating costs through effective measures, such as streamlining organizational structure, optimizing personnel reallocation and strengthening cost management and control. Also, with the satisfactory development results, the Group carried out oilfields development and adopted various measures to maintain production capabilities, reinforced cost control measures and improved working performance, and to obtain additional sources of financing for the energy exploration and production, actively responded to the financial constraints and volatile industry conditions.

Prospects

Looking forward to 2018, the shipping market is expected to remain steady and improving, together with the retirement of older vessels, overcapacity is expected to be further digested and absorbed. The demand for new-built vessels in the global shipbuilding market may increase, but would still remain at a relatively low level. The Company will continue to facilitate the progress of the strategic restructuring and to work on the foundation of our existing shipbuilding and energy businesses in order to continue to promote our business transformation by leveraging on our strengths in corporate resources. At the same time, the Group will continue to facilitate the proposal of disposal of liabilities with creditors, in order to ease the debt burden of the Group, improve the operation of shipbuilding business and mitigate the adverse effect of the high gearing of the Group on its development of the energy business.

The management of the Company has, from time to time, considered various means of financing and obtaining additional sources of financing for the project involving four oilfields located in the Fergana Valley of the Republic of Kyrgyzstan (the "**Kyrgyzstan Project**"). On 29 November 2017, Crown Winner Investments Limited, which is indirectly owned by the Company as to 60%, entered into a loan agreement with the lender which is an independent third party of the Company, pursuant to which the lender agreed to provide a term loan facility of not more than USD600.0 million with a term of 7 years to the Group. Such loan shall be used for the funding of the Kyrgyzstan Project and would benefit the Group by financing its energy exploration and production segment and generating additional cash flows. The management of the Company is confident that such loan would help accelerate the development of the energy business and increase the production volume, so as to broaden its source of revenue and improve the profitability and financial position of the Group. To align with the development of the Kyrgyzstan Project, we intend to proactively extend the overall crude oil sales network, which including, but without limitation to, the overall strategy in relation to trading, storage and logistic in the crude oil and natural gas industry, and also from time to time pay attention to and identify appropriate potential business opportunities in the crude oil and natural gas industry, in order to complement the overall development strategic transformation and upgrade towards the energy service industry.

Acknowledgements

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

Chen Qiang
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2017 (the "**Period**"), the Group recorded a negative revenue of RMB512.4 million, which was mainly due to the reversal of revenue from cancellation of shipbuilding contracts compared to the negative revenue of RMB4,118.8 million for the year ended 31 December 2016 (the "**Comparative Period**"). Loss attributable to the equity holders of the Company was RMB1,884.8 million for the Period, while loss attributable to the equity holders of the Company was RMB3,564.8 million for the Comparative Period.

Shipbuilding and Offshore Engineering

The shipbuilding segment of the Group recorded a negative revenue of RMB579.8 million for the Period. During the Period, we resold 2 vessels under construction with a revenue of approximately RMB65.4 million. During the Period, we cancelled 6 shipbuilding contracts (for the Comparative Period: 25 shipbuilding contracts).

Faced with the production slowdown in the shipbuilding business, the Group utilised its existing production facilities and human resources to develop diversified businesses, seeking opportunities in pier leasing, facilities leasing and other non-core businesses.

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

Energy Exploration and Production

For the Period, the Kyrgyzstan Project (of which 60% interests held by the Group) recorded 204,676 barrels (bbl) (for the Comparative Period: 188,161 bbl) of light crude oil. Revenue from the energy exploration and production segment was RMB45.2 million for the Period with an increase of approximately 43.0% from RMB31.6 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 Group utilised its production facilities, equipment, human resources and techniques to diversify its business.

For the Period, there was no revenue contribution from the marine engine building segment.

For the Period, revenue from the engineering machinery segment was RMB22.3 million (for the Comparative Period: RMB1.9 million). Revenue for the Period was mainly derived from the sales of in-stock excavators.

FINANCIAL REVIEW

Revenue

For the Period, the Group recorded a negative revenue of RMB512.4 million (for the Comparative Period: a negative revenue of RMB4,118.8 million). It was mainly due to the reversal of revenue from cancellation of shipbuilding contracts. Revenue from sales of vessels was RMB65.4 million (for the Comparative Period: RMB140.8 million), representing a year-on-year decrease of approximately 53.6%. Revenue from shipbuilding and other contracts was RMB22.3 million (for the Comparative Period: RMB135.8 million), representing a year-on-year decrease of approximately 83.6%. Revenue from sales of crude oil was RMB45.2 million (for the Comparative Period: RMB31.6 million), representing a year-on-year increase of approximately 43.0%. During the Period, revenue reversed from the cancellation of shipbuilding contracts was RMB645.2 million (for the Comparative Period: RMB4,427.0 million), representing a year-on-year decrease of approximately 85.4%.

Cost of Sales

For the Period, the Group's cost of sales decreased by approximately 73.9% to RMB122.2 million (for the Comparative Period: RMB467.9 million), which was mainly due to the reversal of cost of sales and provision for inventories related to the cancellation of shipbuilding contracts. The reversal of cost of sales related to the cancellation of shipbuilding contracts was RMB459.3 million (for the Comparative Period: RMB3,669.4 million). Provision for inventories related to the cancellation of the construction contracts was RMB459.3 million (for the Comparative Period: RMB3,237.1 million).

Selling and Marketing Expenses

For the Period, selling and marketing expenses increased slightly by approximately 1.8% to RMB5.6 million (for the Comparative Period: RMB5.5 million), which was in line with the Group's strategic transformation by maintaining selling and marketing expenses of the energy exploration and production business.

General and Administrative Expenses

For the Period, general and administrative expenses decreased by approximately 10.2% to RMB686.8 million (for the Comparative Period: RMB764.5 million). This was mainly due to the implementation of cost control measures by the Group, including significant cutback of workforce.

Reversal of Impairments and Delayed Penalties

For the Period, reversal of impairments and delayed penalties increased by approximately 169.3% to RMB472.0 million (for the Comparative Period: RMB175.3 million), which was mainly due to the increase of reversal of provision for other receivables and prepayments in the shipbuilding segment.

Reversal of Impairments Related to the Cancellation of the Construction Contracts

For the Period, reversal of impairments related to the cancellation of the construction contacts was RMB224.9 million (for the Comparative Period: RMB3,886.1 million), which was mainly due to the cancellation of 6 shipbuilding contracts during the Period (for the Comparative Period: 25 shipbuilding contracts).

Compensation to Shipowners for Cancellation of Contracts

For the Period, compensation to shipowners for cancellation of contracts was RMB211.7 million (for the Comparative Period: nil), which was mainly due to interest compensation to shipowners in relation to the cancellation of 6 shipbuilding contracts during the Period.

Other Income/(Loss) – Net

For the Period, other income was RMB52.4 million (for the Comparative Period: other loss – net of RMB1.1 million), which was mainly due to rental income arising from leasing fixed assets.

Other (Losses)/Gains – Net

For the Period, other losses – net was RMB23.2 million (for the Comparative Period: other gains of RMB123.5 million), which was mainly due to loss on disposal of property, plant and equipment, net with fair value gain on derivative instruments and net foreign exchange gains for the Period.

Finance Costs – Net

Finance income for the Period decreased by approximately 45.8% to RMB7.1 million (for the Comparative Period: RMB13.1 million), which was mainly due to the decrease in imputed interest income on interest-free loans. Finance costs for the Period decreased by approximately 55.1% to RMB1,130.8 million (for the Comparative Period: RMB2,518.2 million), which was mainly due to the decrease in interests of convertible bonds issued as well as the net foreign exchange gains in financing activities for the Period.

Gross Loss

Gross loss for the Period decreased by approximately 86.2% to RMB634.5 million (for the Comparative Period: RMB4,586.6 million), which was mainly due to the decrease of revenue related to the cancellation of shipbuilding contracts.

Total Comprehensive Loss for the Period

During the Period, the Group recorded total comprehensive loss of RMB2,028.2 million (for the Comparative Period: RMB3,567.5 million), of which total comprehensive loss attributable to equity holders of the Company was RMB1,977.7 million (for the Comparative Period: RMB3,454.8 million). Loss attributable to the equity holders of the Company was 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 RMB1,936.2 million. As at 31 December 2017, the Group had a total deficit of RMB11,246.4 million and the Group's current liabilities exceeded its current assets by RMB32,416.8 million. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,322.7 million, out of which RMB19,619.2 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 convertible bonds with outstanding principal of HKD1,847.3 million (equivalent to approximately RMB1,544.2 million) as at 31 December 2017, which were immediately redeemable by the bondholders according to the terms and conditions of the convertible bonds while the Group only maintained cash and cash equivalents of RMB69.9 million.

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 actively negotiating with its creditors on the terms and conditions on the execution plan for the implementation of the disposal of liabilities, which includes but is not limited to potential adjustments to the original structure and terms and conditions of the disposal of liabilities (the "**Disposal of Liabilities**"). The Group is also in discussion with the potential buyers for the disposal of its core assets and liabilities of the shipbuilding, offshore engineering, marine engine building and engineering machinery segments (the "**Potential Transaction**"). The Disposal of Liabilities and the Potential Transaction 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 decreased by RMB575.2 million from RMB23,897.9 million as at 31 December 2016 to RMB23,322.7 million as at 31 December 2017. Our long-term borrowings increased by RMB178.4 million from RMB30.0 million as at 31 December 2016 to RMB208.4 million as at 31 December 2017.

As at 31 December 2017, our total borrowings and finance lease liabilities were RMB23,531.2 million (as at 31 December 2016: RMB23,927.9 million), of which RMB19,533.7 million (approximately 83.0%) was denominated in RMB (as at 31 December 2016: RMB19,645.4 million (approximately 82.1%)) and the remaining RMB3,997.5 million (approximately 17.0%) was denominated in other currencies such as USD and HKD (as at 31 December 2016: RMB4,282.5 million (approximately 17.9%)). 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. Approximately 57.0% of the borrowings bear interests at fixed rate (as at 31 December 2016: approximately 57.5%).

Gearing Ratio

Our gearing ratio (measured by total borrowings and finance lease liabilities divided by the sum of total borrowings and finance lease liabilities and total deficit) increased from approximately 163.2% as at 31 December 2016 to approximately 191.5% as at 31 December 2017. Affected by the losses of RMB1,936.2 million for the year ended 31 December 2017, the total deficit was RMB11,246.4 million as at 31 December 2017 (as at 31 December 2016: RMB9,263.8 million).

Inventories

Our inventories decreased by RMB97.5 million to RMB546.0 million as at 31 December 2017 (as at 31 December 2016: RMB643.5 million). The decrease in inventories was the result of the Group actively releasing the assets through sales and the provision made for inventories during the Period.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB70.0 million (for the Comparative Period: RMB42.7 million), which was mainly used in the energy exploration and production segment.

Contingent Liabilities

As at 31 December 2017, we had contingent liabilities of RMB26.7 million (as at 31 December 2016: RMB130.4 million), which resulted from 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, outstanding trade, bills and other receivables and prepayments. As at 31 December 2017, the Group had cash and cash equivalents and pledged deposits of RMB90.6 million (as at 31 December 2016: RMB144.8 million), of which RMB86.2 million (approximately 95.1%) was denominated in RMB and the remaining RMB4.4 million (approximately 4.9%) was denominated in USD, HKD and other currencies. All of the Group's cash and bank balances, short-term and long-term bank deposits and pledged deposits were placed with reputable banks which management believes are of high credit worthiness 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, the Group gives credit lines after evaluating the customer's credit profiles, financial conditions, past experiences and other factors.

As at 31 December 2017, trade receivables of RMB202.6 million (as at 31 December 2016: RMB2,578.1 million) and RMB375.4 million (as at 31 December 2016: RMB374.8 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 2017, we had approximately 602 employees (as at 31 December 2016: approximately 785 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. Total staff costs (including directors' emoluments) were approximately RMB125.8 million for the Period (for the Comparative Period: approximately RMB180.4 million). The principal elements of remuneration package of the Group include basic salary and other benefits, contribution to pension schemes, discretionary bonus and/or share options granted under an approved share option scheme. Such remuneration should reflect work complexity, time commitment, responsibility and performance with a view of attracting, motivating and retaining high performing individuals.

Significant Investments

Save as disclosed in this annual report, the Group did not have any significant investments during the Period.

Material Acquisition and Disposal of Subsidiaries

During the Period, the Group did not have any significant material acquisition or disposal of subsidiaries.

Foreign Exchange Risks

The Group incurred net foreign exchange gain of RMB285.8 million (for the Comparative Period: loss of RMB388.4 million) due to the appreciation of RMB against USD and HKD during the Period, which resulted in exchange gain on certain USD-denominated and HKD-denominated liabilities, such as trade and other payables and borrowings of the Group.

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 shipbuilding market in China remains its sluggish recovery trend in 2017, and is continuously restrained by the development of global economy and trade and the insignificant improvement of the overcapacity problem in the shipping market. To cope with the shipbuilding market condition, the Group, on the one hand, had deployed its existing production facilities and amenities and human resources to develop and diversify into various types of operating business; on the other hand, the Group managed to proactively promoted the resale of vessels under construction to enable us to maintain the fundamental operation of its manufacturing base and broaden its source of revenue.

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 supply and demand for global crude oil market is gradually reaching a balance, the international benchmark pricing of crude oil has experienced an upward trend with volatility within a narrow range. 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.

Financial Risk

The Group also exposed to certain financial risks which are set out in the section headed "Going Concern Basis" in Note 2.1(a) and the section headed "Financial risk management" in Note 3 to the consolidated financial statements.

Mr. CHEN Qiang (陳強)

Chairman of the Board,
Executive Director and Chief Executive Officer

Mr. Chen Qiang, aged 56, 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 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 and Chief Operating Officer

Mr. Hong Liang, aged 46, is an executive Director and chief operating officer 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 was further appointed as the chief operating officer of the Company on 27 November 2017. 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 45, 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 49, 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 61, 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.

Mr. WANG Jin Lian (王錦連)

Independent Non-executive Director

Mr. Wang Jin Lian, aged 72, 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 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). 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 56, 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 61, 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.

Mr. LIU Bu Ruo (劉步若)

Mr. Liu Bu Ruo, aged 57, 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 43, 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).

The Directors are pleased to submit this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

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 2017 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 2017 are set out in the consolidated statement of comprehensive income on pages 53 to 54 of this annual report.

Dividends

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

Closure of Register of Members

The register of members of the Company will be closed during the period from Thursday, 7 June 2018 to Tuesday, 12 June 2018 (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 Tuesday, 12 June 2018 ("**2018 AGM**"). In order to be eligible to attend and vote at the 2018 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 Wednesday, 6 June 2018.

Share Capital

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

Issue and Conversion of Convertible Bonds

During the year ended 31 December 2017, the Company issued 7.0% convertible bonds due 2019 with an aggregate principal amount of HKD745,060,000 on 19 May 2017 and 7.0% convertible bonds due 2019 with an aggregate principal amount of HKD1,037,240,000 on 30 November 2017 (collectively, the "**2019 Convertible Bonds**") respectively. The 2019 Convertible Bonds were issued in exchange for the indebtedness of the Company. As a result, no proceeds were received by the Company in respect of the issue of the 2019 Convertible Bonds. The initial conversion price of the 2019 Convertible Bonds is HKD0.50 per conversion share (subject to adjustment).

Set forth in the below table are further details of the conversion of the convertible bonds issued by the Company during the year ended 31 December 2017:

7.0% convertible bonds	Principal amount as at the date of issue (HKD)	Date of issue	Maximum number of Shares to be issued upon the exercise of the conversion rights as at the date of issue (after the adjustments to the conversion price per Share if applicable)	Net proceeds received by the Company from the issue	Conversion dates (during the Period)	Conversion Shares issued (conversion price per Share)	Maximum number of Shares to be issued upon the exercise of conversion rights as at 31 December 2017[2]	Principal amount as at 31 December 2017 (HKD)
Convertible bonds due 2018 (the "**2018 Convertible Bonds**")	103,500,000	31 October 2016	207,000,000	Not applicable[1]	13 July 2017 8 August 2017 21 August 2017 7 September 2017 18 September 2017	2,000,000 6,000,000 9,000,000 20,000,000 20,000,000 (HKD0.50)	150,000,000	75,000,000
1st 2019 Convertible Bonds	745,060,000	19 May 2017	1,490,120,000	Not applicable[1]	–	–	1,490,120,000	745,060,000
2nd 2019 Convertible Bonds	169,820,000	30 November 2017	339,640,000	Not applicable[1]	–	–	339,640,000	169,820,000
3rd 2019 Convertible Bonds	118,070,000	30 November 2017	236,140,000	Not applicable[1]	1 December 2017 22 December 2017	10,000,000 10,000,000 (HKD0.50)	216,140,000	108,070,000
4th 2019 Convertible Bonds	102,000,000	30 November 2017	204,000,000	Not applicable[1]	–	–	204,000,000	102,000,000
5th 2019 Convertible Bonds	647,350,000	30 November 2017	1,294,700,000	Not applicable[1]	–	–	1,294,700,000	647,350,000
Total	1,885,800,000		3,771,600,000		–	77,000,000	3,694,600,000	1,847,300,000

Notes:

1 The 2018 Convertible Bonds and the 2019 Convertible Bonds were issued in exchange for the indebtedness of the Company. As a result, no proceeds were received by the Company in respect of issue of such convertible bonds.

2 Pursuant to the terms and conditions of each of the respective convertible bonds of the Company, if more than one of such convertible bonds of the Company held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon conversion will be calculated on the basis of the aggregate principal amount of such convertible bonds of the Company to be converted. No fraction of a Share shall be issued on conversion.

