熔盛重工
RONGSHENG

China Rongsheng Heavy Industries Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01101

PASSION

INTERIM REPORT 2014

to EXCEL

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. The Group operates the largest shipyard in the PRC and is one of the global leaders in the manufacture of very large ore carriers.

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Business Review

For the six months ended 30 June 2014 (the "**Period**") revenue of China Rongsheng Heavy Industries Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") was RMB340.6 million, representing a decrease of 78.4% from RMB1,579.0 million for the six months ended 30 June 2013 (the "**Comparative Period**"). Comprehensive loss attributable to equity holders of the Company was RMB3,063.1 million for the Period, while comprehensive loss attributable to the equity holders of the Company was RMB285.5 million in the Comparative Period. For the Period, the unfavourable operating environment for ship owners persisted amid the unsatisfying performance of the global shipping market. As a result, certain ship owners requested shipyards to postpone the delivery of new vessels. The reduction in the production activity of the Company's core shipbuilding segment led to a significant decline of our revenue.

Shipbuilding

Shipbuilding was our major business and also our primary source of revenue. For the Period, suffering from the significant impact of faltering economic growth and overcapacity of shipping industry, we encountered various difficulties and challenges in production and operation. Revenue from our shipbuilding segment decreased by 79.0% year-on-year to RMB311.3 million, representing 91.4% of the total revenue. The significant decrease in revenue was caused by a reduction in the production activity attributable to the Company's prudent operation strategies on sales, pricing, construction and delivery of vessels on new orders and existing orders upon renegotiation, revision and/or cancellation of contracts with ship owners under the current trough stage of the shipbuilding market.

New Orders and Order Book

In the first half of 2014, despite a significant year-on-year increase of the global new shipbuilding orders, new shipbuilding prices remain low with a decreased prepayment ratio under a sluggish global shipping market. In this adverse market environment, we adopted a prudent sales strategy by avoiding low-price orders. For the Period, we entered into new shipbuilding contracts of 6 vessels of 64,000 deadweight tons ("**DWT**") bulk carriers, with a total volume of 384,000 DWT and a contract value of USD167.4 million.

Our total orders on hand as at 30 June 2014 consisted of 90 vessels, representing a total volume of approximately 11.5 million DWT with a total contract value of approximately USD4,201.2 million. It included 24 64,000 DWT bulk carriers, 25 Panamax bulk carriers, 2 Capesize bulk carriers, 13 very large ore carriers, 1 Panamax crude oil tanker, 20 Suezmax crude oil tankers, 2 very large crude oil carriers, 1 6,500-twenty-foot equivalent unit containership and 2 7,000 twenty-foot-equivalent unit containerships. All the vessels in our order book will be delivered within the period from 2014 to 2016 as stated in the contracts.

We analyzed the risks and differentiated the orders after sorting out our orders on hand. We proactively negotiated with the ship owners and reached a consensus on certain problematic orders. We agreed to cancel shipbuilding contracts for 8 vessels, 2 of which were sold to another customer. We believe that this action will effectively reduce the credit risk of our order book.

For the Period, we delivered 5 vessels, representing a total volume of 542,000 DWT. It included 3 Panamax bulk carriers and 2 Suezmax crude oil tankers.

Diversified Operation – Steel Caisson Project

To seek new sources of revenue, the Company diversified our business by fully utilizing the shipbuilding facilities. We were contracted to construct the No. 28 steel caisson of the Shanghai Yangtze River Bridge, which was completed and successfully delivered in June 2014. The steel caisson weighs about 15,000 tons, representing the largest steel caisson of its kind in the world. We consider that our shipbuilding business can complement and enhance the development of our scale of customized steel structures. We expect that the business of scale of customized steel structures may provide another source of revenue for our Group.

Offshore Engineering

For the Period, there was no revenue contribution from the offshore engineering segment. In 2014, we continued to strive to transform ourselves into an integrated heavy industry conglomerate serving the energy industry. We planned to design products that cover the whole energy industry chain, including drilling rigs, floating production storage and offloading units ("**FPSOs**"), liquefied natural gas ("**LNG**") carriers and pipe-laying vessels, ultimately providing clients with a comprehensive solution in respect of project engineering, procurement and construction.

Marine Engine Building

For the Period, revenue from our marine engine building segment was RMB21.1 million, a decrease of 75.8% from RMB87.3 million for the Comparable Period. Since the early recovery of the shipbuilding market did not result in a substantial increase in the sales of marine engines, marine engine market performed below expectation in the first half of 2014. For the Period, we completed and delivered 3 marine engines, such as 5S50ME-B, 7RT-flex82T and 6RT-flex50-D and contracted refitting of 1 diesel engine. As at 30 June 2014, we had orders on hand for a total of 28 engines with a total capacity of 567,000 horsepower, representing a total contract value of RMB1,048.3 million.

Engineering Machinery

For the Period, revenue from engineering machinery segment was RMB8.2 million, a decrease of 31.1% from RMB11.9 million for the Comparable Period. The decrease was mainly resulted from the continuous decline in excavator sales amid the weak engineering machinery market. In the first half of 2014, engineering machinery market continued its weak performance due to slowdown of China's economic growth and infrastructure investment. Despite the increase in infrastructure investment in the second quarter, the engineering machinery market remained weak as the sales of new machinery were suppressed by the total number of machinery in the market.

Financial Review

Revenue

For the Period, our revenue was RMB340.6 million as compared to RMB1,579.0 million for the Comparative Period, representing a year-on-year decrease of approximately 78.4%. The significant decrease in revenue was primarily attributable to the decrease in our production activities. We responded to the depressed market conditions by adopting prudent operating strategies in marketing, pricing, construction and delivery in respect of new orders and orders on hand, including renegotiating with ship owners, amendments and/or cancellations of orders.

Cost of Sales

For the Period, our cost of sales decreased by approximately 55.9% to RMB948.4 million (for the Comparative Period: RMB2,149.8 million), in line with the significant decrease in revenue.

Gross Loss

During the Period, we recorded a gross loss of RMB607.8 million (for the Comparative Period: RMB570.8 million). This is due to the lower prices of shipbuilding orders in depressed market conditions, in contrast to rigid cost such as raw materials and labour costs, which did not fall proportionately. With diminishing profitability of the conventional shipbuilding business, an operating loss was incurred as a result of the decline of production activities yet considerable fixed production cost.

Loss from Cancellation of Construction Contracts – Net

During the Period, our net loss from cancellation of construction contracts was RMB277.6 million (for the Comparative Period: nil), of which de-recognition of revenue amounted to RMB932.3 million, de-recognition of cost of sales amounted to RMB830.8 million and penalties amounted to RMB176.1 million. During the Period, we analysed and differentiated the risks of the orders, and agreed to cancel the shipbuilding contracts for 8 vessels, of which 2 vessels were sold to another customer.

Selling and Marketing Expenses

For the Period, our selling and marketing expenses increased by approximately 102.2% to RMB9.3 million (for the Comparative Period: RMB4.6 million), which are mainly due to the increase in advertising, promotion and marketing expenses that we used in promoting our corporate brand.

General and Administrative Expenses

For the Period, our general and administrative expenses increased by approximately 3.7% to RMB486.5 million (for the Comparative Period: RMB469.2 million). The increase in expenses is mainly due to the provisions for delayed penalties and litigations.

Provision for Impairments and Delayed Penalties

For the Period, our provision for impairments and delayed penalties was RMB42.3 million (for the Comparative Period: nil). It is mainly the result of the provisions for impairments of trade receivables and delayed penalties, which amounted to RMB40.0 million and RMB145.2 million, respectively, and offset by the reversal of provision for impairments of other receivables and prepayments of RMB142.9 million for the Period. The provision for impairment of trade receivables for the Period is mainly due to the increase in risk of default in payment by our customers under the current market downturn.

Research and Development Expenses

For the Period, our research and development expenses decreased by approximately 50.0% to RMB49.9 million (for the Comparative Period: RMB99.7 million), none of which had been capitalized for the Period (for the Comparative Period: RMB61.8 million was capitalized). This is mainly because of the decreased investment in research and development of new shipbuilding and offshore engineering products.

Finance Income/Finance Costs – Net

Our finance income for the Period decreased by approximately 86.1% to RMB11.5 million (for the Comparative Period: RMB82.6 million), mainly because of the decrease in pledged deposits during the Period. Our finance costs for the Period increased by approximately 277.0% to RMB906.7 million (for the Comparative Period: RMB240.5 million) mainly due to the decrease in capitalized interest attributed by the decrease in construction activities for the Period.

Total Comprehensive Loss for the Period

During the Period, we recorded total comprehensive loss of RMB3,146.6 million, of which loss attributable to equity holders of the Company is RMB3,063.1 million (for the Comparative Period: RMB285.5 million). Loss attributable to the equity holders of the Company is the result of gross loss and the considerable fixed administrative costs, change in fair value of embedded derivatives in convertible bonds issued and provisions for delayed penalties and litigation costs. Other comprehensive loss for the Period is RMB2.0 million (income for the Comparative Period: RMB1,009.2 million) which is mainly contributed by the loss on available-for-sale financial asset.

Liquidity and Going Concern

As at 30 June 2014, the Group had incurred a loss of approximately RMB3,144.6 million and had a net operating cash outflow of approximately RMB2,181.2 million due to the market downturn and financial difficulties of the Group's customers. As at 30 June 2014, the Group's current liabilities exceeded its current assets by approximately RMB12,312.5 million. The total borrowings of the Group as at 30 June 2014 were RMB23,202.5 million, of which RMB17,130.3 million would be due within 12 months after 30 June 2014.

Our cash and cash equivalents were RMB393.5 million as at 30 June 2014 (as at 31 December 2013: RMB117.0 million). Changes in cash and cash equivalents were mainly due to the cash inflows from the releases of pledged deposits after delivery of products and the issuance of convertible bonds. Our pledged deposits as at 30 June 2014 were RMB739.3 million (as at 31 December 2013: RMB1,131.2 million).

We regularly monitor the Group's liquidity conditions to ensure the maintenance of adequate cash reserves, and also signed a framework agreement with a syndicate of major financial institutions to obtain adequate committed credit facilities to meet the needs of long-term and short-term liquidity. In addition, the Group raised funds through the issuance of convertible bonds in order to overcome the decline in the Group's construction activities and the delay in payment by certain ship owners. A series of remedial measures to mitigate the liquidity pressure have been taken to improve the financial and liquidity positions of the Group. Details regarding uncertainties on the going concerns of the Group are set out in the section headed "Going Concern Basis" in note 2.1 to the condensed consolidated interim financial information in this report.

Borrowings and Finance Lease Liabilities

Our short-term borrowings and finance lease liabilities increased by RMB3,416.9 million from RMB13,713.4 million as at 31 December 2013 to RMB17,130.3 million as at 30 June 2014. Our long-term borrowings and finance lease liabilities decreased by RMB2,621.6 million to RMB6,072.3 million as at 30 June 2014 from RMB8,693.9 million as at 31 December 2013.

