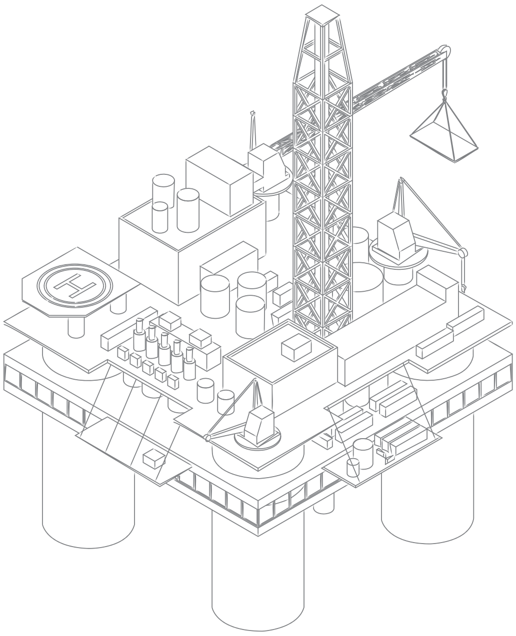
熔盛重工
RONGSHENG

China Rongsheng Heavy Industries Group Holdings Limited

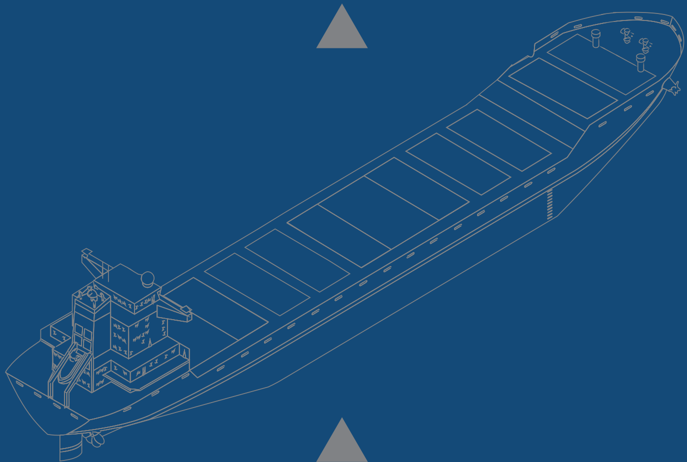
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101



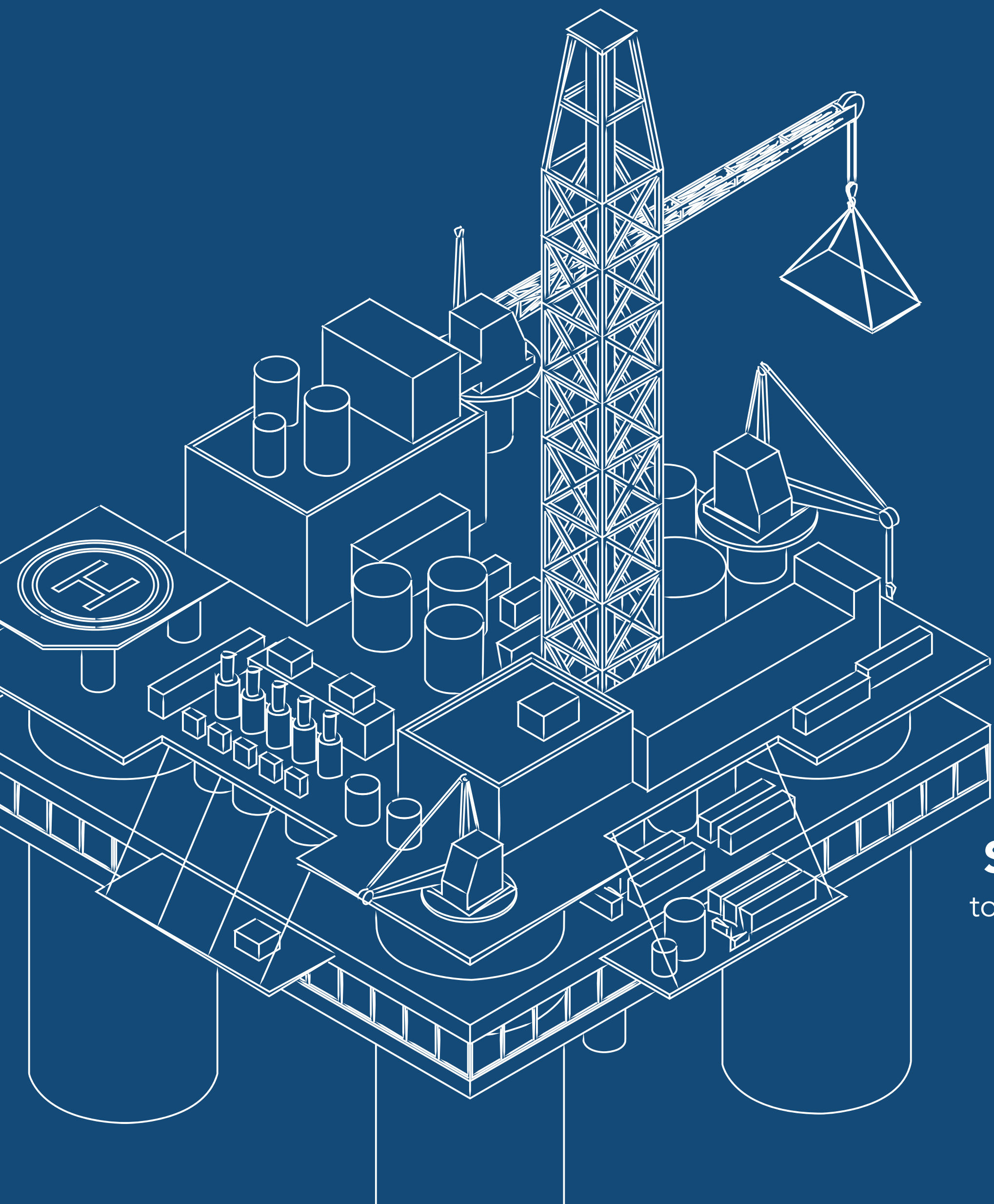
PASSION TO EXCEL

Interim Report 2013



ABOUT **CHINA RONGSHENG**

China Rongsheng Heavy Industries Group Holdings Limited and its subsidiaries are a leading diversified large heavy industries group in China. Our headquarters is located in Hong Kong, with manufacturing bases in Nantong (Jiangsu Province) and Hefei (Anhui Province). Rongsheng Offshore & Marine was established in Singapore to promote our offshore engineering business. Our business segments include shipbuilding, offshore engineering, marine engine building and engineering machinery. According to Clarkson Research, China Rongsheng was the largest non-state-owned shipbuilder in the PRC in terms of orders on hand measured by DWT as at the end of June 2013. The Group operates the largest shipyard in the PRC and is a global leader in the manufacture of the very large ore carrier.