During the year ended 31 December 2017, a total of 77,000,000 Shares had been converted from the convertible bonds issued by the Company. As at 31 December 2017, the outstanding principal amount of all convertible bonds was HKD1,847,300,000. Based on the conversion price of the convertible bonds as at 31 December 2017, a maximum number of 3,694,600,000 Shares would be allotted and issued upon exercise of the conversion rights attaching to the outstanding convertible bonds in full, which represent approximately 164.31% of the then existing issued share capital of the Company as at 31 December 2017, and approximately 62.17% 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 and the 2019 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.

Distributable Reserves

As at 31 December 2017, the reserves of the Company available for distribution to shareholders amounted to RMB8,253.8 million (2016: RMB9,161.9 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 2017 and for the previous four financial years are set out in the Five-Year Financial Summary section on page 164 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 2017, 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 2017 and, 27 March 2018, 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 0.18% and 0.18% of the total issued share capital of the Company comprising 2,248,591,507 Shares and 2,332,591,507 Shares, respectively. 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 2017:

		Number of share options						
Names of grantees	Date of grant	As at 1 January 2017	Exercised	Cancelled	Lapsed	As at 31 December 2017	Exercise price (HKD)	Exercisable period
Mr. Hong Liang	24 October 2010	875,000	–	–	–	875,000	20.00	Note
Mr. Wang Tao	24 October 2010	875,000	–	–	–	875,000	20.00	Note
Ms. Zhu Wen Hua	24 October 2010	75,000	–	–	–	75,000	20.00	Note
Senior Management and other employees (in aggregate)	24 October 2010	2,275,000	–	–	–	2,275,000	20.00	Note
Total		4,100,000	–	–	–	4,100,000		

Note:

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.

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 is 140,000,000 Shares, representing 10% of the total issued share capital of the Company on the Listing Date. As at 31 December 2017, the total number of Shares in respect of the outstanding options granted under the Share Option Scheme was 32,124,000 Shares, representing approximately 1.43% of the total issued share capital of the Company comprising 2,248,591,507 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 27 March 2018, 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 1.38% of the total issued share capital of the Company comprising 2,332,591,507 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 2017:

		Number of share options						
Name of grantee	Date of grant	As at 1 January 2017	Exercised	Cancelled	Lapsed	As at 31 December 2017	Exercise price (HKD)	Exercisable period
Mr. Chen Qiang	30 April 2012	14,000,000	–	–	–	14,000,000	9.70	Note
Mr. Hong Liang	30 April 2012	2,800,000	–	–	–	2,800,000	9.70	Note
Mr. Wang Tao	30 April 2012	1,276,000	–	–	–	1,276,000	9.70	Note
Ms. Zhu Wen Hua	30 April 2012	900,000	–	–	–	900,000	9.70	Note
Senior Management and other employees (in aggregate)	30 April 2012	13,148,000	–	–	–	13,148,000	9.70	Note
Total		32,124,000	–	–	–	32,124,000		

Note:

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.

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 2017 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 2017, 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 2017 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 2017 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 2017, 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 2017, 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 2017, 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.

Major Customers and Suppliers

During the year ended 31 December 2017, 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 38.3% and 73.5%, respectively. During the year ended 31 December 2017, 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 2017 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 2017 and up to the date of this report are as follows:

Executive Directors

Mr. Chen Qiang *(Chairman and Chief Executive Officer)*
Mr. Hong Liang *(Chief Operating Officer)*
Mr. Wang Tao
Ms. Zhu Wen Hua
Mr. Zhang Ming

Independent Non-executive Directors

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

Mr. Hong Liang, Ms. Zhou Zhan and Mr. Lam Cheung Mau are due to retire from the Board by rotation at the 2018 AGM in accordance with Article 16.18 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 11 to 14 of this annual report.

Directors' Service Contracts

During the year ended 31 December 2017, 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 2017.

Directors' Interests in Competing Business

As at 31 December 2017, 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 2017, 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	9.93%
Mr. Hong Liang	–	–	3,675,000	3,675,000	0.16%
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 2,248,591,507 as at 31 December 2017 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 2017, 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 2017, 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 2017, 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[9]
Ms. Mak Siu Hang Viola[1]	1,490,120,000	66.27%
VMS Holdings Limited[1]	1,490,120,000	66.27%
Mr. Wang Ping[2]	1,383,359,794	61.52%
Kingwin Victory Investment Limited[2]	1,383,359,794	61.52%
VMS Investment Group Limited[1]	1,220,000,000	54.26%
Action Phoenix Limited[1]	1,220,000,000	54.26%
Mr. Zhang Zhi Rong[3]	391,289,031	17.40%
Fine Profit Enterprises Limited[3]	391,289,031	17.40%
Mr. Wan Ten Lap[4]	339,640,000	15.10%
Mr. Zhang Yi[4]	339,640,000	15.10%
Bright Hope Global Investments Limited[4]	339,640,000	15.10%
Partners Financial Holdings Limited[4]	339,640,000	15.10%
Bullion Riches Limited[4]	339,640,000	15.10%
Partners and Kingwin Asset Management Limited[4]	339,640,000	15.10%
Partners Kingwin Fund (I)[4]	339,640,000	15.10%
VMS Finance Group Limited[1]	270,120,000	12.01%
Castle Giant Investments Limited[1]	270,120,000	12.01%
Mr. Ding Zhi Yao[5]	236,140,000	10.50%
King Success Corporate Consulting Limited[5]	236,140,000	10.50%
Mr. Wang Mingqing[6]	204,000,000	9.07%
King Wealth Enterprises Limited[6]	204,000,000	9.07%
Mr. Zhang De Huang[7]	160,000,000	7.12%
Gallop Sun Limited[7]	160,000,000	7.12%
Credit Suisse Group AG[8]	154,385,318	6.87%
	(short position) 2,244,201	0.10%

Notes:

1 These interests are derivative interests directly held by Action Phoenix Limited and Castle Giant Investments Limited in the 1,220,000,000 underlying shares and 270,120,000 underlying shares of the Company respectively in relation to the convertible bonds issued by the Company. Each of Action Phoenix Limited and Castle Giant Investments Limited is a wholly owned subsidiary of VMS Investment Group Limited and VMS Finance Group Limited, respectively, both of which are 100% directly beneficially owned by VMS Holdings Limited. VMS Holdings Limited is 100% directly beneficially owned by Ms. Mak Siu Hang Viola.

2 Among these interests include derivative interests directly held by Kingwin Victory Investment Limited in the 1,294,700,000 underlying shares of the Company in relation to the convertible bonds issued by the Company. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

3 Among 391,289,031 shares, 369,544,231 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.

4 These interests are derivative interests directly held by Partners Kingwin Fund (I) in the underlying shares of the Company in relation to the convertible bonds issued by the Company. Partners Kingwin Fund (I) is 100% directly beneficially owned by Partners and Kingwin Asset Management Limited, which is 50% directly beneficially owned by Bullion Riches Limited. Bullion Riches Limited is a wholly-owned subsidiary of Partners Financial Holdings Limited, which is 51% directly beneficially owned by Mr. Wan Ten Lap and 44% indirectly beneficially owned by Mr. Zhang Yi via Bright Hope Global Investments Limited, respectively. Bright Hope Global Investments Limited is a company 100% directly beneficially owned by Mr. Zhang Yi.

5 Among these interests include derivative interests directly held by King Success Corporate Consulting Limited in the underlying shares of the Company in relation to the convertible bonds issued by the Company. King Success Corporate Consulting Limited is a company 100% directly beneficially owned by Mr. Ding Zhi Yao.

6 These interests are derivative interests directly held by King Wealth Enterprises Limited in the underlying shares of the Company in relation to the convertible bonds issued by the Company. King Wealth Enterprises Limited is a company 100% directly beneficially owned by Mr. Wang Mingqing.

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

8 Among these interests include derivative interests directly held by Credit Suisse (Hong Kong) Limited in the 150,000,000 underlying shares of the Company in relation to the convertible bonds issued by the Company. Credit Suisse (Hong Kong) Limited is 100% directly owned by Credit Suisse AG which is in turn 100% directly beneficially owned by Credit Suisse Group AG.

9 These percentages have been compiled based on the total number of issued shares of the Company of 2,248,591,507 as at 31 December 2017 and rounded to two decimal places.

Save as disclosed above, as at 31 December 2017, 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 2017 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 2017.

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. 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.

Tax Relief

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holdings in the shares of the Company.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 28 to 37 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 2017 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the 2018 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 2018 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 2017, 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, 27 March 2018

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 2017, 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 2017. 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 (Chief Operating Officer), 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 pages 15 to 27 of this annual report.

The Directors' biographical details are set out in the Directors and Senior Management section on pages 11 to 14 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 2017, 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 the Directors being properly briefed on issues arising at those Board meetings.

Apart from the 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 (Note)
Executive Directors								
Mr. Chen Qiang *(Chairman)*	6/6(C)		2/2		1/1	1/1	2/2	A
Mr. Hong Liang	6/6					1/1	2/2	A
Mr. Wang Tao	6/6		2/2			0/1	0/2	A
Ms. Zhu Wen Hua	6/6			1/1		0/1	0/2	A
Mr. Zhang Ming	6/6		2/2			0/1	0/2	A
Independent non-executive Directors								
Mr. Wang Jin Lian	6/6	2/2	2/2(C)	1/1(C)	1/1	0/1	0/2	A
Ms. Zhou Zhan	6/6	2/2(C)		1/1	1/1(C)	0/1	0/2	A
Mr. Lam Cheung Mau	6/6	2/2	2/2			1/1	2/2	A

Note relating to attendance records of meetings:

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

Note relating to attendance records of training:

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

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 the 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. The Directors received their training by attending either in person or via telephone and/or by studying the training materials at their own leisure.

The 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 2017, all directors have reviewed training materials prepared by the Company's external legal advisor with emphasis on the roles and duties of the 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 2017, 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/her 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 the shareholders of the Company.

In accordance with the Articles of Association, Mr. Hong Liang, Ms. Zhou Zhan and Mr. Lam Cheung Mau will retire by rotation, and being eligible, have offered themselves for re-election as Directors at the 2018 AGM.

Each of the executive Directors entered into renewed service contracts with the Company for a term of three years commencing on 24 October 2016.

Each of non-executive Directors shall be appointed for a specific term, subject to re-election. Mr. Lam Cheung Mau has entered into a letter of appointment for a term of three years commencing on the date of appointment on 18 November 2015. During the year ended 31 December 2017, Ms. Zhou Zhan has entered into a letter of appointment for a further three-year term commencing on 21 May 2017 upon the expiry of her appointment. Mr. Wang Jin Lian has entered into a letter of appointment for a further two-year term commencing on 31 July 2017 upon the expiry of his appointment.

Directors' Interests in Shares

Details of Directors' interests in the Shares are set out in the Report of the Directors section on pages 15 to 27 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 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 2017.

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 2017, 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 2017, 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 2016;
- review of and recommendation for the Board's approval the Group's interim condensed consolidated financial information for the six months ended 30 June 2017;
- 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 2017;
- 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 2017 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 2017.

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 2017, the Remuneration Committee held one meeting. 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.

All the members of the Remuneration Committee had also passed written resolutions to approve and recommend for the Board's approval the remuneration package of two independent non-executive Directors under letters of appointment for the extended term of their appointment.

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 2017 is set out below:

Remuneration bands (RMB)	Number of persons
Below 1,000,000	1
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).

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 2017, the Nomination Committee held one meeting. The meeting was held, amongst other things, to review on the structure, size and composition (including the skills, knowledge and experience) of the Board, to assess the independence of each of the independent non-executive Directors and to review the retirement plan of the Board.

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).

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 2017, 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 2016 Annual Report and the draft 2017 interim report;

- to review the training and continuous professional development of Directors and senior management; and

- to review the corporate governance policy in relation to the disclosure on inside information and the proposed appointment of members of the inside information disclosure committee.

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).

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 2017 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 2017, 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.

In addition, the Board and/or its committees have also reviewed the adequacy of the Company's resources, staff's qualifications and experience, training programmes and the related budgets in the Company's accounting, internal audit and financial reporting functions.

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 2017, 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 2017 was approximately HKD6.8 million (2016: HKD5.2 million), of which HKD5.8 million (2016: HKD5 million) represents annual audit and other audit-related services and HKD1.0 million (2016: HKD0.2 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 2017 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 pages 46 to 50 of this annual report.

Going Concern and Mitigation Measures

During the Period, the Group incurred a net loss of approximately RMB1,936.2 million. As at 31 December 2017, the Group had a total deficit of RMB11,246.4 million and the Group's current liabilities exceeded its current assets by RMB32,416.8 million. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,322.8 million, out of which RMB19,619.2 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 convertible bonds with outstanding principal of HKD1,847.3 million (equivalent to approximately RMB1,544.2 million) as at 31 December 2017, which were immediately redeemable by the bondholders according to the terms and conditions of the convertible bonds, while the Group only maintained cash and cash equivalents of RMB69.9 million. 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.

The Group is pleased to publish the Environmental, Social and Governance Report to help stakeholders better understand the Group's mission and corporate social responsibility.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules. It covers the Group's environmental, social and governance measures for its shipbuilding, offshore engineering, energy exploration and production and marine engine building and engineering machinery businesses during the Period. The environmental and social data only covers shipbuilding, offshore engineering and marine engine building and engineering machinery business lines. The Group shall use its best endeavours to refine the data collection system and expand the scope of data disclosure covering most if not all of its operations. Due to the nature of the shipbuilding and offshore engineering and marine engine building and engineering machinery segments involve no packaging materials, such packaging materials information is not available.

Stakeholders Engagement

The Group understands that different stakeholders may have different needs and expectation for the Group. Our aim is to strike a balance between business development and meeting the expectation of stakeholders.

The Group identifies internal and external stakeholders. Communicating with external stakeholders such as investors, customers, suppliers and communities can deepen their understanding of the Group's environmental, social and corporate governance work. For internal stakeholders, we carry out different forms of activities to enhance their understanding of the relevant areas.

Environmental Protection

The Group proactively promotes sustainable development, upholds the concept of green production and takes the initiative to consider the impacts of its business decisions on the environment.

Energy Exploration and Production

In 2014, the Group completed the acquisition of 60% interest in the Kyrgyzstan Project which involves four oilfields located in the Fergana Valley in Central Asia. Oil resources, which were gradually transformed from organic matter and sludge after years of compression and heating, become an important fuel source across the world after being exploited and refined. However, oil resources on the earth are limited and belong to non-renewable energy source. Although there are a variety of new energy sources, oil could not yet be replaced. Oil exploitation inevitably has direct impacts on the ecosystem and consumes huge amount of resources. Therefore, when carrying out energy exploration and production business, the Group has employed professionals with experience in oilfield engineering, production and development to perform on-site management in accordance with the relevant standards. External consultants are engaged to provide professional advice in the early stages of operation. Safety engineers must be familiar with the local ecology to work in accordance with the laws and regulations relating to ecology and technical safety, also to conduct regular inspections in respect of energy safety and land use at the oil well sites and production engineering projects and advice for any improvement.

Greenhouse Gas and Air emission

Oilfield development inevitably entails direct and indirect greenhouse gas emissions. In the course of development of the Kyrgyzstan Project, detailed environmental impact assessment reports are required to identify environmental risk factors and develop countermeasures with a view to minimizing impacts on the environment. Oilfield development activities could only proceed with the joint approval granted from the State Inspectorate for Environmental and Technical Safety and relevant departments of Kyrgyzstan on the environmental impact assessment reports. The Jalalabad Bureau of the State Agency for Environmental Protection and the Forestry of Kyrgyzstan signs emission permits and emission caps yearly and conducts inspections on an annual basis to guarantee the implementation of the emission and other environmental measures. During the Period, the Group did not breach any emission cap nor violate any laws and regulations.

Development and Use of Energy

Oil is a vital natural resource in the world. A reliable supply of oil resources is essential to a modern society. The Group strives to utilize the existing technology and resources to foster the efficiency of oilfield development and production. Thus, in the process of preparing for mining, the experts shall consider the most effective mining methods for reducing energy and resource use and proactively optimize the relevant procedures. Oilfield projects involve the use of equipment such as energy-saving pumping units and oil transfer pumps. Winters in Kyrgyzstan are extremely cold. Thus, the insulation layer of oil tanks must be renewed in advance of every winter to reduce power consumption caused by heating purpose. Employees were also reminded to turn off the power when leaving their dormitories.

Waste Management

Crude oil spills would lead to a long-term impact on the ecosystem and may bereave animals' habitats and harm the surrounding environment. Crude oil producers have a general responsibility to properly dispose their wastes to minimise the impact on the surrounding environment caused by crude oil exploitation activities. Since the initiation and design of the Kyrgyzstan Project, temporary sewage pools have been covered with anti-seepage cloths to prevent wastes and waste liquids from seeping into the soil and polluting the environment. Waste liquid generated during crude oil production is transported to a collection point for centralised disposal and the transportation must be handled by qualified contractor with sealed oil cylinders. We have allocated waste collection boxes in our office and production site to collect general wastes. Waste disposal contracts are signed with local suppliers.

Use of Water Resources

Crude oil spills in rivers or oceans could jeopardize the ecosystem. Water is indispensable in the process of crude oil exploration and exploitation. Waste water generated during exploitation contains various substances and cannot be discharged directly. As such, the Group has entered into a cooperation agreement with a qualified contractor for unified treatment of waste water from crude oil exploitation.

Shipbuilding, Offshore Engineering, Marine Engine Building and Engineering Machinery

The Group adheres to the sustainable development strategy to promote the concept of "green shipbuilding", prioritizes pollution prevention, and follows the environmental principle of "preventing, reducing and controlling pollution". The Group implements an environmental policy in accordance with national and regional laws and regulations. However, we are not satisfied with it and trying to do more. The safety production management committee is the leading body of the Group for environmental protection work. It is responsible to monitor and enforce the compliance of the Group's business operations with environmental laws and regulations of the state and Jiangsu Province, reviewing environmental plans, discussing major environmental measures, inspecting and supervising the implementation of environmental plans, and reviewing proposed rewards and punishments for environmental protection work. The Group works to identify environmental risk factors and develop countermeasures.

