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熔盛重工
RONGSHENG

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED
中 國 熔 盛 重 工 集 團 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01101)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "**Board**") of China Rongsheng Heavy Industries Group Holdings Limited (the "**Company**") is pleased to present the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2012 (the "**Period**") together with comparative figures. This condensed consolidated interim financial information has not been audited, but has been reviewed by the audit committee of the Company ("**Audit Committee**").

KEY FINANCIAL INDICATORS

	Unaudited For 6 months ended 30 June 2012	Unaudited For 6 months ended 30 June 2011	Change
Revenue *(RMB'000)*	**5,462,741**	8,703,466	(37.2%)
Operating Profit *(RMB'000)*	**859,247**	1,497,483	(42.6%)
Earnings attributable to the equity holders of the Company *(RMB'000)*	**215,775**	1,216,738	(82.3%)
Capital expenditure *(RMB'000)*	**1,472,180**	2,894,635	(49.1%)

	Unaudited as at 30 June 2012	Audited as at 31 December 2011	Change
Captial and reserves attributable to the equity holders of the Company *(RMB'000)*	**14,928,471**	14,826,433	0.7%
Gearing ratio (Total debt/(Total debt plus total equity))	**64.4%**	61.8%	2.6pp

MANAGEMENT DISCUSSION & ANALYSIS

The management discussion and analysis should be read in conjunction with the Group's condensed consolidated interim financial information and the accompanying notes included in this announcement.

BUSINESS REVIEW

For the Period, our revenue was RMB5,462.7 million, representing a decrease of 37.2% from RMB8,703.5 million for the six months ended 30 June 2011 (the "**Comparative Period**"). Earnings attributable to equity holders of the Company were RMB215.8 million, representing a decrease of approximately 82.3% as compared with RMB1,216.7 million in the Comparative Period.

Revenue and segment information:

	For 6 months ended 30 June 2012		For 6 months ended 30 June 2011	
	RMB'000	***Percentage of revenue***	*RMB'000*	*Percentage of revenue*
Shipbuilding	**5,205,853**	**95.3%**	8,436,172	96.9%
Offshore Engineering	**—**	**—**	31,295	0.4%
Marine Engine Building	**64,355**	**1.2%**	—	—
Engineering Machinery	**192,533**	**3.5%**	235,999	2.7%
Total	**5,462,741**	**100%**	8,703,466	100%

Shipbuilding

Shipbuilding was our primary business segment and also our major revenue source. For the Period, our revenue from the shipbuilding segment was RMB5,205.9 million, representing 95.3% of our total revenue.

New Orders and Order Book

In the first half of 2012, the global economic downturn and weak international trading activities continued to exert pressure on the shipping industry, which has been struggling since the second half of 2011. The imbalance between supply and demand of the shipping industry further worsened, leading to a reduced overall shipbuilding demand, and new shipbuilding orders plunged significantly. According to the latest Clarkson Research report, new worldwide shipbuilding orders decreased by 46.0% year-on-year for the Period measured in deadweight tonnage ("**DWT**"), while new shipbuilding orders in China fell 49.0% year-on-year in the same period. In this adverse market environment, we adopted a defensive sales strategy by avoiding low-price orders or orders with unfavorable payment terms while moving towards the high end of the value chain. We received new orders for 2 vessels for the Period, representing a total volume of 152,000 DWT with a total contract value of USD55.6 million.

The following table sets forth the information related to our new orders from the shipbuilding segment for the Period and the Comparative Period respectively.

	For 6 months ended 30 June 2012			For 6 months ended 30 June 2011		
	DWT *('000)*	**Contract value** *(USD mm)*	**No. of vessels**	DWT *('000)*	Contract value *(USD mm)*	No. of vessels
Bulk carriers and VLOCs	**152.0**	**55.6**	**2**	2,294.0	814.5	20
Crude oil tankers and VLCCs	**—**	**—**	**—**	—	—	—
Containerships	**—**	**—**	**—**	319.4	270.0	4
Total	**152.0**	**55.6**	**2**	2,613.4	1,084.5	24

Note: The contract values were all translated (where applicable) into US dollars at the rate of USD1 = RMB6.4716 as at 30 June 2011 and USD1 = RMB6.3249 as at 30 June 2012. In addition, the figures do not include orders cancelled as at the balance sheet date of each period.

The Group's total orders on hand as at 30 June 2012 consisted of 101 vessels, representing a total volume of 15.1 million DWT with a total contract value of USD5,884.9 million. It included 48 Panamax bulk carriers, 19 very large ore carriers ("**VLOCs**"), 23 Suezmax crude oil tankers, 1 Panamax crude oil tanker, 2 very large crude oil carriers ("**VLCCs**"), 4 6,500-twenty-foot equivalent unit ("**TEU**") containerships and 4 7,000-TEU containerships. All the vessels in our order book will be delivered within the period from 2012 to 2015 as stated in the contracts.

The following table sets forth the information related to our orders on hand as at 30 June 2012 and 31 December 2011, respectively.