As at 30 June 2014, our total borrowings and finance lease liabilities were RMB23,202.5 million (as at 31 December 2013: RMB22,407.3 million), of which RMB19,981.7 million (86.1%) was denominated in RMB and the remaining RMB3,220.8 million (13.9%) was denominated in other currencies such as US dollars ("**USD**") and HK dollars. The majority of the borrowings, were at floating interest rates. Certain of the borrowings were secured by our raw materials, land use rights, buildings, plant and machinery, construction contracts, pledged deposits, available-for-sale financial asset, guarantee of the Group, guarantee from a director of the Company, certain shareholders of the Company and the related parties, and land use rights, buildings, plant and equipment and share capital of certain related parties.

Gearing Ratio

Our gearing ratio (measured by total borrowings and finance lease liabilities divided by the sum of total borrowings and finance lease liabilities and total equity) increased from 78.4% as at 31 December 2013 to 88.2% as at 30 June 2014 mainly because of the decrease in total equity from RMB6,169.1 million as at 31 December 2013 to RMB3,116.8 million as at 30 June 2014, which is mainly affected by the accumulated losses of RMB9,105.1 million as at 30 June 2014.

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. The Group incurred net foreign exchange gains of RMB3.4 million due to the depreciation of RMB against USD during the Period, which resulted in slight exchange gains on certain USD denominated assets, including accounts receivables and pledged deposits of the Group.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB69.8 million (for the Comparative Period: RMB1,310.1 million), which was mainly used in the settlement of accounts payable for the construction of facilities.

Contingent Liabilities

As at 30 June 2014, we had contingent liabilities of RMB6,274.7 million (as at 31 December 2013: RMB7,570.1 million), which mainly resulted from the agreements entered between our Group and over ten banks in China, in relation to the grant of letter of guarantee to us and also litigation in relation to one shipbuilding customer and some suppliers.

Amounts Due from/to Customers for Contract Works

As at 30 June 2014, the amounts due from customers for contract works decreased by RMB391.5 million to RMB7,015.8 million (as at 31 December 2013: RMB7,407.3 million). As at 30 June 2014, amounts due to customers for contract works decreased by RMB283.7 million to RMB38.1 million (as at 31 December 2013: RMB321.8 million). The decrease in amounts due from/to customers for contract works was the results of the reduction in production scale.

Credit Assessment and Risk Management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 30 June 2014, all the Group's cash and bank balances, short-term and long-term bank deposits and pledged deposits were placed with reputable banks which management believes are of high creditworthiness and without significant credit risk.

The Group carries out customer credit checks prior to entering into shipbuilding contracts and requests for progress payments from customers in accordance with the milestones of the shipbuilding contracts. Certain measures have been taken to further reduce the credit risk, which include (i) negotiating for better payment terms and revising up prices of certain existing shipbuilding orders; and (ii) maximizing sales efforts, securing additional shipbuilding orders in bulk carriers which are of higher prices and better payment terms. 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.

As at 30 June 2014, trade receivables of RMB2,195.3 million (as at 31 December 2013: RMB2,195.3 million) and RMB310.4 million (as at 31 December 2013: RMB270.4 million) related to certain customers of the shipbuilding segment and engineering machinery segment were provided for respectively, as a result of the management's assessment on the recoverability of the balances.

Human Resources

As at 30 June 2014, we had approximately 3,568 employees (as at 31 December 2013: 4,738). The decrease in number of employees was mainly in relation to the market downturn and the decline in production activities. In spite of this, we endeavour to cultivate a culture of learning and sharing, focusing on individual training and development, and nurturing the concept of teamwork. The primary goal of our policy for remuneration package is to ensure employees are fairly rewarded and they receive appropriate incentives to maintain high standards of performance. To control administrative cost, we implement human resource optimization and consolidate business units. Furthermore, we continued to execute the reduction of remuneration package of our senior and middle management of the Group which was implemented since the second half of 2013.

Market Analysis

China's shipbuilding industry saw early signs of recovery during the first half of 2014, leading to sharp increase in both new shipbuilding orders and orders on hand. According to the China Association of the National Shipbuilding Industry, from January to June 2014, new shipbuilding orders in China surged by 78.2% year-on-year to 40.8 million DWT, whereas orders on hand increased by 39.5% year-on-year to 152 million DWT. However, profoundly impacted by the slackened growth of the global economy and the overcapacity in the shipping market, the shipbuilders confronted difficulties in production and operations, in particular problems with vessel delivery, financing and profitability. Due to the sluggish performance of the global shipping market, coupled with the mandatory implementation of new shipbuilding standards and regulations imposed by the International Maritime Organization ("**IMO**"), ship owners were reluctant to accept delivery of vessels, resulting in higher vessel delivery risk. Shipbuilders encountered financial stress in production and operations as a result of the credit crunch in the industry and the significant drop in the proportion of prepayment arising from the low price of new shipbuilding orders. Meanwhile, shipbuilders faced diminished profitability due to the significant increase in financing cost, in addition to the relatively higher fixed costs required to maintain their operations.

Following the higher standards imposed by IMO in relation to emission and environmental performance of marine engines, ship owners tended to search for marine engines with lower operating cost and set more stringent requirements for fuel efficiency of engines. Although the marine diesel engine industry in China underwent rapid development, it still lagged behind in the technologies of low-speed diesel engine, making market exploration a difficult task particularly against the background that Korean and Japanese enterprises sold products to China at discounted prices.

After the past few years of strong growth, the global offshore engineering equipment market entered an adjustment period in the first half of the year. According to China Shipbuilding Industry Research Center, during the first half of 2014, a total of 194 sets of offshore engineering equipment were contracted worldwide with a transaction volume of USD24,400 million, representing a year-on-year decrease of 37% and 31% respectively. The decline in market activity was mainly attributable to the increasing supply of offshore engineering equipment over the past few years and cost cutting in exploration and development by oil companies as their profit margin was below expectations due to the slight decrease in oil prices. However, the long-term prospects for the offshore engineering equipment market is still optimistic in view of the overall positive trend of the global economy and the accelerated growth in oil demand in 2015 as expected by the International Energy Agency.

Prospects

The imbalance between demand and supply in the shipping market will continue into the second half of 2014, likely resulting in an adjustment amidst an uptrend of the shipbuilding market. In view of the current market conditions and our state of operation, we have adopted the operations strategy of "risk resolving, transformation and advancement, and diversified operations". We have entered into a debt optimization framework agreement with a syndicate formed by more than ten banks in Jiangsu Province, including Bank of China, The Export-Import Bank of China and China Minsheng Bank, to effectively mitigate liquidity pressure on the Company. Besides, the Group has also participated in a meeting on debt optimization with a syndicate formed by more than ten banks in the Anhui Province where the leading bank has been appointed to organize and coordinate the debt optimization. In the first half of 2014, we completed the issue of convertible bonds to strategic investors amounting to total net proceeds of HKD3,985 million. To counter the unfavorable operating environment, we are actively implementing a variety of mitigation measures, including reviewing the orders on hand to analyze and handle orders with different risk levels separately, upgrading the management model to improve operational efficiency, optimizing the structure of shipbuilding products to adapt to the implementation of the new regulations and standards in shipbuilding, and seeking new sources of revenue to improve financial position.

We have allocated and shall issue new shares as consideration to acquire rights to cooperate in the operations of five oilfield zones in Kyrgyzstan. The gradual recovery of the global economy is conducive to the increasing demand for energy, and the acquisition will offer us a great opportunity to enter into the energy sector. Given the relatively adverse market conditions of the shipbuilding industry for the time being, the acquisition can assist us in diversifying our operations and broadening our source of revenue, and promoting our transformation towards a comprehensive heavy industries conglomerate serving the energy sector, so as to make a greater contribution to the overall interests of our shareholders.

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 deviations 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 of directors (the "**Board**") meeting to give all directors of the Company (the "**Directors**") an opportunity to attend. During the Period, less than 14 days' notice was given for three regular Board meetings 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 (the "**Audit Committee**") comprises four independent non-executive Directors, namely, Ms. Zhou Zhan (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 2014 (2013: nil).

Change in Director's Biographical Details

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of directors' biographical details since the date of the 2013 annual report of the Company are set out as follows:

Mr. Tsang Hing Lun retired as an independent non-executive Director and ceased to be the chairman of the Audit Committee and a member of each of the finance and investment committee and the remuneration committee of the Company with effect from the conclusion of the 2014 annual general meeting of the Company held on 21 May 2014 (the "**2014 AGM**").

Ms. Zhou Zhan was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of each of the finance and investment committee and the remuneration committee of the Company with effect from the conclusion of the 2014 AGM.

Subsequent Events

Discloseable Transaction and Share Transaction

On 21 August 2014, Ocean Sino Holdings Limited, an indirectly wholly-owned subsidiary of the Company (the "**Purchaser**"), entered into a share purchase agreement (the "**Agreement**") with New Continental Oil & Gas Co. Ltd. (the "**Vendor**") and Mr. Liu Buruo, Mr. Zhang Jiping, Mr. Wang Jiawei and Mr. Li Dongtai (as the "**Guarantors**"), pursuant to which the Purchaser conditionally agreed to acquire 60% equity interest in Central Point Worldwide Inc., a direct wholly-owned subsidiary of the Vendor, which will, before completion of the Agreement, indirectly own 100% equity interest in КыргызжерНефтегаз (吉爾吉斯大陸油氣有限公司*), which was granted rights to cooperate with the national oil company of Kyrgyzstan in the operation of the four oilfields adjacent to the Fergana Valley of Kyrgyzstan (a country in Central Asia) comprising five oilfield zones namely, Maili-Su IV, Eastern Izbaskent, Izbaskent, Changyrtash and Chigirchik, at the consideration of HK$2,184,000,000 (the "**Transaction**"), which shall be satisfied by the allotment and issue of the 1,400,000,000 new shares of the Company at HK$1.56 each to the Vendor or its nominated person(s). Details of the Transaction was disclosed in the announcement of the Company dated 21 August 2014.