Greenhouse Gas and Air Emission

Greenhouse gas emission data is an important indicator of environmental performance. Continuous reduction of greenhouse gas emissions is the long-term objective of the Group. The Group takes into account the entire operation cycle of shipbuilding spanning from procurement to production and delivery to customers. Shipbuilding business relies on the purchase of electricity for production. In the early years, the Group installed solar and wind power generators at the production site to reduce the load on power plants and promote the use of new energy source. As China's domestic air pollution continues to worsen, the government has tightened its supervision over heavy industries. The production site requires large area. Outfitting welding, shipyard welding and painting processes are carried out outdoors. Welding fume purifications units are equipped to deal with the large amount of fume emitted from the indoor process of manual welding. In particular, a local ventilation system is installed at the welding site. The metal oxide dust and steel grit dust generated from abrasive blasting during production increase air pollution and affect the health of staff. Vacuum sand suction machines are used for recovery of steel grit and secondary cyclone dust filtration. The filtered air therefrom, if confirmed to meet the relevant emission standards are discharged through a 25-meter exhaust cylinder.

Use of Resources and Waste Management

Resources and wastes are inextricably linked. The Group endeavors to reduce wastes starting from design and procurement. Some of the materials used for shipbuilding maybe toxic and flammable. Toxic wastes if disposed improperly might seriously affect the surrounding and the ecosystem. The Group classifies wastes into hazardous and non-hazardous according to the National Hazardous Waste List. Waste collection points must be far away from rivers and potable water pipelines and must be covered to avoid polluting the soil and ocean. Wastes are stored centrally at temporary collection sites for disposal by qualified contractors. The Group also promotes 6S management at the production site to use up the materials and clean up the site when project completes. Recycle boxes with different colors are set up at the production site to collect various types of recyclables. The Safety and Environmental Protection Department is responsible to monitor the quantity and discharge methods of all kinds of wastes, and provide training for employees on the waste disposal.

Use of Water Resources

The Group uses deep-well booster water pumps at the river embankment area of Road No.5 in the Nantong production base to wash dockyard to reduce water and electricity consumption. The sewage from dockyard washing contains variety of chemicals and cannot be discharged directly. The Nantong production base has sewage lifting station to temporarily store sewage for treatment by contractor. Depending on the water consumption of each production unit, water valves in some areas are closed to reduce waste of water. Water valves are also turned off at night. Through these measures, it is estimated approximately 330 tonnes of water are saved per day.

	Unit	During the year ended 31 December 2017
Emissions		
Total greenhouse gas emissions (range 1 and 2)	tonne of CO_2 equivalent	11,613.81
Direct emissions (range 1)	tonne of CO_2 equivalent	411.81
Indirect emissions (range 2)	tonne of CO_2 equivalent	11,202.00
Nitrogen oxides (NOx)	kg	31.40
Sulfur oxides (SOx)	kg	1.64
Particulate matter	kg	2.31
Waste		
Hazardous waste	tonne	6
Non-hazardous waste	tonne	49
Use of Resources		
Electricity purchased	kWh	13,809,165
Diesel	liter	23,682
Gasoline	liter	112,293
Natural gas	m^3	44,419
Water consumption	liter	1,391,663

Caring for Employees

The Group's achievements are attributable to the efforts of our employees. In order to build a professional and efficient team, a personnel management policy is developed to provide appropriate support and training for employees based on the Group's long-term development vision and in accordance with the relevant national regulations.

In carrying out its energy exploration and production business, the Group follows the policies of the Kyrgyzstan government to promote local employment by recruiting certain percentage of local residents on the oilfield according to the requirements of the government. The Group wishes to create a multicultural working environment and serve as an equal opportunity employer to ensure that all employees are treated equally and fairly regardless of their nationalities, ethnicities, races, genders, religions and cultural backgrounds. Our recruitment is mainly based on the qualifications of job applicants and the needs of the Group.

The Group never employs child labour. Identity documents shall be checked during interviews to ensure each employee reach the legal working age when they are being employed. Long working hours could reduce productivity and increase accident risks. The Group fully understands the importance of work-life balance and do not encourage overtime work. Any form of forced or compulsory labour is not allowed under the management of the Group. Each employee is given an employee handbook specifying their obligations and rights. Where temporary overtime work is necessary, shifts schedule is arranged to ensure employees have enough rest time. Employees are entitled to labour protection and statutory holidays. Employees can communicate with the management through information boards, symposiums, email etc. The energy exploration and production segment conducts regular meeting every week where the management of the Company would listen to the feedback and opinions from employees. Arrangements shall be made in a timely manner and maintain communication with the relevant employees to address their concerns. Personal issues could be directly communicated to the management. The top management also interacts with employees in the work area. As such, the energy exploration and production segment has built good communication and collaboration atmosphere.

Number of employees	As at 31 December 2017
By gender	
Male	365
Female	130
By employment type	
Full time	492
Contracted	3
By age group	
Aged 25 – 34	242
Aged 35 – 44	147
Aged 45 – 54	92
Aged 55 – 64	13
Aged 65 or above	1
By region	
China	495
By employee category	
Senior management	11
Middle management	105
Employees	379

Turnover rate	Percentage
By gender	
Male	3.04%
Female	3.27%
By age group	
Aged 25 – 34	3.27%
Aged 35 – 44	3.06%
Aged 45 – 54	2.90%
Aged 55 – 64	1.28%
Aged 65 or above	0%
By region	
China	3.10%

Note: Turnover rate = number of employee leaving during the Period / total number of employee in the category as at 31 December 2017

Occupational Health and Safety

It is our responsibility to ensure a safe environment for our employees. The Group makes every effort to prevent accidents and aims for zero accident. Both energy exploration and production business and shipbuilding business belong to skill intensive industries, where some employees may need to work at height and use large-scale equipment. As for the Kyrgyzstan Project, safety engineers are hired to dedicate to supervising the operations and advise on high-risk areas in accordance with the laws and regulations of Kyrgyzstan. The safety engineers identify high-risk work procedures, set safety guidelines and provide employees with appropriate protective devices and tools. As crude oil belongs to flammable substance, smoking and fire lighting in the oilfields are strictly prohibited. Danger signs are placed in proper places to remind employees to watch out for electricity safety.

The Group continuously improves the working environment and production processes for shipbuilding and other businesses and reduces the use of hazardous substances, so as to minimize occupational health and safety risks. For prevention and control of occupational hazards, the Group arranges physical examinations for its employees and makes appropriate work arrangements and medical treatment follow-up in any cases of defective results. The Group also obtained insurance coverage for our employees in order to secure sufficient compensation in the event of accidents.

The most effective way to prevent accidents is to enhance employees' safety awareness. Therefore, the department heads of the energy exploration and production segment regularly visit the production site to correct any safety hazards promptly. As for the shipbuilding segment, the 5S management is implemented at the production sites to standardize safety operations and strengthen safety publicity and training. Contractors are engaged to work at the production sites for both energy exploration and production segment and shipbuilding segment. Safety management agreements are signed with contractors. Safety training and construction supervision are carried out. During the Period, the Group has no serious industrial accidents and casualties.

Development and Training

Employees' continuous learning in new knowledge and skills can enhance their competitiveness. The Group hopes to advance together with the employees. Thus, the Group provides employees with various types of training to improve their personal capabilities and expertise.

In order to accurately grasp the up-to-date knowledge, the Group supports employees to take courses and absorb new knowledge. Employees of the energy exploration and production segment are required to receive training on health and safety, environmental protection and other related professional training and obtain the vocational training certificates issued by relevant agencies of Kyrgyzstan before employment under the Kyrgyzstan law. Experienced employees are arranged to provide guidance at the production site so that new employees could understand the working requirement more readily. The Group also encourages experienced employees to receive continuous education including master degree program. In addition, the Group advocates online training. The management has set a good example in this. The Group provides targeted training courses to enhance management responsibilities and lead the Group forward.

The Group works with the colleges in Kyrgyzstan to create short-term employment opportunities for the younger generation and to provide them with career guidance.

Development and training	Cumulative headcount trained	Percentage	Hour	Percentage	Average hour
By gender					
Male	740	84.09%	4,652	97.24%	6.29
Female	140	15.91%	608	2.76%	4.34
By rank					
Senior management	72	8.18%	312	1.38%	4.33
Middle management	104	11.82%	536	6.89%	5.15
Employees	704	80.00%	4,412	91.73%	6.26

Operating Practices

Supplier Management

The achievements of the Group are owed to not only the efforts of employees but also the cooperation with suppliers. For an effective management and quality assurance, the Group establishes good relationship with suppliers. Energy exploration and production segment and shipbuilding segment involve large contract amounts. To maintain fair competition and prevent irregularities, a tendering committee is established to review tenders of suppliers. A transparent tendering policy is adopted for suppliers to understand the Group's requirements and expectations.

The Group often takes the initiative to communicate with suppliers to ensure that both parties understand the service, product and industry requirements. Supervision is performed on-site. For the Kyrgyzstan Project, reputable suppliers are selected from major domestic oil and gas enterprises with access to pipeline networks. Third-party audit firm is engaged to review suppliers' performance annually. Contract with suppliers have constrains the product quality, delivery period and on-site service by the suppliers. Through on-site acceptance inspection, quality issues can be detected promptly and resolved through immediate communication so as to maintain sound partnership with suppliers.

Product Responsibility

Crude oil products could be utilised in various aspects. Any quality problem may lead to serious consequences. As a responsible crude oil producer, the Group opt to provide stable and safe products as well as to strictly complies with the laws and regulations related to operations. The Group performs management in accordance to the Russian Standard GOST 9965-76. Oilfields and neighbor oil refining facilities are equipped with laboratories for product testing, so as to ensure the quality standards of every stage of production process.

In addition, the ship design and production must meet the international maritime conventions and national laws and regulations. Any faulty of vessels and related machineries in the course of voyage will pose a threat to maritime safety. The Group has established quality management system which clearly defines the production procedures. Repeated inspection and tests are requisite in the process of production. Defects could be difficult to be identified if the inspection is self-conducted by the production department. Therefore, cross-department inspection shall be arranged and professional inspectors shall be involved in conducting the final review.

Production procedures and technologies affect the competitiveness of the Group. The Group respects intellectual property rights and customer privacy. Clear guidelines are established for staff to handle company information properly. Electronic communication is an important communication tools with customers and suppliers. Timely reviews and updates on the computer systems can prevent from data leakage.

The Group attaches great importance to customers' opinions. In order to improve products and services, both energy exploration and production segment and shipbuilding businesses have the respective customer service department. Customers may contact the Group in writing or through other electronic channels. During the Period, the Group received no complaints relating to products and services.

Number of suppliers	As at 31 December 2017
By region	
China	1,037
Hong Kong	2
Others	8

Anti-Corruption

The Group strongly believed that carrying out business in good faith and good corporate governance are essential to enhance its competitive strengths. Any acts of bribery, extortion, fraud and money laundering would undermine the corporate image of the Group. To ensure effective and uncorrupted operations, the Group has established code of practice and management measures. The Group strictly abides the laws and regulations, constructs an effective internal control and optimises the operation system from time to time. The Group encourages reporting on misconduct in an effort to carry out uncorrupted operations and improve its effectiveness. Further details are set out in the Corporate Governance Report from pages 28 to 37 of this annual report. During the Period, there was no suspected case of bribery, extortion, fraud or money laundering.

Community Involvement

The Group honors its corporate social responsibility and is committed to develop the communities leveraging its existing strengths and resources. In an effort to promote the economic cooperation and exchanges between China and Kyrgyzstan, the Group works with local agency to provide introductory courses on Mandarin, and takes an active part in infrastructure construction of Kyrgyzstan through donations thus to improve the standard of living of local residents. During the Period, the Group continues its poverty alleviation efforts by visiting families in need under the leadership of the Group's management and encourage employees to make generous donations. The Group continues to exchange in between China and Kyrgyzstan in the future.

羅兵咸永道

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

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 51 to 163, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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 RMB1,936,179,000 during the year ended 31 December 2017. As at the same date, the Group had a deficit of RMB11,246,355,000 and the Group's current liabilities exceeded its current assets by RMB32,416,786,000. Its current borrowings and finance lease liabilities amounted to RMB23,322,747,000 while its cash and cash equivalents amounted to RMB69,858,000 only. In addition, loan principals and interests of RMB11,580,000,000 were overdue. 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, current borrowings totaling RMB10,102,284,000 as at 31 December 2017 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bonds, 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.

22/F Prince's Building, Central, Hong Kong
Tel: +852 2289 8888 Fax: +852 2810 9888

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) through issuance of shares of the Company to satisfy certain of the debts due by the Group to its bank and supplier creditors; (ii) whether the Group can dispose of its core assets and liabilities of the shipbuilding, offshore engineering, engineering machinery 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 for 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 bondholders not to early redeem and not to demand repayment of the outstanding promissory notes and convertible bonds in year 2018; (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.

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

As at 31 December 2017, the Group's land use rights, property, plant and equipment and intangible assets amounted to RMB3,663,429,000, RMB16,073,235,000 and RMB1,587,572,000, 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, engineering machinery 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.

In determining the recoverable amounts of the non-current assets including land use rights and property, plant and equipment under the shipbuilding, offshore engineering, engineering machinery and marine engine building segments amounting to RMB19,113,277,000, 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 amounting to RMB2,210,959,000, 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.

As the estimated consideration of the Potential Transaction exceeded the carrying value of the non-current assets of the shipbuilding, offshore engineering, engineering machinery 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 amounting to RMB21,324,236,000 as at 31 December 2017.

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)

However, with respect to the non-current assets of the shipbuilding, offshore engineering, engineering machinery 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 based on the assumption that the Group will obtain adequate 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 RMB3,663,429,000, property, plant and equipment of RMB16,073,235,000 and intangible assets of RMB1,587,572,000, totaling RMB21,324,236,000 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 2017, 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, RMB12,241,203,000 and RMB2,200,334,000, respectively, as at 31 December 2017 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.

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.

Basis for Disclaimer of Opinion (Continued)

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, 27 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**3,663,429**	3,745,196
Property, plant and equipment	7	**16,073,235**	16,582,181
Intangible assets	8	**1,587,572**	1,688,437
Prepayments for non-current assets	13	**10,298**	4,110
Available-for-sale financial asset	10	**44,342**	40,199
		21,378,876	22,060,123
Current assets			
Inventories	11	**545,999**	643,453
Amounts due from customers for contract works	12	**–**	–
Trade receivables	13	**9,846**	9,387
Other receivables, prepayments and deposits	13	**480,939**	454,360
Pledged deposits	14	**20,720**	37,538
Cash and cash equivalents	15	**69,858**	107,263
		1,127,362	1,252,001
Total assets		**22,506,238**	23,312,124
DEFICIT			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**937,772**	905,191
Share premium	16	**10,432,701**	10,430,533
Other reserves	18	**3,662,824**	3,744,776
Accumulated losses		**(25,791,247)**	(23,906,421)
		(10,757,950)	(8,825,921)
Non-controlling interests	37	**(488,405)**	(437,837)
Total deficit		**(11,246,355)**	(9,263,758)

The notes on pages 58 to 163 are an integral part of these consolidated financial statements.

	Note	As at 31 December **2017** **RMB'000**	 2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	**208,445**	30,003
Current liabilities			
Trade and other payables	19	**9,532,441**	8,293,615
Advances from related parties	36(ii)	**368,959**	334,303
Borrowings	20	**23,298,366**	23,321,770
Derivative financial instruments	21	**320,001**	17,045
Provision for warranty	22	**–**	3,049
Finance lease liabilities – current	20	**24,381**	576,097
		33,544,148	32,545,879
Total liabilities		**33,752,593**	32,575,882
Total deficit and liabilities		**22,506,238**	23,312,124

The consolidated financial statements on pages 51 to 163 were approved by the Board of Directors on 27 March 2018 and signed on its behalf by

Chen Qiang
Director

Hong Liang
Director

The notes on pages 58 to 163 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue			
– Revenue from sales of crude oil		**45,207**	31,597
– Revenue from sales of vessels		**65,384**	140,752
– Revenue from shipbuilding and other contracts		**22,258**	135,816
– Revenue related to the cancellation of the construction contracts		**(645,211)**	(4,426,956)
	5	**(512,362)**	(4,118,791)
Cost of sales			
– Cost of crude oil sold		**(34,478)**	(26,781)
– Cost of vessels sold		**(79,881)**	(552,675)
– Cost of shipbuilding and other sales		**(7,827)**	(320,692)
– Cost of sales related to the cancellation of the construction contracts		**459,308**	3,669,366
– Provision for inventories related to the cancellation of the construction contracts		**(459,308)**	(3,237,075)
	23	**(122,186)**	(467,857)
Gross loss		**(634,548)**	(4,586,648)
Selling and marketing expenses	23	**(5,621)**	(5,520)
General and administrative expenses	23	**(686,834)**	(764,523)
Reversal of impairments and delayed penalties	23	**472,043**	175,314
Reversal of impairments related to the cancellation of the construction contracts	23	**224,896**	3,886,086
Compensation to shipowners for cancellation of contracts	23	**(211,672)**	–
Other income/(loss) – net	25	**52,441**	(1,051)
Other (losses)/gains – net	26	**(23,200)**	123,541
Operating loss		**(812,495)**	(1,172,801)
Finance income	27	**7,146**	13,052
Finance costs	27	**(1,130,830)**	(2,518,191)
Finance costs – net	27	**(1,123,684)**	(2,505,139)

The notes on pages 58 to 163 are an integral part of these consolidated financial statements.

