熔盛重工
RONGSHENG

China Rongsheng Heavy Industries Group Holdings Limited

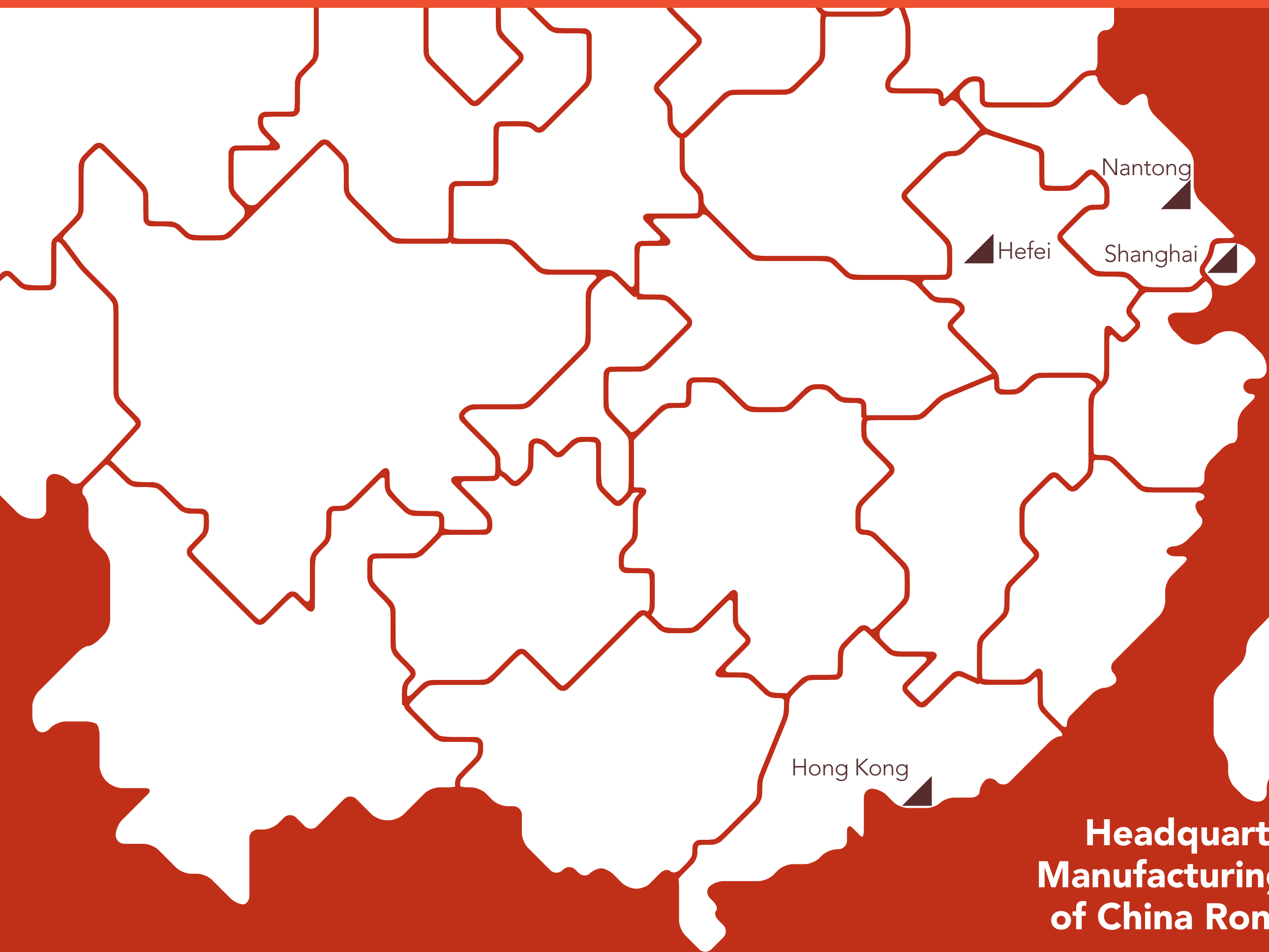
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101

Annual Report 2011

About CHINA RONGSHENG

China Rongsheng Heavy Industries Group Holdings Limited is a leading diversified large heavy industries group in China. Our headquarters are located in Shanghai and Hong Kong, with manufacturing bases in Nantong (Jiangsu Province) and Hefei (Anhui Province). Our business segments include shipbuilding, offshore engineering, marine engine building and engineering machinery. According to Clarkson Research, China Rongsheng was the fourth largest shipbuilder in the world and the largest shipbuilder in the PRC in terms of orders on hand measured by DWT as at the end of December 2011. In 2011, we ranked third in the world and first in the PRC in terms of new orders received measured by DWT. The Group operates the largest shipyard in the PRC and is a global leader in the manufacture of the Very Large Ore Carrier (VLOC).



Headquarters and Manufacturing Bases of China Rongsheng

Scan the QR Code
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China Rongsheng

Passion to Excel

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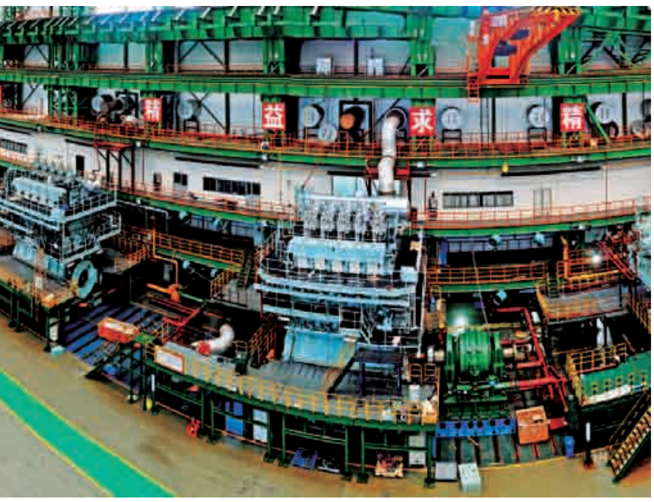

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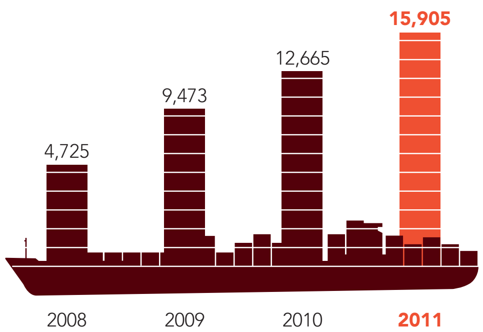
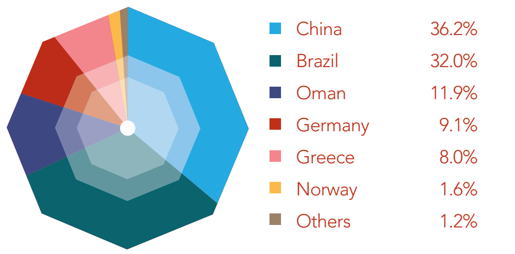
Financial Highlights

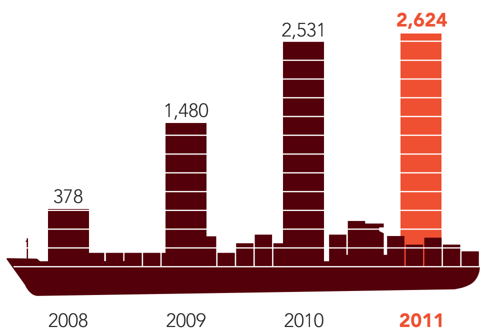
Revenue (RMB million)



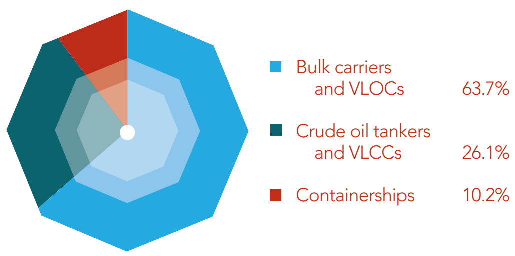
Revenue in 2011 (by geographical region)



Delivery of vessels ('000 DWT)



Orders on hand as at 31 December 2011
(by contract value of vessels)



	2011	2010	Change
Revenue (RMB'000)	**15,904,585**	12,665,479	25.6%
Earnings attributable to the equity holders of the Company (RMB'000)	**1,720,675**	1,718,704	0.1%
Gearing ratio (Total borrowings/(Total borrowings plus total equity))	**61.8%**	54.6%	7.2pp
Total dividend per share (RMB cents)	**7.4***	6.8	8.8%
Total dividend per share (HKD cents)	**9.0**	8.1	11.1%

* Including interim dividend of RMB5.2 cents and proposed final dividend of RMB2.2 cents

Milestones

2011

- Successfully delivered first made-in-China VLOC to Vale S.A.
- Completed construction of Asia's first 3,000-Meter Deepwater Pipe-laying Crane Vessel (DPV)
- Successful delivered first 76,000 DWT Panamax bulk carrier to MSFL
- Commenced operation of No.4 drydock

- Accumulated production of low speed diesel engines surpassed 1 million horsepower
- Commenced production of new machinery plant in Hefei
- Signed strategic cooperation agreement with China Development Bank
- Signed oversea loan contracts of USD 320 million in total

2005-2010

2010

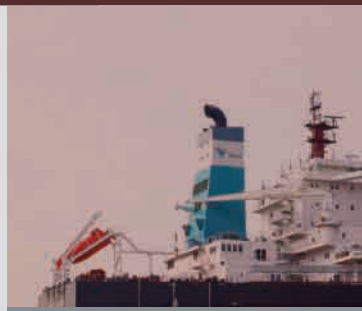
- Acquired major interest in Zhenyu Machinery and established Rong An Heavy Industries
- Signed shipbuilding contract with MSFL for 10 Panamax bulk carriers
- Signed first shipbuilding contract for Very Large Crude Oil Carrier (VLCC)
- Entered into five-year strategic cooperation agreement with China Eximbank
- Entered into strategic cooperation agreement with CNOOC
- Successfully listed on the Main Board of the Hong Kong Stock Exchange

2009

- Signed shipbuilding contract for 4 VLOCs with Oman Shipping Company
- Successfully delivered first low-speed marine diesel engine
- Formed strategic cooperation with MSFL and signed shipbuilding contract with MSFL for 8 Panamax bulk carriers

2008

- Successfully delivered first vessel in March
- Signed shipbuilding contract for 12 VLOCs with Vale S.A.
- Entered into strategic cooperation agreements with four renowned international classification societies: DNV, ABS, LR and GL
- Commenced construction of DPV



2007

- Signed first offshore engineering contract to build a DPV for CNOOC
- First vessel keel-laid in April
- Became world top 20 shipbuilder in terms of total CGT of vessels on orders received
- Established Rong An Power Machinery

2006

- Commenced operation of No. 1, No. 2 and No. 3 drydocks
- Signed first shipbuilding contract for Panamax bulk carriers in February
- Commenced construction of first vessel

2005

- Commenced construction of shipyard in Nantong in October

Chairman's Statement

> "Year 2011 was the first year after our Listing, as well as a year of growth for us."

Dear shareholders,

On behalf of the Board of Directors of China Rongsheng Heavy Industries Group Holdings Limited, I am pleased to present the annual report of the Group for the year ended 31 December 2011.

Year 2011 was the first year after our Listing, as well as a year of growth for us. Outstanding achievements were reported across all business segments of the Group: the shipbuilding segment led the way with the delivery of our first VLOC that attracted worldwide attention; the offshore engineering segment reported steady progress highlighted by the maiden voyage of the DPV; the marine engine building segment took a big leap forward as it achieved an accumulated production of 1 million horsepower ahead of schedule; and the engineering machinery segment gained market recognition amid solid foundation.

In 2011, the Eurozone debt crisis, the volatile financial markets and the slow recovery of the U.S. economy posed significant challenges to the world economy. Thus the shipping industry also struggled in the year as it is highly correlated to the global macro-economic condition. The Group, however, demonstrated its excellent sales capability against the adverse environment. We ranked first in China and third in the world of new shipbuilding orders received in 2011 measured by deadweight tonnage (DWT). Production also showed improvements as we ranked number 1 in China in terms of vessel delivery in 2011 as a result of continued improvements in our dock capacity and efficiency. Looking ahead into 2012, we will continue to focus on high-value new orders by leveraging our strong sales ability.

As a major sector within the high-end equipment manufacturing industries, offshore engineering is also the Group's key development focus. It is consistent with the trend of the global crude oil market and China's national policy on the industry. In recent years, since the crude oil price stayed at high level and in order to reduce the reliance on the crude oil production from the unstable Middle East region, many countries have increased their exploration investments. Therefore, the prospect of global oil and gas exploration industry is promising. In China, strengthening the offshore oil and gas exploration is the best way to ensure oil supply, as well as an initiative in response to the depletion of onshore resources. The offshore engineering equipment industry has already been regarded as a new strategic industry in the "Twelfth Five-year Plan for Shipbuilding Industry Development." Therefore, a new cycle of construction and development of offshore engineering equipment in the PRC is arriving. Under the policy support and the Group's advanced offshore engineering manufacturing facilities, we will continue to increase our technological investments and enhance our project teams, so as to build our market position by actively bidding major domestic and international offshore engineering projects. Following the full commencement of the No. 4 drydock, we will focus on further breakthrough in offshore engineering segment in 2012 to realize our aspirations in moving towards high-end manufacturing.

The slow development of production capacity of marine ancillary equipment is one of the reasons restrained the growth of the shipbuilding industry in China. The Group's marine engine building production base in Anhui Province is targeted at this potential market. We are the only private manufacturer in the PRC that obtained government approval to produce low-speed marine diesel engines. We successfully delivered the marine engine for VLOC in 2010, the first of its kind produced in China, and continued to consolidate our market share in 2011. Going forward, we will further enhance our influence and market share in this business segment.

The continuous urbanisation and infrastructure constructions in China brings about solid demands for the engineering machinery segment. Phase one of the engineering machinery plant of the Group commenced operation in the first half of 2011. During the year, we mainly concentrated on establishing production scale and enhancing sales network. The sale volume of excavators was mostly stable. Efforts will be devoted to increase the market shares of our proprietary brands in 2012.

Not only the vulnerable global economy brought uncertainties to the shipping industry, the oversupply of vessels and the mismatch of supply and demand in the shipping market are also the reasons for challenging outlook of the global shipping industry. Relatively, the development of the domestic shipping market in China is stable. For the past several years, our effort in the PRC market enabled us to progressively build up a quality domestic customer base. In the future, we will optimise our debt structure by enhancing supply chain control and foreign currency financing through our strong working relationships with major financial institutions. Besides, the shipping industry faced new challenges because of global standardisation in energy safety, supply chain safety and environmental sustainability regulations. We will continue to increase our research and development capacity to satisfy the new market demand.

Our sustainable development would not be possible without the support from different stakeholders in the society. Since inception, we firmly commit to our responsibilities towards our employees, customers, society and the environment. We always enhance the skills of our workers and the industrial development in the region, which helps to stabilise and even expand the employment market. As a corporate citizen who upholds its historical responsibilities and missions, the Group also always actively participates in the developments of charity, sports and education. Our new products also satisfy new expectations in environmental protection.

As a young enterprise, we will continue to uphold our corporate spirit "Passion to Excel" to overcome difficulties. We will use our excellent business mindset and management philosophy to carry out our plans creatively. The Board of Directors has full confidence in our future and would like to take this opportunity to express our sincere gratitude to our outstanding management team and all our staff for their teamwork, and to all our shareholders for their support.

ZHANG Zhi Rong
Chairman

Hong Kong, 20 March 2012

CEO's Review

> "In 2012, we will cautiously evaluate the market environment and closely monitor the market trend, and also will strengthen our execution on the measures to address risk."

In 2011, the global ecomony recovered slowly under uncertainties. The prospects of the Eurozone appeared gloomy as the debt crisis escalated. The U.S. economic recovery appeared fragile and emerging markets such as China had to tighten their monetary policies and slow down investment growth to mitigate inflation pressure. The downturn of the global shipping market has also brought a major challenge to the highly correlated shipbuilding industry.

In 2011, the shipbuilding industry in China reported a steady growth in production. According to Clarkson Research, total completion volume in 2011 was 65.6 million DWT, representing a 16.9% year-on-year growth. Nevertheless, affected by the depressed shipping market, China's new orders decreased significantly to 29.3 million DWT, representing a 58.3% year-on-year decline. The new orders mostly shifted towards high-tech and high-value vessels. Therefore, according to China Association of the National Shipbuilding Industry, the lack of advanced technology prevented over one-third of the Chinese shipyards from receiving any new orders in 2011 and their backlogs continued to drop. Under the intensive competition, the market was in favor of the leading shipyards with advanced construction technology and superior product quality. Therefore, we were able to secure 4.6 million DWT new orders in 2011, constituting 15.6% of new orders of China and 7.2% of global market in the year.

As it is highly correlated with the shipbuilding industry, the marine equipment industry in China faced severe challenges as well. According to the report published by the China Association of the National Shipbuilding Industry, foreign marine diesel engine manufacturers leveraged their scale benefits to sell their products at low prices in China, breaking the territorial restrictions as stated in their licensing agreements. It hindered the development of the domestic marine equipment industry in China. As a result, only 50% of China's marine equipment was produced domestically, while the rates reached over 90% in Japan and Korea.

Connections around the World

Global demand for offshore equipment remained steady. Korean shipyards secured a major share of new orders as a result of their technology advantages. In an attempt to nourish the offshore engineering industry, China published a series of plans including "Mid-to-Long-term Development Plan of Offshore Equipment Manufacturing Industry" and "Innovative Development Strategy of Offshore Equipment Manufacturing Industry 2011 to 2020". To increase their presences in the domestic market, Chinese manufacturers are accelerating their research and development, and actively seeking breakthroughs in critical technology barriers.

With the central government's continuous macro-controls in the real estate sector and the slowdown of high-speed railway investments, the engineering machinery market in China experienced setback in sales after the strong performance in early 2011. In particular, the sales volume of hydraulic excavators recorded month-on-month decrease since May 2011, although the robust sales for the first four months helped to push up the annual sales to approximately 178,000 units, representing a year-on-year increase of 6.9%. Chinese-branded excavators continued to capture more domestic market share, reaching 44.9% in 2011, representing a remarkable 11.4 percentage points increase from 33.5% in 2010.

The Process of Shipbuilding

Step 1
Construction Preparation

After we secure a shipbuilding order, we start to prepare for construction, which includes design, procurement and arrangement of facilities.

Step 2
Pretreatment, Steel Cutting, Pipe Fabrication, Manufacture of Small Sections

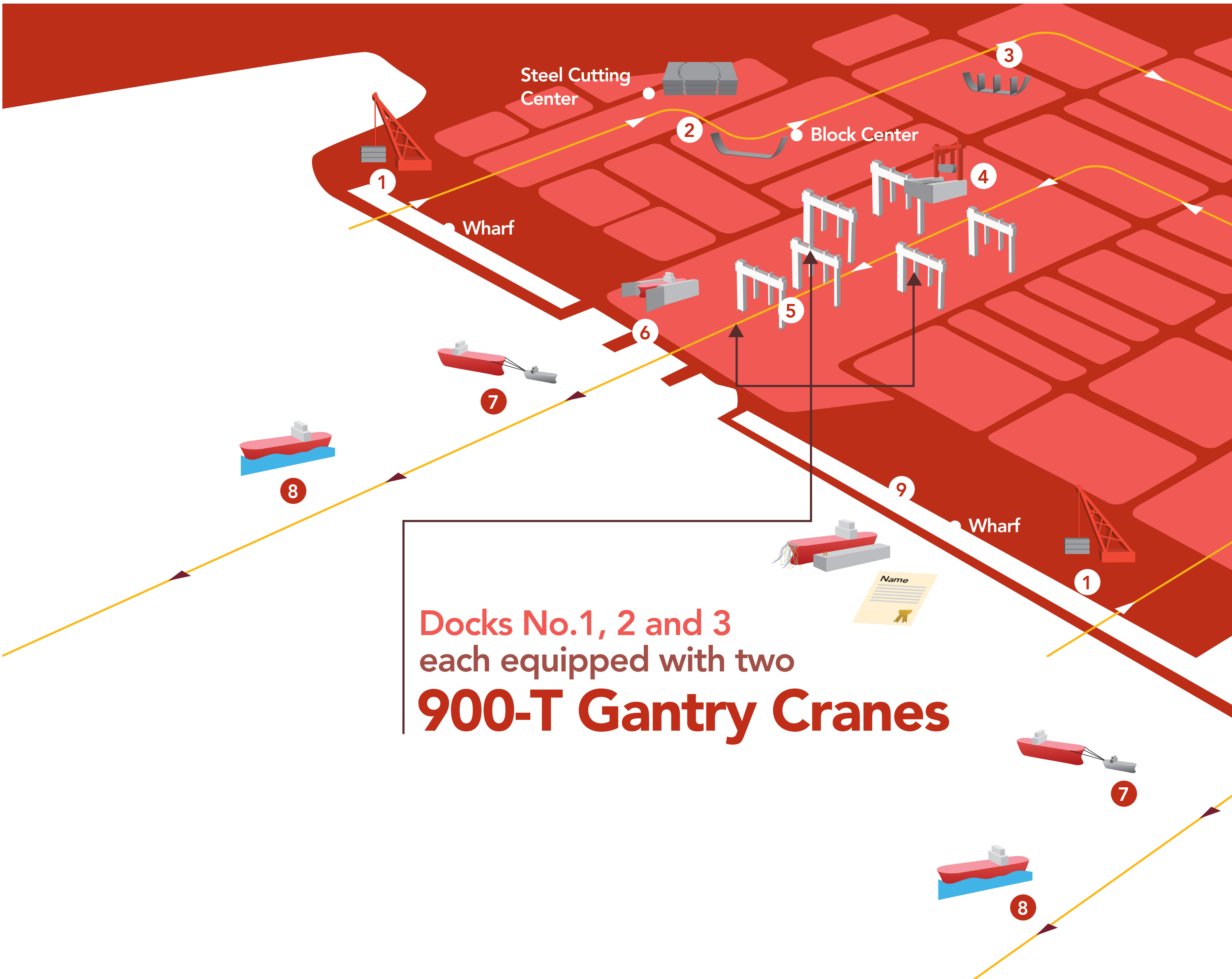
The pretreatment and cutting for steel plate and structural steel, manufacture and allocation for cubes

Step 3
Steel Block Assembly

The small cubes are split joint to a mid-cubic by welding or other ways of connection. By outfitting, mid-cubics are welded or assembled into blocks.

Step 4
Block Integration

Two or more blocks assembled to form the whole structure and subsequent are outfitting of piping, electric cables, facilities and other accessories in/on the hull.



