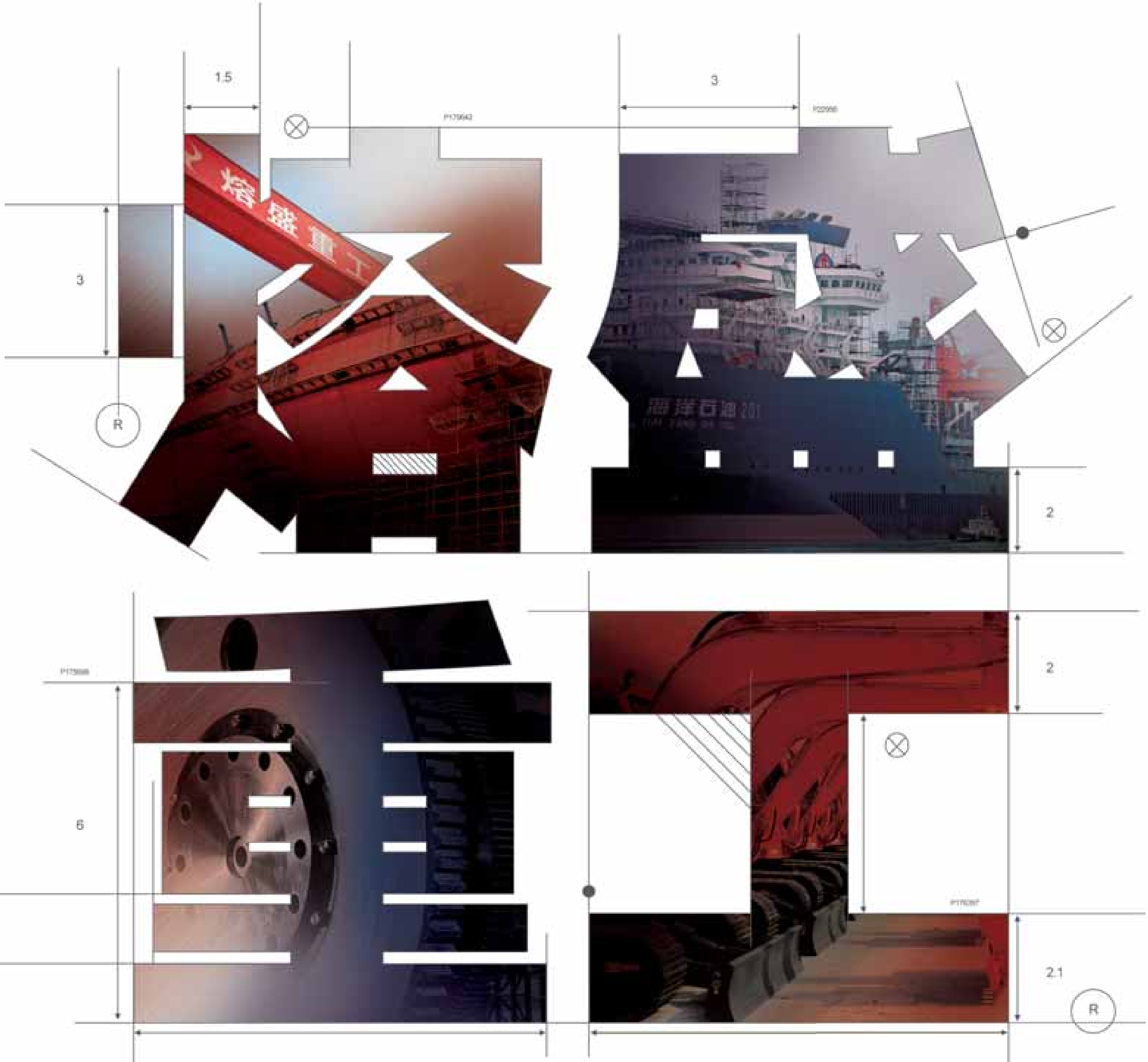
熔盛重工
RONGSHENG

中國熔盛重工集團控股有限公司
CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101



2011 INTERIM REPORT

PASSION TO EXCEL

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Management Discussion & Analysis

Business Review

For the six months ended 30 June 2011 (the "Period"), our revenue was RMB8,703.5 million, representing a growth rate of 81.1% from RMB4,806.7 million for the six months ended 30 June 2010 (the "Comparative Period").

Earnings attributable to equity holders of the Company were RMB1,216.7 million, representing an increase of 639.0% as compared with RMB164.6 million in the Comparative Period.

Revenue and segment information from external customers:

	For six months ended 30 June 2011		For six months ended 30 June 2010	
	RMB'000	% of revenue	RMB'000	% of revenue
Shipbuilding	8,436,172	96.9%	4,540,084	94.5%
Offshore Engineering	31,295	0.4%	184,878	3.8%
Marine Engine Building	–	–	3,179	0.1%
Engineering Machinery	235,999	2.7%	78,543	1.6%
Total	8,703,466	100.0%	4,806,684	100.0%

Shipbuilding

Shipbuilding was our major business segment and also our major revenue source. For the Period we delivered 8 vessels, with an aggregate volume of 1,288,000 deadweight tonnage ("DWT"). Revenue from our shipbuilding segment was RMB8,436.2 million, representing 96.9% of total revenue.

To cope with market changes, we actively adjusted our strategy according to market conditions. Leveraging on our success in very large ore carriers ("VLOCs"), we aimed at the market segment of large bulk carriers of 200,000 DWT or above, and successfully secured 10 new orders of this type.

We have been moving up the value chain by building an order book with more high-value vessels. During the Period, we secured shipbuilding orders for four 6,600 twenty-foot equivalent unit ("TEU") containerships. Meanwhile, we will continue to develop advanced products to meet the market demand for fuel-efficient and low-emission vessel types.

Our first 400,000 DWT VLOC, one of the 16 orders of this type, was successfully launched at a naming ceremony, witnessed by the chief executive officer of Vale do Rio Doce.

At the Seatrade Asia Award Ceremony held in June 2011, we were once again presented the Shipbuilding Award. This was the third consecutive year in which we received awards at such ceremony and proved that our performance is widely recognized among the industry. Our chief executive officer, Mr. Chen Qiang, was also awarded the Seatrade Personality of the Year.

Order Book and New Orders

Despite the downturn of the shipbuilding industry during the Period, our strong ability to obtain new orders made us stand out among Chinese shipbuilders. We were granted new orders for 28 vessels in the Period, representing a total volume of approximately 3.4 million DWT with a total contract value of approximately USD1.3 billion, accounting for 21% DWT of new orders in China and 9% in the world. Our total orders on hand as of 30 June 2011 were 109 vessels, representing a total volume of approximately 17.4 million DWT with a total contract value of approximately USD6,751.1 million, which comprised 49 Panamax bulk carriers, 17 Capesize bulk carriers, 16 VLOCs, 17 Suezmax crude oil tankers, 2 very large crude oil carriers (VLCCs), four 6,500 TEU containerships and four 6,600 TEU containerships. All the vessels in our order book are scheduled to be delivered during the period from 2011 to 2016.

The following table sets forth the information relating to our orders on hand as of 30 June 2011 and 31 December 2010 respectively.

	As of 30 June 2011			As of 31 December 2010		
	DWT ('000)	Contract value (USD mm)	No. of vessels	DWT ('000)	Contract value (USD mm)	No. of vessels
Bulk carriers and VLOCs	**13,406.0**	**4,780.1**	**82**	10,644.0	3,943.0	60
Crude oil tankers and VLCCs	**3,301.0**	**1,289.2**	**19**	4,877.0	1,917.7	27
Containerships	**658.0**	**681.8**	**8**	338.6	411.8	4
Total	**17,365.0**	**6,751.1**	**109**	15,859.6	6,272.5	91

Note: our order book, as of the dates indicated above, represents the total nominal contract value of the orders that had not been completed, including the portion of revenue in respect of those orders that had been recognised as of such dates, all as translated (where applicable) into USD on the respective balance sheet dates at the rates of USD1.00 = RMB6.6229 as of 31 December 2010 and USD1.00 = RMB6.4716 as of 30 June 2011. In addition, the figures do not include the orders that had been cancelled as of 30 June 2011 or as of 31 December 2010.

The following table sets forth the information relating to our new orders of shipbuilding segment for the six months ended 30 June 2011 and 30 June 2010 respectively.