(* for identification purposes only)

Update of Discloseable Transaction regarding Quanchai

As disclosed in the announcement of the Company dated 26 April 2011, a sale and purchase agreement (the "**Agreement**") was entered into on 26 April 2011 between Jiangsu Rongsheng Heavy Industries Co., Ltd. (江蘇熔盛重工有限公司) (a subsidiary of the Company) ("**Jiangsu Rongsheng Heavy Industries**") and 安徽省全椒縣人民政府 (The People's Government of Quanjiao County, Anhui Province) (the "**Vendor**") in respect of the sale and purchase of the shares in 安徽全柴集團有限公司 (Anhui Quanchai Group Corp.) ("**Quanchai Group**"). As disclosed in the announcements of the Company dated 1 June 2012, 5 June 2012, 17 July 2012, 17 August 2012, 21 August 2012, 2 December 2012, 11 July 2013 and 21 November 2013, the transactions under the Agreement did not proceed and Jiangsu Rongsheng Heavy Industries initiated litigation proceedings (the "**Proceedings**") against Anhui Province Property Rights Exchange Co., Ltd. ("**Anhui Property Exchange**") (in which The People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) ("**Quanjiao People's Government**") was joined as a co-defendant) for the return of the payment of RMB630,000,000 made by Jiangsu Rongsheng Heavy Industries to Anhui Property Exchange as security deposit (the "**Deposit**") for the bidding of the equity interest in Quanchai Group. Quanjiao People's Government initiated a counter-claim (the "**Counter-claim**") seeking, amongst other things, return of the Deposit to Quanjiao People's Government and damages for alleged breach of contract.

On 27 August 2014, Jiangsu Rongsheng Heavy Industries received a civil mediation agreement (民事調解書) (the "**Civil Mediation Agreement**") issued by the Anhui Province Higher People's Court, which acknowledged the settlement agreement entered into between Jiangsu Rongsheng Heavy Industries, Anhui Property Exchange and the Vendor regarding settlement of Proceedings and the Counter-claim (the "**Settlement Agreement**"). Pursuant to the Settlement Agreement, the parties agreed to, amongst other things, (i) terminate the Agreement; and (ii) after deducting a settlement fee of RMB86,000,000 to be paid to the Vendor, the balance of the Deposit shall be returned to Jiangsu Rongsheng Heavy Industries, save for a sum of RMB6,450,000, which shall be temporarily retained by Anhui Property Exchange pending further negotiations between the relevant parties. As such, both the Proceedings and the Counter-claim are considered to have been fully settled.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2014, 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

	Number of shares interested				
Name of Director	Personal interest	Corporate interest	equity derivatives (share options)[2]	Total	Percentage of issued share capital[3]
Mr. Chen Qiang	–	1,046,000,000[1]	70,000,000	1,116,000,000	15.73%
Mr. Wu Zhen Guo	–	–	12,000,000	12,000,000	0.17%
Mr. Hong Liang	–	–	18,375,000	18,375,000	0.26%
Mr. Sean S J Wang	–	–	9,500,000	9,500,000	0.13%
Mr. Wang Tao	–	–	10,755,000	10,755,000	0.15%
Mr. Wei A Ning	–	–	7,130,000	7,130,000	0.10%
Ms. Zhu Wen Hua	–	–	4,875,000	4,875,000	0.07%

Notes:

1 Among 1,046,000,000 shares (before taking into account of the 70,000,000 shares that may be granted to Mr. Chen Qiang pursuant to share options), 136,000,000 Shares, 490,000,000 Shares and 420,000,000 Shares are directly held by Boom Will Limited, Outspace Limited and Leader World Investments Limited, respectively. Boom Will Limited, Outspace Limited and Leader World Investments Limited are 100%, 100% and 38.33% directly beneficially owned by Mr. Chen Qiang, respectively.

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.

3 These percentages have been compiled based on the total number of issued shares of the Company of 7,093,457,943 as at 30 June 2014 and rounded to two decimal places.

(b) Long Positions in Associated Corporations

Name of Director	Name of associated corporation	Nature of interest/ capacity	Number of shares	Percentage of shareholding
Mr. Chen Qiang	Rongsheng Heavy Industries Holdings Limited	Interest in a controlled corporation	15,000[1]	1.50%

Note:

1 As at 30 June 2014, 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 2014, 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' Right to Acquire Shares or Debentures

As at 30 June 2014, 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 2014, 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[9]
Fine Profit Enterprises Limited [1]	2,052,281,157	28.93%
Mr. Zhang Zhi Rong [1]	2,052,281,157	28.93%
Kingwin Victory Investment Limited [2]	1,981,876,230	27.94%
Mr. Wang Ping [2]	1,981,876,230	27.94%
Action Phoenix Limited [3]	1,555,555,555	21.93%
VMS Investment Group Limited [3]	1,555,555,555	21.93%
Ms. Mak Siu Hang Viola [3]	1,555,555,555	21.93%
Partners Financial Holdings Limited [4]	1,541,427,261	21.73%
Winnex International Investments Limited [4]	1,541,427,261	21.73%
Mr. Cheng Kin Ming [4]	1,541,427,261	21.73%
Partners Kingwin Fund (I)[4]	1,538,577,261	21.69%
Partners and Kingwin Asset Management Limited [4]	1,538,577,261	21.69%
Bullion Riches Limited [4]	1,538,577,261	21.69%
Central Huijin Investment Ltd [5]	983,533,218	13.87%
Bank of China Limited [5]	983,533,218	13.87%
Bank of China Group Investment Limited [5]	983,532,282	13.87%
Goldway Financial Corp.[5]	983,532,282	13.87%
Star Team Enterprises Inc. [5]	983,532,282	13.87%
Vogel Holding Group Limited [6]	934,579,439	13.18%
Ms. Shi Jing [6]	934,579,439	13.18%
Mr. Shi Yuzhu [6]	934,579,439	13.18%
Gallop Sun Limited [7]	800,000,000	11.28%
Mr. Zhang De Huang [7]	800,000,000	11.28%
Outspace Limited [8]	490,000,000	6.91%
Leader World Investments Limited [8]	420,000,000	5.92%

Notes:

1 Among 2,052,281,157 shares, 1,943,557,157 shares are directly held by Fine Profit Enterprises Limited and 108,724,000 Shares are 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% directly or indirectly beneficially owned by Mr. Zhang Zhi Rong.

2 Among these interests include derivative interests directly held by Partners Kingwin Fund (I) (see note 4 below) in the 1,538,577,261 underlying shares of the Company in relation to the convertible bonds issued by the Company. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

3 These are derivative interests directly held by Action Phoenix Limited in the underlying shares of the Company in relation to the convertible bonds issued by the Company. Action Phoenix Limited is a wholly-owned subsidiary of VMS Investment Group Limited, which is 100% directly beneficially owned by Ms. Mak Siu Hang Viola.

4 Among these interests include derivative interests directly held by Partners Kingwin Fund (I) in the 1,538,577,261 underlying shares of the Company in relation to the convertible bonds issued by the Company. Partners Kingwin Fund (I) is 100% directly beneficially owned by Partners and Kingwin Asset Management Limited, which is 50% directly beneficially owned by each of Bullion Riches Limited and Kingwin Victory Investment Limited (see note 2 above) respectively. Bullion Riches Limited is a wholly-owned subsidiary of Partners Financial Holdings Limited (formerly known as Sunshine Partners Financial Holdings Limited), which is 100% directly beneficially owned by Winnex International Investments Limited, a company 100% directly beneficially owned by Mr. Cheng Kin Ming. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

5 Among these interests include derivative interests directly held by Star Team Enterprises Inc. in the 934,579,439 underlying shares of the Company in relation to the convertible bonds issued by the Company. Star Team Enterprises Inc. is 100% directly owned by Goldway Financial Corp. which is in turn 100% directly owned by Bank of China Group Investment Limited. Bank of China Group Investment Limited is 100% directly beneficially owned by Bank of China Limited, a company 67.72% owned by Central Huijin Investment Ltd.

6 These are derivative interests directly held by Vogel Holding Group Limited in the underlying shares of the Company in relation to the convertible bonds issued by the Company. Vogel Holding Group Limited is a company 100% directly beneficially owned by Ms. Shi Jing and controlled by its director, Mr. Shi Yuzhu.

7 Gallop Sun Limited is 100% directly beneficially owned by Mr. Zhang De Huang, the father of Mr. Zhang Zhi Rong.

8 420,000,000 shares were directly held by Leader World Investments Limited and 490,000,000 shares were directly held by Outspace Limited. Leader World Investments Limited and Outspace Limited are 38.33% and 100% directly beneficially owned by Mr. Chen Qiang, respectively.

9 These percentages have been compiled based on the total number of issued shares of the Company of 7,093,457,943 as at 30 June 2014 and rounded to two decimal places.

Save as disclosed above, as at 30 June 2014, 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 (the "**Pre-IPO Share Option Scheme**"). As at 30 June 2014, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 37,750,000 shares, which is equivalent to approximately 0.53% 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 2014	Exercised	Cancelled	Lapsed	As at 30 June 2014	Exercise price (HK$)	Exercisable period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Wei A Ning	24 October 2010	750,000	–	–	–	750,000	4.00	Note
Ms. Zhu Wen Hua	24 October 2010	375,000	–	–	–	375,000	4.00	Note
Senior management and other employees (in aggregate)	24 October 2010	25,750,000	–	–	5,375,000	20,375,000	4.00	Note
Total		43,125,000	–	–	5,375,000	37,750,000		

Note:

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.

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 2014, the total number of shares in respect of the outstanding options granted under the Share Option Scheme was 242,200,000 shares, which is equivalent to approximately 3.41% 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 2014**	**Exercised**	**Cancelled**	**Lapsed**	**As at 30 June 2014**	**Exercise price (HK$)**	**Exercisable period**
Mr. Chen Qiang	30 April 2012	70,000,000	–	–	–	70,000,000	1.94	Note
Mr. Wu Zhen Guo	30 April 2012	7,000,000	–	–	–	7,000,000	1.94	Note
Mr. Hong Liang	30 April 2012	14,000,000	–	–	–	14,000,000	1.94	Note
Mr. Sean S J Wang	30 April 2012	7,000,000	–	–	–	7,000,000	1.94	Note
Mr. Wang Tao	30 April 2012	6,380,000	–	–	–	6,380,000	1.94	Note
Mr. Wei A Ning	30 April 2012	6,380,000	–	–	–	6,380,000	1.94	Note
Ms. Zhu Wen Hua	30 April 2012	4,500,000	–	–	–	4,500,000	1.94	Note
Senior Management and other employees (in aggregate)	30 April 2012	148,540,000	–	–	21,600,000	126,940,000	1.94	Note
Total		263,800,000	–	–	21,600,000	242,200,000		

Note:

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.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	**Unaudited As at 30 June 2014 RMB'000**	Audited As at 31 December 2013 RMB'000
ASSETS			
Non-current assets			
Land use rights	8	**4,004,826**	4,045,028
Property, plant and equipment	7	**17,238,161**	17,471,432
Long-term deposits	10(b)	**149,321**	149,430
Prepayments for non-current assets	10(b)	**72,845**	82,459
Available-for-sale financial asset		**36,345**	41,547
		21,501,498	21,789,896
Current assets			
Inventories		**2,036,053**	1,577,495
Amounts due from customers for contract works	9	**7,015,752**	7,407,254
Trade and bills receivables	10(a)	**1,450,364**	1,318,923
Other receivables, prepayments and deposits	10(b)	**2,882,270**	2,632,931
Pledged deposits		**739,328**	1,131,225
Cash and cash equivalents		**393,528**	117,020
		14,517,295	14,184,848
Total assets		**36,018,793**	35,974,744
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	**606,944**	599,526
Share premium	11	**7,563,497**	7,490,812
Other reserves		**3,527,137**	3,514,818
Accumulated losses		**(9,105,096)**	(6,043,869)
		2,592,482	5,561,287
Non-controlling interests		**524,273**	607,765
Total equity		**3,116,755**	6,169,052

The notes on pages 23 to 59 are an integral part of this condensed consolidated interim financial information.

