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中船海洋与防务装备股份有限公司

CSSC OFFSHORE & MARINE ENGINEERING (GROUP) COMPANY LIMITED

(a joint stock company with limited liability incorporated in the People's Republic of China)

Stock Code of H Share: 00317

SUMMARY OF THE 2019 INTERIM REPORT

§1 IMPORTANT NOTES

1.1 The financial information contained in this summary of the interim report (the "Report") for the six months ended 30 June 2019 (the "Reporting Period") of CSSC Offshore & Marine Engineering (Group) Company Limited (hereinafter referred to as "COMEC" or the "Company", together with its subsidiaries, the "Group") is prepared in accordance with the PRC Accounting Standards for Business Enterprises and Relevant Regulations (the "Accountant Standards and Regulations"), and the financial information contained in this summary has been reviewed and confirmed by the Audit Committee.

1.2 All Directors of the Company attended the 18th meeting of the ninth session of the Board held on 29 August 2019. The 2019 interim report was unanimously approved at the meeting.

1.3 The 2019 interim financial report of the Company is unaudited.

1.4 The Report is a summary of the full text of the 2019 interim report. Investors are advised to carefully read the full text of such report for details.

1.5 The Report is made pursuant to Rule 13.49(6) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

1.6 The Report is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

§2 BASIC INFORMATION OF THE COMPANY

2.1 Key financial information and indicators

2.1.1 Key accounting figures

Unit: RMB

Key accounting information	Reporting Period (From January to June)	Corresponding period of last year		Change (%)
		After adjustment	Before adjustment	
Operating income	7,816,085,319.68	8,473,768,799.74	8,219,935,619.41	-7.76
Net profit attributable to shareholders of the Company	390,750,329.92	-361,945,458.99	-294,982,112.04	Not applicable
Net profit attributable to shareholders of the Company after deduction of non-recurring gains and losses	-421,908,383.84	-484,093,600.23	-484,093,600.23	Not applicable
Net cash flows from operating activities	-3,200,477,314.96	-2,516,418,429.18	-2,523,805,949.33	Not applicable
	As at the end of the Reporting Period	As at the end of last year		Change (%)
		After adjustment	Before adjustment	
Net assets attributable to shareholders of the Company	10,125,809,826.58	9,727,437,689.21	9,727,437,689.21	4.10
Total assets	47,556,535,725.13	47,475,344,086.37	47,475,344,086.37	0.17

At the end of 2018, the Company completed the acquisition of 100% equity of Guangzhou Wenchong Dockyard Co., Ltd. (hereinafter referred to as “Wenchong Dockyard”), which belongs to the business combination under the same control. When the Company prepared the consolidated financial statements, according to the accounting treatment principle of the business combination under the same control, retrospective adjustments were made to the Income Statement and the Cash Flow Statement for the same period of the previous year.

2.1.2 Key financial indicators

Key financial indicators	Reporting Period (From January to June)	Corresponding period of last year		Change (%)
		After adjustment	Before adjustment	
Basic earnings per share (RMB/share)	0.2764	-0.2561	-0.2087	Not applicable
Diluted earnings per share (RMB/share)	0.2764	-0.2561	-0.2087	Not applicable
Basic earnings per share after deduction of non-recurring gains and losses (RMB/share)	-0.2985	-0.3425	-0.3425	Not applicable
Weighted average return on equity (%)	3.93	-3.19	-2.67	Increase of 7.12 percentage points
Weighted average return on equity after deduction of non-recurring gains and losses(%)	-4.25	-4.38	-4.38	Increase of 0.13 percentage points

2.1.3 Extraordinary items and their amounts

Unit: RMB

Extraordinary items	Amount	Note (where applicable)
Gain or loss on disposal of non-current assets	-201,358.22	
Tax relief and reduction with approval exceeding authority or without formal approval or of non-recurring nature	48,182,634.25	
Gain or loss on entrusted investments or assets under management	9,700,821.37	
Gain or loss on changes in fair value of financial assets held-for-trading, derivative financial assets, financial liabilities held-for-trading and derivative financial liabilities, and investment income from disposal of financial assets held-for-trading, derivative financial assets, financial liabilities held-for-trading, derivative financial liabilities and other debt investment, except for effective hedging transactions that are closely related to the Company's normal operation	56,656,571.28	
Other non-operating income and expenses apart from the aforesaid items	1,248,257,188.46	Mainly the net income of relocation compensation of RMB1.248 billion
Effect of minority interests	-356,764,518.18	
Effect of income tax	-193,172,625.20	
Total	812,658,713.76	

§3 STAFF AND REMUNERATION POLICY

The remuneration of the employees of the Group includes salaries, bonuses and other fringe benefits prescribed by the government. The Group applies different rates of remuneration for different employees, which are determined based on their positions and performance pursuant to the relevant PRC laws and regulations. As at 30 June 2019, the Group had a total of 15,362 employees. For the period ended 30 June 2019, the remuneration paid by the Group to employees was RMB1.058 billion in aggregate.

§4 MANAGEMENT'S DISCUSSION AND ANALYSIS

4.1 Discussion and analysis of overall operation during the Reporting Period

(1) Development of the shipbuilding market in the first half of 2019

New shipbuilding orders around the world continue to decrease. Affected by factors such as the expected downturn of the global economy and the increasing uncertainty of international trade development, shipowners' investment confidence has been frustrated. In the first half of 2019, the global new shipbuilding orders only amounted to 25.36 million DWT, representing a decrease of 52% compared with the corresponding period of last year. Among them, China, South Korea and Japan respectively took over 13.72 million DWT, 7.72 million DWT and 3.16 million DWT, down 25%, 61% and 78% respectively, with an international market share of 54%, 30% and 12% respectively.

The prices of new ships continued to rise steadily. On one hand, the prices of raw materials such as steel continued to rise successively, and at the same time, labor cost pressure is significant. On the other hand, the demand for new ships has tightened again, and the shipyard's awareness of grabbing orders has been strengthened. Against the above background, in the first half of 2019, the price of new ships rebounded weakly and showed some signs of loosening. As at the end of June 2019, the ClarkSea Index rose to 131 points, stable since the beginning of the year.

(2) Operation of the Group

During the Reporting Period, the Group secured new shipbuilding orders with contract value of RMB8,772 million, representing a decrease of 48.17% compared with the corresponding period of last year; operating income of the Group prepared in accordance with the Accounting Standards for Business Enterprises amounted to RMB7,816 million, representing a decrease of 7.76% compared with the corresponding period of last year. Net profit attributable to the shareholders of the Company amounted to RMB391 million. Earnings per share were RMB0.2764, and earnings per share after deduction of non-recurring gains and losses were RMB-0.2985.

4.2 Main business analysis

4.2.1 Analysis of changes in relevant items in the financial statements

Unit: RMB

Item	Reporting Period	Corresponding period of last year	Change (%)
Operating income	7,816,085,319.68	8,473,768,799.74	-7.76
Operating costs	7,626,860,800.81	8,383,297,494.76	-9.02
Selling expenses	8,547,839.97	31,034,687.54	-72.46
Administrative expenses	374,142,028.48	392,266,908.95	-4.62
Finance cost	86,228,563.48	109,318,180.54	-21.12
Research and development expense	226,390,380.65	201,450,733.11	12.38
Net cash flows from operating activities	-3,200,477,314.96	-2,516,418,429.18	Not applicable
Net cash flows from investing activities	-1,369,802,592.40	-1,362,326,686.52	Not applicable
Net cash flows from financing activities	894,637,628.77	-256,254,227.59	Not applicable

Reason for change in operating income: factors such as the decrease in the number of orders as a result of the sluggish shipbuilding market and the relocation and consolidation of the plant, etc.

Reason for change in operating costs: factors such as the decrease in the number of orders as a result of the sluggish shipbuilding market and the relocation and consolidation of the plant, etc.

Reason for change in selling expenses: mainly due to the reversal of provision for warranty expenses during the period.

Reason for change in administrative expenses: mainly due to the decrease in employee remuneration.

Reason for change in finance cost: mainly due to the decrease in net exchange loss during the period.

Reason for change in research and development expense: mainly due to the strengthening of technical research and development during the period.

Reason for change in net cash flow from operating activities: mainly due to the progress of collection during this period is lower than the progress of payment.

Reason for change in net cash flow from investing activities: mainly due to the fixed deposits over three months during the period.

Reason for change in net cash flow from financing activities: mainly due to the introduction of investors for the subsidiary of the Company.

4.2.2 Details of the composition of the Company's profits or material changes of the sources of profits

Unit: RMB

Item	Reporting Period	Corresponding period of last year	Change (%)	Reason for change
Selling expenses	8,547,839.97	31,034,687.54	-72.46	Reversal of provision for warranty expenses during the period
Other income	5,517,547.40	8,439,920.30	-34.63	Decrease in government grants during this period
Investment income	-200,623,239.54	20,390,428.51	-1,083.91	Settlement loss of forward contracts during the period
Gain on change in fair value	264,450,151.28	-221,420,289.98	Not applicable	Changes in fair value such as handheld foreign exchange contracts from changes in exchange rates
Loss on impairment of credit	-8,451,275.85	-9,818,347.40	Not applicable	Increase in the provision on bad debts during the period
Gains from disposal of asset	-249,851.06		Not applicable	Loss of fixed assets disposal during the period
Non-operating income	1,253,089,251.01	564,305,723.58	122.06	Recognition of net income from compensation for relocation during the period
Non-operating expenses	1,625,913.57	57,469,748.98	-97.17	Settlement of arbitration in relation to a subsidiary of the Company in previous period
Income tax expense	93,984,992.93	-32,894,664.43	Not applicable	Increase in deferred income tax expenses
Gain or loss attributable to minority interests	218,874,532.94	-64,933,196.71	Not applicable	Introduction of new shareholders for subsidiaries in previous period
Net after tax for other comprehensive income	10,401,824.34	-2,300,574.80	Not applicable	Changes in fair value of investments in other equity instruments

4.2.3 Analysis of assets and liabilities

Unit: RMB

Name of project	Amount at the end of current period	Proportion among total assets at the end of current period (%)	Amount at the end of last period	Proportion among total assets at the end of last period (%)	Change of amount at the end of current period compared with that of the end of last period (%)	Description
Cash at bank and on hand	7,033,700,046.08	14.79	10,337,887,158.50	21.78	-31.96	Under the impact that collection progress in this period is lower than the payment progress
Accounts receivable	3,514,084,587.92	7.39	2,562,295,160.42	5.40	37.15	More dues in the period
Other receivables	993,612,135.28	2.09	326,086,350.28	0.69	204.71	Impact of recognition of relocation compensation in the period
Other current assets	243,646,496.83	0.51	365,378,116.05	0.77	-33.32	Reduction in VAT tax retaining/credit
Right-of-use asset	176,233,075.65	0.37			Not applicable	Impact of implementing new lease standards
Construction in progress	1,010,238,554.59	2.12	762,567,676.87	1.61	32.48	Impact of increased investment in fixed assets
Other non-current assets	26,470,552.78	0.06	80,251,531.97	0.17	-67.02	Non-current prepayment reduction
Short-term borrowings	7,524,383,875.11	15.82	4,304,387,255.88	9.07	74.81	New borrowing
Financial liabilities held-for-trading	202,774,080.82	0.43	431,894,056.78	0.91	-53.05	Changes in fair value such as handheld foreign exchange contracts from changes in exchange rates
Notes payable	1,850,172,981.45	3.89	2,730,396,298.20	5.75	-32.24	Expired bill acceptance
Employee benefits payable	62,783,802.68	0.13	41,351,166.51	0.09	51.83	Impact of the current provision of remuneration
Taxes payable	75,307,785.25	0.16	48,140,024.18	0.10	56.43	Increase in corporate income tax in the current period
Non-current liabilities due within one year	1,489,900,000.00	3.13	4,414,000,000.00	9.30	-66.25	Repayment of borrowings
Lease liabilities	128,738,531.12	0.27			Not applicable	Impact of implementing new leasing criteria

4.2.4 Principal businesses by product and by region

Unit: RMB

Principal businesses by product				
Product name	Current period		Corresponding period of last year	
	Principal operating income	Principal operating costs	Principal operating income	Principal operating costs
Ship products	6,396,382,932.72	6,408,256,088.84	7,048,076,362.01	7,012,553,796.09
Offshore engineering products	320,174,444.06	308,775,195.75	89,831,168.14	127,420,426.77
Steel structure	357,375,955.95	336,439,069.43	355,507,842.84	336,513,278.10
Ship maintenance and renovation	350,573,955.00	283,999,906.72	240,520,485.18	231,127,974.41
Electromechanical products and others	353,730,044.91	274,739,504.22	635,426,307.18	611,249,880.52
Total	7,778,237,332.64	7,612,209,764.96	8,369,362,165.35	8,318,865,355.89
Principal businesses by region				
Region	Current period		Corresponding period of last year	
	Principal operating income	Principal operating costs	Principal operating income	Principal operating costs
China (including Hong Kong, Macau and Taiwan)	4,288,158,574.46	3,927,968,512.95	4,897,866,494.08	4,837,736,705.30
Other regions in Asia	465,016,224.86	482,841,130.20	304,627,419.16	290,592,847.26
Europe	1,453,931,398.50	1,565,932,402.43	1,780,158,856.74	1,839,122,563.46
Oceania	452,946,939.48	457,191,994.41	235,552,115.80	233,346,125.82
North America	185,390,271.74	209,953,701.35	874,090,624.27	836,142,801.47
Africa	905,706,498.41	927,314,539.90	227,579,212.20	232,186,013.45
South America	27,087,425.19	41,007,483.72	49,487,443.10	49,738,299.13
Total	7,778,237,332.64	7,612,209,764.96	8,369,362,165.35	8,318,865,355.89

4.3 Analysis of investment status

4.3.1 Information on equity investments

The Company is a holding company. As at the end of the Reporting Period, the balance of equity investments made by the Group amounted to RMB740,036,800, representing an decrease of 0.12% from RMB740,935,300 as at the beginning of the year.

4.4 Non-raised funds investment projects

During the reporting period, the Company had no investment projects for raised funds.

