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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 2013

The board of directors (the “**Board**”) of China Rongsheng Heavy Industries Group Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2013 (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 (the “**Audit Committee**”).

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 RMB1,579.0 million, representing a decrease of 71.1% from RMB5,462.7 million for the six months ended 30 June 2012 (the “**Comparative Period**”). Comprehensive loss attributable to equity holders of the Company were RMB285.5 million for the Period, while comprehensive income attributable to the equity holders of the Company were RMB215.8 million in the Comparative Period.

Shipbuilding

Shipbuilding was our primary business segment and also our major revenue source. For the Period, our revenue from the shipbuilding segment was RMB1,479.7 million, representing 93.7% of our total revenue.

New Orders and Order Book

In the first half of 2013, the new shipbuilding prices were under severe pressure, with meager profit margin for new orders and harsh contractual terms. In this adverse market environment, we adopted a defensive sales strategy by avoiding low-price orders or orders with unfavourable payment terms, and thus for the period, we secured two new orders for Capesize bulk carrier of 180,000 DWT.

The Group's total orders on hand as at 30 June 2013 consisted of 86 vessels, representing a total volume of approximately 11.8 million DWT with a total contract value of approximately USD4.6 billion. It included 45 Panamax bulk carriers, 2 Capesize bulk carriers, 6 very large ore carriers ("VLOCs"), 23 Suezmax crude oil tankers, 1 Panamax crude oil tanker, 2 very large crude oil carriers ("VLCCs"), 1 6,500-twenty-foot equivalent unit ("TEU") containership and 6 7,000-TEU containerships. All the vessels in our order book will be delivered within the period from 2013 to 2016 as stated in the contracts.

For the Period, we delivered 7 vessels, representing a total volume of 1.5 million DWT.

Offshore Engineering

With the effort of our Singapore offshore engineering business team established in 2012, we further enhanced our research and development capability in offshore engineering business. Currently we are in preparation of constructing our first international order of one tender barge. For the Period, we did not sign any new order contract. We are actively pursuing the high-end offshore engineering projects from various countries and regions.

Marine Engine Building

For the Period, our revenue from the marine engine building segment was RMB87.3 million (excluding inter-segment sales), representing an increase of 35.6% from RMB64.4 million in external sales for the Comparative Period.

In the first half of 2013, the performance of the global marine ancillary equipment industry was below expectations. The sales of marine engines were affected by the depressed shipbuilding industry. For the Period, we secured a new order for 1 engine, representing a capacity of 11,904 horsepower with a contract value of RMB15.4 million. The Group's total orders on hand as at 30 June 2013 were 38 engines, representing a total capacity of 749,871 horsepower with a total contract value of RMB1.3 billion, of which 8 were external orders. For the Period, we delivered 5 marine engines with a total capacity of 108,439 horsepower.

Engineering Machinery

For the Period, our revenue from the engineering machinery segment was RMB11.9 million (excluding inter-segment sales). Due to the slowdown of China's economic growth and tightening control of infrastructure investments, the growth of engineering machinery industry was continuously slowing down in the first half of 2013. In the Period, we strengthened the control on fixed assets investments in the engineering machinery segment and also strived to increase internal synergies through research and development in machinery products related to shipbuilding and offshore engineering segment.

FINANCIAL REVIEW

Revenue

For the Period, our revenue was RMB1,579.0 million as compared to RMB5,462.7 million for the Comparative Period, representing a year-on-year decrease of approximately 71.1%. The decrease in revenue was primarily attributable to the downturn of the shipbuilding and the engineering machinery industries.

Cost of sales

For the Period, our cost of sales decreased by approximately 52.0% to RMB2,149.8 million (for the Comparative Period: RMB4,480.7 million), in line with the significant decrease in revenue.

Selling and marketing expenses

For the Period, our selling and marketing expenses decreased by approximately 82.7% to RMB4.6 million (for the Comparative Period: RMB26.6 million). The decrease was due to the fact that we have thoroughly implemented cost control measures while maintaining marketing activities.

General and administrative expenses

For the Period, our general and administrative expenses decreased by approximately 21.8% to RMB469.2 million (for the Comparative Period: RMB600.1 million). This decrease is mainly the result of the thorough implementation of our cost control measures.