During the process of shipbuilding, outfitting is involved in steps 2, 3, 4, 5, 7; painting is involved in steps 2, 3, 4, 5, 7, 8, 9.

Step 5
Erection and Outfitting in the Drydock

The procedure of building transfer to the drydock; blocks and the entire block are assembled to form the hull of the vessel.

Step 6
Launching

After passing the leakage/air impermeability test and other relevant tests, the drydock is flooded and the vessel is moored near the shipyard for mooring and tilting test.

Step 7
Mooring Test

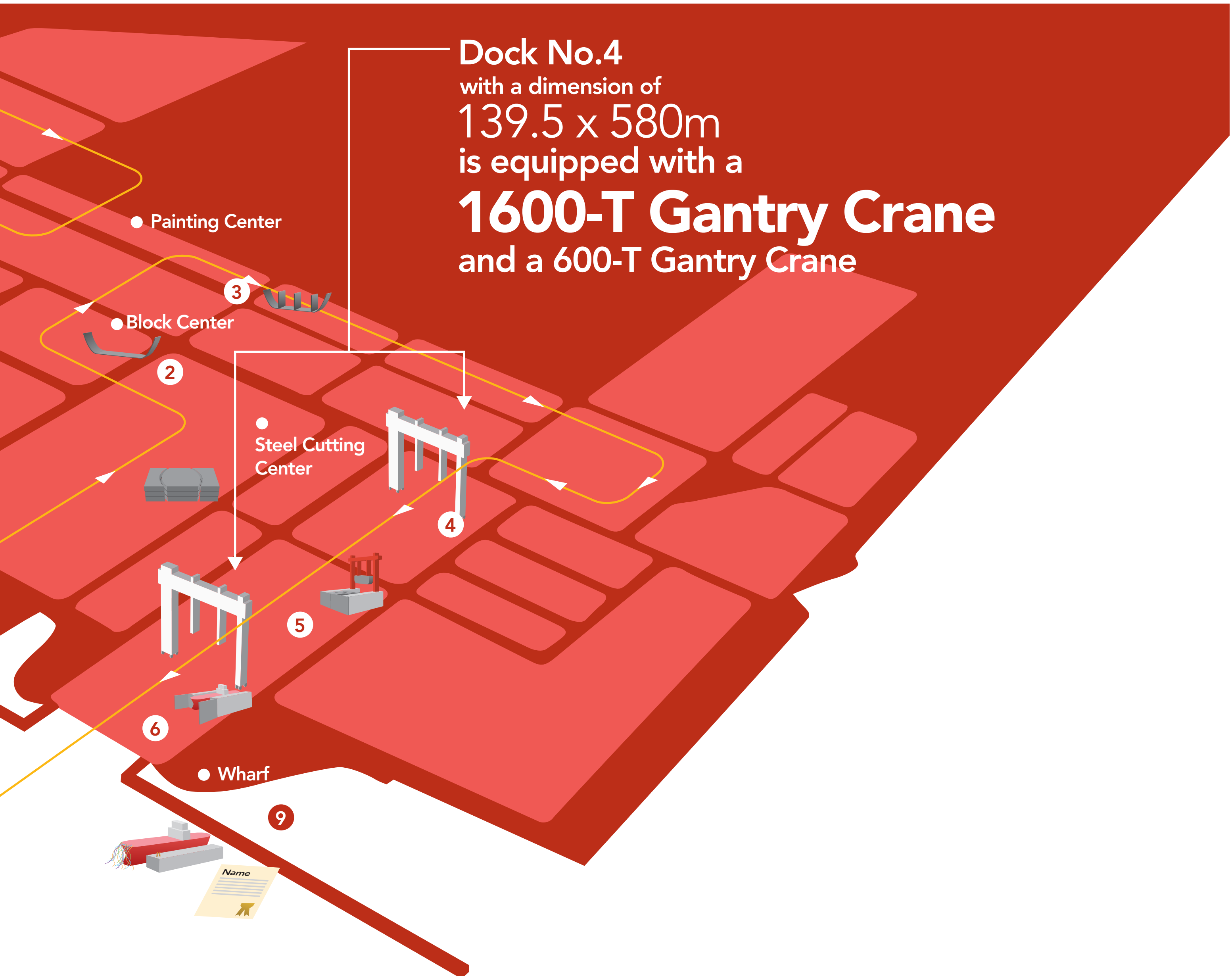
When moored, the vessel is tested and inspected by experts from our shipyard, classification societies and customers for any defects in its structure, parts or systems.

Step 8
Sea Trial

Sea trial is conducted to ascertain the vessel's seaworthiness and performance and to make sure it conforms with the specifications set forth in the relevant purchase and technology agreements

Step 9
Delivery

The vessel will be delivered to the owner after it obtains ship owner's approval and appointed Classification society's certifications.



CEO's Review

Business Review

For the year ended 31 December 2011 (the "Period"), our revenue was RMB15,904.6 million, representing a growth rate of 25.6% from RMB12,665.5 million for the year ended 31 December 2010 (the "Comparative Period"). Earnings attributable to the equity holders of the Company amounted to RMB1,720.7 million, representing an increase of 0.1% as compared with RMB1,718.7 million in the Comparative Period.

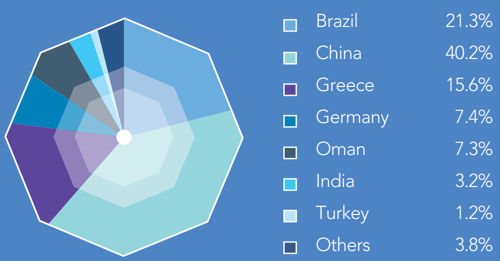
Revenue and segment information:

	For the year ended 31 December			
	2011		2010	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Shipbuilding	**15,373,924**	**96.7%**	11,841,980	93.5%
Offshore Engineering	**31,295**	**0.2%**	465,393	3.7%
Marine Engine Building	**93,024**	**0.6%**	30,841	0.2%
Engineering Machinery	**406,342**	**2.5%**	327,265	2.6%
Total	**15,904,585**	**100%**	12,665,479	100%

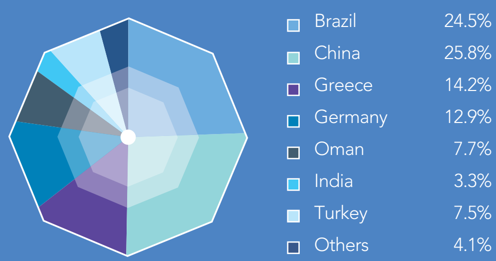
CEO's Review | Business Review *(Continued)*

Shipbuilding

Orders on Hand (by contract value of vessels)



31 December 2011



31 December 2010

In 2011, we secured new shipbuilding orders with a total contract value of
USD1.8 billion.

As at 31 December 2011, the total contract value of our orders on hand reached
USD6.6 billion.

For the Period, shipbuilding was our major business segment and also our major revenue source. Revenue from our shipbuilding segment was RMB15,373.9 million, an increase of 29.8% from the Comparative Period. It represented 96.7% of total revenue.

Orders on Hand and New Orders

In 2011, we demonstrated strong sales and marketing capability by securing new shipbuilding orders for 39 vessels of 4.6 million DWT with a total contract value of USD1,809.7 million, despite a 54.6% year-on-year decline in global new orders and a 58.3% year-on-year decline in China's new orders amid complex and volatile market conditions. According to Clarkson Research, our new shipbuilding orders represented 15.6% of China's and 7.2% of the world's new shipbuilding orders in 2011 measured by DWT, representing year-on-year increases of 7.5 percentage points and 3.1 percentage points respectively. Thus we ranked first in China and third in the world in new shipbuilding orders.

We endeavored to move upwards along the industry value chain. We continued to expand our domestic ship-owners customer base, enrich our product varieties and build an order book with more high-value vessel types. In 2011, we actively pursued containerships orders, which accounted for 14.6% of our new orders. Meanwhile, we continued to develop advanced vessel types with eco-friendly features, in full appreciation of current market requirements regarding fuel efficiency and low emission.

CEO's Review | Business Review *(Continued)*

Shipbuilding (Continued)

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

	For the year ended 31 December					
	2011			2010		
	DWT ('000)	**Contract value (USDmm)**	**No. of vessels**	DWT ('000)	Contract value (USDmm)	No. of vessels
Bulk carriers and VLOCs	**2,597.6**	**908.1**	**24**	2,052.0	922.6	27
Crude oil tankers and VLCCs	**1,645.0**	**637.0**	**11**	3,629.0	1,342.2	19
Containerships	**319.4**	**264.6**	**4**	—	—	—
Total	**4,562.0**	**1,809.7**	**39**	5,681.0	2,264.8	46

Note: The contract values were all translated (where applicable) into US dollars on the respective balance sheet dates at the rates of USD1.00 = RMB6.3009 as at 31 December 2011 and USD1.00 = RMB6.6229 as at 31 December 2010. In addition, the figures do not include orders that had been cancelled as at the balance sheet dates of each year.

As at 31 December 2011, our order book included 111 vessels, representing a total of 16.8 million DWT and a total contract value of USD6,623.8 million. It included 52 Panamax bulk carriers, 3 Capesize bulk carriers, 21 VLOCs, 24 Suezmax crude oil tankers, 1 Panamax oil tanker, 2 VLCCs, 4 vessels of 6,500-TEU containerships and 4 vessels of 7,000-TEU containerships.

The following table sets forth the information relating to our orders on hand as at 31 December 2011 and 31 December 2010, respectively.

	As at 31 December 2011			As at 31 December 2010		
	DWT ('000)	Contract value (USDmm)	No. of vessels	DWT ('000)	Contract value (USDmm)	No. of vessels
Bulk carriers and VLOCs	11,709.6	4,222.7	76	10,644.0	3,943.0	60
Crude oil tankers and VLCCs	4,476.0	1,724.7	27	4,877.0	1,917.7	27
Containerships	658.0	676.4	8	338.6	411.8	4
Total	16,843.6	6,623.8	111	15,859.6	6,272.5	91

Note: Our orders on hand, as at the dates indicated above, represented the total nominal contract value of the orders that had not been completed, all as translated (where applicable) into US dollars on the respective balance sheet dates at the rates of USD1.00 = RMB6.3009 as at 31 December 2011 and USD1.00 = RMB6.6229 as at 31 December 2010. In addition, the figures do not include the orders that had been cancelled as at the balance sheet dates of each year.

For the Period, we successfully delivered our first VLOC, which is currently the world's biggest dry bulk carrier with the largest cargo capacity and features state-of-the-art technologies for mega-sized bulk carriers. The main engine of the vessel was also built by the Group, being the first Wärtsilä low-speed marine diesel engine with maximum power built in China.

At the Seatrade Asia Award Ceremony held in June 2011, we were presented the Shipbuilding Award once again, underscoring international recognition for our proactive efforts in combating the financial crisis and remarkable achievements in making major strides in business development against adverse market conditions.

CEO's Review | Business Review *(Continued)*

Offshore Engineering

In 2011,we successfully completed the construction of the

3,000-meter DPV.

LNG mock-up model certificate granted by GTT

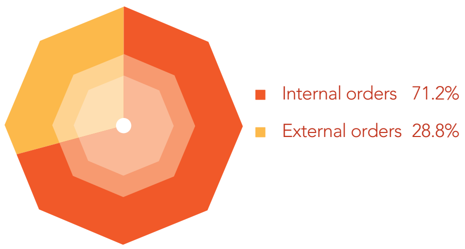
Our revenue from offshore engineering segment for the Period was from the construction of the 3,000-meter DPV, which was RMB31.3 million. The DPV started to contribute revenue since 2008 and was completed construction in the Period.

In 2011, the Group achieved important breakthroughs in research and development and construction technologies of LNG carriers. We completed certain key works, such as the initial design and construction of mock-up model. Certain important drawing papers of the vessel were initially approved by classification societies and the key systems, including the containment systems and dual-fuel engines, have obtained accreditations from professional manufacturers. On-site technical training was provided by professional technicians from Gaztransport & Technigaz S.A.S ("GTT") and many skilled electric welders passed qualification certified by GTT. The mock-up model construction was inspected and also certified by GTT, and obtained accreditations from a number of classification societies, such as ABS.

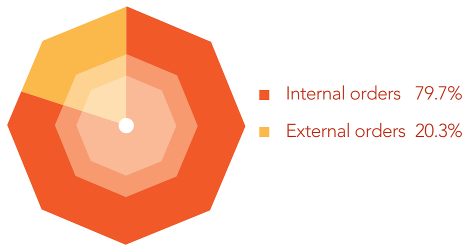
CEO's Review | Business Review *(Continued)*

Marine Engine Building

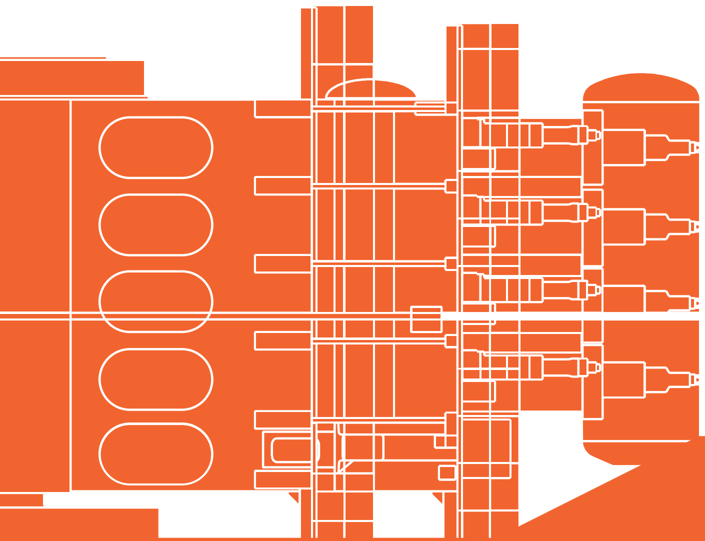
Orders on Hand (by horsepower)



31 December 2011

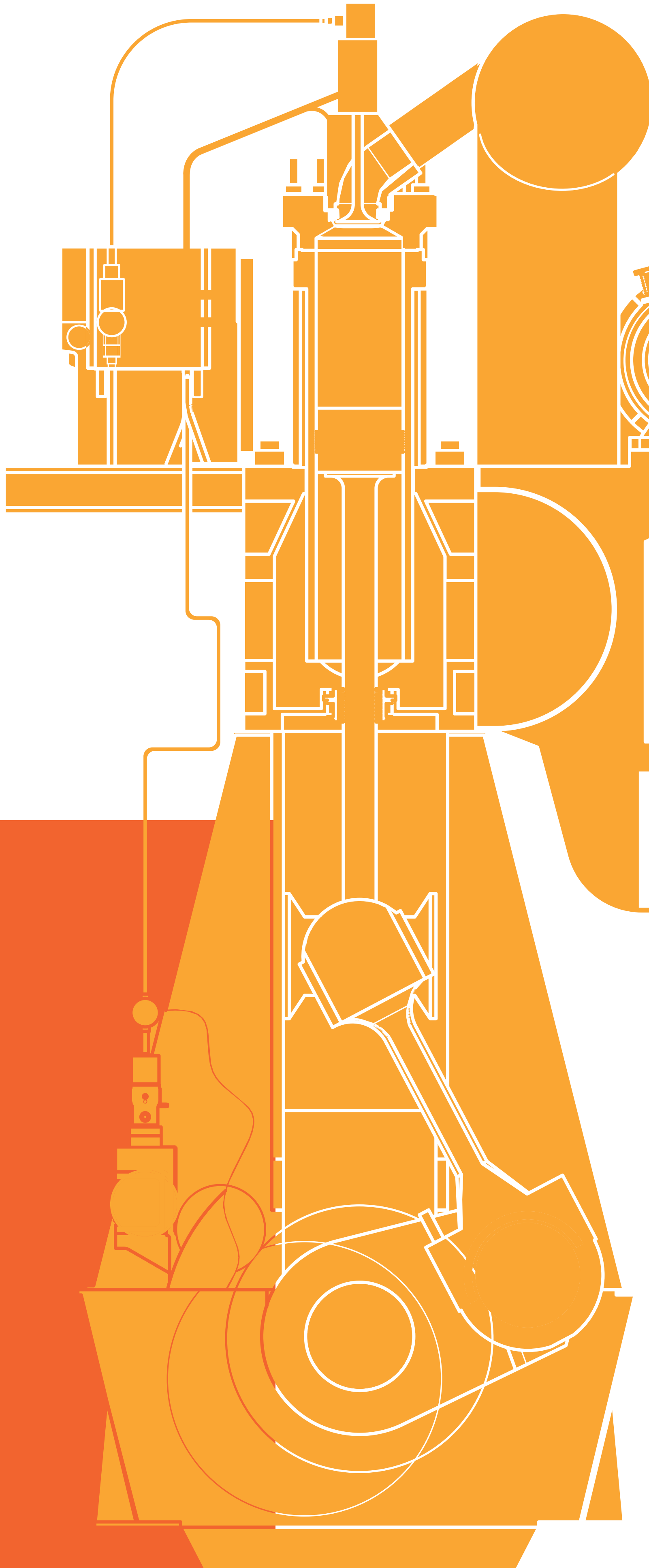


31 December 2010



Our revenue from the marine engine building segment for the Period was RMB1,130.2 million (before group consolidation), an increase of 257.6% from the Comparative Period. After excluding inter-segments sales, the marine engine building segment contributed a revenue of RMB93.0 million, an increase of 201.6% from the Comparative Period. We secured new orders for 37 low-speed marine diesel engines (of which 14 were external orders) in 2011, representing a total capacity of 683,663 horsepower and a total contract value of RMB1,190.1 million. The Group's total orders on hand as at 31 December 2011 were 56 engines (of which 26 were external orders), representing a total capacity of 1,144,868 horsepower and a total contract value of RMB1,936.9 million. For the Period, we delivered 34 diesel engines with a total capacity of 650,233 horsepower.

The Group successfully delivered the first 5S60ME-C diesel engine manufactured in China for the Period. This low-emission and fuel-efficient model satisfied the stringent emission regulations imposed by maritime organizations and fulfilled the growing demand for fuel-efficient vessels. In addition, we completed the self-built main engine for VLOC. It was the first 7RT-flex82T low-speed marine diesel engine in China, which was recognised by Anhui Province First Unit (Set) of Key Equipment Project. The Group has already developed the processing and bulk production capacities for three types of key components and other parts for marine main engine. We will enhance our production capacity progressively in the future to accommodate large-scaled self-built production needs.



In 2011, we delivered **34** diesel engines with a total capacity of **650,233** horsepower.

We secured new orders for **37** diesel engines with a total capacity of **683,663** horsepower.

CEO's Review | Business Review *(Continued)*

Engineering Machinery

In 2011, revenue from the engineering machinery segment was

RMB406.3 million,

a year-on-year growth of

24.2%.

For the Period, our revenue from the engineering machinery segment was RMB680.9 million (before group consolidation), an increase of 108.1% from the Comparative Period. After excluding inter-segment sales, this segment contributed revenue of RMB406.3 million, representing a year-on-year increase of 24.2%.

Following the official commencement of phase one of our new plant on 28 June 2011, our production capacity has been further enhanced. The project was a part of the "861 Action Plan" of Anhui Province and has been regarded as a key project under the "Twelfth Five-Year Plan" of the Hefei Municipal Government.

We are focusing on the production of 16 types of hydraulic excavators and 2 types of crawler cranes. We have changed our sales model from direct sales to distribution sales with emphasis on enhancing sales channels and brand building. We appointed 23 new sales distributors in 2011, and the sales network has already covered all key sales areas in China.

We achieved key breakthroughs in product research and development and innovation. We improved the quality of 4 existing products, completed prototypes of 6 new products under RS series and bulk production was kicked-off for 4 products after performance enhancements. Meanwhile, we have also enhanced cooperation with financial institutions in all respects, while adjusted our product mix and sales models to address market changes at the same time, with a view to fostering core competitiveness.

CEO's Review

Financial Review

With our business expansion, our inventories as at 31 December 2011 increased by RMB1,052.7 million to RMB2,610.0 million (as at 31 December 2010: RMB1,557.3 million). Our inventory turnover days increased from 60 days as at 31 December 2010 to 73 days as at 31 December 2011.

As at 31 December 2011, the amounts due from customers for contract works increased by RMB3,108.0 million to RMB7,199.0 million (as at 31 December 2010: RMB4,091.0 million). Amounts due to customers for contract works decreased by RMB3,685.0 million to RMB1,168.3 million (as at 31 December 2010: RMB4,853.3 million). The increase in amounts due from customers for contract works was due to our closer strategic cooperation with shipowners and acceleration of shipbuilding in response to the uncertainties and risks in the markets. Also, we were committed to maintaining the number of our orders steady and continuously developing our potential markets. The decrease in amounts due to customers for contract works was due to an increase in the number of commencement of construction as well as vessels under construction. As at 31 December 2011, trade and bill receivables increased by RMB3,272.4 million to RMB3,600.2 million (as at 31 December 2010: RMB327.8 million). Turnover days of trade and bill receivables increased from 9 days to 45 days during the Period, primarily as a result of the significant increase in number of vessels under construction during the Period, and further contagion of the European debt crisis dragging the global shipping market into recession, which had a ripple effect on the shipbuilding industry. At the same time, certain customers issued to the Group irrevocable letters of guarantee from banks and payment guarantee from the related companies of these customers, which formed solid guarantee for the recovery of the receivables from these customers. After taking into consideration our long-term cooperation with shipowners as well as the fact that main body of related vessels were finished, we consider there is minimal risk for collecting these receivables of shipbuilding segment. Therefore, no provision for impairment was recorded by the Group.

Driven by working capital requirements arising from our business expansion during the Period, our short-term borrowings and long-term borrowings increased to RMB15,409.1 million (as at 31 December 2010: RMB9,462.1 million) and RMB10,017.6 million (as at 31 December 2010: RMB8,173.3 million) respectively as at 31 December 2011, representing an increase of RMB5,947.0 million and RMB1,844.3 million, respectively.

Profit attributable to the equity holders of the Company was RMB1,720.7 million for the Period, representing an increase of 0.1% as compared with RMB1,718.7 million for the Comparative Period.

Revenue

Our revenue for the Period was RMB15,904.6 million as compared to RMB12,665.5 million for the Comparative Period, representing a year-on-year growth of 25.6%. The significant revenue growth was primarily attributable to the expansion of our shipbuilding business and engineering machinery business.

Cost of sales

Our cost of sales for the Period increased by 29.3% to RMB12,710.9 million (during the Comparative Period: RMB9,834.0 million), in line with the significant increase in revenue.

Selling and marketing expenses

Our selling and marketing expenses for the Period decreased by 4.4% to RMB60.9 million (during the Comparative Period: RMB63.7 million). Such decrease was primarily due to moderate reduction in expenses of advertising, promotion and marketing for promoting our brand in the Period. On the other hand, we incurred additional marketing costs for the product agencies and sales labor costs in our engineering machinery business.