	Note	**Unaudited As at 30 June 2014 RMB'000**	Audited As at 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	**5,483,886**	7,979,016
Finance lease liabilities – non-current	14	**588,389**	714,843
Advances from a related party – non-current	26(ii)	**–**	243,838
		6,072,275	8,937,697
Current liabilities			
Amounts due to customers for contract works	9	**38,137**	321,778
Trade and other payables	13	**6,218,451**	6,243,083
Advances from a related party – current	26(ii)	**305,978**	–
Borrowings	14	**16,996,301**	13,615,249
Derivative financial instruments	15	**3,054,073**	482,997
Provision for warranty	16	**82,863**	106,731
Finance lease liabilities – current	14	**133,960**	98,157
		26,829,763	20,867,995
Total liabilities		**32,902,038**	29,805,692
Total equity and liabilities		**36,018,793**	35,974,744
Net current liabilities		**(12,312,468)**	(6,683,147)
Total assets less current liabilities		**9,189,030**	15,106,749

The notes on pages 23 to 59 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Note	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Revenue	6	**340,593**	1,578,991
Cost of sales	17	**(948,410)**	(2,149,816)
Gross loss		**(607,817)**	(570,825)
Loss on cancellation of the construction contracts – net			
– De-recognition of revenue	6	**(932,265)**	–
– De-recognition of cost of sales	6	**830,843**	–
– Compensation	6	**(176,143)**	–
		(277,565)	–
Selling and marketing expenses	17	**(9,340)**	(4,614)
General and administrative expenses	17	**(486,487)**	(469,231)
Research and development expenses	17	**(49,943)**	(37,922)
Provision for impairments and delayed penalties	17	**(42,295)**	–
Other income	18	**26,628**	86,006
Other losses – net	19	**(802,615)**	(139,660)
Operating loss		**(2,249,434)**	(1,136,246)
Finance income	20	**11,483**	82,556
Finance costs	20	**(906,696)**	(240,529)
Finance costs – net	20	**(895,213)**	(157,973)
Loss before income tax		**(3,144,647)**	(1,294,219)
Income tax expense	21	**–**	(5,232)
Loss for the period		**(3,144,647)**	(1,299,451)
Loss attributable to:			
Equity holders of the Company		**(3,061,227)**	(1,262,867)
Non-controlling interests		**(83,420)**	(36,584)
Losses per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– Basic and diluted	22	**(0.44)**	(0.18)

The notes on pages 23 to 59 are an integral part of this condensed consolidated interim financial information.

	Note	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Other comprehensive (loss)/income for the period:			
Items that may be reclassified to profit or loss			
– Loss on available-for-sale financial asset		**(1,976)**	(2,565)
– Revaluation surplus on buildings, including buildings under constructions, net of deferred tax		**–**	1,011,726
Other comprehensive (loss)/income for the period, net of tax		**(1,976)**	1,009,161
Total comprehensive loss for the period		**(3,146,623)**	(290,290)
Attributable to:			
Equity holders of the Company		**(3,063,131)**	(285,498)
Non-controlling interests		**(83,492)**	(4,792)
		(3,146,623)	(290,290)
Dividend			
Dividend (expressed in RMB per share)	23	**–**	–

The notes on pages 23 to 59 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

		Unaudited							
		Attributable to equity holders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Revaluation reserves RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014		599,526	7,490,812	3,514,818	-	(6,043,869)	5,561,287	607,765	6,169,052
Loss for the period ended 30 June 2014		-	-	-	-	(3,061,227)	(3,061,227)	(83,420)	(3,144,647)
Other comprehensive loss									
Fair value loss on available-for-sale financial asset		-	-	(1,904)	-	-	(1,904)	(72)	(1,976)
Total comprehensive loss for the six months ended 30 June 2014		-	-	(1,904)	-	(3,061,227)	(3,063,131)	(83,492)	(3,146,623)
Transactions with equity holders in their capacity as owners									
Share-based payment reserve	12	-	-	14,223	-	-	14,223	-	14,223
Issuance of shares upon conversion of convertible bonds	11	7,418	72,685	-	-	-	80,103	-	80,103
Transactions with equity holders		7,418	72,685	14,223	-	-	94,326	-	94,326
Balance at 30 June 2014		606,944	7,563,497	3,527,137	-	(9,105,096)	2,592,482	524,273	3,116,755

The notes on pages 23 to 59 are an integral part of this condensed consolidated interim financial information.

		Unaudited							
		Attributable to equity holders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Revaluation reserves 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 period ended 30 June 2013		–	–	–	–	(1,262,867)	(1,262,867)	(36,584)	(1,299,451)
Other comprehensive income									
Revaluation surplus on buildings, including buildings under constructions		–	–	–	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 loss on available-for-sale financial asset		–	–	(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 23 to 59 are an integral part of this condensed consolidated interim financial information.

INTERIM CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Net cash used in operating activities	**(2,181,156)**	(719,178)
Net cash generated from/(used in) investing activities	**325,338**	(272,752)
Net cash generated from/(used in) financing activities	**2,129,576**	(274,599)
Net increase/(decrease) in cash and cash equivalents	**273,758**	(1,266,529)
Exchange gain/(loss) on cash and cash equivalents	**2,750**	(6,443)
Cash and cash equivalents at beginning of the period	**117,020**	2,143,788
Cash and cash equivalents at end of the period	**393,528**	870,816

The notes on pages 23 to 59 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE 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 2014.

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 2014 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 2013, which was prepared in accordance with International Financial Reporting Standards ("**IFRS**").

2.1 Going concern basis

During the six months ended 30 June 2014, the Group had incurred a loss of approximately RMB3,144,647,000 and had a net operating cash outflow of approximately RMB2,181,156,000 as the Group continued to be affected by the sluggish global shipping market. As at the same date, the Group's current liabilities exceeded its current assets by RMB12,312,468,000. Its total borrowings and finance lease liabilities amounted to RMB23,202,536,000, out of which RMB17,130,261,000 will be due within 12 months. The cash and cash equivalents of the Group amounted to RMB393,528,000 as at 30 June 2014.

Included in the Group's borrowings were certain current borrowings of RMB262,000,000, which were overdue and have not been renewed or repaid subsequent to 30 June 2014. In addition, the Group failed to comply with certain restrictive financial covenants of a current bank borrowing totaling RMB609,233,000 as at 30 June 2014. The Group is seeking a waiver for this borrowing and has obtained the preliminary consent from the relevant bank. As at 30 June 2014, certain loan principal repayments and interest payments were overdue which may cause the relevant current and non-current bank loans totaling RMB4,698,326,000 and RMB3,867,968,000, respectively, as at 30 June 2014 to become immediately repayable should the banks enforce their rights under the loan agreements. In July 2014, the Group has subsequently settled all the interest payments of these loans with current (excluding the aforementioned overdue current borrowings of RMB262,000,000) and non-current principal amounts of RMB4,436,326,000 and RMB3,867,968,000, respectively, as at 30 June 2014. As of the date of the approval of this condensed consolidated interim financial information, these banks have not taken any action against the Group.

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

In respect of the cancellation of certain shipbuilding contracts (Note 6), the Group has refunded instalments and paid interest penalties totaling RMB1,212,645,000 to certain customers during the six months ended 30 June 2014. These refunds and interest payments were financed by additional borrowings of the Group.

The above conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

As disclosed in the annual report of the Company for the year ended 31 December 2013, the directors of the Company have taken certain measures to mitigate the liquidity pressure and to improve financial position of the Group. During the six months ended 30 June 2014, the Group had the following in place:

i) The Company successfully issued five convertible bonds in 2014. The net proceeds from these convertible bonds were HK$3,985,000,000 (equivalent to approximately RMB3,163,094,000) in aggregate;

ii) In March 2014, the Group entered into a "Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement" (《江蘇熔盛重工有限公司債務優化銀團框架協議》) (the "**Framework Agreement**") with a group of banks in the Jiangsu Province of the People's Republic of China ("**PRC**"), with which the Group had total outstanding current and non-current loans amounting to RMB9,022,581,000 and RMB1,583,713,000 as at 30 June 2014, respectively, to extend the repayment and renewal terms to the end of year 2015. In May 2014, the Group completed the renewal of the facilities with one of these banks and extended the facilities to May 2015, from which the Group has obtained current borrowings amounting to RMB2,376,780,000 as at 30 June 2014. For other banks which have also taken part in the Framework Agreement, the Group is now actively negotiating with these banks on the terms and conditions of the extension and renewal of borrowings;

iii) The Group continued to implement measures to improve the operating cash flows, including (1) re-designing its operation flow and controlling costs for its existing shipbuilding orders, (2) maximising sales efforts, including securing additional shipbuilding orders, in particular in bulk carriers which are of better conditions compared with before, and (3) obtaining the appropriate project-based financing and establishing strategic cooperation with key suppliers with a view to reducing costs of supplies. During the six months ended 30 June 2014, the Group had also successfully secured new shipbuilding contracts for the construction of six vessels. In addition, the Group received instalment payments of approximately RMB756,475,000 from its shipbuilding customers during the six months ended 30 June 2014.

iv) In relation to the bank loan for which the Group failed to comply with the relevant loan covenants or did not repay on time, the Group is in the process of negotiating with the relevant banks to either extend the repayment terms or obtain the waiver from complying with the relevant covenants.

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

v) For the remaining current bank loans not covered in the above Framework Agreement, the directors expect that they will either be extended, renewed or repaid upon expiry. Subsequent to the end of the reporting period, loans in the aggregate principal amount of RMB104,874,000 were successfully renewed and are repayable from March to July 2015.

vi) In December 2013, Mr. Zhang Zhi Rong ("**Mr. Zhang**"), an existing major shareholder of the Company, has agreed to provide security-free and interest-free revolving facility up to March 2015 to the Group for an amount up to RMB3,000,000,000. As at 30 June 2014, Mr. Zhang has provided interest-free loans to the Group totaling approximately RMB305,978,000 (Note 26).