Research and development expenses

For the Period, our research and development expenses increased by approximately 16.7% to RMB99.7 million (for the Comparative Period: RMB85.4 million), mainly because of the increased investment in research and development of new products, among which RMB37.9 million (for the Comparative Period: RMB49.3 million) has been shown on the Interim Consolidated Statement of Comprehensive Income and RMB61.8 million (for the Comparative Period: RMB36.2 million) has been capitalised in the intangible assets.

Finance income and finance costs — Net

Our finance income for the Period, which mainly relate to an interest income of RMB34.8 million, decreased by approximately 12.6% to RMB82.6 million (for the Comparative Period: RMB94.5 million). Our finance costs for the Period decreased by approximately 57.6% to RMB240.5 million (for the Comparative Period: RMB567.3 million) mainly due to the fact that we have adjusted the structure of financing products and other measures.

Gross loss

During the Period, we recorded gross loss of RMB570.8 million (gross profit for the

Comparative Period: RMB982.0 million). This is due to low price of shipbuilding orders in depressed market conditions, contrast to rigid cost such as raw materials and labour costs. With diminishing profitability of the conventional shipbuilding business, an operating loss was incurred as a result of decreased production scale yet considerable fixed production cost.

Total comprehensive loss for the period

During the Period, we recorded total comprehensive loss of RMB290.3 million, of which loss attributable to equity holders of the Company is RMB285.5 million (income for the Comparative Period: RMB215.8 million). Loss attributable to the equity holders of the Company is the result of gross loss and the considerable fixed management cost. Other comprehensive income for the Period is RMB1,009.2 million (for the Comparative Period: nil) which is mainly contributed from revaluation surplus on buildings.

Liquidity and financial resources

As at 30 June 2013, our cash and cash equivalents balance was RMB870.8 million (as at 31 December 2012: RMB2,143.8 million). The difference is the result of bank loan repayment as well as an increased need for working capital to support ship construction in the current market situation. As at 30 June 2013, our pledged deposits were RMB3,260.1 million (as at 31 December 2012: RMB3,937.1 million). The decrease is the result of decrease in pledged deposits for refund guarantees on advanced payments received from customers of vessels under construction.

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. During the six months ended 30 June 2013, the Group has had significant cash outflows since certain of the Group's shipbuilding customers have asked for postponement in delivery of new vessels that led to slower collection of receivables from such customers. However, the Group had to continue to make payments to suppliers of raw materials, workers and services and fulfil committed capital expenditures for the development of the Group's shipbuilding and offshore engineering production facilities. These caused the Group's cash and cash equivalents to decrease by RMB1,273.0 million compared to 31 December 2012 to RMB870.8 million as at 30 June 2013. As at 30 June 2013, the Group is at a net current liability position of RMB690 million. Further, the Group's total borrowings as at 30 June 2013 amounted to RMB24,849.9 million, of which RMB15,246.7 million will be due within 12 months from 30 June 2013. The directors closely monitor the Group's liquidity position and plans to implement initiatives to improve the Group's cash flows.

Loans

Our short-term borrowings decreased by RMB401.9 million from RMB15,648.6 million as at 31 December 2012 to RMB15,246.7 million as at 30 June 2013. Our long-term borrowings increased by RMB127.2 million from RMB9,476.0 million as at 31 December 2012 to RMB9,603.2 million as at 30 June 2013.

As at 30 June 2013, our total loans were RMB24,849.9 million (as at 31 December 2012: RMB25,124.5 million), of which RMB21,869.6 million (88.0%) was denominated in RMB and the remaining RMB2,980.3 million (12.0%) was denominated in foreign currencies such

as USD. Certain of the borrowings were secured by our land-use rights, buildings, construction contracts, pledged deposits and guarantees from related parties and companies within our Group.

Gearing ratio

Our gearing ratio (total liabilities/total assets) decreased from 69.9% as at 31 December 2012 to 69.2% as at 30 June 2013.

Foreign exchange risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD while about 30% of the production costs were denominated in USD. The cash flows of 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 RMB1,310.1 million (for the Comparative Period: RMB1,472.2 million), which was mainly used in the construction of plants and procurement of facilities and equipments.