General and administrative expenses

Our general and administrative expenses for the Period increased by 25.4% to RMB1,200.7 million (during the Comparative Period: RMB957.7 million), mainly due to increase in labor costs, office expenses and depreciation expenses.

Finance income and finance costs — net

Our finance income for the Period increased by 12.5% to RMB197.1 million (during the Comparative Period: RMB175.2 million), mainly due to interest income increased to RMB109.1 million. Our finance costs for the Period decreased by RMB54.8 million to RMB110.6 million (during the Comparative Period: RMB165.4 million), mainly due to a large proportion of the interest expenses from our borrowings, which were used for supporting the construction of infrastructures and vessels, was capitalized.

Liquidity and financial resources

All the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC which the management believes are of high credit quality and without significant credit risk.

As at 31 December 2011, our cash and cash equivalents balance was RMB6,255.1 million (as at 31 December 2010: RMB10,413.0 million).

As at 31 December 2011, our pledged deposits were RMB4,961.5 million (as at 31 December 2010: RMB4,009.8 million), which were primarily attributable to the increase in the number of vessels under construction.

Loans

As at 31 December 2011, our total loans were RMB25,426.7 million (as at 31 December 2010: RMB17,635.4 million), of which RMB22,118.2 million (87.0%) was denominated in RMB and the remaining RMB3,308.5 million (13.0%) was denominated in foreign currencies such as USD. Certain of our borrowings were secured by our land use rights, buildings, construction contracts, pledged deposits, steel plates and guarantees of the Group.

Gearing ratio

Our gearing ratio (measured by total borrowings divided by the sum of total borrowings and total equity) increased from 54.6% as at 31 December 2010 to 61.8% as at 31 December 2011 mainly because of the total borrowings increased from RMB17,635.4 million as at 31 December 2010 to RMB25,426.7 million as at 31 December 2011.

Foreign exchange risks

Our shipbuilding business recorded revenue from contracts mainly denominated in USD, while about 70% of the production costs were denominated in RMB. The cash flows of unmatched currencies are subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimizing the impact of foreign exchange fluctuations on our business operations. Management has adopted measures, including forward derivatives, to manage our foreign exchange exposure. These forward derivatives are not designated for hedge accounting, and as such, any changes in fair values will be recognized in the consolidated statement of comprehensive income in the Period in which such changes occur.

Capital expenditure

For the Period, our capital expenditure was RMB5,210.6 million (during the Comparative Period: RMB4,146.4 million), which was mainly used in the acquisition of land use rights, plants construction and facilities and equipment procurement.

Contingent liabilities

As at 31 December 2011, we had contingent liabilities of RMB12,764.2 million (as at 31 December 2010: RMB9,719.8 million), which mainly resulted from the agreements entered into between the Group and more than 10 banks in the PRC in relation to the grant of credit facilities to us.

Human resources

As at 31 December 2011, we had 7,046 employees (as at 31 December 2010: 5,782). We recruited new employees to cater for the business expansion in the Period. We offer competitive remuneration packages to employees. Moreover, discretionary bonuses are granted to qualified employees by reference to the performance of individuals and the Group as a whole. As our success hinges on the concerted effort from all departments formed by skilled employees with high morale, we endeavor to cultivate a culture of learning and sharing, focusing on individual training and development, and nurture the concept of teamwork.

Acquisition of subsidiary

On 26 April 2011, Rongsheng Heavy Industries, a subsidiary of the Company, entered into an agreement with the The People's Government of Quanjiao County, Anhui Province, pursuant to which Rongsheng Heavy Industries agreed to purchase the entire equity interest in Anhui Quanchai Group Corp. for an aggregate consideration of RMB2,148,870,000. Details of the acquisition were disclosed in the announcement of the Company dated 26 April 2011.

CEO's Review

Prospects

Global economic outlook for 2012 heavily depends on whether Eurozone authorities could deliver a comprehensive and long-term resolution to the ongoing Eurozone sovereign debt crisis. In early 2012, the Baltic Dry Index (BDI) dropped to historic low due to economic uncertainties and seasonal factors, implying a possible delay in the recovery of the shipping market. We expect the shipbuilding industry to remain weak in 2012 as the imbalance between supply and demand is unlikely to be resolved shortly. New orders for the three traditional types of vessels will continue to encounter difficulty. However, orders for high-tech vessels such as very large containerships with capacities of over 10,000-TEU are expected to remain steady. The current market will lead to the restructuring of the Chinese shipbuilding industry and will favor the large shipyards. This tendency will inevitably further widen the gap between leading shipyards and greenfield shipyards, particularly those with a weak orders on hand. In the long-run, adjustment and restructuring will relieve oversupply and help to restore market equilibrium.

In the time of uncertainty, we will enhance our strategic cooperation with ship-owners and rely on our solid orders on hand to get through the current market downturn. Meanwhile, we will promote our product offerings, with emphasis on high-end vessels and cost-efficient eco-friendly vessels. To take advantage of the falling steel price, we will strengthen our cost management, enhance production efficiency and profitability by benchmarking ourselves against leading Korean and Japanese shipyards.

Hindered by the rapid development of Korean marine equipment industry, the marine equipment manufacturers in China will still experience difficulties in short-term. In the "Twelfth Five-Year Plan for Shipbuilding Industry Development" published by the Ministry of Industry and Information Technology of China, marine equipment manufacturing was designated as a key industry and the target was to upgrade its production capability and standard. Also, the China Association of National Shipbuilding Industry has been promoting innovation among domestic manufacturers and encouraging ship-owners to use domestic marine equipment. Our marine diesel engine production base in Anhui Province is the only private manufacturer with an annual production capacity of up to 5 million horsepower approved by National Development and Reform Commission. It will not only serve our own shipbuilding orders, but also orders from external parties in China. We will enhance our internal management with focuses on cost control and production efficiency to enhance our competitiveness.

The domestic onshore oil and gas production in China has become insufficient to support the rapid economic growth. The exploration of offshore oil and gas capacity will become an important way to ensure sufficient supply oil and energy in China. During the "Twelfth Five-Year" period, China will develop an offshore production capacity of 50 million tonnes, and total investments will reach RMB250 to 300 billion. After the substantial investments in marine exploration in recent years, China will enter into the new stage of offshore oil field exploitations in 2012. Furthermore, driven by the global strong demand for offshore energy exploitations, offshore equipment manufacturing is entering into a fast growth period, and marine equipment orders will be progressively increased. Leveraging our experience in offshore engineering and advanced technology, we will accelerate our research and development and design of offshore equipment. We will actively pursue the domestic market, with a focus on high-value products such as LNG carriers.

Supported by the national welfare housing program and water conservancy program, the engineering machinery market is expected to remain steady despite a slowdown in growth. Domestic excavator manufacturers will continue to capture more market shares in China. We will consolidate our production capability and enhance production efficiency to actively pursue the domestic market.

In 2012, we will cautiously evaluate the market environment and closely monitor the market trend, and also will strengthen our execution on the measures to address risk. We will enhance our strategic cooperation with financial institutions and optimize cash flow management. We will control our capital expenditure by limiting investment scale. The current market environment offers us opportunities and initiatives to undergo transformation and promotion. We believe that 2012 is a new starting point, and we will continue to strive to become a world-class and highly competitive heavy industries enterprise.

First VLOC Successfully Delivered in 2011

Equipped with **Self-Built** Main Engine

Leading Technology of the World

Principal Particulars:

Overall Length : 360.0m
Depth : 30.4m
Design Draught : 22.0m

Breadth : 65.0m
Speed : 14.8kn
Scantling Draught : 23.0m

Asia's First 3,000-Meter DPV

3,000-meter Deepwater Pipe-laying

4,000 tonnes of Lifting Capacity

DP-3 Dynamic Positioning System

Principal Particulars:

Overall Length : 204.7m	Breadth : 39.2m
Depth : 14.0m	Speed : 12.0kn
Design Draught : 7.0m	Scantling Draught : 11.0m
Power Gen. : 40,000kW	

Recognition and Awards

The China Annual Management Assembly Valuable Management Model Award

Ranked 35th in Lloyd's List ONE HUNDRED

Newsmaker of the Year by Lloyd's List

International ARC Silver Award in "Overall Annual Report"

International ARC Gold Award in "Photography (Shipbuilding & Construction)"

iNOVA Bronze Award in "Best Corporate Website (Shipping Services Sector)"

iNOVA Honors Award in "Best of Investor/ Shareholder Relations Website"

Corporate Social Responsibility Report

As a good corporate citizen with a strong sense of responsibility and mission, the Group incorporates social responsibility as an integral part of our development strategies, operations and management. We have demonstrated our commitment of corporate social responsibility through concrete actions. In 2011, we continued to organise and participate in various charities, sports, educational and humanitarian activities, actively contributing to the socially responsible and charitable events, and strived for sustainable development for both the Group and the society. In the 2011 China Corporate Social Responsibility Annual Session, the Group was honoured with the "2011 China Corporate Social Responsibility Award".

Consistently supporting charities along with business growth

While experiencing rapid growth, the Group has always kept social responsibility in mind and maintained our commitments as a large enterprise. We particularly care for and support the needy in the community. In 2011, the Group focused on assisting poor and underprivileged children. Under the theme of "Linking up Hearts and Hands; Sailing to the Sea", we expressed our care to the needy children from poor families.

In May 2011, we organised the "Love and Care to Children of Migrant Workers and the Shanghai World Expo Tour" event in Shanghai. The event demonstrated our concerns to the migrant workers' children who are studying in Shanghai. Subsequent to the closure of the China Pavilion at Shanghai World Expo, we sent the book *Forever Expo* and gift bags to those children and accompanied the representatives to visit the China Pavilion. Migrant workers are the builders of the economy and society. The Group hopes to bring festive joy to their children and let them feel the love and care from the public while also subsidising their living and studies.

As a continuation of our relief donations and charity fund raising activities after the earthquakes at Wenchuan and Yushu in 2010, we undertook further proactive action to support the students in the quake-hit regions in 2011 by organising "Bringing Shanghai World Expo to Yushu" and "*Forever Expo* Book Donation" activities. The devastating Qinghai Yushu Earthquake left many victims homeless with psychological trauma inflicted on child victims. The Group's management and volunteer team adjusted to high altitudes and visited the afflicted regions in Yushu. We distributed the book *Forever Expo* and laptops to the local children and strived to encourage the children to move beyond the sadness and

Love and Care to Children of Migrant Workers and the Shanghai World Expo Tour

The Group set up education fund at Harbin Engineering University

embrace a better future through promoting the theme of World Expo.

On the National Day of Assisting the Disabled on 15 May 2011, the Group's management visited Rugao City Special Education School and presented the book *Forever Expo* and gift bags to more than 100 deaf-mute students. We have subsidised the school fees for disabled children from poor families with great enthusiasm for learning, and helped them complete their studies. In addition, we have also collaborated with The Library Project to establish a "Four-leaf Clover Library Project" for donating books, stationary and sports and art equipments to Zhoujiacun Central School and Yingfu Primary School in Chakou Town, She County, Huangshan City.

Since the Group was established in Rugao, it has not only offered employment opportunities in the region, but has also supported charitable events as part of its mission. To support educational development, we collaborated with tertiary institutions to nurture talent, by setting up the Rongsheng Heavy Industries Education Fund at Jiangsu University of Science and Technology, Harbin Engineering University and so on. The objective of the Fund is to reward outstanding students, classes and teachers, and also to assist the needy and seriously ill students with an enduring and diligent learning spirit.

Moreover, we visited poor families and elderly homes in Rugao regularly to express our care and provide material aids to them. We have also subsidised underprivileged groups through donations and assistance to welfare enterprises. At The First Charity Conference in Jiangsu Province held on 13 October 2011, the Group was honoured with the "Jiangsu Charity Award — Most Charitable Donation Unit".

Fulfilling environmental protection responsibility with low-emission products

The Group believes environmental protection should be a key area in carrying out social responsibility. Hence, we are dedicated to improving the eco-friendliness of our product design and have strived to adopt more energy efficient procedures at our manufacturing bases, aiming at a better living environment.

Diesel engines produced by the Group has incorporated eco-friendly designs while the emission volume fully complies with the requirements of the International Maritime Organisation of the United Nations. To assure product quality, our diesel engines are subjected to testing to ensure discharged pollutants such as sulfur dioxide, non-methane hydrocarbons and nitrogen oxides are in compliance with set limits. Our diesel engine manufacturing business has also obtained quality assurance certification ISO 9001:2008 from Lloyd's Register.

A lye cleaning equipment comprising a multiple-grade series connection has been installed within the diesel engine testing system to process exhaust gas. Those diesel engines which fail to meet the Tier 2 emission standards set by the International Maritime Organisation of the United Nations would not be allowed to be installed on vessels. The 76,000 DWT Panamax bulk carriers and VLOCs manufactured by the Group have adopted the Wärtsilä 5RT-flex 58T-D and 7RT-flex 82T engine developed by the Group. These engines have incorporated the advanced technology of fuel stratified injection, in order to more effectively reduce fuel consumption and pollutant emissions.

We are also evaluating the energy saving design at our manufacturing bases. The lights at our Hefei base are powered by wind and solar energy, creating a greener work community. Moreover, the Group has set up the Hygiene Assessment Task Force which was formed by the HSE Department, Facility and Energy Maintenance Department, Economic Operation Department, Science and Technology Developing Department and other related production divisions in 2011. The task force has set out the scope of duties and responsibilities of all divisions to ensure the assessment standards for a clean production environment.

Our diesel engines are subjected to testing to ensure discharged pollutants are in compliance with set limits

The lights at our Hefei manufacturing base are powered by wind and solar energy, creating a greener work community

Since 2008, the Group's newspaper has been acting as an important channel for sharing the Group's latest moves

On 28 October 2011, we celebrated the sixth year anniversary and held the Fourth Cultural and Art Festival in our Nantong base

Through constructing a production efficiency assessment system, improving resource management, monitoring efficiency cycles and implementing an internal production code, the Group has built up a reliable production management structure to increase production volume in various key procedures. As the new preparation line in Phase 2 and 1600 tonnes gantry cranes started operation, the efficiency of key production procedures increased more than 40% on average. The production efficiency per capita was also on a rising trend.

We improved the steel plate utilisation rate of single vessels by changing the steel ordering practice, and adjusting the steel cutting dimensions and tonnage. Moreover, we aimed to set steel cutting dimensions and tonnage with reference to the requirements of different vessel types. Thus, we managed to order the required steel plates with similar dimensions since processing the vessel designs. With the implementation of these new practices, the steel plate utilisation rate in 2011 has improved significantly when compared with 2008 to 2010.

Rongsheng spirit and corporate culture building

We realised an appropriate management of corporate culture could enhance the sense of belonging and competitiveness of our staff. The Group further strengthened its corporate culture in 2011. We hope that by enhancing our corporate culture and humane atmosphere, it would better motivate our staff and spark their innovations to a new height.

On 28 October, the anniversary of the Group, we held the annual grand Flag Raising Ceremony and Banquets igniting the corporate spirit to unite our staff and exhibit our dynamic strength. The Group has aimed at enriching the life of our staff through a series of cultural activities. On top of "The Fourth Cultural and Art Festival" in the Nantong base, the "555111" project (which included "The Rongsheng Hundred-People Choir", "The Rongsheng Brass Band", "The Rongsheng Vigour Men Percussion Team", "The Rongsheng Women Drum Team" and "The Rongsheng Lion Dance Team") ran smoothly and created a unique culture and spirit.

"Thankful Heart and Thank You" to encourage staff to express gratitude and concern to colleagues

The Group also organised various cultural activities and competitions for our staff in Hefei manufacturing base, including "The Second Hefei Workers' Games" and "The Fourth Hefei Cultural and Art Festival". In addition to the "Responsibility Over Capability" reading activities, a singing contest, Wan Fo Lake excursion, sports games and other activities have also been held for the staff in the Hefei base to provide more leisure activities for them to enhance their sense of belonging and team identity.

To provide a better environment for leisure time, the Labour Union of the Group has built up the "Workers' Home", an 8,000m^2 worker's leisure facility. As young people formed the majority in our productions base, the "Workers' Home" is featured with nine multi-media rooms that can accommodate up to 200 people for orientation, safety and skills training and other professional courses. Up to now, more than 30,000 people have undergone training there.

During the year, we organised a special activity called "Steadfast at the Age of 30" in our Shanghai headquarter to encourage young staff to seek self-development paths and to participate in the "Culture of Rongsheng". It provides an opportunity for management and young staff to express their ideas on life, and to inspire them to face challenges ahead courageously and remain progressive and well-grounded in their efforts. On Thanksgiving Day of 24 November 2011, the Group held a "Thankful Heart and Thank You" activity to encourage staff to express their gratitude and concern to their colleagues.

In addition, we have published the "Rongsheng Newspaper" since 2008 to share stories that are resonant with our corporate culture. The Newsletter reported the latest news on our production and operations, also the hot topics among staff to advance technological development, and promoted positive thinking. In 2011, the "Rongsheng Newspaper" garnered first prize for "The First Rugao Corporate Newsletter" and the Gold Award of "The First Jiangsu Corporate Newsletter Awards" during the inaugural Jiangsu Corporate Culture Festival. During 2011, our Shanghai headquarter also published the "Rongsheng China" newsletter to enhance internal communications and the culture of Rongsheng.

Supporting national sport and bolstering national spirit

National sport development can uplift the spirit of a nation. The Group sees sport culture promotion as a long-term social welfare undertaking and has provided major support for selected sports. In 2011, the Group continued to provide support for table tennis events, and at the same time sponsored equestrian and road cycling races to promote these sports and the essence of sport — health and dedication to excellence.

We once again sponsored the Bayi Table Tennis Team in 2011 as part of supporting its spirit of sport and boosting the hope that the Bayi Team will achieve greater glory for China. We also organised "The Second Rongsheng Heavy Industries Cup" — Shanghai Table Tennis Championship and World's Top Table Tennis Players Challenge in August. The event attracted more than 500 table tennis-loving entrants in Shanghai, generating extensive attention of the public and creating a perfect "Rongsheng Heavy Industries Table Tennis Storm". In addition, the Group has also held the "Nantong Port Cup" which also drew a field of 500 table tennis enthusiasts while eliciting favourable comments from both the local government and the community, thereby further contributed to the development of national sport.

Moreover, we have sponsored the "Rongsheng Heavy Industries Cup" — National Equestrian Championship and Xiwu Grand Prix for four consecutive years since 2008, making a major contribution to China's equestrian sports. Equestrianism is just in its infancy when compared with other sports in China, currently lagging far behind world-class status. We chose to sponsor equestrianism at the critical start-up period in the hope that our support could help elevate the standard of the sport in China to an international level.

"The Rongsheng Cup" — China Rugao Road Cycling Race 2011, sponsored by the Group, was also successfully organised. The inaugural event attracted a total of 315 athletes from 18 provinces and cities in China as well as from Hong Kong, U.S., Italy and Germany.

The Group organized the Shanghai Table Tennis Championship and the World's Top Table Tennis Players Challenge

The Group continued to sponsor the Bayi Table Tennis Team in 2011

Corporate Social Responsibility Report *(Continued)*

"Youths of China Rongsheng" was launched in 2011, searching for outstanding young talents in the Group

More resources for staff training to nurture more talent

The Group constantly cares for our staff. Through implementing different staff training programmes, we hope to nurture more talent for the industry and community.

To satisfy our needs for talent introduction and cultivation, the Group launched the "Youths of Rongsheng" scheme in 2011, aiming at fulfilling human resources objectives under our second five-year development plan. The scheme targets to nurture the talent who recognise our corporate culture and are able to fulfill the future development plan, push forward technological innovation and corporate development, and realise healthy and sustainable growth.

Under this scheme, the Group intends to train 15 experts who are entitled to special allowances from the State Council, as well as 100 senior professionals, 15 doctoral level professionals and 500 master degree holders by the end of 2015, thereby pooling sufficient talent for our steady growth. On 8 September 2011, we held "The First Youths of Rongsheng Forum" to discover outstanding young professionals, strengthen cohesion among all staff and reinforce our corporate culture.

Rongsheng Secondary Vocational School cultivated shipbuilding technicians through a range of programmes, competitions and examinations in 2011. During the year, it organised the "Rongsheng Cup" — Shipbuilding Technician Competition (Fitters) in Nantong and co-organised the "National Ship Tonnage Examiner Training Course". It also held the "Rugao Vocational School

Skills Competition (Electric Welder)" and the "Jiangsu Mingde Cup" — Shipbuilding Electric Welding Competition. These efforts have brought awards and honours to the Group including the "Special Contribution Award", as well as the recognition for "Leading Vocational School in Jiangsu Province" and "Welding Competition Site" from the Jiangsu Shipbuilding Electric Welder Competition Commission.

During the year, the Group set up a China Classification Soceity (CCS) Examination Centre and Nantong Training Centre of Det Norske Veritas (DNV) Marine Training Institute. In late 2011, the first master workshop, Miao Yu Ming Workshop, was established at Rugao Secondary Vocational School to nurture more professionally qualified technicians.

Besides, the Group has worked with various renowned career training companies to provide a range of training programmes for staff of managerial grade or above. The programmes are intended to nurture a variety of skills including team building, project management, conflict management and risk management. We also held three orientation sessions for new staff in Shanghai, on-site visits to Rongsheng Machinery and Rong An Power Machinery, as well as extensive risk management training. All of these courses were designed to address our actual needs with some 420 staff participating in these courses to date.

Marine Engine Building Accumulated Production Surpassed 1,000,000 Horsepower


350/100/20

Directors and Senior Management

1 2 3 4

5 6 7 8

9 10 11 12

1. **Mr. ZHANG Zhi Rong**
   Chairman of the Board and Non-executive Director
2. **Mr. CHEN Qiang**
   Executive Director and Chief Executive Officer
3. **Mr. ZHANG De Huang**
   Vice Chairman of the Board and Executive Director
4. **Mr. WU Zhen Guo**
   Vice Chairman of the Board and Executive Director
5. **Mr. LUAN Xiao Ming**
   Executive Director and Chief Operating Officer
6. **Mr. DENG Hui**
   Executive Director
7. **Mr. HONG Liang**
   Executive Director
8. **Mr. Sean S J WANG**
   Executive Director and Chief Financial Officer
9. **Mr. WANG Tao**
   Executive Director
10. **Mr. CHEN Gang**
    Independent Non-executive Director
11. **Mr. TSANG Hing Lun**
    Independent Non-executive Director
12. **Mr. ZHANG Xu Sheng**
    Independent Non-executive Director

Board of Directors

The Board, which oversees the Company's operations through several committees, has ultimate responsibility for the administration of the affairs of the Company. The Board consists of twelve Directors, one of whom is a non-executive Director, eight of whom are executive Directors, and three of whom are independent non-executive Directors.