Scan the QR Code
to access corporate video of
China Rongsheng

Contents

BUSINESS REVIEW

For the six months ended 30 June 2013 (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 China Rongsheng Heavy Industries Group Holdings Limited (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 total orders on hand of the Company and its subsidiaries (together, the "**Group**") 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 39 Panamax bulk carriers, 2 Capesize bulk carriers, 12 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 related 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 of the Company (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, 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 equipment.

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 RMB42.9 million to RMB3,854.2 million (as at 31 December 2012: RMB3,811.4 million), mainly because we took 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 (as at 31 December 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 liquified natural gas ("**LNG**") infrastructure, it is expected that demand for transportation and storage of 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 fixed platform and Floating Production Storage and Offloading Units (FPSOs). Ultimately, we intend to provide clients a complete solution of design, procurement 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

During the Period, the Company complied with the applicable code provisions of the Corporate Governance Code (the "**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. 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.

AUDIT COMMITTEE

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.

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 DIVIDEND

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2013, the Directors and chief executive of the Company and their respective associates (as defined in the Listing Rules) had the following interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (the "**Associated Corporations**") (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "**SFO**")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (c) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

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

Name of Director	Number of Shares Interested: Personal interest	Corporate Interest	Equity derivatives (share options) (Note 2)	Total	Percentage of issued share capital
Mr. Chen Qiang	–	1,096,000,000 (Note 1)	70,000,000	1,166,000,000	16.66%
Mr. Wu Zhen Guo	–	–	12,000,000	12,000,000	0.17%
Mr. Luan Xiao Ming	–	–	18,375,000	18,375,000	0.26%
Mr. Hong Liang	–	–	18,375,000	18,375,000	0.26%
Mr. Sean S J Wang	–	–	9,500,000	9,500,000	0.14%
Mr. Wang Tao	–	–	10,755,000	10,755,000	0.15%
Mr. Wei A Ning	–	–	7,130,000	7,130,000	0.10%

Notes:

(1) As at 30 June 2013, Mr. Chen Qiang was deemed to have interests in 676,000,000 shares held by Boom Will Limited, a company 100 per cent. beneficially owned by Mr. Chen Qiang, and 420,000,000 shares held by Leader World Investments Limited, a company 38.33 per cent. beneficially owned by Mr. Chen Qiang.

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

(B) Long Positions in Associated Corporations

Name of Director	Name of associated corporation	Nature of interest/ capacity	Number of shares	Percentage of shareholding
Mr. Chen Qiang	Rongsheng Heavy Industries Holdings Limited	Interest in a controlled corporation	15,000 (Note 1)	1.5%

Note:

(1) As at 30 June 2013, 15,000 shares in Rongsheng Heavy Industries Holdings Limited were held by Boom Will Limited, a company 100% beneficially owned by Mr. Chen Qiang.

Save as disclosed above, as at 30 June 2013, none of the Directors or the chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 30 June 2013, the number of outstanding options granted by the Company to the Directors and chief executive to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, is set out in the section headed "Share Option Schemes" of this interim report.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2013, the interests of substantial shareholders (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Number of shares interested	Percentage of issued share capital (Note 4)
Fine Profit Enterprises Limited (Note 1)	2,052,281,157	29.32%
Mr. Zhang Zhi Rong (Note 1)	2,052,281,157	29.32%
Gallop Sun Limited (Note 2)	800,000,000	11.43%
Mr. Zhang De Huang (Note 2)	800,000,000	11.43%
Boom Will Limited (Note 3)	676,000,000	9.66%
Leader World Investments Limited (Note 3)	420,000,000	6.00%

Notes:

(1) Among the 2,052,281,157 shares, 1,943,557,157 shares were directly held by Fine Profit Enterprises Limited and 108,724,000 shares were directly held by Wealth Consult Limited, which is a wholly-owned subsidiary of Fine Profit Enterprises Limited. Both Fine Profit Enterprises Limited and Wealth Consult Limited are 100 per cent. directly or indirectly beneficially owned by Mr. Zhang Zhi Rong.

(2) Gallop Sun Limited is 100 per cent. directly beneficially owned by Mr. Zhang De Huang.

(3) 676,000,000 shares were directly held by Boom Will Limited and 420,000,000 shares were directly held by Leader World Investments Limited. Boom Will Limited and Leader World Investments Limited are 100 per cent. and 38.33 per cent. directly beneficially owned by Mr. Chen Qiang respectively.

(4) These percentages have been compiled based on the total number of issued shares of the Company of 7,000,000,000 as at 30 June 2013 and rounded up to two decimal places.

Save as disclosed above, as at 30 June 2013, the Company had not been notified of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

On 24 October 2010, the Company conditionally approved and adopted the Pre-IPO Share Option Scheme. As at 30 June 2013, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 51,875,000 shares, which is equivalent to approximately 0.74% of the total existing issued share capital of the Company. No further options will be offered or granted by the Company pursuant to the Pre-IPO Share Option Scheme.

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Pre-IPO Share Option Scheme and its movement during the Period:

		Number of Share Options						
Name of Grantee	Date of grant	As at 1 January 2013	Exercised	Cancelled	Lapsed	As at 30 June 2013	Exercise price (HK$)	Exercisable period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note 1
Mr. Luan Xiao Ming	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Deng Hui (Note 2)	24 October 2010	4,375,000	–	–	4,375,000	–	4.00	Note 1
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note 1
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Wei A Ning	24 October 2010	750,000	–	–	–	750,000	4.00	Note 1
Senior management and other employees (in aggregate)	24 October 2010	35,250,000	–	–	4,750,000	30,500,000	4.00	Note 1
Total		61,000,000	–	–	9,125,000	51,875,000		

Notes:

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

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

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

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

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

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

2. Mr. Deng Hui resigned as a director of the Company with effect from 28 February 2013.

Share Option Scheme

On 24 October 2010, the Company also conditionally approved and adopted the Share Option Scheme for the purpose of enabling the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. As at 30 June 2013, the total number of shares in respect of the outstanding options granted under the Share Option Scheme was 306,850,000 shares, which is equivalent to approximately 4.38% of the total existing issued share capital of the Company. During the Period, no share options had been granted under the Share Option Scheme.

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Share Option Scheme and their movement during the Period:

		Number of Share Options						
Name of Grantee	**Date of Grant**	**As at 1 January 2013**	**Exercised**	**Cancelled**	**Lapsed**	**As at 30 June 2013**	**Exercise price (HK$)**	**Exercisable Period**
Mr. Chen Qiang	30 April 2012	70,000,000	–	–	–	70,000,000	1.94	Note 1
Mr. Wu Zhen Guo	30 April 2012	7,000,000	–	–	–	7,000,000	1.94	Note 1
Mr. Luan Xiao Ming	30 April 2012	14,000,000	–	–	–	14,000,000	1.94	Note 1
Mr. Deng Hui (Note 2)	30 April 2012	7,000,000	–	–	7,000,000	–	1.94	Note 1
Mr. Hong Liang	30 April 2012	14,000,000	–	–	–	14,000,000	1.94	Note 1
Mr. Sean S J Wang	30 April 2012	7,000,000	–	–	–	7,000,000	1.94	Note 1
Mr. Wang Tao	30 April 2012	6,380,000	–	–	–	6,380,000	1.94	Note 1
Mr. Wei A Ning	30 April 2012	6,380,000	–	–	–	6,380,000	1.94	Note 1
Senior Management and other employees (in aggregate)	30 April 2012	216,820,000	–	–	34,730,000	182,090,000	1.94	Note 1
Total		348,580,000	–	–	41,730,000	306,850,000		

Notes:

1. No share options are exercisable prior to the first anniversary of 30 April 2012 ("**Date of Grant**"). On each of the first, second, third, fourth and fifth anniversaries of the Date of Grant, a further 20% of the share options granted to each grantee may be exercised, provided that no share options shall be exercised after 30 April 2022.

