熔盛重工
RONGSHENG

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01101)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the "**Board**") of China Rongsheng Heavy Industries Group Holdings Limited (the "**Company**") announces the unaudited condensed consolidated interim financial information of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 June 2014 (the "**Period**") together with comparative figures. This condensed consolidated interim financial information has not been audited, but has been reviewed by the audit committee of the Company (the "**Audit Committee**").

MANAGEMENT DISCUSSION & ANALYSIS

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

BUSINESS REVIEW

For the Period, our revenue was 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, 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 revenue source. For the Period, suffering from the deep 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 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, the 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 with 64,000 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 ("**VLOCs**"), 1 Panamax crude oil tanker, 20 Suezmax crude oil tankers, 2 very large crude oil carriers ("**VLCCs**"), 1 6,500-twenty-foot equivalent unit ("**TEU**") containership and 2 7,000-TEU 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 8 shipbuilding contracts, 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 567,412 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 mainly resulted from the continuous decline in excavator sales amid 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 order.

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 (gross loss 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 proportionally. 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 with 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 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 has 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 the 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 from the loss on available-for-sale financial asset.

Liquidity and going concern

During the Period, the Group has incurred a loss of approximately RMB3,144.6 million and had a net operating cash outflow of approximately RMB2,181.2 million due to 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 will 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 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 financial statements of this announcement.

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. 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 total equity decreased 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 slightly caused 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 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 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 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, the 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 were 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 adopt 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 of the Company. Besides, the Group has participated in a meeting on the debt optimization issues 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 issue. In the first half of 2014, we completed issue of convertible bonds amounted to a total net proceeds of HKD3,985 million to strategic investors. To encounter 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 intend to allot and 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 on Corporate Governance Practices

During the Period, the Company complied with the applicable code provisions of the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), apart from the deviation set out below.

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

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

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has confirmed, following specific enquiries being made by the Company that they complied with the required standards set out in the Model Code during the Period.

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

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

Interim Results

The Audit Committee comprises four independent non-executive Directors, namely, 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.

Publication of Interim Report

The 2014 Interim Report of the Company will be despatched to the shareholders and published on the respective websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.rshi.cn in due course.

Interim Dividend

The Board has resolved not to declare the payment of an interim dividend for the year 2014 (2013: nil).

Board of Directors

As at the date of this announcement, the executive directors of the Company are Mr. CHEN Qiang (Chairman), Mr. WU Zhen Guo, Mr. HONG Liang, Mr. Sean S J WANG, Mr. WANG Tao, Mr. WEI A Ning and Ms. ZHU Wen Hua; and the independent non-executive directors are Mr. XIA Da Wei, Mr. HU Wei Ping, Mr. WANG Jin Lian and Ms. ZHOU Zhan.

On Behalf of the Board
CHEN Qiang
Chairman

Hong Kong, 28 August 2014

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		**4,004,826**	4,045,028
Property, plant and equipment		**17,238,161**	17,471,432
Long-term deposits		**149,321**	149,430
Prepayment for non-current assets		**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		**7,015,752**	7,407,254
Trade and bills receivables	*10*	**1,450,364**	1,318,923
Other receivables, prepayments and deposits		**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		**606,944**	599,526
Share premium		**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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2014

	Note	**Unaudited As at 30 June 2014** *RMB'000*	Audited As at 31 December 2013 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**5,483,886**	7,979,016
Finance lease liabilities – non-current		**588,389**	714,843
Advances from a related party – non-current		**–**	243,838
		6,072,275	8,937,697
Current liabilities			
Amounts due to customers for contract works		**38,137**	321,778
Trade and other payables	*11*	**6,218,451**	6,243,083
Advances from a related party – current		**305,978**	–
Borrowings		**16,996,301**	13,615,249
Derivative financial instruments		**3,054,073**	482,997
Provision for warranty		**82,863**	106,731
Finance lease liabilities – current		**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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**340,593**	1,578,991
Cost of sales	*4*	**(948,410)**	(2,149,816)
Gross loss		**(607,817)**	(570,825)
Loss on cancellation of the construction contracts – net			
– De-recognition of revenue		**(932,265)**	–
– De-recognition of cost of sales		**830,843**	–
– Compensation		**(176,143)**	–
		(277,565)	–
Selling and marketing expenses	*4*	**(9,340)**	(4,614)
General and administrative expenses	*4*	**(486,487)**	(469,231)
Research and development expenses	*4*	**(49,943)**	(37,922)
Provision for impairments and delayed penalties	*4*	**(42,295)**	–
Other income	*5*	**26,628**	86,006
Other losses – net	*6*	**(802,615)**	(139,660)
Operating loss		**(2,249,434)**	(1,136,246)
Finance income		**11,483**	82,556
Finance costs		**(906,696)**	(240,529)
Finance costs – net		**(895,213)**	(157,973)
Loss before income tax		**(3,144,647)**	(1,294,219)
Income tax expense	*7*	**–**	(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	*8*	**(0.44)**	(0.18)

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*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)	*9*	**–**	–

NOTES:

1 GENERAL INFORMATION

China Rongsheng Heavy Industries Group Holdings Limited (the "Company") was incorporated in the Cayman Islands on 3 February 2010 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

This condensed consolidated interim financial information is presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the board of directors of the Company on 28 August 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.

In respect of the cancellation of certain shipbuilding contracts, 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 control 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 reduce 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.

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.

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) negotiate 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;

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.

2.2 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 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.

3 SEGMENTAL INFORMATION

	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)

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	**(128,223)**	4,949
Israel	**–**	72,732
Others	**–**	704
	340,593	1,578,991

4 LOSS BEFORE INCOME TAX

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

	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	**40,202**	17,899
Depreciation of property, plant and equipment	**288,970**	265,321
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	**10,033**	26,330
Bank charges (include refund guarantee charges)	**45,310**	45,223
Provision for warranty		
– charged for the period	**127**	9,886
– reversal upon expiring of the warranty period	**(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

5 OTHER INCOME

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

6 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)

7 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.

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).

8 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).

9 DIVIDEND

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

10 TRADE AND BILLS RECEIVABLES

	As at 30 June 2014	As at 31 December 2013
	RMB'000	*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.

11 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	**50,690**	52,190
Other payables for purchase of property, plant and equipment		
– Third parties	**489,314**	482,360
– Related parties	**557,513**	175,659
Other payables		
– Third parties	**1,315,646**	1,335,149
– Related parties	**–**	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