Non-executive Director

Mr. ZHANG Zhi Rong (張志熔),
Chairman of the Board and Non-executive Director

Mr. Zhang, aged 43, is a non-executive Director of the Company, our chairman and founder and controlling shareholder of the Group. He was appointed as a Director on 3 February 2010. He is a member of our nomination committee (with effect from 1 April 2012) and remuneration committee. Mr. Zhang is not involved in the day-to-day operations of the Group as a non-executive Director, but participates in formulating the Group's overall strategies. Mr. Zhang has more than 15 years of experience in corporate management, real estate development and investment and about 5 years of experience in corporate management in the heavy industry. In 2006, Mr. Zhang entered the heavy industry business field by establishing our Group. He received his MBA degree from Asia Macau International Open University in 2002. Mr. Zhang is the chairman and executive director of Glorious Property Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 00845). Mr. Zhang holds 100% beneficial interest in Fine Profit Enterprises Limited, the direct controlling shareholder of the Company. Mr. Zhang is the son of Mr. Zhang De Huang, an executive Director and vice chairman of the Board.

Executive Directors

Mr. CHEN Qiang (陳強),
Executive Director and Chief Executive Officer

Mr. Chen, aged 50, an executive Director and chief executive officer. Mr. Chen joined us in 2004 and was appointed as an executive Director on 24 October 2010. He is also the chairman of our finance and investment committee and a member of our corporate governance committee (both with effect from 1 April 2012). He is responsible for overseeing the overall operations of the Group, and is also a director of Rongsheng Heavy Industries and Rongsheng Research and Design, both being subsidiaries of the Company. Mr. Chen obtained his doctorate degree in naval architecture and ocean engineering from Harbin Engineering University (哈爾濱工程大學) and an MBA degree from China Europe International Business School (中歐國際工商學院) in 2002. Mr. Chen obtained a master's degree in professional accounting (EMPAcc) (專業會計碩士) from the Chinese University of Hong Kong and was awarded the CFO Qualifying Certificate from the Shanghai National Accounting Institute (上海國家會計學院) in 2010. He also obtained a bachelor's degree in marine power engineering from Shanghai Jiao Tong University (上海交通大學) in 1982. Mr. Chen once served as an assistant to the general manager and subsequently a deputy manager of Jiangnan Shipbuilding Group Co., Ltd. (江南造船集團有限公司). Mr. Chen was a deputy general manager and subsequently the vice-chairman to the board of directors and general manager of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司), and was one of the founders of the company. Mr. Chen is one of the experts on the National Expert Database of the PRC and was named as one of the "one hundred entrepreneurial talents" by the Jiangsu provincial government. He is also a top-tier chief scientist enrolled in the 4th "333 Talents Cultivation Project" of Jiangsu Province. In 2010, the prestigious Norwegian shipping magazine "TradeWinds" ranked him the 41st among the "100 Most Influential People in Shipping Today". Mr. Chen enjoys special government allowances granted by the State Council and has won many domestic awards and has been granted many honorary titles, for example, the State Scientific and Technological Progress Second Class Award (國家科學技術進步二等獎) in 1990. Mr. Chen is the vice-president of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), an executive member of the Council of the Shanghai Society of Naval Architects & Marine Engineers (上海造船工程學會), a committee member of the Jiangsu Shipbuilding and Offshore Engineering Assessment Panel of Professional Qualification (江蘇省船舶與海洋工程高級專業技術資格評審會). He is also a member of the council of CCS (中國船級社) and a member of the technology committee of the five biggest ship classification societies, namely, DNV, ABS, GL, LR and BV.

Mr. ZHANG De Huang (張德璜),
Vice Chairman of the Board and Executive Director

Mr. Zhang De Huang, aged 65, is our vice chairman and an executive Director. Mr. Zhang De Huang joined us in 2007 and was appointed as an executive Director on 26 September 2011. He is also the director, chairman and legal representative of Rongsheng Shipbuilding and the supervisor of Rongsheng Heavy Industries, both of which are indirect non-wholly owned subsidiaries of the Company. Mr. Zhang De Huang is the chairman, founder and controlling shareholder of a construction group called Shanghai Ditong Construction (Group) Co., Ltd. (上海地通建設（集團）有限公司*). Currently, he is also a director, shareholder and the legal representative of Rongsheng Investment, an investment conglomerate engaging in various types of business operations such as heavy industries and facility operations. He has extensive experience in corporate management and investment. Mr. Zhang De Huang is the father of Mr. Zhang Zhi Rong, a non-executive Director, chairman, founder and controlling shareholder of the Company. Mr. Zhang De Huang is qualified as a senior engineer in the People's Republic of China. He is also a deputy to Nantong Municipal People's Congress (南通市人民代表大會代表).

* For identification purpose only

Directors and Senior Management *(Continued)*

Executive Directors (Continued)

Mr. WU Zhen Guo (鄔振國),
Vice Chairman of the Board and Executive Director

Mr. Wu, aged 62, is our vice chairman and an executive Director. Mr. Wu joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is also the chairman of Rongsheng Heavy Industries, a subsidiary of the Company. Mr. Wu is primarily responsible for the administration and management of the Group. Mr. Wu obtained his bachelor's degree in economics and management from Fudan University (復旦大學) in 1994. Mr. Wu was a member of Shanghai Government Economic Reform Committee (上海市政府經濟體制改革委員會). From 2001 to 2010, Mr. Wu was the president of Shanghai Sun Glow Investment Group Co., Ltd. (上海陽光投資集團) and was responsible for overseeing the management of its day-to-day operations.

Mr. LUAN Xiao Ming (欒曉明),
Executive Director and Chief Operating Officer

Mr. Luan, aged 40, is an executive Director and chief operating officer. Mr. Luan joined us in 2006 and was appointed as an executive Director on 24 October 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongye Storage and Rongding Marine Engineering. Mr. Luan is primarily responsible for sales and marketing, research and development of technologies and sourcing of materials. He obtained his bachelor's degree in economics from Shanghai Institute of Foreign Trade (上海對外貿易學院) in 1993. Mr. Luan has 18 years of experience in marketing. Mr. Luan was the director of the purchasing department and sales department of Nantong COSCO KHI Ship Engineering Co. Ltd. (南通中遠川崎船舶工程有限公司) from 1998 to 2006. Mr. Luan is a member of the Lloyd's Register Asia China Technical Committee.

Mr. DENG Hui (鄧輝),
Executive Director

Mr. Deng, aged 54, is an executive Director and our standing vice-president. Mr. Deng joined us in September 2007 and was appointed as an executive Director on 24 October 2010. He is also the chairman of Rong An Power Machinery and an executive director of Rong An Mechanical & Electrical Equipment. Mr. Deng is primarily responsible for strategic development, and overseeing the overall operations of Rong An Power Machinery and Rongsheng Machinery. Mr. Deng obtained his bachelor's degree in marine power engineering (船舶動力工程學士) from Shanghai Jiao Tong University (上海交通大學) in 1982 and his MBA degree from China Europe International Business School (中歐國際工商管理學院) in 2002. Mr. Deng is a member of the Standing Committee of the China Shipbuilding Industry Association (中國船舶工業行業協會). He was an assistant engineer and subsequently an engineer of China State Shipbuilding Corporation (中國船舶工業總公司) from 1982 to 1990, the deputy head of division three of the export department of China Shipbuilding Trading Co., Ltd. (中國船舶工業貿易公司) from 1991 to 1996, an assistant president of China Offshore Industrial Corporation (中國國際海洋石油工程公司) from 1996 to 1998, a vice-president of China Great Wall Industry Shanghai Corporation (中國長城工業上海公司) and president of China National Precision Machinery Shanghai Pudong Co. Ltd. (中國精密機械上海浦東公司) from 1998 to 2000, a special assistant to the chairman of the board of Bailian Company Limited (百麗安公司) from 2000 to 2001, and the chief representative and regional manager of the China region of Caterpillar Marine Power Systems (卡特彼勒船舶動力) from 2001 to 2007. Mr. Deng is an Anhui Provincial Committee member of the Chinese People's Political Consultative Conference (安徽省政治協商委員會委員).

Mr. HONG Liang (洪樑),
Executive Director

Mr. Hong, aged 40, is an executive Director and our vice-president. Mr. Hong joined us in 2006 and was appointed as an executive Director on 24 October 2010. He is also a member of our finance and investment committee (with effect from 1 April 2012). He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongsheng Painting and Rongye Storage. Mr. Hong is primarily responsible for investment and financing, capital as well as cost and budget management. Mr. Hong obtained his bachelor's degree in accounting from Shanghai University (上海大學) in 1994. He obtained the Master of Executive Professional Accountancy (EMPAcc) from Shanghai National Accounting Institute and The Chinese University of Hong Kong in August 2010. Mr. Hong has 16 years of experience in corporate finance and strategic investment gained from his service in investment banks. Mr. Hong worked at Shenyin and Wanguo Securities (申銀萬國證券公司) as an assistant manager of division two of the Shanghai investment banking department from 1994 to 1997, the deputy general manager of the Shanghai investment banking division of CITIC Securities Limited (中信證券有限責任公司), the general manager of the investment banking division of United Securities Company Limited (聯合證券股份公司) from 1998 to 1999, the deputy manager of the investment banking division of CITIC Securities Limited (中信證券股份公司) from 1999 to 2002, the general manager of the investment and development division of Shanghai Sun Glow Investment Co. Ltd. (上海陽光投資集團有限公司) from 2002 to 2004, and the deputy general manager of the strategic investment division of Shanghai Daisheng Holdings Limited (上海大盛資產公司) from 2004 to 2005.

Executive Directors (Continued)

Mr. Sean S J WANG (王少劍),

Executive Director and Chief Financial Officer

Mr. Wang, aged 48, is an executive Director and our chief financial officer. Mr. Wang joined us in June 2010. He was appointed as an executive Director on 24 October 2010. He is also a member of our corporate governance committee and finance and investment committee (both with effect from 1 April 2012). He is responsible for financial management, investor relations and public relations management. He has in-depth and extensive experience in enterprise management and funds operation. He also has many years of experience in financial operation and project management at various multinational firms listed on the New York Stock Exchange, NASDAQ and the Hong Kong Stock Exchange. Previously, he held the positions of president and chief operating officer of Hurray! Holding Limited, a company listed on NASDAQ. From June 2008 to May 2010, Mr Wang acted as an executive director and the chief financial officer of SOHO China Limited, a company listed on the Hong Kong Stock Exchange. Mr. Wang is also an independent non-executive director of Tomson Group Ltd., a company listed on Hong Kong Stock Exchange. He received a "2010 Top 10 CFO of the Year in China" award from the "CFO World" Magazine. He studied economics at Peking University and later received a bachelor of science degree from Hamline University in 1986. He received his MBA degree from University of Minnesota in 1989.

Mr. WANG Tao (王濤),

Executive Director

Mr. Wang, aged 39, is an executive Director. Mr. Wang joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries and Rongding Marine Engineering, Hefei Rongan Heavy Machine Co., Ltd. Mr. Wang is primarily responsible for legal affairs and risk control. He obtained his bachelor's degree in law from China University of Political Science and Law (中國政法大學) in 1994. Mr. Wang obtained his certificate in world economics from the Department of Economics of Renmin University of China (中國人民大學研究生院經濟學院) in 2005 and graduated from an advanced course in ship finance law (船舶融資法律實務高級研修班) from Shanghai Jiao Tong University (上海交通大學) in 2010. From 1999 to 2008, Mr. Wang had held various positions in Shanghai Sun Glow Investment Group Co. Ltd. (上海陽光投資集團), namely legal consultant, assistant to the president, vice-president and assistant to the chairman of the board. Mr. Wang qualified as a lawyer in the PRC in 1999.

Independent Non-executive Directors

Mr. CHEN Gang (陳剛),

Independent Non-executive Director

Mr. Chen, aged 49, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Chen is also the chairman of our remuneration committee (with effect from 1 April 2012), and a member of our audit committee, finance and investment committee (with effect from 1 April 2012) and nomination committee (with effect from 1 April 2012). In 1984, Mr. Chen received a bachelor's degree in naval architecture and ocean engineering from Shanghai Jiao Tong University (上海交通大學), and in 1990 and 1993, he obtained a master's and a Ph.D degree in naval architecture and ocean engineering from Yokohama National University in Japan. In 2002, Mr. Chen obtained an MBA degree from China Europe International Business School (中歐國際工商學院). Mr. Chen has many years of experience in engineering. As a deputy chief engineer and chief engineer, he worked at the construction supervisory department of Shanghai Pudong International Airport, Shanghai International Airport Co., Ltd. and the construction supervisory department of Shanghai Deep Sea Port. From 2003 to 2009, Mr. Chen was the Dean of the School of Naval Architecture and Civil Engineering at Shanghai Jiao Tong University (上海交通大學). Since 2004, Mr. Chen has been the vice-president of Shanghai Jiao Tong University (上海交通大學). Mr. Chen is the vice-chairman of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), advisory committee member of the 25th International Towing Tank Conference, standing member of the Council of the Chinese Society of Naval Architects and Marine Engineers, member of the Expert Committee of CCS and a member of the China Expert Committee of LR (Lloyd's Register Quality Assurance Limited). Mr. Chen is a professor of Shanghai Jiao Tong University (上海交通大學).

Independent Non-executive Directors (Continued)

Mr. TSANG Hing Lun (曾慶麟),
Independent Non-executive Director
Mr. Tsang, aged 62, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Tsang is also the chairman of our audit committee and a member of our finance and investment committee (with effect from 1 April 2012). In addition, he is the chief executive officer of Influential Consultants Ltd. and a fellow member of the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. The principal activity of Influential Consultants Ltd. is the provision of financial planning and related advisory services in Hong Kong. Mr. Tsang graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration (First Class Hons) in 1973. Mr. Tsang has served in a senior management capacity in several publicly listed companies operating in Hong Kong and Singapore. Mr. Tsang joined Hang Seng Bank in 1973 and served for 17 years. He acted as an assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its first vice-president. After working in the UOB Group, Mr. Tsang acted as an executive director of China Champ Group in 1994 and as an alternate chief executive and a deputy general manager of the China Construction Bank, Hong Kong Branch from 1995 to 1998. Mr. Tsang currently acts as an independent non-executive director of Sinotrans Shipping Limited, Beijing Media Corporation Limited and Sino- Ocean Land Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange. Mr. Tsang is also an independent non-executive director of China GrenTech Corporation Limited, a company listed on NASDAQ.

Mr. ZHANG Xu Sheng (張緒生),
Independent Non-executive Director
Mr. Zhang Xu Sheng, aged 55, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Zhang Xu Sheng is also the chairman of our corporate governance committee and nomination committee (both with effect from 1 April 2012), and a member of our audit committee and remuneration committee. Mr. Zhang Xu Sheng is a solicitor and holds the qualification from the Ministry of Justice to practise law. He has been responsible for different regional and international listed projects. Mr. Zhang Xu Sheng is a specialist of enterprise, banking and securities law. He has been a partner of Jingtian Associates (北京市競天律師事務所) since 1992.

Senior Management Team

Our experienced management team brings unrivalled industry know-how and a deep understanding of the shipbuilding industry. Most of the members of the senior management team have an average of over 20 years of experience in the shipbuilding industry and are highly regarded in the shipbuilding industry. Their in-depth industry knowledge and strategic vision has made significant contributions to the growth of the Company's business.

Mr. CHEN Wen Jun (陳文軍), aged 42, is our vice-president. Mr. Chen joined Rongsheng Heavy Industries on 4 May 2008 and served as its vice-president and chief economist. Mr. Chen was previously the president of Rongsheng Research and Design. He is primarily responsible for economic operations, planning management, human resources and information technology of our Group. Prior to joining us, Mr. Chen was a project manager, department head and chief information officer of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen obtained his bachelor's degree from Dalian University of Technology (大連理工大學) in 1993 and his MBA degree from the China Europe International Business School (中歐工商管理學院) in 2004.

Senior Management Team (Continued)

Set out below are senior management members of each business segment:

1. Shipbuilding and Offshore Engineering Segments

Mr. WU Zhen Guo (鄔振國), Chairman of Rongsheng Heavy Industries. Biography of Mr. Wu has been set out above.

Mr. CHEN Guo Rong (陳國榮), aged 51, currently serves as the president of Rongsheng Heavy Industries and is also general director of plant construction and general manager of our DPV projects. Mr. Chen joined us as vice-president on 1 March 2006. Mr. Chen is primarily responsible for the overall management of production, operations, research and development of Rongsheng Heavy Industries. Mr. Chen also became the general director of plant construction in June 2008 and the head of the production management department in August 2008. Prior to joining us, Mr. Chen served as deputy section chief and party branch secretary of Jiangnan Shipyard Group Co., Ltd (江南造船廠) and deputy head of general assembly department and party branch secretary, head of manufacturing department and head of marine engineering department of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen graduated from Shanghai Shipbuilding School (上海船舶工業專業學校) in 1991, majoring in shipbuilding.

2. Marine Engine Building Segment

Mr. DENG Hui (鄧輝), Executive Vice-president of the Group and Chairman of Rong An Power Machinery. Biography of Mr. Deng has been set out above.

Mr. ZOU Zhi Ming (鄒志明), aged 68, currently serves as the president of Rong An Power Machinery. He is primarily responsible for monitoring plant operation and overall management of Rong An Power Machinery. Mr. Zou is a researcher-level senior engineer and enjoys special government allowances granted by the State Council. Prior to joining Rong An Power Machinery in September 2009, Mr. Zou worked for Dalian Marine Diesel Engine Factory (大連船用柴油機廠) for a long time, serving as machinery manufacturing technician, workshop director, deputy factory manager and factory manager.

3. Engineering Machinery Segment

Mr. YU Zheng (郁政), aged 65, currently serves as the chairman of Rongsheng Machinery. Mr. Yu is mainly responsible for the overall operation of Rongsheng Machinery, and formulating the corporate development strategy. Mr. Yu joined Rongsheng Machinery in December 2010. Prior to this, he joined Rong An Power Machinery in September 2007 as the vice-president and general director of construction, and had served as the general manager of Shanghai Zhuoxin Investment Management Ltd. (上海卓信投資有限公司), as well as the general director of construction and vice-president of Rongsheng Heavy Industries since 2002. Mr. Yu served as the officer of the Office of Finance and Trade of Nantong City and secretary to the municipal party committee of Rugao City between July 1990 and January 2002, and served as the deputy secretary to the government of Qiannan Autonomous Prefecture, Guizhou Province between August 1970 and July 1990.

Mr. YAO Guang Shan (姚廣山), aged 45, currently serves as the president of Rongsheng Machinery. Mr. Yao is mainly responsible for the overall operation of Rongsheng Machinery and formulating the corporate development strategy. Prior to joining Rongsheng Machinery in August 2011, Mr. Yao served as the manager and subsequently the deputy director of production technology department and the director of comprehensive department of Daewoo Heavy industries Yantai Co., Ltd. (大宇重工業烟台有限公司). He also served as the deputy general manager of Hunan Sunward Intelligent Machinery Co., Ltd. (湖南山河智能機械股份有限公司) and the general manager of Ningbo Saikesi Hydraulic Co., Ltd. (寧波廣天賽克思液壓有限公司). Mr. Yao graduated from lumbering engineering department, Engineering College of Northeast Forestry University in July 1989 and he obtained his MBA degree from China Europe International Business School (中歐工商管理學院) in 2010.

Report of the Directors

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The Group is principally engaged in the businesses of shipbuilding, marine engine building, offshore engineering and engineering machinery focusing on oil and gas related customers and markets.

Details of the analysis of the Group's turnover and contribution to gross profit for the year, by operating segments, are set out in Note 5 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 81 of this annual report.

Dividends

The Directors have recommended the payment of a final dividend of RMB0.022 per ordinary share for the year ended 31 December 2011.

Subject to the shareholders' approval of the payment of the final dividends at the 2012 AGM, the final dividend of the Company will be distributed to shareholders on or around 14 June 2012.

Closure of Register of Members

The register of members of the Company will be closed during the following periods during which no transfers will be registered:

- from Friday, 18 May 2012 to Wednesday, 23 May 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2012 AGM. In order to be eligible to attend and vote at the 2012 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited ("**Hong Kong Share Registrar**") at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 17 May 2012; and

- from Wednesday, 30 May 2012 to Friday 1 June 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong Share Registrar at the address as set out above not later than 4:30 p.m. on Tuesday, 29 May 2012.

Share Capital

Details of the movements in the share capital of the Company are set out in Note 16 to the consolidated financial statements.

Share Premium and Reserves

Movements in the share premium and reserves of the Group and the Company during the year are set out in statement of changes in equity, Note 16 and Note 18 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2011, the reserves of the Company available for distribution to shareholders amounted to RMB6,896.6 million (2010: RMB8,307.0 million).

Donations

Charitable donations made by the Group during the year amounted to RMB12.3 million (2010: RMB11.5 million).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2011 and for the previous four financial years are set out in the Five-Year Financial Summary section on page 148 of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Share Option Schemes

Pre-IPO Share Option Scheme

On 24 October 2010, the Company conditionally approved and adopted the Pre-IPO Share Option Scheme. As at 31 December 2011, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 61,500,000 shares, which is equivalent to approximately 0.88% 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 purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to acquire a personal stake in our Company and help motivate such participants to optimize their performance and efficiency, and also to help retain the participants whose contributions are important to the long-term growth and profitability of our Group.

The exercise price per Share of the options granted under the Pre-IPO Share Option Scheme is HK$4.00.

Share Option Scheme

On 24 October 2010, the Company also conditionally approved and adopted a 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. During the year ended 31 December 2011, no share options were granted under the Share Option Scheme. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

The total number of shares in respect of which share options may be granted under the Share Option Scheme is not permitted to exceed 700,000,000 shares, representing 10% of the total number of shares of the Company as at 31 December 2011. Without prior approval from the Company's shareholders, the number of shares in respect of which share options were granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue for the time being.

The share options granted under the Share Option Scheme are exercisable within a period of 10 years after the date of grant. A consideration of HKD1.00 is payable by each grantee accepting on the grant of share options. Options are exercisable at a price that is determined by the Board of the Company, which will not be less than the higher of the closing price of the Company's shares on the offer date, and the average closing prices of the shares for the five business days immediately preceding the offer date.

Particulars of the Company's Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 17 to the consolidated financial statements.