	For six months ended 30 June 2011			For six months ended 30 June 2010		
	DWT ('000)	Contract value (USD mm)	No. of vessels	DWT ('000)	Contract value (USD mm)	No. of vessels
Bulk carriers and VLOCs	**3,114.0**	**1,030.0**	**24**	1,216.0	567.0	16
Crude oil tankers and VLCCs	**–**	**–**	**–**	1,099.0	430.7	7
Containerships	**319.4**	**270.0**	**4**	–	–	–
Total	**3,433.4**	**1,300.0**	**28**	2,315.0	997.7	23

Note: the contract values were all translated (where applicable) into US dollars at the rates of USD1.00 = RMB6.7909 as of 30 June 2010 and USD1.00 = RMB6.4716 as of 30 June 2011. In addition, the figures do not include orders that had been cancelled as of 30 June 2011 or as of 31 December 2010.

Offshore Engineering

Our revenue from offshore engineering segment for the Period, which arose from the construction of the 3,000-meter deepwater pipe-laying crane vessel ("DPV"), was RMB31.3 million.

In June 2011, the DPV, constructed for our strategic partner CNOOC, was successfully undocked and entered the final preparation stage for delivery. This state-of-the-art vessel was the first joint offshore engineering project between CNOOC and the Group. We demonstrated our technical prowess in the field of offshore engineering. We will continue to prioritize, given the same conditions, CNOOC's offshore projects and power auxiliary equipment construction.

We aim at the domestic market where China's growing demand for offshore oil and gas stimulates the upgrade of offshore equipment. We follow the state policy on national energy strategy and actively participate in project bidding. Meanwhile, we have been continuously putting in resources in our research and development of complex vessel types such as drilling rigs and liquefied natural gas ("LNG") carriers. Pursuant to the patent agreement for LNG containment systems we signed with Gaztransport & Technigaz S.A.S. France ("GTT"), we sent our engineering team to GTT for training in early 2011, in preparation for LNG carrier containment systems and mock-up installation. We have been solidifying our technical prowess for breaking the high technological barrier to the global offshore market.

Marine Engine Building

With the support of our aggregate orders from shipbuilding, our marine engine building segment has been developing rapidly. In the first half of 2011, we made breakthroughs on external sales of marine engines. We secured new orders for 26 marine diesel engines in the Period, representing a total capacity of 464,432 horsepower and with a total contract value of USD134.9 million. The Group's total orders on hand as of 30 June 2011 were 66 engines, representing a total capacity of 1,348,573 horsepower with a total contract value of USD369.7 million, of which 24 were external orders. The Group's total orders on hand as of 30 June 2010 were 23 engines, representing a total capacity of 648,310 horsepower with a total contract value of USD148.5 million, of which 3 were external orders. In the Period, we delivered 13 diesel engines with a total capacity of 227,466 horsepower. For the Comparative Period, we delivered 2 diesel engines with a total capacity of 65,970 horsepower.

The Group completed the production of one new model during the Period: the 5S60ME-C electronically controlled diesel engine. This low-emission and fuel-efficient model meets stringent emission regulations imposed by maritime organizations and fulfills the growing demand for fuel efficient vessels.

Engineering Machinery

In the Period, our revenue from the engineering machinery segment was RMB236.0 million, representing a growth rate of 200.6 % from RMB78.5 million in the Comparative Period. This was partly due to the inclusion of the full six month results of this segment in the Period, whereas the Comparative Period results only includes the results from 29 March 2010 to 30 June 2010. Excluding the partial period effect, the normalized growth in revenue in the Period was approximately 50.3%, and was primarily achieved through the sale of 589 excavators.

We have been expanding our engineering machinery production base in Hefei, Anhui Province. The whole project, with an annual production capacity of 30,000 hydraulic excavators, is designated as a major project in the "861 Action Plan" of Anhui Province as well as a major implementation project under the "Twelfth Five-Year Plan" of the Hefei Municipal Government. Phase One of the new plant commenced production on 28 June 2011. The construction of Phase One plant began in November 2010 and was completed in seven months, setting a new record for constructing a general assembly workshop across the industry. We are focusing on producing 16 types of hydraulic excavators and 2 types of crawler cranes. In addition, we are committed to product mix adjustment to follow the market trend of dynamic compaction machinery segment. We strive to build our core competence.

Financial Review

With our business expansion, our inventories as of 30 June 2011 increased by RMB866.7 million to RMB2,424.0 million (as of 31 December 2010: RMB1,557.3 million). Our inventory turnover days increased from 60 days as of 31 December 2010 to 70 days as of 30 June 2011.

The amounts due from customers for contract works increased by RMB106.3 million to RMB4,197.3 million (as of 31 December 2010: RMB4,091.0 million). Amounts due to customers for contract works decreased by RMB4,040.0 million to RMB813.3 million (as of 31 December 2010:

RMB4,853.3 million). The increase in amounts due from customers for contract works and the decrease in amounts due to customers for contract works were due to the continuous expansion of the production scale of our shipbuilding segment and the on-going construction of vessels in 2011. Trade and bill receivables increased by RMB1,901.0 million to RMB2,228.8 million (as of 31 December 2010: RMB327.8 million). Turnover days of trade and bill receivables posted increase from 9 days as of 31 December 2010 to 27 days as of 30 June 2011. This increase was mainly due to the significant increase in number of vessels under construction during the Period, resulting in an increase in account receivables.

Driven by working capital requirements arising from our business expansion during the Period, our short-term borrowings and long-term borrowings increased to RMB11,841.9 million (as of 31 December 2010: RMB9,462.1 million) and RMB8,265.5 million (as of 31 December 2010: RMB8,173.3 million) respectively as of 30 June 2011, representing an increase of RMB2,379.8 million and RMB92.2 million, respectively.

Revenue

Our revenue for the Period was RMB8,703.5 million as compared to RMB4,806.7 million for the Comparative Period, representing a year-on-year growth of approximately 81.1%. The significant revenue growth was primarily attributable to the continuous expansion of our shipbuilding business and engineering machinery business.

Cost of sales

Our cost of sales for the Period increased by approximately 60.8% to RMB6,683.3 million (during the Comparative Period: RMB4,157.5 million), in line with the significant increase in revenue.

Selling and marketing expenses

Our selling and marketing expenses for the Period increased by approximately 25.6% to RMB35.3 million (during the Comparative Period: RMB28.1 million), due to increased advertising, promotion and marketing activities to further promote our brand. Moreover, we incurred other marketing costs for the product agencies and sales labour costs in our engineering machinery business.

General and administrative expenses

Our general and administrative expenses for the Period increased by approximately 8.6% to RMB501.2 million (during the Comparative Period: RMB461.6 million), mainly due to an increase in labour costs and depreciation.

Finance income and finance costs – net

Our finance income for the Period increased by approximately 266.9% to RMB110.8 million (during the Comparative Period: RMB30.2 million), mainly due to the increase in interest income and exchange gain on financing activities of RMB46.9 million and RMB33.7 million, respectively. Our finance costs for the Period decreased by approximately RMB4.0 million to RMB95.0 million (during the Comparative Period: RMB99.0 million), mainly due to a large proportion of our borrowings was for supporting the construction of infrastructures, which resulted in an increase in capitalization of borrowing costs.

Liquidity and financial resources

As of 30 June 2011, our cash and cash equivalents balance was RMB5,748.4 million (as of 31 December 2010: RMB10,413.0 million).

As of 30 June 2011, our pledged deposits were RMB4,227.2 million (as of 31 December 2010: RMB4,009.8 million), which was primarily attributable to the increase in the number of vessels under construction.

Loans

As of 30 June 2011, our total loans were RMB20,107.4 million (as of 31 December 2010: RMB17,635.4 million), of which RMB18,527.1 million (92.1%) was denominated in RMB and the remaining RMB1,580.3 million (7.9%) was denominated in foreign currencies such as USD. Certain of our borrowings were secured by our land use rights, buildings, construction contracts, pledged deposits, steel plates and guarantees of the Group.

Foreign exchange risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD and RMB, while about 70% of the production costs were denominated in RMB. The cash flows of unmatched currencies are subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimizing the impact of foreign exchange fluctuations on our business operations. Management has adopted measures, including forward derivatives, to manage our foreign exchange exposure. These forward derivatives are not designated or qualified for hedge accounting, and as such, any changes in fair values will be recognized in the consolidated statement of comprehensive income in the period in which such changes occur.

Capital expenditure

For the Period, our capital expenditure was approximately RMB2,894.6 million (during the Comparative Period: RMB2,291.2 million), which was mainly used in plants construction and facilities and equipment procurement.

Contingent liabilities

As of 30 June 2011, we had contingent liabilities of RMB12,666.1 million (as of 31 December 2010: RMB9,719.8 million), which mainly resulted from the agreements entered into between our Group and more than 10 banks in the PRC in relation to the grant of credit facilities to us.