§5 SIGNIFICANT EVENTS

5.1 Assets transactions and merger of enterprises

5.1.1 Equity sale

On 4 April 2019, the 13th meeting of the 9th session of the Board of Directors of the Company reviewed and approved the “Proposal on Major Adjustment of Structure of the Material Asset Restructuring Plan of the Company” and its related proposals. According to the strategic layout of China State Shipbuilding Corporation Limited (hereinafter referred to as “CSSC”) and the changes in market-based debt-to-equity swaps, it was proposed to adjust the Company's material asset restructuring plan. The adjusted plan didn't involve the issuance of shares to purchase assets, the transaction method was changed to asset swap, and the Company's main business would change, all which were expected to constitute a material asset swap. The material asset restructuring plan was intended to be adjusted as follows: the Company intended to carry out asset swaps with CSSC. The Company intended to swap in 100% equity interest of Eastern Shanghai Heavy Machinery Co., Ltd., 100% equity interest of CSSC Marine Power Co. Ltd., 51% equity interest of CSSC Marine Power Institute Co., Ltd. and 15% equity interest of Shanghai CSSC Mitsui Shipbuilding Diesel Engine Co., Ltd. held by CSSC., and swap out part of the equity interest of CSSC Huangpu Wenchong Shipbuilding Company Limited (hereinafter referred to as “Huangpu Wenchong”) and Guangzhou Shipyard International Company Limited (hereinafter referred to as “GSI”) held by the Company that are equivalent in value to the above-mentioned swap-in assets.

On 7 August 2019, the 16th meeting of the 9th session of the Board of the Company reviewed and

approved the “Proposal on Major Adjustment of Structure of the Material Asset Restructuring Plan (the Plan) of the Company” and related proposals. CSSC and China Shipbuilding Industry Corporation have drawn up strategic restructuring, and at the same time there is horizontal competition between the Company, CSSC and China Shipbuilding. Considering the fact that overcapacity in the civilian product ship market is difficult to substantially improve in the short term, so in order to improve the Company's financial position, improve profitability, smoothly promote market-oriented debt-to-equity swap project and resolve horizontal competition, the Company intends to adjust the material assets restructuring plan reviewed and disclosed at the 13th meeting of the 9th session of the Board of Directors. The adjusted plan does not involve the issuance of shares to purchase assets and asset swap, and the transaction method is changed to assets sale. The specific content is as follows: the Company sells 27.4214% of the equity of GSI to China Shipbuilding, who pays the transaction consideration by way of non-public issuance of A shares to the Company, and at the same time, the Company waives the pre-emptive rights of first refusal to acquire the 23.5786% equity in GSI and the 30.9836% equity in Huangpu Wenchong held and intended to transfer by market-oriented debt-to-equity investors of GSI and Huangpu Wenchong. Upon completion of the transaction, the Company is expected to acquire a approximately 5.28% equity in China Shipbuilding. Upon completion of the above, the Company will hold a 49% equity in GSI, and will no longer have a consolidated statement on it; and the Company will hold a 69.0164% equity in Huangpu Wenchong, which will remain a holding subsidiary within the scope of the Company's consolidated statements. For details, please refer to the "Resolutions of the 13th Meeting of the 9th session of the Board of Directors of CSSC Offshore" and the "Resolutions of the 16th Meeting of the 9th session of the Board of Directors of CSSC Offshore" issued on the website of the Shanghai Stock Exchange (www.sse.com.cn), the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (comec.cssc.net) on 4 April 2019 and 7 August 2019.

5.2 Profit distribution and cash dividend policy

5.2.1 Implementation of profit distribution proposal during the Reporting Period

As considered and passed at the annual general meeting of 2018 of the Company held on 28 May 2019, the Company's 2018 annual profit distribution plan is as follows: according to Item 4 of Section (III) of the Profit Distribution Policy, the Article 215 of the Articles of Association of CSSC Offshore & Marine Engineering (Group) Company Limited, in view of the Company's net profit attributable to shareholders of listed companies in 2018 is negative, the Company decides not to distribute dividends for 2018, nor

would it convert any capital reserve into share capital.

5.2.2 Profit distribution during the Reporting Period

The Company will not make profit distribution or convert any capital reserve into share capital for the first half of 2019.

5.3 Material litigations, arbitrations and matters commonly concerned by media

On 31 December 2010, the Company and its subsidiary Guangzhou Guangli Shipbuilding Human Resources Service Company Limited (“Guangli”) filed four lawsuits at the Zhenjiang Intermediate People’s court of Jiangsu province, being a case on the Company’s claim against Jiangsu Shenghua for return of properties, a case on technical service contract dispute, and the cases on Guangli’s claim against Jiangsu Shenghua for 79,600 ton bulk carriers 1# and 2# installment work contract disputes. On 4 June 2013, Wuhan Maritime Court mediated the litigation between the Company and Jiangsu Shenghua, and Jiangsu Shenghua had returned all the related assets. As for the case that the Company claimed against Jiangsu Shenghua in relation to a dispute over technical service contract, and the case that Guangli claimed against Jiangsu Shenghua for 79,600 ton bulk carriers 1# and 2# installment work contract disputes, please refer to the “Significant Events – (I) Significant Litigations and Arbitrations” in the annual report of the Company for the year 2011 for details.

The Company attended the second meeting of creditors on 27 April 2017 and received a ruling made by Zhenjiang Intermediate Court on 17 May 2017 which approved the proposal for liquidation and realization of properties of Jiangsu Shenghua. The valuation of the existing properties, land and structures erected thereon and machinery and equipment of Jiangsu Shenghua was completed, and its ships under construction were still under valuation. Land, properties, machinery and other related assets have been bid at RMB77.65 million. The 3rd meeting of debtors for liquidation is expected to be held within 2019.

Save as disclosed, as at 30 June 2019, the Company was not involved in any material litigations or arbitrations and, to the best of the knowledge of the Company, there were no material litigations or arbitrations pending or threatened against or by the Company.

5.4 Entrustment, contracting and leasing matters

5.4.1 Leasing

Unit: RMB in ten thousand

Name of lessor	Name of lessee	Assets leased	Amount of assets leased	Date of commencement of lease	Date on which the lease will be terminated	Rental income	Basis for determination of rental income	Impact of rental income on the Company	Whether related transaction	Relationship
Guangzhou Ship Industrial Company Limited	Huangpu Wenchong	Land, buildings and structures	-	2014.5.1	The date on which the relocation is completed and production commences at the new plant	-	-	-	Yes	Sister company of the Group
Guangzhou Wenchong Properties Co., Ltd.	Wenchong Shipyard	Land, buildings and structures	-	2018.11.1	The date on which the relocation is completed and production commences at the new plant	-	-	-	Yes	Sister company of the Group

Description of leases:

Guangzhou Ship Industrial Co., Ltd. and Huangpu Wenchong entered into a lease agreement in relation to land use right, pursuant to which Guangzhou Company shall lease the land use right owned by it in relation to the land at the Changzhou Plant to Huangpu Wenchong for its operational use. The rent for the land use right shall be determined based on the principle of asset depreciation, amortisation and taxes. The rent shall be paid on an annual basis in the form of cash at bank and on hand. The term for the aforesaid lease of land use right commenced on 1 May 2014 and will end on the date on which the relocation of Huangpu Wenchong is completed and production commences at the new plant.

Guangzhou Wenchong Properties Co., Ltd. and Guangzhou Wenchong Shipyard Co. Ltd. (hereinafter referred to as “Wenchong Shipyard”) entered into a lease agreement in relation to land use right, and leased part of the land use rights of the Wenchong Plant owned by it to Wenchong Shipyard for operation. The rent for the land use right shall be determined based on the principle of asset depreciation, amortisation and taxes. The rent shall be paid on an annual basis in the form of cash at bank and on hand. The term for the aforesaid lease of land use right commenced on 1 November 2018 and will end on the date on which the relocation of Wenchong Shipyard is completed and production commences at the new plant.

5.4.2 Guarantee

Unit: RMB

External guarantees by the Company (excluding guarantees for its subsidiaries)													
Guarantor	Relationship between guarantor and the Company	Guaranteed entity	Amount of guarantee	Date of guarantee (date of signing of agreement)	Guarantee s Date of commencement	Guarantees Date of expiry	Type of guarantee	Whether fully executed	Whether guarantee is overdue	Overdue amount	Existence of counter guarantee	Whether provided for related party	Relationship
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total amount of guarantees during the Reporting Period (excluding guarantees provided for its subsidiaries)						-							
Total balance of guarantees at the end of the Reporting Period (A) (excluding guarantees provided for its subsidiaries)						-							
Guarantees provided by the Company for its subsidiaries													
Total amount of guarantees provided for its subsidiaries during the Reporting Period						520,000,000.00							
Total balance of guarantees provided for its subsidiaries at the end of the Reporting Period (B)						820,000,000.00							

Total amount of guarantees provided by the Company (including those provided for its subsidiaries)	
Total amount of guarantees (A+B)	820,000,000.00
Total amount of guarantees as a percentage of the Company's net assets (%)	5.41
Including:	
Amount of guarantees provided for shareholders, actual controllers and related parties (C)	-
Amount of debt guarantees provided directly or indirectly for companies with gearing ratio of over 70% (D)	120,000,000.00
Total amount of guarantees in excess of 50% of net assets (E)	-
Sum of the above three guarantees (C+D+E)	120,000,000.00
Description of outstanding guarantees which may incur several and joint liability	Not applicable
Note on guarantees	During the Reporting Period, the Group provided guarantee with a total balance of guarantee of RMB820 million, all of which are guarantees provided by Huangpu Wenchong, a subsidiary controlled by the Company, to a wholly-owned subsidiary thereof. The guarantee items are comprehensive credit guarantee and working capital loan guarantee, etc. The cap set out in the framework for the proposed guarantees between the Company and its subsidiaries for the year 2019 and their amounts has not been exceeded.

5.5 Environmental information

5.5.1 Description of the environment protection of the Company and its major subsidiaries falling to be the key waste water emission entities as announced by the environment protection authorities of the PRC

According to the Circular on the List of the Key Pollution Discharge Entities in Guangzhou for 2019 (Sui Huan [2019] No. 45) issued by Guangzhou Environmental Protection Bureau in March 2019, five members of the Group, namely GSI, Huangpu Wenchong, Guangzhou Longxue Pipe Co., Ltd. (hereinafter referred to as “Longxue Pipe”), Wenchong Shipyard and Guangzhou Huangchuan Ocean Engineering Co. Ltd (hereinafter referred to as “Huangchuan Ocean Engineering”), were included as key pollution discharge entities in Guangzhou for 2019. According to a circular (Sui Nan Huan Shui [2017] No. 75) issued on 29 March 2017, Wenchong Dockyard was included as a key pollution discharge entity in Nansha District.

5.5.1.1 Information on pollution discharge

1. GSI

The main pollutants discharged in the production process of GSI are waste gas, waste water, solid waste and noise.

(1) Waste gas

The waste gas generated by GSI mainly represents dust and organic waste gas. GSI has established waste gas treatment devices to ensure that the emission concentration of the air pollutant emitted reaches the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, there existed no waste gas emissions of GSI that exceeded the standard.

(2) Waste water

The waste water generated by GSI includes production waste water and domestic waste water. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves and the pipeline oil intermingling process. The domestic waste water is from the sewage generated at the production area and the office area. During the Reporting Period, GSI discharged a total of 224,175 tonnes of waste water, the water pollutant emission concentration of which has reached the level I, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province.

(3) Solid waste (including hazardous waste)

The solid waste generated by GSI is mainly classified into two types, being production solid waste and domestic refuse. GSI collects and separates the solid waste generated. Recyclable solid waste such as waste metal is utilised by waste material recycling companies, non-recyclable solid waste is disposed of by the environmental protection companies and transported to a qualified landfill for disposal, and domestic garbage shall be collected and disposed of by the local environmental sanitation authorities. Qualified entities with hazardous waste business license are appointed to treat hazardous waste. During the Reporting Period, GSI disposed of a total of 14,520 tonnes of general solid waste and a total of 418.92 tonnes tons of hazardous waste.

(4) Noise

The noise generated by GSI is mainly production noise. It conducts noise emission detection at boundary on a regular basis to ensure that the noise at boundary meets the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary.

2. Longxue Pipe

The main pollutants discharged in the production process of Longxue Pipe are waste gas, waste water, solid waste and noise.

(1) Waste gas

The waste gas generated by Longxue Pipe includes dust gas, organic waste gas and acid mist gas, and the emission concentration of the air pollutant emitted met the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, there existed no waste gas emissions of Longxue Pipe that exceeded the standard.

(2) Waste water

The waste water generated by Longxue Pipe includes acid and alkali flushing waste water, etc. During the Reporting Period, Longxue Pipe discharged a total of 6,553 tonnes of waste water, and the emission concentration of water pollutants met the level III, period II standard set out in the Emission Limits of Water Pollutants of Guangdong Province. During the Reporting Period, there existed no waste water emissions of Longxue Pipe that exceeded the standard.

(3) Solid waste (including hazardous waste)

The solid waste generated by Longxue Pipe includes hazardous waste (phosphate slag sludge etc.),

general industrial solid waste and domestic refuse. Qualified entities are appointed to dispose of hazardous waste generated by it. During the Reporting Period, Longxue Pipe disposed of a total of 516.74 tonnes of solid waste.

(4) Noise

The noise generated by Longxue Pipe represents mainly production noise. The noise at boundary met the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary.

3. Huangpu Wenchong

The main pollutants discharged in the production process of Huangpu Wenchong are waste water, waste gas, solid waste and noise.

(1) Waste gas

The waste gas generated by Huangpu Wenchong mainly represents dust waste gas and volatile organic waste gas during the production process. It has established waste gas treatment devices to ensure that the emission concentration of the air pollutant emitted meets the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, there existed no waste gas emissions of Huangpu Wenchong that exceeded the standard.

(2) Waste water

The waste water generated by Huangpu Wenchong includes production waste water and domestic waste water. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves, workshop industrial waste water, and cabin-cleaning oily waste water. The domestic waste water is from the sewage generated at the production area and the office area. The cabin-cleaning oily waste water following disposal at the oily water disposal station, together with domestic sewage and other industrial waste water, is discharged into municipal sewage pipelines. During the Reporting Period, Huangpu Wenchong discharged a total of 328,396 tonnes of waste water, the water pollutant emission concentration of which has met the level III, period II standard set out in the Emission Limits of Water Pollutants of Guangdong Province. During the Reporting Period, there existed no waste water emissions of Huangpu Wenchong that exceeded the standard.

(3) Solid waste (including hazardous waste)

The solid waste generated by Huangpu Wenchong is mainly divided into two categories, being production solid waste and domestic refuse, which are further divided into three types based on the

characteristics of solid waste, namely recyclable solid waste, non-recyclable solid waste (industrial refuse) and hazardous waste.