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of twelve months from the reporting date. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the date of the statement of financial position. Accordingly, the directors are satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the successful fulfillment of the following plans:

i) securing the financing arrangements with a group of banks under the above Framework Agreement, at terms and conditions that are acceptable to the Group, so that the Group would be able to extend the repayment terms of the related current and non-current loans amounting to RMB9,022,581,000 and RMB1,583,713,000, respectively, to the end of year 2015;

ii) seeking alternative sources of financing with other banks not covered in the Framework Agreement mentioned in (i) above for the renewal, extension, or obtaining additional new financing to repay the remaining current bank loans upon expiry;

iii) negotiating with the relevant banks to obtain waivers or extend the repayment terms on those outstanding current bank loans which (1) the Group has failed to comply with certain financial covenants but has obtained the preliminary consent on the waiver from the relevant bank amounted to RMB609,233,000; and/or (2) were overdue in principal repayments and have not been renewed or repaid by the Group subsequent to the end of the reporting period amounted to RMB262,000,000;

iv) obtaining additional financial support from Mr. Zhang as needed;

2 Basis of preparation (Continued)

2.1 Going concern basis (Continued)

v) requesting the convertible bondholders not to exercise their redemption options to require the Company to redeem the outstanding convertible bonds as at 30 June 2014, as all these convertible bonds contain terms that allow the bondholders to early redeem the whole or any part of the principal amount outstanding when the market price of the Company's shares falls below a certain level or after one year of the issuance of the respective convertible bonds; and

vi) implementing its operations plan described above to control costs and generate adequate cash flows.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the condensed consolidated interim financial information.

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 2013, 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 2014:

- IAS 32 (Amendment) – Financial Instruments: Presentation
- IAS 36 (Amendment) – Recoverable Amount Disclosures for Non-financial Assets
- IAS 39 (Amendment) – Novation of derivatives
- IFRS 10, IFRS 12 and IAS 27 (revised 2011) (Amendments) – Investment Entities
- IFRIC 21 – Levies

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

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

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 this 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 2013.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange rate risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2013.

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 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 terms (Note 2.1).

During the six months ended 30 June 2014, the Group has incurred a loss of approximately RMB3,144,647,000. In addition, the Group has had significant net operating cash outflows of approximately RMB2,181,156,000 due to the market downturn and cancellation of shipbuilding contracts. As at 30 June 2014, the Group's current liabilities exceeded its current assets by RMB12,312,468,000. Its total borrowings and finance lease liabilities amounted to RMB23,202,536,000, out of which RMB17,130,261,000 will be due within 12 months. The cash and cash equivalents of the Group amounted to RMB393,528,000 as at 30 June 2014. Included in the Group's borrowings were certain current borrowings of RMB262,000,000, which were overdue and have not been renewed or repaid subsequent to the end of the reporting period. As of the date of the approval of this condensed consolidated interim financial information, these banks have not taken any action against the Group.

5 Financial risk management (Continued)

5.2 Liquidity risk (Continued)

In view of these adverse factors, a series of remedial measures to mitigate the liquidity pressure have been taken to improve its financial and liquidity position of the Group as a whole. Management continued to negotiate with principal banks for the renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates. In particular, the Group has entered into a Framework Agreement in March 2014 with more than 10 PRC financial institutions, led by Bank of China, The Export-Import Bank of China and China Minsheng Bank in the Jiangsu Province to extend the repayment and renewal terms of credit facilities granted to the Group by more than 10 PRC financial institutions to the end of year 2015. The credit facilities cover but are not limited to the following facilities: letters of credit, project financing, trading financing, working capital loans, medium-term loans, trust and factoring arrangements.

In relation to those bank loans for which the Group failed to comply with the relevant loan covenants or did not repay on time, the Group (1) obtained waivers from the lenders from complying with the relevant covenants in April 2014 in relation to certain current bank borrowings of RMB773,447,000 and non-current bank borrowings totaling RMB995,324,000; and (2) is in the process of negotiating with the relevant banks to either extend the repayment terms or obtain waivers from complying with the relevant covenants.

During the six months ended 30 June 2014, the Company also issued five guaranteed convertible bonds and the net proceeds from these convertible bonds were HK$3,985,000,000 (equivalent to approximately RMB3,163,094,000) in aggregate (Note 14).

Subsequent to the end of the reporting period, loans in the aggregate principal amount of RMB1,606,074,000 were successfully renewed, and repayable from March to July 2015. Other than bank borrowings, the Group is actively seeking alternative sources of financing.

5.3 Credit risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables, prepayments and amounts due from customers for contract works. As at 30 June 2014, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC and Hong Kong which management believes are of high credit quality and without significant credit risk.

5 Financial risk management (Continued)

5.3 Credit risk (Continued)

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 market downturn. The Group is exposed to concentration of credit risk as the three largest debtors of the Shipbuilding segment represented over 60% (2013: over 50%) of the total trade receivables (before impairment provisions) of the Group as at 30 June 2014. 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 regularly reviews the credit profiles, business prospects, background and financial capability of the customers. As a result, management has made a provision for doubtful receivable of RMB2,195,304,000 as at 30 June 2014 (2013: RMB2,195,304,000).

For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial positions, past experience and other factors, before granting credit limits. The Group has a large number of customers on this segment and has no significant concentration of credit risk. As at 30 June 2014, trade receivables of RMB310,367,000 (2013: RMB270,402,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for.

For credit exposures to other receivables and prepayments, management assesses the credit quality of the counterparties on a case-by-case basis, taking into account their financial positions, past experience, amounts and timing of expected receipts and other factors. As at 30 June 2014, other receivables and prepayments amounted to RMB749,499,000 were impaired and provided for (2013: RMB892,381,000).

5 Financial risk management (Continued)

5.4 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial asset	–	–	36,345	36,345
Total assets	–	–	36,345	36,345
Liabilities				
Financial derivative component of borrowings	–	(3,054,073)	–	(3,054,073)
Total liabilities	–	(3,054,073)	–	(3,054,073)

5 Financial risk management (Continued)

5.4 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial asset	–	–	41,547	41,547
Total assets	–	–	41,547	41,547
Liabilities				
Financial derivative component of borrowings	–	(481,459)	–	(481,459)
Interest rate swap	–	(1,538)	–	(1,538)
Total liabilities	–	(482,997)	–	(482,997)

There were no transfers between levels 1, 2 and 3 during the period.

There were no other changes in valuation techniques during the period.

Financial instruments in level 2 are those that are not traded in an active market (for example, over-the-counter derivatives), the fair value of which is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

5 Financial risk management (Continued)

5.4 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the period ended 30 June 2014.

	Available-for-sale financial asset RMB'000
Balance at 1 January 2013	40,000
Fair value loss on revaluation recognised in other comprehensive income	(2,565)
Balance at 30 June 2013	37,435
Balance at 1 January 2014	41,547
Reduction in capital	(3,226)
Fair value loss on revaluation recognised in other comprehensive income	(1,976)
Balance at 30 June 2014	36,345

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 this 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 geographic and product perspectives. 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 and including loss on cancellation of the construction contracts. The segment information provided to the Executive Directors for the reportable segments for the six months ended 30 June 2014 is as follows:

6 Segmental information (Continued)

	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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**311,268**	1,479,737	**-**	-	**11,278**	11,910	**79,209**	187,017	**401,755**	1,678,664
Inter-segment revenue	**-**	-	**-**	-	**(3,077)**	-	**(58,085)**	(99,673)	**(61,162)**	(99,673)
Revenue from external customers	**311,268**	1,479,737	**-**	-	**8,201**	11,910	**21,124**	87,344	**340,593**	1,578,991
Loss on cancellation of the construction contracts – net	**(277,565)**	-	**-**	-	**-**	-	**-**	-	**(277,565)**	-
Segment results	**(836,422)**	(509,603)	**-**	-	**(17,353)**	(12,747)	**(31,607)**	(48,475)	**(885,382)**	(570,825)
Selling and marketing expenses									**(9,340)**	(4,614)
General and administrative expenses									**(486,487)**	(469,231)
Research and development expenses									**(49,943)**	(37,922)
Provision for impairments and delayed penalties									**(42,295)**	-
Other income									**26,628**	86,006
Other losses – net									**(802,615)**	(139,660)
Finance costs – net									**(895,213)**	(157,973)
Loss before income tax									**(3,144,647)**	(1,294,219)

No revenue was derived from the Offshore Engineering segment for the six months ended 30 June 2014 (2013: nil).

During the six months ended 30 June 2014, revenue from the top customer of the Shipbuilding segment amounted to RMB132,848,000 (2013: RMB388,075,000), representing 39.0% of the total revenue (2013: 28.7%).

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 period ended 30 June 2014 (2013: same).

The top three customers of the Group amounted to RMB296,196,000 (2013: RMB809,086,000), representing 87.0% of the total revenue (2013: 60.2%).

During the six months ended 30 June 2014, the Group agreed with certain customers, on a mutual basis, to terminate eight shipbuilding contracts. According to the agreements, the Group had to refund to these customers the instalments received from them and to pay interest on these instalments at the interest rates in accordance with the contracts. Accordingly, the Group de-recognised revenue and cost of sales of RMB932,265,000 and RMB830,843,000, respectively, and recorded a compensation of RMB176,143,000, which represented the interest penalties as negotiated and agreed for such cancellations. After the cancellation, two vessels were sold to a third party customer at an aggregate consideration of USD108,000,000 (approximately RMB664,502,000).

6 Segmental information (Continued)

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 is analysed as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
China	**175,013**	643,977
Brazil	**132,848**	69,040
India	**115,749**	70,295
Greece	**34,272**	557,861
Turkey	**5,500**	114,611
Norway	**5,434**	44,822
Germany (note a)	**(128,223)**	4,949
Israel	**–**	72,732
Others	**–**	704
	340,593	1,578,991

Note:

(a) The reduction in revenue from a customer during the period was mainly due to the change in contract price.

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

	Property, plant and equipment RMB'000
Six months ended 30 June 2014	
Revalued amounts	
Opening amounts as at 1 January 2014	**17,471,432**
Additions	**65,359**
Disposals	**(9,660)**
Depreciation (Note 17)	**(288,970)**
Closing amounts as at 30 June 2014	**17,238,161**
Six months ended 30 June 2013	
Revalued amounts	
Opening amounts as at 1 January 2013	18,616,499
Additions	546,007
Revaluation surplus	1,291,773
Disposals	(1,159)
Depreciation	(265,321)
Closing amounts as at 30 June 2013	20,187,799

Had the Group's buildings, including buildings under construction been carried at historical cost less accumulated depreciation and impairment losses, their net book amounts would have been the same as to the revalued amounts.