Market Analysis

In the first half of 2011, the US and European economies trembled as debt turbulence escalated, while emerging markets, prioritizing the fight against inflation, were preoccupied with tightening monetary policy. The global economy slowdown has impacted the shipping as well as shipbuilding industries. The Baltic Dry Index (BDI) remained depressed and shipbuilding orders for bulk carriers were affected adversely at various levels. The very large bulk carrier market segment however remained stable. High-value vessel types such as large containerships retained steady growth. In the first half of 2011, the world's total order book of containerships of 3,000 TEU and above increased by 12.6% on a year-on-year basis. We expect, in the current market, the excess yard capacity of small and medium shipbuilders will create consolidation opportunities for the large and advanced shipbuilders with stronger risk bearing capability.

Interrelated with shipbuilding, China's marine engine market experienced a slowdown in growth, whereas the contribution from domestic suppliers continued to rise. Pursuant to the Plan on Adjusting and Revitalizing the Ship Industry passed by the State Council, the domestic supply rate of low-speed marine diesel engines is proposed to surpass 80% by the end of this year, offering opportunities for domestic manufacturers.

The potential shortage of oil and natural gas not only initiates market demand for fuel efficient and low emission vessels, but also boosts the upgrade and substitution of offshore equipment. In the first half of 2011, the world's order book of LNG carriers increased significantly to 46, as compared to the total order book of 22 as of the end of last year. China positions offshore engineering as a key state-supported and strategic emerging industry, and correspondingly, the central government actively supports domestic manufacturers to develop offshore equipment such as LNG carriers.

Hindered by the slowdown in high-speed rail investment, the Chinese engineering machinery market saw a downturn in growth. Meanwhile, local manufacturers were rapidly gaining higher market share in the domestic market. In the first six months, the market share of local manufacturers increased to 33.7%, as compared with 28.1% for last year. Other market segments, such as the dynamic compaction machinery market, have shown a growing trend.

To tackle inflation, the People's Bank of China continues to tighten monetary policy by raising the required reserve ratio and benchmark interest rate. The increase in financing difficulty and cost has put pressure on capital-intensive heavy industry companies.

Prospects

Despite the economic downturn, the Group adopts a differentiation strategy to ensure sustainable growth in a competitive market. We believe that building win-win relationships with our strategic partners is essential to our long term growth. This strategy benefited us in the first half of 2011 as we progressively obtained a considerable number of new orders. We also adjusted our strategy according to the market conditions. By way of leveraging upon our advantageous products and focusing on market segments that are less affected, such as very large bulk carriers of 200,000 DWT or above, we successfully obtained ten new orders. According to Clarkson Research, as of June 2011, our new shipbuilding orders, in terms of DWT, represented a China market share of 21% and a global market share of 9% and our orders on hand continued to rank first in China and fifth in the world in terms of DWT. In addition to our leading position in the shipbuilding industry, we have been continuously moving up the industry value chain by building an order book with more high-value vessel types such as large containerships. In addition to our existing orders of four 6,500 TEU containerships, we obtained four more 6,600 TEU containerships orders in the Period based on our containership manufacturing experience. Meanwhile, we will continue to develop advanced products to meet the market demand for fuel-efficient and low-emission vessel types.

In the current tightening monetary environment, we will keep on strengthening our strategic cooperation with financial institutions. In June 2011, we signed a strategic cooperation agreement with China CITIC Bank which granted us a total credit line of RMB11 billion. In August 2011, guaranteed by the Export-Import Bank of China, we were granted a USD220 million transferable term loan facility by a syndicate of offshore banks led by Credit Agricole Corporate and Investment Bank. We also received a further credit line of RMB28 billion from the Agricultural Bank of China in August 2011.

China's growing demand for oil and gas stimulates the upgrade of the offshore equipment. Guided by the state's energy strategy, we focus on the domestic market, and actively participate in bidding domestic projects. By cooperating with prestigious engineering firms, such as GTT, we have been solidifying our technical prowess for breaking the high technological barrier to the worldwide offshore market.

We will continue to carry out the development and production of advanced marine engines. We are cooperating with MAN Denmark in the field of dual-fuel diesel engines as we believe the wider use of dual-fuel diesel engines is the market trend. Leveraging on the technical prowess and excellent performance of our products, we will enjoy an advantage as a market forerunner.

We expect the affordable housing projects and hydraulic engineering projects initiated by the PRC government will push up demand in the engineering machinery market. Our expanded production capacity and sales network enable us to capture such growth. We shall adjust the product mix in response to the changes in the market, and actively explore market segment such as dynamic compaction machine, in order to enhance our core competence.

In the second half of 2011, we will leverage on our strong resource integration capability to strengthen strategic cooperation with the customers and financial institutions, and actively respond to market changes. We will continue to transform ourselves into a diversified high-end manufacturing conglomerate focusing on high-value equipment.

Corporate Governance

Code on Corporate Governance Practices

During the six months ended 30 June 2011, the Company complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), save for the deviation under the code provision E.1.2 which stipulates that the chairman of the Board should attend the annual general meeting ("AGM"). The chairman of the Board did not attend the AGM of the Company held on 28 April 2011 due to other business engagements. Mr. Chen Qiang, an executive director and the chief executive officer of the Company attended and chaired the AGM and answered shareholders' questions.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code throughout the six months ended 30 June 2011.

Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 24 October 2010 with written terms of reference, and comprises three independent non-executive Directors, namely, Mr. Tsang Hing Lun (chairman of the Audit Committee), Mr. Chen Gang and Mr. Zhang Xu Sheng.

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

Acquisition of a Subsidiary

On 26 April 2011, Jiangsu Rongsheng Heavy Industries Co., Ltd., ("Jiangsu Rongsheng Heavy Industries"), a non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement with The People's Government of Quanjiao County, Anhui Province, pursuant to which Jiangsu Rongsheng Heavy Industries agreed to purchase the entire equity interest in Anhui Quanchai Group Corp. for an aggregate consideration of RMB2,148,870,000. Details of the acquisition were disclosed in the announcement of the Company dated 26 April 2011.

Disclosure of Interests

Directors' Interests in Shares, Underlying Shares and Debentures

As at 30 June 2011, the Directors and their respective associates (as defined in the Listing Rules) had the following interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (the "Associated Corporations") (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (c) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

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

	Number of Shares				
Name of Director	**Personal interest**	**Corporate interest**	**Equity derivatives (Share options) (Note 3)**	**Total**	**Percentage of issued share capital (Note 4)**
Mr. Zhang Zhi Rong	–	3,762,281,157 (Note 1)	–	3,762,281,157	53.75%
Mr. Chen Qiang	–	196,000,000 (Note 2)	–	196,000,000	2.80%
Mr. Wu Zhen Guo	–	–	5,000,000	5,000,000	0.07%
Mr. Luan Xiao Ming	–	–	4,375,000	4,375,000	0.06%
Mr. Deng Hui	–	–	4,375,000	4,375,000	0.06%
Mr. Hong Liang	–	–	4,375,000	4,375,000	0.06%
Mr. Sean S J Wang	–	–	2,500,000	2,500,000	0.04%
Mr. Wang Tao	–	–	4,375,000	4,375,000	0.06%

Notes:

As at 30 June 2011,

(1) Mr. Zhang Zhi Rong was deemed to have interests in 3,762,281,157 shares, comprising 3,653,557,157 shares and 108,724,000 shares held by Fine Profit Enterprises Limited and Wealth Consult Limited, respectively, both of which are companies 100 per cent. directly or indirectly beneficially owned by Mr. Zhang Zhi Rong.

(2) Mr. Chen Qiang was deemed to have interests in 196,000,000 shares held by Boom Will Limited, a company 100 per cent. beneficially owned by Mr. Chen Qiang.

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

(4) These percentages have been compiled based on the total number of issued shares of the Company of 7,000,000,000 as at 30 June 2011 and rounded to two decimal places.

(B) Long Positions in Associated Corporations

Name of Director	Name of associated corporation	Nature of interest/ capacity	Number of shares	Percentage of issued share capital
Mr. Zhang Zhi Rong	Fine Profit Enterprises Limited	Corporate Interest	50,000 (Note 1)	100%
Mr. Zhang Zhi Rong	Wealth Consult Limited	Corporate Interest	30,000 (Note 2)	100%
Mr. Chen Qiang	Rongsheng Heavy Industries Holdings Limited	Corporate Interest	15,000 (Note 3)	1.5%

Notes:

As at 30 June 2011,

(1) Fine Profit Enterprises Limited, the controlling shareholder of the Company, was 100 per cent. beneficially owned by Mr. Zhang Zhi Rong.