Huangpu Wenchong collects and separates solid waste. Recyclable solid waste such as waste metal is utilised by waste material recycling companies, and non-recyclable solid waste (industrial refuse) is delivered to Guangzhou Shijie Environment Protection Equipment Co., Ltd. for transportation and disposal. Domestic refuse is delivered to the environmental sanitation authority of Changzhou Street, while Zhaoqing Xin Rong Chang Environmental Protection Co., Ltd., Guangdong Xinsheng Environmental Technology Co., Ltd. and Miluo Wanrong Solid Waste Processing Co., Ltd., which are qualified, are appointed to dispose of hazardous waste. During the Reporting Period, 990 tonnes of solid waste (industrial refuse) and 204.47 tonnes of hazardous waste were disposed of.

(4) Noise

The noise generated by Huangpu Wenchong represents mainly production noise and mechanical noise. The noise at boundary met the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary (GB12348-2008).

4. Wenchong Shipyard

The main pollutants discharged in the production process of Wenchong Shipyard are waste gas, waste water, solid waste and noise.

(1) Waste gas

The waste gas generated by Wenchong Shipyard mainly represents organic waste gas and dust. It has five sets of organic waste gas purification treatment devices and seven filter dust removers to ensure that the emission concentration of the air pollutant emitted meets the level II, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province (DB44/27-2001). During the Reporting Period, all its waste gas emissions met the standard.

(2) Waste water

The waste water generated by Wenchong Shipyard includes production waste water and domestic waste water. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves and the pipeline oil intermingling process. The domestic waste water is from the sewage generated at the production area and the office area. The emission concentration of its water pollutants met the level B limit set out in the table 1 in the Wastewater Quality Standards for Discharge to Municipal Sewers (CJ343-2010). During the Reporting Period,

Wenchong Shipyard discharged a total of 125,290 tonnes of waste water.

(3) Solid waste (including hazardous waste)

The solid waste generated by Wenchong Shipyard includes hazardous waste, general industrial solid waste and domestic refuse. Qualified entities are appointed to dispose of hazardous waste generated by it. During the Reporting Period, Wenchong Shipyard disposed of 2,548 tonnes of general industrial waste and 639.48 tonnes of hazardous waste.

(4) Noise

The noise generated by Wenchong Shipyard represents mainly production noise and mechanical noise. The noise at boundary met the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary (GB12348-2008).

5. Huangchuan Ocean Engineering

The main pollutants discharged in the production process of Huangchuan Ocean Engineering are waste gas, waste water, solid waste and noise.

(1) Waste gas

The waste gas generated by Huangchuan Ocean Engineering mainly represents dust and organic waste gas. It has established waste gas treatment devices to ensure that the emission concentration of the air pollutant emitted meets the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, there existed no waste gas emissions of Huangchuan Ocean Engineering that exceeded the standard.

(2) Waste water

The waste water generated by Huangchuan Ocean Engineering includes production waste water and domestic waste water. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves and the pipeline oil intermingling process. The domestic waste water is from the sewage generated at the production area and the office area. During the Reporting Period, Huangchuan Ocean Engineering discharged a total of 137,317 tonnes of waste water, the water pollutant emission concentration of which has met the level I, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province, and no standard had been exceeded.

(3) Solid waste (including hazardous waste)

The solid waste generated by Huangchuan Ocean Engineering includes mainly three types, namely

recyclable solid waste, non-recyclable solid waste and hazardous waste. Huangchuan Ocean Engineering collects and separates the solid waste generated. Recyclable solid waste such as waste metal is utilised by waste material recycling companies. Qualified entities are appointed to treat non-recyclable solid waste and hazardous waste. During the Reporting Period, Huangchuan Ocean Engineering disposed of 2,328.14 tonnes of industrial refuse and 141.62 tonnes of hazardous waste.

(4) Noise

The noise generated by Huangchuan Ocean Engineering is mainly production noise. It conducts noise emission detection at boundary on a regular basis to ensure that the noise at boundary meets the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary, and no standard had been exceeded

6. Wenchong Dockyard

The main pollutants discharged in the production process of Wenchong Dockyard are waste gas, waste water, solid waste and noise.

(1) Waste gas

The waste gas generated by Wenchong Dockyard mainly represents dust and organic waste gas. Electromechanical organic waste gas comes from the production process of dipping paint and baking paint and is discharged through a 15-metre exhaust funnel; acid mist exhaust comes from the side suction hood alongside the acid tank of chemical cleaning yard of electromechanical general workshop, and waste gas is pumped to a KTXD-20K fiberglass purification tower by a fan for purification treatment and then discharged through a 15-metre exhaust funnel. The emission concentration of the air pollutant emitted meets the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, no waste gas emissions of Wenchong Dockyard had exceeded the standard.

(2) Waste water

The waste water generated by Wenchong Dockyard includes production waste water and domestic sewage. The production waste water mainly comes from docks, ship maintenance wharves, hatch cover repair yard, electromechanical general workshop, pipe processing workshop and air compressor station. The domestic sewage is from the sewage generated at the production area and the office area. During the Reporting Period, Wenchong Dockyard discharged a total of 33,501 tonnes of waste water, the water pollutant emission concentration of which has met the level I, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province, and no standard had been exceeded.

(3) Solid waste (including hazardous waste)

The solid waste generated by Wenchong Dockyard mainly includes: waste steel, waste copper ore, waste welding materials, waste mineral oil, oily wastewater, waste acid and wastewater treatment sludge, paint residue and industrial refuse. Qualified entities are appointed to recover various wastes for comprehensive utilisation or disposal. A general industrial solid waste dump and a hazardous waste temporary storage are set up in the plant area. During the Reporting Period, Wenchong Dockyard disposed of 45,285 tonnes of solid waste and 1,520 tonnes of hazardous waste.

(4) Noise

The noise generated by Wenchong Dockyard mainly comes from production processes such as sandblasting derusting, steel plate correction, plasma cutting and electric welding and fixed equipment such as air compressor, fan, water pump and transformer. The sources of noise are mainly located at docks, ship maintenance wharves/hatch cover repair yard, hull workshop, pipe workshop, water supply pump room, sewage lift pump room, air compressor station and substation, etc. By optimising plant layout, giving priority to adopting low noise equipment and setting up dedicated machine rooms equipped with sound insulation/silencing/vibration reduction measures, the impact of noise on the external environment was mitigated.

5.5.1.2 Construction and operation of pollution prevention facilities

1. GSI

GSI has established 26 sets of cyclone + filter cartridge dust collectors and 24 sets of sinking dust collectors for dust discharged, 10 sets of activated carbon adsorption + catalytic combustion purification treatment devices for organic waste gas, and a domestic sewage treatment station and an oily wastewater treatment station for the waste water generated. For production noise, it mainly reduces the impacts of production noise through equipment selection, building enclosure, establishing sound insulation covers, installing damping pads and mufflers. In addition, it conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise in strict compliance with the requirements of the Regulations on Prevention and Control of Environmental Pollution of GSI to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

2. Longxue Pipe

Longxue Pipe has established water filter dust removers for zinc oxide dust discharged, activated carbon adsorption purification devices for organic waste gas, and acid mist towers and washing towers for acid mist waste gas, sewage treatment station for waste water, and established separate machine rooms and adopted noise reduction and other measures for high noise equipment. It conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

3. Huangpu Wenchong

Huangpu Wenchong has established a sewage water treatment station to treat the dirty oil in the ship's clearing. The industrial waste gas treatment system was installed in the steel plate pretreatment line and painting room, and the above equipment and facilities were operating normally.

Huangpu Wenchong has established 5 sets of cyclone + filter cartridge dust collectors for the 2-metre and 3-metre steel plate pre-treatment lines and painting rooms which generate dust, 3 sets of activated carbon adsorption + catalytic combustion purification treatment devices for the 2-metre and 3-metre steel plate pre-treatment lines and painting rooms which generate organic waste gas, and a domestic sewage treatment station and an oily wastewater treatment station for the waste water generated. For production noise, it mainly reduces the impacts of production noise through equipment selection, building enclosure, establishing sound insulation covers, installing damping pads and mufflers. In addition, it conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise in strict compliance with the requirements of the Environmental Protection Management Measures of Huangpu Wenchong to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

4. Wenchong Shipyard

For waste gas emission, Wenchong Shipyard has established 5 sets of activated carbon adsorption + catalytic combustion desorption treatment devices and 7 sets of cyclone dust removal and filter cartridge dust collectors at the painting workshop and the steel plate pre-treatment workshop. For waste water emission, it completed the rain and sewage diversion project (for shipbuilding space), and production waste water and domestic waste water are directly discharged to the waste water treatment plant through municipal pipelines. For noise, it adopts measures including installing sound insulation and noise elimination facilities to reduce the impacts of production noise, and conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise to ensure that the facilities operate normally and the pollutants are not

discharged until treated and meeting the standard.

5. Huangchuan Ocean Engineering

Huangchuan Ocean Engineering has established a sewage treatment station to treat production waste water and domestic waste water, installed cyclone + filter cartridge dust collectors at the steel pre-treatment line and sandblasting room, and 12 sets of activated carbon adsorption + catalytic combustion purification treatment devices for organic waste gas. All these facilities operate normally. For production noise, it mainly reduces the impacts of production noise through equipment selection, building enclosure, establishing sound insulation covers, installing damping pads and mufflers, etc.

6. Wenchong Dockyard

Wenchong Dockyard has 6 sets of sewage treatment systems. Oily wastewater is treated at the oily wastewater treatment station and then discharged into the sewage treatment station in the dock area for further treatment. Chemical cleaning wastewater is treated at the chemical cleaning wastewater treatment station and then discharged into the sewage treatment station in the wharf area for further treatment. General production waste water and domestic sewage are delivered to the sewage treatment station in the dock area and the sewage treatment station in the wharf area. Slurry water generated by high pressure water cleaning operation undergoes flocculation and sedimentation treatment. Welding flue gas at hull workshop is treated by mobile welding flue gas purifier. Welding flue gas at pipe workshop is filtered by a welding flue gas treatment system. Organic waste gas generated by immersion and drying at the electromechanical general workshop is purified by an activated carbon absorption device. Acid mist waste gas generated by chemical cleaning is purified by a fiberglass acid mist purification tower. The above environmental treatment equipment is in good condition and operates effectively.

5.5.1.3 Environmental impact assessment for construction projects and other administrative permission for environmental protection

1. GSI

GSI strictly complies with the requirements of the relevant environmental laws and regulations and conducts the “Three simultaneousness” work for the environmental protection for construction projects. On 11 January 2006, the former State Environmental Protection Administration issued a reply to the Environmental Impact Report on the Civil Product Shipbuilding Area Project of Phase I of the CSSC Longxue Shipbuilding Base (Huan Shen [2006] No. 22), and the project passed the inspection and acceptance of the Ministry of Environmental Protection on 27 July 2010. The Nansha

Environmental Protection Bureau of Guangzhou issued the Letter of Review Opinions for the Environment Report for the General Warehouse Technical Upgrade Project of Guangzhou Shipyard International Company Limited on 18 August 2015, and the project passed the inspection and acceptance of Nansha Environmental Protection and Water Affairs Bureau of Guangzhou on 29 December 2016. GSI has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations. In 2019, the environmental protection completion acceptance of the 1# sectional welding workshop expansion project was completed.

2. Longxue Pipe

Longxue Pipe strictly complies with the requirements of the relevant environmental laws and regulations and conducts the “Three simultaneousness” work for the environmental protection for construction projects. Nansha Environmental Protection Bureau of Guangzhou issued a reply to the Environmental Impact Report on the Phase I Construction Project of Guangzhou Longxue Pipe Co., Ltd. (Sui Nan Qu Huan Guan Huan Guan Ying [2010] No. 104) on 30 August 2010, and the project passed the inspection and acceptance of Nansha Environmental Protection Bureau of Guangzhou in 2012. Longxue Pipe has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

3. Huangpu Wenchong

The construction of the environmental protection facilities of the general technical upgrade project of Huangpu Wenchong was substantially completed. Currently the environmental acceptance report has been prepared and it is in the process of applying for on-site inspection and acceptance for environmental protection in accordance with the procedures. Huangpu Wenchong has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

4. Wenchong Shipyard

Wenchong Shipyard owns environmental protection administrative licenses including the Pollutant Discharge Permit of Guangdong Province, the Drainage permit and the Radiation Safety License. In 2018, the Company conducted the construction project environmental impact assessment and completed the preparation of environmental impact report for painting workshop E/F and the temporary storage site for hazardous wastes, which completed the inspection and acceptance and was put it into normal operation in May 2019. Wenchong Shipyard has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

5. Huangchuan Ocean Engineering

The acceptance approvals for the offshore engineering Phase I, offshore engineering production capacity expansion and offshore engineering supplementary projects of Huangchuan Ocean Engineering, all of which were completed, had been obtained. The pollutant discharge permit had been obtained in 2014. A reply from Nansha Environmental Protection and Water Affairs Bureau to the environment impact assessment of the newly-built Longxue Gas Cylinder Transfer Station (Sui Nan Qu Huan Shui Guan Ying (2017) No. 93) was obtained, and the inspection and acceptance is completed in April 2019. A reply to the investment project was obtained from Nansha Environmental Protection Bureau (Sui Nan Kai Huan Guan Ying [2014] No. 190) in 2014, and the project is currently under construction. Huangchuan Ocean Engineering has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

6. Wenchong Dockyard

Wenchong Dockyard received the phase 1 and phase 2 environmental impact assessment approvals (Huan Shen [2006] No. 681 and Huan Shen [2007] No. 526) in 2006 and 2007, respectively. In June 2011, China National Environmental Monitoring Centre prepared the Monitoring Report on Completion Acceptance for Environmental Protection of the Ship Maintenance Project of Longxue Shipbuilding Facility of CSSC, and the Ministry of Environmental Protection issued an approval (Huan Yan [2010] No. 208). The Environmental Protection Bureau of Nansha District also issued approvals for the environmental impact assessment of construction of a new special pipe workshop and the extension of 2# dock (Sui Nan Kai Huan Guan Ying [2015] No. 143 and Sui Nan Qu Huan Shui Guan Ying [2017] No. 231). Wenchong Dockyard has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

5.5.1.4 Emergency plans for sudden environmental events

1. GSI and Longxue Pipe

Both GSI and Longxue Pipe have prepared the Emergency Plan for Sudden Environmental Events in accordance with the relevant requirements for safety and environmental protection in the PRC, which were filed with the environmental protection authorities in the first half of 2017.

Both GSI and Longxue Pipe have established an emergency rescue leading team and an emergency rescue professional team. The emergency plan sets out clear emergency response procedures, the position responsibilities of emergency personnel and the emergency response measures for various

environmental risks in day-to-day operation (such as safety training, fire drills and material support).

2. Huangpu Wenchong

The emergency plan for sudden environmental events developed by Huangpu Wenchong passed expert review and was filed with Huangpu Environmental Protection Bureau in 2015. A retrospective review has been conducted in the second half of 2018 to assess its applicability and effectiveness.