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 their movements during the year ended 31 December 2011:

	Date of Grant	Number of Share Options As at 1 Jan 2011	Exercised	Cancelled	Lapsed	As at 31 Dec 2011	Exercise Price HK$	Exercisable Period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	—	—	—	5,000,000	4.00	Note
Mr. Luan Xiao Ming	24 October 2010	4,375,000	—	—	—	4,375,000	4.00	Note
Mr. Deng Hui	24 October 2010	4,375,000	—	—	—	4,375,000	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
Senior Management and other employees (in aggregate)	24 October 2010	37,500,000	—	—	1,000,000	36,500,000	4.00	Note
Total		**62,500,000**				**61,500,000**		

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 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.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2011 are set out in Note 39 to the consolidated financial statements.

Major Customers and Suppliers

During the year ended 31 December 2011, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 7.2% and 27.1%, respectively. The percentages of sales attributable to the Group's largest customer and the five largest customers 32.0% and 74.8% respectively. During the year ended 31 December 2011, none of the Directors or any of their associates, or any shareholders which to the best knowledge of the Directors, who own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest suppliers and customers.

Directors' Interests in Competing Business

As at 31 December 2011, none of the Directors are interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

In order to protect the Group's interests and its current business activities, the controlling shareholders of the Company, namely, Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong, entered into a deed of non-compete undertaking on 24 October 2010 (the "**Deed of Non-compete Undertaking**") in favour of the Company, under which each of Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong has undertaken and covenanted with the Company that they shall not and shall procure their respective associates not to directly or indirectly participate in, or hold any right or interest in, or otherwise be involved in any business engaged in the design, manufacture, marketing and sale of ships, offshore engineering, marine engines and engineering machinery in the PRC (other than through the Group). The Company has received a confirmation from Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong in respect of their compliance with the terms of the Deed of Non-compete Undertaking during the year ended 31 December 2011.

The independent non-executive Directors ("**INEDs**") have also reviewed and confirmed the compliance with, and the enforcement of, the Deed of Non-compete Undertaking by Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong during the year ended 31 December 2011.

Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following transactions are connected transactions or continuing connected transactions as defined in the Listing Rules which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. Certain of these connected transactions which also constitute related party transactions are set out in Note 38 to the consolidated financial statements.

Continuing Connected Transactions with Shanghai Ditong

During the period from 1 January 2007 to 31 August 2010, the Group entered into several contracts (the "**Construction Contracts**") with Shanghai Ditong Construction (Group) Co., Ltd. ("**Shanghai Ditong**") pursuant to which Shanghai Ditong agreed to provide construction and installation services to the Group with respect to the development of the Group's manufacturing facilities.

For the year ended 31 December 2011, the annual cap for the continuing connected transactions between the Group and Shanghai Ditong in respect of the construction and installation services under the Construction Contracts as set out in the Prospectus is RMB1,566 million and the actual amount for the construction and installation services paid by the Group to Shanghai Ditong is RMB1,477.1 million.

Pursuant to Rule 14A.38 of the Listing Rules, the Company engaged the auditor of the Company to conduct certain assurance procedures in respect of the continuing connected transactions of the Group in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's

Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed to the Board in writing that for the year ended 31 December 2011, the continuing connected transactions, (i) have received the approval of the Board of Directors of the Company; (ii) have been entered into in accordance with the relevant agreement governing such transactions; and (iii) have not exceeded the relevant cap amount for the financial year ended 31 December 2011 as set out in the Prospectus of the Company issued in connection with the listing of the Company on the Hong Kong Stock Exchange.

The continuing connected transactions set out above have been reviewed by the INEDs, who have confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Structure Agreements

According to the Foreign Investment Industries Catalogue, foreign ownership in a ship repair, design and manufacturing company in PRC may not exceed 49%. Additionally, foreign ownership in companies which repair, design and manufacture marine engineering equipment and those that design and manufacture low-speed and medium-speed marine diesel engines may not exceed 49%.

In view of the abovementioned foreign ownership restrictions, Rongsheng Heavy Industries only owns a 49% equity interest in Rongsheng Shipbuilding and Rongsheng Investment owns the remaining 51% equity interest. Similarly, Rong An Power Machinery is owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Our controlling shareholder and chairman of the Board, Mr. Zhang Zhi Rong, ultimately controls Rongsheng Investment.

In order to enable us to govern and control the financial and operating policies of Rongsheng Shipbuilding and for Rongsheng Heavy Industries to enjoy 100% of the economic benefits of Rongsheng Shipbuilding, we have entered into a shareholders' agreement through Rongsheng Heavy Industries with Rongsheng Investment dated 8 January 2009 but effective as at 21 May 2008 and a supplemental agreement in relation thereto through Rongsheng Heavy Industries with Rongsheng Investment dated 18 October 2010 but effective as at 21 May 2008.

On 20 October 2010, a services agreement (the "**Services Agreement**") was entered into amongst Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment, the key provisions of which are as follows:

(1) Rongsheng Heavy Industries agreed to provide shipbuilding technology guidance, support and improvements, engineering supervision, acceptance testing and other support work-related consulting services to Rongsheng Shipbuilding;

(2) Rongsheng Investment agreed to pay Rongsheng Heavy Industries a services fee equivalent to all of the economic benefits flowing from the dividend income received from Rongsheng Shipbuilding as a result of its 51% interest in the share capital of Rongsheng Shipbuilding (which is due and payable on the same date when Rongsheng Shipbuilding pays any dividend to its shareholders); and

(3) Rongsheng Investment undertakes not to retain any parties other than Rongsheng Heavy Industries to provide similar services to Rongsheng Shipbuilding without the prior written consent of Rongsheng Heavy Industries.

During the year ended 31 December 2011, Rongsheng Investment had not received any dividend income from Rongsheng Shipbuilding.

The Services Agreement and the terms of the transactions thereunder during the year ended 31 December 2011 have been reviewed by the INEDs who have confirmed that, pursuant to the terms of the Services Agreement:

(1) the transactions carried out during the year ended 31 December 2011 were entered into in accordance with the relevant provisions of the Services Agreement and have been operated so that any profits generated by Rongsheng Shipbuilding have been retained by the Group;

(2) no dividends or other distributions were made by Rongsheng Shipbuilding to the holders of its equity interests other than the Group (or to the extent that they were made, they have been forwarded to Rongsheng Heavy Industries by way of payment of the fee for the Services); and

(3) Rongsheng Heavy Industries has obtained its entitlement under the Services Agreement.

Pension Schemes

Details of the Group's pension schemes are set out in Note 2.19 to the consolidated financial statements.

Remuneration Policy

The primary goal of our policy for remuneration packages is to ensure that Directors are fairly rewarded and they receive appropriate incentives to maintain high standards of performance.

The principal elements of the Directors' remuneration package include:

- basic salary and other benefits;
- contribution to pension schemes;
- discretionary bonus; and
- share options granted under an approved option scheme.

Details of the Directors' emoluments and the five highest-paid individuals of the Group for the year ended 31 December 2011 are set out in Note 32 to the consolidated financial statements.

Directors

Non-executive Director

Mr. Zhang Zhi Rong *(Chairman)*

Executive Directors:

Mr. Chen Qiang *(Chief Executive Officer)*
Mr. Zhang De Huang *(Vice Chairman)*
Mr. Wu Zhen Guo *(Vice Chairman)*
Mr. Luan Xiao Ming *(Chief Operating Officer)*
Mr. Deng Hui
Mr. Hong Liang
Mr. Sean S J Wang *(Chief Financial Officer)*
Mr. Wang Tao

Independent Non-executive Directors

Mr. Chen Gang
Mr. Tsang Hing Lun
Mr. Zhang Xu Sheng

Mr. Zhang De Huang was appointed the Vice Chairman of the Board and an executive Director on 26 September 2011. He is the father of Mr. Zhang Zhi Rong, the Chairman of the Board and a non-executive Director.

In accordance with the Company's articles of association, Mr. Zhang De Huang, Mr. Luan Xiao Ming, Mr. Hong Liang and Mr. Sean S J Wang will retire by rotation at the 2012 AGM. All of the retiring directors, being eligible, will offer themselves for re-election.

The biographical details of the Directors and senior management of the Company as at the date of this report are set out in the Directors and Senior Management section on pages 48 to 53 of this annual report.

Directors' Service Contracts

Save for Mr. Zhang De Huang who entered into a service contract with the Company for a term of three years commencing on 26 September 2011, none of the Directors have entered into a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts of Significance

Save for the contracts described under the section headed "Connected Transactions" above, no contracts of significance (as defined in Appendix 16 to the Listing Rules) in relation to the Group's business to which the Company or its holding company or a subsidiary of the Company or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2011.

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

As at 31 December 2011, the Directors and chief executive of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**"):

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

Name of Director	Number of Shares Personal interest	 Corporate Interest	 Equity derivatives (share options) (Note 3)	 Total	Percentage of issued share capital
Mr. Zhang Zhi Rong	—	3,762,281,157 (Note 1)	—	3,762,281,157	53.75%
Mr. Chen Qiang	—	186,000,000 (Note 2)	—	186,000,000	2.66%
Mr Wu Zhen Guo	—	—	5,000,000	5,000,000	0.07%
Mr. Luan Xiao Ming	—	—	4,375,000	4,375,000	0.06%
Mr Deng Hui	—	—	4,375,000	4,375,000	0.06%
Mr Hong Liang	—	—	4,375,000	4,375,000	0.06%
Mr. Sean S J Wang	—	—	2,500,000	2,500,000	0.04%
Mr. Wang Tao	—	—	4,375,000	4,375,000	0.06%

Notes:

As at 31 December 2011,

(1) Mr. Zhang Zhi Rong was deemed to be interested in 3,762,281,157 Shares, comprising 3,653,557,157 Shares and 108,724,000 Shares held by Fine Profit Enterprises Limited and Wealth Consult Limited, respectively, both of which are companies 100% beneficially owned by Mr. Zhang Zhi Rong.

(2) 186,000,000 Shares were held by Boom Will Limited, a company 100% beneficially owned by Mr. Chen Qiang.

(3) 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" above.

(B) Long Positions in Associated Corporations

Name of Director	Name of associated corporation	Nature of interest/capacity	Number of shares	Percentage of shareholding
Mr. Zhang Zhi Rong	Fine Profit Enterprises Limited	Interest in a controlled corporation	50,000 shares (Note 1)	100%
Mr. Chen Qiang	Rongsheng Heavy Industries Holdings Limited	Interest in a controlled corporation	15,000 shares (Note 2)	1.5%

Notes:

As at 31 December 2011,

(1) Fine Profit Enterprises Limited, the controlling shareholder of the Company, was 100% beneficially owned by Mr. Zhang Zhi Rong.

(2) 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 31 December 2011, none of the Directors, the chief executive of the Company or their associates had any interest or short position in the Shares, underlying shares and 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.

(C) Share Options

The interests of the Directors and chief executive in the share options (being regarded as unlisted physically settled equity derivatives) of the Company are detailed in the section headed "Share Option Schemes" above.

Save as disclosed above, at no time during the year, the Directors and chief executive (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares, warrants or debentures, if applicable) of the Company or its associated corporations required to be disclosed pursuant to the SFO.

Interests and Short Positions of Substantial Shareholders in the Share Capital of the Company

As at 31 December 2011, the interests of substantial shareholders (other than the Directors or the chief executive of the Company) in the shares and 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 shareholder	Capacity	Number of Shares	Percentage of issued share capital
Fine Profit Enterprises Limited (Note 1)	Beneficial owner	3,653,557,157 (Note 2)	52.19%

Notes:

(1) Fine Profit Enterprises Limited was 100% beneficially owned by Mr. Zhang Zhi Rong as at 31 December 2011.

(2) Represents long position in the shares.

Save as disclosed above, as at 31 December 2011, the Company had not been notified of any persons (other than a director or chief executive of the Company) who had an interest or short position in the Shares and underlying shares in the Company as recorded in the register required to be kept under Section 336 of the SFO.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in Note 38 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules, which are set out in the section headed "Connected Transactions" above, have complied with Chapter 14A of the Listing Rules.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2011 and as at the date of this report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2011.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 64 to 71 of this annual report.

Auditor

The financial statements for the year ended 31 December 2011 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the 2012 AGM. PricewaterhouseCoopers, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the 2012 AGM.

Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group.

On behalf of the Board
ZHANG Zhi Rong
Chairman

Hong Kong, 20 March 2012

Corporate Governance Report

The Board of Directors and management of the Company strictly adhere to the principles of good corporate governance which is vital to prudent management and the enhancement of shareholder value. These principles emphasize transparency, accountability and independence. Set out below are those principles of corporate governance as adopted by the Company.

During the year ended 31 December 2011, the Company complied with the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, save and except for the deviations as described below:

Code provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting. During the year ended 31 December 2011, less than 14 days' notice was given for three regular Board meetings to suit the tight and busy schedules of the participants.

Code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting of the Company ("**AGM**"). The Chairman of the Board did not attend the AGM held on 28 April 2011 due to other business engagements. Mr. Chen Qiang, an executive Director and chief executive officer of the Company attended and chaired the AGM and answered shareholders' questions.

The Board

Board Composition

The Board is currently composed of eight executive Directors, one non-executive Director and three independent non-executive Directors. The Board considers this composition to be balanced, and reinforces a strong independent review and monitoring function on overall management practices. The Directors' biographical details are set out in the Directors and Senior Management section on pages 48 to 53 of this annual report.

Chairman and Chief Executive Officer

The role of the Chairman of the Board is separate from that of the chief executive officer. The Board believes this segregation of duties helps to provide checks and balances of power and authority on the Board and enhances independence and accountability.

Our Chairman, Mr. Zhang Zhi Rong, has non-executive functions in the Company and provides leadership to the Board in terms of establishing policies and business strategies of the Group.

Our chief executive officer, Mr. Chen Qiang, has executive functions in the Company and is responsible for overseeing the day-to-day business operations of the Group.

Roles and Responsibilities of the Board

The Board is responsible for formulating the overall strategies as well as reviewing the operation and financial performance of the Group. The Board is responsible for considering and deciding on matters covering overall Group strategies, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointments or reappointments, approval of major capital transactions and other significant operational and financial matters.

Our non-executive Director and independent non-executive Directors, who combine to offer diverse industry expertise, serve the important function of advising the management on strategies and ensuring that the Board fulfils high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole.

Delegation to Management

Day-to-day operational responsibilities are specifically delegated by the Board to the management. Major matters include:

- the preparation of annual and interim accounts for Board approval before public reporting;
- the execution of business strategies and initiatives adopted by the Board;
- the monitoring of operating budgets adopted by the Board;
- the implementation of adequate systems of internal controls and risk management procedures; and
- the compliance with relevant statutory requirements, rules and regulations.

Board Meetings

During the year ended 31 December 2011, the Board held five meetings. The attendance records of each Director at the meetings are set out in the following table:

Members of the Board	Attendance/ Number of Meetings
Mr. Zhang Zhi Rong	5/5
Mr. Chen Qiang	5/5
Mr. Zhang De Huang	1/1 (Note 1)
Mr. Wu Zhen Guo	4/5
Mr. Luan Xiao Ming	5/5
Mr. Deng Hui	5/5
Mr. Hong Liang	5/5
Mr. Sean S J Wang	5/5
Mr. Wang Tao	5/5
Mr. Chen Gang	4/5
Mr. Tsang Hing Lun	5/5
Mr. Zhang Xu Sheng	5/5

Note 1: Attendance of Board meetings of Mr. Zhang De Huang is stated by reference to the number of Board meetings held during the period from 26 September 2011 (his date of appointment as a Director) to 31 December 2011.

At the Board meetings, the Directors discussed and formulated overall strategies for the Group and other significant transactions of the Group.

The agendas and accompanying board papers were given to all Directors in a timely manner. All Directors were properly briefed on issues arising at Board meetings by the Chairman.

Independence of Independent Non-Executive Directors

During the year ended 31 December 2011, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, one of whom possesses appropriate professional qualifications or accounting or related financial management expertise.

The Board has received from each independent non-executive Director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and is satisfied of the independence of all the independent non-executive Directors.

Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change that may affect his independence.

Appointment and Re-Election of the Directors

The procedures for appointing and re-electing directors are set out in the Company's articles of association. The Board is responsible for selecting and recommending candidates for directorship, taking into consideration factors such as appropriate professional knowledge and industry experience, personal ethics, integrity and personal skills.

Under the Company's articles of association, one-third of the Directors who have served longest on the Board must retire, and if eligible, be subject for re-election at each AGM. To further reinforce accountability, any further reappointment of an independent non-executive Director who has served the Company's Board for more than nine years will be subject to separate resolution to be approved by the shareholders.

Save for one of the executive Directors who entered into a service contract with the Company, for a term of three years commencing on 26 September 2011, each of the executive Directors entered into a service contract with the Company for a term of three years commencing on 24 October 2010.

Each of the non-executive Director and the independent non-executive Directors have been appointed for a term of three years commencing 24 October 2010.

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities undertaken for the Company. During the year ended 31 December 2011, no claim was made against the Directors.

Board Committees

The Board established an audit committee (the "**Audit Committee**") and a remuneration committee (the "**Remuneration Committee**") on 24 October 2010 with defined terms of reference. On 20 March 2012, the Board also established a nomination committee (the "**Nomination Committee**"), a corporate governance committee (the "**Corporate Governance Committee**") and a finance and investment committee (the "**Finance and Investment Committee**") with defined terms of reference, with effect from 1 April 2012. Details and reports of the committees are set out below.

Audit Committee

The Audit Committee was established to review the Group's financial reporting, internal controls and make relevant recommendations to the Board. The Audit Committee comprises three members: Mr. Tsang Hing Lun (chairman of the audit committee), Mr. Chen Gang and Mr. Zhang Xu Sheng, all of whom are independent non-executive Directors. Mr. Tsang Hing Lun, as the chairman of the audit committee, possesses appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

Pursuant to the terms of reference of the Audit Committee, the main duties of the Audit Committee are to audit and supervise the financial reporting procedures of the Group, consider the appointment, re-appointment and remuneration of the auditor and any matters related to the removal and resignation of the auditor. In addition, the Audit Committee is responsible for examining and inspecting the effectiveness of the Group's internal controls, including conducting reviews, on a regular basis, in respect of the internal controls over various corporate structures and business procedures, and considering their potential risks and imminence, so as to ensure the effectiveness of the Company's business operations and to achieve its corporate objectives and strategies. The scope of such reviews covers finance, operations, regulations and risk management.

During the year ended 31 December 2011, the Audit Committee held two meetings. The following is a summary of the work carried out by the Audit Committee during the year:

- review of the Group's consolidated financial statements for the year ended 31 December 2011;
- review of the Group's consolidated financial statements for the six months ended 30 June 2011;
- review of the external auditor's findings and other audit issues;
- review of the effectiveness of the internal control system; and
- review of the external auditor's remuneration.

The attendance of each member at the meetings of the Audit Committee during the year ended 31 December 2011 is as follows:

Members of the Committee	Attendance/ Number of Meetings
Mr. Tsang Hing Lun	2/2
Mr. Chen Gang	2/2
Mr. Zhang Xu Sheng	2/2

Remuneration Committee

The Remuneration Committee was established on 24 October 2010 and is delegated with the responsibility of determining the remuneration policy and structure for all Directors and senior management, and of reviewing and approving the specific remuneration packages of all Directors and making recommendations to the Board regarding the remuneration of non-executive Directors. The Remuneration Committee comprises three members: Mr. Chen Gang (chairman of the Remuneration Committee and an independent non-executive Director), Mr. Zhang Zhi Rong (our chairman of the Board and non-executive Director) and Mr. Zhang Xu Sheng (an independent non-executive Director).

During the year ended 31 December 2011, the Remuneration Committee held three meetings. The following is a summary of the work carried out by the Remuneration Committee:

- to review the policy for the remuneration of executive directors, assess the performance of executive directors;
- to review, approve and recommend the remuneration packages for the Directors and senior management of the Company; and
- to review, approve and recommend to the Board for approval the annual remuneration package of Mr. Zhang De Huang, the newly appointed executive Director and vice-chairman of the Company.

The attendance of each member at the meetings of the Remuneration Committee during the year ended 31 December 2011 is as follows:

Members of the Committee	Attendance/ Number of Meetings
Mr. Zhang Zhi Rong	3/3
Mr. Chen Gang	3/3
Mr. Zhang Xu Sheng	3/3

Nomination Committee

On 20 March 2012, the Board approved the establishment of the Nomination Committee with effect from 1 April 2012. The Nomination Committee shall comprise three members, namely Mr. Zhang Zhi Rong, Mr. Chen Gang and Mr. Zhang Xu Sheng (chairman of the Nomination Committee). The key duties of the Nomination Committee are as follows:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of independent non-executive directors;

(d) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and

(e) to determine the policy, procedures and criteria for the nomination of directors.

Corporate Governance Committee

On 20 March 2012, the Board approved the establishment of the Corporate Governance Committee with written terms of reference with effect from 1 April 2012. The Corporate Governance Committee shall comprise three members, namely Mr. Zhang Xu Sheng (chairman of the Corporate Governance Committee), Mr. Chen Qiang and Mr. Sean S J Wang. The key duties of the Corporate Governance Committee are as follows:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the Code on Corporate Governance Practices (Appendix 14 to the Listing Rules) and disclosure in the Corporate Governance Report.

Finance and Investment Committee

On 20 March 2012, the Board approved the establishment of the Finance and Investment Committee with written terms of reference with effect from 1 April 2012. The Finance and Investment Committee shall comprise five members, namely Mr. Chen Qiang (chairman of the Finance and Investment Committee), Mr. Hong Liang, Mr. Sean S J Wang, Mr. Chen Gang and Mr. Tsang Hing Lun. The key responsibilities of the Finance and Investment Committee are as follows:

(a) to develop and review the Company's investment policies, financial strategies and objectives and make recommendations to the Board;

(b) to consider, evaluate and review the major project investments, acquisitions and disposals of the Group and to make recommendations to the Board;

(c) to conduct post-investment evaluations on investment projects of the Group;

(d) to arrange and approve banking facilities, loans, financial instruments, guarantees and indemnities of the Group;

(e) to approve the opening and cancellation of bank or securities accounts of the Group and to approve the authorized signatories and mode of operations of the accounts;

(f) to oversee the overall management of all the risks of the Group, including without limitation, the financial and operational risks by setting and formulating risk management policies and strategies; and

(g) to review and assess the adequacy and effectiveness and risk management policies and framework in identifying, measuring, monitoring and controlling risks.

Internal Controls and Risk Management

The Board places great importance on internal controls and is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

The internal control system is designed to manage the risk of failure to achieve corporate objectives and to protect the Group's assets and information. It aims to provide reasonable assurance against material misstatements, losses, damages or fraud and to manage rather than eliminate risks of failure in operations systems. The Board has delegated the design, implementation and ongoing assessment of internal control systems to the management, while the Board, through its Audit Committee, oversees and reviews the adequacy and effectiveness of relevant financial, operational and compliance controls and risk management procedures in place. Qualified personnel of the Group maintain and monitor these systems of controls on an ongoing basis.