		Year ended 31 December	
		2017	2016
	Note	**RMB'000**	RMB'000
Loss before income tax		**(1,936,179)**	(3,677,940)
Income tax expense	28	**–**	–
Loss for the year		**(1,936,179)**	(3,677,940)
Loss attributable to:			
Equity holders of the Company		**(1,884,826)**	(3,564,755)
Non-controlling interests		**(51,353)**	(113,185)
		(1,936,179)	(3,677,940)
Other comprehensive (loss)/income for the year:			
Items that may be reclassified to profit or loss			
– Fair value gain on an available-for-sale financial asset		**4,143**	523
– Exchange difference on translation of foreign operations		**(96,190)**	109,890
Other comprehensive (loss)/income for the year, net of tax		**(92,047)**	110,413
Total comprehensive loss for the year		**(2,028,226)**	(3,567,527)
Attributable to:			
Equity holders of the Company		**(1,977,658)**	(3,454,849)
Non-controlling interests		**(50,568)**	(112,678)
		(2,028,226)	(3,567,527)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	31	**(0.86)**	(1.64)

The notes on pages 58 to 163 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						
		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 2017		905,191	10,430,533	3,744,776	(23,906,421)	(8,825,921)	(437,837)	(9,263,758)
Loss for the year		–	–	–	(1,884,826)	(1,884,826)	(51,353)	(1,936,179)
Other comprehensive income								
Fair value gain on an available-for-sale financial asset	10	–	–	3,993	–	3,993	150	4,143
Exchange difference on translation of foreign operations		–	–	(96,825)	–	(96,825)	635	(96,190)
Total comprehensive loss for the year		–	–	(92,832)	(1,884,826)	(1,977,658)	(50,568)	(2,028,226)
Transactions with equity holders in their capacity as owners								
Share-based payments	17	–	–	10,880	–	10,880	–	10,880
Issue shares upon conversion of convertible bonds		32,581	2,168	–	–	34,749	–	34,749
Total transactions with owners in their capacity as owners		32,581	2,168	10,880	–	45,629	–	45,629
Balance at 31 December 2017		937,772	10,432,701	3,662,824	(25,791,247)	(10,757,950)	(488,405)	(11,246,355)

The notes on pages 58 to 163 are an integral part of these consolidated financial statements.

		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 58 to 163 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**52,666**	65,457
Interest paid		**(32,564)**	(6,045)
Net cash generated from operating activities		**20,102**	59,412
Cash flows from investing activities			
Purchase of property, plant and equipment		**(69,974)**	(42,743)
Interest received		**213**	375
Decrease in pledged deposits		**16,818**	24,227
Proceeds from sale of property, plant and equipment		**30,091**	39,225
Proceeds from sale of land use rights		**–**	427
Net cash (used in)/generated from investing activities		**(22,852)**	21,511
Cash flows from financing activities			
Proceeds from bank borrowings		**34,288**	–
Proceeds from other borrowings		**77,522**	54,178
Repayment of other borrowings		**(178,882)**	(3,578)
Repayment of bank borrowings		**(2,089)**	(73,429)
Advances from a related party		**34,656**	–
Repayment to a related party		**–**	(20,358)
Net cash used in financing activities		**(34,505)**	(43,187)
Net (decrease)/increase in cash and cash equivalents		**(37,255)**	37,736
Cash and cash equivalents at beginning of the year		**107,263**	69,227
Exchange difference on cash and cash equivalents		**(150)**	300
Cash and cash equivalents at end of the year	15	**69,858**	107,263

The notes on pages 58 to 163 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 2017, the operation of the Group's shipbuilding business continued to be minimal. The Group has implemented a series of active measures to mitigate its liquidity pressure and improve the financial position by expediting collections of outstanding receivables and realizing existing inventories, utilising the capacity of the production plants, implementing stricter cost control to reduce staff cost, other administrative expenses and capital expenditures, and obtaining new sources of financing for the energy exploration and production segment. Although management has already implemented the above measures, 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. The development of the energy exploration and production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration during the year ended 31 December 2017. As a result, the Group had incurred a net loss of approximately RMB1,936,179,000 for the year ended 31 December 2017.

As at 31 December 2017, the Group had a total deficit of RMB11,246,355,000 and the Group's current liabilities exceeded its current assets by RMB32,416,786,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,322,747,000, out of which RMB19,619,204,000 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 convertible bonds with outstanding principal of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) as at 31 December 2017, which were immediately redeemable by the bondholders according to the terms and conditions of the convertible bonds, while the Group only maintained cash and cash equivalents of RMB69,858,000.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

As at 31 December 2017, loan principal repayments and interest payments totaling RMB11,580,000,000 were overdue. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB6,271,000 have been classified as current liabilities. Subsequent to 31 December 2017, additional loan principal and interest payments totaling RMB1,571,054,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. In addition, bank and other borrowings of RMB20,740,007,000 and convertible bonds with aggregate principal amount of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000), totaling RMB22,284,184,000, contain cross default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments, current borrowings totaling RMB10,102,284,000 as at 31 December 2017 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bonds; and in this connection, non-current borrowings totaling RMB2,411,346,000 have been classified as current liabilities. 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 bondholders; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group has certain promissory notes with aggregate principal amount of HKD3,367,193,000 (equivalent to approximately RMB3,011,988,000) matured during the year ended 31 December 2017. During the year, promissory notes with aggregate principal amount of HKD825,425,000 (equivalent to approximately RMB689,981,000) were successfully extended to maturity date in March 2018. In addition, the Group issued five parcels of new convertible bonds with principal amounts totaling HKD745,060,000 (equivalent to approximately RMB622,803,000) maturing in May 2019 and aggregate principal amount of HKD1,037,240,000 (equivalent to approximately RMB867,039,000) maturing in November 2019, respectively, for settlement of certain promissory notes and interests accrued thereon. As at 31 December 2017, certain outstanding promissory notes amounting to HKD906,336,000 (equivalent to approximately RMB757,615,000) were not renewed nor repaid upon the schedule repayment dates and thus became overdue. The Company is in the process of negotiating with these promissory note holders to extend the maturity dates of these promissory notes to dates ranging from March 2018 to September 2018.

As at 31 December 2017, the Group had six parcels of convertible bonds (2016: one) with an outstanding aggregate principal amount of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) (2016: HKD103,500,000 (equivalent to approximately RMB92,582,000)). During the year ended 31 December 2017, convertible bonds in the aggregate amount of HKD38,500,000 (equivalent to approximately RMB32,183,000) were converted into equity. Since the bondholders have early redemption options to require the Company to redeem these convertible bonds at any time before the maturity dates, these convertible bonds are classified as current liabilities.

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

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) On 24 March 2016, shareholders gave a specific mandate to the Company to effect the disposal of liabilities, pursuant to which the Company and the institutional creditors agreed that the entire or partial amount of borrowings of the institutional creditors owed by the Company and the Company's shipbuilding segment subsidiaries will be settled through issuance of shares of the Company to the relevant institutional creditors or its designated related companies (the "**Disposal of Liabilities**"), by (1) entering into bank creditor subscription agreements with certain bank creditors or their designated entities pursuant to which these bank creditors or their designated entities will agree to subscribe for up to 14,108,000,000 shares of the Company at HKD1.20 per subscription share, to satisfy the relevant borrowings in an aggregate amount up to RMB14,108,000,000 due by the Group to these bank creditors; and (2) entering into supplier creditor subscription agreements with certain supplier creditors pursuant to which these supplier creditors or their designated entities will agree to subscribe for up to 3,000,000,000 shares of the Company at HKD1.20 per subscription share in order to settle the payables in an aggregate amount up to RMB3,000,000,000 due by the Group to these supplier creditors. Although this specific mandate has been expired, the Company is actively negotiating with its creditors on the terms and conditions on the execution plan for the implementation of the Disposal of Liabilities, which includes but is not limited to potential adjustments to the original structure and terms and conditions of the Disposal of Liabilities.

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

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

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

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

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

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

(a) Pursuant to the Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement (《江蘇熔盛重工有限公司債務優化銀團框架協議》) (the "**Jiangsu Framework Agreement**"), during the year, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB7,378,889,000 (inclusive of principal amount of RMB7,013,777,000 and accrued interest amount of RMB365,112,000), the maturity dates of which were extended to dates from January 2018 to September 2018. As at 31 December 2017, the Group's total outstanding current borrowings covered under the Jiangsu Framework Agreement amounted to RMB12,648,831,000, of which RMB5,600,766,000 have been overdue since 2017, and of which RMB12,431,756,000 were attributable to bank creditors that have already entered into the letters of intent to express their support towards the Disposal of Liabilities as described in (i) above.

(b) Pursuant to the Debt Optimisation Framework Agreement for China Rongsheng's Entities in Hefei (《中國熔盛系合肥企業債務優化銀團框架協議》) (the "**Hefei Framework Agreement**") entered into with a group of banks in Hefei, Anhui Province of the PRC, during the year ended 31 December 2017, the Group successfully renewed and extended loans, totaling RMB590,503,000 (inclusive of principal amount of RMB500,000,000 and interest amount of RMB90,503,000), the maturity dates of which were extended to dates from June 2018 to September 2018. As at 31 December 2017, the Group's total outstanding current borrowings covered under this Hefei Framework Agreement amounted to RMB3,780,056,000, of which RMB174,990,000 have been overdue since 2014, and RMB30,000,000 have been overdue since 2015, and RMB429,420,000 have been overdue since 2016, and RMB234,300,000 became overdue during the year 2017, and, of which RMB3,349,066,000 were attributable to bank creditors that have already entered into the letters of intent to express their support towards the Disposal of Liabilities as described in (i) above.

The Group will continue to convince these banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities, and will further negotiate with these banks, after the completion of the Disposal of Liabilities, for renewal and extension of the remaining outstanding bank loans which are not settled as and when they fall due during the year 2018.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

iii) The Group has also been actively negotiating with the lenders regarding the borrowings of RMB7,360,556,000, including the principal of convertible bonds, not covered by the above Jiangsu Framework Agreement and Hefei Framework Agreement (together with "**Framework Agreements**") to extend the repayment and amend the terms of these existing loans, which consisted of the following:

(a) During the year, promissory notes with aggregate principal amount of HKD3,367,193,000 (equivalent to approximately RMB3,011,988,000) matured. During the year, promissory notes with aggregate principal amount of HKD825,425,000 (equivalent to approximately RMB689,981,000) were successfully extended to maturity date in March 2018. In addition, in order to settle certain sum of these promissory notes and interest accrued thereon, the Group issued 5 parcels of new convertible bonds with an aggregate principal amount of HKD745,060,000 (equivalent to approximately RMB622,803,000) maturing in May 2019 and principal amount of an aggregate HKD1,037,240,000 (equivalent to approximately RMB867,039,000) maturing in November 2019, respectively. As at 31 December 2017, the remaining outstanding promissory notes amounting to HKD906,336,000 (equivalent to approximately RMB757,615,000) were not extended nor repaid upon the schedule repayment dates and thus became overdue. The Company is in the process of negotiating with these promissory note holders for further arrangement including extension of maturity dates so as to enable the Company to meet its financial obligations of the outstanding promissory notes when they fall due.

(b) As at 31 December 2017, the Group had six outstanding convertible bonds with an aggregate principal amount totaling HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) which will be matured ranging from October 2018 to November 2019, provided that the bondholders do not exercise the early redemption options.

Convertible bonds with total principal amounts of HKD38,500,000 (equivalent to approximately RMB32,183,000) were converted into equity during the year ended 31 December 2017. The Company will continue to convince the bondholders not to exercise the early redemption options.

(c) For the loans, during the year, the Group has successfully renewed and extended the repayment dates of certain loans amounting to RMB810,774,000 (inclusive of principal amount of RMB781,793,000 and interest amount of RMB28,981,000), so that these loans are now repayable after December 2017. As at 31 December 2017, current portion of these loans amounted to RMB4,160,338,000, of which RMB3,338,512,000 were overdue, and of which RMB2,939,502,000 were attributable to bank creditors that have already entered into the letters of intent to express their support towards the Disposal of Liabilities as described in (i) above. Subsequent to 31 December 2017, certain loans with aggregate amount of RMB48,285,000 were renewed and will be repayable in December 2018.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

The Group will continue to convince promissory note holders, convertible bondholders and other lenders not to demand for repayment of the outstanding loans before the completion of the Disposal of Liabilities; and will further negotiate with these lenders, after the completion of the Disposal of Liabilities, for renewal and extension of the remaining outstanding loans which are not settled as and when they fall due during the year 2018;

iv) 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 RMB51,979,000 which will be repayable ranging from January 2018 to December 2019 and includes an amount of RMB15,777,000 which will be repayable after December 2018;

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

vi) 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.

During the year, the Group entered into a loan agreement with an independent third party who agreed to provide a term loan facility up to USD600,000,000 (equivalent to approximately RMB3,920,520,000) to the Group with a term of 7 years for the funding in respect of the energy exploration and production segment. According to the loan agreement, the loan shall be secured by a share mortgage in respect of 49% of the issued share capital of a subsidiary held by the Group and shall be used for the funding of the project involving four oilfields located in the Fergana Valley of Kyrgyzstan. The Group expects to draw down the first tranche of this loan by 2018; and

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

vii) The Group continues to implement measures to improve the operating cash flows, including (1) realising the existing inventories through sales to new customers; (2) utilising the capacity of the production plants; and (3) taking active measures to expedite collections of outstanding receivables, reduce headcount and staff cost, control administrative costs and contain capital expenditures.

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 2017. 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 consolidated 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 plan for the implementation of the Disposal of Liabilities. The successful completion of the Disposal of Liabilities would include the finalisation and agreement of the detailed terms and conditions with the creditors on the subscription arrangement as well as obtaining the necessary and relevant regulatory approvals, including among other things, the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the subscription shares under the relevant subscription agreements;

ii) convincing the banks not to demand for repayment of the outstanding bank loans before the completion of the Disposal of Liabilities; and further negotiating with these banks after the completion of the Disposal of Liabilities for renewal and extension of the remaining outstanding bank loans as and when they fall due in year 2018;

iii) segregating the assets and liabilities to be excluded from the Potential Transaction from the ones included, and successfully implementing a business plan for the energy exploration and production segment;

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

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

v) negotiating with all existing promissory note holders of outstanding principal of HKD1,731,761,000 (equivalent to RMB1,447,596,000), together with accrued interests thereon for further arrangement including the extension of the maturity dates, so as to enable the Company to meet its financial obligations and to convince the convertible bondholders of the outstanding principal of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) not to exercise the early redemption option;

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 2017 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.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(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.

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

During the year ended 31 December 2017, the Group has adopted the following new standards, amendments and interpretations to standards which are mandatory for accounting periods beginning on 1 January 2017:

IAS 7 (Amendment)	Statement of Cash Flows
IAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses
IFRS 12 (Amendment)	Disclosure of interest in other entities
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.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(d) New standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IFRS 2 (Amendment)	Share-based Payment	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 15 (Amendment)	Clarifications to IFRS 15	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 9 (Amendment)	Financial Instruments	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IAS 28 (Amendment)	Investment in Associates and Join Ventures	1 January 2018
IAS 40 (Amendment)	Transfer of Investment Property	1 January 2018
IFRS 1 (Amendment)	First Time Adoption of IFRS	1 January 2018
IFRS 4 (Amendment)	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	1 January 2018
IFRS 10 and IAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	Not yet determined
IFRIC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC Int 23	Uncertainty over Income Tax Treatments	1 January 2019

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

IFRS 9 "Financial instruments"

IFRS 9 replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("**OCI**") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities, there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

Based on an analysis of the Company's financial instruments as at 31 December 2017, the directors of the Company expect the adoption of IFRS 9 will allow the Company make an irrevocable selection to present the change in fair value through OCI or profit or loss for the available-for-sale financial asset ("**AFS**") currently measured at fair value through OCI. Other than this, the directors do not expect to have a significant impact on the classification and measurement of the Company's other financial assets and financial liabilities.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for non-derivative financial liabilities designated at fair value through profit or loss and the Group does not have such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

IFRS 9 also introduces a new model for the recognition of impairment losses – the expected credit losses ("**ECL**") model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost, a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables, this day-1 loss will be equal to their lifetime ECL.

Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

IFRS 9 "Financial instruments" (Continued)

The new impairment model requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments at OCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The historical credit losses are immaterial.

For the shipbuilding and engineering segment, significant outstanding balances with customers and related parties were impaired while the default rates of the remaining balances are low. For the energy exploration and production segment, based on the historical experience of the Group, the default rates of the outstanding balances with customers and related parties are low. Hence, the directors of the Group do not expect that the application of IFRS 9 would result in a significant impact on the shipbuilding and engineering segment's impairment provisions.

The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 "Revenue from Contracts with Customers" – This new standard replaces the previous revenue standards: IAS 18 "Revenue" and IAS 11 "Construction Contracts", and the related interpretations on revenue recognition. The directors of the Company has performed a preliminary assessment. Based on this assessment, it is noted that IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It changes the approach of revenue recognition from "risks and rewards" to "transfer of control". IFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under IFRS 15, an entity normally recognises revenue when a performance obligation is satisfied. Impact on the revenue recognition timing and amount may arise when multiple performance obligations are identified and satisfied. The standard is effective for accounting periods beginning on or after 1 January 2018. Incremental costs to obtain a contract will be capitalised under IFRS 15 if they are expected to be recovered in long term. This could result in additional deferred costs for certain contracts with customers which incur a commission or agency cost at the time of signing up a long term service contract. However, such costs may be expensed as incurred as a practical expedient if the amortisation period of the asset is one year or less. The contracts with customers entered into by the Group are normally for a term less than one year.

Management has performed preliminary assessment on the implementation of IFRS 15 and the initial result indicated that it would not result in any significant impact on the Group's financial position and results of operation other than changes on the disclosure.