	As at 30 June 2012			As at 31 December 2011		
	DWT *('000)*	**Contract value** *(USD mm)*	**No. of vessels**	DWT *('000)*	Contract value *(USD mm)*	No. of vessels
Bulk carriers and VLOCs	**10,077.6**	**3,573.1**	**67**	11,709.6	4,222.7	76
Crude oil tankers and VLCCs	**4,320.0**	**1,649.4**	**26**	4,476.0	1,724.7	27
Containerships	**658.0**	**662.4**	**8**	658.0	676.4	8
Total	**15,055.6**	**5,884.9**	**101**	16,843.6	6,623.8	111

Note: Our order book, as at 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 at such dates, all as translated (where applicable) into USD on the respective balance sheet dates at the rate of USD1 = RMB6.3009 as at 31 December 2011 and USD1 = RMB6.3249 as at 30 June 2012. In addition, the figures do not include the orders cancelled as at the balance sheet date of each period.

For the Period, we delivered 11 vessels, representing a total volume of 1,864,000 DWT and increased by 44.7% year-on-year. Including 2 VLOCs that we delivered for the Period, we have increased the number of VLOCs delivery to 3 so far. These vessels are currently the world's biggest dry bulk carriers with the largest cargo capacity, featuring state-of-the-art technologies for the mega-sized bulk carriers.

The following table sets forth the information relating to our delivery record for the Period and the Comparative Period, respectively.

	For 6 months ended 30 June 2012		For 6 months ended 30 June 2011	
	DWT *('000)*	**No. of vessels**	DWT *('000)*	No. of vessels
Bulk carriers and VLOCs	**1,708.0**	**10**	352.0	2
Crude oil tankers and VLCCs	**156.0**	**1**	936.0	6
Containerships	**—**	**—**	—	—
Total	**1,864.0**	**11**	1,288.0	8

Offshore Engineering

For the Period, there was no revenue contribution from the offshore engineering segment as the construction of the deep-water pipe-laying vessel was completed in 2011 and successfully delivered in early 2012. We followed our business strategy to actively upgrade our products structure. Through increased efforts in research and development, recruiting offshore engineering talents and forming specialized offshore engineering research and development task groups, we are strengthened to explore the offshore engineering market. For the Period, we obtained two non-binding orders of intent to build a drilling barge and a drilling rig for a Singaporean client, but the contracts have not yet taken effect. Moreover, we are actively following high-end offshore projects including the construction of heavy-lift vessels, drilling platforms, floating production storage and offloading units, and liquefied natural gas ("**LNG**") carriers in Malaysia, China, Europe and the US. We are in the bidding process for several projects and are waiting for customers' feedback.

Marine Engine Building

For the Period, our revenue from the marine engine building segment was RMB434.1 million (including inter-segment sales), representing a decrease of 5.2% from RMB457.9 million in the Comparative Period. Excluding inter-segment sales, the marine engine building segment recorded a revenue of RMB64.4 million. There was no revenue contribution in external sales for the Comparative Period.

With the support of our shipbuilding orders and breakthroughs in the external sales of marine engines, our marine engine building segment has been developing steadily. For the Period, we secured new orders for 11 engines, representing a total capacity of 242,622 horsepower with a total contract value of RMB445.0 million. The Group's total orders on hand as at 30 June

2012 were 53 engines, representing a total capacity of 1,052,452 horsepower and equivalent to a total contract value of RMB1,844.7 million, of which 18 were external orders. For the Period, we delivered 10 diesel engines with a total capacity of 290,104 horsepower.

Engineering Machinery

For the Period, our revenue from the engineering machinery segment was RMB290.7 million (including inter-segment sales), representing a decrease of 11.9% from RMB330.0 million in the Comparative Period. After excluding inter-segment sales, the engineering machinery segment recorded a revenue of RMB192.5 million. The revenue for the Comparative Period was RMB236.0 million. Our revenue was mainly attributable to the sales of 521 excavators. According to a survey conducted by China Construction Machinery Business Online, 28 major excavator manufacturers in China collectively sold 78,614 excavators for the Period, representing a year-on-year decrease of 38.4%. However, our sales volume only decreased by 11.5% year-on-year for the same period, significantly lower than the national average.

We improved our marketing initiatives through establishing long-term partnerships with finance lease companies such as China Railway Leasing, China Development Bank Leasing and Wanjiang Finance Lease. To improve our market penetration, we adopted a regional sales regime to optimize distributor management and stabilize excavator sales. This approach has also greatly helped our payment collection.

Meanwhile, we actively enhanced research and development and marketing for our new products such as dynamic compactors and wetland excavators, and achieved breakthroughs in the aforementioned market segments for the Period. We continued to enhance our research and development in new product lines, including the new RS360, RS460, and ZY60 excavator series, which are currently in the industrial assessment or trial production phase. We expect that the new products will help to promote sales in the second half of 2012 and thereafter. With China's emphasis on stable economic growth and its shift towards a looser monetary policy, we expect a comeback in fixed asset investments for existing projects and social housing programs in China, which will provide opportunities for the excavator business.