The Audit Committee reviewed the effectiveness of the Group's internal controls systems, including financial, operational and compliance control and risk management systems, and the adequacy of resources, qualifications and experience of the staff of the Group's accounting and financial reporting functions. During the period ended 31 December 2011, no irregularity or material weakness was noted within any function or process. The Audit Committee is satisfied that the internal controls systems had functioned effectively as intended.

The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions of the Group.

Directors' Interests in Shares

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 60 to 62 of this annual report.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rule (the "**Model Code**"). On specific enquiry made, all Directors confirmed that they had complied with the required standard as set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2011.

Directors' Responsibility for Accounts and Auditor's Responsibility

The statement of the Directors' responsibility and auditor's statement of reporting responsibility and opinion on the financial statements of the Company for the year ended 31 December 2011 is set out on page 76 of this annual report.

External Auditors

The Company has engaged PricewaterhouseCoopers as its external auditors. The aggregate remuneration in respect of services provided by PricewaterhouseCoopers for the year ended 31 December 2011 was approximately HK$12.4 million (2010: HK$58.1 million), of which HK$9.3 million represents annual audit and interim review fees (2010: HK$52.4 million is related to the audit service in respect of the Company's Listing on the Hong Kong Stock Exchange and $5.3 million is related to annual audit services) and HK$3.1 million (2010: HK$0.4 million) represents fees for certain non-audit services in the PRC.

Communications with Shareholders

The Board adopted a Shareholder's Communication Policy on 20 March 2012 which provides, among other things, that:

(i) the Board should endeavour to maintain an ongoing dialogue with the shareholders and in particular, use annual general meetings or other general meetings to communicate with the shareholders and encourage their participation;

(ii) the Company should ensure that the shareholders are familiar with the detailed procedures for conducting a poll; and

(iii) the Investor Relations Department will respond in a timely manner to letters and telephone enquiries from shareholders and investors. An email contact (ir@rshi.cn) is available to shareholders and investors.

Details of our Investor Relations Report are set out on pages 72 to 73 of this annual report.

The Company's website (http://www.rshi.cn) also facilitates effective communications with its shareholders, investors and other stakeholders of the Company by making available electronically and on a timely basis up-to-date information relating to the Group's business developments, operations, financial information, corporate governance practices and other information.

Shareholders' Rights

Under the Company's articles of association, in addition to regular board meetings, Directors of the Company, on the written requisition of two or more shareholders of the Company holding not less than 10% of the paid-up capital of the Company which carry voting rights, shall convene an extraordinary general meeting to address specific issues of the Company.

The requisition must (i) specify the objects of the meeting, the name of the requisitionist(s), their contact details and the number of ordinary shares in the Company held by them, (ii) be signed by the requisitionist(s) and (iii) be deposited at the Company's principal place of business in Hong Kong.

The Directors must, within 21 days from the date of the deposit of the requisition, proceed to convene an extraordinary general meeting to be held within a further 21 days. If the Directors fail to convene the extraordinary general meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders' Meetings

The Company regards the AGM as an important event as it provides an invaluable opportunity for the Board to communicate with the shareholders. All shareholders are given at least 20 clear business days' prior notice to attend the AGM. During the AGM, the Directors are available to answer questions which shareholders may have. Poll results are published on the respective websites of the Hong Kong Stock Exchange and the Company in a timely manner.

All shareholders of the Company have the right to be informed and participate in material matters of the Company as prescribed by laws and the articles of association of the Company.

During the period ended 31 December 2011, no extraordinary general meeting of shareholders was held.

Investor Relations Report

The Company established an investor relations department to promote open, transparent, efficient and consistent communications with shareholders, investors and equity analysts. The department commits to proactively providing the investment community all necessary information, data and services in a timely manner, in order to help participants in the investment community to better understand the Company's strategy, operations and new developments.

In 2011, the Company's senior management team presented its annual and interim earnings results in Hong Kong. Through investor relations activities such as analyst briefings, conference calls and global investor roadshows, the senior management team presented and communicated with the participants in the investment community on the Company's latest strategy and development. Shipyard tours and site visits were also arranged to the Company's manufacturing bases in Nantong and Hefei throughout the year.

The Group held the 2010 Annual Results announcement in Hong Kong

In addition to regular one-on-one investor meetings, the senior management team also participated the following investor conferences held by major international investment banks in order to actively communicate with institutional investors around the world：

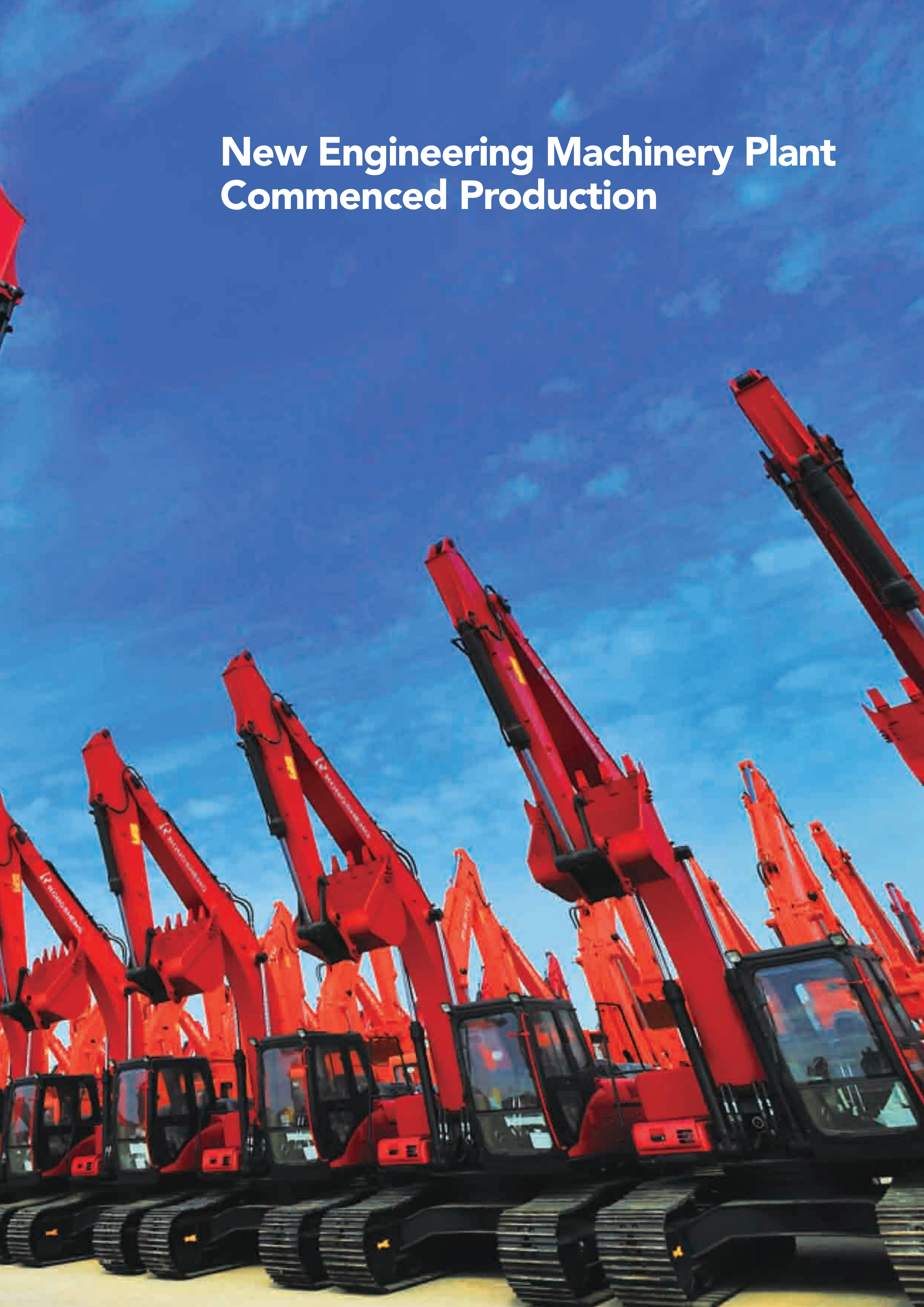
Date	Name of Conference
January 2011	CLSA HK/China Corporate Access Day
April 2011	CCBI Industrial Corporate Day
May 2011	Morgan Stanley Hong Kong Investor Summit
May 2011	Deutsche Bank Access Asia Conference
June 2011	JP Morgan China Conference
November 2011	Barclays Asia Investment Symposium
November 2011	Daiwa Investment Conference
November 2011	Macquarie Asia-Pacific Industrials, Infrastructure & Transportation Conference
November 2011	Morgan Stanley Asia Pacific Summit
November 2011	Mirae Asset HK & China Access Day
November 2011	Jefferies China/HK Corporate Day
December 2011	RBS HK/China Access — Seeking Alpha
December 2011	SWS Overseas Listed Chinese Private Enterprises Forum

The Company's continuous effort in investor relations has been well-recognized by the investment community. The Company's 2010 annual report has won the Gold Award of "Photography for Shipbuilding and Construction Sector" and Silver Award of "Overall Annual Report for Shipbuilding and Construction Sector" in the ARC Awards 2011. Moreover, in the iNOVA Awards 2011, our corporate website (www.rshi.cn) won the Bronze Award of "Best of Corporate Website for Shipping Services Sector" and Honors Award of "Best of Investor/Shareholder Relations Website". The investor relations department will continue to endeavor to provide award-winning investor relations services to the shareholders, investors and equity analysts.

The investor relations department values and is eager to hear suggestions and comments from shareholders and investors through emails to ir@rshi.cn.


RONGSHENG

New Engineering Machinery Plant Commenced Production



Independent Auditor's Report

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Rongsheng Heavy Industries Group Holdings Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 78 to 147, which comprise the consolidated and company statements of financial positions as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2012

Consolidated Statement of Financial Positions

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**643,565**	657,206
Property, plant and equipment	7	**16,188,645**	12,123,885
Intangible assets	8	**185,125**	108,896
Long-term deposits	13	**97,131**	138,109
Prepayments for non-current assets	13, 37	**2,798,282**	—
Deferred tax assets	21	**73,849**	13,692
		19,986,597	13,041,788
Current assets			
Inventories	11	**2,609,958**	1,557,306
Amounts due from customers for contract works	12	**7,199,036**	4,090,993
Trade and bills receivables	13	**3,600,151**	327,758
Other receivables, prepayments and deposits	13	**6,638,493**	7,555,390
Derivative financial instruments	22	**9,729**	—
Pledged deposits	14	**4,961,514**	4,009,762
Cash and cash equivalents	15	**6,255,138**	10,412,974
		31,274,019	27,954,183
Total assets		**51,260,616**	40,995,971
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	**599,526**	599,526
Share premium	16	**7,644,812**	8,484,812
Other reserves	18	**3,340,517**	3,043,068
Retained earnings		**3,241,578**	1,731,360
		14,826,433	13,858,766
Non-controlling interests		**865,423**	776,375
Total equity		**15,691,856**	14,635,141

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	20	**9,465,808**	7,766,846
Finance lease liabilities — non-current	20	**551,773**	406,416
Deferred tax liabilities	21	**5,546**	6,391
		10,023,127	8,179,653
Current liabilities			
Amounts due to customers for contract works	12	**1,168,319**	4,853,326
Advances received from customers for contract works	12	**133,220**	432,473
Trade and other payables	19	**8,493,043**	3,125,500
Current income tax liabilities		**149,068**	73,096
Borrowings	20	**15,155,494**	9,149,294
Derivative financial instruments	22	**3,015**	6,022
Provision for warranty	23	**189,867**	228,654
Finance lease liabilities — current	20	**253,607**	312,812
		25,545,633	18,181,177
Total liabilities		**35,568,760**	26,360,830
Total equity and liabilities		**51,260,616**	40,995,971
Net current assets		**5,728,386**	9,773,006
Total assets less current liabilities		**25,714,983**	22,814,794

The consolidated financial statements on page 78 to 147 were approved by the Board of Directors on 20 March 2012 and signed on its behalf by

Hong Liang
Director

Sean SJ Wang
Director

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

Statement of Financial Positions

	Note	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**33**	33
Current asset			
Other receivables and prepayments	13	**155**	1,329
Amounts due from subsidiaries	13	**8,071,680**	7,440,310
Cash and cash equivalents	15	**1,363,171**	1,676,139
		9,435,006	9,117,778
Total assets		**9,435,039**	9,117,811
EQUITY			
Share capital	16	**599,526**	599,526
Share premium	16	**7,644,812**	8,484,812
Other reserves	18	**169,852**	82,860
Accumulated losses	24	**(748,232)**	(177,890)
Total equity		**7,665,958**	8,989,308
LIABILITIES			
Non-current liabilities			
Borrowings	20	**1,751,645**	—
Current liabilities			
Amounts due to subsidiaries	19	**5,991**	7,743
Other payables	19	**8,430**	120,760
Derivative financial instruments	22	**3,015**	—
		17,436	128,503
Total liabilities		**1,769,081**	128,503
Total equity and liabilities		**9,435,039**	9,117,811
Net current assets		**9,417,570**	8,989,275
Total assets less current liabilities		**9,417,603**	8,989,308

The consolidated financial statements on page 78 to 147 were approved by the Board of Directors on 20 March 2012 and signed on its behalf by

Hong Liang
Director

Sean SJ Wang
Director

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	5	**15,904,585**	12,665,479
Cost of sales	25	**(12,710,885)**	(9,833,975)
Gross profit		**3,193,700**	2,831,504
Selling and marketing expenses	25	**(60,907)**	(63,728)
General and administrative expenses	25	**(1,200,717)**	(957,707)
Other income	27	**316,527**	205,736
Other (losses)/gains — net	28	**(227,633)**	17,958
Operating profit		**2,020,970**	2,033,763
Finance income	29	**197,090**	175,161
Finance costs	29	**(110,638)**	(165,400)
Finance income — net	29	**86,452**	9,761
Profit before income tax		**2,107,422**	2,043,524
Income tax expense	30	**(297,699)**	(263,479)
Profit for the year		**1,809,723**	1,780,045
Other comprehensive income for the year		**—**	—
Total comprehensive income for the year		**1,809,723**	1,780,045
Attributable to:			
Equity holders of the Company		**1,720,675**	1,718,704
Non-controlling interests		**89,048**	61,341
		1,809,723	1,780,045
Earnings per share for earnings attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	33	**0.25**	0.30
Dividends	34	**518,000**	476,000
Dividend (expressed in RMB per share)		**0.074**	0.068

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010		—	—	683,189	149,370	832,559	413,273	1,245,832
Total comprehensive income for the year		—	—	—	1,718,704	1,718,704	61,341	1,780,045
Transactions with equity holders in their capacity as owners								
Capital injection from the non-controlling interests of Jiangsu Rongsheng Heavy Industries Co., Ltd.		—	—	2,277,199	—	2,277,199	274,229	2,551,428
Merger of Hefei Rongan Power Machinery Co., Ltd.		—	—	(84,419)	—	(84,419)	—	(84,419)
Merger of Shanghai Rongsheng Shipbuilding Trading Company Limited		—	—	234	—	234	—	234
Acquisition of Hefei Zhenyu Engineering Machinery Company Limited		—	—	—	—	—	21,930	21,930
Increase in shareholding of Hefei Zhenyu Engineering Machinery Company Limited		—	—	—	—	—	(12,750)	(12,750)
Redemption of preferred shares		—	—	(52,688)	—	(52,688)	—	(52,688)
Stock-based payment reserve	17	—	—	82,827	—	82,827	—	82,827
Acquisition of additional interest in Jiangsu Rongsheng Shipbuilding Co. Ltd. from non-controlling interests		—	—	—	—	—	18,352	18,352
Issuance of ordinary shares		599,526	8,484,812	—	—	9,084,338	—	9,084,338
Issuance of ordinary shares in exchange for shares of Rongsheng Heavy Industries Holdings Limited		—	—	93	—	93	—	93
Redemption of shares from share swap		—	—	(81)	—	(81)	—	(81)
Transfer to statutory reserve	18	—	—	136,714	(136,714)	—	—	—
Transactions with equity holders		599,526	8,484,812	2,359,879	(136,714)	11,307,503	301,761	11,609,264
Balance at 31 December 2010		599,526	8,484,812	3,043,068	1,731,360	13,858,766	776,375	14,635,141

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

	Note	Attributable to equity holders of the Company						
		Share capital	Share premium	Other Reserves	Retained earnings	Total	Non-controlling interests	Total Equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2011		599,526	8,484,812	3,043,068	1,731,360	13,858,766	776,375	14,635,141
Total comprehensive income for the year		—	—	—	1,720,675	1,720,675	89,048	1,809,723
Transactions with equity holders in their capacity as owners								
Dividend paid	34	—	(840,000)	—	—	(840,000)	—	(840,000)
Stock-based payment reserve	17	—	—	86,992	—	86,992	—	86,992
Transfer to statutory reserve	18	—	—	210,457	(210,457)	—	—	—
Transactions with equity holders		—	(840,000)	297,449	(210,457)	(753,008)	—	(753,008)
Balance at 31 December 2011		599,526	7,644,812	3,340,517	3,241,578	14,826,433	865,423	15,691,856

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash used in operations	35(a)	**(2,521,651)**	(2,749,062)
Interest paid		**(944,088)**	(429,240)
Income tax paid		**(282,729)**	(203,539)
Net cash used in operating activities		**(3,748,468)**	(3,381,841)
Cash flows from investing activities			
Purchase of property, plant and equipment and deposits for land use rights		**(5,122,184)**	(4,142,116)
Proceeds from sales of property, plant and equipment		**—**	62
Disposal of non-current assets held for sale		**—**	220,000
Purchase of intangible assets	8	**(88,393)**	(4,323)
Net cash flow used in acquisition of Hefei Zhenyu Engineering Machinery Company Limited		**—**	(150,967)
Net cash (outflow for)/inflow from acquisition of Nantong Rongjin Steel Construction Engineering Company Limited		**(5,000)**	17
Net cash flow used in merger of Shanghai Rongsheng Shipbuilding Trading Company Limited		**—**	(45,468)
Net cash flow used in merger of Hefei Rongan Power Machinery Co. Ltd		**—**	(23,685)
Prepayment for proposed acquisition of Anhui Quanchai Group Corp.	37(a)(i)	**(1,153,890)**	—
Interest received		**109,086**	72,008
Pledged deposits		**(951,752)**	(2,134,545)
Net cash used in investing activities		**(7,212,133)**	(6,209,017)
Cash flows from financing activities			
Dividend paid	34	**(840,000)**	—
Proceeds from bank borrowings	35(b)	**18,441,170**	26,118,294
Proceeds from shareholder's loans	35(b)	**—**	1,783,488
Repayment of bank borrowings	35(b)	**(10,736,008)**	(14,729,587)
Repayment of shareholder's loans	35(b)	**—**	(1,783,488)
Proceeds received from finance lease	35(b)	**542,700**	460,000
Repayments of finance lease	35(b)	**(456,548)**	(240,591)
Repayment of promissory notes		**—**	(653,320)
Redemption of preferred shares		**—**	(2,121,537)
Net advances received from/(repayment of advances to) related parties		**17,314**	(720,821)
Net proceeds from issuance of ordinary shares		**—**	9,084,243
Contribution from equity holders to the Company		**—**	95
Net cash generated from financing activities		**6,968,628**	17,196,776
Net (decrease)/increase in cash and cash equivalents		**(3,991,973)**	7,605,918
Cash and cash equivalents at beginning of the year		**10,412,974**	2,862,810
Exchange loss on cash and cash equivalents		**(165,863)**	(55,754)
Cash and cash equivalents at end of the year	15	**6,255,138**	10,412,974

The notes on page 85 to 147 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

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, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 39 to the consolidated financial statements.

The consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2012.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Going concern:

During the year ended 31 December 2011, the Group has reported net operating cash outflow of RMB3,748,468,000 and the Group's cash and cash equivalents has reduced by RMB4,157,836,000 to RMB6,255,138,000 as at 31 December 2011. The significant cash outflows during the year ended 31 December 2011 were primarily due to the significant working capital requirements to fund the construction of vessels by the Shipbuilding segment, capital expenditures to increase the production capacity of the Engineering Machinery segment and payments for other investing activities.

The directors monitor closely the Group's liquidity position and plan to implement initiatives to improve the Group's cash flows, including, measures to control and contain capital expenditure and corporate overheads, and working closely with shipbuilding customers to reduce the trade receivable turnover days. Further, management is looking at options to obtain long-term financing to improve the Group's current ratio and liquidity position.

Management has prepared cash flow projections of the Group. Based on the directors' review of the Group's cash flow projections, taking into account the anticipated cash flows from operations, the reasonably possible changes in the operational performance and the availability of unused borrowing facilities, the directors consider that there are sufficient financial resources available to the Group at least in the coming twelve months to meet its financial obligation as and when they fall due. Accordingly, the directors consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(b) Statement of compliance:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, except as modified by the accounting policies stated below.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 but do not have a material impact on the Group

IAS 24 (Revised)	Related Party Disclosures
IAS 32 (Amendment)	Classification of Rights Issues
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IFRIC - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	Third annual improvements projects (2010) published in May 2010

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following new standards, new interpretations and amendments to standards and interpretations have been issued but not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IAS 1 (Amendment)	Presentation of financial statements	1 July 2012
IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
IAS 19 (Amendment)	Employee benefits	1 January 2013
IAS 27 (Revised 2011)	Separate financial statements	1 January 2013
IAS 28 (Revised 2011)	Associates and joint ventures	1 January 2013
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
IFRS 7 (Amendment)	Disclosures — Transfers of financial assets	1 July 2011
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangement	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurements	1 January 2013
IFRIC - Int 20	Stripping Costs in the Production Phase of a Surface Mine (November 2011)	1 January 2013

The Group is currently assessing the impact of the adoption of the above new standards, amendments to standards and interpretations, but not yet in a position to state whether they would have a significant impact to the Group's consolidated financial statements.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the predecessor values accounting to account for business combination of entities or businesses under common control. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve.

Except for business combination under common control, the acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. Goodwill is included in "Intangible assets" in the consolidated statement of financial positions.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial positions, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions with non-controlling interests

Transactions with non-controlling interests are accounted for as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors who make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recognised in the profit or loss as part of the gain or loss on sale.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition and construction of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the consolidated profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Plant and machinery	5–15 years
Computer equipment	3–5 years
Office equipment	5 years
Motor vehicles	4–8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Buildings comprise mainly factories, shipyards and offices.

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses, if any. No depreciation is made on assets under construction in progress until such time as the relevant assets are completed and available for their intended use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the consolidated statement of comprehensive income.