The Group does not intend to adopt IFRS 15 before its mandatory date.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

IFRS 16, "Leases"

IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to account for certain leases outside the statements of financial position. Instead, all long-term leases must be recognised in the statements of financial position in the form of assets (for the rights of use) and lease liabilities (for the payment obligations), both of which would carry initially at the discounted present value of the future operating lease commitments. Short-term leases with a lease term of twelve months or less and leases of low-value assets are exempt from such reporting obligations.

The new standard will therefore result in an increase in right-to-use asset and an increase in lease liability in the statements of financial position. In the statement of comprehensive income, rental expenses will be replaced with depreciation and interest expense. Interest expense on the lease liability will be presented separately from depreciation under finance costs. As a result, the rental expenses under otherwise identical circumstances will decrease, while depreciation and the interest expense will increase. The combination of a straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial year of the lease, and decreasing expenses during the latter part of the lease term.

The directors do not expect that the application of IFRS 16 would have a material impact on the Group's financial position and results of operations.

The Group does not intend to adopt IFRS 16 before its mandatory date.

Apart from the aforementioned IFRS 9, IFRS 15 and IFRS 16, the directors have yet to assess the full impact of adopting these new standards, amendments to standards and interpretation but anticipate that the adoption of these standards will not result in a significant impact on the results and financial position of the Group.

2.2 Principles of consolidation and equity accounting

Subsidiaries

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 2.3).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

2 Principal accounting policies (Continued)

2.2 Principles of consolidation and equity accounting (Continued)

Subsidiaries (Continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

(i) fair values of the assets transferred

(ii) liabilities incurred to the former owners of the acquired business

(iii) equity interests issued by the group

(iv) fair value of any asset or liability resulting from a contingent consideration arrangement, and

(v) fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 Principal accounting policies (Continued)

2.4 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.

2.5 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.

(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 (losses)/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.

2 Principal accounting policies (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies (Continued)

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.

2.6 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 units-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 Principal accounting policies (Continued)

2.7 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.

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.

2.8 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 Principal accounting policies (Continued)

2.9 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.

(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.

2 Principal accounting policies (Continued)

2.9 Intangible assets (Continued)

(d) Co-operation Rights

The Co-operation Rights represent rights to cooperate with the national oil company (already defined on page 63 of Kyrgyzstan in the operation of the four oilfields ("**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. 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.

(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.

2.10 Financial assets

2.10.1 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 Principal accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.2 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.

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.

2.10.3 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.

2 Principal accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.3 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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.

(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.

2.11 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.

2.12 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 (losses)/gains – net" in the profit or loss.

2 Principal accounting policies (Continued)

2.13 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.14 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.

2.15 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.

2.16 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 Principal accounting policies (Continued)

2.17 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.

2.18 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.

2.19 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 is recognised in the profit or loss.

2 Principal accounting policies (Continued)

2.19 Convertible bonds (Continued)

(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 (or 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 (losses)/gains, net". The equity component is not re-measured subsequent to initial recognition.

2.20 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 Principal accounting policies (Continued)

2.21 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.

(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 Principal accounting policies (Continued)

2.22 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.

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 Principal accounting policies (Continued)

2.23 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.

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 Principal accounting policies (Continued)

2.24 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 2.22 "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.

2.25 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.

2.26 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 Principal accounting policies (Continued)

2.27 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.

2.28 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.

2.29 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.

2.30 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.

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 and 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 2017, 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 RMB101,257,000 (2016: RMB98,835,000) 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 2017, 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 RMB101,181,000 (2016: RMB101,598,000) higher/lower.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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 and prepayments. As at 31 December 2017, 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.

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 91% (2016: over 93%) of the total trade receivables (before provisions) of the Group as at 31 December 2017. 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 RMB202,566,000 (2016: RMB2,952,894,000).

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 2017, trade receivables of RMB375,363,000 (2016: RMB374,768,000) 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 2017, other receivables and prepayments amounted to RMB1,888,228,000 was impaired and provided for (2016: RMB2,345,626,000).

(c) Liquidity risk

During the year ended 31 December 2017, the Group had incurred a net loss of approximately RMB1,936,179,000.

As at 31 December 2017, the Group had a total deficit of RMB11,246,355,000 and the Group's current liabilities exceeded its current assets by RMB32,416,786,000. As at the same date, the Group's total current borrowings and finance lease liabilities amounted to RMB23,322,747,000, out of which RMB19,619,204,000 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 convertible bonds with outstanding principal of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) as at 31 December 2017, which were immediately redeemable by the bondholders according to the terms and conditions of the convertible bonds, while the Group only maintained cash and cash equivalents of RMB69,858,000.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

As at 31 December 2017, loan principal repayments and interest payments totaling RMB11,580,000,000 were overdue. The non-payment of loan principals and interests in accordance with the scheduled repayment dates caused the relevant loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB6,271,000 have been classified as current liabilities. Subsequent to 31 December 2017, additional loan principal and interest payments totaling RMB1,571,054,000 were not renewed or repaid upon the scheduled repayment dates and thus became overdue. In addition, bank and other borrowings of RMB20,740,007,000 and convertible bonds with aggregate principal amount of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000), totaling RMB22,284,184,000, contain cross default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments, current borrowings totaling RMB10,102,284,000 as at 31 December 2017 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bonds; and in this connection, non-current borrowings totaling RMB2,411,346,000 have been classified as current liabilities. 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 bondholders; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group has certain promissory notes with aggregate principal amount of HKD3,367,193,000 (equivalent to approximately RMB3,011,988,000) matured during the year ended 31 December 2017. During the year, promissory notes with aggregate principal amount of HKD825,425,000 (equivalent to approximately RMB689,981,000) were successfully extended to maturity date in March 2018. In addition, the Group issued five parcels of new convertible bonds with principal amounts totaling HKD745,060,000 (equivalent to approximately RMB622,803,000) maturing in May 2019 and aggregate principal amount of HKD1,037,240,000 (equivalent to approximately RMB867,039,000) maturing in November 2019, respectively, for settlement of certain promissory notes and interests accrued thereon. As at 31 December 2017, certain outstanding promissory notes amounting to HKD906,336,000 (equivalent to approximately RMB757,615,000) were not renewed nor repaid upon the schedule repayment dates and thus became overdue. The Company is in the process of negotiating with these promissory note holders to extend the maturity dates of these promissory notes to dates ranging from March 2018 to September 2018.

As at 31 December 2017, the Group had six outstanding convertible bonds (2016: one) with an aggregate principal amount of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) (2016: HKD103,500,000 (equivalent to approximately RMB92,582,000)). During the year ended 31 December 2017, convertible bonds in the aggregate amount of HKD38,500,000 (equivalent to approximately RMB32,183,000) were converted into equity. Since the bondholders have early redemption options to require the Company to redeem these convertible bonds at any time before the maturity dates, these convertible bonds are classified as current liabilities.

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

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:

On 24 March 2016, shareholders gave a specific mandate to the Company to effect the disposal of liabilities, pursuant to which the Company and the institutional creditors agreed that the entire or partial amount of borrowings of the institutional creditors owed by the Company and the Company's shipbuilding segment subsidiaries will be settled through issuance of shares of the Company to the relevant institutional creditors or its designated related companies (the "**Disposal of Liabilities**"), by (1) entering into bank creditor subscription agreements with certain bank creditors or their designated entities pursuant to which these bank creditors or their designated entities will agree to subscribe for up to 14,108,000,000 shares of the Company at HKD1.20 per subscription share, to satisfy the relevant borrowings in an aggregate amount up to RMB14,108,000,000 due by the Group to these bank creditors; and (2) entering into supplier creditor subscription agreements with certain supplier creditors pursuant to which these supplier creditors or their designated entities will agree to subscribe for up to 3,000,000,000 shares of the Company at HKD1.20 per subscription share in order to settle the payables in an aggregate amount up to RMB3,000,000,000 due by the Group to these supplier creditors. Although this specific mandate has been expired, the Company is actively negotiating with its creditors on the terms and conditions on the execution plan for the implementation of the Disposal of Liabilities, which includes but is not limited to potential adjustments to the original structure and terms and conditions of the Disposal of Liabilities.

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

During the year ended 31 December 2017, the Group had extended the repayment of and renewal terms of the certain existing bank loans that had original maturity in 2017 to various dates in 2018 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 2017 to various dates in 2018.

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 became immediately repayable because of cross-default terms, the Group is in the process of negotiating with the relevant banks to extend the repayment and renewal of the loans; and obtain waivers from the lenders for the due payment pursuant to the relevant cross-default terms.

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	Between 1 and 2 years	More than 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017				
Borrowings	**22,411,186**	**1,892,346**	**–**	**24,303,532**
Finance lease liabilities	**28,263**	**–**	**–**	**28,263**
Derivative financial instruments	**320,001**	**–**	**–**	**320,001**
Trade and other payables	**9,060,511**	**–**	**–**	**9,060,511**
Advances from related parties	**368,959**	**–**	**–**	**368,959**
At 31 December 2016				
Borrowings	23,585,125	632,430	–	24,217,555
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

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 2017	**19,866,496**	**1,997,240**	**2,439,796**	**24,303,532**
At 31 December 2016	20,937,684	737,239	2,542,632	24,217,555

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.

The Group's total liabilities and total assets positions and debt-asset ratio at 31 December 2017 and 2016 were as follows:

	2017	2016
	RMB'000	RMB'000
Total liabilities	**33,752,593**	32,575,882
Total assets	**22,506,238**	23,312,124
Debt-asset ratio	**1.50**	1.40

3 Financial risk management (Continued)

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 2017.

	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale financial asset	–	–	**44,342**	**44,342**
Total assets	–	–	**44,342**	**44,342**
Liabilities				
Financial derivative component of borrowings	–	**(320,001)**	–	**(320,001)**
Total liabilities	–	**(320,001)**	–	**(320,001)**

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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)

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 2017.

	Available-for-sale financial asset RMB'000
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
Balance at 1 January 2017	**40,199**
Fair value gain on revaluation recognised in other comprehensive income	**4,143**
Balance at 31 December 2017	**44,342**

(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 2017 (2016: nil). 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 2017, the Company issued five guaranteed convertible bonds and the aggregate principal amounted to HKD1,782,300,000 (equivalent to approximately RMB1,489,842,000). The principal amount 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 production 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 2017 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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	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	-	-	-	-	-	-	-	-	45,207	31,597	45,207	31,597
Revenue from sales of vessels	65,384	140,752	-	-	-	-	-	-	-	-	65,384	140,752
Revenue from shipbuilding and other contracts	-	133,948	-	-	22,258	1,868	-	660	-	-	22,258	136,476
Reversal related to the cancellation of the construction contracts	(645,211)	(4,426,956)	-	-	-	-	-	-	-	-	(645,211)	(4,426,956)
Segment revenue	(579,827)	(4,152,256)	-	-	22,258	1,868	-	660	45,207	31,597	(512,362)	(4,118,131)
Inter-segment revenue	-	-	-	-	-	-	-	(660)	-	-	-	(660)
Revenue from external customers	(579,827)	(4,152,256)	-	-	22,258	1,868	-	-	45,207	31,597	(512,362)	(4,118,791)
Segment results	(669,688)	(4,605,597)	-	-	16,939	24,295	7,472	(10,162)	10,729	4,816	(634,548)	(4,586,648)
Selling and marketing expenses											(5,621)	(5,520)
General and administrative expenses											(686,834)	(764,523)
Reversal of impairments and delayed penalties											472,043	175,314
Reversal of impairments related to the cancellation of construction contracts											224,896	3,886,086
Compensation to shipowners for cancellation of contracts											(211,672)	-
Other income/(loss) – net											52,441	(1,051)
Other (losses)/gains – net											(23,200)	123,541
Finance costs – net											(1,123,684)	(2,505,139)
Loss before income tax											(1,936,179)	(3,677,940)

5 Segment information (Continued)

	Shipbuilding		Offshore Engineering		Engineering Machinery		Marine Engine Building		Energy Exploration and Production		Total	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	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	**5,595**	15,145	**1,036,306**	1,044,984	**217,369**	193,749	**2,689,965**	2,887,019	**2,238,051**	2,320,833	**6,187,286**	6,461,730
Unallocated											**16,318,952**	16,850,394
Total assets											**22,506,238**	23,312,124
Segment liabilities	**-**	-	**139,910**	193,776	**509,555**	434,220	**5,054,831**	4,925,071	**608,878**	734,200	**6,313,174**	6,287,267
Unallocated											**27,439,419**	26,288,615
Total liabilities											**33,752,593**	32,575,882

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Other segment disclosures:												
Depreciation	**318,422**	339,404	**-**	75	**-**	429	**54,454**	56,098	**20,965**	18,828	**393,841**	414,834
Amortisation	**75,267**	75,266	**-**	-	**3,713**	3,803	**2,740**	2,740	**2,914**	2,596	**84,634**	84,405
Additions to non-current assets	**1,167**	-	**-**	-	**-**	429	**275**	53	**70,391**	53,048	**71,833**	53,530

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 2017, revenue from the top customer of the shipbuilding segment, excluding cancellation of construction contracts, amounted to RMB50,855,000 (2016: RMB44,274,000), representing 38.3% of the total revenue excluding revenue related to the cancellation of the construction contracts (2016: 14.4%).

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 2017 (2016: nil).

There are 3 individual customers contributed more than 10% revenue of the Group's revenue, excluding cancellation of construction contracts, for the year ended 31 December 2017 (2016: 4 individual customers). The revenue of these customers during the year are RMB50,855,000, RMB15,032,000 and RMB14,529,000 (2016: RMB44,274,000, RMB42,000,000, RMB32,479,000 and RMB32,401,000 respectively) respectively.

The top three customers of the Group amounted to RMB80,416,000 (2016: RMB118,753,000), representing 60.5% of the total revenue, excluding cancellation of construction contracts (2016: 38.5%).

During the year, the Group terminated 6 shipbuilding contracts (2016: 25 shipbuilding contracts). Accordingly, the Group reversed revenue and cost of sales of RMB645,211,000 and RMB459,308,000 respectively. In relation to such cancellations, the Group reversed impairments of trade receivables and amounts due from customers for contract work amounted to RMB224,896,000 and correspondingly provided for inventories amounting to RMB459,308,000. According to the agreements, the Group had to refund to these customers the instalments received and to pay interest on these instalments at the interest rate in accordance with the contracts. Accordingly, RMB211,672,000 interest were accrued for these instalments as at 31 December 2017.

Geographically, management considers the operations of shipbuilding, offshore engineering, engineering machinery and marine engine building segments are all located in the PRC while the energy exploration and production segment is located in Kyrgyzstan, with revenue derived from different geographical locations, which is determined by the country in which the customer is located.

5 Segment information (Continued)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
China	**87,642**	228,562
Kyrgyzstan	**45,207**	31,597
Greece	**–**	48,006
	132,849	308,165

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

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Opening net book amount	**3,745,196**	3,827,234
Amortisation (Note 23)	**(81,720)**	(81,809)
Disposals	**(47)**	(229)
Closing net book amount	**3,663,429**	3,745,196
In the PRC, held on:		
Leases between 10 to 50 years	**3,663,429**	3,745,196

Borrowings and refund guarantee are secured by certain land use rights with an aggregate carrying value of RMB3,637,297,000 as at 31 December 2017 (2016: RMB3,712,349,000) (Notes 20 and 34 (a)).

As at 31 December 2017, the Group was in the process of renewing and obtaining the certificate of a coastal line in the PRC with carrying amount of approximately RMB2,933,442,000 (2016: RMB2,998,171,000). 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 2017								
Opening net book amount	**4,655,214**	**330,044**	**9,806,198**	**1,777,536**	**419**	**2,367**	**10,403**	**16,582,181**
Additions	**70,026**	**–**	**–**	**781**	**441**	**80**	**505**	**71,833**
Disposals	**(119,724)**	**–**	**(454)**	**(29,213)**	**(55)**	**(140)**	**(359)**	**(149,945)**
Transfer	**(68,558)**	**68,558**	**–**	**–**	**–**	**–**	**–**	**–**
Depreciation (Note 23)	**–**	**(20,701)**	**(213,119)**	**(156,082)**	**(106)**	**(521)**	**(3,312)**	**(393,841)**
Exchange difference	**(16,302)**	**(20,642)**	**–**	**–**	**–**	**(22)**	**(27)**	**(36,993)**
Closing net book amount	**4,520,656**	**357,259**	**9,592,625**	**1,593,022**	**699**	**1,764**	**7,210**	**16,073,235**
At 31 December 2017								
Cost or valuation	**4,520,656**	**408,671**	**10,057,848**	**3,453,505**	**45,878**	**59,199**	**39,313**	**18,585,070**
Accumulated depreciation and impairment loss	**–**	**(51,412)**	**(465,223)**	**(1,860,483)**	**(45,179)**	**(57,435)**	**(32,103)**	**(2,511,835)**
Net book amount	**4,520,656**	**357,259**	**9,592,625**	**1,593,022**	**699**	**1,764**	**7,210**	**16,073,235**
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

7 Property, plant and equipment (Continued)

As at 31 December 2017, the net book amount of the Group's buildings, including buildings under construction, is the same as to the revalued amounts (2016: Same).

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Cost of sales	**20,747**	35,024
Selling and marketing expenses	**3**	5
General and administrative expenses	**373,091**	379,805
Charged to the profit or loss (Note 23)	**393,841**	414,834

Borrowings and refund guarantee are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB5,356,007,000 as at 31 December 2017 (2016: RMB5,360,145,000) (Notes 20 and 34(a)).

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cost – capitalised finance lease	**25,988**	1,416,645
Accumulated depreciation	**(2,139)**	(334,999)
Accumulated impairment	**(23,849)**	(23,849)
Net book amount	**–**	1,057,797

As at 31 December 2017, certain plant and machineries under non-cancellable leases, with costs of RMB25,988,000 (2016: 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. These plant and machineries have zero net book value as at 31 December 2017.