Contingent liabilities

As at 30 June 2013, we had contingent liabilities of RMB7,878.1 million (as at 31 December 2012: RMB9,792.7 million), which mainly resulted from the agreements entered between our Group and over ten banks in China, respectively, in relation to the grant of refund guarantees to us.

Amounts due from/to customers for contract works

As at 30 June 2013, amounts due from customers for contracts works decreased by RMB28.6 million to RMB8,271.2 million (as at 31 December 2012: RMB8,299.8 million). As at 30 June 2013, amounts due to customers for contract works were RMB322.1 million (as at 31 December 2012: RMB331.6 million). The decrease in amounts due from customers for contract works was a result of delivery of vessels during the Period on which we have invoiced the respective customers. As at 30 June 2013, trade and bill receivables increased by RMB42.8 million to RMB3,854.2 million (as at 31 December 2012: RMB3,811.4 million), mainly because we take into consideration our sustainable development and long-term cooperation relationship with ship owners. Upon completion of the main body of the related vessels, we agree on certain period of receivables extension in the weak market conditions. We closely track the progress of collection of such receivables.

Credit assessment and risk management

Credit risk is managed on a company basis. Credit risks 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 2013, all the Group's cash and bank balances, short-term bank deposits and pledged deposits were placed in reputable banks located in the PRC which management believes are of high credit quality and without significant credit risk.

The Group carries customer credit checks prior to entering into shipbuilding contracts and requests progress payments from customers in accordance with the milestones the shipbuilding contracts. Such milestones 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 our engineering machinery customers, we assess their credit qualification, financial conditions, past record as well as other related matters before granting credit limits.

As at 30 June 2013, trade receivables of RMB165.9 million (as at 31 December 2012: RMB168.5 million) and RMB213.7 million (as at 31 December 2012: RMB213.7 million) related to certain customers of the shipbuilding segment and engineering machinery segment were impaired and provided for respectively.

Human resources

As at 30 June 2013, we had 4,385 employees (2012: 6,594). The decrease in number of employees was mainly because we are undergoing restructuring and optimisation of our workforce in response to the weak market conditions.

MARKET ANALYSIS

In the first half of 2013, global offshore engineering market remained stable. Countries including the US, Brazil and Norway increased investment in deep-water oil exploitation one after another, while the Chinese government paid ever-increasing attention to the strategic area of ocean economy. In addition to the "Medium and Long-Term Development Plan for Marine Engineering Equipment Manufacturing" co-promulgated by multiple departments of the State Council in 2012, the Chinese leaders made public declaration recently to develop ocean economy and improve capability of marine resource development, especially in advanced sector requiring deep-water, ecological, and safe technology, with the purpose of aiding the domestic offshore engineering companies to achieve rapid growth.

Compared to the robust offshore engineering market, the global shipping market staggers to the supply-demand imbalance, thus slowing down the recovery of the shipbuilding industry. Although the industry showed signals of rebounding recently, neither new order price nor volume confirms a recovery. Given the current price index, shipbuilding companies encounter difficulty in earning profits on orders. Recently, the State Council issued the "Implementation Plan for Accelerating Structural Adjustment of the Shipbuilding Industry to Promote Transformation and Upgrading (2013 to 2015)", outlining the main tasks for implementing

transformation and upgrading of the shipbuilding industry for the next three years. Moreover, as new International Maritime Organization regulations on environmental protection urge ship owners to adapt to eco-friendly ship models, energy efficiency and low emission has become a basic market requirement.

Natural gas has gained ever-increasing attention as a leading clean energy source. The Chinese government is actively promoting “Gas in substitution of Oil”. As more local governments accelerate construction of liquid natural gas infrastructure, it is expected that demand for transportation and storage of liquid natural gas (“LNG”) will continue to boom.

PROSPECTS

On the basis of the current market situation, we will continue to effectively implement the established strategies of “transformation and advancement”. By management enhancement as well as active market expansion, we will continue development towards a high-end equipment manufacturing enterprise.