8 Land use rights

	Land use rights RMB'000
Six months ended 30 June 2014	
Opening net book amounts as at 1 January 2014	**4,045,028**
Amortisation (Note 17)	**(40,202)**
Closing net book amounts as at 30 June 2014	**4,004,826**
Six months ended 30 June 2013	
Opening net book amounts as at 1 January 2013	875,666
Additions	3,240,745
Amortisation	(17,899)
Closing net book amounts as at 30 June 2013	4,098,512

9 Construction contracts

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**12,872,130**	14,967,290
Less: Progress billings	**(5,894,515)**	(7,881,814)
Net position for ongoing contracts	**6,977,615**	7,085,476
Presented as:		
Amounts due from customers for contract works	**7,015,752**	7,407,254
Amounts due to customers for contract works	**(38,137)**	(321,778)
	6,977,615	7,085,476

Bank borrowings and refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB6,526,842,000 as at 30 June 2014 (2013: RMB9,106,777,000).

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

(a) Trade and bills receivables

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Trade receivables	**3,951,035**	3,784,629
Less: Provision for doubtful debts	**(2,505,671)**	(2,465,706)
	1,445,364	1,318,923
Bills receivables	**5,000**	–
Total	**1,450,364**	1,318,923

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Not yet due	**18,393**	36,020
Past due		
1 – 180 days	**58,205**	55,071
181 – 360 days	**139,251**	60,431
Over 360 days	**1,234,515**	1,167,401
	1,431,971	1,282,903
Total	**1,450,364**	1,318,923

As at 30 June 2014, trade receivables of RMB1,431,971,000 (2013: RMB1,282,903,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is listed above.

As at 30 June 2014, trade receivables of RMB2,195,304,000 (2013: RMB2,195,304,000) and RMB310,367,000 (2013: RMB270,402,000) related to certain customers of the Shipbuilding segment and the Engineering Machinery segment were impaired and provided for respectively. These trade receivables are aged over 360 days.

The credit terms 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 2014 RMB'000	As at 31 December 2013 RMB'000
Receivables from agents (i)	**307,788**	300,839
Other receivables		
– Third parties (ii)	**762,855**	1,328,285
– Deposits for the Framework Agreement (iii)	**200,454**	59,570
VAT receivables	**949,998**	770,562
Deposits (iv)	**167,757**	169,196
Prepayments for intangible assets, property, plant and equipment		
– Third parties	**306,855**	318,188
Prepayments for raw materials and production costs		
– Third parties (v)	**1,091,225**	748,442
Prepayments – others		
– Third parties	**67,003**	62,119
Less: allowance for impairment of other receivables and prepayments	**(749,499)**	(892,381)
	3,104,436	2,864,820
Less: Non-current deposits and prepayments	**(222,166)**	(231,889)
Current portion	**2,882,270**	2,632,931

(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. As at 30 June 2014, receivables from agents amounted to RMB118,958,000 (2013: RMB118,958,000) were impaired, as a result of the management assessment on the recoverability of these receivables.

(ii) Other receivables as at 30 June 2014 included RMB630,000,000 (2013: 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) from The People's Government of Quanjiao County (安徽省全椒縣人民政府) (the "**Vendor**") (Note 24). Total deposits of RMB1,153,890,000 were paid in 2011 which comprised RMB630,000,000 deposit paid to Anhui Province 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 paid 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. In 2012, RMB523,890,000, being the deposit previously paid to 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 was accepted by Anhui Province Higher People's Court (安徽省高級人民法院) on 11 July 2013. On 19 November 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. received a counter-claim by Quanjiao People's Government (Note 24). After obtaining the advice from an external legal counsel, RMB86,000,000 was provided for this litigation case as at 30 June 2014. Subsequent to 30 June 2014, this case has been settled, with a settlement fee of RMB86,000,000 payable to the Vendor, and the balance of the deposit of RMB630 million to be returned to Jiangsu Rongsheng Heavy Industries Co., Ltd., save for a sum of RMB6,450,000, which shall be temporarily retained by Anhui Property Exchange pending further negotiations between the relevant parties. As such, both the proceedings and the counter-claim are considered to have been fully settled.

10 Trade and bills receivables, other receivables, prepayments and deposits (Continued)

(b) Other receivables, prepayments and deposits (Continued)

(ii) (Continued)

In 2011, the Group placed a deposit of RMB162,170,000 pursuant to a non-binding memorandum of intent to acquire certain land use rights 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 to 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. As at 30 June 2014, RMB60,424,000 has been received. On the basis of its review of the available evidence, management is of the view that its recoverability is in doubt. The remaining deposit amounted to RMB98,018,000 is therefore fully provided for (2013: RMB98,018,000).

(iii) As at 30 June 2014, according to the Framework Agreement, the Group placed a deposit of RMB200,454,000 (2013: RMB50,000,000) into a bank account which was under the name of the local government. Such deposit is to be used for the payments of the Group's operating expenses and the renewal of the Group's bank borrowings.

(iv) Finance lease is secured by certain refundable deposits with an aggregate carrying value of RMB136,000,000 as at 30 June 2014 (2013: RMB136,000,000). As at 30 June 2014, the Group has a non-current time deposit of RMB13,430,000 (2013: RMB13,430,000) at an interest rate of 3.6% per annum and with a maturity date on 27 August 2015.

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

(v) According to the contracts entered into with certain suppliers, the Group placed deposits and prepayments to secure the supply of raw materials. As at 30 June 2014, the Group prepaid RMB697,407,000 to the five largest suppliers (2013: RMB349,283,000).

(vi) Except as described above, the provision for impairments of other receivables and prepayments represented provision for certain prepayments for raw materials and property, plant and equipment and other receivables, on which management has performed assessment on their recoverability. Based on management's assessment, there may be risks that the counterparties may not have the financial ability to fulfil their contractual obligations. As a result, a total provision of RMB446,523,000 (2013: RMB655,405,000) was provided for these prepayments and other receivables.

As at 30 June 2014, no other receivables were past due (2013: 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 2014	7,000,000,000	700,000,000	599,526	7,490,812	8,090,338
Shares issued upon conversion of convertible bonds (note a)	93,457,943	9,345,794	7,418	72,685	80,103
Ordinary shares of HK$0.1 each at 30 June 2014	7,093,457,943	709,345,794	606,944	7,563,497	8,170,441

Note:

(a) On 24 June 2014, convertible bonds with a principal amount of HK$100,000,000 were converted into 93,457,943 ordinary shares of the Company at the price of HK$1.07 per share. Accordingly, 93,457,943 ordinary shares of HK$0.1 each of the Company were issued upon such conversion.

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 of 62,500,000 share options (the "**Pre-IPO Share Options**") under the Pre-IPO Share Option Scheme (the "**Pre-IPO Share Option Scheme**"). The exercise price per share under the Pre-IPO Share Option Scheme shall be equal to a 50% discount to the Offer Price (i.e. HK$4 per share). Each of the Pre-IPO Share Option 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 2014, 30,200,000 share options were exercisable (31 December 2013: 34,500,000).

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
At 1 January 2014	**4**	**43,125**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**4**	**(5,375)**
At 30 June 2014	**4**	**37,750**

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 2013, 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 2013 (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 2014, 96,880,000 share options were exercisable (31 December 2013: 52,760,000).

The fair value of the share options granted on 30 April 2013, 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)

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	1.94	348,580
Granted	–	–
Exercised	–	–
Lapsed	1.94	(41,730)
At 30 June 2013	1.94	306,850
At 1 January 2014	**1.94**	**263,800**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**1.94**	**(21,600)**
At 30 June 2014	**1.94**	**242,200**

The total expense recognised in the condensed consolidated interim statement of comprehensive income for share options granted to directors and employees was approximately RMB14,223,000 during the six months ended 30 June 2014 (2013: RMB40,350,000). During the six months ended 30 June 2014, no expense (2013: RMB11,560,000) is recognised for the Pre-IPO Share Scheme and RMB14,223,000 (2013: RMB28,790,000) is recognised 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 2014 RMB'000	As at 31 December 2013 RMB'000
Trade payables	1,251,806	1,734,475
Bills payables		
– Third parties	500,386	574,610
– Related parties (Notes 26(i))	50,690	52,190
Other payables for purchase of property, plant and equipment		
– Third parties	489,314	482,360
– Related parties (Notes 26(i))	557,513	175,659
Other payables		
– Third parties	1,315,646	1,335,149
– Related parties (Notes 26(i))	–	28,002
Receipt in advance	214,973	147,742
Accrued expenses		
– Payroll and welfare	119,876	116,118
– Design fees	70,289	68,407
– Utilities	20,385	30,475
– Outsourcing and processing fees	564,039	558,573
– Others	413,911	365,024
Provision for litigation cases	210,235	149,402
Provision for delayed penalties	439,388	407,883
VAT payables	–	1,344
Other tax-related payables	–	15,670
Current trade and other payables	6,218,451	6,243,083

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
0-30 days	102,318	154,312
31-60 days	50,667	88,836
61-90 days	61,030	39,596
Over 90 days	1,588,867	2,078,531
	1,802,882	2,361,275

14 Borrowings

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Non-current		
Bank borrowings	**4,863,291**	5,997,016
Convertible bonds	**620,595**	–
The medium-term notes	**–**	1,982,000
Finance lease liabilities	**588,389**	714,843
	6,072,275	8,693,859
Current		
Bank borrowings	**13,296,450**	12,841,859
Convertible bonds	**1,717,851**	773,390
The medium-term notes	**1,982,000**	–
Finance lease liabilities	**133,960**	98,157
	17,130,261	13,713,406
Total borrowings	**23,202,536**	22,407,265

14 Borrowings (Continued)

Movements in borrowings are analysed as follows:

	RMB'000
Six months ended 30 June 2014	
Opening amounts as at 1 January 2014	**22,407,265**
Proceeds from new bank borrowings	**8,279,654**
Repayments of borrowings	**(8,958,788)**
Repayments of finance lease liabilities	**(90,651)**
Convertible bonds – liability component (Note a)	**1,565,056**
Closing amount as at 30 June 2014	**23,202,536**
Six months ended 30 June 2013	
Opening amounts 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 amounts as at 30 June 2013	24,849,934

Note:

(a) The movement of convertible bonds are shown in the session of convertible bonds.

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Within 1 year	**17,130,261**	13,713,406
Between 1 and 2 years	**2,541,888**	5,194,763
Between 2 and 5 years	**3,111,387**	2,680,096
Over 5 years	**419,000**	819,000
	23,202,536	22,407,265

14 Borrowings (Continued)

Borrowings and finance lease liabilities amounting to RMB21,220,536,000 as at 30 June 2014 (2013: RMB19,024,407,000) were secured by the raw materials, land use rights, buildings, plant and machinery, vessels under constructions, pledged deposits, available-for-sale financial asset, guarantee of the Group, guarantee from a director of the Company, certain shareholders of the Company and the related parties, and land use rights, buildings, plant and equipment and share capital of certain related parties.

As at 30 June 2014, a current borrowing totaling RMB609,233,000 of the Group required the Group to maintain consolidated tangible net worth at any time of not less than RMB5,000,000,000, the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 4.0 to 1.0. As at 30 June 2014, the Group failed to comply with these covenants. As of the date of the approval of this condensed consolidated interim financial information, the Group is seeking a waiver for this borrowing and has obtained the preliminary consent from the relevant bank.