At 31 December 2017, 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 RMB698,658,000 (2016: RMB711,568,000). 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 RMB265,145,000 as at 31 December 2017 (2016: RMB279,979,000) in respect of the Co-operation Rights (as defined in Note 8) in Kyrgyzstan.

For the year ended 31 December 2017, the operation of the Group has been minimal owing to the shortage of funds. The Group is still in discussion with potential buyers to sell the related core assets and liabilities of the onshore shipbuilding, offshore engineering, engineering machinery 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	3,367,980	177,987	117,462	–	3,663,429
Property, plant and equipment	13,037,287	–	2,412,561	623,387	16,073,235
Total	16,405,267	177,987	2,530,023	623,387	19,736,664

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment under shipbuilding, offshore engineering, engineering machinery and marine engine building segments amounting to RMB19,113,277,000 as at 31 December 2017, 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, engineering machinery and marine engine building segments 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

	2017						2016					
	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	1,692,980	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)
Net book amount	-	1,688,437	-	-	-	1,688,437	-	1,583,048	-	-	-	1,583,048
Movement during the year												
Amortisation charge (Note 23)	-	(2,914)	-	-	-	(2,914)	-	(2,596)	-	-	-	(2,596)
Exchange difference	-	(97,951)	-	-	-	(97,951)	-	107,985	-	-	-	107,985
	-	(100,865)	-	-	-	(100,865)	-	105,389	-	-	-	105,389
At 31 December costs	55,139	1,594,675	21,644	77,517	514,191	2,263,166	55,139	1,692,980	21,644	77,517	514,191	2,361,471
Accumulated impairment	(55,139)	-	(3,535)	(35,122)	(409,780)	(503,576)	(55,139)	-	(3,535)	(35,122)	(409,780)	(503,576)
Accumulated amortisation	-	(7,103)	(18,109)	(42,395)	(104,411)	(172,018)	-	(4,543)	(18,109)	(42,395)	(104,411)	(169,458)
Closing net book amount	-	1,587,572	-	-	-	1,587,572	-	1,688,437	-	-	-	1,688,437

8 Intangible assets (Continued)

The intangible assets represent rights to cooperate with the national oil company of Kyrgyzstan in the operation of the four oilfields (the "**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. As at 31 December 2017, 43 wells (2016: 35 wells) were at production stage. As a result, amortisation of RMB2,914,000 has been charged to the profit or loss during the year (2016: RMB2,596,000) based on the unit-of-production method.

During the year ended 31 December 2017, the development of the energy exploration and production segment has been limited by the lack of means to fund additional investments for drilling wells and exploration.

During the year, the Group entered into a loan agreement with an independent third party who agreed to provide a term loan facility up to USD600,000,000 (equivalent to approximately RMB3,920,520,000) to the Group with a term of 7 years for the funding in respect of the energy exploration and production segment. According to the loan agreement, the loan shall be secured by a share mortgage in respect of 49% of the issued share capital of a subsidiary held by the Group and shall be used for the funding of the project involving four oilfields located in the Fergana Valley of Kyrgyzstan.

In determining the recoverable amounts of the Co-operation Rights and property, plant and equipment under energy exploration and production segment amounting to RMB1,587,572,000 (2016: RMB1,688,437,000) and RMB623,387,000 (2016: 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 include crude oil price of USD50-72 per barrel (2016: USD40-60 per barrel), a discount rate of 18% (2016: same) and that the Group can obtain adequate financing afterwards.

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 2017.

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 2017			
Trade receivables (Note 13 (a))	**–**	**9,846**	**9,846**
Other receivables and deposits	**–**	**93,382**	**93,382**
Available-for-sale financial asset (Note 10)	**44,342**	**–**	**44,342**
Pledged deposits (Note 14)	**–**	**20,720**	**20,720**
Cash and cash equivalents (Note 15)	**–**	**69,858**	**69,858**
Total	**44,342**	**193,806**	**238,148**
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

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 2017			
Trade and other payables	**–**	**9,060,511**	**9,060,511**
Advances from related parties (Note 36 (ii))	**–**	**368,959**	**368,959**
Borrowings (Note 20)	**–**	**23,506,811**	**23,506,811**
Derivative financial instruments (Note 21)	**320,001**	**–**	**320,001**
Finance lease liabilities (Note 20)	**–**	**24,381**	**24,381**
Total	**320,001**	**32,960,662**	**33,280,663**
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

10 Available-for-sale financial asset

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Unlisted equity investment outside Hong Kong at fair value	**44,342**	40,199

The fair value of unlisted securities amounted to RMB44,342,000 (2016: RMB40,199,000) is determined based on the valuation prepared by management using inputs that are not observable in active market.

An equity security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost. Please refer to Note 2.10.3(b) for details of the Group's impairment policies for financial assets.

During the year, fair value gain of RMB4,143,000 (2016: RMB523,000) was recognised in other comprehensive income.

A bank borrowing is secured by the available-for-sale financial asset with an amount of RMB44,342,000 as at 31 December 2017 (2016: RMB40,199,000) (Note 20).

11 Inventories

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials	**830,732**	1,099,132
Work in progress	**236,307**	220,377
Finished goods	**144,220**	197,684
Vessels under construction	**497,678**	4,507,071
Provision for inventories	**(1,162,938)**	(5,380,811)
	545,999	643,453

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**5,380,811**	2,392,298
Reversal during the year	**(305,500)**	(338,613)
Provision made during the year	**513,428**	3,352,052
Written off during the year	**(4,425,801)**	(24,926)
At 31 December	**1,162,938**	5,380,811

The cost of inventories recognised as expense and included in cost of sales amounted to RMB345,813,000 for the year ended 31 December 2017 (2016: RMB1,048,005,000).

As at 31 December 2017, vessels under construction of RMB365,498,000 (2016: RMB4,286,771,000) of the shipbuilding segment were impaired pursuant to the cancelled contracts.

During the year, inventories of RMB4,425,801,000 (2016: RMB24,926,000) were written off after the management further assessed the recoverability and the condition of these inventories for re-sale and reuse in future productions.

Bank borrowings are secured by certain inventories with an aggregate amount, before provision, of RMB654,916,000 as at 31 December 2017 (2016: RMB887,516,000) (Note 20).

12 Construction contracts

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**–**	645,212
Less: Provision for amounts due from customers for contract works	**–**	(224,896)
Less: Progress billings	**–**	(420,316)
Net position for ongoing contracts	**–**	–
Presented as:		
Amounts due from customers for contract works	**–**	–
	–	–

During the year, all the effective shipbuilding contracts were cancelled. All the aggregate contract costs incurred and recognised profits to date, provision for amounts due from customers for contract works and progress billings were reversed.

13 Trade receivables, other receivables, prepayments and deposits

(a) Trade receivables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables	**587,775**	2,962,281
Less: Provision for doubtful receivables	**(577,929)**	(2,952,894)
	9,846	9,387

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

(a) Trade receivables (Continued)

At 31 December 2017 and 2016, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Undue	**9,846**	2,061
Past due 1-180 days	**–**	1,044
Past due 181- 360 days	**–**	–
Over 361 days	**–**	6,282
	9,846	9,387

Movements on the provision for doubtful receivables are as follows:

	2017	2016
	RMB'000	RMB'000
At 1 January	**2,952,894**	3,781,778
Provision for the year (Note 23)	**595**	27,664
Reversal during the year (Note 23)	**–**	(1,031,986)
Written-off	**(2,309,394)**	–
Exchange difference	**(66,166)**	175,438
At 31 December	**577,929**	2,952,894

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 2017, trade receivables of RMB202,566,000 (2016: RMB2,578,126,000) and RMB375,363,000 (2016: RMB374,768,000) 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 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 2017, trade receivables of RMB2,309,394,000 were written off directly as a result of the management's further assessment on the recoverability of these receivables (2016: nil).

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

(a) Trade receivables (Continued)

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 RMB9,846,000 (2016: RMB9,387,000).

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:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**5,595**	7,326
USD	**4,251**	2,061
	9,846	9,387

(b) Other receivables, prepayments and deposits

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Receivables from agents (i)	**121,666**	324,987
Other receivables		
– Third parties	**333,050**	358,684
– Deposits for the Framework Agreements (ii)	**167,284**	167,284
VAT receivable	**851,076**	860,326
Deposits (iii)	**12,302**	17,649
Prepayments for property, plant and equipment and land use rights		
– Third parties	**245,137**	249,949
Prepayments for raw materials and production costs		
– Third parties (iv)	**643,288**	824,655
Prepayments – others		
– Third parties	**5,662**	564
Less: allowance for impairment of other receivables and prepayments	**(1,888,228)**	(2,345,628)
	491,237	458,470
Less: non-current deposits and prepayments	**(10,298)**	(4,110)
Current portion	**480,939**	454,360

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 2017, receivables from agents amounting to RMB121,666,000 (2016: RMB324,987,000) were impaired, as a result of the management's assessment on the recoverability of these receivables.

Furthermore, during the year, RMB188,008,000 receivables from agents, which had been provided for in previous years, was used to settle a litigation according to court verdict, and accordingly, such provision had been reversed during the year.

(ii) As at 31 December 2017, according to the Framework Agreements, shipbuilding segment and marine engine building segment placed deposits of RMB50,000,000 and RMB117,284,000 (2016: 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) No refundable deposits were used to secure the finance lease as at 31 December 2017 (2016: RMB3,337,000).

(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 2017, the Group prepaid RMB458,374,000 to the five largest suppliers (2016: RMB645,481,000). As at 31 December 2017, a provision of RMB276,550,000 (2016: 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, for a total of RMB1,632,141,000 (2016: RMB1,663,009,000) not covered by the above, a total provision of RMB1,490,012,000 (2016: RMB1,579,341,000) was provided for these prepayments and other receivables as at 31 December 2017.

As at 31 December 2017, no other receivables were past due (2016: 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.

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

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

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**468,759**	438,887
HKD	**1,482**	619
USD	**20,996**	18,964
	491,237	458,470

14 Pledged deposits

Pledged deposits are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**20,720**	37,538

Pledged deposits are held in dedicated bank accounts pledged as security for the Group's refund guarantee and borrowings (Notes 20 and 34(a)).

As at 31 December 2017, the weighted average effective interest rate 2.42% per annum (2016: 1.49% per annum).

15 Cash and cash equivalents

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash on hand	**439**	128
Cash at banks	**69,419**	107,135
Total cash and cash equivalents	**69,858**	107,263
Maximum exposure to credit risk	**69,419**	107,135

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**65,456**	106,454
USD	**2,813**	211
HKD	**963**	183
Others	**626**	415
	69,858	107,263

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 2017, the Group had cash at banks and short-term bank deposits amounting to approximately RMB65,522,000 (2016: RMB106,627,000) 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 2017	60,000,000,000	30,000,000,000	–	–	–
Ordinary shares of HKD0.5 each at 31 December 2016 (Note a)	60,000,000,000	30,000,000,000	–	–	–
Issued:					
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
Ordinary shares of HKD0.5 each at 1 January 2017	2,171,591,507	1,085,795,753	905,191	10,430,533	11,335,724
Conversion of convertible bonds (Note b)	77,000,000	38,500,000	32,581	2,168	34,749
Ordinary shares of HKD0.5 each at 31 December 2017	2,248,591,507	1,124,295,753	937,772	10,432,701	11,370,473

Notes:

(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.

(b) During the year, the holders of the 1st convertible bond and the 4th convertible bond converted principal amounts of HKD28,500,000 and HKD10,000,000, respectively, of convertible bonds to ordinary shares. Please refer to Note 20 for further details.

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 (the "**Old Grant Date**"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020. As at 31 December 2017, 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 2016: 4,100,000 share options) 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 (the "**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**"), ranging 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 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
At 1 January 2017	**20**	**4,100**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**–**	**–**
Adjustment arising from share consolidation	**–**	**–**
At 31 December 2017	**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 2017, 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 2016: 32,124,000 share options) 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%, risk-free rate of 1.14%, an expected option life of 10 years and expected volatility of 54.50%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

	Average exercise price in HKD per share	**Number of share options** (thousands)
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
At 1 January 2017	**9.70**	**32,124**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**–**	**–**
At 31 December 2017	**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 RMB10,880,000 during the year ended 31 December 2017 (2016: RMB6,741,000). No expense (2016: nil) is recognised for the Pre-IPO Share Scheme and RMB10,880,000 (2016: RMB6,741,000) 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 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
At 1 January 2017	**2,462,930**	**3,284**	**590,054**	**498,854**	**189,654**	**3,744,776**
Available-for-sale financial asset reserve	**–**	**3,993**	**–**	**–**	**–**	**3,993**
Share-based payment reserve (Note 17)	**–**	**–**	**10,880**	**–**	**–**	**10,880**
Exchange difference on translation of foreign operations	**–**	**–**	**–**	**–**	**(96,825)**	**(96,825)**
At 31 December 2017	**2,462,930**	**7,277**	**600,934**	**498,854**	**92,829**	**3,662,824**

19 Trade and other payables

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables	**1,474,940**	1,632,352
Other payables for purchase of property, plant and equipment		
– Third parties	**386,145**	429,266
– Related parties (Note 36)	**458,289**	477,761
Other payables		
– Third parties	**2,666,959**	1,856,269
– Related parties (Note 36)	**55,754**	39,239
Receipt in advance	**33,033**	72,829
Accrued expenses		
– Payroll and welfare	**100,501**	122,556
– Interest	**3,700,530**	2,647,269
– Exploration costs	**62,484**	30,836
– Others	**154,909**	129,969
Provision for litigation cases	**436,471**	821,978
Provision for delayed penalties	**–**	27,624
VAT payable	**62**	109
Other tax-related payables	**2,364**	5,558
Total trade and other payables	**9,532,441**	8,293,615

At 31 December 2017 and 2016, the ageing analysis of the trade payables based on invoice date were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
0 – 30 days	**1,645**	44,570
31 – 60 days	**–**	13,190
61 – 90 days	**27**	15,463
Over 90 days	**1,473,268**	1,559,129
	1,474,940	1,632,352

19 Trade and other payables (Continued)

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**7,927,657**	7,490,605
USD	**1,361,137**	592,498
HKD	**214,718**	178,808
Euro	**12,878**	15,266
Others	**16,051**	16,438
	9,532,441	8,293,615

20 Borrowings

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Borrowings from a director of a subsidiary	**9,177**	1,368
Other borrowings	**199,268**	28,635
	208,445	30,003
Current		
Bank borrowings	**19,482,898**	19,846,156
Finance lease liabilities	**24,381**	576,097
Borrowings from a director of a subsidiary	**36,732**	46,282
Convertible bonds	**1,285,926**	77,071
Promissory notes	**1,447,596**	3,011,988
Other borrowings	**1,045,214**	340,273
	23,322,747	23,897,867
Total borrowings	**23,531,192**	23,927,870

20 Borrowings (Continued)

Borrowings and finance lease liabilities amounting to RMB23,297,064,000 as at 31 December 2017 (2016: RMB23,500,212,000) 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.

Certain borrowings of approximately RMB10,565,603,000 were overdue and have not been renewed or repaid subsequent to 31 December 2017. 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 RMB6,271,000 have been classified as current liabilities.

Bank and other borrowings of RMB20,740,007,000 and convertible bonds with aggregate principal amount of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000), totaling RMB22,284,184,000, contain cross default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments, current borrowings totaling RMB10,102,284,000 as at 31 December 2017 became immediately repayable pursuant to the cross-default terms under the relevant loan agreements or the terms and conditions of the convertible bonds; and in this connection, non-current borrowings totaling RMB2,411,346,000 have been classified as current liabilities. 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 bondholders; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

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

The Company is actively negotiating with its creditors on the terms and conditions on the execution plan for the implementation of disposal of liabilities, which includes but is not limited to, setting the entire or partial amount of borrowings of the Company and the Company's shipbuilding segment subsidiaries through issuance of shares of the Company to the relevant creditors or its designated related companies.

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

20 Borrowings (Continued)

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**23,322,747**	23,897,867
Between 1 and 2 years	**208,445**	30,003
Between 2 and 5 years	**–**	–
	23,531,192	23,927,870

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**19,676,152**	20,909,169
Between 1 and 2 years	**1,443,694**	609,305
Between 2 and 5 years	**2,411,346**	2,409,396
	23,531,192	23,927,870

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Finance lease liabilities	**6.70%**	4.11%
Bank borrowings	**5.24%**	4.86%
Other borrowings	**6.20%**	6.95%

Borrowings from a director of a subsidiary are interest-free and are/will be repayable ranging from October 2017 to December 2019.

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

20 Borrowings (Continued)

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**19,533,712**	19,645,432
HKD	**2,931,369**	3,244,565
USD	**1,066,111**	1,037,873
	23,531,192	23,927,870

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
6 months or less	**17,807,277**	15,151,196
6 – 12 months	**4,494,937**	8,661,228
1 – 5 years	**1,228,978**	115,446
	23,531,192	23,927,870

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Expiring within one year	**1,995,468**	35,251
Expiring beyond one year	**2,035,479**	–
	4,030,947	35,251

During the year, the Group entered into a loan agreement with an independent third party who agreed to provide a term loan facility up to USD600,000,000 (equivalent to approximately RMB3,920,520,000) to the Group with a term of 7 years for the funding in respect of the energy exploration and production segment. According to the loan agreement, the loan shall be secured by a share mortgage in respect of 49% of the issued share capital of a subsidiary held by the Group and shall be used for the funding of the project involving four oilfields located in the Fergana Valley of Kyrgyzstan. The Group expects to draw down the first tranche of this loan by 2018.

20 Borrowings (Continued)

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.