Huangpu Wenchong has established an emergency rescue leading team and an emergency rescue professional team. The emergency plan sets out clear emergency response procedures, the position responsibilities of emergency personnel and the emergency response measures for various environmental risks in day-to-day operation (such as safety training, fire drills and material support).

3. Wenchong Shipyard

In October 2018, Wenchong Shipyard launched the second round of environmental emergency plan and risk assessment. The work experienced site survey, data collection, pre-planning, report preparation, expert review, on-site rectification and other stages, and in January 2019, it successfully completed the filing of Huangpu Environmental Protection Bureau. The results of the work were mainly presented as Emergency Plan for Sudden Environmental Events, the Risk Assessment Report for Sudden Environmental Events and the Company Emergency Resources Investigation Report. At the beginning of the year, the Company formulated and released the drill plan of annual safety environment emergency plan, and each department completed the task according to the schedule.

4. Huangchuan Ocean Engineering

The Emergency Plan for Sudden Environmental Events developed by Huangchuan Ocean Engineering passed expert review and was filed with Nansha Environmental Protection Bureau in 2014. Another review was conducted in later 2016 to re-assess its applicability and effectiveness, and it was re-filed with Nansha Environmental Protection and Water Affairs Bureau in January 2017.

5. Wenchong Dockyard

The Emergency Plan for Sudden Environmental Events and the Risk Assessment Report for Sudden Environmental Events developed by Wenchong Dockyard passed expert review and was filed with the Environmental Protection and Water Affairs Bureau of Nansha District in August 2017. No environmental pollution incidents had occurred in 2018. An emergency drill for sudden environmental events was organised once a year.

5.5.1.5 Emergency plans for sudden environmental events

The Group's key pollutant discharge entities appoint qualified testing institutions on a regular basis to monitor the discharge of pollutants including waste water, waste gas, noise and radiation as well as whether the pollutants discharged have met the relevant standards, which are subject to ad-hoc regulatory supervision by environmental protection authorities.

5.6 Notes on other significant events

5.6.1 Details of charges on the assets of the Group

As at 30 June 2019, the Company had a total of bank deposits amounting to RMB2,185 million pledged to secure long- and short-term borrowings, letters of guarantee, letters of credit, projects or as deposit for bank drafts. Save as disclosed above, no other assets of the Company were pledged.

5.6.2 Gearing ratio

As at 30 June 2019, the Group's gearing ratio (total liabilities/total assets x 100%) was 68.16% (as at the beginning of the Reporting Period: 69.76%), basically unchanged from the beginning of the year.

5.6.3 Repurchase, disposal or redemption of securities of the Company

The Group has not made any purchase, disposal or redemption of securities of the Company or any of its subsidiaries during the Reporting Period.

§6 CORPORATE GOVERNANCE REPORT

During the Reporting Period, the general meeting of the Company, the Board and the management performed their specific responsibilities and regulated corporate operation to ensure the true, accurate and complete disclosure of corporate information. Specialized committees of the Board carried out works in accordance with their respective duties, and independent non-executive Directors played an important role in the work of Board.

6.1 Corporate Governance

The Company keeps improving its corporate governance structure in accordance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, relevant laws and regulations issued by the China Securities Regulatory Commission and the requirements of the listing rules of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. To date, the Company's governance had no material difference from the Company Law and relevant regulations of the China Securities Regulatory Commission. Saved as disclosed below, during the six

months ended 30 June 2019, the Company has applied the codes set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and has complied with all the code provisions, except that for the purpose of Code Provision A.6.7 of the CG Code, Mr. Chen Zhongqian, Mr Xiang Huiming and Mr. Chen Ji, being executive Directors, Mr. Shi Jun, being non-executive Directors, and Mr. Liu Renhuai, being independent non-executive Directors, were unable to attend the annual general meeting of 2018 of the Company held on 28 May 2019 for work reason.

6.2 Securities Transactions by Directors

The Company has strictly complied with the relevant restrictive provisions imposed by PRC and Hong Kong regulatory organs in relation to securities transactions by directors and has consistently upheld the principle of complying with the most stringent provisions and had adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. The Company has made specific inquiry of all its directors for preparing this Report and all directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers during the Reporting Period.

6.3 Meetings of the Board

To date a total of 7 meetings (including 5 meetings held in writing) were held by the Board. All Directors attended these meetings (including attendance by proxy). In addition, the Audit Committee held 6 meetings to consider issues including the annual report of the Company for the year 2018, the report on the internal control review, the first quarterly report for the year 2019 and major asset sales, etc.; the Emolument and Examination Committee held 1 meeting to consider the resolutions on the remuneration of the Directors, Supervisors and senior management of the Company for the year 2018; the Strategy Committee held 1 meeting, on which the Company made a report on its development strategy and capital operation. To date, the general meeting of the Company, the Board and the management performed their specific responsibilities and regulated corporate operation to ensure the true, accurate, complete, timely and fair disclosure of corporate information. Specialized committees of the Board carried out works in accordance with their respective duties, and independent non-executive Directors played an important role in the work of Board.

§7 FINANCIAL STATEMENTS PREPARED UNDER THE ACCOUNTING STANDARDS OF THE PRC

(Amounts denominated in Renminbi unless otherwise specified)

Consolidated Balance Sheet

30 June 2019

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	30 June 2019	31 December 2018
Current assets:		
Cash at bank and on hand	7,033,700,046.08	10,337,887,158.50
Settlement reserve		
Placements with banks and non-bank financial institutions		
Financial assets held-for-trading	47,015,330.33	11,685,155.01
Financial assets at fair value through profit or loss		
Derivative financial assets		
Notes receivable	102,780,137.27	130,810,712.06
Accounts receivable	3,514,084,587.92	2,562,295,160.42
Receivable financing		
Prepayments	3,632,961,295.56	3,020,857,780.23
Insurance premium receivable		
Reinsurance premium receivable		
Reserves for reinsurance contract receivable		
Other receivables	993,612,135.28	326,086,350.28
Including: Interest receivable	28,584,999.26	46,907,817.53
Dividends receivable	185,273.02	
Financial assets purchased under agreements to resell		
Inventories	5,531,246,793.46	4,955,993,857.79
Contract assets	7,516,302,519.33	6,860,770,802.28
Assets held for sale		
Non-current assets due within one year	400,000,000.00	463,415,968.00
Other current assets	243,646,496.83	365,378,116.05
Total current assets	29,015,349,342.06	29,035,181,060.62
Non-current assets:		

Loans and advances to customers		
Debt investments		
Available-for-sale financial assets		
Other debt investments		
Held-to-maturity investments		
Long-term receivables	2,176,499,290.71	1,976,516,046.20
Long-term equity investments	740,036,766.87	740,935,298.11
Investments in other equity instruments	71,478,588.58	63,403,225.93
Other non-current financial assets		
Investment properties	21,308,295.44	21,622,651.52
Fixed assets	11,662,555,258.81	12,046,436,020.38
Construction in progress	1,010,238,554.59	762,567,676.87
Productive biological assets		
Oil and gas assets		
Right-of-use asset	176,233,075.65	
Intangible assets	2,053,979,115.18	2,084,830,278.97
Development expenses		
Goodwill	144,231,195.67	144,231,195.67
Long-term prepaid expenses	83,338,711.86	79,285,603.23
Deferred income tax assets	374,816,976.93	440,083,496.90
Other non-current assets	26,470,552.78	80,251,531.97
Total non-current assets	18,541,186,383.07	18,440,163,025.75
Total assets	47,556,535,725.13	47,475,344,086.37
Current liabilities:		
Short-term borrowings	7,524,383,875.11	4,304,387,255.88
Loans from central bank		
Placements from banks and other financial institutions		
Financial liabilities held-for-trading	202,774,080.82	431,894,056.78
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Notes payable	1,850,172,981.45	2,730,396,298.20
Accounts payable	8,263,699,493.42	7,958,832,249.26
Advances from customers		
Securities sold under agreements to repurchase		

Deposits from customers and other banks		
Brokerage for securities trading		
Brokerage for underwriting securities		
Employee benefits payable	62,783,802.68	41,351,166.51
Taxes payable	75,307,785.25	48,140,024.18
Other payables	284,772,011.61	336,922,424.57
Including: Interest payable	31,141,150.16	16,734,825.58
Dividends payable	394,042.49	304,042.49
Fee and commission payable		
Reinsured accounts payable		
Contract liabilities	6,469,940,246.41	7,112,391,961.78
Liabilities held for sale		
Non-current liabilities due within one year	1,489,900,000.00	4,414,000,000.00
Other current liabilities	233,992,036.02	182,190,818.20
Total current liabilities	26,457,726,312.77	27,560,506,255.36
Non-current liabilities:		
Reserves for insurance contracts		
Long-term borrowings	4,721,457,000.00	4,339,619,500.00
Bonds payable		
Including: Preference shares		
Perpetual bonds		
Lease liabilities	128,738,531.12	
Long-term payables	99,370,000.00	99,370,000.00
Long-term employee benefits payable	239,715,834.08	248,554,297.66
Estimated liabilities	685,301,841.13	802,016,709.10
Deferred income	73,859,885.16	59,916,128.16
Deferred tax liabilities	6,949,522.36	8,950,648.02
Other non-current liabilities		
Total non-current liabilities	5,955,392,613.85	5,558,427,282.94
Total liabilities	32,413,118,926.62	33,118,933,538.30
Owners' equity (or shareholders' interests):		
Paid-in capital (or share capital)	1,413,506,378.00	1,413,506,378.00
Other equity instruments		
Including: Preference shares		

Perpetual bonds		
Capital reserve	9,549,636,081.11	9,549,580,748.34
Less: Treasury shares		
Other comprehensive income	-38,046,780.32	-45,615,426.57
Special reserve	1,224,467.93	1,226,639.50
Surplus reserve	962,441,825.31	962,441,825.31
Provision for general risks		
Undistributed profit	-1,762,952,145.45	-2,153,702,475.37
Total equity (or shareholders' interests) attributable to owners of the Parent Company	10,125,809,826.58	9,727,437,689.21
Minority interests	5,017,606,971.93	4,628,972,858.86
Total owners' equity (or shareholders' interests)	15,143,416,798.51	14,356,410,548.07
Total liabilities and owners' equity (or shareholders' interests)	47,556,535,725.13	47,475,344,086.37

Legal representative: Han Guangde

Person in charge of accounting: Hou Zengquan

Head of accounting department: Xie Weihong

Balance Sheet of the Parent Company

30 June 2019

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	30 June 2019	31 December 2018
Current assets:		
Cash at bank and on hand	107,410,995.53	99,371,121.05
Financial assets held-for-trading		
Financial assets at fair value through profit or loss		
Derivative financial assets		
Notes receivable		
Accounts receivable	39,819,173.31	46,428,670.20
Receivable financing		
Prepayments	1,878,270.09	2,100,230.64
Other receivables	9,290,612.44	9,520,031.06
Including: Interest receivable	44,340.01	558,431.55
Dividends receivable		
Inventories	79,170,565.28	98,897,393.27
Contract assets		
Assets held for sale		
Non-current assets due within one year	500,000,000.00	
Other current assets	861,243,460.53	761,163,163.71
Total current assets	1,598,813,077.18	1,017,480,609.93
Non-current assets:		
Debt investments		
Available-for-sale financial assets		
Other debt investments		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	7,919,870,080.03	7,921,435,986.83
Investments in other equity instruments		
Other non-current financial assets		
Investment properties		
Fixed assets	67,806,780.87	70,839,970.49

Construction in progress		
Productive biological assets		
Oil and gas assets		
Right-of-use asset	2,351,330.29	
Intangible assets	10,322,758.93	10,468,726.74
Development expenses		
Goodwill		
Long-term prepaid expenses	893,924.55	
Deferred income tax assets	20,000,000.00	20,000,000.00
Other non-current assets	435,653,145.42	633,860,105.78
Total non-current assets	8,456,898,020.09	8,656,604,789.84
Total assets	10,055,711,097.27	9,674,085,399.77
Current liabilities:		
Short-term borrowings	850,000,000.00	650,000,000.00
Financial liabilities held-for-trading		
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities		
Notes payable		
Accounts payable	48,635,181.56	58,845,591.58
Advances from customers		
Contract liabilities	48,817,564.81	65,497,566.97
Employee benefits payable		
Taxes payable	2,339,036.89	3,217,292.29
Other payables	45,969,343.85	41,994,848.71
Including: Interest payable	891,458.34	731,881.94
Dividends payable	304,042.49	304,042.49
Liabilities held for sale		
Non-current liabilities due within one year	200,000,000.00	
Other current liabilities	352,329.61	77,418.16
Total current liabilities	1,196,113,456.72	819,632,717.71
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Including: Preference shares		

Perpetual bonds		
Lease liabilities	2,399,044.36	-
Long-term payables	99,370,000.00	99,370,000.00
Long-term employee benefits payable		
Estimated liabilities		
Deferred income		
Deferred tax liabilities		
Other non-current liabilities		
Total non-current liabilities	101,769,044.36	99,370,000.00
Total liabilities	1,297,882,501.08	919,002,717.71
Owners' equity (or shareholders' interests):		
Paid-in capital (or share capital)	1,413,506,378.00	1,413,506,378.00
Other equity instruments		
Including: Preference shares		
Perpetual bonds		
Capital reserve	6,147,927,729.10	6,147,927,729.10
Less: Treasury shares		
Other comprehensive income		
Special reserve		
Surplus reserve	472,670,941.45	472,670,941.45
Undistributed profit	723,723,547.64	720,977,633.51
Total owners' equity (or shareholders' interests)	8,757,828,596.19	8,755,082,682.06
Total liabilities and owners' equity (or shareholders' interests)	10,055,711,097.27	9,674,085,399.77

Legal representative: Han Guangde Person in charge of accounting: Hou Zengquan
Head of accounting department: Xie Weihong