Since its establishment in the last year, Rongsheng Offshore & Marine, our subsidiary in Singapore, has been actively expanding the offshore engineering market in accordance to the transformation strategy. We plan to extend our product mix from standard offshore products such as jack-up drilling rig, semi-submersible drilling rig and drilling tender barge, on top of offshore pipe-laying and crane vessels, to a comprehensive mix of drilling vessels, offshore platform and Floating Production Storage and Offloading Units (FPSOs). Ultimately, we intend to provide to clients a complete solution of design, purchase and construction for offshore projects.

In persistent pursuit of high-end equipment manufacturing, we are upgrading our current product mix to apply decreased Energy Efficiency Design Index. We aim to harvest new market trends of upgrading by implementing the “Green Shipbuilding” philosophy. Meanwhile, we will pay close attention to the LNG transportation market. In the past few years, our engineering team has completed training for construction of LNG carriers and finished a mock-up model accredited by international organizations. We will actively participate in LNG carrier project biddings both in China and overseas. We believe our past experience has positioned us well for positive results.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

During the Period, the Company complied with the applicable code provisions of the Corporate Governance Code 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**”), apart from the deviation set out below.

Code provision A.1.3 of the Code stipulates that at least 14 days’ notice should be given for a regular Board meeting to give all Directors an opportunity to attend. During the Period, less than 14 days’ notice was given for one regular Board meeting to suit the tight and busy schedules of the participants.

Code provision A.2.1 of the Code stipulates that the roles of the chairman of the board (the “**Chairman**”) and the chief executive officer should be separate and should not be performed by the same individual. Mr. Chen Qiang has performed both the roles of Chairman and chief executive officer of the Company in deviation from code provision A.2.1 of the Code. The Company believes that it is more efficient and effective for the Company to develop its long term strategies and in execution of its business plans if Mr. Chen Qiang serves as both the Chairman and the chief executive officer of the Company.

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 complied with the required standards set out in the Model Code during the Period.

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 four independent non-executive Directors, namely, Mr. Tsang Hing Lun (chairman of the Audit Committee), Mr. Xia Da Wei, Mr. Hu Wei Ping and Mr. Wang Jin Lian. 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 results 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 2013 Interim Report of the Company will be despatched to the shareholders and published on the respective websites of 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 the payment of an interim dividend for the year 2013 (2012: nil).

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. CHEN Qiang (Chairman), Mr. WU Zhen Guo, Mr. LUAN Xiao Ming, Mr. HONG Liang, Mr. Sean S J WANG, Mr. WANG Tao and Mr. WEI A Ning; and the independent non-executive directors are Mr. TSANG Hing Lun, Mr. XIA Da Wei, Mr. HU Wei Ping and Mr. WANG Jin Lian.

On Behalf of the Board
CHEN Qiang
Chairman

Hong Kong, 28 August 2013

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		Unaudited as at 30 June 2013 RMB'000	Audited as at 31 December 2012 RMB'000
	Note		
ASSETS			
Non-current assets			
Land use rights		4,098,512	875,666
Property, plant and equipment		20,187,799	18,616,499
Intangible assets		515,771	468,589
Long-term deposits		149,430	153,343
Prepayment for non-current assets		263,968	1,868,540
Deferred tax assets		162,820	168,052
Available-for-sale financial asset		37,435	40,000
		<u>25,415,735</u>	<u>22,190,689</u>
Current assets			
Inventories		1,078,528	2,288,978
Amounts due from customers for contract works		8,271,170	8,299,806
Trade and bills receivables	10	3,854,224	3,811,363
Other receivables, prepayments and deposits		5,441,926	7,497,132
Pledged deposits		3,260,073	3,937,081
Cash and cash equivalents		870,816	2,143,788
		<u>22,776,737</u>	<u>27,978,148</u>
Total assets		<u>48,192,472</u>	<u>50,168,837</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		599,526	599,526
Share premium		7,490,812	7,490,812
Other reserves		3,518,481	3,480,596
Revaluation reserve		979,834	–
Retained earnings		1,378,439	2,641,306
		<u>13,967,092</u>	<u>14,212,240</u>
Non-controlling interests		<u>871,173</u>	<u>875,965</u>
Total equity		<u>14,838,265</u>	<u>15,088,205</u>