(2) Wealth Consult Limited was 100 per cent. beneficially owned by Fine Profit Enterprises Limited, a company 100 per cent. beneficially owned by Mr. Zhang Zhi Rong.

(3) The 15,000 shares in Rongsheng Heavy Industries Holdings Limited were held by Boom Will Limited, a company 100 per cent. beneficially owned by Mr. Chen Qiang.

Save as disclosed above, as at 30 June 2011, none of the Directors and chief executive of the Company or their associates had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

As at 30 June 2011, the number of outstanding options granted by the Company to the Directors and chief executive to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, is set out in the section headed "Share Option Schemes" of this interim report.

Save as disclosed above, at no time during the six months ended 30 June 2011 was the Company, its holding company or any subsidiary of the Company or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests in the Share Capital of the Company

As at 30 June 2011, the interests of substantial shareholders (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Number of shares	Percentage of issued share capital (Note 3)
Fine Profit Enterprises Limited (Note 1)	3,762,281,157 (Note 2)	53.75%

Notes:

(1) Among the 3,762,281,157 shares, 3,653,557,157 shares were directly held by Fine Profit Enterprises Limited and 108,724,000 shares were directly held by Wealth Consult Limited, which is a wholly-owned subsidiary of Fine Profit Enterprises Limited. Both Fine Profit Enterprises Limited and Wealth Consult Limited are 100 per cent. directly or indirectly beneficially owned by Mr. Zhang Zhi Rong.

(2) Represents long position in the shares of the Company.

(3) These percentages have been compiled based on the total number of issued shares of the Company of 7,000,000,000 as at 30 June 2011 and rounded to two decimal places.

Save as disclosed above, as at 30 June 2011, there was no other person (other than the Directors or chief executive of the Company) who had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange.

Share Option Schemes

On 24 October 2010, the Company conditionally approved and adopted the Pre-IPO Share Option Scheme. As at 30 June 2011, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 62,500,000 shares, which is equivalent to approximately 0.89% of the total existing issued share capital of the Company. No further options will be offered or granted by the Company pursuant to the Pre-IPO Share

Option Scheme. On 24 October 2010, the Company also conditionally approved and adopted the Share Option Scheme for the purpose of enabling the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

Pre-IPO Share Option Scheme

During the six months ended 30 June 2011, no share options had been granted under the Share Option Scheme. The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Pre-IPO Share Option Scheme and its movement during the six months ended 30 June 2011:

		Number of Share Options						
	Date of grant	Granted	Exercised	Cancelled	Lapsed	As at 30/06/2011	Exercise price (HK$)	Exercisable period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note
Mr. Luan Xiao Ming	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Deng Hui	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Senior management and other employees (in aggregate)	24 October 2010	37,500,000	–	–	–	37,500,000	4.00	Note
Total		62,500,000	–	–	–	62,500,000		

Notes:

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

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

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

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

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

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

Other Information

Human Resources

As of 30 June 2011, we had 6,569 employees (as of 31 December 2010: 5,782). We recruited new employees to cater for the business expansion. We offer competitive remuneration packages to employees. Moreover, discretionary bonuses are granted to qualified employees by reference to the performance of individuals and our Group as a whole. As our success hinges on the concerted effort from all departments manned with skilled employees with high morale, we endeavor to cultivate a culture of learning and sharing, provide training and development opportunities, and nurture the concept of teamwork amongst our employees.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2011.

Interim Dividend

The Board has resolved to declare an interim dividend of RMB5.2 cents per share for 2011 (2010: nil) to shareholders whose names appear on the Company's register of members on 16 September 2011 (record date). The exchange rate adopted for conversion is the average closing exchange rate published by The People's Bank of China during the period of five business days in Hong Kong prior to the declaration of dividends (i.e. 17 August 2011 to 23 August 2011) (RMB1 = HK$1.218294). Accordingly, the amount of the interim dividend payable in Hong Kong dollars will be HK$0.063351 per share. The interim dividend of the Company will be distributed on or around 29 September 2011.

Closure of Register of Members

The Register of Members will be closed from Monday, 12 September 2011 to Friday, 16 September 2011, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, but not later than 4:30 p.m. on Friday, 9 September 2011.

Interim Consolidated Statement of Financial Position

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**650,647**	657,206
Property, plant and equipment	7	**14,467,862**	12,123,885
Intangible assets	8	**111,148**	108,896
Long-term deposits	10(b)	**141,389**	138,109
Prepayment for acquisition of a business	24(a)	**1,153,890**	–
Deferred income tax assets		**13,692**	13,692
		16,538,628	13,041,788
Current assets			
Inventories		**2,424,042**	1,557,306
Amounts due from customers for contract works	9	**4,197,305**	4,090,993
Trade and bills receivables	10(a)	**2,228,799**	327,758
Other receivables, prepayments and deposits	10(b)	**9,024,071**	7,555,390
Pledged deposits		**4,227,178**	4,009,762
Cash and cash equivalents		**5,748,402**	10,412,974
Derivative financial instruments		**4,124**	–
		27,853,921	27,954,183
Total assets		**44,392,549**	40,995,971
EQUITY			
Capital and reserve attributable to the Company's equity holders			
Share capital	11	**599,526**	599,526
Share premium	11	**8,008,812**	8,484,812
Other reserves		**3,088,122**	3,043,068
Retained earnings		**2,948,098**	1,731,360
		14,644,558	13,858,766
Non-controlling interests		**864,135**	776,375
Total equity		**15,508,693**	14,635,141

The notes on pages 20 to 44 are an integral part of these condensed consolidated interim financial information.

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	**7,617,705**	7,766,846
Finance lease liability – non-current	14	**647,772**	406,416
Deferred tax liabilities		**5,936**	6,391
		8,271,413	8,179,653
Current liabilities			
Amounts due to customers for contract works	9	**813,273**	4,853,326
Advances received from customers for contract works	9	**68,672**	432,473
Trade and other payables	13	**7,391,435**	3,125,500
Current income tax liabilities		**188,822**	73,096
Borrowings	14	**11,424,485**	9,149,294
Derivative financial instruments		**–**	6,022
Provision for warranty	15	**308,344**	228,654
Finance lease liability – current	14	**417,412**	312,812
		20,612,443	18,181,177
Total liabilities		**28,883,856**	26,360,830
Total equity and liabilities		**44,392,549**	40,995,971
Net current assets		**7,241,478**	9,773,006
Total assets less current liabilities		**23,780,106**	22,814,794

The notes on pages 20 to 44 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2011 RMB'000	 2010 RMB'000
Revenue	6	**8,703,466**	4,806,684
Cost of sales	16	**(6,683,290)**	(4,157,496)
Gross profit		**2,020,176**	649,188
Selling and marketing expenses	16	**(35,262)**	(28,063)
General and administrative expenses	16	**(501,164)**	(461,567)
Other income	17	**121,180**	91,309
Other (losses)/gains – net	18	**(107,447)**	39,732
Operating profit		**1,497,483**	290,599
Finance income	19	**110,849**	30,244
Finance costs	19	**(94,970)**	(98,962)
Finance income/(costs) – net	19	**15,879**	(68,718)
Profit before income tax		**1,513,362**	221,881
Income tax expense	20	**(208,864)**	(65,650)
Profit for the period		**1,304,498**	156,231
Other comprehensive income for the period		**–**	–
Total comprehensive income for the period		**1,304,498**	156,231
Attributable to:			
Equity holders of the Company		**1,216,738**	164,648
Non-controlling interests		**87,760**	(8,417)
		1,304,498	156,231
Earnings per share for earnings attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	21	**0.17**	0.03
Dividend			
Dividend (expressed in RMB per share)	22	**0.052**	–

The notes on pages 20 to 44 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Changes in Equity

		Unaudited						
		Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011		599,526	8,484,812	3,043,068	1,731,360	13,858,766	776,375	14,635,141
Total comprehensive income for the period ended 30 June 2011		–	–	–	1,216,738	1,216,738	87,760	1,304,498
Transactions with equity holders in their capacity as owners								
Dividend paid	11	–	(476,000)	–	–	(476,000)	–	(476,000)
Share-based payment reserve	12	–	–	45,054	–	45,054	–	45,054
Transactions with equity holders		–	(476,000)	45,054	–	(430,946)	–	(430,946)
Balance at 30 June 2011		599,526	8,008,812	3,088,122	2,948,098	14,644,558	864,135	15,508,693

The notes on pages 20 to 44 are an integral part of these condensed consolidated interim financial information.