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**28,263**	623,633
Later than 1 year and no later than 5 years	**–**	–
	28,263	623,633
Future finance charges on finance lease	**(3,882)**	(47,536)
Present value of finance lease liabilities	**24,381**	576,097
The present value of finance lease liabilities are as follows:		
No later than 1 year	**24,381**	576,097
Later than 1 year and no later than 5 years	**–**	–
	24,381	576,097

Convertible bonds

During the year, the Group issued 5 parcels of new convertible bonds with aggregate principal amount of HKD745,060,000 (equivalent to approximately RMB622,803,000) maturing in May 2019 and aggregate principal amount of HKD1,037,240,000 (equivalent to approximately RMB867,039,000) maturing in November 2019, respectively, in order to settle certain sum of promissory notes and interest accrued thereon.

As at 31 December 2017, the Group had six parcels of convertible bonds (2016: one) with an outstanding aggregate principal amount of HKD1,847,300,000 (equivalent to approximately RMB1,544,177,000) (2016: HKD103,500,000 (equivalent to approximately RMB92,582,000)). Since the bondholders have an early redemption option to require the Company to redeem these convertible bonds at any time before the maturity dates, these convertible bonds are 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 2017	Principal as at 31 December 2016	Issuance and closing date	Maturity date	Conversion period	Conversion price as at 31 December 2017	Conversion price as at 31 December 2016
1st	**HKD75,000,000**	HKD103,500,000	31 October 2016	24 months after the closing date	After issue date up to maturity date	HKD0.50 per share	HKD1.05 per share
2nd	**HKD745,060,000**	–	19 May 2017	24 months after the closing date	After issue date up to maturity date	HKD0.50 per share	N/A
3rd	**HKD169,820,000**	–	30 November 2017	24 months after the closing date	After issue date up to maturity date	HKD0.50 per share	N/A
4th	**HKD108,070,000**	–	30 November 2017	24 months after the closing date	After issue date up to maturity date	HKD0.50 per share	N/A
5th	**HKD102,000,000**	–	30 November 2017	24 months after the closing date	After issue date up to maturity date	HKD0.50 per share	N/A
6th	**HKD647,350,000**	–	30 November 2017	24 months after the closing date	After issue date up to maturity date	HKD0.50 per share	N/A

20 Borrowings (Continued)

Convertible bonds (Continued)

For the above convertible bonds, subject to the following conditions, amongst others, the Company has the right to redeem all or any part of the principal amount of the convertible bonds outstanding. (1) The Company may redeem the respective convertible bonds at any time up to (and excluding) the commencement of the 7 calendar day-period ending (and including) on the maturity date, when the principal amount of the relevant convertible bonds outstanding is equal to or less than 10% of its original aggregate principal amount issued by the Company. The redemption price of the convertible bonds is equal to 100% of the principal amount plus the unpaid interest. (2) The Company may redeem the respective convertible bonds at any time on or after the eighteen months from the closing date and up to the third business day prior to the maturity date. The redemption price of the convertible bonds is equal to 100% of the principal amount plus the unpaid interest.

Subject to certain conditions, the bondholders have the right to require the Company to redeem all or part of the convertible bonds. Bondholders may at any time on or after the closing date and up to the third business day prior to the maturity dates to require the Company to redeem the whole or any part of the principal amount outstanding under the convertible bonds at a value at 100% of the principal amount plus the unpaid interest.

The conversion feature of the above convertible bonds fails the fixed-for-fixed requirement for equity classification. The conversion option, together with all other options, are therefore regarded as a single embedded derivative with changes in fair value through profit or loss in accordance with IAS 39. For details, please refer to Note 21.

The fair value of the above convertible bonds were 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 2017, changes in fair value of the embedded derivatives amounted to RMB47,710,000 (2016: RMB305,241,000).

The convertible bonds are 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:

	2017 RMB'000	2016 RMB'000
Carrying amount as at 1 January	**77,071**	1,722,708
Issuance of convertible bonds	**1,561,838**	91,201
Fair value of the embedded derivatives	**(352,605)**	(19,630)
Conversion to ordinary shares	**(29,013)**	–
Interest expenses (Note 27)	**85,692**	1,101,341
Interest paid	**(6,008)**	(247,290)
Fully settled and discharged via promissory notes	**–**	(2,614,305)
Exchange (gains)/losses	**(51,049)**	43,046
Carrying amount as at 31 December	**1,285,926**	77,071

The fair value of the host liability component of the convertible bond as at 31 December 2017 amounted to RMB1,256,998,000 (31 December 2016: RMB77,215,000). 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 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
For the year ended 31 December 2017	
Opening amount as at 1 January 2017	**3,011,988**
Discharged by convertible bonds	**(1,418,084)**
Exchange difference	**(146,308)**
Closing amount as at 31 December 2017	**1,447,596**

20 Borrowings (Continued)

Promissory Notes (Continued)

The Group has certain promissory notes with aggregate principal amount of HKD3,367,193,000 (equivalent to approximately RMB3,011,988,000) matured during the year ended 31 December 2017. During the year, promissory notes with aggregate principal amount of HKD825,425,000 (equivalent to approximately RMB689,981,000) were successfully extended to maturity date in March 2018. In addition, the Group issued five parcels of new convertible bonds with principal amounts totaling HKD745,060,000 (equivalent to approximately RMB622,803,000) maturing in May 2019 and aggregate principal amount of HKD1,037,240,000 (equivalent to approximately RMB867,039,000) maturing in November 2019, respectively, for settlement of certain promissory notes and interests accrued thereon. As at 31 December 2017, certain outstanding promissory notes amounting to HKD906,336,000 (equivalent to approximately RMB757,615,000) were not renewed nor repaid upon the schedule repayment dates and thus became overdue. The Company is in the process of negotiating with these promissory note holders for further arrangement so as to enable the Company to meet its financial obligations of the outstanding promissory notes when they fall due.

21 Derivative financial instruments

	31 December 2017		31 December 2016	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Embedded derivatives in convertible bonds	**–**	**320,001**	–	17,045
	–	**320,001**	–	17,045

21 Derivative financial instruments (Continued)

The fair values of the embedded derivatives in convertible bonds as at 31 December 2016 and 31 December 2017 are determined using the Binomial Model. The tables below show the significant inputs into the Binomial Model:

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 (%)
1st	HKD103,500,000	31 October 2016	0.445	1.05	1.83	1.6851	0	80

As at 31 December 2017

Guaranteed convertible bonds	Principal as at 31 December 2017	Issuance date	Stock price as at 31 December 2017 of the underlying shares (HKD)	Exercise price (HKD)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
1st	HKD75,000,000	31 October 2016	0.295	0.50	0.84	1.4913	0	41
2nd	HKD745,060,000	19 May 2017	0.295	0.50	1.38	1.6745	0	38
3rd	HKD169,820,000	30 November 2017	0.295	0.50	1.92	1.7919	0	43
4th	HKD108,070,000	30 November 2017	0.295	0.50	1.92	1.7919	0	43
5th	HKD102,000,000	30 November 2017	0.295	0.50	1.92	1.7919	0	43
6th	HKD647,350,000	30 November 2017	0.295	0.50	1.92	1.7919	0	43

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:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**3,049**	26,214
Reversal of provision for the year upon expiring of the warranty period (Note 23)	**(3,049)**	(23,165)
At 31 December	**–**	3,049

There was no effective shipbuilding contract on hand and the warranty period for all the delivered vessels had expired, thus there was no provision for warranty as at 31 December 2017.

23 Expenses by nature

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Amortisation of intangible assets (Note 8)	**2,914**	2,596
Amortisation of land use rights (Note 6)	**81,720**	81,809
Advertising, promotion and marketing expenses	**676**	670
Auditors' remuneration (Note b)		
– audit services	**4,968**	5,581
– non-audit services	**846**	154
Bank charges (include refund guarantee charges)	**106**	123
Compensation to shipowners for cancellation of contracts	**211,672**	–
Consultancy and professional fees	**20,963**	31,188
Cost of sales reversed from the cancellation of the construction contracts	**(459,308)**	(3,669,366)
Cost of vessels and inventories	**316,421**	1,041,452
Depreciation of property, plant and equipment (Note 7)	**393,841**	414,834
Employee benefits expenses (Note 24)	**125,757**	180,425
Raw materials and consumable used	**29,392**	6,553
(Reversal of provision for)/impairment provisions of		
– trade receivables, net (Note 13 (a))	**595**	(1,004,322)
– other receivables and prepayments (Note 13 (b))	**(482,624)**	(10,924)
– amounts due from customers for contract works	**(224,896)**	(3,027,140)
Inspection fees	**235**	450
Insurance premiums	**1,711**	1,544
Miscellaneous expenses	**51,418**	29,263
Operating lease payments	**2,060**	3,073
Outsourcing and processing costs	**4,324**	34,285
Over provision for other tax-related expenses and customs duties	**–**	(32,693)
Provision for delayed penalties	**–**	18,054
Provision for inventories (Note 11)	**207,928**	3,013,439
Provision and compensation for litigations	**41,704**	78,506
Reversal of provision for warranty upon expiring of the warranty period (Note 22)	**(3,049)**	(23,165)
Storage and handling charges	**–**	111
Total cost of sales, selling and marketing expenses, general and administrative expenses, compensation to shipowners for cancellation of contracts and (reversal of)/provision for impairments	**329,374**	(2,823,500)

23 Expenses by nature (Continued)

Notes:

(a) The research and development expenses incurred during the year ended 31 December 2017 were RMB3,258,000 (2016: RMB16,224,000), no research and development expenses were capitalised in intangible assets during the year (2016: nil).

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

24 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and wages	**96,744**	144,839
Social security costs	**14,536**	22,713
Contribution to pension plans	**2,656**	4,580
Other benefits	**941**	1,552
Share-based compensation (Note 17)	**10,880**	6,741
	125,757	180,425

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 are four directors and one senior management personnel (2016: Five directors). The emoluments of the four directors (2016: Five directors) are reflected in the analysis presented in Note 30. For the year ended 31 December 2017, the emoluments of the senior management personnel was approximately RMB4,477,000 (2016: same) including basic salaries, housing allowances, other allowances and benefit-in-kind of RMB4,456,000 (2016: same) and contribution to pension plan of RMB21,000 (2016: same).

(b) During the year ended 31 December 2017, 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 (2016: same).

25 Other income/(loss) – net

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Government grants (Note a)	**–**	100
Rental income	**32,548**	15,672
Others	**19,893**	(16,823)
	52,441	(1,051)

Note:

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

26 Other (losses)/gains – net

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Fair value change on derivative instruments – embedded derivative in convertible bonds	**47,710**	305,241
Net foreign exchange gains/(losses) (Note 29)	**16,281**	(152,672)
Gain on disposal of land use rights	**–**	198
Loss on disposal of property, plant and equipment	**(87,191)**	(29,226)
	(23,200)	123,541

27 Finance income and costs

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**213**	375
Imputed interest income	**6,933**	12,677
	7,146	13,052
Finance costs:		
Interest expenses		
– Borrowings and finance lease liabilities	**(1,316,495)**	(1,182,412)
– Convertible bonds	**(85,692)**	(1,101,341)
Net foreign exchange gains/(losses) on financing activities (Note 29)	**269,498**	(235,711)
Less: borrowing costs capitalised	**1,859**	1,273
	(1,130,830)	(2,518,191)
Net finance costs	**(1,123,684)**	(2,505,139)

28 Income tax

No Hong Kong profits tax has been provided for the years ended 31 December 2017 and 2016 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:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss before income tax	**(1,936,179)**	(3,677,940)
Tax calculated at domestic tax rates applicable to profit of respective companies	**(423,443)**	(820,919)
Income not subject to tax	**(3,561)**	(2,830)
Expenses not deductible for tax purposes	**377**	47,154
Items which no deferred income tax asset was recognised	**426,627**	776,595
	–	–

28 Income tax (Continued)

The weighted average applicable tax rate was 22% for the year ended 31 December 2017 (2016: 22%).

As at 31 December 2017, the Group did not recognise deferred income tax assets of RMB2,766,217,000 (2016: RMB3,282,488,000) in respect of certain provisions and accruals amounting to RMB12,641,349,000 (2016: RMB14,706,432,000) as future profitability of the respective entities tax is not probable.

As at 31 December 2017, the Group did not recognise deferred income tax assets of RMB3,771,588,000 (2016: RMB3,525,787,000) in respect of losses amounting to RMB18,309,383,000 (2016: RMB14,681,694,000) that can be carried forward and utilised against future taxable income.

As at 31 December 2017, management is of the view that undistributed earnings of a Group's subsidiary in the PRC totaling RMB632,234,000 (2016: RMB659,579,000) are for re-investment in the PRC and not for distribution. Accordingly, deferred income tax liabilities of RMB63,223,000 (2016: RMB65,958,000) 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:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**3,674,378**	143,899
Within 2 years	**4,468,093**	3,674,378
Within 3 years	**2,869,537**	4,468,093
Within 4 years	**3,525,787**	2,869,537
Within 5 years	**3,771,588**	3,525,787
	18,309,383	14,681,694

29 Net foreign exchange gains/(losses)

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net foreign exchange gains/(losses) taken to:		
Other gains/(losses) – net (Note 26)	**16,281**	(152,672)
Finance costs (Note 27)	**269,498**	(235,711)
	285,779	(388,383)

30 Benefits and interest of directors

(a) Directors' emoluments

The remuneration of every director is set out below:

For the year ended 31 December 2017:

	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
2017								
Executive directors								
Chen Qiang (i)	-	1,500	-	3,732	13	-	-	5,245
Hong Liang (ii)	-	1,000	-	746	99	-	-	1,845
Wang Tao	-	1,000	-	340	99	-	-	1,439
Zhu Wen Hua	-	1,000	-	240	86	-	-	1,326
Zhang Ming	-	1,000	-	-	-	-	-	1,000
Independent non-executive directors								
Wang Jin Lian	304	-	-	-	-	-	-	304
Zhou Zhan	304	-	-	-	-	-	-	304
Lam Cheung Mau	304	-	-	-	-	-	-	304
Total emoluments	912	5,500	-	5,058	297	-	-	11,767

Notes:

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

(ii) Appointed as the chief operating officer of the Company on 27 November 2017.

30 Benefits and interest of directors (Continued)

(a) Directors' emoluments (Continued)

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 23 October 2016.

(iii) Resigned as an executive director of the Company on 23 October 2016.

(iv) Appointed as an executive director of the Company on 23 October 2016.

30 Benefits and interest of directors (Continued)

(b) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits or termination benefits during the year (2016: nil).

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

During the year ended 31 December 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: 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 (2016: 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 (2016: 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.

	Year ended 31 December	
	2017	2016
Loss attributable to equity holders of the Company (RMB'000)	**1,884,826**	3,564,755
Weighted average number of ordinary shares in issue	**2,191,236,343**	2,171,592,507
Basic loss per share (RMB per share)	**0.86**	1.64

The share consolidation pursuant to the shareholders' resolution passed at the extraordinary general meeting held on 24 March 2016 is adjusted in the weighted average number of ordinary shares in issue as if the share consolidation had occurred at 1 January 2016, 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 (2016: same).

32 Dividends

The Board has resolved not to declare for the payment of final dividend for the year 2017 (2016: nil).

33 Notes to the consolidated statement of cash flows

(a) Cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Loss before income tax	**(1,936,179)**	(3,677,940)
Adjustments for:		
– Amortisation of land use rights (Note 6)	**81,720**	81,809
– Amortisation of intangible assets (Note 8)	**2,914**	2,596
– Depreciation (Note 7)	**393,841**	414,834
– Share-based compensation (Note 17)	**10,880**	6,741
– Fair value gain on derivative financial instruments (Note 26)	**(47,710)**	(305,241)
– Provision for inventories (Note 11)	**207,928**	3,013,439
– (Reversal of provision for)/impairment provisions of trade receivables (Note 13(a))	**595**	(1,004,322)
other receivables and prepayment (Note 13(b))	**(482,624)**	(10,924)
amounts due from customers for contract works	**(224,896)**	(3,027,140)
– Reversal of provision for warranty (Note 22)	**(3,049)**	(23,165)
– Interest income (Note 27)	**(7,146)**	(13,052)
– Interest expense (Note 27)	**1,130,830**	2,518,191
– Loss on disposal of property, plant and equipment (Note 26)	**87,191**	29,226
– Gain on disposal of land use rights (Note 26)	**–**	(198)
– Unrealised exchange (gains)/losses (Note 26)	**(16,281)**	152,672
Changes in working capital:		
– Inventories	**114,422**	538,391
– Trade receivables, and other receivables, prepayments and deposits	**438,811**	220,694
– Trade and other payables	**301,419**	1,148,846
Cash generated from operations	**52,666**	65,457

33 Notes to the consolidated statement of cash flows (Continued)

(b) Net debt reconciliation

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**69,858**	107,264
Borrowings – repayable within one year (including overdraft)	**(20,045,111)**	(21,243,471)
Borrowings – repayable after one year	**(3,855,040)**	(3,018,701)
Net debt	**(23,830,293)**	(24,154,908)

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash and cash equivalents	**69,858**	107,264
Gross debt – fixed interest rate	**(13,762,919)**	(14,102,412)
Gross debt – variable interest rate	**(10,137,232)**	(10,159,760)
Net debt	**(23,830,293)**	(24,154,908)

33 Notes to the consolidated statement of cash flows (Continued)

(b) Net debt reconciliation (Continued)

Movements in net debt for the year ended 31 December 2016 and 2017:

	Other assets		Liabilities from financing activities			
	Cash/bank overdraft	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2016	69,227	(205,092)	(432,288)	(18,920,328)	(3,158,302)	(22,646,783)
Cash flow	37,737	-	-	97,365	(54,178)	80,924
Foreign Exchange movement	300	-	-	(231,505)	(4,205)	(235,410)
Other non-cash movement (Note a)	-	(371,005)	432,288	(1,612,907)	197,985	(1,353,639)
Net debt as at 31 December 2016	107,264	(576,097)	-	(20,667,375)	(3,018,700)	(24,154,908)
Cash flow	**(37,256)**	**-**	**-**	**111,979**	**(77,470)**	**(2,747)**
Foreign Exchange movement	**(150)**	**-**	**-**	**254,900**	**14,597**	**269,347**
Other non-cash movement (Note b)	**-**	**557,987**	**(6,271)**	**273,495**	**(767,196)**	**58,015**
Net debt as at 31 December 2017	**69,858**	**(18,110)**	**(6,271)**	**(20,027,001)**	**(3,848,769)**	**(23,830,293)**

Notes:

(a) Other non-cash movements during 2016 mainly include (i) an increase of RMB1,109,655,000 due to the settlement of convertible bonds and accrued interest by promissory notes, and (ii) a decrease of RMB50,000,000 due to the deposit confiscated to repay certain finance leases and other borrowings.