FINANCIAL REVIEW

With our business expansion, our inventories as at 30 June 2012 increased by RMB728.1 million to RMB3,338.1 million (as at 31 December 2011: RMB2,610.0 million). Our inventory turnover days increased from 73 days as at 31 December 2011 to 169 days as at 30 June 2012.

Amounts due from customers for contract works increased by RMB1,579.8 million to RMB8,778.9 million (as at 31 December 2011: RMB7,199.1 million). Amounts due to customers for contract works decreased by RMB804.6 million to RMB363.7 million (as at 31 December 2011: RMB1,168.3 million). The increase in amounts due from customers for contract works was a result of our closer strategic cooperation with shipowners and the acceleration of shipbuilding in response to the market uncertainties and risks. Also, we were committed to maintaining a stable backlog and a continuous market development. The decrease in amounts due to customers for contract works was a result of an increase of completion percentage of vessels under construction. Trade and bill receivables increased by RMB783.3 million to RMB4,383.5 million (as at 31 December 2011: RMB3,600.2 million). Turnover days of trade and bill receivables increased to 133 days as at 30 June 2012 from 45 days as at 31 December 2011, primarily due to the significant increase of completion percentage of vessels under construction for the Period, the continuing downtrend in global shipbuilding industry and our agreement to extend credit terms to shipowners considering our long-term cooperation with the shipowners and the substantial completion of the main bodies of the related vessels. Going forward, we are determined to monitor trade receivables closely.

Driven by working capital requirements arising from our business expansion for the Period, our short-term borrowings and long-term borrowings increased to RMB17,619.9 million (as at 31 December 2011: RMB15,409.1 million) and RMB11,044.3 million (as at 31 December 2011: RMB10,017.6 million) respectively as at 30 June 2012, representing an increase of RMB2,210.8 million and RMB1,026.7 million, respectively.

Profit attributable to the equity holders of the Company was RMB215.8 million for the Period, representing a decrease of approximately 82.3% as compared with RMB1,216.7 million for the Comparative Period.

Revenue

Our revenue for the Period was RMB5,462.7 million as compared to RMB8,703.5 million for the Comparative Period, representing a year-on-year decrease of 37.2%. The significant decrease in revenue was primarily attributable to the downturn of the shipbuilding and the engineering machinery industries.

Cost of sales

Our cost of sales for the Period decreased by 32.8% to RMB4,487.9 million (for the Comparative Period: RMB6,683.3 million), in line with the significant decrease in revenue.

Selling and marketing expenses

Our selling and marketing expenses for the Period decreased by approximately 24.6% to RMB26.6 million (for the Comparative Period: RMB35.3 million). Such decrease was primarily due to the fact that we have implemented cost reduction measures while maintaining indispensable marketing expenses, and partly offset by government subsidies for the Period.

General and administrative expenses

Our general and administrative expenses for the Period increased by approximately 28.1% to RMB642.1 million (for the Comparative Period: RMB501.2 million), mainly due to the impairment provision for trade receivables and increase in depreciation charges.

Finance income and finance costs — Net

Our finance income for the Period decreased by approximately 14.7% to RMB94.5 million (for the Comparative Period: RMB110.8 million), mainly due to an interest income of RMB105.6 million, partially offset by a foreign exchange loss from financing activities of RMB11.1 million (for the Comparative Period: foreign exchange income: RMB37.2 million). Our finance costs for the Period increased by approximately RMB472.3 million to RMB567.3 million (for the Comparative Period: RMB95.0 million), mainly due to increases of loans, interest rates and bills discounted.

Liquidity and financial resources

As at 30 June 2012, our cash and cash equivalents balance was RMB4,833.7 million (as at 31 December 2011: RMB6,255.1 million).

As at 30 June 2012, our pledged deposits were RMB5,171.6 million (as at 31 December 2011: RMB4,961.5 million), which were primarily attributable to the increase in the number of vessels under construction.

Loans

As at 30 June 2012, our total loans were RMB28,664.2 million (as at 31 December 2011: RMB25,426.7 million), of which RMB25,602.9 million (89.3%) were denominated in RMB, and the remaining RMB3,061.3 million (10.7%) were 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 provided by the Group.

Foreign exchange risks

Revenue recorded by our shipbuilding segment was mainly denominated in USD and RMB, while about 70% of the production costs were denominated in RMB. The cash flows of the unmatched currencies are subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimize the impact of foreign exchange fluctuations on our business operations.

Capital expenditure

For the Period, our capital expenditure was approximately RMB1,472.2 million (for the Comparative Period: RMB2,894.6 million), which was mainly used in the acquisition of land, construction of plants and procurement of facilities and equipment.

Contingent liabilities

As at 30 June 2012, we had contingent liabilities of RMB11,203.6 million (as at 31 December 2011: RMB12,764.2 million), which mainly resulted from the refund guarantees provided by the banks to the Group's customers in respect of advances received from customers.

Credit assessment and risk management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 30 June 2012, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC which management believes are of high credit quality and without significant credit risk.