	Unaudited						
	Attributable to equity holders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010	–	–	683,189	149,370	832,559	413,273	1,245,832
Total comprehensive income for the period ended 30 June 2010	–	–	–	164,648	164,648	(8,417)	156,231
Transactions with equity holders in their capacity as owners							
Capital injection from the minority interests of a subsidiary	–	–	2,277,199	–	2,277,199	274,229	2,551,428
Merger of Rong An Power Machinery	–	–	(84,419)	–	(84,419)	–	(84,419)
Merger of Shanghai Rongsheng Shipbuilding Trading	–	–	234	–	234	–	234
Acquisition of Zhenyu Engineering Machinery	–	–	–	–	–	21,930	21,930
Increase in shareholding of Zhenyu Engineering Machinery	–	–	–	–	–	(12,750)	(12,750)
Redemption of preferred shares	–	–	(52,688)	–	(52,688)	–	(52,688)
Issuance of ordinary shares	62	–	–	–	62	–	62
Issuance of ordinary shares in exchange for shares of Rongsheng Heavy Industries Holdings	33	–	60	–	93	–	93
Redemption of shares from share swap	–	–	(81)	–	(81)	–	(81)
Issuance of ordinary shares	–	–	–	–	–	–	–
Transfer to statutory reserve	–	–	8,885	(8,885)	–	–	–
Transactions with equity holders	95	–	2,149,190	(8,885)	2,140,400	283,409	2,423,809
Balance at 30 June 2010	95	–	2,832,379	305,133	3,137,607	688,265	3,825,872

The notes on pages 20 to 44 are an integral part of these condensed consolidated interim financial information.

Interim Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Net cash used in operating activities	**(2,120,078)**	(979,191)
Net cash used in investing activities	**(4,505,865)**	(3,967,713)
Net cash generated from financing activities	**2,020,404**	6,143,399
Net (decrease)/increase in cash and cash equivalents	**(4,605,539)**	1,196,495
Exchange loss on cash and cash equivalents	**(59,033)**	(3,961)
Cash and cash equivalents at beginning of the period	**10,412,974**	2,862,810
Cash and cash equivalents at end of the period	**5,748,402**	4,055,344

The notes on pages 20 to 44 are an integral part of these condensed consolidated interim financial information.

1 General information

(a) General information

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

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

The Company is listed on the Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the board of directors of the Company on 24 August 2011.

This condensed consolidated interim financial information has not been audited.

(b) Key events

On 26 April 2011, the Company's subsidiary, Jiangsu Rongsheng Heavy Industries Co Ltd ("Jiangsu Rongsheng"), entered into a sale and purchase agreement (the "Agreement") with The People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) (the "Vendor"), pursuant to which Jiangsu Rongsheng will acquire 100% of the equity interest of Anhui Quanchai Group Limited (安徽全柴集團有限公司) ("Quanchai Group") from the Vendor at a consideration of RMB2,148,870,000.

Quanchai Group carries on businesses of investment, production of internal combustion engines for agricultural machinery, vehicles for agriculture use, office equipment, construction machinery, etc. The primary assets of Quanchai Group is its 44.39% equity interest in Anhui Quanchai Engine Co. Ltd (安徽全柴動力股份有限公司) ("Quanchai Engine"), whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600218).

This transaction may necessitate Jiangsu Rongsheng making a mandatory bid for all of the outstanding equity interest of Quanchai Engine in accordance with relevant PRC laws and regulations. Based on the weighted average trading price of the A shares of Quanchai Engine over the 30 business days preceding 26 April 2011, being the date of the Agreement, of RMB16.62, the potential aggregate consideration payable by Jiangsu Rongsheng for the approximately 55.61% interests in Quanchai Engine not owned by Quanchai Group would (should all holders of outstanding A shares of Quanchai Engine choose to accept the offer) amounted to approximately RMB2,619,437,000. The completion of this acquisition is subject to the approval of the relevant governmental regulators, including, without limitation, the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).

As at 30 June 2011, we had paid RMB1.1 billion to the Vendor as an advance payment for such acquisition.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with IAS 34, "interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.1 Going-concern basis

Notwithstanding that the Group has net operating cash outflow of RMB2,120,078,000 for the six months ended 30 June 2011, the Group had cash and cash equivalents of RMB5,748,402,000 and undrawn banking facilities of RMB2,749,380,000 expiry beyond one year as at 30 June 2011. Based on the directors' review of the Group's cash flow projections, the Group is expected to have sufficient cash resources generated from its operating cash flows and available bank facilities to satisfy its future working capital and other financing requirements as and when required. Accordingly, the directors consider that it is continued to be appropriate to prepare the interim consolidated financial statements on a going concern basis.

3 Accounting policies

Except for the adoption of new standard and amendment to standard are mandatory for the first time from 1 January 2011, the accounting policies applied are consistent with those as described in the annual financial statements for the year ended 31 December 2010.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time from 1 January 2011:

- IAS 24 (Revised), 'Related Party Disclosures' is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  – The name of the government and the nature of their relationship;

  – The nature and amount of any individually significant transactions; and

  – The extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

3 Accounting policies *(continued)*

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to IAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to IFRIC Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- IFRIC Int 19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to International Financial Reporting Standards (2010) were issued in May 2010 by IASB, except for amendment to IAS 34 'interim financial reporting' as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

- IFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

- IAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

3 Accounting policies *(continued)*

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted *(continued)*

- IFRS 7 (Amendment) 'Disclosures – Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

The Group has already commenced an assessment of the impact of these new standards, amendment and interpretations to the existing standards but is not yet in a position to state whether these new standards, amendment and interpretations would have a significant impact on its results of operation and financial position.

4 Estimates

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

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5 Financial risk management

5.1 Financial risk factors

The Group's activities may expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2010.

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

5 Financial risk management *(continued)*

5.2 Liquidity risk

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**More than 2 years** RMB'000	**Total** RMB'000
At 30 June 2011				
Borrowings	12,401,778	3,878,851	4,906,366	21,186,995
Finance lease liability	458,041	570,463	155,354	1,183,858
Trade and other payables	6,914,420	–	–	6,914,420
At 31 December 2010				
Borrowings	10,285,327	4,399,011	6,315,973	21,000,311
Finance lease liability	350,433	241,433	201,278	793,144
Derivative financial instruments	4,260	1,762	–	6,022
Trade and other payables	2,806,051	–	–	2,806,051

5.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The valuation of the share-based payment (Note 12) was determined using the binominal option pricing model. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade and other receivables, and the carrying value of trade and other payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

As at 30 June 2011, the Group was holding certain Level 2 trading derivative assets fair valued at RMB4,124,000 (31 December 2010: liabilities at RMB6,022,000), for which inputs that are observable in active market were used in determining the fair value.

6 Segmental information

Turnover of the Group is the revenue derived from Shipbuilding, Offshore Engineering, Engineering Machinery and Marine Engine Building segments, which are RMB8,436,172,000, RMB31,295,000, RMB235,999,000 and nil for the six months ended 30 June 2011 and RMB4,540,084,000, RMB184,878,000, RMB78,543,000 and RMB3,179,000 for the six months ended 30 June 2010, respectively.

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The Shipbuilding segment derives its revenue primarily from the construction of vessels, the Offshore Engineering segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while Marine Engine Building segment derives its revenue from building marine engines. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2011 is as follows:

	Shipbuilding Six months ended 30 June		Offshore Engineering Six months ended 30 June		Engineering Machinery Six months ended 30 June		Marine Engine Building Six months ended 30 June		Total Six months ended 30 June	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment turnover and revenue	**8,436,172**	4,540,084	**31,295**	184,878	**330,039**	78,543	**457,889**	29,502	**9,255,395**	4,833,007
Inter-segment revenue	**–**	–	**–**	–	**(94,040)**	–	**(457,889)**	(26,323)	**(551,929)**	(26,323)
Revenue from external customers	**8,436,172**	4,540,084	**31,295**	184,878	**235,999**	78,543	**–**	3,179	**8,703,466**	4,806,684
Segment results	**1,988,796**	568,641	**(25,023)**	58,504	**56,403**	21,475	**–**	568	**2,020,176**	649,188
Selling and marketing expenses									**(35,262)**	(28,063)
General and administrative expenses									**(501,164)**	(461,567)
Other income									**121,180**	91,309
Other (losses)/gains, net									**(107,447)**	39,732
Finance income/(costs), net									**15,879**	(68,718)
Profit before income tax									**1,513,362**	221,881

All the revenue of the Offshore Engineering segment for the six months ended 30 June 2011 was derived from one customer (2010: same).

No customers of the Engineering Machinery and Marine Engine Building segments individually accounted for ten percent or more of the Group's consolidated revenue for the six months ended 30 June 2011 (2010: same).