2.6 Land use rights

Land use rights represented upfront payments made for the use of land and are stated at cost and amortised over the period of the lease and the rights to use the land on a straight-line basis. Leases of land are classified as operating leases as the risks and rewards incidental to the ownership have not been passed. Amortisation of land use rights are expensed in the consolidated profit or loss.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets *(continued)*

(b) Patents

Separately acquired patents are shown at historical cost. Patents acquired in a business combination are recognised at fair value at the acquisition date. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of 5 years.

(c) Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are carried at cost less accumulated amortisation. These costs are amortised over their estimated useful lives of 2 to 10 years.

(d) Research and development costs

Expenditure on research shall be recognised as an expense as it incurred. An intangible asset arising from development shall be recognised if, and only if, the Group can demonstrate all of the followings:

(i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) Its intention to complete the intangible asset;

(iii) Its ability to use or sell the intangible asset;

(iv) How the intangible asset will generate probable future economic benefits that among other things, the Group can demonstrate the existence of a market for the output of the intangible assets or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated statement of comprehensive income within "other (losses)/gains — net".

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials are materials or supplies to be consumed in the production process and are stated at the actual purchase costs less provision for deterioration and obsolescence. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average method.

2.11 Trade and other receivables

Trade and other receivables, excluding prepayments and VAT receivables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

2.12 Pledged deposits and cash and cash equivalents

Pledged deposits represent the amount of cash pledged as collateral to the banks for issuing refund guarantees or providing additional financings.

Cash and cash equivalents include cash in bank and deposits held at call with banks.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade and other payables

Trade and other payables, excluding advances received and VAT and other tax-related payables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.16 Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the consolidated statement of comprehensive income.

Provision for warranties granted by the Group on shipbuilding products and undertakings to repair or replace items that fail to perform satisfactorily are recognised at the balance sheet date for expected warranty claims for repairs and returns based on industry practice and past experience of the Group.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract works, claims and incentive payments (if any) are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.18 Construction contracts *(continued)*

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the amounts due from customers for contract works for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers are included within "trade and bills receivables".

The Group presents as a liability the amounts due to customers for contract works for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.19 Employee benefits

(a) Pension and employee social security and benefits obligations

The group companies in the People's Republic of China ("PRC") participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employees in the PRC. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The employees receive equity instruments of the Group as consideration for their services rendered to the Group. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the shares granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of share that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated profit or loss with a corresponding adjustment to equity.

(c) Bonus plan

The Group recognises a provision for bonus when contractually obliged or when there is a past practice that has created a constructive obligation.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

(i) Revenue from construction contracts

Please refer to the paragraph "Construction Contracts" (Note 2.18) for the accounting policy on revenue from construction contracts.

(ii) Sale of marine engines and engineering machineries

Revenue from sale of marine engines and engineering machineries is recognised when the products are delivered to customers which generally coincides with the time when the customer has accepted the products and the related risks and rewards of ownership. If product sales are subject to customer acceptance, revenue is not recognised until customer acceptance occurs. Revenue is recorded after deduction of any discounts.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.21 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset. Other borrowing costs are expensed when incurred.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants to compensate the current year expenses are recognised in the consolidated statement of comprehensive income in the same year through offsetting the corresponding expenses by the grants to match them with the costs that they are intended to compensate.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for land use rights, are charged to the consolidated profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group assumed substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.24 Financial guarantees

The Group provides guarantees to certain banks in respect of mortgage loans drawn by customers to finance their purchase of equipment from the Group's Engineering Machinery segment. Financial guarantee contracts where the Group is a guarantor are initially recognised at fair value on the date the guarantee is issued and the fair value of at inception is equal to the premium received for the issued guarantee. The premium received is amortised on a straight-line basis over the life of the guarantee.

Subsequent to initial recognition, the Group's liability under such guarantees are measured at the higher of the initial amount, less amortisation of premium, and the best estimate of the amount required to settle the guarantee. Any increase in the liability relating to guarantees is recognised as general and administrative expenses in the consolidated statement of comprehensive income.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities may expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising primarily from the transactions in its shipbuilding business with contract prices denominated in US dollar ("USD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency.

The shipbuilding business generates a major portion of its revenue with the contract prices denominated in USD and incurs substantial portion of its manufacturing costs in RMB. The unmatched currency cash flows are subject to foreign exchange risk. Management continually assesses the Group's exposure to foreign exchange rate risks to mitigate the impact of currency exchange rate fluctuations for the operating business. The Group may use forward foreign exchange contracts from time to time to manage their risk arising from foreign currency transactions. These forward derivatives are not designated or do not qualify for hedge accounting and the fair value changes are recognised in the consolidated statement of comprehensive income when the changes arise.

Certain trade, bills and other receivables, prepayments and deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings are denominated in USD and Hong Kong dollar ("HK$") and are hence exposed to foreign exchange risk. Details of the Group's trade and other receivables, prepayments and deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings denominated in foreign currencies are disclosed in Notes 13, 14, 15, 19 and 20 respectively.

At 31 December 2011, if RMB had weakened/strengthened by 2% against the USD and HK$ respectively with all other variables held constant, pre-tax profit for the year would have been approximately RMB67,268,000 (2010: RMB51,915,000) higher/lower, mainly as a result of foreign exchange differences on translation of USD and HK$ denominated monetary assets and liabilities.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets except for pledged deposits, cash and cash equivalents with short maturities. The Group's interest rate risk arises mainly from short-term borrowings which are at fixed rates and expose the Group to fair value interest-rate risk. Certain short-term borrowings have variable rate interest and expose the Group to cash flow interest risk. The Group analyses its interest rate exposure on a dynamic basis and will consider the interest rate exposure when enter into any financing, renewal of existing positions and alternative financing transactions.

At 31 December 2011, if interest rate had increased/decreased by 100 basis points with all other variables held constant, pre-tax profit for the year would have been approximately RMB119,858,000 (2010: RMB54,990,000) lower/higher.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 31 December 2011, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC which management believes are of high credit quality and without significant credit risk.

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

The Group is exposed to concentration of credit risk as the three largest debtors of the Shipbuilding segment represented over 50% (2010: no debtor accounted for more than 10% of total trade receivables) of the total trade receivables of the Group as at 31 December 2011. Accordingly, the Group's consolidated results would be heavily affected by the financial capability of these debtors to fulfill the obligations under the shipbuilding contracts with the Group. The Group's credit risk monitoring activities relating to these debtors include review of their credit profiles, business prospects, background and the financial capability. As at 31 December 2011, no other customer contributed more than 10% of the trade receivables of the Group.

The Group actively monitors the financial situation of its customers who are affected by the credit crisis and procedures are taken to renegotiate the shipbuilding contract terms as necessary. No shipbuilding contracts were cancelled during the year ended 31 December 2011 (2010: Nil).

For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors, before granting credit limits. The Group's trade receivables are due from parties of appropriate credit history.

For credit exposures to other receivables, management assesses the credit quality of the debtors, taking into account their financial positions, past experience and other factors. No significant impairment in relation to these receivables has occurred during the year ended 31 December 2011 (2010: Nil).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) 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 term. During the year ended 31 December 2011, the Group has had significant cash outflows due to the significant working capital requirements to fund construction of vessels by the Shipbuilding segment, capital expenditures to increase the production capacity of the Engineering Machinery segment and payments for other investing activities. The directors closely monitor the Group's liquidity position and plans to implement initiatives to improve the Group's cash flows. Management believes that there is no significant liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements. The committed lines of funding available as at 31 December 2011 are summarised in Note 20. Further, management is considering options to obtain long-term financing to enhance the Group's current ratio and liquidity position.

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

	Less than 1 year	Between 1 and 2 years	More than 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 31 December 2011				
Borrowings	**16,223,159**	**4,633,370**	**6,363,525**	**27,220,054**
Finance lease liabilities	**305,370**	**250,931**	**356,704**	**913,005**
Derivative financial instruments	**3,015**	**—**	**—**	**3,015**
Trade and other payables	**8,113,122**	**—**	**—**	**8,113,122**
At 31 December 2010				
Borrowings	10,285,327	4,399,011	6,315,973	21,000,311
Finance lease liabilities	350,433	241,433	201,278	793,144
Derivative financial instruments	4,260	1,762	—	6,022
Trade and other payables	2,806,051	—	—	2,806,051

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
Company				
At 31 December 2011				
Amount due to subsidiaries	**5,991**	**—**	**—**	**5,991**
Other payables	**8,430**	**—**	**—**	**8,430**
Borrowings	**57,822**	**1,062,082**	**756,070**	**1,875,974**
Derivative financial instruments	**3,015**	**—**	**—**	**3,015**
At 31 December 2010				
Amount due to subsidiaries	7,743	—	—	7,743
Other payables	95,487	—	—	95,487

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The capital structure of the Group consists of borrowings and shareholders' equity. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. The Group monitors capital on the basis of debt-asset ratio and targets to maintain the ratio at not more than 1.00. This ratio is calculated as total liabilities divided by total assets.

The Group's total liabilities and total assets positions at 31 December 2011 and 2010 were as follows:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Total liabilities	**35,568,760**	26,360,830
Total assets	**51,260,616**	40,995,971
Debt-asset ratio	**0.69**	0.64

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The valuation of the share-based payment (Note 17) was determined using the Income Approach based on Free Cash Flow valuation method. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

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

As at 31 December 2011, the Group was holding certain Level 2 trading derivative assets fair valued of RMB9,729,000 (2010: nil) and trading derivative liabilities fair valued at RMB3,015,000 (2010: RMB6,022,000), for which inputs that are observable in active market (for example, over-the-counter derivatives) were used in determining the fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current income tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(b) Fair value of other financial instruments

The initial fair value of certain financial instruments is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Should the discount rate used in the discounted cash flow analysis differ by 100 basis points from management's estimates, the interest expense for the year/period would be higher/lower as set out below:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
	—	1,300

(c) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract.

Significant assumptions are required to estimate the total contract costs and in making these estimates, management has relied on past experience and industry knowledge. Management monitors the progress of the construction and reviews periodically the estimated total costs for each contract as the contract progresses. If the actual costs differ from management's estimates, the revenue, cost of sales and provision for foreseeable losses would be adjusted.

4.2 Critical judgements in applying the Group's accounting policies

(a) Profit recognition for construction contracts

The Group commences recognition of profit for each shipbuilding construction contract when the percentage of completion exceeds 20% for that vessel, assuming that the outcome of the contract can be reasonably ascertained, as management considers that after this stage, the total contract costs attributable to the contracts can be measured reliably.

(b) Impairment of trade and other receivables and amounts due from customers for contract works

Provision for impairment of trade and other receivables and amounts due from customers for contract works is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgement, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each debtor/customer and the current market conditions.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Critical judgements in applying the Group's accounting policies *(continued)*

(c) Consolidation of Jiangsu Rongsheng Shipbuilding Co., Ltd. ("Rongsheng Shipbuilding")

Relevant PRC laws and regulations requires PRC domestic entities to have not less than 51% of the equity interest in a company of repairing, designing and manufacturing of vessels. The Group acquired, through Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries"), 49% of the equity interest in Rongsheng Shipbuilding and the remaining 51% equity interest in Rongsheng Shipbuilding is owned by Jiangsu Rongsheng Investment Group Co., Ltd. ("Rongsheng Investment"). The Group has obtained confirmations from Rongsheng Investment where Rongsheng Investment has undertaken to vote in accordance with Rongsheng Heavy Industries in any shareholders' meetings of Rongsheng Shipbuilding and Rongsheng Investment will not transfer any of its interest in Rongsheng Shipbuilding to any third party without Rongsheng Heavy Industries' consent. Pursuant to confirmations and undertakings, the Group is able to govern and control the finance and operating policies of Rongsheng Shipbuilding. Accordingly, Rongsheng Shipbuilding has been consolidated as a subsidiary of the Company. While the Group entitles 100% the economic benefits of Rongsheng Shipbuilding, Rongsheng Investment does not share profit or loss of Rongsheng Shipbuilding.

(d) Construction on leased land and certificates of certain properties

Certain constructions in progress and buildings of the Group are located on leased land in the PRC in which the Group has not been granted construction planning permits or obtained building ownership certificates or real estate title certificates. However, based on the Group's past experiences, available information and consultation with the Group's PRC legal advisers, the directors of the Company are of the view that this is unlikely to cause any significant interruption or termination of these constructions or to have a material effect on the carrying values of the related assets as at 31 December 2011; and it is remote to incur additional costs in this regard. Accordingly, no impairment provision for such assets is considered necessary to be made according to the Group's accounting policies. Should there be any change in circumstance, it would adversely affect the result of operations.

(e) Provision for warranty

The Group provides for the estimated cost of warranties granted on shipbuilding products and undertakings to repair or replace items that do not perform satisfactorily at the time revenues for the related items are recognised. The shipbuilding products are covered by warranty for one year from the date of delivery. While the Group has put in place product quality programs and processes, warranty obligations are affected by actual product failure rates and by material usage and service delivery costs incurred in correcting a product failure. The warranty provision is established based upon the best estimates at the amounts necessary to settle future and existing claims on products sold as at the balance sheet date. While management believes that the Group's warranty provisions are adequate and that the judgments applied are appropriate, the ultimate cost of product warranty could differ materially from the estimates. When the actual cost of quality of the products is lower than management originally anticipated, the Group releases an appropriate proportion of the provision, and if the cost of quality is higher than anticipated, the Group increases the provision.

5 SEGMENTAL INFORMATION

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The Shipbuilding segment derives its revenue primarily from the construction of vessels, 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 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. The segment information provided to the Executive Directors for the reportable segments for the year ended 31 December 2011 is as follows:

	Shipbuilding Year ended 31 December		Offshore Engineering Year ended 31 December		Engineering Machinery Year ended 31 December		Marine Engine Building Year ended 31 December		Total Year ended 31 December	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**15,373,924**	11,841,980	**31,295**	465,393	**680,938**	327,265	**1,130,217**	316,022	**17,216,374**	12,950,660
Inter-segment revenue	**—**	—	**—**	—	**(274,596)**	—	**(1,037,193)**	(285,181)	**(1,311,789)**	(285,181)
Revenue from external customers	**15,373,924**	11,841,980	**31,295**	465,393	**406,342**	327,265	**93,024**	30,841	**15,904,585**	12,665,479
Segment results	**3,219,050**	2,570,039	**(88,495)**	183,325	**74,927**	83,955	**(11,782)**	(5,815)	**3,193,700**	2,831,504
Selling and marketing expenses									**(60,907)**	(63,728)
General and administrative expenses									**(1,200,717)**	(957,707)
Other income									**316,527**	205,736
Other (losses)/gains, net									**(227,633)**	17,958
Finance income, net									**86,452**	9,761
Profit before income tax									**2,107,422**	2,043,524

5 SEGMENTAL INFORMATION *(continued)*

	Shipbuilding Year ended 31 December		Offshore Engineering Year ended 31 December		Engineering Machinery Year ended 31 December		Marine Engine Building Year ended 31 December		Total Year ended 31 December	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**9,041,303**	3,954,415	**1,211,808**	619,558	**2,044,990**	1,042,601	**5,432,346**	3,418,977	**17,730,447**	9,035,551
Unallocated									**33,530,169**	31,960,420
Total assets									**51,260,616**	40,995,971

	Shipbuilding Year ended 31 December		Offshore Engineering Year ended 31 December		Engineering Machinery Year ended 31 December		Marine Engine Building Year ended 31 December		Total Year ended 31 December	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment liabilities	**1,125,350**	5,285,799	**176,189**	12,480	**2,062,877**	808,558	**4,891,946**	2,630,001	**8,256,362**	8,736,838
Unallocated									**27,312,398**	17,623,992
Total liabilities									**35,568,760**	26,360,830

Segment assets are measured in accordance with IFRS and the unallocated items mainly included prepayments and deposits and cash and cash equivalents. Unallocated assets also included inventories and property, plant and equipment jointly used by the Shipbuilding and Offshore Engineering segments.

Unallocated liabilities mainly included trade and other payables and borrowings, which are jointly shared by the Shipbuilding and Offshore Engineering segments.

All the revenue of the Offshore Engineering segment for the year ended 31 December 2011 was derived from one customer (2010: same).

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 year ended 31 December 2011 (2010: same).

5 SEGMENTAL INFORMATION *(continued)*

During the year ended 31 December 2011, revenues from three (2010: three) customers of the Shipbuilding segment individually accounted for ten per cent or more of the Group's consolidated revenue for the year. The revenues of these customers of the Shipbuilding segment during the relevant year are summarised below:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Shipbuilding customer 1	**5,094,710**	2,554,805
Shipbuilding customer 2	**2,504,283**	748,620
Shipbuilding customer 3	**1,888,075**	846,817
Shipbuilding customer 4	**146,242**	1,500,593
Shipbuilding customer 5	**83,598**	1,411,155

Geographically, management considers the performance of shipbuilding projects are all located in the PRC, with revenue derived from different geographical location, which is determined by the country in which the customer is located.

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
China	**5,770,768**	2,533,153
Brazil	**5,094,710**	2,554,805
Oman	**1,888,075**	846,817
Germany	**1,449,051**	2,079,430
Greece	**1,265,772**	1,785,951
Norway	**255,709**	204,552
Turkey	**137,854**	1,880,949
Russia	**17,949**	170,940
Cyprus	**—**	601,289
Others	**24,697**	7,593
	15,904,585	12,665,479

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

6 LAND USE RIGHTS — GROUP

The Group's interests in land use rights represented prepaid operating lease payments and their net book values are analysed as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Opening net book amount	**657,206**	71,954
Merger of Hefei Rongan Power Machinery Co., Ltd. ("Rong An Power Machinery")	**—**	133,867
Acquisition of Hefei Zhenyu Engineering Machinery Company Limited ("Zhenyu Machinery")	**—**	20,051
Capital contribution by the non-controlling interests	**—**	18,352
Capital contribution by the non-controlling interests of Rongsheng Heavy Industries (Note 18(a)(i))	**—**	427,428
Amortisation (Note 25)	**(13,641)**	(14,446)
Closing net book amount	**643,565**	657,206
In the PRC, held on:		
Leases between 10 to 50 years	**643,565**	657,206

Borrowings and refund guarantees are secured by certain land use rights with an aggregate carrying value of RMB468,268,000 as at 31 December 2011 (2010: RMB498,414,000) (Notes 20 and 36(a)).

Amortisation of the Group's land use rights has been charged to the consolidated statement of comprehensive income as general and administrative expenses (Note 25).

7 PROPERTY, PLANT AND EQUIPMENT — GROUP

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Computer equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2010							
Cost	1,073,879	5,068,439	1,324,572	14,772	20,632	16,412	7,518,706
Accumulated depreciation	—	(150,077)	(191,888)	(5,782)	(4,875)	(2,573)	(355,195)
Net book amount	1,073,879	4,918,362	1,132,684	8,990	15,757	13,839	7,163,511
Year ended 31 December 2010							
Opening net book amount	1,073,879	4,918,362	1,132,684	8,990	15,757	13,839	7,163,511
Merger of RongAn Power Machinery	490,220	327,477	1,889	789	1,145	1,583	823,103
Merger of Shanghai Rongsheng Shipbuilding Trading Company Limited ("Shanghai Rongsheng Shipbuilding Trading")	—	—	—	12	—	320	332
Acquisition of Zhenyu Machinery	3	19,145	8,880	227	148	1,932	30,335
Contribution by non-controlling interest of Rongsheng Heavy Industries (Note 18(a)(i))	—	2,124,000	—	—	—	—	2,124,000
Additions	1,977,021	67,420	276,653	8,751	7,699	12,555	2,350,099
Disposal	—	—	(59)	(1)	—	(2)	(62)
Transfer	(219,318)	93,470	123,937	1,129	—	782	—
Written off	—	—	—	(22)	—	—	(22)
Depreciation (Note 25)	—	(185,175)	(166,461)	(6,753)	(5,188)	(3,834)	(367,411)
Closing net book amount	3,321,805	7,364,699	1,377,523	13,122	19,561	27,175	12,123,885
At 31 December 2010							
Cost	3,321,805	7,699,951	1,735,872	25,657	29,624	33,582	12,846,491
Accumulated depreciation	—	(335,252)	(358,349)	(12,535)	(10,063)	(6,407)	(722,606)
Net book amount	3,321,805	7,364,699	1,377,523	13,122	19,561	27,175	12,123,885
Year ended 31 December 2011							
Opening net book amount	**3,321,805**	**7,364,699**	**1,377,523**	**13,122**	**19,561**	**27,175**	**12,123,885**
Additions	**4,123,598**	**5,582**	**320,493**	**20,457**	**20,684**	**15,350**	**4,506,164**
Disposal	**—**	**—**	**(419)**	**(34)**	**(26)**	**(57)**	**(536)**
Transfer	**(878,100)**	**428,674**	**449,426**	**—**	**—**	**—**	**—**
Depreciation (Note 25)	**—**	**(171,062)**	**(247,876)**	**(9,320)**	**(6,727)**	**(5,883)**	**(440,868)**
Closing net book amount	**6,567,303**	**7,627,893**	**1,899,147**	**24,225**	**33,492**	**36,585**	**16,188,645**
At 31 December 2011							
Cost	**6,567,303**	**8,134,207**	**2,476,791**	**45,362**	**49,129**	**49,578**	**17,322,370**
Accumulated depreciation	**—**	**(506,314)**	**(577,644)**	**(21,137)**	**(15,637)**	**(12,993)**	**(1,133,725)**
Net book amount	**6,567,303**	**7,627,893**	**1,899,147**	**24,225**	**33,492**	**36,585**	**16,188,645**

7 PROPERTY, PLANT AND EQUIPMENT — GROUP *(continued)*

Depreciation of the Group's property, plant and equipment has been recognised as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Cost of sales	**218,746**	172,818
Selling and marketing expenses	**488**	383
General and administrative expenses	**221,634**	194,210
Charged to consolidated profit or loss (Note 25)	**440,868**	367,411

Borrowings and refund guarantees are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB1,820,893,000 as at 31 December 2011 (2010: RMB1,877,012,000) (Notes 20 and 36(a)).

Plant and machinery include the following amounts where the Group is a lessee under finance lease:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cost — capitalised finance lease	**926,217**	1,060,000
Accumulated depreciation	**(35,909)**	(48,320)
Net book amount	**890,308**	1,011,680

During the year ended 31 December 2011, the Group entered into certain sale and leaseback arrangements in respect of certain plant and machineries under a non-cancellable lease, with costs of RMB926,217,000 (2010: RMB1,060,000,000). The leases have terms of 3 to 5 years where substantial risks and rewards of ownership of the assets retained with the Group.