Consolidated Income Statement

From January to June 2019

Unit: RMB

Item	1 st half of 2019	1 st half of 2018
I. Total operating income	7,816,085,319.68	8,473,768,799.74
Including: Operating income	7,816,085,319.68	8,473,768,799.74
Interest income		
Premium earned		
Fee and commission income		
II. Total operating costs	8,354,963,237.47	9,157,920,887.93
Including: Operating costs	7,626,860,800.81	8,383,297,494.76
Interest expense		
Fee and commission expenses		
Refunded premiums		
Net amount of compensation payout		
Net increase in insurance contracts reserve		
Policy dividend payment		
Reinsured expenses		
Taxes and surcharges	32,793,624.08	40,552,883.03
Selling expenses	8,547,839.97	31,034,687.54
Administrative expenses	374,142,028.48	392,266,908.95
Research and development expense	226,390,380.65	201,450,733.11
Finance cost	86,228,563.48	109,318,180.54
Including: Interest expenses	195,683,733.87	185,234,311.41
Interest income	128,327,120.98	107,911,578.77
Add: Other income	5,517,547.40	8,439,920.30
Investment income (loss expressed with “-”)	-200,623,239.54	20,390,428.51
Including: Investment income in associates and joint ventures	-2,542,980.91	-4,716,485.94
Derecognition income of financial assets measured at amortised cost (loss expressed with “-”)		
Exchange gain (loss expressed with “-”)		
Net gain on exposure hedging (loss expressed with “-”)		
Gain on change in fair value (loss expressed with “-”)	264,450,151.28	-221,420,289.98
Loss on impairment of credit (loss expressed with “-”)	-8,451,275.85	-9,818,347.40

Loss on impairment of assets (loss expressed with “-”)	-69,618,896.09	-80,048,917.97
Gains from disposal of asset (loss expressed with “-”)	-249,851.06	
III. Operating profit (loss expressed with “-”)	-547,853,481.65	-966,609,294.73
Add: Non-operating income	1,253,089,251.01	564,305,723.58
Less: Non-operating expenses	1,625,913.57	57,469,748.98
IV. Total profit (total loss expressed with “-”)	703,609,855.79	-459,773,320.13
Less: Income tax expense	93,984,992.93	-32,894,664.43
V. Net profit (net loss expressed with “-”)	609,624,862.86	-426,878,655.70
(1) By continuity of operations		
1.Net profit from continuing operations (net loss expressed with “-”)	609,624,862.86	-426,878,655.70
2.Net profit from discontinued operations (net loss expressed with “-”)		
(2) By ownership		
1.Net profit attributable to shareholders of the Parent Company (net loss expressed with “-”)	390,750,329.92	-361,945,458.99
2.Gain or loss attributable to minority interests (net loss expressed with “-”)	218,874,532.94	-64,933,196.71
VI. Net after tax for other comprehensive income	10,401,824.34	-2,300,574.80
Net after tax for other comprehensive income attributable to owners of the Parent Company	7,568,646.25	-4,018,109.52
(1) Other comprehensive income that may not be reclassified to profit or loss	7,520,933.58	-2,271,924.51
1. Change in remeasurement of defined benefit plans		
2. Other comprehensive income that may not be reclassified to profit or loss under equity method		
3. Change in fair value of investments in other equity instruments	7,520,933.58	-2,271,924.51
4. Change in fair value of own credit risk		
(2) Other comprehensive income that may be reclassified to profit or loss	47,712.67	-1,746,185.01
1. Other comprehensive income that may be reclassified to profit or loss under equity method		-120,904.30
2. Change in fair value of other debt investments		
3. Gain or loss on change in fair value of available-for-sale financial assets		
4. Amount included in other comprehensive income on reclassification of financial assets		
5. Gain or loss on re-classification of held-to-maturity investment into		

available-for-sale financial assets		
6. Provision for credit impairment of other debt investments		
7. Cash flow hedges reserve (effective portion of gain or loss on cash flow hedges)		
8. Exchange differences arising from translation of foreign currency financial statements	47,712.67	-1,625,280.71
9. Others		
Net other comprehensive income after tax attributable to minority interests	2,833,178.09	1,717,534.72
VII. Total comprehensive income	620,026,687.20	-429,179,230.50
Total comprehensive income attributable to owners of the Parent Company	398,318,976.17	-365,963,568.51
Total comprehensive income attributable to minority interests	221,707,711.03	-63,215,661.99
VIII. Earnings per share:		
(1) Basic earnings per share (RMB/share)	0.2764	-0.2561
(2) Diluted earnings per share (RMB/share)	0.2764	-0.2561

Legal representative: Han Guangde

Person in charge of accounting: Hou Zengquan

Head of accounting department: Xie Weihong

Income statement of the Parent Company

From January to June 2019

Unit: RMB

Item	1 st half of 2019	1 st half of 2018
I. Operating income	91,961,389.81	82,239,576.72
Less: Operating costs	89,042,949.57	91,645,798.74
Taxes and surcharges	1,396,458.92	851,127.95
Selling expenses	1,245,236.98	2,434,118.29
Administrative expenses	10,051,417.16	8,623,652.56
Research and development expense		
Finance cost	-13,932,102.59	-11,803,521.19
Including: Interest expenses	14,208,124.99	2,282,026.39
Interest income	28,187,838.37	14,887,597.24
Add: Other income		
Investment income (loss expressed with “-”)	-1,479,212.18	-3,699,482.54
Including: Investment income in associates and joint ventures	-1,479,212.18	-3,699,482.54
Derecognition income of financial assets measured at amortised cost (loss expressed with “-”)		
Net gain on exposure hedging (loss expressed with “-”)		
Gain on change in fair value (loss expressed with “-”)		
Loss on impairment of credit (loss expressed with “-”)	67,779.32	-52,178.31
Loss on impairment of assets (loss expressed with “-”)		
Gains from disposal of asset (loss expressed with “-”)		
II. Operating profit (loss expressed with “-”)	2,745,996.91	-13,263,260.48
Add: Non-operating income		
Less: Non-operating expenses	82.78	31,132.31
III. Total profit (total loss expressed with “-”)	2,745,914.13	-13,294,392.79
Less: Income tax expense		
IV. Net profit (net loss expressed with “-”)	2,745,914.13	-13,294,392.79
(1) Net profit from continuing operations (net loss expressed with “-”)	2,745,914.13	-13,294,392.79
(2) Net profit from discontinued operations (net loss expressed with “-”)		
V. Net after tax for other comprehensive income		
(1) Other comprehensive income that may not be reclassified to profit or loss		

1.Change in remeasurement of defined benefit plans		
2.Other comprehensive income that may not be reclassified to profit or loss under equity method		
3. Change in fair value of investments in other equity instruments		
4.Change in fair value of own credit risk		
(2) Other comprehensive income that may be reclassified to profit or loss		
1.Other comprehensive income that may be reclassified to profit or loss under equity method		
2.Change in fair value of other debt investments		
3.Gain or loss on change in fair value of available-for-sale financial assets		
4.Amount included in other comprehensive income on reclassification of financial assets		
5.Gain or loss on re-classification of held-to-maturity investment into available-for-sale financial assets		
6.Provision for credit impairment of other debt investments		
7. Cash flow hedges reserve (effective portion of gain or loss on cash flow hedges)		
8. Exchange differences arising from translation of foreign currency financial statements		
9. Others		
VI. Total comprehensive income	2,745,914.13	-13,294,392.79
VII. Earnings per share:		
(1) Basic earnings per share (RMB/share)		
(2) Diluted earnings per share (RMB/share)		

Legal representative: Han Guangde
Head of accounting department: Xie Weihong

Person in charge of accounting: Hou Zengquan

Consolidated Cash Flow Statement

From January to June 2019

Unit: RMB

Item	1st half of 2019	1st half of 2018
I. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	6,058,118,267.56	7,463,810,563.14
Net increase in deposits from customers and deposits from other banks		
Net increase in loans from central bank		
Net increase in placements from other financial institutions		
Cash receipts of premium for direct insurance contracts		
Net cash received from reinsurance business		
Net increase in deposits from insurance policy holders and investment		
Cash receipts of interest, fees and commissions		
Net increase in placements from other financial institutions		
Net increase in sales and repurchase operations		
Cash receipts of brokerage for securities trading		
Cash received from tax refund	596,547,275.43	719,882,130.21
Other cash receipts relating to operating activities	1,137,939,919.46	312,895,079.83
Sub-total of cash inflows from operating activities	7,792,605,462.45	8,496,587,773.18
Cash paid for goods and services	9,667,631,483.97	9,329,424,056.63
Net increase in loans and advances to customers		
Net increase in central bank and interbank deposits		
Cash paid for claims of direct insurance contracts		
Net increase in financial assets held for trading		
Net increase in placements with banks and non-bank financial institutions		
Cash paid for interest, fees and commissions		
Cash paid for dividends of insurance policies		
Cash paid to and on behalf of employees	945,314,358.75	936,168,386.41
Payments of taxes	71,995,816.45	77,861,967.74
Other cash payments relating to operating activities	308,141,118.24	669,551,791.58

Sub-total of cash outflows from operating activities	10,993,082,777.41	11,013,006,202.36
Net cash flows from operating activities	-3,200,477,314.96	-2,516,418,429.18
II. Cash flows from investing activities:		
Cash receipts from recover of investments	300,000,000.00	701,000,000.00
Cash receipts from investment income	6,060,784.49	19,089,809.90
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	222,809.08	382,308.97
Net cash receipts from disposal of subsidiaries and other business units		60,448.29
Other cash receipts relating to investing activities	1,720,638,033.71	515,870,456.93
Sub-total of cash inflows from investing activities	2,026,921,627.28	1,236,403,024.09
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	371,211,006.35	369,164,988.71
Cash paid for investments	630,614,976.25	37,001,000.00
Net increase in pledged loans		
Net cash paid for acquisition of subsidiaries and other business units		
Other cash payments relating to investing activities	2,394,898,237.08	2,192,563,721.90
Sub-total of cash outflows from investing activities	3,396,724,219.68	2,598,729,710.61
Net cash flows from investing activities	-1,369,802,592.40	-1,362,326,686.52
III. Cash flows from financing activities:		
Cash receipts from receiving investments		4,800,000,000.00
Including: Cash received by subsidiaries from receiving investments made by minority interest		4,800,000,000.00
Cash receipts from borrowings obtained	6,920,297,222.23	3,243,008,500.00
Cash receipts from issuance of bonds		
Other cash receipts relating to financing activities	167,000,000.00	77,500,000.00
Sub-total of cash inflows from financing activities	7,087,297,222.23	8,120,508,500.00
Cash paid for repayment of debts	6,002,152,246.16	8,170,850,316.47
Cash paid for dividends, profit distribution or interest expenses	190,507,347.30	204,910,011.12
Including: Dividends and profits paid by subsidiaries to minority interests		
Other cash payments relating to financing activities		1,002,400.00
Sub-total of cash outflows from financing activities	6,192,659,593.46	8,376,762,727.59
Net cash flows from financing activities	894,637,628.77	-256,254,227.59
IV. Effect of change in exchange rate on	-12,849,024.61	-4,911,266.62

cash and cash equivalents		
V. Net increase in cash and cash equivalents	-3,688,491,303.20	-4,139,910,609.91
Add: Beginning balance of cash and cash equivalents	8,536,815,355.09	11,634,582,111.41
VI. Ending balance of cash and cash equivalents	4,848,324,051.89	7,494,671,501.50

Legal representative: Han Guangde

Person in charge of accounting: Hou Zengquan

Head of accounting department: Xie Weihong

Cash Flow Statement of the Parent Company

From January to June 2019

Unit: RMB

Item	1st half of 2019	1st half of 2018
I. Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	92,718,196.49	111,009,558.75
Cash received from tax refund		
Other cash receipts relating to operating activities	5,541,582.32	8,983,184.27
Sub-total of cash inflows from operating activities	98,259,778.81	119,992,743.02
Cash paid for goods and services	70,136,338.25	86,368,622.84
Cash paid to and on behalf of employees	13,959,493.28	13,733,025.10
Payments of taxes	6,960,485.78	2,153,426.93
Other cash payments relating to operating activities	13,530,530.32	19,464,265.64
Sub-total of cash outflows from operating activities	104,586,847.63	121,719,340.51
Net cash flows from operating activities	-6,327,068.82	-1,726,597.49
II. Cash flows from investing activities:		
Cash receipts from recover of investments		
Cash receipts from investment income	86,694.62	
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		
Net cash receipts from disposal of subsidiaries and other business units		
Other cash receipts relating to investing activities	128,363,097.20	505,019,623.61
Sub-total of cash inflows from investing activities	128,449,791.82	505,019,623.61
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	74,195.75	570,972.49
Cash paid for investments		30,000,000.00
Net cash paid for acquisition of subsidiaries and other business units		
Other cash payments relating to investing activities	530,000,000.00	400,000,000.00
Sub-total of cash outflows from investing activities	530,074,195.75	430,570,972.49
Net cash flows from investing activities	-401,624,403.93	74,448,651.12
III. Cash flows from financing activities:		
Cash receipts from receiving investments		
Cash receipts from borrowings obtained	400,000,000.00	

Cash receipts from issuance of bonds		
Other cash receipts relating to financing activities		
Sub-total of cash inflows from financing activities	400,000,000.00	
Cash paid for repayment of debts		491,000,000.00
Cash paid for dividends, profit distribution or interest expenses	14,008,652.77	2,642,689.99
Other cash payments relating to financing activities		
Sub-total of cash outflows from financing activities	14,008,652.77	493,642,689.99
Net cash flows from financing activities	385,991,347.23	-493,642,689.99
IV. Effect of change in exchange rate on cash and cash equivalents		-647,405.27
V. Net increase in cash and cash equivalents	-21,960,125.52	-421,568,041.63
Add: Beginning balance of cash and cash equivalents	99,371,121.05	513,258,307.19
VI. Ending balance of cash and cash equivalents	77,410,995.53	91,690,265.56

Legal representative: Han Guangde

Person in charge of accounting: Hou Zengquan

Head of accounting department: Xie Weihong

§8 Notes to Consolidated Financial Statements

I. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

(1) Basis for preparation

Based on going-concern assumption and transactions and events actually occurred, the consolidated financial statements of the Group have been prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC, (hereinafter referred to as the “Accounting Standards for Business Enterprises”), and No. 15 of regulations on information disclosures of companies that issue public offering shares – General Rules of preparing financial reports (revised in 2014) issued by China Securities Regulatory Commission (CSRC), the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and regulations of Hong Kong Companies Ordinance as well as the accounting policies and estimation of the Group.

(2) Going-concern

The management of the Group has assessed its ability to operate on a continuing basis for the 12 months from 30 June 2019 and is of the view that its existing financial position should be sufficient to meet the production and operation of the Group. As such, these financial statements are prepared on a going-concern basis.

II. STATEMENT OF COMPLIANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises, and reflect a true and fair view of the financial position, the operating results and cash flows of the Company and the Group. Changes in significant accounting policies during the period:

(1) Details of and reason for changes

On 7 December 2018, the Ministry of Finance revised the Accounting Standards for Business Enterprises No. 21 - Leases (hereinafter referred to as "New Lease Standards"), requiring companies listed at the same time both domestically and overseas, and listed

overseas and adopting IFRS or Accounting Standards for Business Enterprises to prepare financial statements, to implement the New Lease Standards since 1 January 2019.