6 Segmental information *(continued)*

During the six months ended 30 June 2011, revenues from three customers (2010: three) of the Shipbuilding segment individually amounted to ten per cent or more of the Group's total consolidated revenue for the period. The revenues of these customers of the Shipbuilding segment during the relevant periods are summarised below:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Shipbuilding customer 1	**3,414,854**	584,963
Shipbuilding customer 2	**1,520,514**	43,851
Shipbuilding customer 3	**905,767**	7,799
Shipbuilding customer 4	**282,299**	855,745
Shipbuilding customer 5	**20,168**	800,377
Shipbuilding customer 6	**–**	476,515

Geographically, management considers the performance of shipbuilding, offshore engineering, engineering machinery and marine engine building segments are all located in the PRC, with revenue derived from different geographical location, which is determined by the country in which the customer is located.

The Group's revenue by country is analysed as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Brazil	**3,414,854**	584,963
China	**2,582,035**	407,566
Germany	**1,094,182**	865,452
Turkey	**225,062**	1,228,513
Greece	**441,384**	1,069,306
Oman	**905,767**	7,799
Cyprus	**1,910**	362,867
Norway	**1,370**	152,578
Russia	**4,077**	127,640
India	**26,018**	–
Others	**6,807**	–
	8,703,466	4,806,684

Geographically, total assets and capital expenditures are allocated based on where the assets are located. Assets are mainly located in the PRC.

7 Property, plant and equipment and land use rights

	Property, plant and equipment RMB'000	Land use Rights RMB'000
Six months ended 30 June 2010		
Opening net book amount as at 1 January 2010	7,163,511	71,954
Additions	3,766,496	586,686
Disposals	(8)	–
Depreciation and amortisation	(165,214)	(2,123)
Closing net book amount as at 30 June 2010	10,764,785	656,517
Six months ended 30 June 2011		
Opening net book amount as at 1 January 2011	12,123,885	657,206
Additions	2,551,873	–
Disposals	(3,268)	–
Depreciation and amortisation	(204,628)	(6,559)
Closing net book amount as at 30 June 2011	14,467,862	650,647

8 Intangible assets

	RMB'000
Six months ended 30 June 2010	
Opening net book amount as at 1 January 2010	34,622
Additions	25,446
Amortisation	(2,688)
Closing net book amount as at 30 June 2010	57,380
Six months ended 30 June 2011	
Opening net book amount as at 1 January 2011	108,896
Additions	7,980
Amortisation	(5,728)
Closing net book amount as at 30 June 2011	111,148

9 Construction contracts

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**18,902,005**	27,251,176
Less: Progress billings	**(15,517,973)**	(28,013,509)
Net balance sheet position for ongoing contracts	**3,384,032**	(762,333)
Presented as:		
Amounts due from customers for contract works	**4,197,305**	4,090,993
Amounts due to customers for contract works	**(813,273)**	(4,853,326)
	3,384,032	(762,333)
Advances received from customers for contract works	**68,672**	432,473

At 30 June 2011, there were no retention monies held by customers for contract works (31 December 2010: Nil).

Refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB4,083,566,000 as at 30 June 2011 (31 December 2010: RMB3,628,561,000).

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

(a) Trade and bills receivables

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade receivables	**2,222,177**	304,852
Less: Provision for doubtful receivables	**(16,884)**	(16,884)
Bills receivables	**23,506**	39,790
	2,228,799	327,758

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

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Undue	**1,429,228**	172,672
Past due 1 – 180 days	**711,578**	89,191
Past due 181 – 360 days	**76,093**	65,895
Past due over 360 days	**11,900**	–
	2,228,799	327,758

As at 30 June 2011 and 31 December 2010, trade receivables of RMB16,884,000 relate to certain customers of the Engineering Machinery segment are impaired and provided for. Trade receivables that are past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, the Directors are of the opinion that no provision for impairment in respect of these balances is necessary.

Certain customers of the Engineering Machinery segment are granted credit terms of up to 365 days. Under the Group's general policy, no credit term is granted to customers of all other segments and all remaining trade receivables are due upon issuance of billings, accordingly, balances are past due if not settled within one month.

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

(continued)

(b) Other receivables, prepayments and deposits

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Receivables from agents	**765,294**	1,056,521
Other receivables		
– Third parties	**116,316**	32,183
– Related parties (Note 25(iii))	**442,618**	467,035
VAT receivable	**933,630**	748,585
Deposits	**577,219**	672,838
Prepayments for intangible assets, property, plant and equipment and land use rights		
– Third parties	**2,503,361**	1,829,837
– Related parties (Note 25(iii))	**42,098**	44,224
Prepayments for raw materials and production costs		
– Third parties	**3,528,913**	2,580,240
– Related parties (Note 25(iii))	**170,846**	170,856
Prepayments – others	**85,165**	91,180
	9,165,460	7,693,499
Less: Long term deposits	**(141,389)**	(138,109)
Current portion	**9,024,071**	7,555,390

The non-current deposit is due within five years from the end of the reporting period.

Finance lease and letters of credit are secured by certain refundable deposits with an aggregate carrying value of RMB167,866,000 as at 30 June 2011 and RMB153,194,000 as at 31 December 2010.

The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contract and procure the relevant refund guarantees. Pursuant to the agency contracts, the ship buyers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the ship buyers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents (Note 13).

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable and deposit mentioned above. The Group does not hold any collateral as security.

11 Share capital and premium

	Number of ordinary shares	Nominal value of ordinary shares HK$	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised:					
Ordinary shares of HK$0.1 each	38,000,000,000	3,800,000,000	–	–	–
Issued:					
Ordinary shares of HK$0.1 each at 1 January 2011	7,000,000,000	700,000,000	599,526	8,484,812	9,084,338
Dividend paid (note a)	–	–	–	(476,000)	(476,000)
Ordinary shares of HK$0.1 each at 30 June 2011	7,000,000,000	700,000,000	599,526	8,008,812	8,608,338

Note:

(a) Pursuant to the Annual General Meeting held on 28 April 2011, the proposal for the payment of final dividend of RMB6.8 cents per share to the shareholders of the Company was approved. The payment of dividend has been made against share premium account.

12 Share Option Schemes

Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees are granted a total share option of 62,500,000 shares (the 'Pre-IPO Share Option Scheme'). The exercise price per share under the Pre-IPO Share Option Scheme shall be equal to a 50% discount to the Offer Price (i.e. HK$4 per share). Each option under the Pre-IPO Share Option Scheme has a 10 year exercisable period, from 19 November 2010 ("Grant Date"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant options, that is 26 October 2020 ("Expiry Date").

Commencing from the date on which trading in the shares of the Company first commenced on the Main Board of the Hong Kong Stock Exchange, being 19 November 2010 ("Listing Date"), the expiry of first, second, third, and fourth anniversaries of the Listing Date, the relevant grantee may exercise options up to 20%, 40%, 60%, 80% and 100% respectively.

The fair value of the share options granted on 24 October 2010, determined using the binominal model (the 'Model'), ranged from HK$4.38 to HK$5.17 per option. The significant inputs into the Model were the share price of HK$8 at the Grant Date, the exercise price shown above, expected dividend yield rate of 1.32%, risk-free rate of 2.09%, an expected option life of ten years and expected volatility of 55.0%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

The total expense recognised in the interim consolidated statement of comprehensive income for share options granted to directors and employees approximates RMB45,054,000 during the 6 months ended 30 June 2011 (2010: nil). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2011 Average exercise price in HK$ per share	2011 Number of share options (thousands)
At 1 January	4	62,500
Granted	–	–
Exercised	–	–
At 30 June	4	62,500

Share Option Scheme

The Company conditionally approved and adopted a share option scheme on 24 October 2010 (the "Share Option Scheme"). The Share Option Scheme became unconditional on 19 November 2010 when the Company's shares were listed on the Main Board of the Hong Kong Stock Exchange. As at 30 June 2011, no options have been granted under the Share Option Scheme.