The Group carries out customer credit checks prior to entering into shipbuilding contracts and requests progress payments from customers in accordance with the milestones of the shipbuilding contracts. Such milestone payments received from the customers prior to the delivery of vessels could reduce the Group's credit risk exposure. Further, certain customers have issued irrevocable letters of guarantee from banks and related companies to provide guarantee on the collectability of the receivables from these customers.

For credit exposures to other receivables, management assesses the credit quality of the counterparties, taking into account their financial positions, past experience and other factors. No significant impairment in relation to these receivables has occurred during the six months ended 30 June 2012 (2011: Nil).

Human resources

As at 30 June 2012, we had 6,950 employees (2011: 7,046). The slight decrease in number of employees was mainly in relation to the market downturn. We are proactively setting up an employment system of "Survival of the Fittest" and offer competitive remuneration packages to employees. Moreover, discretionary bonuses are granted to qualified employees according to the performance of the individual employee and the Group as a whole. As our success hinges on the concerted effort from all departments formed by skilled employees with high morale, we endeavor to cultivate a culture of learning and sharing, focusing on individual training and development, and nurturing the concept of teamwork.

MARKET ANALYSIS

Compared to the second half of 2011, challenges brought about by the global economy in the first half of 2012 were felt more keenly. The US economy continued its sluggish growth and the Eurozone debt crisis has spread from Greece to other countries such as Spain and Italy. Moreover, the Chinese economic growth has shown a significant slowdown. All of the above factors exerted great pressure on worldwide economic and trading activities, and consequently resulted in sustained depressions in shipping and shipbuilding businesses which are highly correlated to the global economic cycle. While the Eurozone debt crisis remained the key concern of the worldwide economy, it was increasingly difficult for the European Union to resolve disputes among member nations on reaching possible solutions to the crisis, especially in a busy election year in most European Union nations. The recurrent outbreaks of the Eurozone debt crisis increased uncertainties in the global economic outlook and stalled the recovery of the shipping market. The shipping market remained weak in the first half of 2012 after a brief rebound at the beginning of 2012, as the Baltic Dry Index ("BDI") continued the down trend and hit a record low. Affected by the aforesaid market conditions, weakness prevailed in the global shipbuilding industry. Subsequently, with the tightening of financial credit on the industry, demand for new ship builds was extremely weak. New orders shrank substantially and prices continued to fall.

In a subdued market for new vessels, the shipbuilding industry witnessed a worrying imbalance between supply and demand. According to the latest Clarkson Research report, though the worldwide shipbuilding completion increased 13.7% year-on-year to 87.4 million DWT in the first half of 2012, the new shipbuilding orders worldwide decreased 46.0% year-on-year to 20.9 million DWT. According to the latest report of the China Association of the

National Shipbuilding Industry, the shipbuilding completion in China in the first half of 2012 grew 4.2% year-on-year to 32.2 million DWT. However, according to the latest Clarkson Research report, new shipbuilding orders in China fell 49.0% year-on-year to 8.5 million DWT for the same period. Market corrections posed serious challenges for shipbuilders who now face prolonged delivery schedules, in particular for those in China, which used to rely on their capacities of low-end vessel products. A reshuffle is expected, and surplus and outdated capacities will either be consolidated or eliminated. In view of lower prices for new vessels and deterioration in payment terms, China's shipbuilding sector was in desperate needs to shift towards the development of high-margin products.

Oil and gas prices were subject to extreme volatility for the Period amid economic uncertainties and geo-political developments in the oil production regions. In fact, oil and gas resources demand remained strong in most economies, and there were increasing efforts in the offshore oil and gas exploration and exploitations. Thus it ensured an active offshore engineering market. According to the latest Clarkson Research report, new global offshore engineering orders amounted to USD28 billion for the Period, surpassing new shipbuilding orders for the first time in terms of contract value. Drilling platforms remained popular with new orders amounting to approximately USD11 billion and new floating production platform orders reaching a record high at approximately USD11 billion which were more than that in 2011. Offshore engineering market has maintained normal in recent years and transaction values for the Period was substantial in line with that in the same period last year. Orders for offshore engineering projects were concentrated in a few countries and shipyards, where Korea, Brazil and Singapore achieved outstanding performance. Driven by the new international environmental protection standards and natural gas technologies, LNG was given more prominent roles in energy projects in Asia and Pacific, prompting rapid growth for new orders of LNG carriers.

China's marine ancillary equipment industry sustained rapid growth. Its revenue reported a 28.5% year-on-year growth to RMB31.6 billion for the first 4 months in 2012. With the support of government policies, the Chinese low-speed marine diesel engines manufacturers continued to expand their production capacities and improve their technological standards. While weak sentiments in the shipbuilding market posed challenges for new players, domestic manufacturers also had to face stiff price competition from foreign manufacturers, which were attracted by the enormous market potential in China.