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2013

		Unaudited as at 30 June 2013 RMB'000	Audited as at 31 December 2012 RMB'000
	Note		
LIABILITIES			
Non-current liabilities			
Borrowings		9,096,476	8,788,822
Finance lease liabilities — non-current		506,753	687,144
Deferred tax liabilities		284,238	4,191
		<u>9,887,467</u>	<u>9,480,157</u>
Current liabilities			
Amounts due to customers for contract works		322,088	331,616
Trade and other payables	11	7,598,031	9,278,474
Current income tax liabilities		172,843	190,069
Borrowings		14,889,906	15,282,755
Derivative financial instruments		2,997	5,094
Provision for warranty		124,076	146,655
Finance lease liabilities — current		356,799	365,812
		<u>23,466,740</u>	<u>25,600,475</u>
Total liabilities		<u>33,354,207</u>	<u>35,080,632</u>
Total equity and liabilities		<u>48,192,472</u>	<u>50,168,837</u>
Net current (liabilities)/assets		<u>(690,003)</u>	<u>2,377,673</u>
Total assets less current liabilities		<u>24,725,732</u>	<u>24,568,362</u>

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months ended 30 June 2013

		Unaudited	
		Six months ended 30 June	
		2013	2012
	Note	RMB'000	RMB'000
Revenue	3	1,578,991	5,462,741
Cost of sales	4	(2,149,816)	(4,480,713)
Gross (loss)/profit		(570,825)	982,028
Selling and marketing expenses	4	(4,614)	(26,557)
General and administrative expenses	4	(469,231)	(600,069)
Research and development expenses	4	(37,922)	(49,265)
Other income	5	86,006	479,242
Other (losses)/gains — net	6	(139,660)	73,868
Operating (loss)/profit		(1,136,246)	859,247
Finance income		82,556	94,474
Finance costs		(240,529)	(567,312)
Finance costs — net		(157,973)	(472,838)
(Loss)/profit before income tax		(1,294,219)	386,409
Income tax expense	7	(5,232)	(143,225)
(Loss)/profit for the period		(1,299,451)	243,184
(Loss)/profit attributable to:			
Equity holders of the Company		(1,262,867)	215,775
Non-controlling interests		(36,584)	27,409
		(1,299,451)	243,184
(Losses)/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	(0.18)	0.03

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the Six Months ended 30 June 2013

		Unaudited	
		Six months ended 30 June	
		2013	2012
	Note	RMB'000	RMB'000
Other comprehensive income for the period:			
<i>Items that may be reclassified to profit or loss</i>			
— Loss on available-for-sale financial asset		(2,565)	—
— Revaluation surplus on buildings, including buildings under construction, net of deferred tax		1,011,726	—
Other comprehensive income for the period, net of tax		1,009,161	—
Total comprehensive (loss)/income for the period		(290,290)	243,184
Attributable to:			
Equity holders of the Company		(285,498)	215,775
Non-controlling interests		(4,792)	27,409
		(290,290)	243,184
Dividends			
Dividends (<i>expressed in RMB per share</i>)	9	—	—

Notes:

1 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, KY1-1111, Cayman Islands.

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

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 28 August 2013.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with International Accounting Standards (“**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 2012, which was prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

2.1 GOING CONCERN BASIS

During the six months ended 30 June 2013, the Group has reported a loss for the period of RMB1,299,451,000. The loss during the six months ended 30 June 2013 was primarily due to the sluggish global shipping market that caused significant decline in new shipbuilding orders and the delayed progress of fulfillment of existing shipbuilding orders. Amid the challenging operating environment, certain of the Group’s shipbuilding customers have asked for postponement in delivery of new vessels that led to slower collection of receivables from such customers. However, the Group had to continue to make payments to suppliers of raw materials, workers and services. As a result, the Group recorded net operating cash outflows of RMB719,178,000. The Group has also been investing in capital expenditures for the development of the Group’s shipbuilding and offshore engineering facilities, as well as fulfilling its debt obligations when they fall due. These caused the Group’s cash and cash equivalents to decrease by RMB1,272,972,000 to RMB870,816,000 as at 30 June 2013. Further, the Group is at a net current liability position of RMB690,003,000 as at 30 June 2013, out of which RMB14,889,906,000 is borrowings and RMB356,799,000 is the current portion of finance lease liabilities. The Group’s total borrowings were RMB24,849,934,000 as at 30 June 2013, certain of which also require the Group to comply with restrictive financial covenants. The above conditions indicate the existence of uncertainties which may cast doubt on the Group’s ability to continue as a going concern. Notwithstanding the above, the condensed consolidated interim financial information are prepared on a going concern basis.