(b) Other non-cash movements during 2017 mainly include (i) a decrease of RMB123,160,000 due to settlement of promissory notes and accrued interest by issuance of convertible bonds, and (ii) an increase of RMB77,532,000 due to interest amortization of certain bank and other borrowings.

34 Contingencies

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Contingencies:		
Refund guarantees (Note a)	**–**	51,767
Litigation (Note b)	**–**	51,365
Financial guarantees (Note c)	**26,674**	27,235
	26,674	130,367

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. During the year ended 31 December 2017, the refund guarantee has been discharged.

(b) **Litigation**

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

As at 31 December 2017, 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 RMB436,471,000 (2016: RMB451,834,000). Provision amounting to RMB436,471,000 has been provided for in respect of the claims as at 31 December 2017 (2016: RMB451,834,000) 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 had been provided for in respect of this claim as at 31 December 2016 as management had determined, on the basis of legal advice from the Group's internal legal counsel that it was not probable that this claim would result in an outflow of economic benefits from the Group. During the year ended 31 December 2017, the Group won the case and thus did not bear any liabilities in regard to this claim.

(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 2017, the total value of the guaranteed borrowings outstanding was RMB29,112,000 (2016: RMB29,673,000) in which the Group has made a provision of RMB2,438,000 (2016: RMB2,438,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB26,674,000 (2016: RMB27,235,000) 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:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Property, plant and equipment		
– Contracted but not provided for	**700,409**	755,172
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 2017, the Group has paid the first instalment of RMB40,000,000 (2016: 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:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
No later than 1 year	**3,131**	422
Later than 1 year and no later than 5 years	**554**	–
	3,685	422

36 Related party transactions

Fine Profit Enterprises Limited (a company incorporated in the British Virgin Islands) ("**Fine Profit**") owned 17.4% of the issued shares of the Company as at 31 December 2017 (2016: 18.9%). Fine Profit was wholly-owned by Mr. Zhang as at 31 December 2017, 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 Xuming 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 Rongtong 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
上海陽光投資（集團）有限公司	Entity ultimately controlled by 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 2017, the Group carried out the following transactions with the related parties:

(i) Year-end balances with related parties

As at 31 December 2017 and 2016, the balances are interest-free, unsecured and approximate their fair values. All these balances are repayable on demand.

	As at 31 December	
	2017	2016
	RMB'000	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	**458,289**	477,761
Other payables – non-trade (Note 19):		
– Entities controlled by Mr. Zhang or a shareholder/ close family members of Mr. Zhang	**35,486**	17,800
– A director of a subsidiary	**20,268**	21,439
	55,754	39,239

(ii) Advances from related parties

During the year ended 31 December 2017, the single largest shareholder (before taking into account full conversion of the convertible bonds and exercise of the share options issued by the Company) provides security-free and interest-free revolving facilities up to RMB3,000,000,000 for use by the Group, for working capital purposes. As at 31 December 2017, RMB368,959,000 (2016: RMB334,303,000) has been drawn down by the Group and is repayable on demand.

(iii) Guarantee by a director

As at 31 December 2017, certain bank borrowings totaling RMB2,429,930,000 (2016: RMB2,706,602,000) 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 2017, certain borrowings totaling RMB8,695,113,000 (2016: RMB8,896,832,000) are secured by certain shareholders and the controlling entities of certain shareholders.

(v) Borrowings from a director of a subsidiary

As at 31 December 2017, a director of a subsidiary provided security-free and interest-free borrowings totaling RMB45,909,000 (2016: RMB47,650,000) for working capital purposes and of which RMB35,285,000 (2016: nil) were overdue and the remaining are repayable from August 2018 to February 2019.

(vi) Borrowings from related parties

As at 31 December 2017, certain related parties provided security-free facilities up to USD5,000,000 (2016: same) and HKD23,698,000 (2016: HKD20,600,000) (totaling equivalent to approximately RMB52,480,000 (2016: RMB53,112,000)) for use by the Group for working capital purposes.

(vii) 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 2017, 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 2017	2016
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27 Jul 2007	Limited liability company	Investment holding; Hong Kong	HKD100,000	**98.50%**	98.50%
Rongsheng Engineering Machinery Limited#	Cayman Islands	14 Jul 2010	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Power Machinery Limited#	Cayman Islands	14 Jul 2010	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14 Jul 2010	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Capital Limited#	Cayman Islands	14 Jul 2010	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Clear Joy International Limited	British Virgin Islands	2 Apr 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Nice In Holdings Limited	British Virgin Islands	13 Apr 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Charm Dragon Holdings Limited	British Virgin Islands	19 Apr 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Grace Shine International Limited	British Virgin Islands	19 Apr 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**100%**	100%
Head Park Group Limited	British Virgin Islands	25 Apr 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
New Sea Enterprises Limited	British Virgin Islands	2 May 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**100%**	100%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2017, 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	
						2017	2016
Mega New International Limited	British Virgin Islands	2 May 2007	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Host Rich International Enterprise Limited	British Virgin Islands	13 May 2009	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	100%
System Advance Limited	British Virgin Islands	12 Jan 2010	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Ocean Sino Holdings Limited	British Virgin Islands	18 Jan 2010	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	100%
Power Shine Investment Limited	British Virgin Islands	7 Jan 2010	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Capital Sign International Limited	British Virgin Islands	26 Mar 2009	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	98.50%
Dragon Courage Investments Limited	British Virgin Islands	2 Apr 2009	Limited liability company	Dormant	USD1	**100%**	98.50%
Xcellcrest Holdings Pte. Ltd.	Singapore	1 Nov 2012	Limited liability company	Investment holding; Singapore	SGD1	**100%**	100%
Rongsheng Offshore & Marine Pte. Ltd.	Singapore	5 Apr 2012	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 2017, 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 2017	2016
Hinco International Limited	Hong Kong	12 Apr 2007	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Pacific Atlantic Limited	Hong Kong	24 Apr 2007	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Wenca Development Limited	Hong Kong	25 Apr 2007	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Asiafair International Limited	Hong Kong	25 Apr 2007	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Sinwell (H.K.) Limited	Hong Kong	10 May 2007	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Wellbo Holdings Limited	Hong Kong	10 May 2007	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Profit On International Development Limited	Hong Kong	15 May 2009	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Yes Power Corporation Limited	Hong Kong	28 Jan 2010	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Ocean Power International Industrial Limited	Hong Kong	28 Jan 2010	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Glory Source Limited	Hong Kong	25 Jan 2010	Limited liability company	Dormant	HKD1	**100%**	98.50%
World Profit Corporation Limited	Hong Kong	5 Feb 2010	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	98.50%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2017, 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	
						2017	2016
Jiangsu Rongsheng Shipbuilding Co., Ltd. 江蘇熔盛造船有限公司 (Note 1)	PRC	21 Jun 2007	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 Jun 2007	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 Mechanical and Equipment Co., Ltd. 南通熔燁機電設備有限公司	PRC	21 Jun 2007	Limited liability company	Manufacturing mechanical and electrical equipment and accessories for shipping production; Trading of self-produced products; PRC	USD29,600,000	**95%**	95%
Nantong Rongye Storage Co., Ltd. 南通熔燁倉儲有限公司	PRC	21 Jun 2007	Limited liability company	Storing of shipping material; PRC	USD196,889,000	**97.76%**	97.76%
Jiangsu Rongsheng Offshore Engineering Co., Ltd. 江蘇熔盛海洋工程有限公司	PRC	22 Jun 2007	Limited liability company	Manufacturing and installing of pipeline and shipping equipment; 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	8 Jun 2006	Limited liability company	Manufacturing of shipping; Trading of self-produced products; Providing services of shipping; PRC	USD766,000,000	**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	4 Mar 2008	Limited liability company	Researching, designing and providing consultation for shipbuilding; PRC	RMB10,000,000	**96.38%**	96.38%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2017, 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 2017	2016
Nantong Rongjin Steel Construction Engineering Company Limited 南通熔錦鋼結構工程有限公司	PRC	16 Mar 2005	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%
Shanghai Rongsheng Shipbuilding Trading Company Limited 上海熔盛船舶貿易有限公司	PRC	27 Mar 2007	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 Mar 2010	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 Dec 1998	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB100,000,000	**99.79%**	99.79%
Hefei Zhenyu Yida Engineering Machinery Company Limited 合肥振宇意達工程機械有限公司	PRC	18 Apr 2003	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB10,000,000	**99.79%**	99.79%
Hefei Rong An Power Machinery Co., Ltd. 合肥熔安動力機械有限公司	PRC	15 Aug 2007	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 Nov 2009	Limited liability company	Wholesale and retail sales of electronic machinery, PRC	RMB10,000,000	**95.70%**	95.70%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2017, 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	
						2017	2016
Jiangsu Bosheng Industrial Trading Development Co., Ltd. 江蘇博盛興業貿易發展有限公司	PRC	26 Apr 2011	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 Jun 2011	Limited liability company	Building of shipowners club; PRC	RMB100,000,000	**96.38%**	96.38%
Hefei Rong An Heavy Machinery Co., Ltd. 合肥熔安重機有限公司	PRC	6 Dec 2011	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 Sep 2013	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	3 Sep 2014	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 Aug 2013	Limited liability company	Oil and gas exploration and production and sales of petroleum product; Kyrgyzstan	KGS100,000	**60%**	60%
Crown Winner Investments Limited	Hong Kong	8 Nov 2013	Limited liability company	Investment holding; Hong Kong	HKD10,000	**60%**	60%
Central Point Worldwide Inc.	British Virgin Islands	19 Jun 2014	Limited liability company	Investment holding; Hong Kong	USD100	**60%**	60%

37 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2017, 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 RMB40,578,000 (2016: equity of RMB60,277,000) 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 2017, the Group held 96.4% equity interest in Rongsheng Shipbuilding (2016: 96.4%).

Except for the above, there were no other individually material non-controlling interests as at 31 December 2017.

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	
	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current		
Assets	**1,940,417**	1,992,966
Liabilities	**(8,011,228)**	(7,781,133)
Net current liabilities	**(6,070,811)**	(5,788,167)
Non-current		
Assets	**3,979,746**	4,178,445
Liabilities	**–**	–
Net non-current assets	**3,979,746**	4,178,445
Net liabilities	**(2,091,065)**	(1,609,722)

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 Year ended 31 December	
	RMB'000	RMB'000
Revenue	**–**	15,397
Loss before income tax	**(481,343)**	(564,057)
Income tax	**–**	–
Total comprehensive loss	**(481,343)**	(564,057)
Total comprehensive loss allocated to non-controlling interest	**(19,699)**	(20,419)
Dividends paid to non-controlling interests	**–**	–

Summarised cash flows

	Rongsheng Shipbuilding Year ended 31 December	
	RMB'000	RMB'000
Net cash used in operating activities	**(34,278)**	(1,164)
Net cash generated from investing activities	**19,040**	16,832
Net cash generated from financing activities	**–**	–
Net (decrease)/increase in cash and cash equivalents	**(15,238)**	15,668
Cash and cash equivalents at beginning of the year	**23,911**	8,243
Cash and cash equivalents at end of the year	**8,673**	23,911

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 2017 RMB'000	2016 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**1,514,444**	1,514,444
Current assets		
Other receivables and prepayments	**861**	524
Amounts due from subsidiaries	**12,241,203**	13,094,433
Cash and cash equivalents	**211**	114
	12,242,275	13,095,071
Total assets	**13,756,719**	14,609,515
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	**937,772**	905,191
Share premium	**10,454,148**	10,451,980
Other reserves (Note a)	**364,358**	353,478
Accumulated losses (Note a)	**(2,200,334)**	(1,290,069)
Total equity	**9,555,944**	10,420,580
LIABILITIES		
Current liabilities		
Other payables	**245,556**	208,637
Amounts due to subsidiaries	**237,580**	202,470
Borrowings	**3,397,638**	3,760,783
Derivative financial instruments	**320,001**	17,045
Current and total liabilities	**4,200,775**	4,188,935
Total equity and liabilities	**13,756,719**	14,609,515

The Company's statement of financial position was approved by the Board of Directors on 27 March 2018 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 RMB'000	Share-based payment reserve RMB'000	Total RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	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	–	–	–	(348,660)	(348,660)
At 31 December 2016	33	353,445	353,478	(1,290,069)	(936,591)
Share-based payment reserve	–	10,880	10,880	–	10,880
Loss and total comprehensive loss for the year	–	–	–	(910,265)	(910,265)
At 31 December 2017	**33**	**364,325**	**364,358**	**(2,200,334)**	**(1,835,976)**

FIVE-YEAR FINANCIAL SUMMARY

Consolidated results

	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**(512,362)**	(4,118,791)	738,465	(3,802,365)	1,343,566
Gross loss	**(634,548)**	(4,586,648)	(1,476,696)	(4,114,023)	(1,432,925)
Operating loss	**(812,495)**	(1,172,801)	(4,988,872)	(6,057,678)	(8,230,542)
Total comprehensive loss for the year	**(2,028,226)**	(3,567,527)	(7,053,447)	(8,091,175)	(8,951,888)
Attributable to:					
Equity holders of the Company	**(1,977,658)**	(3,454,849)	(6,448,325)	(7,756,819)	(8,683,688)
Non-controlling interests	**(50,568)**	(112,678)	(605,122)	(334,356)	(268,200)

Consolidated assets and liabilities

	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total assets	**22,506,238**	23,312,124	24,652,068	30,006,256	35,974,744
Non-current assets	**21,378,876**	22,060,123	22,520,473	22,878,155	21,789,896
Current assets	**1,127,362**	1,252,001	2,131,595	7,128,101	14,184,848
Total liabilities	**33,752,593**	32,575,882	30,355,040	29,692,560	29,805,692
Non-current liabilities	**208,445**	30,003	459,607	1,841,204	8,937,697
Current liabilities	**33,544,148**	32,545,879	29,895,433	27,851,356	20,867,995
Total (deficit)/equity	**(11,246,355)**	(9,263,758)	(5,702,972)	313,696	6,169,052

"2018 AGM"	the annual general meeting of the Company to be held on Tuesday, 12 June 2018
"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
"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
"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

"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
"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 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 98.50%
"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 *(Chief Operating Officer)*
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

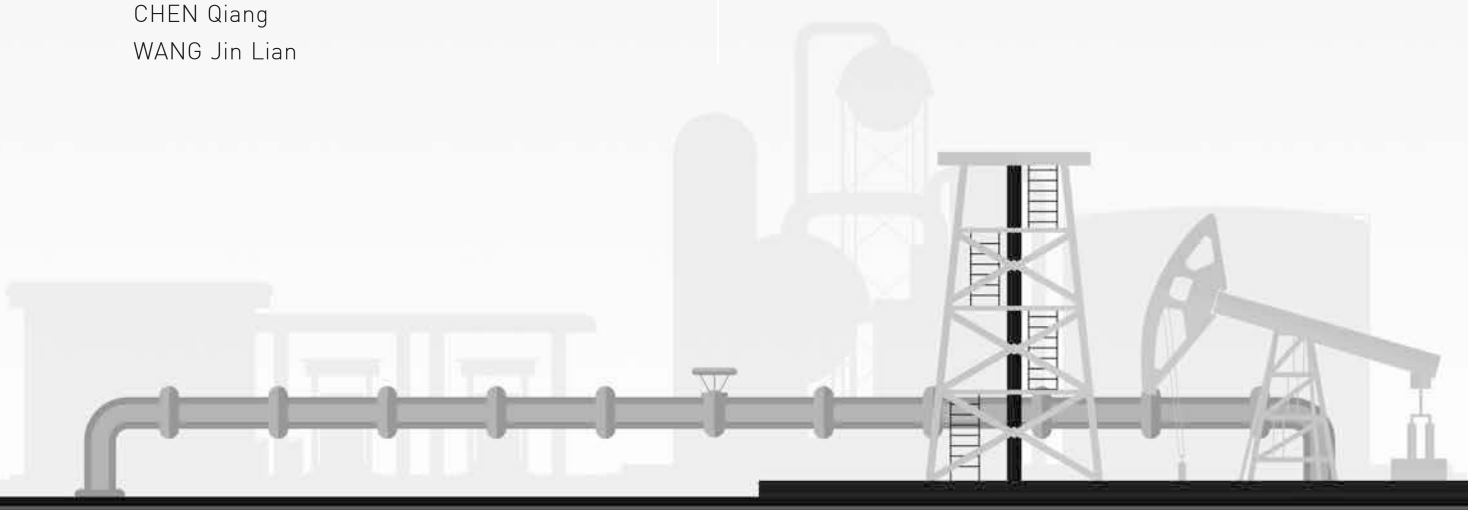
China Minsheng Banking Corp., Ltd.
(Shanghai Branch)
China Development Bank
(Jiangsu Province Branch)
Shanghai Pudong Development Bank Limited
(Hefei Branch)

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