2. Mr. Deng Hui resigned as a director of the Company with effect from 28 February 2013.

Financial Sections

Interim Consolidated Statement of Financial Position

As at 30 June 2013

	Note	Unaudited as at 30 June 2013 RMB'000	Audited as at 31 December 2012 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**4,098,512**	875,666
Property, plant and equipment	7	**20,187,799**	18,616,499
Intangible assets	8	**515,771**	468,589
Long-term deposits	10(b)	**149,430**	153,343
Prepayment for non-current assets	10(b)	**263,968**	1,868,540
Deferred tax assets		**162,820**	168,052
Available-for-sale financial asset		**37,435**	40,000
		25,415,735	22,190,689
Current assets			
Inventories		**1,078,528**	2,288,978
Amounts due from customers for contract works	9	**8,271,170**	8,299,806
Trade and bills receivables	10(a)	**3,854,224**	3,811,363
Other receivables, prepayments and deposits	10(b)	**5,441,926**	7,497,132
Pledged deposits		**3,260,073**	3,937,081
Cash and cash equivalents		**870,816**	2,143,788
		22,776,737	27,978,148
Total assets		**48,192,472**	50,168,837
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	**599,526**	599,526
Share premium	11	**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
		13,967,092	14,212,240
Non-controlling interests		**871,173**	875,965
Total equity		**14,838,265**	15,088,205

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Financial Position

As at 30 June 2013

	Note	Unaudited as at 30 June 2013 RMB'000	Audited as at 31 December 2012 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	**9,096,476**	8,788,822
Finance lease liabilities — non-current	14	**506,753**	687,144
Deferred tax liabilities		**284,238**	4,191
		9,887,467	9,480,157
Current liabilities			
Amounts due to customers for contract works	9	**322,088**	331,616
Trade and other payables	13	**7,598,031**	9,278,474
Current income tax liabilities		**172,843**	190,069
Borrowings	14	**14,889,906**	15,282,755
Derivative financial instruments		**2,997**	5,094
Provision for warranty	15	**124,076**	146,655
Finance lease liabilities — current	14	**356,799**	365,812
		23,466,740	25,600,475
Total liabilities		**33,354,207**	35,080,632
Total equity and liabilities		**48,192,472**	50,168,837
Net current (liabilities)/assets		**(690,003)**	2,377,673
Total assets less current liabilities		**24,725,732**	24,568,362

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	Note	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
Revenue	6	**1,578,991**	5,462,741
Cost of sales	16	**(2,149,816)**	(4,480,713)
Gross (loss)/profit		**(570,825)**	982,028
Selling and marketing expenses	16	**(4,614)**	(26,557)
General and administrative expenses	16	**(469,231)**	(600,069)
Research and development expenses	16	**(37,922)**	(49,265)
Other income	17	**86,006**	479,242
Other (losses)/gains — net	18	**(139,660)**	73,868
Operating (loss)/profit		**(1,136,246)**	859,247
Finance income	19	**82,556**	94,474
Finance costs	19	**(240,529)**	(567,312)
Finance costs — net	19	**(157,973)**	(472,838)
(Loss)/profit before income tax		**(1,294,219)**	386,409
Income tax expense	20	**(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	21	**(0.18)**	0.03

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	Note	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
Other comprehensive income/(loss) for the period:			
Items that may be reclassified to profit or loss			
— 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 (expressed in RMB per share)	22	–	–

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Note	Unaudited Attributable to equity holders of the Company Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013		599,526	7,490,812	3,480,596	–	2,641,306	14,212,240	875,965	15,088,205
Loss for the six months ended 30 June 2013		–	–	–	–	(1,262,867)	(1,262,867)	(36,584)	(1,299,451)
Other comprehensive income/(loss)									
Revaluation surplus on buildings, including buildings under construction		–	–	–	1,250,722	–	1,250,722	41,051	1,291,773
Deferred tax on revaluation surplus on building		–	–	–	(270,888)	–	(270,888)	(9,159)	(280,047)
Fair value gain on available-for-sale financial assets		–	–	(2,465)	–	–	(2,465)	(100)	(2,565)
Total comprehensive income/(loss) for the six months ended 30 June 2013		–	–	(2,465)	979,834	(1,262,867)	(285,498)	(4,792)	(290,290)
Transactions with equity holders in their capacity as owners									
Share-based payment reserve	12	–	–	40,350	–	–	40,350	–	40,350
Transactions with equity holders		–	–	40,350	–	–	40,350	–	40,350
Balance at 30 June 2013		599,526	7,490,812	3,518,481	979,834	1,378,439	13,967,092	871,173	14,838,265

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

		Unaudited							
		Attributable to equity holders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Revaluation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012		599,526	7,644,812	3,340,517	–	3,241,578	14,826,433	865,423	15,691,856
Profit for the six months ended 30 June 2012		–	–	–	–	215,775	215,775	27,409	243,184
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income for the six months ended 30 June 2012		–	–	–	–	215,775	215,775	27,409	243,184
Transactions with equity holders in their capacity as owners									
Dividends paid	22	–	(154,000)	–	–	–	(154,000)	–	(154,000)
Share-based payment reserve	12	–	–	40,263	–	–	40,263	–	40,263
Transactions with equity holders		–	(154,000)	40,263	–	–	(113,737)	–	(113,737)
Balance at 30 June 2012		599,526	7,490,812	3,380,780	–	3,457,353	14,928,471	892,832	15,821,303

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

For the six months ended 30 June 2013

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Net cash used in operating activities	**(719,178)**	(2,997,474)
Net cash used in investing activities	**(272,752)**	(1,616,651)
Net cash (used in)/generated from financing activities	**(274,599)**	3,186,565
Net decrease in cash and cash equivalents	**(1,266,529)**	(1,427,560)
Exchange (losses)/gains on cash and cash equivalents	**(6,443)**	6,132
Cash and cash equivalents at the beginning of the period	**2,143,788**	6,255,138
Cash and cash equivalents at the end of the period	**870,816**	4,833,710

The notes on pages 22 to 60 are an integral part of these condensed consolidated interim financial information.

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 as set out in Note 14. 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.