The Group implemented the New Lease Standards from 1 January, 2019, and adjusted the relevant accounting policies. The adjusted accounting policies are detailed in Note 3 (32).

(2) Principal impacts of changes

The New Lease Standards replaces the Accounting Standards for Business Enterprises No. 21 – Leases, issued in the Notice of the Ministry of Finance on Releasing 38 Specific Standards including <Accounting Standards for Business Enterprises No. 1 - Inventories>(CaiKuai [2006] No. 3) promulgated by the Ministry of Finance on 15 February 2006(collectively referred to as the Original Lease Standards).

Under the Original Lease Standards, the lessee needs to distinguish between operating leases and financial leases, and only requires accounting for financial leases. The accounting treatment in the case of option revaluation or contract change after the start date of the lease period is not regulated. If the lessor has an operating lease, it only requires the lessor to disclose the carrying value of each type of leased asset.

Under the New Lease Standards, the lessee no longer divides the lease into an operating lease or a finance lease, but adopts a uniform accounting treatment model to identify right-of-use assets and lease liabilities for all leases other than short-term leases and low-value asset leases, and depreciation and interest expenses are provided respectively. The New Lease Standards clearly stipulate that when a major event or change within the controllable scope of the lessee occurs, and which will impact that whether the lessee is reasonably certain that the option will be exercised, then the lessee should determine whether it will reasonably exercise the option to renew the lease, purchase option or not exercise the lease termination option to re-evaluate. The lessor needs to disclose information such as the relevant rental income and the undiscounted lease receipts.

The Group analyzed the classification and other changes of the lessee's operating leases and finance leases, so as to assess the impact of the New Lease Standards on the

financial statements. According to the New Lease Standards, the right-of-use assets and lease liabilities were recognized on 1 January 2019 respectively, but it hadn't impact on the owner's equity as at 1 January 2019.

The impacts on the relevant items in the consolidated financial statements are as follows:

Item	31 December 2018	1 January 2019	After adjustment
Total assets	47,475,344,086.37	47,674,684,587.19	199,340,500.82
Including: Right-of-use assets		199,340,500.82	199,340,500.82
Total liabilities	33,118,933,538.30	33,318,274,039.12	199,340,500.82
Including: Lease liabilities		152,171,100.46	152,171,100.46
Other current liabilities	182,190,818.20	229,360,218.56	47,169,400.36
Total owners' equity	14,356,410,548.07	14,356,410,548.07	

The implementation of the New Lease Standards by the Group has no impact on the items of statements of the Parent Company.

III. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial statement data disclosed below, unless otherwise stated, "Beginning balance" refers to the balance as at 1 January 2019; and "Ending balance" refers to the balance as at 30 June 2019. "Current period" refers to the period from 1 January 2019 to 30 June 2019; and "Corresponding period of last year" refers to the period from 1 January 2018 to 30 June 2018. The currency unit is RMB.

1. Notes receivable

(1) Types of notes receivable Item	Ending balance	Beginning balance
Bank acceptance bills	61,186,175.25	83,544,762.52
Commercial acceptance bills	41,593,962.02	47,265,949.54
Total	102,780,137.27	130,810,712.06

Among the above notes receivable of the Group, RMB102,080,137.27 had an ageing of less than 180 days, and RMB700,000.00 had an ageing of 181-360 days.

(2) Notes receivable pledged as at the end of the period

None.

(3) Notes receivable which have been endorsed or discounted to other party at the end of period but not yet expired at the balance sheet date

Item	Amount derecognised at the end of period	Amount not derecognised at the end of period
Bank acceptance bills	109,491,349.46	
Commercial acceptance bills	118,215,300.00	
Total	227,706,649.46	

(4) Notes transferred to accounts receivable at the end of period due to non-performance of drawers:

None.

(5) Disclosure by the method using which the provision for bad debts is made

Type	Ending balance					Beginning balance				
	Book balance		Provision for bad debts		Carrying value	Book balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)		Amount	Percentage (%)	Amount	Percentage of provision (%)	

Provision for bad debts made on an individual basis										
Provision for bad debts made on a collective basis	102,780,137.27	100.00			102,780,137.27	130,810,712.06	100.00			130,810,712.06
Including:										
Due within one year	102,780,137.27	100.00			102,780,137.27	130,810,712.06	100.00			130,810,712.06
Total	102,780,137.27				102,780,137.27	130,810,712.06				130,810,712.06

1.Accounts receivable

Item	Ending balance	Beginning balance
Accounts receivable	3,556,720,649.13	2,599,936,504.41
Less: Provision for bad debts	42,636,061.21	37,641,343.99
Net amount	3,514,084,587.92	2,562,295,160.42

(1)Disclosure by ageing

Ageing	Ending balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	3,378,144,962.11	16,816,771.04	0.50
1-2 years	103,546,553.35	3,849,040.07	3.72
2-3 years	38,236,286.17	1,047,964.76	2.74
3-4 years	9,717,922.32	259,112.84	2.67
4-5 years	8,917,724.88	6,039,982.30	67.73
Over 5 years	18,157,200.30	14,623,190.20	80.54
Total	3,556,720,649.13	42,636,061.21	1.20

(Continued)

Ageing	Beginning balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	2,081,143,908.20	11,024,919.02	0.53
1-2 years	367,021,421.08	5,658,962.57	1.54
2-3 years	89,601,945.13	945,758.24	1.06
3-4 years	38,876,710.70	1,367,823.98	3.52
4-5 years	7,008,378.15	4,324,220.61	61.7
Over 5 years	16,284,141.15	14,319,659.57	87.94
Total	2,599,936,504.41	37,641,343.99	1.45

(2)Credit period of accounts receivable

Business	Credit period
Shipbuilding	One month after issue of invoices
Other business	Generally 1 to 6 months

(3) Disclosure by the method using which the provision for bad debts is made

Type	Ending balance					Beginning balance				
	Book balance		Provision for bad debts		Carrying value	Book balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)		Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis	24,657,976.81	0.69	24,657,976.81	100.00		25,848,053.85	0.99	24,818,059.11	96.02	1,029,994.74
Including:										
Accounts receivable of which the credit risk has significantly increased since initial recognition	24,657,976.81	0.69	24,657,976.81	100.00		25,848,053.85	0.99	24,818,059.11	96.02	1,029,994.74

Provision for bad debts made on a collective basis	3,532,062,672.32	99.31	17,978,084.40	0.50	3,514,084,587.92	2,574,088,450.56	99.01	12,823,284.88	0.50	2,561,265,165.68
Including:										
Accounts receivable of which the credit risk has not significantly increased since initial recognition	3,532,062,672.32	99.31	17,978,084.40	0.50	3,514,084,587.92	2,574,088,450.56	99.01	12,823,284.88	0.50	2,561,265,165.68
Total	3,556,720,649.13	/	42,636,061.21	/	3,514,084,587.92	2,599,936,504.41		37,641,343.99		2,562,295,160.42

a)Provision for bad debts made on an individual basis :

Name of entity	Ending balance			
	Book balance	Provision for bad debts	Percentage of provision (%)	Reasons for provision
TENOVA AUSTRALIA PTY LTD	4,199,465.15	4,199,465.15	100	Very little chance of recovery
VARADA ONE PTE LTD	3,592,030.75	3,592,030.75	100	CITIC Insurance has paid for it, and the remaining debts cannot be recovered
GUANGZHOU HUAYU ELECTROMECHANICAL EQUIPMENT CO., LTD.	3,549,843.68	3,549,843.68	100	The counterparty lost the suit but has no executable property
WHL-FONKWANG	2,803,318.60	2,803,318.60	100	Long overdue and there are signs of impairment
CONTSIPS MANAGEMENT INC	2,062,410.00	2,062,410.00	100	Quality problems, and the remaining debts cannot be recovered
FAIRLAND ENTERPRISES LIMITED	1,711,800.30	1,711,800.30	100	CITIC Insurance has paid for it, and the remaining debts cannot be recovered
EVALEND SHIPPING CO.S.A.	1,368,092.80	1,368,092.80	100	The balance cannot be recovered
GUANGZHOU NANFANG SPECIAL COATING CO., LTD.	1,186,418.63	1,186,418.63	100	The balance cannot be recovered
Other companies	4,184,596.90	4,184,596.90	100	Very little chance of recovery
Total	24,657,976.81	24,657,976.81		

Description of provision for bad debts made on an individual basis:

The Group determines the accounts receivable with an ageing of over one year since date of initial recognition and for which there are indications of impairment to be the

accounts receivable the credit risk of which has significantly increased since initial recognition, and determine expected credit loss and make provision for bad debts based on the difference between the carrying amount of the accounts receivable and the present value of the cash flows expected to be received for the accounts receivable.

b) Provision for bad debts made on a collective basis :

Accounts receivable of which the credit risk has not significantly increased since initial recognition

Name	Ending balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	3,364,801,868.32	17,141,780.38	0.50
1-2 years	118,181,073.41	590,905.37	0.50
2-3 years	38,493,021.02	192,465.11	0.50
3-4 years	4,617,883.45	23,089.42	0.50
4-5 years	2,586,880.23	12,934.40	0.50
Over 5 years	3,381,945.89	16,909.72	0.50
Total	3,532,062,672.32	17,978,084.40	—

Recognition criteria and description of provision for bad debts made on a collective basis:

The Group determines the accounts receivable which have not been tested individually for impairment to be the accounts receivable the credit risk of which has not significantly increased since initial recognition. Based on the actual credit loss for previous years and considering forwarding information for the year, the Group expects the default loss ratio to be 0.5%, determines the expected credit loss of accounts receivable and makes provision for bad debts based on 0.5% of the balance at the balance sheet date.

(4) Provision for bad debts

Type	Beginning balance	Amount of changes during the period			Ending balance
		Provision	Recovered or reversed	Resale or written-off	
Provision for bad debts of	37,641,343.99	5,073,243.03	-78,525.81		42,636,061.21

accounts receivable					
Total	37,641,343.99	5,073,243.03	-78,525.81		42,636,061.21

Provision for bad debts made, reversed or recovered during the period

None

(5) Accounts receivable written-off during the period

None

(6) Top five accounts receivable by ending balance of debtors

Name of entity	Relationship with the Group	Ending balance	Ageing	Percentage of ending balance of total accounts receivable (%)	Ending balance of provision for bad debts
Entity 1	Third party	654,161,755.00	Within 3 years	18.39	3,270,808.78
Entity 2	Third party	546,826,100.00	Within 1 years	15.37	2,734,130.50
Entity 3	Third party	240,614,500.00	Within 1 years	6.77	1,203,072.50
Entity 4	Third party	231,217,794.25	Within 1 years	6.50	1,156,088.97
Entity 5	Third party	198,875,321.36	Within 1 years	5.59	994,376.61
Total		1,871,695,470.61		52.62	9,358,477.36

(7) Accounts receivable derecognised arising from transfer of financial assets:

None

(8) Amounts of assets and liabilities transferred from accounts receivable with continuing involvement:

None

3. Notes payable

Type	Ending balance	Beginning balance
Commercial acceptance bills	172,436,000.00	443,823,404.95
Bank acceptance bills	1,677,736,981.45	2,286,572,893.25
Total	1,850,172,981.45	2,730,396,298.20

Total notes payable due and unpaid as at the end of the period amounted to RMB0.

Among the above notes payable of the Group, RMB1,850,172,981.45 had an ageing

of less than 180 days, and RMB0 had an ageing of 181-360 days.

4.Accounts payable

(1) Accounts payable

Item	Ending balance	Beginning balance
Materials purchased	5,337,380,952.21	4,074,770,064.65
Payment for construction in progress	203,180,831.94	114,327,903.77
Balance of product payment	501,891,057.70	552,199,468.38
Retention money	1,403,895,952.68	1,485,763,195.74
Other construction and labour services	817,350,698.89	1,731,771,616.72
Total	8,263,699,493.42	7,958,832,249.26

(2) Ageing of accounts payable

Ageing	Ending balance	Beginning balance
Within one year	4,240,616,477.43	4,318,781,010.73
1-2 years	3,595,485,611.02	2,967,761,937.65
2-3 years	185,097,253.80	417,041,372.35
Over 3 years	242,500,151.17	255,247,928.53
Total	8,263,699,493.42	7,958,832,249.26

(3) Significant accounts payable with ageing over one year

Item	Ending balance	Including: Amount over one year	Reason for unsettlement or carrying forward
China Shipbuilding Industry Corporation 704 Research Institute	344,756,750.00	75,373,000.00	Goods not arrived
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	364,218,447.18	288,114,730.04	Equipment warranty and provisional estimates
China Shipbuilding NDRI Engineering Co., Ltd.	88,963,459.50	69,402,429.21	Goods not arrived
Shanghai CSSC Mitsui Shipbuilding Diesel Engine Co., Ltd.	67,965,880.35	67,965,880.35	Goods not arrived
Drass Energy Srl	47,356,646.10	47,356,646.10	Equipment warranty and provisional estimates
CSSC Marine Power Co.	50,814,386.91	36,820,669.00	Goods not arrived

Item	Ending balance	Including: Amount over one year	Reason for unsettlement or carrying forward
Ltd.			
AL NEHRA PETROME FZE	45,017,175.95	45,017,175.95	Equipment warranty and provisional estimates
Shanghai Haixun Electrical Engineering Co., Ltd.	35,599,015.43	27,596,124.12	Equipment warranty and provisional estimates
Wenzhou Bohong Electric Co., Ltd.	35,330,240.00	35,330,240.00	Equipment warranty and provisional estimates
CSSC Systems Engineering Research Institute	29,053,000.00	18,255,000.00	Equipment warranty and provisional estimates
Guangzhou Ship Industrial Co., Ltd.	23,852,799.34	14,098,106.40	Equipment warranty and provisional estimates
Wuxi Hainuo Equipment Technology Co., Ltd.	13,523,010.00	6,443,500.00	Equipment warranty and provisional estimates
Anqing CSSC Diesel Engine Co., Ltd.	8,676,575.76	3,719,000.00	Equipment warranty and provisional estimates
D&A Technology (Shanghai) Co., Ltd.	2,450,082.60	2,450,082.60	Equipment warranty and provisional estimates
Shanghai Zhen Nan Engineering Supervision Co., Ltd.	1,105,920.00	1,105,920.00	Equipment warranty and provisional estimates
Total	1,158,683,389.12	739,048,503.77	—

5.Undistributed profit

Item	Current period	Corresponding period of last year
Undistributed profit as at the end of last year before adjustment	-2,153,702,475.37	1,228,681,091.09
Add: Beginning adjustment to undistributed profit		-1,513,529,343.99
Including: Accounting policy change		-29,547,841.37