In order to improve the Group’s operating performance and alleviate its liquidity risk, management is implementing measures to control costs and contain capital expenditure. Management is also working closely with shipbuilding customers to expedite the collection of outstanding receivables and the Group is implementing strategy to focus on Offshore Engineering businesses with enterprises in the energy sector. With regards to the Group’s financing and borrowings, management has completed the issuance of HK\$1,400,000,000 convertible bonds at 7% of interest per annum on 7 August 2013, and obtained an interest-free and security-free loan of RMB200,000,000 from a company controlled by Mr. Zhang, the single largest shareholder of the Company. At the same time, management continued to negotiate with banks for banking facilities, including loan refinancing and seek alternative sources of financing. Management expects these will improve the Group’s cash flows and financial position in the coming twelve

months. Up to the date of approval of these condensed consolidated interim financial information, the directors of the Company are not aware of any intention of the principal banks to withdraw their banking facilities or require early repayment of the utilised facilities.

The Company's directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of twelve months from the date of approval of these condensed consolidated interim financial information. 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. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditure and availability of future borrowing facilities. The Group's ability to achieve the projected cash flows depends on management's ability to successfully implement the aforementioned liquidity improvement measures as well as operating conditions in the shipbuilding industry. The directors, after making due enquiries and considering the basis of management's projections described above and after taking into account the reasonably possible changes in the operational performance and the successful renewal and extension of banking facilities, believe that there will be sufficient financial resources available to the Group at least in the coming twelve months to meet its financial obligations 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 as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

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

In the current year, the Group has adopted, for the first time, the following new and revised standards and amendments and interpretations to existing standards ("**new and revised IFRSs**") which are mandatory for the accounting periods beginning on or after 1 January 2013:

- IAS 1 (Amendment) — Presentation of Items of Other Comprehensive Income
- IAS 19 (2011) — Employee Benefits
- IAS 27 (2011) — Separate Financial Statements
- IAS 28 (2011) — Investments in Associates and Joint Ventures
- IFRS 1 (Amendment) — Government Loans
- IFRS 7 (Amendment) — Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
- IFRS 10 — Consolidated Financial Statements
- IFRS 11 — Joint Arrangements
- IFRS 12 — Disclosure of Interests in Other Entities
- IFRS 10, IFRS 11 and IFRS 12 (Amendments) — Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance
- IFRS 13 — Fair Value Measurement
- IFRIC 20 — Stripping Costs in the Production Phase of a Surface Mine
- Annual improvements — Amendments to a number of IFRSs issued in June 2012

The adoption of the above new and revised IFRSs does not have any significant impacts on the financial statements of the Group for the current or prior accounting periods.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted:

- IAS 32 (Amendment) — Financial Instruments: Presentation¹
- IAS 36 (Amendment) — Recoverable Amount Disclosures for Non-financial Assets¹
- IFRS 7 and IFRS 9 (Amendments) — Mandatory Effective Date and Transition Disclosures²
- IFRS 9 — Financial Instruments²
- IFRS 10, IFRS 12 and IAS 27 (revised 2011) (Amendments) — Investment Entities¹
- IFRIC 21 — Levies¹

¹ Changes effective for annual periods beginning on or after 1 January 2014

² Changes effective for annual periods beginning on or after 1 January 2015

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

(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(d) Changes in accounting policies

In previous years, the Group's buildings, including buildings under construction, were carried at historical cost less accumulated depreciation and impairment losses. Management reassessed the appropriateness of this accounting policy during the period and concluded that using the revaluation model under IAS 16 "Property, Plant and Equipment" would result in the condensed consolidated interim financial information providing more appropriate and relevant information about the underlying value of the Group's assets employed for its operation and the return thereon.