For the Period, China's engineering machinery industry was affected by tightened government monetary policies and a slowdown in investments, as reflected by the decline in overall sales of close to 20.0% year-on-year. China excavator sales for major manufacturers were 78,614 units, a year-on-year decline of 38.4%. Inevitably, the engineering machinery sector was in a tough situation as the Chinese government has revised down the country's economic growth target, together with a slowdown in investment growth stimulated by the economic restructuring and a sharp drop in construction activities in infrastructure projects such as roads and railways. In this highly competitive market, the market share of excavators produced by domestic brands increased 8.1 percentage points year-on-year to 46.1% in China. However, foreign brands were still the market leaders in the high-end products.

PROSPECTS

Looking ahead to the second half of 2012, the recovery of the global shipping market will continue to be restrained by uncertainties in the macro-economic landscape such as the Eurozone debt crisis. Thus the shipbuilding industry is expected to continue its consolidation and to experience further restructuring with elimination of low-end surplus capacities. In response to the current market condition, we will continue to persistently implement strategic transformations and upgrades. Energy services focused on oil and gas are set for development, as upside expectations for oil and gas prices are well supported by the inelastic demand for oil and gas resources from most countries. We will focus on the oil and gas service sector and continue to implement the strategy of launching high-end value-added products. With the ongoing releases of new international standards for marine operations, the new-generation and eco-friendly vessels with energy saving features are expected to dominate the mainstream market over time. We are speeding up our efforts to upgrade our products and optimize the energy-saving and emission-reducing levels of our vessels, aiming to capitalize on the enormous demand for these types of products in the post-recovery period. Meanwhile, to address current market trend, we would further utilize our world-class facilities at shipyard and gradually diversify our business by developing more operations besides shipbuilding.

The offshore engineering market will remain robust in the second half of 2012 as high oil price expectation in mid-to-long term should remain strong and it will continue to drive global investments in offshore engineering equipment. As China is increasingly dependent on imported energy amidst its rapid economic growth, the Chinese government is promoting the use of LNG. Thanks to our foray into offshore engineering back in 2007, we have since been accumulating solid experience in offshore engineering projects, as well as progressively setting up sales networks. We will further improve our research and development following the construction of the LNG carrier mock cabin. We shall also benefit from our soon-to-be-established Singapore offshore team to increase the exposure to international offshore engineering investors.

Demand for marine ancillary equipment will remain strong as Chinese shipbuilders will maintain a high level of vessel completion in the second half of 2012, even though the production capacities of domestic companies are unlikely to be fully utilized as a result of competition from foreign players. With the signing of the "Memorandum of Understanding on the Operational Procedures for the Sales of MAN Low-speed Marine Diesel Engines in PRC Regions by the Overseas Licensors" and the "Memorandum of Understanding on the E.A. Process Introduced by the Foreign Party," negotiated between the China Association of the National Shipbuilding Industry (on behalf of 11 Chinese marine diesel engine manufacturers), and MAN and Wärtsilä, the two major licensors for main engines, an important breakthrough has been achieved in the protection of rights of domestic marine engine makers, and a fair marketplace for the development of new companies has been fostered. We will capitalize on this opportunity for the vigorous development of the external market, while continuing to enhance our cost control initiatives with a special emphasis on improving risk management during times of market change.

The engineering machinery industry is expected to resume stable growth after corrections, supported by China's ongoing urbanization and improvement demand for housing and infrastructure. We will consolidate our existing production capacities and strengthen partnership with finance lease companies to continually increase our market share in China.

In the second half of 2012, we will continue to implement various costs management initiatives, improve our supply chain, increase localization in procurement and set up strategic suppliers system and bidding system to lower procurement costs. We will also enhance our production management standard to shorten production cycle and reduce production cost. We will implement initiatives to improve our cash flow including working closely with shipbuilding clients to receive timely settlement for trade receivables according to the contract terms, and negotiating with financial institutions to extend existing borrowings upon their due dates and obtaining new long-term borrowing facilities. To conclude, we will continue to persist in our established corporate development strategy, actively upgrading and transforming into a high-end heavy industry manufacturer focused on customers in the energy supply sector, and actively exploring overseas markets in order to establish a solid foundation for industry recovery.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

During the Period, the Company had complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), 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 23 May 2012 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 (the "**Directors**"). The Company has confirmed, following specific enquiries being made by the Company, that they have complied with the required standard set out in the Model Code during 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 conditionally 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 announcements of the Company dated 26 April 2011, 1 June 2012, 5 June 2012, 17 July 2012 and 17 August 2012 respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

INTERIM RESULTS

The Audit Committee comprises of 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. The interim financial information set out above does not constitute the Group's condensed consolidated interim financial information for the Period, but is derived and extracted from those condensed consolidated interim financial information.

PUBLICATION OF INTERIM REPORT

The 2012 Interim Report of the Company will be despatched to the shareholders and published on the respective websites of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.rshi.cn in due course.

INTERIM DIVIDEND

The Board has resolved not to declare for the payment of an interim dividend for the year 2012 (2011: RMB5.2 cents per share).

APPOINTMENT OF EXECUTIVE VICE CHAIRMAN

The Board is pleased to announce that with effect from 21 August 2012, Mr. Chen Qiang, currently an executive director and chief executive officer of the Company, has been appointed as the executive vice chairman of the Board.