13 Trade and other payables

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Trade payables	**2,611,946**	1,168,825
Bills payables	**2,532,837**	623,307
Other payables for purchase of property, plant and equipment		
– Third parties	**359,652**	198,152
– Related parties (Note 25(iii))	**596,770**	199,924
Other payables		
– Third parties	**425,235**	428,436
– Related parties (Note 25(iii))	**209**	228
Receipt in advance	**120,951**	60,657
Accrued expenses		
– Payroll and welfare	**43,313**	53,500
– Design fees	**56,212**	40,036
– Utilities	**22,054**	18,811
– Outsourcing and processing fee	**241,417**	102,550
– Royalty fee	**41,131**	–
– Others	**26,957**	25,782
VAT payable	**137,856**	38,297
Other tax-related payables	**174,895**	166,995
	7,391,435	3,125,500

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

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
0 – 30 days	**2,074,007**	1,201,796
31 – 60 days	**674,190**	263,798
61 – 90 days	**1,053,320**	159,823
Over 90 days	**1,343,266**	166,715
	5,144,783	1,792,132

14 Borrowings

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000
Non-current		
Bank borrowings	**7,617,705**	7,766,846
Finance lease liability	**647,772**	406,416
	8,265,477	8,173,262
Current		
Bank borrowings	**11,424,485**	9,149,294
Finance lease liability	**417,412**	312,812
	11,841,897	9,462,106
Total borrowings	**20,107,374**	17,635,368

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	7,183,452
Proceeds from new bank borrowings	14,098,654
Repayments of borrowings	(5,476,694)
Closing amount as at 30 June 2010	15,805,412
Six months ended 30 June 2011	
Opening amount as at 1 January 2011	**17,635,368**
Proceeds from new bank borrowings	**9,134,233**
Repayments of borrowings	**(6,662,227)**
Closing amount as at 30 June 2011	**20,107,374**

14 Borrowings *(continued)*

At the balance sheet dates, the Group's borrowings were repayable as follows:

	As at 30 June 2011 RMB'000	31 December 2010 RMB'000
Within 1 year	**11,841,897**	9,462,106
Between 1 and 5 years	**5,227,777**	6,125,445
Over 5 years	**3,037,700**	2,047,817
	20,107,374	17,635,368

Borrowings amounting to RMB19,385,375,000 as at 30 June 2011 and RMB17,441,369,000 as at 31 December 2010 are secured by the land use rights, buildings, construction contracts, pledged deposits, steel plates and guarantee of the Group.

During the six months ended 30 June 2011, certain personal guarantees provided by the controlling shareholder of the Company in respect of the Group's borrowing facilities were released and replaced by corporate guarantees of the Group companies.

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

The Group has the following undrawn borrowing facilities:

	As at 30 June 2011 RMB'000	31 December 2010 RMB'000
Expiring within one year	**8,043,861**	11,674,314
Expiring beyond one year	**2,749,380**	4,078,690
	10,793,241	15,753,004

Subsequent to the balance sheet date on 11 August 2011, the Group has obtained new banking facilities in the amount of US$220 million (approximately RMB1,400 million) (see note 26 for details).

15 Provision for warranty

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

Movement in provision for warranty for the Group is as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	**228,654**	132,640
Provision for the period		
– Charged to consolidated profit or loss	**84,823**	50,304
– Utilisation during the period	**(5,133)**	–
At 30 June	**308,344**	182,944

16 Expenses by nature

	Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Raw Materials and consumable used	**5,340,522**	3,256,245
Amortisation of land use rights (Note 7)	**6,559**	2,123
Depreciation of property, plant and equipment (Note 7)	**204,628**	165,214
Amortisation of intangible assets (Note 8)	**5,728**	2,688
Employee benefit expenses	**296,845**	259,008
Operating lease payments	**23,917**	32,797
Auditors' remunerations	**2,417**	709
Outsourcing and processing costs	**640,426**	390,407
Commission expense	**107,857**	117,691
Design fees	**44,584**	22,845
Agency fees	**11,687**	21,855
Consultancy fees	**14,980**	20,640
Other tax-related expenses and customs duties (Note a)	**32,641**	12,761
Bank charges (include refund guarantee charges)	**66,980**	64,761
Provision for warranty (Note 15)	**84,823**	50,304
Office expenses and utilities	**200,454**	148,234
Donations and sponsoring expenses	**10,400**	11,000
Inspection fees	**21,634**	14,099
Insurance premiums	**21,782**	9,796
Storage and handling charges	**14,179**	2,174
Advertising, promotion and marketing expenses	**9,627**	23,841
Royalty expenses	**34,054**	5,600
Miscellaneous expenses	**22,992**	12,334
Total cost of sales, selling and marketing expenses, general and administrative expenses (Note b, c)	**7,219,716**	4,647,126

16 Expenses by nature *(continued)*

Note:

(a) Other tax-related expenses comprised of mainly stamp duty, business tax, withholding tax, real estate tax, land use right tax and city maintenance and construction taxes.

(b) Research and development costs are included in the above expenses are as follows:

The Group has incurred employee benefit expenses, depreciation and amortisation of property, plant and equipment and intangible assets for the purpose of research and development. The research and development costs incurred for the six months ended 30 June 2011 was RMB38,540,000 (2010: RMB27,110,000).

(c) During the six months ended 30 June 2011, the Group received a subsidy of RMB450,000,000 (2010: nil) from the Jiangsu Government authorities to compensate costs the Group incurred for research and development of shipbuilding processes, designs and the related people development. The subsidy has been recognised in the consolidated profit and loss for the six months ended 30 June 2011. The subsidy has been deducted against cost of sales of RMB100,000,000, general and administrative expenses of RMB100,000,000 and finance costs of RMB250,000,000. Among which, RMB24,944,000, RMB100,000,000, RMB18,010,000 and RMB27,378,000 were allocated to the advertising, promotion and marketing expenses, outsourcing and processing costs, consultancy fees and office expenses and utilities expenses, respectively.

17 Other income

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Government grants (Note a)	**14,729**	9,718
Scrap sales (Note b)	**93,654**	75,804
Others	**12,797**	5,787
Total	**121,180**	91,309

Note:

(a) Government grants represent cash received from Jiangsu and Anhui Government authorities during the six months ended 30 June 2010 and 2011.

(b) The Group recognised scrap sales of RMB93,654,000 during the six months ended 30 June 2011 (2010: RMB75,804,000), as a result of sales of unused scrap steel plates materials.

18 Other (losses)/gains, net

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Fair value change of derivative instruments-forward contracts	**10,146**	–
Net foreign exchange (losses)/gains	**(117,593)**	39,732
Total	**(107,447)**	39,732

19 Finance income and costs

	Six months ended 30 June 2011 RMB'000	Six months ended 30 June 2010 RMB'000
Finance income:		
Interest income from bank deposits	**73,604**	26,738
Net foreign exchange gains/(losses) on financing activities	**37,245**	3,506
	110,849	30,244
Finance cost:		
Interest expense		
– Borrowings and finance lease liability	**323,240**	282,161
– Preferred shares	**–**	19,569
Less: borrowing costs capitalised	**(228,270)**	(202,768)
	94,970	98,962
Net finance income/(costs)	**15,879**	(68,718)

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation in the six months ended 30 June 2011 was 5.95% (2010: 4.48%).

20 Income tax expense

	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Current income tax:		
– PRC Enterprise Income Tax ("EIT")	**209,319**	65,650
Deferred income tax	**(455)**	–
Total income tax expense	**208,864**	65,650

A PRC subsidiary is eligible for EIT exemption for two years commencing from the first taxable year, followed by a 50% reduction in the EIT rate for the next three years. The first taxable year of this subsidiary eligible for EIT exemption was 2008.

No Hong Kong profits tax has been provided during the six months ended 30 June 2011 and 2010, respectively, as the Group had no assessable profit in Hong Kong.

21 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the results attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June 2011	2010
Earnings attributable to equity holders of the Company (RMB'000)	**1,216,738**	164,648
Weighted average number of ordinary shares in issue	**7,000,000,000**	5,600,000,000
Basic earnings per share (RMB per share)	**0.17**	0.03

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2011 and 2010.

22 Dividends

A dividend that relates to the year ended 31 December 2010 and that amounts to RMB476,000,000 was paid in May 2011 (2010: Nil).

In addition, an interim dividend of RMB0.052 per share (2010: Nil) was proposed by the board of directors on 24 August 2011. This interim dividend, amounting to RMB364,000,000 (2010: Nil), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2011.

23 Contingencies

	As at 30 June 2011 RMB'000	31 December 2010 RMB'000
Contingencies:		
Refund guarantees (Note a)	**12,516,403**	9,569,246
Litigation (Note b)	**100,524**	100,140
Financial guarantees (Note c)	**49,154**	50,440
	12,666,081	9,719,826

(a) Refund guarantees

Refund guarantees relate to the guarantees provided by the bankers to the Group's customers in respect of advances received from customers. In the event of non-performance, the customers may call upon the refund guarantees and the Group would be liable to the banks in respect of the refund guarantees provided. Refund guarantees are secured by land and buildings and corporate guarantees from group companies.

(b) Litigation

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

As at 30 June 2011, subsidiaries of the Group were in dispute with one of its suppliers and employees in relation to the procurement of inventory and injury. The alleged claims against the Group amounted to RMB100,524,000 (31 December 2010: RMB100,140,000). No provision has been made in respect of these claims as at 30 June 2011 as management has determined, on the basis of legal advice from the Group's external counsel that it is not probable that these claims would result in an outflow of economic benefits from the Group.