Consequently, the Group changed its accounting policy on buildings, including buildings under construction, to follow the revaluation model under IAS 16 with effect from 1 January 2013. The change from a cost model to a revaluation model of buildings, including buildings under construction, has been accounted for prospectively, which is in accordance with IAS 16 and specifically exempted from retrospective application under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The effect of the change in accounting policy to the condensed consolidated interim financial information for the six months ended 30 June 2013 is as follows:

	30 June 2013 RMB'000
Increase in property, plant and equipment	1,291,773
Increase in deferred income tax liabilities	280,047
Increase in property revaluation reserve	<u>1,011,726</u>

The change in accounting policy from the cost model to the revaluation model has resulted in an increase of depreciation expense by RMB30,516,000.

2.3 ESTIMATES

The preparation of 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 expenses. 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 2012 except the following:

(a) Estimated revalued amounts of buildings

The revalued amounts of buildings, including buildings under construction, are determined by an independent professional valuer. The revalued amounts of buildings, including buildings under construction, are determined on depreciated replacement cost basis. The methodology is based on estimate of the fair value for the existing use of the buildings, plus the current cost of replacing the improvements less deduction for physical deterioration and all relevant forms of obsolescence and optimisation. Significant judgements were used in determining the revalued amounts of buildings.

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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	1,479,737	5,205,853	-	-	11,910	290,715	187,017	434,065	1,678,664	5,930,633
Inter-segment revenue	-	-	-	-	-	(98,182)	(99,673)	(369,710)	(99,673)	(467,892)
Revenue from external customers	1,479,737	5,205,853	-	-	11,910	192,533	87,344	64,355	1,578,991	5,462,741
Segment results	(509,603)	922,109	-	-	(12,747)	44,006	(48,475)	15,913	(570,825)	982,028
Selling and marketing expenses									(4,614)	(26,557)
General and administrative expenses									(469,231)	(600,069)
Research and development expenses									(37,922)	(49,265)
Other income									86,006	479,242
Other (losses)/gains, net									(139,660)	73,868
Finance costs, net									(157,973)	(472,838)
(Loss)/profit before income tax									(1,294,219)	386,409

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
China	643,977	980,295
Greece	557,861	1,060,038
Turkey	114,611	446,153
Israel	72,732	234,098
India	70,295	432,984
Brazil	69,040	1,749,634
Norway	44,822	102,076
Germany	4,949	55,813
Cyprus	–	1,540
Oman	–	398,523
Others	704	1,587
	1,578,991	5,462,741

4 (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax has been recorded after deducting the following items:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Raw materials and consumable used	1,459,268	3,209,195
Amortisation of land use rights	17,899	7,681
Depreciation of property, plant and equipment	265,321	256,509
Amortisation of intangible assets	16,520	17,461
Employee benefit expenses	232,555	398,546
Operating lease payments	29,308	24,680
Auditors' remunerations	1,500	1,989
Outsourcing and processing costs	339,848	713,758
Commission expenses	42,094	30,263
Design fees	11,766	7,705
Agency fees	1,032	3,938
Legal and consultancy fees	44,433	19,263
Other tax-related expenses and customs duties	26,330	16,807
Bank charges (include refund guarantee charges)	45,223	49,695
Reversal of provision for warranty	(20,898)	(18,472)
Office expenses and utilities	66,631	199,616
Donations and sponsoring expenses	–	21,982
Impairment losses on inventories	2,241	5,692
Provision for trade receivables	–	83,995
Inspection fees	10,502	12,528
Insurance premiums	7,370	8,314
Storage and handling charges	25,602	29,422
Advertising, promotion and marketing expenses	6,858	18,595
Royalty expenses	19,853	20,196
Miscellaneous expenses	10,327	17,246
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses	2,661,583	5,156,604

5 OTHER INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Government grants	1,786	71,831
Sales of inventories	56,508	–
Scrap sales	18,026	159,268
Compensation income	–	239,689
Gain on settlement of liabilities by inventories	7,711	–
Others	1,975	8,454
	<u>86,006</u>	<u>479,242</u>
Total	<u>86,006</u>	<u>479,242</u>

6 OTHER (LOSSES)/GAINS, NET

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Fair value gains/(losses) on derivative instruments — interest rate swap	2,098	(2,255)
Net foreign exchange (losses)/gains	(141,758)	76,123
	<u>(139,660)</u>	<u>73,868</u>
Total	<u>(139,660)</u>	<u>73,868</u>

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current income tax:		
— PRC Enterprise Income Tax (“EIT”)	–	163,447
Deferred income tax	5,232	(20,222)
	<u>5,232</u>	<u>143,225</u>
Total income tax expense	<u>5,232</u>	<u>143,225</u>

On 16 March 2007, the National People’s Congress approved the Corporate Income Tax Law of the People’s Republic of China (the new “CIT Law”). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law, the EIT rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards.