BOARD OF DIRECTORS

As at the date of this announcement, the non-executive director of the Company is Mr. ZHANG Zhi Rong (Chairman); the executive directors of the Company are Mr. CHEN Qiang, Mr. ZHANG De Huang, Mr. WU Zhen Guo, Mr. LUAN Xiao Ming, Mr. DENG Hui, Mr. HONG Liang, Mr. Sean S J WANG and Mr. WANG Tao; and the independent non-executive directors of the Company are Mr. CHEN Gang, Mr. TSANG Hing Lun and Mr. ZHANG Xu Sheng.

On Behalf of the Board
ZHANG Zhi Rong
Chairman

Hong Kong, 21 August 2012

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months ended 30 June 2012

	Notes	**Unaudited Six months ended 30 June**	
		2012	2011
		RMB'000	*RMB'000*
Revenue	*3*	**5,462,741**	8,703,466
Cost of sales	*4*	**(4,487,939)**	(6,683,290)
Gross profit		**974,802**	2,020,176
Selling and marketing expenses	*4*	**(26,557)**	(35,262)
General and administrative expenses	*4*	**(642,108)**	(501,164)
Other income	*5*	**479,242**	121,180
Other gains/(losses) — net	*6*	**73,868**	(107,447)
Operating profit		**859,247**	1,497,483
Finance income		**94,474**	110,849
Finance costs		**(567,312)**	(94,970)
Finance (costs)/income — net		**(472,838)**	15,879
Profit before income tax		**386,409**	1,513,362
Income tax expense	*7*	**(143,225)**	(208,864)
Profit for the period		**243,184**	1,304,498
Other comprehensive income for the period		**—**	—
Total comprehensive income for the period		**243,184**	1,304,498
Attributable to:			
Equity holders of the Company		**215,775**	1,216,738
Non-controlling interests		**27,409**	87,760
		243,184	1,304,498
Earnings per share for earnings attributable to the equity holders of the Company during the period (expressed in RMB per share)			
— Basic and diluted	*8*	**0.03**	0.17
Dividends			
Dividend (expressed in RMB per share)	*9*	**—**	0.052

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

As at 30 June 2012

	Note	**Unaudited as at 30 June 2012** *RMB'000*	Audited as at 31 December 2011 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**815,749**	643,565
Property, plant and equipment		**16,766,059**	16,188,645
Intangible assets		**220,409**	185,125
Long-term deposits		**134,713**	97,131
Prepayment for non-current assets		**3,126,382**	2,798,282
Deferred tax assets		**93,362**	73,849
Available-for-sale financial asset		**40,000**	—
		21,196,674	19,986,597
Current assets			
Inventories		**3,338,133**	2,609,958
Amounts due from customers for contract works		**8,778,878**	7,199,036
Trade and bills receivables	*10*	**4,383,534**	3,600,151
Other receivables, prepayments and deposits		**8,104,521**	6,638,493
Derivative financial instruments		**—**	9,729
Pledged deposits		**5,171,579**	4,961,514
Cash and cash equivalents		**4,833,710**	6,255,138
		34,610,355	31,274,019
Total assets		**55,807,029**	51,260,616
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**599,526**	599,526
Share premium		**7,490,812**	7,644,812
Other reserves		**3,380,780**	3,340,517
Retained earnings		**3,457,353**	3,241,578
		14,928,471	14,826,433
Non-controlling interests		**892,832**	865,423
Total equity		**15,821,303**	15,691,856

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS (CONTINUED)
As at 30 June 2012

	Note	**Unaudited as at 30 June 2012** *RMB'000*	Audited as at 31 December 2011 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**10,178,957**	9,465,808
Finance lease liabilities — non-current		**865,335**	551,773
Deferred tax liabilities		**4,837**	5,546
		11,049,129	10,023,127
Current liabilities			
Amounts due to customers for contract works		**363,652**	1,168,319
Advances received from customers for contract works		**1,015**	133,220
Trade and other payables	*11*	**10,503,329**	8,493,043
Current income tax liabilities		**273,292**	149,068
Borrowings		**17,231,448**	15,155,494
Derivative financial instruments		**5,270**	3,015
Provision for warranty		**170,181**	189,867
Finance lease liabilities — current		**388,410**	253,607
		28,936,597	25,545,633
Total liabilities		**39,985,726**	35,568,760
Total equity and liabilities		**55,807,029**	51,260,616
Net current assets		**5,673,758**	5,728,386
Total assets less current liabilities		**26,870,432**	25,714,983

Notes:

1 CORPORATION INFORMATOIN

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, KY1-1111, 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.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.1 GOING-CONCERN BASIS

During the six months ended 30 June 2012, the Group has reported net operating cash outflow of RMB2,997,474,000 and the Group's cash and cash equivalents reduced by RMB1,421,428,000 to RMB4,833,710,000 as at 30 June 2012. The significant cash outflows during the six months ended 30 June 2012 were primarily due to the slower cash collection from customers of the Shipbuilding segment while the Group continued to fund the construction of the vessels using its own financial resources and borrowings which in turn increased the Group's aggregated borrowings to RMB28,664,150,000 as at 30 June 2012.