2 BASIS OF PREPARATION *(continued)*

2.1 Going concern basis *(continued)*

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 (Note 26(i)), and obtained an interest-free and security-free loan of RMB200,000,000 from a company controlled by Mr. Zhang Zhi Rong, the single largest shareholder of the Company (Note 26(ii)). At the same time, management continued to negotiate with banks for banking facilities, including loan refinancing and to 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.

3 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 and 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.

3 ACCOUNTING POLICIES *(continued)*

(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: Presentation[1]
- IAS 36 (Amendment) — Recoverable Amount Disclosures for Non-financial Assets[1]
- IAS 39 (Amendment) — Novation of derivatives[1]
- IFRS 7 and IFRS 9 (Amendments) — Mandatory Effective Date and Transition Disclosures[2]
- IFRS 9 — Financial Instruments[2]
- IFRS 10, IFRS 12 and IAS 27 (revised 2011) (Amendments) — Investment Entities[1]
- IFRIC 21 — Levies[1]

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".

3 ACCOUNTING POLICIES *(continued)*

(d) Changes in accounting policies *(continued)*

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	1,011,726

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.

4 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:

4.1 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.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements as at year end 31 December 2012.

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

5.2 Liquidity risk

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 30 June 2013				
Borrowings	**16,237,703**	**4,613,555**	**5,090,012**	**25,941,270**
Finance lease liabilities	**403,715**	**495,156**	**30,917**	**929,788**
Derivative financial instrument	**2,997**	**–**	**–**	**2,997**
Trade and other payables	**7,167,989**	**–**	**–**	**7,167,989**
At 31 December 2012				
Borrowings	16,257,818	4,148,959	5,681,198	26,087,975
Finance lease liabilities	426,568	394,232	331,326	1,152,126
Derivative financial instruments	5,094	–	–	5,094
Trade and other payables	8,913,101	–	–	8,913,101

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Credit risk

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 2013, 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 customers of the Shipbuilding segment, the Group actively monitors the financial situations of its customers who are affected by the credit crisis and procedures are taken to renegotiate the shipbuilding contract terms as necessary. The Group assesses on a case-by-case basis at each reporting date whether there is any objective evidence that individual trade receivable from customer of the Shipbuilding segment is impaired. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated future cash flows discounted at the current market rate of similar financial assets. The Group is exposed to concentration of credit risk as the three largest debtors of the Shipbuilding segment represented over 69% (31 December 2012: 63%) of the total trade receivables of the Group as at 30 June 2013.

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Credit risk *(continued)*

Accordingly, the Group's consolidated results would be heavily affected by the financial capability of these debtors to fulfill the obligations under the shipbuilding contracts with the Group. The Group's credit risk monitoring activities relating to these debtors include review of their credit profiles, business prospects, background and their financial capability. As at 30 June 2013, management has determined to record provision for doubtful receivable in the amount of RMB165,948,000 (31 December 2012: RMB168,545,000). As at 30 June 2013, no other customer contributed more than 10% of the trade receivables of the Group.

For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors, before granting credit limits. The Group's trade receivables are due from parties of appropriate credit history. As at 30 June 2013, trade receivables of RMB213,694,000 (31 December 2012: RMB213,694,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for.

For credit exposures to other receivables, management assesses the credit quality of the counterparties on a case-by-case basis, 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 2013 (2012: nil).

In relation to the deposits and prepayments for raw materials and production costs, the credit quality of the counterparties is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management will also regularly review the realisability of these deposits and prepayments and follow up the disputes or amounts overdue, if any. The directors do not expect any losses from non-performance by these counterparties. For details of these amounts, please refer to note 10(b).

5 FINANCIAL RISK MANAGEMENT *(continued)*

5.4 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. The valuation of the share-based payment (Note 12) was determined using the Income Approach based on Free Cash Flow valuation method.

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

As at 30 June 2013, the Group was holding certain Level 3 available-for-sale financial asset fair valued at RMB37,435,000 (2012: RMB40,000,000), for which inputs that are not observable in active market (for example, over-the-counter derivatives) were used in determining the fair values.

As at 30 June 2013, the Group was holding certain Level 2 trading derivative liabilities fair valued at RMB2,997,000 (2012: RMB5,094,000) for which inputs that are observable in active market (for example, over-the-counter derivatives) were used in determining the fair values.

6 SEGMENTAL INFORMATION

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The Shipbuilding segment derives its revenue primarily from the construction of vessels, and the Offshore Engineering segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while the Marine Engine Building segment derives its revenue from building marine engines. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. Segment results are calculated by offsetting segment revenue from external customers with segment cost of sales. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2013 is as follows:

	Shipbuilding Six months ended 30 June		Offshore Engineering Six months ended 30 June		Engineering Machinery Six months ended 30 June		Marine Engine Building Six months ended 30 June		Total Six months ended 30 June	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 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

No revenue was derived from the Offshore Engineering segment for the six months ended 30 June 2013 (2012: nil).

No customers of the Engineering Machinery and Marine Engine Building segments individually accounted for ten percent or more of the Group's consolidated revenue for the six months ended 30 June 2013 (2012: same).

6 SEGMENTAL INFORMATION *(continued)*

During the six months ended 30 June 2013, revenue from two customers (2012: one) of the Shipbuilding segment amounted to ten per cent or more of the Group's total consolidated revenue for the period. The revenue of these customers of the Shipbuilding segment during the relevant periods are summarised below:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Shipbuilding customer 1	**432,336**	–
Shipbuilding customer 2	**259,952**	112,405
Shipbuilding customer 3	**147,597**	–
Shipbuilding customer 4	**114,810**	486,201
Shipbuilding customer 5	**69,040**	1,749,634
Shipbuilding customer 6	**14,473**	444,804

Geographically, management considers the operations of Shipbuilding, Offshore Engineering, Engineering Machinery and Marine Engine Building segments are all located in the PRC, with revenue derived from different geographical locations, which is determined by the country in which the customer is located.

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

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

7 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment RMB'000	Land use right RMB'000
Six months ended 30 June 2013		
Net book value or revalued amounts		
Opening amounts as at 1 January 2013	**18,616,499**	**875,666**
Additions	**546,007**	**3,240,745**
Revaluation surplus	**1,291,773**	**–**
Disposals	**(1,159)**	**–**
Depreciation and amortisation	**(265,321)**	**(17,899)**
Closing amounts as at 30 June 2013	**20,187,799**	**4,098,512**
Six months ended 30 June 2012		
Net book value		
Opening amounts as at 1 January 2012	16,188,645	643,565
Additions	840,357	179,865
Disposals	(6,434)	–
Depreciation and amortisation	(256,509)	(7,681)
Closing amounts as at 30 June 2012	16,766,059	815,749

7 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS *(continued)*

The Group's buildings, including buildings under construction, were revalued on 31 December 2012 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional qualified valuer, at a revalued amount of RMB13,862,684,000. The valuations were used to determine the revalued amount of the buildings, including buildings under construction, as at 1 January 2013, as management considered that there was no material change in operations of the Group and conditions of those buildings. As at 30 June 2013, had these buildings, including buildings under construction, been carried at historical cost less accumulated depreciation and impairment losses, their net book amounts are shown as follows:

	Buildings RMB'000	Buildings under construction RMB'000
Cost	8,643,710	4,636,473
Accumulated depreciation	(734,613)	–
Net book values carried at historical costs	7,909,097	4,636,473

8 INTANGIBLE ASSETS

	RMB'000
Six months ended 30 June 2013	
Opening net book amount as at 1 January 2013	**468,589**
Additions	**63,702**
Amortisation	**(16,520)**
Closing net book amount as at 30 June 2013	**515,771**
Six months ended 30 June 2012	
Opening net book amount as at 1 January 2012	185,125
Additions	52,745
Amortisation	(17,461)
Closing net book amount as at 30 June 2012	220,409

9 CONSTRUCTION CONTRACTS

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**17,177,818**	18,934,011
Less: Progress billings	**(9,228,736)**	(10,965,821)
Net balance sheet position for ongoing contracts	**7,949,082**	7,968,190
Presented as:		
Amounts due from customers for contract works	**8,271,170**	8,299,806
Amounts due to customers for contract works	**(322,088)**	(331,616)
	7,949,082	7,968,190

Refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB3,508,544,000 as at 30 June 2013 (31 December 2012: RMB2,243,969,000).

10 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

(a) 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.

10 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

(a) Trade and bills receivables *(continued)*

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 ended as disclosed in Note 5.3, 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.

The carrying amounts of trade and bills receivables approximate their fair values.

10 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

(b) Other receivables, prepayments and deposits

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Receivables from agents (i)	**324,574**	332,154
Other receivables		
— Third parties (ii)	**2,332,960**	2,471,081
— Related parties (Note 25(ii))	**554,425**	453,857
VAT receivable	**676,506**	1,097,631
Deposits (iii)	**166,851**	191,254
Prepayments for intangible assets, property, plant and equipment and land use rights		
— Third parties	**262,914**	3,125,784
— Related parties (Note 25(ii))	**1,054**	1,054
Prepayments for raw materials and production costs		
— Third parties (iv)	**1,303,833**	1,662,251
— Related parties (Note 25(ii))	**170,846**	170,846
Prepayments — others		
— Third parties	**61,361**	13,103
	5,855,324	9,519,015
Less: Non-current deposits and prepayments	**(413,398)**	(2,021,883)
Current portion	**5,441,926**	7,497,132

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

10 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

(b) Other receivables, prepayments and deposits *(continued)*

(ii) The other receivables as at 30 June 2013 included RMB630,000,000 (31 December 2012: RMB630,000,000) paid in respect of the proposed acquisition of Anhui Quanchai Group Corp (安徽全柴集團有限公司). Total deposits of RMB1,153,890,000 was paid in 2011 which comprised of RMB630,000,000 deposit paid to Anhui Property Rights Exchange Co., Ltd. (安徽省產權交易中心有限責任公司) ("Anhui Property Exchange") and RMB523,890,000 deposit to China Securities Depository and Clearing Corp. Ltd, Shanghai Branch (中國證券登記結算有限責任公司上海分公司) ("China Securities Clearing"). Management has decided not to proceed with the acquisition in August 2012 and applied for the refund of the deposits. As at 30 June 2013, RMB523,890,000 being the deposit previously paid to the China Securities Clearing, together with interest, had been received by the Group. For the remaining balance together with the relevant interest, a litigation proceeding was initiated by the Company's subsidiary, Jiangsu Rongsheng Heavy Industries Co., Ltd, against Anhui Property Exchange for the return. The litigation proceeding has been accepted by Anhui Province Higher People's Court (安徽省高級人民法院) on 11 July 2013. After obtaining legal advice, management is of the view that the recoverability of the remaining deposit is reasonably certain and hence no provision for impairment is required as at 30 June 2013. The deposit is classified as other receivables from third parties as presented in the table above (31 December 2012: same).

In 2011, the Group placed a deposit of RMB162,170,000 pursuant to a non-binding memorandum of intent to acquire certain land use right in Beijing. Management has decided not to proceed with the transaction in late 2011 and this deposit became refundable according to the non-binding memorandum. Management has agreed a repayment schedule with the counterparty to recover this deposit and considered its recoverability by evaluating the Group's ability to enforce the corporate guarantees in connection with this outstanding receivable. During the six months ended 30 June 2013, RMB60,424,000 has been received. On the basis of its review of the available evidence, management is of the view that the recoverability of the full amount is reasonably certain and hence no provision for impairment is required as at 30 June 2013. The remaining deposit amounted to RMB101,746,000 is classified as other receivables from third parties as presented in the table above (31 December 2012: RMB162,170,000).

10 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

(b) Other receivables, prepayments and deposits *(continued)*

(iii) Finance lease and letters of credit are secured by certain refundable deposits with an aggregate carrying value of RMB136,000,000 as at 30 June 2013 (31 December 2012: RMB154,880,000). As at 30 June 2013, the Group has a non-current time deposit of RMB13,450,000 (31 December 2012: RMB13,450,000) at the interest rate of 3.6% per annum and with maturity date on 27 August 2015.

The deposits are due within five years from the end of the reporting period.

(iv) According to the contracts entered with certain suppliers, the Group placed deposits and prepayments to secure the supply of raw materials. As at 30 June 2013, the Group prepaid RMB495,381,000 to the five largest suppliers (31 December 2012: RMB571,025,000).

As at 30 June 2013, no other receivables were past due (31 December 2012: nil). The carrying amounts of receivables from agents, other receivables and deposits approximate their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable and deposit mentioned above.

11 SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares HK$	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised:					
Ordinary shares of HK$0.1 each	38,000,000,000	3,800,000,000	–	–	–
Issued:					
Ordinary shares of HK$0.1 each at 1 January 2013	7,000,000,000	700,000,000	599,526	7,490,812	8,090,338
Ordinary shares of HK$0.1 each at 30 June 2013	7,000,000,000	700,000,000	599,526	7,490,812	8,090,338

12 SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees were granted a total share options of 62,500,000 shares (the "Pre-IPO Share Options") under the Pre-IPO Share Options Scheme (the "Pre-IPO Share Option Scheme"). The exercise price per share under the Pre-IPO Share Options shall be equal to a 50% discount to the Offer Price (i.e. HK$4 per share). Each of the Pre-IPO Share Options has a 10-year exercisable period, from 19 November 2010 ("Old Grant Date"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020. As at 30 June 2013, 31,125,000 share options were exercisable (31 December 2012: 36,600,000).

Commencing from the date on which trading in the shares of the Company first commenced on the Main Board of the Hong Kong Stock Exchange, being 19 November 2010 ("Listing Date"), the expiry of first, second, third, and fourth anniversaries of the Listing Date, the relevant grantee may exercise options up to 20%, 40%, 60%, 80% and 100% respectively. No additional share options were granted pursuant to the Pre-IPO Share Option Share Scheme during the period.