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 2013 and 2012, respectively, as the Group had no assessable profit in Hong Kong.

8 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/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	
	2013	2012
(Losses)/earnings attributable to equity holders of the Company (<i>RMB'000</i>)	(1,262,867)	215,775
Weighted average number of ordinary shares in issue	7,000,000,000	7,000,000,000
Basic (losses)/earnings per share (<i>RMB per share</i>)	(0.18)	0.03

(b) Diluted

Diluted (losses)/earnings per share is the same as basic (losses)/earnings per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2013 (2012: same).

9 DIVIDENDS

The Board has resolved not to declare the payment of an interim dividend for the year 2013 (2012: nil).

10 TRADE AND BILLS RECEIVABLES

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade receivables	4,228,452	4,187,652
Less: Provision for doubtful receivable	(379,642)	(382,239)
Bills receivables	5,414	5,950
	3,854,224	3,811,363

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

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Undue	32,762	266,369
Past due		
1–180 days	422,965	359,746
181–360 days	327,879	1,956,856
Over 360 days	3,070,618	1,228,392
	3,821,462	3,544,994
	3,854,224	3,811,363

As at 30 June 2013, trade receivables of RMB213,694,000 (31 December 2012: RMB213,694,000) and RMB165,948,000 (31 December 2012: RMB168,545,000) related to certain customers of the Engineering Machinery segment and the Shipbuilding segment were impaired and provided for respectively.

As at 30 June 2013, trade receivables of RMB3,821,462,000 (31 December 2012: RMB3,544,994,000) were past due but not impaired. The ageing analysis of these trade receivables by due dates is listed above, among which, approximately RMB2,659,878,000 (31 December 2012: RMB2,703,022,000) is due from three largest debtors. Based on the Group's review of the credit risk exposure and expected pattern of settlement at six months end, management has determined to record provision for doubtful receivable amounted to RMB165,948,000 (31 December 2012: RMB168,545,000) in respect of the receivables from these debtors.

As at 30 June 2013, trade receivables amounting to RMB418,910,000 (31 December 2012: RMB359,441,000) were secured by guarantees issued by the banks or related companies of certain customers. The maximum exposure to credit risk at the reporting date is the fair value of RMB3,854,224,000 less the secured trade receivables.

As at 30 June 2013, the Group assigned trade receivables amounted to RMB494,296,000 (31 December 2012: RMB502,840,000) to a bank. Such arrangement is secured by deposits of RMB247,148,000 (31 December 2012: RMB251,420,000). These pledged deposits will be released upon the earlier of the termination of the arrangement on 28 June 2014 or settlement of the assigned trade receivables to the bank from the customers.

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

11 TRADE AND OTHER PAYABLES

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade payables	2,961,783	2,815,079
Bills payables		
— Third parties	1,210,123	3,686,309
— Related parties	68,324	2,950
Other payables for purchase of property, plant and equipment		
— Third parties	310,967	370,889
— Related parties	681,464	904,420
Other payables		
— Third parties	986,845	234,686
— Related parties	—	102
Receipt in advance	174,717	158,822
Accrued expenses		
— Payroll and welfare	122,032	90,810
— Design fees	71,149	88,560
— Utilities	13,775	7,369
— Outsourcing and processing fee	562,018	466,005
— Others	301,541	336,732
VAT payable	—	5,841
Other tax-related payables	133,293	109,900
	<u>7,598,031</u>	<u>9,278,474</u>

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

	As at 30 June 2013 <i>RMB'000</i>	As at 31 December 2012 <i>RMB'000</i>
0–30 days	952,310	2,007,458
31–60 days	254,102	1,047,057
61–90 days	175,332	588,370
Over 90 days	2,858,486	2,861,453
	<u>4,240,230</u>	<u>6,504,338</u>