The board of directors of the Company has reviewed the Group's cash flow projections prepared by management. The projections extend for a period beyond one year from the date of approval of the condensed consolidated interim financial information. The projections make key assumptions with regard to the anticipated cash flows from each of the operating segments, the reasonably possible changes in the operational performance and availability of future borrowing facilities, including the extension of existing borrowings.

Based on these cash flow projections, the Group will have sufficient financial resources in the coming twelve months to meet its financial obligations as and when they fall due. The Group's ability to achieve the projected cash flows depends on management's ability to successfully implement initiatives to improve the Group's cash flows, including, measures to control and contain capital expenditure and corporate overheads, working closely with shipbuilding customers to timely receive settlement for trade receivables according to the contract terms, and negotiating with financial institutions to extend existing borrowings upon their due dates and obtaining new long-term borrowing facilities. The extent to which the Group can attain the targets of these initiatives is subject to various factors, including its future operational performance, market conditions, the financial capabilities of the customers and other factors, many of which are outside of its control and not reasonably predictable.

The directors, after making due enquiries and considering the material uncertainties described above, have a reasonable expectation that there will be sufficient financial resources available to the Group at least in the coming twelve months to meet its financial obligation as and when they fall due. Accordingly, the directors consider that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

2.2 ACCOUNTING POLICIES

Except for the adoption of new standard and amendment to standard which are mandatory for the first time from 1 January 2012, the accounting policies applied are consistent with those as described in the annual financial statements for the year ended 31 December 2011.

(a) New accounting policy adopted by the Group during the six months ended 30 June 2012

The Group invested in an available-for-sale financial asset during the six months ended 30 June 2012. Available-for-sale financial asset is non-derivative that is either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial asset is initially recognised at fair value plus transaction costs. Available-for-sale financial asset is derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial asset is subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

(b) Amendments and interpretations to existing standards effective in 2012 but have no significant impact to the Group's results and finance positions

- Amendment to IFRS 7 "Disclosures — transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This is not relevant to the Group, as it has not made any relevant financial assets transfer transactions.

- Amendment to IFRS 1 "Severe hyperinflation and removal of fixed dates for first-time adopters" beginning on or after 1 July 2011. This is not currently applicable to the Group as it is not operating in hyperinflation region.

- Amendment to IAS 12 "Deferred tax: recovery of underlying assets" beginning on or after 1 January 2012, this is not relevant to the Group as it does not have any investment property.

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 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 2015 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 IRFS 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 investment, for example, will therefore have to be recognised directly in profit or loss.

- IFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 12 "Disclosure of interests in other entities" includes the disclosure requirements for a all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for the use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

- IAS 19 (Amendment) "Employee benefits" eliminate the corridor approach and calculate finance cost on a net funding basis. The Group is yet to assess the amendments to IAS19's impact.

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.

(d) Current income tax expenses

Income tax expense is calculated based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the profit before income tax of the interim period.

2.3 ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgments 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 2011.

3 SEGMENTAL INFORMATION

	Shipbuilding		Offshore Engineering		Engineering Machinery		Marine Engine Building		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**5,205,853**	8,436,172	**—**	31,295	**290,715**	330,039	**434,065**	457,889	**5,930,633**	9,255,395
Inter-segment revenue	**—**	—	**—**	—	**(98,182)**	(94,040)	**(369,710)**	(457,889)	**(467,892)**	(551,929)
Revenue from external customers	**5,205,853**	8,436,172	**—**	31,295	**192,533**	235,999	**64,355**	—	**5,462,741**	8,703,466
Segment results	**914,883**	1,988,796	**—**	(25,023)	**44,006**	56,403	**15,913**	—	**974,802**	2,020,176
Selling and marketing expenses									**(26,557)**	(35,262)
General and administrative expenses									**(642,108)**	(501,164)
Other income									**479,242**	121,180
Other gains/(losses), net									**73,868**	(107,447)
Finance (costs)/income, net									**(472,838)**	15,879
Profit before income tax									**386,409**	1,513,362

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Brazil	**1,749,634**	3,414,854
Greece	**1,060,038**	441,384
China	**980,295**	2,582,035
Turkey	**446,153**	225,062
India	**432,984**	26,018
Oman	**398,523**	905,767
Israel	**234,098**	—
Norway	**102,076**	1,370
Germany	**55,813**	1,094,182
Cyprus	**1,540**	1,910
Russia	**—**	4,077
Others	**1,587**	6,807
	5,462,741	8,703,466

4 PROFIT BEFORE INCOME TAX

Profit before income tax has been recorded after deducting the following items:

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Raw materials and consumable used	**3,209,195**	5,340,522
Amortisation of land use rights	**7,681**	6,559
Depreciation of property, plant and equipment	**256,509**	204,628
Amortisation of intangible assets	**17,461**	5,728
Employee benefit expenses	**398,546**	296,845
Operating lease payments	**24,680**	23,917
Auditors' remunerations	**1,989**	2,417
Outsourcing and processing costs	**713,758**	640,426
Commission expense	**30,263**	107,857
Design fees	**7,705**	44,584
Agency fees	**3,938**	11,687
Legal and consultancy fees	**19,263**	14,980
Other tax-related expenses and customs duties	**16,807**	32,641
Bank charges (include refund guarantee charges)	**49,695**	66,980
(Reversal of)/provision for warranty	**(18,472)**	84,823
Office expenses and utilities	**199,616**	200,454
Donations and sponsoring expenses	**21,982**	10,400
Impairment loss on inventories	**5,692**	—
Provision for trade receivables	**83,995**	—

During the six months ended 30 June 2012, the Group received subsidies of RMB671,758,000 (2011: RMB450,000,000) from various governmental authorities to compensate costs the Group incurred for research and development of shipbuilding processes, designs investments in the heavy industries and the related people development. The subsidies have been recognised in the consolidated profits and loss for the six months ended 30 June 2012 and deducted against relevant costs.

5 OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Government grants	**71,831**	14,729
Scrap sales	**159,268**	93,654
Compensation income	**239,689**	—
Others	**8,454**	12,797
	479,242	121,180

6 OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Fair value change of derivative instruments — forward contracts	**—**	10,146
Fair value losses on derivative instruments — interest rate swap	**(2,255)**	—
Net foreign exchange gains/(losses)	**76,123**	(117,593)
	73,868	(107,447)

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current income tax:		
— PRC Enterprise Income Tax ("EIT")	**163,447**	209,319
Deferred income tax	**(20,222)**	(455)
Total income tax expense	**143,225**	208,864

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 2012 and 2011, respectively, as the Group had no assessable profit in Hong Kong.

8 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	
	2012	2011
Earnings attributable to equity holders of the Company (RMB'000)	**215,775**	1,216,738
Weighted average number of ordinary shares in issue	**7,000,000,000**	7,000,000,000
Basic earnings per share (RMB per share)	**0.03**	0.17

(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 2012 (2011: same).

9 DIVIDENDS

A dividend that relates to the year ended 31 December 2011 and that amount to RMB154,000,000 was paid in May 2012 (2011: RMB476,000,000).

The Board has resolved not to declare for the payment of an interim dividend for the year 2012 (2011: RMB5.2 cents per share).

10 TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Trade receivables	**4,510,620**	3,618,755
Less: Provision for doubtful receivables	**(129,365)**	(45,370)
Bills receivables	**2,279**	26,766
	4,383,534	3,600,151

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

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Undue	**402,812**	337,173
Past due		
Past due 1–180 days	**2,470,143**	2,483,669
Past due 181–360 days	**816,013**	761,498
Past due over 360 days	**694,566**	17,811
	3,980,722	3,262,978
	4,383,534	3,600,151

As at 30 June 2012 trade receivables of RMB93,856,000 (31 December 2011: RMB45,370,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for. The impaired trade receivables have been past due for over twelve months as at 30 June 2012.

As at 30 June 2012, trade receivables of RMB3,980,722,000 (31 December 2011:RMB3,262,978,000) were past due but not impaired. The ageing analysis of these trade receivables by due dates is listed above, among which, approximately RMB2,792,890,000 (31 December 2011: RMB2,272,584,000) is due from the three largest debtors. Based on the Group's review of the credit risk exposure, management has determined to record provision for doubtful receivable amounted to RMB35,509,000 (31 December 2011: nil) in respect of the receivables from these debtors.

During the six months ended 30 June 2012, the Group assigned accounts receivable amounted to RMB505,992,000 to a bank (31 December 2011: nil). Such arrangement is secured by deposits of RMB252,996,000. These pledged deposits will be released upon the earlier of the termination of the arrangement on 28 June 2014 or settlement of the assigned accounts receivable from customers.

Certain customers of the Engineering Machinery segment are granted credit terms of up to 365 days. The credit term granted to customers of all other segments are generally ranged from 3 days to 90 days, accordingly, balances are past due if not settled within the credit period.

11 TRADE AND OTHER PAYABLES

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Trade payables	**3,045,039**	2,839,805
Bills payables		
— Third parties	**4,365,114**	2,741,654
— Related parties	**101,278**	81,432
Other payables for purchase of property, plant and equipment		
— Third parties	**556,085**	662,577
— Related parties	**585,860**	762,722
Other payables		
— Third parties	**727,039**	503,078
— Related parties	**297**	470
Receipt in advance	**110,175**	99,463
Accrued expenses		
— Payroll and welfare	**71,151**	79,805
— Design fees	**47,834**	55,638
— Utilities	**45,111**	59,610
— Outsourcing and processing fee	**535,503**	254,236
— Others	**184,394**	151,900
VAT payable	**20,303**	27,570
Other tax-related payables	**108,146**	173,083
	10,503,329	8,493,043

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

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
0–30 days	**1,644,243**	2,588,939
31–60 days	**1,023,117**	1,279,997
61–90 days	**1,220,687**	669,909
Over 90 days	**3,623,384**	1,124,046
	7,511,431	5,662,891