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

12 SHARE OPTION SCHEMES *(continued)*

Pre-IPO Share Option Scheme *(continued)*

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

	Average exercise price in HK$ per share	Number of share options (thousands)
At 1 January 2013	4	61,000
Granted	–	–
Exercised	–	–
Lapsed	4	(9,125)
At 30 June 2013	4	51,875

Share Option Scheme

The Company conditionally approved and adopted a share option scheme on 24 October 2010 (the "Share Option Scheme"). The Share Option Scheme became unconditional on 19 November 2010 when the Company's shares were listed on the Main Board of the Hong Kong Stock Exchange.

Pursuant to the written resolutions of the Directors dated 30 April 2012, selected employees were granted a total of 348,580,000 share options under the Share Option Scheme. The exercise price per share under the Share Option Scheme is HK$1.94. No share option is exercisable prior to the first anniversary of 30 April 2012 (the "New Grant Date"). On each of the first, second, third, fourth and fifth anniversaries of the New Grant Date, a further 20% of the share options granted to the selected employees may be exercised, provided that no share option shall be exercised after 30 April 2022. As at 30 June 2013, 61,370,000 share options were exercisable (31 December 2012: nil).

The fair value of the share options granted on 30 April 2012, determined using the binominal model (the "Model"), ranged from HK$0.63 to HK$0.64 per option. The significant inputs into the Model were the share price of HK$1.94 at the New Grant Date, the exercise price shown above, expected dividend yield rate of 4.66%, risk-free rate of 1.14%, an expected option life of ten years and expected volatility of 54.5%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

12 SHARE OPTION SCHEMES *(continued)*

Share Option Scheme *(continued)*

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

	Average exercise price in HK$ per share	Number of share options (thousands)
At 1 January 2013	1.94	348,580
Granted	–	–
Exercised	–	–
Lapsed	1.94	(41,730)
At 30 June 2013	1.94	306,850

The total expense recognised in the condensed consolidated interim statement of comprehensive income for share options granted to directors and employees was approximately RMB40,350,000 during the six months ended 30 June 2013 (2012: RMB40,263,000). The amount of RMB11,560,000 (2012: RMB16,039,000) is recognized for the Pre-IPO Share Scheme and RMB28,790,000 (2012: RMB24,224,000) is recognized for the Share Option Scheme. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

13 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 (Note 25(ii))	**68,324**	2,950
Other payables for purchase of property, plant and equipment		
— Third parties	**310,967**	370,889
— Related parties (Note 25(ii))	**681,464**	904,420
Other payables		
— Third parties	**986,845**	234,686
— Related parties (Note 25(ii))	**–**	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
	7,598,031	9,278,474

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

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
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
	4,240,230	6,504,338

14 BORROWINGS

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Non-current		
Bank borrowings	**7,107,356**	6,806,822
The medium-term notes	**1,989,120**	1,982,000
Finance lease liabilities	**506,753**	687,144
	9,603,229	9,475,966
Current		
Bank borrowings	**14,889,906**	15,282,755
Finance lease liabilities	**356,799**	365,812
	15,246,705	15,648,567
Total borrowings	**24,849,934**	25,124,533

Movements in borrowings are analysed as follows:

	RMB'000
Six months ended 30 June 2013	
Opening amount as at 1 January 2013	**25,124,533**
Proceeds from new bank borrowings	**10,665,727**
Repayments of borrowings	**(10,750,923)**
Repayments of finance lease liabilities	**(189,403)**
Closing amount as at 30 June 2013	**24,849,934**
Six months ended 30 June 2012	
Opening amount as at 1 January 2012	25,426,682
Proceeds from new bank borrowings	15,413,764
Proceeds from the medium-term notes	2,000,000
Proceeds from finance lease liabilities	600,000
Repayments of borrowings	(14,624,662)
Repayments of finance lease liabilities	(151,634)
Closing amount as at 30 June 2012	28,664,150

14 BORROWINGS *(continued)*

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

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Within 1 year	**15,246,705**	15,648,567
Between 1 and 2 years	**6,002,592**	4,118,625
Between 2 and 5 years	**2,718,614**	3,699,339
Over 5 years	**882,023**	1,658,002
	24,849,934	25,124,533

Borrowings amounting to RMB21,668,361,000 as at 30 June 2013 (31 December 2012 RMB22,492,534,000) are secured by the land use rights, buildings, construction contracts, pledged deposits, guarantee of the Group and guarantee from a director of the Group.

Three borrowings of the Group (31 December 2012: three) required the Group to maintain consolidated tangible net worth at any time of not less than RMB13,000,000,000 and the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 1.8 to 1.0. Management has reviewed the financial position of the Group and noted the covenants are fulfilled.

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

The Group has the following undrawn borrowing facilities:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Expiring within one year	**1,821,714**	1,706,518
Expiring beyond one year	**1,927,213**	1,900,848
	3,748,927	3,607,366

15 PROVISION FOR WARRANTY

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

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

	2013 RMB'000	2012 RMB'000
At 1 January	**146,655**	189,867
Provision for the period		
— Charged to consolidated profit or loss	**9,886**	23,552
— Utilisation during the period	**(1,681)**	(1,214)
— Reversal during the period upon expiring of the warranty period	**(30,784)**	(42,024)
At 30 June	**124,076**	170,181

16 EXPENSES BY NATURE

	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 (Note 7)	**17,899**	7,681
Depreciation of property, plant and equipment (Note 7)	**265,321**	256,509
Amortisation of intangible assets (Note 8)	**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 (Note a)	**26,330**	16,807
Bank charges (include refund guarantee charges)	**45,223**	49,695
Reversal of provision for warranty (Note 15)	**(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 (Notes b, c)	**2,661,583**	5,156,604

16 EXPENSES BY NATURE *(continued)*

Note:

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

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

The Group has incurred employee benefit expenses, depreciation and amortisation of property, plant and equipment and intangible assets for the purpose of research and development. The research and development costs incurred for the six months ended 30 June 2013 was RMB99,730,000 (2012: RMB85,424,000), among which RMB61,808,000 were capitalised as intangible assets (2012: RMB36,159,000).

(c) During the six months ended 30 June 2012, the Group received subsidies of RMB671,758,000 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. Amounts of RMB422,132,000, RMB12,191,000, RMB159,114,000 and RMB78,321,000 were deducted against cost of sales, selling and marketing expenses, general and administrative expenses and finance costs respectively. During the six months ended 30 June 2013, no government subsidy was received.

17 OTHER INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Government grants (Note a)	**1,786**	71,831
Sales of inventories (Note b)	**56,508**	–
Scrap sales (Note c)	**18,026**	159,268
Compensation income (Note d)	**–**	239,689
Gain on settlement of liabilities by inventories (Note e)	**7,711**	–
Others	**1,975**	8,454
Total	**86,006**	479,242

Note:

(a) Government grants represented cash received from Jiangsu and Anhui Government authorities during the six months ended 30 June 2012 and 2013.

(b) The Group sold certain non-used raw materials with costs of RMB388,472,000 to third parties at agreed selling prices of RMB444,980,000 during the six months ended 30 June 2013 (2012: nil).