As at 30 June 2014, a borrowing with current portion and non-current portion amounted to RMB63,447,000 and RMB995,324,000 required Jiangsu Rongsheng Heavy Industries Co., Ltd., a subsidiary of the Group, to comply with certain restrictive financial covenants, including (i) debt to asset ratio not exceeding 0.75; (ii) contingent liabilities not exceeding 100%; and (iii) no continuous operating cash outflow for a period of one year. As at 30 June 2014, this subsidiary has obtained the waiver from complying with these covenants.

As at 30 June 2014, a current borrowing from a bank amounting to RMB710,000,000 required Jiangsu Rongsheng Heavy Industries Co., Ltd., a subsidiary of the Group, to maintain the debt to asset ratio not exceeding 0.8. As at 30 June 2014, this subsidiary had obtained the waiver from complying with this covenant.

As at 30 June 2014, a current borrowing from a bank amounting to RMB2,376,780,000 required Jiangsu Rongsheng Heavy Industries Co., Ltd., a subsidiary of the Group, to maintain the debt to asset ratio not exceeding 0.9 and that the total guarantee amount to the external entities should not exceed two times of the entity's total net assets. As at 30 June 2014, this subsidiary complied with these covenants.

Included in the Group's borrowings were certain current bank loans of approximately RMB262,000,000, which were overdue and have not been renewed or repaid subsequent to 30 June 2014.

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

The Group has the following undrawn borrowing facilities:

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Expiring within one year	**1,760,922**	2,382,962
Expiring beyond one year	**–**	744,000
	1,760,922	3,126,962

14 Borrowings (Continued)

Convertible bonds

During the six months ended 30 June 2014, the Company issued five guaranteed convertible bonds and the net proceeds from these convertible bonds were HK$3,985,000,000 (equivalent to approximately RMB3,163,094,000) in aggregate.

As at 30 June 2014, the Group had six guaranteed convertible bonds outstanding, all of which had coupon rate of 7%. The table below summarised the details and features of these guaranteed convertible bonds:

Guaranteed convertible bonds	Principal	Closing date	Issuance date	Maturity date	Conversion period	Conversion price as at 30 June 2014
1st	HK$1,400,000,000	7 August 2013	7 August 2013	30 months after the closing date	After issue date up to maturity date	HK$0.90 per share
2nd	HK$1,000,000,000	9 January 2014	9 January 2014	30 months after the closing date	After issue date up to maturity date	HK$0.94 per share
3rd	HK$530,000,000	30 April 2014	30 April 2014	30 months after the closing date	After issue date up to maturity date	HK$0.97 per share
4th	HK$470,000,000	20 May 2014	20 May 2014	30 months after the closing date	After issue date up to maturity date	HK$0.99 per share
5th	HK$1,000,000,000	20 June 2014	20 June 2014	30 months after the closing date	After issue date up to maturity date	HK$1.04 per share
6th	HK$900,000,000	20 June 2014	20 June 2014	30 months after the closing date	After issue date up to maturity date	HK$1.07 per share

Subject to the following conditions, amongst others, the Company has the right to redeem all or any part of the principal amount of the convertible bonds outstanding. (1) The Company may redeem the respective convertible bonds at any time up to (and excluding) the commencement of the 7 calendar day-period ending on the (and including) maturity date, when the principal amount of the relevant convertible bonds outstanding is equal to or less than 10% of its original aggregate principal amount issued by the Company. Except for the 1st convertible bonds, whose redemption price is equal to 100% of the principal amount plus the unpaid interest, the redemption price of all the other five convertible bonds is equal to 100% of the principal amount plus the unpaid interest and the Compensation Amount (as defined in the terms and conditions of the respective convertible bonds). (2) The Company may redeem the respective bonds at any time on or after the second anniversary from the closing date and up to the third business day prior to the maturity date. Except for the 1st convertible bonds, whose redemption price is equal to 105% of the principal amount plus the unpaid interest, the redemption price of all the other five convertible bonds is equal to 100% of the principal amount plus the unpaid interest and the Compensation Amount.

14 Borrowings (Continued)

Convertible bonds (Continued)

Subject to certain conditions, the bondholders have the right to require the Company to redeem all or part of the convertible bonds. Any bondholders may (1) at any time on or after the 12 months from the closing date and up to the third business day prior to the maturity date; or (2) at any time where the Current Market Price (as defined in the terms and conditions of the respective convertible bonds) is equal to or below HK$0.6 up to the third business day prior to the maturity date, to require the Company to redeem the whole or any part of the principal amount outstanding under the bonds at a value at 100% of the principal amount plus the unpaid interest and Compensation Amount (as defined in the terms and conditions of the respective convertible bonds), except for the 1st convertible bonds whose redemption price is 103% of the principal amount plus the unpaid interest.

Conversion price of all the convertible bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues and other dilutive events which may have impacts on the rights of the holders.

The fair value of the above convertible bonds was determined by an independent qualified valuer based on the COX, Ross and Rubinstein Binomial Model. The fair value of the liability component on initial recognition was valued as the proceeds of the convertible redeemable bond (net of transaction cost) minus the fair value of the embedded derivative. The fair value of the embedded derivative was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the embedded derivatives and changes in fair value would be recognised in the condensed consolidated interim statement of comprehensive income. During the six months ended 2014, changes in fair value of the embedded derivatives amounted to RMB807,514,000 (2013: nil).

The conversion feature of the above convertible bonds fails the fixed-for-fixed requirement for equity classification. The conversion option, together with all other options, are therefore regarded as a single embedded derivative with changes in fair value through profit or loss in accordance with IAS 39, "Financial instruments: recognition and measurement". For details, please refer to Note 15.

All of the convertible bonds are guaranteed by Mr. Zhang, the Company's single largest shareholder.

The movements of convertible bonds recognised in the condensed consolidated statement of financial position are shown as follows:

	RMB'000
Carrying amounts as at 1 January 2014	773,390
Issuance of convertible bonds	3,168,719
Fair value of the embedded derivatives	(1,803,342)
Transaction cost	(11,859)
Conversion to ordinary shares	(32,378)
Interest expenses (Note 20)	233,217
Exchange losses	10,699
Carrying amounts as at 30 June 2014	2,338,446

14 Borrowings (Continued)

Convertible bonds (Continued)

Interest expenses on the liability component of the convertible bonds are calculated using the effective interest method, applying the effective interest rate ranged from 28% to 57% per annum to the liability component of the respective convertible bonds.

The fair value of the liability component of the convertible bonds at 30 June 2014 amounted to RMB3,608,875,000 (31 December 2013: RMB973,699,000). The fair value is calculated using the market price of the convertible bonds on the date of the statement of the financial position (or the nearest day of trading).

On 24 June 2014, convertible bonds with a principal amount of HK$100,000,000 were converted into 93,457,943 ordinary shares of the Company at the price of HK$1.07 per share.

15 Derivative financial instruments

	30 June 2014		31 December 2013	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Interest rate swap – Group and Company	–	–	–	1,538
Embedded derivatives in convertible bonds – Group and Company	–	3,054,073	–	481,459

15 Derivative financial instruments (Continued)

The fair value of the embedded derivatives in convertible bonds as at 30 June 2014 is determined using the COX, Ross and Rubinstein Binomial Model (the "**Model**"). The table below shows the significant inputs into the Model:

Guaranteed convertible bonds	Principal	Issuance date	Stock price of the underlying shares (HK$)	Exercise price (HK$)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
1st	HK$1,400,000,000	7 August 2013	1.56	1,400,000,000	1.6	0.2641	0	44
2nd	HK$1,000,000,000	9 January 2014	1.56	1,000,000,000	2.0	0.3806	0	44
3rd	HK$530,000,000	30 April 2014	1.56	530,000,000	2.3	0.5057	0	43
4th	HK$470,000,000	20 May 2014	1.56	470,000,000	2.4	0.5284	0	42
5th	HK$1,000,000,000	20 June 2014	1.56	1,000,000,000	2.5	0.5621	0	40
6th	HK$900,000,000	20 June 2014	1.56	900,000,000	2.5	0.5621	0	40

The volatility measured is based on the daily share price volatility of the Company for an observation period calculated by the difference between the valuation date and maturity date and adjusted by the difference of Hang Seng Index historical and implied volatility as of the valuation dates.

16 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 end of the reporting period for expected warranty claims for repairs and returns based on management estimates and industry practice.

Movements in provision for warranty for the Group are as follows:

	2014 **RMB'000**	2013 RMB'000
At 1 January	**106,731**	146,655
Provision for the period		
– Charged to for the period	**127**	9,886
– Utilisation during the period	**(7,157)**	(1,681)
– Reversal during the period upon expiring of the warranty period	**(16,838)**	(30,784)
At 30 June	**82,863**	124,076

17 Expenses by nature

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Raw materials and consumable used	**582,519**	1,459,268
Amortisation of land use rights (Note 8)	**40,202**	17,899
Depreciation of property, plant and equipment (Note 7)	**288,970**	265,321
Amortisation of intangible assets	**–**	16,520
Employee benefit expenses	**198,972**	232,555
Operating lease payments	**13,515**	29,308
Auditors' remunerations	**1,500**	1,500
Outsourcing and processing costs	**104,512**	339,848
Commission expenses	**7,176**	42,094
Design fees	**1,684**	11,766
Agency fees	**1,388**	1,032
Legal and consultancy fees	**36,621**	44,433
Other tax-related expenses and customs duties (Note a)	**10,033**	26,330
Bank charges (include refund guarantee charges)	**45,310**	45,223
Provision for warranty		
– charged for the period (Note 16)	**127**	9,886
– reversal upon expiring of the warranty period (Note 16)	**(16,838)**	(30,784)
Office expenses and utilities	**43,088**	66,631
Inspection fees	**2,716**	10,502
Insurance premiums	**7,014**	7,370
Storage and handling charges	**15,232**	25,602
Advertising, promotion and marketing expenses	**4,316**	6,858
Royalty expenses	**4,585**	19,853
Provision for inventories	**34,332**	2,241
Provision for delayed penalties	**145,212**	–
Impairment provisions/(reversal) of		
– trade receivables, net	**39,965**	–
– other receivables and prepayments	**(142,882)**	–
Provision for litigations	**60,833**	–
Miscellaneous expenses	**6,373**	10,327
Total cost of sale, selling and marketing expenses, general and administrative expenses, research and development expenses and provision for impairments and delayed penalties	**1,536,475**	2,661,583

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.

18 Other income

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Government grants (Note a)	**467**	1,786
Rental income (Note b)	**16,982**	–
Others	**9,179**	84,220
Total	**26,628**	86,006

Note:

(a) Government grants represented cash received from Jiangsu Government authority during the six months ended 30 June 2014 (2013: from Jiangsu and Anhui Government authorities).