Item	Current period	Corresponding period of last year
Changes in business combination under common control		-1,483,981,502.62
Undistributed profit as at the beginning of the year after adjustment	-2,153,702,475.37	-284,848,252.90
Add: Net profit attributable to owners of the Parent Company for the current period	390,750,329.92	-361,945,458.99
Add: Transfer from other comprehensive income to retained earnings		159,937.61
Less: Statutory surplus reserve set aside		
Undistributed profits as at the end of the period	-1,762,952,145.45	-646,633,774.28

6.Net current assets

Item	Ending balance	Beginning balance
Current assets	29,015,349,342.06	29,035,181,060.62
Less: Current liabilities	26,457,726,312.77	27,607,675,655.72
Net current assets	2,557,623,029.29	1,427,505,404.90

7.Total assets less current liabilities

Item	Ending balance	Beginning balance
Total assets	47,556,535,725.13	47,674,684,587.19
Less: Current liabilities	26,457,726,312.77	27,607,675,655.72
Total assets less current liabilities	21,098,809,412.36	20,067,008,931.47

8.Operating income and operating cost

Item	Current period		Corresponding period of last year	
	Income	Cost	Income	Cost
Principal business	7,778,237,332.64	7,612,209,764.96	8,369,362,165.35	8,318,865,355.89
Other business	37,847,987.04	14,651,035.85	104,406,634.39	64,432,138.87
Total	7,816,085,319.68	7,626,860,800.81	8,473,768,799.74	8,383,297,494.76

Gross profit from principal business

Item	Current period	Corresponding period of last year
Income from principal business	7,778,237,332.64	8,369,362,165.35
Cost of principal business	7,612,209,764.96	8,318,865,355.89
Gross profit	166,027,567.68	50,496,809.46

(1) Principal business – by product

Product name	Current period	Corresponding period of last year
Income from principal business:		
Ship products	6,396,382,932.72	7,048,076,362.01
Offshore engineering products	320,174,444.06	89,831,168.14
Steel structure engineering	357,375,955.95	355,507,842.84
Ship maintenance and modification	350,573,955.00	240,520,485.18
Electromechanical products and others	353,730,044.91	635,426,307.18
Total	7,778,237,332.64	8,369,362,165.35
Cost of principal business:		
Ship products	6,408,256,088.84	7,012,553,796.09
Offshore engineering products	308,775,195.75	127,420,426.77
Steel structure engineering	336,439,069.43	336,513,278.10
Ship maintenance and modification	283,999,906.72	231,127,974.41
Electromechanical products and others	274,739,504.22	611,249,880.52
Total	7,612,209,764.96	8,318,865,355.89

(2) Principal business – by region

Region	Current period	Corresponding period of last year
Income from principal business:		
China (including Hong Kong, Macau and Taiwan)	4,288,158,574.46	4,897,866,494.08
Other regions in Asia	465,016,224.86	304,627,419.16
Europe	1,453,931,398.50	1,780,158,856.74
Oceania	452,946,939.48	235,552,115.80
North America	185,390,271.74	874,090,624.27
Africa	905,706,498.41	227,579,212.20
South America	27,087,425.19	49,487,443.10
Total	7,778,237,332.64	8,369,362,165.35
Cost of principal business:		
China (including Hong	3,927,968,512.95	4,837,736,705.30

Region	Current period	Corresponding period of last year
Kong, Macau and Taiwan)		
Other regions in Asia	482,841,130.20	290,592,847.26
Europe	1,565,932,402.43	1,839,122,563.46
Oceania	457,191,994.41	233,346,125.82
North America	209,953,701.35	836,142,801.47
Africa	927,314,539.90	232,186,013.45
South America	41,007,483.72	49,738,299.13
Total	7,612,209,764.96	8,318,865,355.89

(3) Other operating income and other operating costs

Product name	Current period	Corresponding period of last year
Income from other business:		
Sale of materials	2,048,823.69	31,907,025.67
Sales of scrap materials	7,087,797.12	25,700,264.58
Service	2,485,339.00	5,702,348.52
Rental	14,528,154.73	14,529,232.56
Energy	4,589,817.59	15,478,663.12
Others	7,108,054.91	11,089,099.94
Total	37,847,987.04	104,406,634.39
Costs of other business		
Sale of materials	3,652,671.21	29,832,841.15
Sales of scrap materials	354,288.04	10,044,096.72
Service	1,529,120.77	4,218,850.36
Rental	3,520,023.13	6,214,967.98
Energy	2,320,357.02	6,324,061.50
Others	3,274,575.68	7,797,321.16
Total	14,651,035.85	64,432,138.87

(4) Revenue from contracts

Breakdown of contracts	Shipbuilding and related business segment	Steel structure engineering business segment	Ship maintenance and related business segment	Others segment	Total
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Breakdown of contracts	Shipbuilding and related business segment	Steel structure engineering business segment	Ship maintenance and related business segment	Others segment	Total
Product type	6,968,745,653.3 ₇	320,013,669.1 ₂	279,054,865.7 ₃	248,271,131.4 ₆	7,816,085,319.6 ₈
Ship products	6,321,473,680.3 ₅				6,321,473,680.3 ₅
Offshore engineering products	320,165,116.54				320,165,116.54
Steel structure engineering	929,049.62	320,013,669.1 ₂		7,359,031.24	328,301,749.98
Ship maintenance and modification	83,316,543.30		279,054,865.7 ₃		362,371,409.03
Electromechanical products and others	162,437,559.52			58,320,367.30	220,757,926.82
Other business	80,423,704.04			182,591,732.9 ₂	263,015,436.96
By region of operation	6,968,745,653.3 ₇	320,013,669.1 ₂	279,054,865.7 ₃	248,271,131.4 ₆	7,816,085,319.6 ₈
Domestic	3,693,912,513.5 ₂	180,437,946.6 ₆	58,315,727.75	225,595,176.1 ₈	4,158,261,364.1 ₁
Overseas	3,274,833,139.8 ₅	139,575,722.4 ₆	220,739,137.9 ₈	22,675,955.28	3,657,823,955.5 ₇
Type of market or customer	6,968,745,653.3 ₇	320,013,669.1 ₂	279,054,865.7 ₃	248,271,131.4 ₆	7,816,085,319.6 ₈
State-owned enterprises	2,599,631,367.3 ₆	164,478,707.7 ₈	49,106,509.89	78,988,341.26	2,892,204,926.2 ₉
Private enterprises	3,867,938,796.0 ₉	23,465,968.81	9,209,217.86	167,854,769.2 ₃	4,068,468,751.9 ₉
Foreign enterprises	501,175,489.92	132,068,992.5 ₃	220,739,137.9 ₈	1,428,020.97	855,411,641.40
Type of contracts	6,968,745,653.3 ₇	320,013,669.1 ₂	279,054,865.7 ₃	248,271,131.4 ₆	7,816,085,319.6 ₈
Fixed price	6,968,745,653.3 ₇	196,715,382.0 ₄	905,172.41	69,064,305.20	7,235,430,513.0 ₂
Cost plus		123,298,287.0 ₈	278,149,693.3 ₂	179,206,826.2 ₆	580,654,806.66
By date of transfer of goods	6,968,745,653.3 ₇	320,013,669.1 ₂	279,054,865.7 ₃	248,271,131.4 ₆	7,816,085,319.6 ₈

Breakdown of contracts	Shipbuilding and related business segment	Steel structure engineering business segment	Ship maintenance and related business segment	Others segment	Total
Performed over time	6,905,661,984.15	179,564,510.05	2,823,694.00	132,267,914.90	7,220,318,103.10
Performed at a point in time	63,083,669.22	140,449,159.07	276,231,171.73	116,003,216.56	595,767,216.58
By contract term	6,968,745,653.37	320,013,669.12	279,054,865.73	248,271,131.46	7,816,085,319.68
Short-term	75,738,200.94	197,972,109.51	279,054,865.73	-6,607,101.88	546,158,074.30
Long-term	6,893,007,452.43	122,041,559.61		254,878,233.34	7,269,927,245.38
By sales channel	6,968,745,653.37	320,013,669.12	279,054,865.73	248,271,131.46	7,816,085,319.68
Direct sales	6,968,745,653.37	320,013,669.12	279,054,865.73	244,561,434.53	7,812,375,622.75
Sale through distributors				3,709,696.93	3,709,696.93
Total	6,968,745,653.37	320,013,669.12	279,054,865.73	248,271,131.46	7,816,085,319.68

(5) Top five customers by operating income

Customers	Relationship with the Group	Current period	Percentage of total income from principal business (%)
Customer 1	Third party	691,944,284.78	8.90
Customer 2	Third party	456,897,852.00	5.87
Customer 3	Third party	377,859,124.01	4.86
Customer 4	Third party	274,535,038.40	3.53
Customer 5	Third party	206,390,040.12	2.65
Total		2,007,626,339.31	25.81

(6) Purchase amounts from top five suppliers

Suppliers	Relationship with the Group	Current period	Percentage of total operating costs from principal business (%)
Supplier 1	Under common control of CSSC	1,744,639,226.04	22.92
Supplier 2	Third party	221,197,400.00	2.91
Supplier 3	Under common control of CSSC	181,604,631.22	2.39
Supplier 4	Under common control of CSSC	146,000,854.71	1.92
Supplier 5	Under common	119,551,400.00	1.57

Suppliers	Relationship with the Group	Current period	Percentage of total operating costs from principal business (%)
	control of CSSC		
Total		2,412,993,511.97	31.71

9. Finance cost

(1) Breakdown of interest expenses

Item	Current period	Corresponding period of last year
Interest expenses	195,683,733.87	185,234,311.41
Less: Interest income	128,327,120.98	107,911,578.77
Less: Net exchange gains		
Add: Net exchange losses	9,530,677.58	27,617,939.02
Add: Other expenses	9,341,273.01	4,377,508.88
Total	86,228,563.48	109,318,180.54

(2) Breakdown of interest costs

Item	Current period	Corresponding period of last year
Interest on bank borrowings and overdraft		
Interest on bank borrowings due within 5 years	167,155,568.34	186,321,275.57
Other borrowings		
Interest on other borrowings due within 5 years	48,418,643.84	21,514,993.95
Other interest expenses		
Sub-total	215,574,212.18	207,836,269.52
Less: Interest capitalised	640,478.31	2,391,958.11
Less: Finance interest discount	19,250,000.00	20,210,000.00
Total	195,683,733.87	185,234,311.41

(3) Breakdown of interest income

Item	Current period	Corresponding period of last year
Interest income from bank deposits	127,146,879.69	102,519,715.02
Interest income from receivables	1,180,241.29	5,391,863.75
Total	128,327,120.98	107,911,578.77

10. Investment income

Item	Current period	Corresponding period of last year
Gain on long-term equity investments accounted for using equity method	-2,542,980.91	-4,716,485.94
Investment income from disposal of long-term equity investments		-42,655.82
Investment income from holding entrusted wealth management products	9,700,821.37	25,683,820.27
Investment income from disposal of financial assets held-for-trading	-207,793,580.00	-548,000.00
Dividend income from holding investments in other equity instruments	12,500.00	13,750.00
Total	-200,623,239.54	20,390,428.51

Other description: Investment income from investment in listed companies and non-listed companies for the period amounted to RMB0 (corresponding period of last year: RMB 0) and RMB-200,635,739.54 (corresponding period of last year: RMB20,390,428.51), respectively.

11. Gain on change in fair value

Source of gain on change in fair value	Current period	Corresponding period of last year
Change in fair value of financial assets held-for-trading	31,425,173.63	5,200,410.94
Change in fair value of held-for-trading financial liabilities	233,024,977.65	-226,620,700.92
Total	264,450,151.28	-221,420,289.98

12. Non-operating income**(1) Breakdown of non-operating income**

Item	Current period	Corresponding period of last year	Amount included in non-recurring gains and losses for current period
Total gain on disposal of non-current assets	447,925.19	40,516.04	447,925.19
Including: Gain on disposal of fixed assets	447,925.19	40,516.04	447,925.19
Government grants	3,157,656.14	1,497,926.10	3,157,656.14
Compensation for assets relocation	1,247,867,578.32	553,814,885.69	1,247,867,578.32

Penalty income	167,217.00	94,929.26	167,217.00
Compensation income		1,100,424.56	
Transfer from claims under the balance of social security fund		7,251,931.72	
Others	1,448,874.36	505,110.21	1,448,874.36
Total	1,253,089,251.01	564,305,723.58	1,253,089,251.01

The amount included in non-recurring gains and losses for the current period was RMB1,253,089,251.01 (corresponding period of last year: RMB564,305,723.58).

Note: On 26 April, 2019, the subsidiary Wenchong Shipyard and Guangzhou Wenchong Properties Co., Ltd. (hereinafter referred to as “Wenchong Properties”) signed the First Phase Relocation Agreement of Wenchong Shipyard, which agreed that Wenchong Shipyard will stop the entire production and operation activities on the first phase of the relocation site before 26 April 2019, and the relevant assets will be handed over. Wenchong Properties will compensate accordingly according to the compensation standard for the relocation and resettlement losses of the first phase of relocation site, and after deducting the relevant expenses, RMB1.248 billion of compensation income is recognized in the current period.

(2) Government grants included in current profit or loss

Item	Current period	Corresponding period of last year	Relating to assets/relating to revenue
Grants for use of onshore power by berthing ships	2,120,000.00		Relating to revenue
Separation and transfer of water, power and gas supply and property management business	910,064.94	910,064.94	Relating to revenue
Quality project funding	96,499.80		Relating to revenue
Base construction subsidy	31,091.40	31,091.40	Relating to assets
Special funds for fair trade in imports and exports		300,000.00	Relating to revenue
Trade friction response research fund		165,000.00	Relating to revenue
Other projects		91,769.76	Relating to revenue
Total	3,157,656.14	1,497,926.10	—

(3) Description of profit from disposal of properties

Non-operating income of the Group for the current period included profit from disposal of properties of RMB0 (corresponding period of last year: RMB0).