(c) The Group recognised scrap sales of RMB18,026,000 during the six months ended 30 June 2013 (2012: RMB159,268,000), as a result of sales of scrapped steel plates materials.

(d) No compensation income was recognised during the six months ended 30 June 2013 (2012: RMB239,689,000).

(e) The Group settled certain payables to suppliers amounting to RMB44,764,000 by inventories amounting to RMB37,053,000, resulting in gain on settlement of RMB7,711,000 during the six months ended 30 June 2013 (2012: nil).

18 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
Total	**(139,660)**	73,868

19 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**34,765**	105,593
Net foreign exchange gains/(losses) on financing activities	**47,791**	(11,119)
	82,556	94,474
Finance costs:		
Interest expenses		
— Borrowings and finance lease liabilities	**839,816**	1,097,077
Less: borrowing costs capitalised	**(599,287)**	(529,765)
	240,529	567,312
Finance costs, net	**(157,973)**	(472,838)

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation in the six months ended 30 June 2013 was 6.74% (2012: 6.14%).

20 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)
Total income tax expense	**5,232**	143,225

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.

21 (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 (RMB'000)	**(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 (RMB per share)	**(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).

22 DIVIDENDS

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

23 CONTINGENCIES

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Contingencies:		
Refund guarantees (Note a)	**7,441,161**	9,408,887
Litigation (Note b)	**275,142**	261,072
Financial guarantees (Note c)	**161,815**	122,722
	7,878,118	9,792,681

(a) **Refund guarantees**

Refund guarantees relate to the guarantees provided by the banks to the Group's customers in respect of advances received from customers. In the event of non-performance, the customers may call upon the refund guarantees and the Group would be liable to the banks in respect of the refund guarantees provided. As at 30 June 2013, refund guarantees are secured by land and buildings, pledged deposits, vessels under constructions, corporate guarantees from the Company and certain of its subsidiaries and guarantee from a director of the Group.

(b) **Litigation**

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

As at 30 June 2013, subsidiaries of the Group were in dispute with certain of its suppliers in relation to the procurement of inventory. The alleged claims against the Group amounted to RMB48,538,000 (31 December 2012: RMB111,951,000). No provision has been made in respect of the claims as at 30 June 2013 (31 December 2012: RMB97,770,000) as management has determined, on the basis of legal advice from the Group's external counsel that it is not probable that these claims would result in an outflow of economic benefits from the Group.

As at 30 June 2013, the Group was in dispute with one of its customers in relation to a shipbuilding contract. The alleged claim against the Group amounted to approximately USD36,675,000, equivalent to approximately RMB226,604,000 (31 December 2012: USD36,675,000, equivalent to approximately RMB230,521,000). No provision has been made in respect of this claim as at 30 June 2013 as management has determined, on the basis of legal advice from the Group's external counsel, that it is not probable that this claim would result in an outflow of economic benefits from the Group.

23 CONTINGENCIES *(continued)*

(c) Financial guarantees

The Group has provided guarantees to certain financial institutions in the PRC in respect of borrowings drawn by certain customers of the Engineering Machinery Segment. The borrowings were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the financial institutions should the customers default on the borrowings. As at 30 June 2013, the total value of the guaranteed borrowings outstanding was RMB117,826,000 (31 December 2012: RMB126,618,000) in which the Group has made a provision of RMB3,896,000 (31 December 2012: RMB3,896,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB113,930,000 (31 December 2012: RMB122,722,000) is required as the relevant customers have no history of default and it is not probable that the Group would have to make payments to the financial institutions for the guarantees.

As at 30 June 2013, the Group had arranged bank financing for certain property buyers of the Marine Engine Building's property and provided guarantees in relation to the repayment obligations of approximately RMB47,885,000 for those buyers. The guarantees concerned are pledged against property rights, and will terminate upon the full repayment of the mortgage loan by the purchasers of the properties. Pursuant to the terms of the guarantees, upon a default in mortgage payments by these purchasers, the Group is responsible for repaying to the banks the outstanding mortgage principal, together with accrued interest and any penalty owed by the defaulting purchasers, and the Group is entitled to take over the legal title and possession of the related properties. The guarantee period starts from the date of the grant of the respective mortgage. Considering the above factors, the Board is of the view that the possibility of default by buyers is minimal, thus the financial guarantees measured at fair value is immaterial.

24 COMMITMENTS

(a) Capital commitments

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

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Property, plant and equipment		
— Contracted but not provided for	1,851,992	1,967,175
Land use right		
— Contracted but not provided for	–	177,416
Other capital commitment		
— Contracted but not provided for (note (i))	160,000	160,000

(i) Capital commitment for the investment in 農銀無錫股權投資基金企業 (the "Fund")

On 16 January 2012, the Group entered into an agreement with 6 strategic investors for the Fund, where the Group proposed to invest RMB200,000,000 into the Fund, representing 6.66% of the total capital of the Fund. As at 30 June 2013, the Group had paid the first instalment of RMB40,000,000 to the Fund which is classified as available-for-sale financial assets in the condensed consolidated statement of the financial position.

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

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

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
No later than 1 year	133,151	155,514
Later than 1 year and no later than 5 years	67,099	76,187
Over 5 years	–	–
	200,250	231,701

25 RELATED PARTY TRANSACTIONS

As at 30 June 2013, Mr. Zhang Zhi Rong ("Mr. Zhang") had a 29.32% beneficial interest in the Company as the single largest shareholder.

Fine Profit Enterprises Limited incorporated in the British Virgin Islands ("Fine Profit") owns 29.32% of the issued shares of the Company as at 30 June 2013 (31 December 2012: 47.75%). Fine Profit was wholly owned by Mr. Zhang as at 30 June 2013.

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

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co. Ltd. 上海地通建設(集團)有限公司	Entity controlled by a shareholder/ close family member of Mr. Zhang
Nantong Heloifu Shipping Equipment Co. Ltd. 南通和來福船舶配套設備有限公司	Entity ultimately controlled by Mr. Zhang
Jiangsu Xu Ming Investment Group Co. Ltd. 江蘇旭明投資集團有限公司 (Formerly known as Jiangsu Rongsheng Investment Group Co. Ltd. 江蘇熔盛投資集團有限公司)	Entity ultimately controlled by Mr. Zhang
Nantong Shengshi Building Materials Co. Ltd. 南通晟昰建材有限公司	Entity ultimately controlled by Mr. Zhang
Jiangsu Rong Tong Marine Mechanical and Electrical Co. Ltd. 江蘇熔通海工機電有限公司	Entity ultimately controlled by Mr. Zhang
Rugao Ru Gang New City Development and Investment Co. Ltd. 如皋市如港新城開發投資有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Drawshine Petrochemical Co. Ltd. 南通焯晟石油化工有限公司	Entity controlled by a shareholder/ close family member of Mr. Zhang
Glorious Wangjiarui (Wuxi) Co. Ltd. 恒盛旺佳瑞(無錫)有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Rongsheng Infrastructure Accessories Co. Ltd. 南通熔盛基礎設施配套工程有限公司 (Formerly known as Nantong Rongsheng Shipping Equipment Co. Ltd. 南通熔盛船舶機電配套有限公司)	Entity ultimately controlled by Mr. Zhang
Shanghai Zhuo Xin Investment Management Co. Ltd. 上海卓信投資管理有限公司	Entity controlled by a shareholder/ close family member of Mr. Zhang
Jiangsu Rongdezhi Education Investment Co. Ltd. 江蘇熔德智教育投資有限公司	Entity ultimately controlled by Mr. Zhang