(c) Financial guarantees

The Group has provided guarantees to certain banks in the PRC in respect of mortgage loans drawn by certain customers of the Engineering Machinery Segment. The loans were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the banks should the customers default on the mortgage loans. As at 30 June 2011, the total value of the guaranteed mortgage loan outstanding was RMB54,785,000 (31 December 2010: RMB57,931,000) in which the Group has made a provision of RMB5,631,000 (31 December 2010: RMB7,491,000) for mortgage loans with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB49,154,000 (31 December 2010: RMB50,440,000) is required as the relevant customers have no history of default and it is not probable that the Group would have to make payments to the banks for the guarantees.

24 Commitments

(a) Capital commitments

Capital expenditure committed at the balance sheet date but not yet incurred is as follows:

	As at 30 June 2011 RMB'000	31 December 2010 RMB'000
Property, plant and equipment – Contracted but not provided for	**2,300,170**	3,591,282
Other capital commitment – Contracted but not provided for (note i)	**3,614,417**	–

(i) **Commitment for acquisition of Quanchai**

As disclosed in Note 1(b), Jiangsu Rongsheng will acquire 100% of the equity interest of Quanchai Group from the Vendor at a consideration of RMB2,148,870,000, subject to obtaining the approvals from various regulators. As at 30 June 2011, an advance payment of RMB1,153,890,000 has been paid to the Vendor and the balance of the consideration, being RMB994,980,000 is payable in cash within one year after the effective date of the agreement, 26 April 2011. Furthermore, this transaction may necessitate Jiangsu Rongsheng to make a mandatory bid for all of the outstanding equity interest of Quanchai Engine which would cost approximately RMB2,619,437,000 assuming all holders of the outstanding Quanchai Engine A-shares accept the offer.

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

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

	As at 30 June 2011 RMB'000	31 December 2010 RMB'000
No later than 1 year	**77,894**	93,114
Later than 1 year and no later than 5 years	**47,315**	66,442
	125,209	159,556

25 Related party transactions

The ultimate controlling party of the Group is Mr. Zhang Zhi Rong, who is a non-executive director of the Company, chairman and founder and controlling shareholder of the Group. Fine Profit Enterprises Limited (incorporated in British Virgin Islands), the immediate and ultimate holding company of the Group, owns 52.19% of the issued shares of the Company as at 30 June 2011. Fine Profit Enterprises Limited was wholly owned by Mr. Zhang as at 30 June 2011.

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

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co. Ltd 上海地通建設(集團)有限公司	Entity controlled by a close family member of Mr. Zhang
Nantong Heloifu Shipping Equipment Co. Ltd 南通和來福船舶配套設備有限公司	Entity controlled by a close family member of Mr. Zhang
Jiangsu Rongsheng Investment Group Co. Ltd 江蘇熔盛投資集團有限公司	Entity controlled by a close family member of Mr. Zhang
Nantong Shengshi Building Materials Co. Ltd 南通晟昰建材有限公司	Entity controlled by a close family member of Mr. Zhang
Roxen Star Maritime Inc	Entity controlled by Mr. Zhang
Fu Hong Wei Ye Holdings Ltd. 富宏偉業集團有限公司	Entity controlled by Mr. Zhang
Nantong Drawshine Petrochemical Co. Ltd 南通焯晟石油化工有限公司	Entity controlled by a close family member of Mr. Zhang
Glorious Property Holdings Limited 恒盛地產控股有限公司	Entity controlled by Mr. Zhang
恒盛旺佳瑞(無錫)有限公司	Entity controlled by Mr. Zhang
上海創盟國際建築設計有限公司	Entity controlled by Mr. Zhang

25 Related party transactions *(continued)*

Name	Relationship with the Group
上海陽光投資(集團)有限公司	Entity controlled by Mr. Zhang
上海陽光名邸餐飲管理有限公司	Entity controlled by Mr. Zhang
上海永曄商業投資管理有限公司	Entity controlled by a close family member of Mr. Zhang
上海熔祥房地產開發有限公司	Entity controlled by Mr. Zhang
Nantong Rongsheng Infrastructure Accessories Company Limited 南通熔盛基礎設施配套工程有限公司	Entity controlled by a close family member of Mr. Zhang
上海卓信投資管理有限公司	Entity controlled by a close family member of Mr. Zhang
江蘇熔德智教育投資有限公司	Entity controlled by a close family member of Mr. Zhang

During the six months ended 30 June 2011, the Group carried out the following transactions with the related parties:

(i) Purchase of goods and services

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Purchase of catering services – Entities controlled by Mr. Zhang	**149**	122
Purchase of consultation services – Entity controlled by close family members of Mr. Zhang	**2,290**	2,402
	2,439	2,524

(ii) Purchase of construction services

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Purchase of construction services – Entity controlled by Mr. Zhang	**994,668**	219,967

These transactions were carried out in the normal course of business and at terms mutually agreed between the Group and the respective related parties.

25 Related party transactions *(continued)*

(iii) Balances with related parties:

As at 30 June 2011 and 31 December 2010, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	As at	
	30 June 2011 RMB'000	31 December 2010 RMB'000
Prepayments for property, plant and equipment (Note 10):		
– Entities controlled by close family members of Mr. Zhang	**42,098**	44,224
Prepayments for raw materials (Note 10):		
– Entities controlled by close family members of Mr. Zhang	**170,846**	170,856
Other receivables – non-trade (Note 10):		
– Entities controlled by Mr. Zhang or close family members of Mr. Zhang	**442,618**	464,355
– Key management	**–**	2,680
	442,618	467,035
Other payables for property, plant and equipment (Note 13):		
– Entities controlled by Mr. Zhang	**596,770**	199,924
Other payables – non-trade (Note 13):		
– Mr. Zhang	**209**	228

26 Events occurring after the balance sheet date

On 10 August 2011, the Group obtained US$220 million (RMB1,400 million) transferable term loan facility from a syndicate of offshore banks led by Credit Agricole Corporate and Investment Bank (the "Credit Agricole Facility") that bears interest at LIBOR plus an agreed spread and the principal amount drawn under the Credit Agricole Facility will be repayable by three installments within three years from 10 August 2011. Export-Import Bank of China would act as the guarantor for the Company in respect of the Credit Agricole Facility and a subsidiary of the Company would offer a counter guarantee to Export-Import Bank of China by pledging certain amount of its future cash receipts together with a corporate guarantee from the subsidiary. The Credit Agricole Facility contains financial covenants which require the Company to maintain its consolidated tangible net worth and gearing ratio above specified levels.

Corporate Information

Chairman and Non-executive Director	ZHANG Zhi Rong
Executive Directors	CHEN Qiang (Chief Executive Officer) WU Zhen Guo (Vice Chairman) LUAN Xiao Ming (Chief Operating Officer) DENG Hui HONG Liang Sean S J WANG (Chief Financial Officer) WANG Tao
Independent Non-executive Directors	CHEN Gang TSANG Hing Lun ZHANG Xu Sheng
Audit Committee	TSANG Hing Lun (Chairman) ZHANG Xu Sheng CHEN Gang
Remuneration Committee	ZHANG Zhi Rong (Chairman) ZHANG Xu Sheng CHEN Gang
Company Secretary	LEE Man Yee
Auditor	PricewaterhouseCoopers
Principal Bankers	The Export-Import Bank of China (Jiangsu Province Branch) China Development Bank (Jiangsu Province Branch) Bank of China Limited (Nantong Gangzha Branch) Shanghai Pudong Development Bank Limited (Hefei Branch) China Everbright Bank (Hefei Branch) Industrial and Commercial Bank of China (Hefei City Wangjiang Road Branch) Industrial and Commercial Bank of China (Hefei Huitong Sub-Branch) Bank of Communications (Hefei Xinghua Sub-Branch) China CITIC Bank (Nanjing Shanghai Road Sub-Branch)
Legal Advisors	Paul Hastings Commerce & Finance Law Offices
Compliance Advisor	Guotai Junan Capital Limited

Information for Shareholders

Listing Information

Listing : Hong Kong Stock Exchange
Stock Code : 01101

Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

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

Registered Office

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

Principal Place of Business in Hong Kong

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

Principal Place of Business and Headquarters in the PRC

No. 31 Lane 168 Daduhe Road,
Pu Tuo District, Shanghai, 200062, PRC

Company Website

www.rshi.cn

Contact Enquiries

Investor Relations
Tel : (852) 3900–1888
Email : ir@rshi.cn
Website : www.rshi.cn

中 國 熔 盛 重 工 集 團 控 股 有 限 公 司

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

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