13. Income tax expense

(1) Income tax expense sheet

Item	Current period	Corresponding period of last year
Current income tax expense	29,434,469.43	-5,941,046.06
1. China	29,475,982.38	1,309,880.47
2. Hong Kong		
3. Macau income tax		
4. Over-provision (under-provision) in prior years	-41,512.95	-7,250,926.53
Deferred income tax expense	64,550,523.50	-26,953,618.37
Total	93,984,992.93	-32,894,664.43

(2) Reconciliation of accounting profit and income tax expenses

Item	Current period	Corresponding period of last year
Total profit	703,609,855.79	-459,773,320.13
Income tax expenses calculated at statutory/applicable taxrate	175,902,463.95	-114,943,330.03
Impact of different tax rates for subsidiaries	-122,732,804.36	27,355,244.76
Impact of adjustment for income tax for previous period	-398,986.13	-7,653,583.87
Impact of non-taxable income	-761,970.24	1,222,888.68
Impact of non-deductible costs, expenses and losses	95,539.58	-242,746.18
Impact of utilisation of deductible loss for which no deferred tax assets were previously recognised	-73,186,503.66	-5,545,281.99
Impact of deductible temporary differences for which no deferred tax assets or deductible losses were recognised for current period	131,984,166.14	66,968,060.93
Others (additional deduction effect)	-16,916,912.35	-55,916.73

Income tax expense	93,984,992.93	-32,894,664.43
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(3) Main taxes and rates

	Tax basis	Tax rate
PRC enterprise income tax	Taxable income	15%、20%、25%
Hong Kong profits tax	Taxable income	16.5%
-Value-added tax ^{Note}	Domestic sales; provision of processing, repair and repair services; rental income	16%、13%
	Revenue from construction and installation business	10%、9%
	Modern services industry	6%
-City maintenance and construction tax	Turnover tax payable	7%
-Educational surcharge	Turnover tax payable	3%
-Local educational surcharge	Turnover tax payable	2%

Note: In accordance with the Announcement of the Ministry of Finance, the Tax Administration and the General Administration of Customs on Deepening the Policies Related to Value-Added Tax Reform (Cai Shui Hai Announcement [2019] No. 39), with effect from 1 April 2019, the rates of value-added tax for the taxable sales or imports of goods of the Group had been changed from 16% and 10% to 13% and 9%, respectively.

Notes on taxpayers subject to different enterprise income tax rates:

Name of entity	Tax rate	Remarks
The Company	25%	
CSSC Huangpu Wenchong Shipbuilding Company Limited	15%	
Guangzhou Wenchong Shipyard Co., Ltd.	15%	
Guangzhou Hongfan Computer Technology Co., Ltd.	15%	
Guangzhou Wenchong Dockyard Co., Ltd.	15%	
Glory Group Development Limited	16.50%	Incorporated in Hong Kong
Fonkwang Development Limited	16.50%	Incorporated in Hong Kong
Wah Shun International Marine Limited	16.50%	Incorporated in Hong Kong

WahLoong International Marine Limited	16.50%	Incorporated in Hong Kong
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	20%	Small low-profit enterprise
Guangzhou Xingji Maritime Engineering Design Co., Ltd.	20%	Small low-profit enterprise
Other subsidiaries	25%	

(4) Preferential taxation treatment

1. Value-added tax

Export income: The Group is an enterprise engaged in production and operation. Tax relief, credit and rebate policy is applicable to all of its self-produced goods for export. The tax rebate rate is 16% for ship products, 9% for steel structure products and 15% for large equipment. Since 1 April 2019, the original 16% tax rate is adjusted to 13%; the original 10% tax rate is adjusted to 9%; for those export service with original 16% tax rate and export tax rebate rate of 16%, the export tax rebate rate is adjusted to 13%; for export goods and cross-border taxable activities with original application of 10% tax rate and export tax rebate rate of 10%, the export tax rebate rate is adjusted to 9%.

Revenue from military products: Value-added tax is exempted for military production (order) contracts upon completion of the relevant procedures for tax relief.

Revenue from software: In accordance with the Circular of the State Administration of Taxation of the Ministry of Finance on the Value-added Tax Policy of Software Products (Cai Shui [2011] No. 100), for sales of self-developed software by a value-added tax general taxpayer, the portion of actual value-added tax burden in excess of 3% may be recovered upon payment in accordance with the relevant policy.

2. Enterprise income tax

Huangpu Wenchong, the subsidiary of the Company, passed again the review of high-tech enterprises in 2018, and obtained the Certificate of Hi-tech Enterprise with a validity period of three years. Its enterprise income tax for 2019 was paid at a rate of 15%.

Wenchong Shipyard, the subsidiary of the Company, passed again the review of high-tech enterprises in 2019, and obtained the Certificate of Hi-tech Enterprise with

a validity period of three years. Its enterprise income tax for 2019 was paid at a rate of 15%.

Hongfan Technology, the subsidiary of the Company, passed the review of high-tech enterprises in 2017, and obtained the Certificate of Hi-tech Enterprise with a validity period of three years. Its enterprise income tax for 2019 was paid at a rate of 15%.

Wenchong Dockyard, the subsidiary of the Company, passed the review of high-tech enterprises in 2018, and obtained the Certificate of Hi-tech Enterprise with a validity period of three years. Its enterprise income tax for 2019 was paid at a rate of 15%.

GSI, the subsidiary of the Company, passed again the review of high-tech enterprises in 2017, and obtained the Certificate of Hi-tech Enterprise with a validity period of three years. As it did not choose preferential taxation treatment, its enterprise income tax for the reporting period continued to be paid at a rate of 25%.

14.Earnings per share

Basic earnings per share shall be calculated by profit or loss attributable to ordinary equity holders of the Company (the numerator) divided by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The numerator of the diluted earnings per share attributable to ordinary shareholders is the Company's net profit after adjustment of the following factors: (1) the recognised interest expense of dilutive potential ordinary shares; (2) income or expense that would result from the conversion of dilutive potential ordinary shares; and (3) the related income tax effects of the above adjustments.

The denominator of diluted earnings per share is equal to the sum of: (1) the weighted average number of issued ordinary shares of the Company in basic earnings per share; and (2) the weighted average number of shares after conversion of the dilutive potential ordinary shares into ordinary shares.

In calculating the weighted average number of shares after conversion of dilutive potential ordinary shares into ordinary shares, the dilutive potential ordinary shares which were converted in previous years are assumed to be converted at the beginning of current period and the dilutive potential ordinary shares which were converted

during current period are assumed to be converted at the date of issue.

The calculation of basic earnings per share and diluted earnings per share are as follows:

Item	No.	Current period	Corresponding period of last year
Net profit attributable to shareholders of the Parent Company	1	390,750,329.92	-361,945,458.99
Non-recurring gains and losses attributable to the Parent Company	2	812,658,713.76	122,148,141.24
Net profit attributable to shareholders of the Parent Company, net of non-recurring gains and losses	3=2-1	-421,908,383.84	-484,093,600.23
Total number of shares at the beginning of the year	4	1,413,506,378.00	1,413,506,378.00
Number of shares increased due to transferring capital reserve into share capital or dividend distribution of shares (I)	5		
Number of shares increased due to issuance of new shares or debt for equity swap (II)	6		
Number of months from next month to the year-end regarding the number of shares (II)	7		
Number of shares decreased due to stock repurchase	8		
Number of months from the next month to the year-end regarding the decrease of shares	9		
Number of shares decreased due to capital reduction	10		
Number of months in the reporting period	11	6	6
Weighted average number of ordinary shares outstanding	12	1,413,506,378.00	1,413,506,378.00
Weighted average number of ordinary shares outstanding following adjustments in relation to business combination under common control for the purposes of earnings per share after deduction of non-recurring gains and losses	13	1,413,506,378.00	1,413,506,378.00
Basic earnings per share(I)	14=1÷12	0.2764	-0.2561
Basic earnings per share(II)	15=3÷13	-0.2985	-0.3425
Potential diluted interests of ordinary shares recognised as expense	16		

Item	No.	Current period	Corresponding period of last year
Transfer fee	17		
Income tax rate	18	0.25	0.25
Weighted average amount of ordinary shares increased due to warrant, share options, and convertible bonds, etc.	19		
Diluted earnings per share (I)	$20=[1+(16-18)\times(1-17)]\div(12+19)$	0.2764	-0.2561
Diluted earnings per share (II)	$21=[3+(16-18)\times(1-17)]\div(13+19)$	-0.2985	-0.3425

15.Dividends

Final dividends for the year-ended 31 December 2018 totaling RMB0 (corresponding period of last year: RMB0) were declared and paid during the six months ended 30 June 2019.

The Company will not distribute the interim dividends for the six month period ended 30 June 2019 (corresponding period of last year: Nil).

16.Depreciation and amortisation

	Current period	Corresponding period of last year
Depreciation of investment properties	314,356.08	314,356.08
Depreciation of fixed assets	363,588,104.88	393,699,755.60
Amortisation of intangible assets	31,133,922.41	31,550,265.83
Amortisation of long-term prepaid expenses	7,361,072.30	1,845,410.10
Depreciation of right-of-use assets	26,287,149.55	
Total	428,684,605.22	427,409,787.61

17.Gains (or losses) on disposal of investments or properties

Gains (or losses) on disposal of investments during the current period were RMB0 (corresponding period of last year: RMB188,161.90), and investment income on cancellation of Longxue Properties, a subsidiary of the Company, was RMB0

(corresponding period of last year: RMB-42,655.82).

Gains on disposal of properties during the current period were RMB0 (corresponding period of last year: RMB0)

IV. SEGMENT INFORMATION

1.Basis for determination of reportable segments and accounting policies

According to the Group's internal organizational structure, management requirements, and internal reporting system, the segments of the operation can be divided into 4 categories based on the different types of main products. The management of the Group evaluates operating outcomes of these segments periodically in order to make decisions concerning resource distributions and operating result assessments. The Group is currently organized into shipbuilding, steel structure engineering, ship repair and related business and others.

Segment reporting information is disclosed according to accounting policies and measurement basis used in reports presented by each segment to the management. These accounting policies and measurement basis are consistent with those adopted in drafting financial statements.

2.Financial information of reportable segments during the period

(1) Profit before tax, assets and liabilities for segments by product or business

Current period

Item	Shipbuilding and related business	Steel structure engineering	ship repair and related business	Other segments	Inter-segment elimination	Total
Operating income	8,163,215,956.79	438,843,173.74	281,878,559.73	742,751,349.95	-1,810,603,720.53	7,816,085,319.68
Including: Revenue from external transactions	6,968,745,653.37	320,013,669.12	279,054,865.73	248,271,131.46	-	7,816,085,319.68
Revenue from intra- segment transactions	1,194,470,303.42	118,829,504.62	2,823,694.00	494,480,218.49	-1,810,603,720.53	
Operating costs	8,143,237,454.33	413,911,766.76	243,599,568.60	719,951,004.87	-1,893,838,993.75	7,626,860,800.81
Charges during the period	527,118,126.73	42,485,743.23	97,203,992.58	30,341,273.90	-1,840,323.86	695,308,812.58
Segment total profit	762,844,365.46	-15,955,374.31	-57,906,889.17	10,337,143.29	4,290,610.52	703,609,855.79
Total assets	47,611,012,116.40	1,388,714,530.54	2,417,802,622.36	12,653,779,245.18	-16,514,772,789.35	47,556,535,725.13
Total liabilities	32,354,058,427.77	1,112,569,618.23	2,471,657,616.79	2,948,791,231.06	-6,473,957,967.23	32,413,118,926.62
Supplementary information			-			
Capital expenditure	1,284,222,110.56	2,702,028.55	12,143,108.54	2,758,734.95	-300,000,000.00	1,001,825,982.60
Impairment loss recognized during current period	77,708,026.97	558,718.94	-199,251.13	30,761.71	-28,084.55	78,070,171.94
Depreciation and amortisation expense	347,843,378.03	3,474,563.59	36,222,072.15	42,345,016.48	-1,200,425.03	428,684,605.22

Corresponding period of last year

Item	Shipbuilding and related business	Steel structure engineering	ship repair and related business	Other segments	Inter-segment elimination	Total
Operating income	7,482,255,001.47	479,097,588.64	253,833,180.33	453,837,935.57	-195,254,906.27	8,473,768,799.74
Including: Revenue from external transactions	7,292,183,938.79	479,013,537.38	253,833,180.33	448,738,143.24		8,473,768,799.74
Revenue from intra- segment transactions	190,071,062.68	84,051.26		5,099,792.33	-195,254,906.27	
Operating costs	7,476,190,588.38	453,453,141.90	243,389,105.75	398,393,203.89	-188,128,545.16	8,383,297,494.76
Charges during the period	562,582,681.78	20,872,243.73	99,866,675.39	38,206,235.26	12,542,673.98	734,070,510.14
Segment total profit	-402,599,545.64	5,717,290.10	-89,369,084.21	5,804,967.47	20,673,052.15	-459,773,320.13
Total assets	48,871,338,220.68	1,164,236,972.75	2,379,417,256.47	10,249,175,834.91	-15,188,824,198.44	47,475,344,086.37
Total liabilities	34,225,463,809.53	874,376,973.12	2,371,477,071.83	1,090,599,358.83	-5,442,983,675.01	33,118,933,538.30
Supplementary information						
Capital expenditure	410,814,091.88	10,450,008.43	34,317,369.22	50,584,519.18	-100,000,000.00	406,165,988.71
Impairment loss recognized during current period	91,466,143.03	-484,217.97	-1,267,986.37	153,326.68		89,867,265.37
Depreciation and amortisation expense	350,744,067.39	3,030,163.40	36,857,081.12	36,483,404.17	295,071.53	427,409,787.61

(2) Revenue from external transactions by origin of revenue

Revenue from external transactions	Current period	Corresponding period of last year
Revenue from external transactions derived from China	7,742,032,051.13	8,451,343,321.91
Revenue from external transactions derived from other countries	74,053,268.55	22,425,477.83
Total	7,816,085,319.68	8,473,768,799.74

(3) Non-current assets by location of assets

Total non-current assets	Ending balance	Beginning balance
Non-current assets within China	14,536,622,713.50	17,072,158,586.14
Non-current assets in other countries	641,732,046.48	727,749,130.41
Total	15,178,354,759.98	17,799,907,716.55

Note: Total non-current assets exclude financial assets and total deferred tax assets.

§9 DOCUMENTS AVAILABLE FOR INSPECTION

The 2019 interim report will be available at the following addresses and websites:

HKEXnews website of the Stock Exchange of Hong Kong Limited	www.hkexnews.hk
Website of the Shanghai Stock Exchange	www.sse.com.cn
Place for inspection of the interim report	Office of the Board of Directors, Floor 15, Ship Building, No.137 Gexin Road, Haizhu District, Guangzhou

By order of the Board

CSSC Offshore & Marine Engineering (Group) Company Limited

Han Guangde

Chairman

Guangzhou, 29 August 2019

As at the date of this announcement, the Board comprises eleven Directors, namely executive Directors Mr. Han Guangde, Mr. Chen Zhongqian, Mr. Chen Liping, Mr. Sheng Jigang, Mr. Xiang Huiming and Mr. Chen Ji, non-executive Director Mr. Shi Jun and independent non-executive Directors Mr. Wang Yichu, Mr. Min Weiguo, Mr. Liu Renhuai and Mr. Yu Shiyu.