25 RELATED PARTY TRANSACTIONS *(continued)*

During the six months ended 30 June 2013, the Group carried out the following transactions with the related parties:

(i) Purchase of construction services

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Purchase of construction services		
— Entity controlled by a shareholder/ close family member of Mr. Zhang	**–**	69,545

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

25 RELATED PARTY TRANSACTIONS *(continued)*

(ii) Balances with related parties:

As at 30 June 2013 and 31 December 2012, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Prepayments for property, plant and equipment (Note 10):		
— Entity controlled by Mr. Zhang	**1,054**	1,054
Prepayments for raw materials (Note 10):		
— Entity controlled by Mr. Zhang	**170,846**	170,846
Other receivables – non-trade (Note 10):		
— Entities controlled by Mr. Zhang or a shareholder/close family member of Mr. Zhang	**554,425**	453,857
Bills payables for property, plant and equipment (Note 13):		
— Entity controlled by a shareholder/close family member of Mr. Zhang	**68,324**	2,950
Other payables for property, plant and equipment (Note 13):		
— Entities controlled by Mr. Zhang or a shareholder/close family member of Mr. Zhang	**681,464**	904,420
Other payables — non-trade (Note 13):		
— Mr. Zhang	**–**	102

25 RELATED PARTY TRANSACTIONS *(continued)*

(iii) Acquisition of shares by Chairman of the Board from Controlling Shareholder

On 24 January 2013, Fine Profit Enterprises Limited ("Fine Profit") and Boom Will Limited ("Boom Will") entered into a share transfer agreement (the "Share Transfer Agreement"), pursuant to which Fine Profit agreed to sell to Boom Will, and Boom Will agreed to acquire from Fine Profit, an aggregate of 490,000,000 shares, representing approximately 7.0% of the issued share capital of the Company, at a total consideration of HK$820,260,000 ("First Share Transfer"). Prior to the completion of the First Share Transfer, Fine Profit was the controlling shareholder of the Company and wholly-owned by Mr. Zhang. Boom Will is wholly-owned by Mr. Chen Qiang ("Mr. Chen"), the Chairman of the Board, an Executive Director, and the Chief Executive Officer of the Company. Immediately after the completion of the First Share Transfer, Mr. Chen was deemed interested in shares representing approximately 16.66% of the total issued share capital of the Company.

(iv) Acquisition of Shares by Mr. Zhang De Huang from Controlling Shareholder

On 24 January 2013, Fine Profit agreed to transfer 800,000,000 Shares (representing approximately 11.43% of the issued share capital of the Company) to Gallop Sun Limited ("Gallop Sun") at nil consideration (the "Second Share Transfer"). Gallop Sun is a company wholly-owned by Mr. Zhang De Huang, the father of Mr. Zhang. Immediately after the completion of the Second Share Transfer, Mr. Zhang De Huang held approximately 11.43% of the issued share capital of the Company.

Immediately after the completion of the First and Second Share Transfers, Mr. Zhang held approximately 29.32% of the total issued share capital of the Company and Mr. Zhang remains as the single largest beneficial shareholder of the Company.

(v) Guarantee by a director

As at 30 June 2013, borrowings of RMB2,481,000,000 and refund guarantees of RMB2,627,000,000 are secured by a director of the Group (31 December 2012: nil).

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(i) Issuance of HK$1,400,000,000 with interest at 7.0% convertible bonds

On 31 July 2013, the Company as issuer, Mr. Zhang as guarantor and Action Phoenix Limited, a company incorporated in the British Virgin Islands with limited liability as subscriber, entered into a subscription agreement, pursuant to which the Company has conditionally agreed to issue, and the subscriber has conditionally agreed to subscribe for, the convertible bonds in an aggregate principal amount of HK$1,400,000,000. The convertible bonds has an initial conversion price of HK$1.00 per share (subject to adjustment) and bear interest of 7.0% per annum on the principal amount of the convertible bonds outstanding. Mr. Zhang has agreed to guarantee the payment obligations of the Company under the convertible bonds. The net proceeds will be used for working capital and general corporate purposes, in particular, to support the Group's strategic development in the offshore engineering business. On 7 August 2013, the issuance of the convertible bonds was completed.

(ii) Interest-free and security-free shareholder's loan

On 3 July 2013, a company controlled by Mr. Zhang has entered into an agreement with the Group to grant an interest-free and security-free loan of RMB200,000,000 to the Group to finance its working capital including but not limited to expenses incurred as a result of its workforce restructuring and optimization.

Corporate Information

Executive Directors	CHEN Qiang (Chairman and Chief Executive Officer) WU Zhen Guo (Vice Chairman) LUAN Xiao Ming (Chief Operating Officer) HONG Liang Sean S J WANG (Chief Financial Officer) WANG Tao WEI A Ning
Independent Non-executive Directors	TSANG Hing Lun XIA Da Wei HU Wei Ping WANG Jin Lian
Audit Committee	TSANG Hing Lun (Chairman) XIA Da Wei HU Wei Ping WANG Jin Lian
Corporate Governance Committee	WANG Jin Lian (Chairman) CHEN Qiang Sean S J WANG XIA Da Wei HU Wei Ping
Nomination Committee	WANG Jin Lian (Chairman) WEI A Ning XIA Da Wei HU Wei Ping
Remuneration Committee	HU Wei Ping (Chairman) CHEN Qiang WU Zhen Guo TSANG Hing Lun WANG Jin Lian
Finance and Investment Committee	CHEN Qiang (Chairman) HONG Liang Sean S J WANG TSANG Hing Lun XIA Da Wei
Company Secretary	LEE Man Yee
Auditor	PricewaterhouseCoopers
Principal Bankers	The Export-Import Bank of China (Jiangsu Province Branch) China Development Bank (Jiangsu Province Branch) Bank of China Limited (Nantong Gangzha Branch) China Minsheng Banking Corp., Ltd. (Shanghai Branch) Shanghai Pudong Development Bank Limited (Hefei Branch)
Legal Advisors	Paul Hastings Commerce & Finance Law Offices

Information for Shareholders

Listing Information

Listing : Hong Kong Stock Exchange
Stock Code : 01101

Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

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

Registered Office

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

Principal Place of Business and Headquarters

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

Contact Enquiries

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

China Rongsheng Heavy Industries Group Holdings Limited
中國熔盛重工集團控股有限公司

www.rshi.cn

This report is printed on environmentally friendly paper