(b) Rental income represented the income from the leasing of a dock to a third party lessee during the six months ended 30 June 2014 (2013: nil).

19 Other losses – net

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Fair value change on derivative instruments		
– interest rate swap	**1,538**	2,098
Fair value change on derivative instruments		
– embedded derivatives in convertible bonds	**(807,514)**	–
Net foreign exchange gains/(losses)	**3,361**	(141,758)
Total	**(802,615)**	(139,660)

20 Finance income and costs

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**11,483**	34,765
Net foreign exchange gains on financing activities	**–**	47,791
	11,483	82,556
Finance costs:		
Interest expenses		
– Borrowings and finance lease liabilities	**679,121**	839,816
– Convertible bonds (Note 14)	**233,217**	–
Net foreign exchange losses on financing activities	**18,124**	–
Less: borrowing costs capitalised	**(23,766)**	(599,287)
	906,696	240,529
Net finance costs	**(895,213)**	(157,973)

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation in the six months ended 30 June 2014 was 5.85% (2013: 6.74%).

21 Income tax expense

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current income tax:		
– PRC Corporate Income Tax ("CIT")	**–**	–
Deferred income tax	**–**	5,232
Total income tax expense	**–**	5,232

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

No Hong Kong profits tax has been provided for during the six months ended 30 June 2014 (2013: nil), as the Group had no assessable profit in Hong Kong.

21 Income tax expense (Continued)

Income tax expense is recognised based on management's estimation of the weighted average annual income tax rate expected for the full financial year. Management expected that there is no income tax expense for the year ended 31 December 2014 since it is not expected to have tax assessable profit (2013: same).

22 Losses per share

(a) Basic

Basic losses per share are 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	
	2014	2013
Losses attributable to equity holders of the Company (RMB'000)	**(3,061,227)**	(1,262,867)
Weighted average number of ordinary shares in issue	**7,003,781,535**	7,000,000,000
Losses per share (RMB per share)	**(0.44)**	(0.18)

(b) Diluted

Diluted losses per share are the same as basic losses per share as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2014 (2013: same).

23 Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2014 (2013: nil).

24 Contingencies

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Contingencies:		
Refund guarantees (Note a)	4,923,474	6,143,433
Litigation (Note b)	1,198,366	1,261,158
Financial guarantees (Note c)	152,901	165,475
	6,274,741	7,570,066

Note:

(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 2014, refund guarantees are by secured raw materials, land use rights, buildings, plant and machinery, construction contracts, pledged deposits, guarantee of the Group, guarantee from a director of the Company, a shareholder of the Company and a related party, and the land use rights and share capital of certain related parties.

(b) **Litigation**

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

As at 30 June 2014, certain subsidiaries of the Group were in dispute with certain of their suppliers in relation to the procurement of inventories, subcontracting services, construction of property, plant and equipment, and certain of banks in relation to the repayment of bills payable and certain of its employees in relation to the employment contracts. The alleged claims against the Group amounted to RMB986,215,000 (2013: RMB769,025,000). Provision amounted to RMB984,686,000 had been provided for in respect of the claims as at 30 June 2014 (2013: RMB768,654,000) as management has determined, on the basis of legal advice from the Group's internal and external counsels that it is not probable that these claims would result in an outflow of economic benefits exceeding the provisions made by the Group.

On 11 July 2013, litigation proceedings were initiated by Jiangsu Rongsheng Heavy Industries Co., Ltd. with Anhui Province Higher People's Court (安徽省高級人民法院) against Anhui Province Property Rights Exchange Co., Ltd (安徽省產權交易中心有限責任公司) ("**Anhui Property Exchange**") for the return of the payment of RMB630,000,000 made by Jiangsu Rongsheng Heavy Industries Co., Ltd. to Anhui Property Exchange as a security deposit (the "**Deposit**") for the bidding of the equity interest in Anhui Quanchai Group (the "**Transaction**"), together with the relevant interest (the "**Proceedings**"). On 10 September 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. requested that the People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) ("**Quanjiao People's Government**"), the vendor in the Transaction, be joined as a co-defendant in the Proceedings. On 19 November 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. received a notification from Anhui Province Higher People's Court on the initiation of a counter-claim (the "**Counter-claim**") by Quanjiao People's Government seeking an order for (i) the return of the Deposit to Quanjiao People's Government, (ii) the payment by Jiangsu Rongsheng Heavy Industries Co., Ltd. of the amount of RMB427,183,000 for alleged breach of contract, interest on delay in payment and compensation for loss to Quanjiao People's Government, and (iii) all the costs of the litigation proceedings be borne by Jiangsu Rongsheng Heavy Industries Co., Ltd. RMB86,000,000 had been provided in respect of this claim as at 30 June 2014 as management has determined, on the basis of legal advice from the Group's external legal counsel, that it is not probable that this claim would result in an outflow of economic benefits exceeding the provisions made by the Group. Subsequent to 30 June 2014, this case has been settled with an amount of RMB86,000,000 payable to the vendor, and the balance of the deposit of RMB630 million to be returned to Jiangsu Rongsheng Heavy Industries Co.,Ltd., save for a sum of RMB6,450,000, which shall be temporarily retained by Anhui Property Exchange pending further negotiations between the relevant parties.

As at 30 June 2014, 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 RMB225,654,000 (2013: USD36,675,000, equivalent to approximately RMB223,604,000). No provision has been provided for in respect of this claim as at 30 June 2014 as management has determined, on the basis of legal advice from the Group's external legal counsel that it is not probable that this claim would result in an outflow of economic benefits from the Group.

(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 2014, the total value of the guaranteed borrowings outstanding was RMB154,835,000 (2013: RMB167,409,000) in which the Group had made a provision of RMB1,934,000 (2013: RMB1,934,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB152,901,000 (2013: RMB165,475,000) 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.

25 Commitments

(a) Capital commitments

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

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Property, plant and equipment – Contracted but not provided for	**769,409**	936,433
Other capital commitment – Contracted but not provided for (note (i))	**160,000**	160,000

Note:

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

On 16 January 2013, the Group entered into an agreement with 6 strategic investors for the Fund, which 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 2014, the Group had paid the first instalment of RMB40,000,000 to the Fund which is classified as available-for-sale financial asset 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 2014 RMB'000	As at 31 December 2013 RMB'000
No later than 1 year	**23,909**	26,984
Later than 1 year and no later than 5 years	**10,424**	17,424
	34,333	44,408

26 Related party transactions

Fine Profit Enterprises Limited ("**Fine Profit**"), a company incorporated in the British Virgin Islands, owned 28.93% of the issued shares of the Company as at 30 June 2014 (2013: 29.32%). Fine Profit was wholly-owned by Mr. Zhang as at 30 June 2014.

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
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

26 Related party transactions (Continued)

Name	Relationship with the Group
Boom Will Limited 盛意有限公司	Entity ultimately controlled by a director
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
Outspace Limited 宇宙有限公司	Entity ultimately controlled by a director
Gallop Sun Limited 旭騰有限公司	Entity controlled by a shareholder/ close family member of Mr. Zhang
Leader World Investments Limited	Entity controlled by a director
Fine Profit Enterprises Limited 好利企業有限公司	Entity ultimately controlled by Mr. Zhang

During the six months ended 30 June 2014, no transactions with the related parties were carried out by the Group.

(i) Balances with related parties

As at 30 June 2014 and 31 December 2013, the balances are interest-free, unsecured, and approximate their fair values. All these balances are repayable on demand.

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Bills payable for property, plant and equipment (Note 13) – Entity controlled by a shareholder/ close family member of Mr. Zhang	**50,690**	52,190
Other payables for property, plant and equipment (Note 13) – Entities controlled by Mr. Zhang or a shareholder/close family member of Mr. Zhang	**557,513**	175,659
Other payables – non-trade (Note 13) – Entities controlled by Mr. Zhang or a shareholder/ close family member of Mr. Zhang	**–**	28,002

26 Related party transactions (Continued)

(ii) Advances from a related party

During the period ended 31 December 2013, the substantial shareholder provides security-free and interest-free revolving facilities up to RMB3,000,000,000 for use by the Group for working capital purposes. As at 30 June 2014, RMB305,978,000 (2013: RMB243,838,000) has been drawn down by the Group and is not repayable until May 2015.

(iii) Guarantee by a director

As at 30 June 2014, certain bank borrowings and refund guarantees are secured by a director of the Group (2013: same).

(iv) Guarantee by the shareholders and related parties

As at 30 June 2014, certain bank borrowings are secured by the shareholders and the controlling entities of the shareholders.

27 Event occurring after the reporting period

On 21 August 2014, Ocean Sino Holdings Limited (the "**Purchaser**"), a subsidiary of the Group, and New Continental Oil & Gas Co. Ltd. (the "**Vendor**") (amongst others) entered into a share purchase agreement, pursuant to which the Purchaser conditionally agreed to acquire a 60% equity interest in Central Point Worldwide Inc. (the "**Target Company**"), at the consideration of HK$2,184,000,000, which shall be satisfied by the allotment and issue of 1,400,000,000 consideration shares by the Company with an issue price of HK$1.56 per share.

The Vendor directly holds 100% equity interest of the Target Company. Prior to the completion of the acquisition, the Vendor will undergo a reorganisation. Upon the completion of the reorganisation, the Target Company will indirectly hold 100% equity interest in КыргызжерНефтегаз (吉爾吉斯大陸油氣有限公司) which was granted rights to cooperate with the national oil company of Kyrgyzstan in the operation of the four oilfields comprising five oilfield zones.

Completion of the Share Purchase Agreement is subject to the fulfilment of certain conditions including the satisfactory due diligence results on the Target Company and КыргызжерНефтегаз (吉爾吉斯大陸油氣有限公司).

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

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Website	: www.rshi.cn

CORPORATE INFORMATION

Executive Directors

CHEN Qiang
(Chairman and Chief Executive Officer)

WU Zhen Guo
(Vice Chairman)

HONG Liang

Sean S J WANG
(Chief Financial Officer)

WANG Tao

WEI A Ning

ZHU Wen Hua

Independent Non-executive Directors

XIA Da Wei

HU Wei Ping

WANG Jin Lian

ZHOU Zhan

Audit Committee

ZHOU Zhan
(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

WANG Jin Lian

ZHOU Zhan

Finance and Investment Committee

CHEN Qiang
(Chairman)

HONG Liang

Sean S J WANG

XIA Da Wei

ZHOU Zhan

Company Secretary

LEE Man Yee

Auditor

PricewaterhouseCoopers

Principal Bankers

The Export-Import Bank of China
(Jiangsu Province Branch)

China Development Bank
(Jiangsu Province Branch)

Bank of China Limited
(Nantong Gangzha Branch)

Shanghai Pudong Development Bank Limited
(Hefei Branch)

Legal Advisors

Paul Hastings

Commerce & Finance Law Offices

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

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