Notes to the Consolidated Financial Statements *(Continued)*

8 INTANGIBLE ASSETS — GROUP

	As at 31 December									
	2011					2010				
	Goodwill	**Patents**	**Computer software**	**Development costs**	**Total**	Goodwill	Patents	Computer software	Development costs	Total
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening costs	**55,139**	**21,644**	**50,736**	**—**	**127,519**	—	—	44,477	—	44,477
Accumulated amortisation	**—**	**(3,455)**	**(15,168)**	**—**	**(18,623)**	—	—	(9,855)	—	(9,855)
Opening net book amount	**55,139**	**18,189**	**35,568**	**—**	**108,896**	—	—	34,622	—	34,622
Movement during the year										
Opening net book amount	**55,139**	**18,189**	**35,568**	**—**	**108,896**	—	—	34,622	—	34,622
Business combination	**—**	**—**	**—**	**—**	**—**	55,139	21,644	1,936	—	78,719
Additions	**—**	**—**	**15,649**	**72,744**	**88,393**	—	—	4,323	—	4,323
Amortisation charge (Note 25)	**—**	**(5,166)**	**(6,998)**	**—**	**(12,164)**	—	(3,455)	(5,313)	—	(8,768)
Closing net book amount	**55,139**	**13,023**	**44,219**	**72,744**	**185,125**	55,139	18,189	35,568	—	108,896
Closing costs	**55,139**	**21,644**	**60,868**	**72,744**	**210,395**	55,139	21,644	50,736	—	127,519
Accumulated amortisation	**—**	**(8,621)**	**(16,649)**	**—**	**(25,270)**	—	(3,455)	(15,168)	—	(18,623)
Closing net book amount	**55,139**	**13,023**	**44,219**	**72,744**	**185,125**	55,139	18,189	35,568	—	108,896

Amortisation of the Group's intangible assets has been charged as general and administrative expenses in the consolidated statement of comprehensive income.

The entire amount of the Group's goodwill is attributed to the Engineering Machinery segment which is a cash-generating unit ("CGU").

The recoverable amount of this CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

Key assumptions of the financial budgets covering the five-year period and other key assumptions used for the value-in-use calculations include, average 5% sales growth rate for the first five year of the projection period, terminal growth rate of 3% and discount rate of 20%. No impairment of goodwill was considered necessary as the recoverable amount of the Engineering Machinery CGU exceeds its carrying amounts.

9 INVESTMENTS IN SUBSIDIARIES — COMPANY

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**33**	33

Details of the principal subsidiaries of the Group are set out in note 39.

10 FINANCIAL INSTRUMENTS BY CATEGORY

The following is an analysis of financial instruments by category:

Group

	Assets at fair value through profit or loss	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000
Assets as per consolidated statement of financial positions			
As at 31 December 2011			
Amounts due from customers for contract works (Note 12)	**—**	**7,199,036**	**7,199,036**
Trade and bills receivables (Note 13)	**—**	**3,600,151**	**3,600,151**
Other receivables and deposits (Note 13)	**—**	**1,356,153**	**1,356,153**
Derivative financial instruments (Note 22)	**9,729**	**—**	**9,729**
Pledged deposits (Note 14)	**—**	**4,961,514**	**4,961,514**
Cash and cash equivalents (Note 15)	**—**	**6,255,138**	**6,255,138**
Total	**9,729**	**23,371,992**	**23,381,721**
As at 31 December 2010			
Amounts due from customers for contract works (Note 12)	—	4,090,993	4,090,993
Trade and bills receivables (Note 13)	—	327,758	327,758
Other receivables and deposits (Note 13)	—	2,228,577	2,228,577
Pledged deposits (Note 14)	—	4,009,762	4,009,762
Cash and cash equivalents (Note 15)	—	10,412,974	10,412,974
Total	—	21,070,064	21,070,064

10 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group *(continued)*

	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
	RMB'000	RMB'000	RMB'000
Liabilities as per consolidated statement of financial positions			
As at 31 December 2011			
Trade and other payables (Note 19)	**—**	**8,113,122**	**8,113,122**
Borrowings (Note 20)	**—**	**24,621,302**	**24,621,302**
Derivative financial instruments (Note 22)	**3,015**	**—**	**3,015**
Finance lease liabilities (Note 20)	**—**	**805,380**	**805,380**
Total	**3,015**	**33,539,804**	**33,542,819**
As at 31 December 2010			
Trade and other payables (Note 19)	—	2,806,051	2,806,051
Borrowings (Note 20)	—	16,916,140	16,916,140
Derivative financial instruments (Note 22)	6,022	—	6,022
Finance lease liabilities (Note 20)	—	719,228	719,228
Total	6,022	20,441,419	20,447,441

Company

	Loans and receivables
	RMB'000
Assets as per statement of financial positions	
As at 31 December 2011	
Other receivables (Note 13)	**155**
Amounts due from subsidiaries (Note 13)	**8,071,680**
Cash and cash equivalents (Note 15)	**1,363,171**
Total	**9,435,006**
As at 31 December 2010	
Other receivables (Note 13)	869
Amounts due from subsidiaries (Note 13)	7,440,310
Cash and cash equivalents (Note 15)	1,676,139
Total	9,117,318

10 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company *(continued)*

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per statement of financial positions			
As at 31 December 2011			
Amounts due to subsidiaries (Note 19)	**—**	**5,991**	**5,991**
Other payables (Note 19)	**—**	**8,430**	**8,430**
Borrowings (Note 20)	**—**	**1,751,645**	**1,751,645**
Derivative financial instrument (Note 22)	**3,015**	**—**	**3,015**
Total	**3,015**	**1,766,066**	**1,769,081**
As at 31 December 2010			
Amounts due to subsidiaries (Note 19)	—	7,743	7,743
Other payables (Note 19)	—	95,487	95,487
Total	—	103,230	103,230

11 INVENTORIES — GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials	**1,923,150**	1,466,898
Work in progress	**288,534**	31,215
Finished goods	**398,274**	59,193
	2,609,958	1,557,306

The cost of inventories recognised as expense and included in cost of sales amounted to RMB10,112,278,000 for the year ended 31 December 2011 (2010: RMB7,266,502,000).

12 CONSTRUCTION CONTRACTS — GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**41,931,938**	27,251,176
Less: Progress billings	**(35,901,221)**	(28,013,509)
Net balance sheet position for ongoing contracts	**6,030,717**	(762,333)
Presented as:		
Amounts due from customers for contract works	**7,199,036**	4,090,993
Amounts due to customers for contract works	**(1,168,319)**	(4,853,326)
Provision for foreseeable losses	**—**	—
	6,030,717	(762,333)
Advances received from customers for contract works	**133,220**	432,473

Refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of approximately RMB4,424,768,000 as at 31 December 2011 (2010: RMB3,628,561,000).

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

(a) Trade and bills receivables

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**3,618,755**	304,852	**—**	—
Less: Provision for doubtful receivables	**(45,370)**	(16,884)	**—**	—
Bills receivables	**26,766**	39,790	**—**	—
	3,600,151	327,758	**—**	—

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

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

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

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Undue	**337,173**	172,672	**—**	—
Past due 1–180 days	**2,483,669**	89,191	**—**	—
Past due 181–360 days	**761,498**	65,895	**—**	—
Past due over 360 days	**17,811**	—	**—**	—
	3,600,151	327,758	**—**	—

As at 31 December 2011, trade receivables of RMB45,370,000 (2010: RMB16,884,000) relate to certain customers of the Engineering Machinery segment were impaired and provided for. The impaired trade receivables have been past due for over twelve months as at 31 December 2011.

Movements on the provision for doubtful receivables are as follows:

	2011	2010
	RMB'000	RMB'000
At 1 January	**16,884**	—
Acquisition of Zhenyu Engineering Machinery	**—**	14,051
Provision for the year	**31,893**	2,833
Reversal during the year	**(3,407)**	—
At 31 December	**45,370**	16,884

The creation and release of provision for doubtful receivables have been included within general and administrative expenses in the consolidated statement of comprehensive income.

As at 31 December 2011, trade receivables of RMB3,262,978,000 (2010: RMB155,086,000) were past due but not impaired. The ageing analysis of these trade receivables by due dates is listed above. Among which, approximately RMB2,272,584,000 is due from the three largest debtors. Based on the Group's review of the credit risk exposure at year end as disclosed in Note 3.1(b), the Group has determined that no provision for doubtful receivable is required in respect of the receivables from these debtors.

Certain customers of the Engineering Machinery segment are granted credit terms of up to 365 days. There is no credit term granted to customers of all other segments and all remaining trade receivables are due upon issuance of billings, accordingly, balances are past due if not settled within one month.

As at 31 December 2011, trade receivables amounting to RMB663,331,000 were secured by guarantees issued by the banks or related companies of certain customers. The maximum exposure to credit risk at the reporting date is the fair value less the secured trade receivables.

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

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

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

The carrying amounts of trade and bills receivables are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**574,086**	314,811	**—**	—
USD	**3,018,525**	12,146	**—**	—
Euro	**7,540**	801	**—**	—
	3,600,151	327,758	**—**	—

(b) Other receivables, prepayments and deposits

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receivables from agents	**316,634**	1,056,521	**—**	—
Other receivables				
— Third parties	**442,927**	32,183	**155**	869
— Related parties (Note 38)	**449,721**	467,035	**—**	—
— Subsidiaries	**—**	—	**8,071,680**	7,440,310
VAT receivable	**883,385**	748,585	**—**	—
Deposits	**146,871**	672,838	**—**	—
Prepayments for intangible assets, property, plant and equipment and land use rights				
— Third parties	**2,891,282**	1,829,837	**—**	—
— Related parties (Note 38)	**43,152**	44,224	**—**	—
Prepayments for raw materials				
— Third parties	**2,930,987**	2,580,240	**—**	—
— Related parties (Note 38)	**170,846**	170,856	**—**	—
Prepayments — others				
— Third parties	**1,258,101**	91,180	**—**	460
	9,533,906	7,693,499	**8,071,835**	7,441,639
Less: non-current deposits and prepayments	**(2,895,413)**	(138,109)	**—**	—
Current portion	**6,638,493**	7,555,390	**8,071,835**	7,441,639

The non-current prepayments as at 31 December 2011 included RMB1,153,890,000 (2010: nil) paid in respect of the proposed acquisition of Anhui Quanchai Group Corp. (Note 37).

During the year, the Group made a deposit of RMB166,320,000 pursuant to a non-binding memorandum of intent to acquire certain land use right in Beijing. As at 31 December 2011, management has decided not to proceed with the transaction. Management expects to recover the deposit in 2012. The deposit is classified as other receivables from third parties as presented in the table above.

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

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

Finance lease and letters of credit are secured by certain refundable deposits with an aggregate carrying value of RMB85,416,000 as at 31 December 2011 (2010: RMB153,194,000).

The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contract and procure the relevant refund guarantees. Pursuant to the agency contracts, the ship buyers 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 ship buyers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents (Note 19).

As at 31 December 2011, no other receivables were past due (2010: 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. The Group does not hold any collateral as security.

The carrying amounts of other receivables, prepayments and deposits are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**8,156,541**	6,515,961	**—**	—
HK$	**165,569**	7,985	**7,014,919**	1,329
USD	**913,386**	894,618	**1,056,916**	7,440,310
Euro	**188,494**	259,787	**—**	—
Japanese Yen	**109,916**	12,340	**—**	—
Others	**—**	2,808	**—**	—
	9,533,906	7,693,499	**8,071,835**	7,441,639

14 PLEDGED DEPOSITS — GROUP

Pledged deposits are denominated in the following currencies:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB	**4,955,929**	4,009,762
USD	**5,585**	—
	4,961,514	4,009,762

Pledged deposits are held in dedicated bank accounts pledged as security for the Group's bills payable, refund guarantees, letters of credit, borrowings and forward contracts.

Notes to the Consolidated Financial Statements *(Continued)*

15 CASH AND CASH EQUIVALENTS

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**4,703,898**	6,283,550	**542,087**	1,165,581
Short-term bank deposits	**1,551,240**	4,129,424	**821,084**	510,558
	6,255,138	10,412,974	**1,363,171**	1,676,139

The weighted average effective interest rate and average maturity of short-term bank deposits are as follows:

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
Effective interest rate	**1.46%**	1.13%	**0.77%**	0.95%
Maturity (months)	**1.5**	3	**0.7**	2

Cash and cash equivalents are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**3,545,833**	6,536,705	**74,551**	1,000,028
USD	**2,392,529**	535,175	**1,282,684**	—
HK$	**307,019**	3,340,991	**5,936**	676,111
Others	**9,757**	103	**—**	—
	6,255,138	10,412,974	**1,363,171**	1,676,139

Cash at bank and short-term bank deposits are placed in major financial institutions located in Hong Kong and the PRC where there is no history of default.

As at 31 December 2011, the Group has cash at bank and short-term bank deposits amounting to approximately RMB5,402,603,000 (2010: RMB5,549,168,000) which are denominated in Renminbi and USD and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

16 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of 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 at 3 February 2010 (Note a)	3,800,000	380,000	—	—	—
Creation of additional authorised shares	37,996,200,000	3,799,620,000	—	—	—
Ordinary shares of HK$0.1 each at 31 December 2010 and 2011	38,000,000,000	3,800,000,000	—	—	—
Issued:					
Ordinary shares of HK$0.1 each at 3 February 2010 (Note a)	100	10	—	—	—
Additional issuance (Note b)	999,900	99,990	95	—	95
Capitalisation of share premium (Note c)	5,599,000,000	559,900,000	479,532	(479,532)	—
Share issued in connection with the Global Offering (Note d)	1,400,000,000	140,000,000	119,899	9,472,451	9,592,350
Share issuance costs	—	—	—	(508,107)	(508,107)
Ordinary shares of HK$0.1 each at 31 December 2010 (Note a)	7,000,000,000	700,000,000	599,526	8,484,812	9,084,338
Dividend paid (Note 34)	—	—	—	(840,000)	(840,000)
Ordinary shares of HK$0.1 each at 31 December 2011 (Note a)	7,000,000,000	700,000,000	599,526	7,644,812	8,244,338

Note

(a) The Company was incorporated on 3 February 2010 with an authorised capital of 3,800,000 ordinary shares of HK$0.10 each. On the date of incorporation, the Company issued and allotted 100 shares, credited as fully paid. The authorised capital of the Company has subsequently increased to HK$3,800,000,000 divided into 38,000,000,000 shares of nominal value of HK$0.10 each. As at 31 December 2010 and 2011, the Company has issued 7,000,000,000 shares with issued share capital of HK$700,000,000 (equivalent to RMB599,526,000).

(b) This represents the additional shares issued by the Company for the share swap.

(c) Pursuant to the resolutions in writing of the shareholders of the Company passed on 24 October 2010, the Company alloted and issued pro rata to its existing shareholders 5,599,000,000 shares, at par of HK$0.1 each for the total amount of HK$559,900,000 (approximately RMB479,532,000). The capitalisation of shares was recorded against the share premium account.

(d) On 19 November 2010, the Company issued 1,400,000,000 new shares of HK$0.1 each in relation to the Global Offering. The gross proceeds received by the Company from the Global Offering amounted to approximately RMB9,592,350,000.

17 SHARE-BASED PAYMENT — GROUP AND COMPANY

Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees are granted a total share option of 62,500,000 shares (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 Options shall be equal to a 50% discount to the Offer Price (i.e. HK$4 per share). Each of the Pre-IPO Share Options has a 10-year exercisable period, from 19 November 2010, and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020 ("Expiry Date").

Commencing from the date on which trading in the shares of the Company first commenced on 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 Scheme during the year.

The fair value of the share options granted on 24 October 2010, determined using the binominal model (the "Model"), ranges from HK$4.38 to HK$5.17 per option. The significant inputs into the Model were share price of HK$8 at the 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 operation.

The total expense recognised in the consolidated profit and loss for share options granted to directors and employees approximates RMB86,992,000 during the current year (2010: RMB82,827,000). The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	Average exercise price in HK$ per share	Number of share options (thousands)
At 1 January 2010	—	—
Granted	4	62,500
Exercised	—	—
At 31 December 2010	4	62,500
Granted	—	—
Exercised	—	—
Lapsed	—	(1,000)
At 31 December 2011	4	61,500

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 are listed on the Hong Kong Stock Exchange. As at 31 December 2011, no options have been granted under the Share Option Scheme (2010: nil).

18 OTHER RESERVES

(a) Group

	Note	Capital reserve RMB'000	Equity component of preferred shares RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Total RMB'000
Balance at 1 January 2010		269,904	52,688	236,609	123,988	683,189
Capital injection from a minority shareholder of a subsidiary	(i)	2,277,199	—	—	—	2,277,199
Merger of Shanghai Rongsheng Shipbuilding Trading	(ii)	234	—	—	—	234
Merger of Rong An Power Machinery	(iii)	(84,419)	—	—	—	(84,419)
Redemption of shares from share swap	(iv)	(81)	—	—	—	(81)
Issuance of ordinary shares in exchange for interest in Rongsheng Heavy Industries Holdings	(v)	93	—	—	—	93
Redemption of preferred shares (Note 20)		—	(52,688)	—	—	(52,688)
Share-based payment reserve		—	—	82,827	—	82,827
Transfer to statutory reserve	(vi)	—	—	—	136,714	136,714
Balance at 31 December 2010		2,462,930	—	319,436	260,702	3,043,068
Balance at 1 January 2011		2,462,930	—	319,436	260,702	3,043,068
Share-based payment reserve		—	—	86,992	—	86,992
Transfer to statutory reserve	(vi)	—	—	—	210,457	210,457
Balance at 31 December 2011		2,462,930	—	406,428	471,159	3,340,517

18 OTHER RESERVES *(continued)*

(a) Group *(continued)*

(i) In June 2010, a non-controlling shareholder of Rangsheng Heavy Industries has contributed land and shipbuilding facilities to a subsidiary of the Group and in return 4.8% equity interest of the subsidiary was transferred to the minority shareholder. The capital injection included in Capital Reserve of RMB2,277,199,000 represents the fair value of RMB2,551,428,000 of the assets contributed less the book value of non-controlling interests of RMB274,229,000 in which the minority shareholder was entitled to share immediately after the combination.

(ii) This represents the difference between net asset value of Shanghai Rongsheng Shipbuilding Trading of RMB50,234,000 and the cash consideration of RMB50,000,000 paid for the merger of Shanghai Rongsheng Shipbuilding Trading.

(iii) This represents the difference between net asset value of Rong An Power Machinery of RMB410,501,000 and the consideration of RMB494,920,000 for the merger of Rong An Power Machinery.

(iv) This represents the transfer of shares of Rongsheng Heavy Industries Holding through swaping of shares.

(v) This represents the difference between book value of additional shares issued by the Company and the par value of shares redeemed from the share swap.

(vi) In accordance with the relevant regulations and their article of association, the Company's subsidiaries incorporated in PRC are required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to general statutory reserve until such reserve has reached 50% of registered capital. This reserve can only be used for specific purposes and it is not distributable or transferable to the loans, advances, cash dividends. Appropriation to the general statutory reserve for the year ended 31 December 2011 amounted to approximately RMB210,457,000 (2010: RMB136,714,000).

(b) Company

	Capital reserve RMB'000	Share-based payment reserve RMB'000	Total RMB'000
Balance at 1 January 2010	—	—	—
Share-based payment reserve	—	82,827	82,827
Issuance of ordinary shares in exchange for interest in Rongsheng Heavy Industries	33	—	33
Balance at 31 December 2010	33	82,827	82,860
Share-based payment reserve	—	86,992	86,992
Balance at 31 December 2011	33	169,819	169,852

19 TRADE AND OTHER PAYABLES

	Group 31 December 2011 RMB'000	Group 31 December 2010 RMB'000	Company 31 December 2011 RMB'000	Company 31 December 2010 RMB'000
Trade payables	**2,839,805**	1,168,825	**—**	—
Bills payables				
— Third parties	**2,741,654**	623,307	**—**	—
— Related parties	**81,432**	—	**—**	—
Other payables for purchase of property, plant and equipment				
— Third parties	**662,577**	198,152	**—**	—
— Related parties (Note 38)	**762,722**	199,924	**—**	—
Other payables				
— Third parties	**503,078**	428,436	**—**	90,977
— Related parties (Note 38)	**470**	228	**—**	—
— Subsidiaries	**—**	—	**5,991**	7,743
Receipt in advance	**99,463**	60,657	**—**	—
Accrued expenses				
— Payroll and welfare	**79,805**	53,500	**—**	25,273
— Design fees	**55,638**	40,036	**—**	—
— Utilities	**59,610**	18,811	**—**	—
— Outsourcing and processing fee	**254,236**	102,550	**—**	—
— Others	**151,900**	25,782	**8,430**	4,510
VAT payable	**27,570**	38,297	**—**	—
Other tax-related payables	**173,083**	166,995	**—**	—
	8,493,043	3,125,500	**14,421**	128,503

Ageing analysis of trade and bills payables is as follows:

	Group 31 December 2011 RMB'000	Group 31 December 2010 RMB'000	Company 31 December 2011 RMB'000	Company 31 December 2010 RMB'000
0–30 days	**2,588,939**	1,201,796	**—**	—
31–60 days	**1,279,997**	263,798	**—**	—
61–90 days	**669,909**	159,823	**—**	—
Over 90 days	**1,124,046**	166,715	**—**	—
	5,662,891	1,792,132	**—**	—

19 TRADE AND OTHER PAYABLES *(continued)*

Trade and other payables are denominated in the following currencies:

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**8,200,692**	2,652,599	**—**	—
USD	**165,504**	337,290	**—**	—
HK$	**662**	120,988	**14,421**	128,503
Euro	**41,628**	14,623	**—**	—
Others	**84,557**	—	**—**	—
	8,493,043	3,125,500	**14,421**	128,503

20 BORROWINGS

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Bank borrowings	**9,465,808**	7,766,846	**1,751,645**	—
Finance lease liabilities	**551,773**	406,416	**—**	—
	10,017,581	8,173,262	**1,751,645**	—
Current				
Bank borrowings	**15,155,494**	9,149,294	**—**	—
Finance lease liabilities	**253,607**	312,812	**—**	—
	15,409,101	9,462,106	**—**	—
Total borrowings	**25,426,682**	17,635,368	**1,751,645**	—

20 BORROWINGS *(continued)*

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

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**15,409,101**	9,462,106	**—**	—
Between 1 and 2 years	**4,315,956**	3,015,156	**1,005,158**	—
Between 2 and 5 years	**3,749,861**	3,110,289	**746,487**	—
Over 5 years	**1,951,764**	2,047,817	**—**	—
	25,426,682	17,635,368	**1,751,645**	—

The weighted average effective interest rates at the balance sheet date were as follows:

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
Finance lease liabilities	**7.29%**	5.83%	**—**	—
Borrowings	**6.90%**	5.37%	**3.25%**	—

Borrowings amounting to RMB24,139,077,000 as at 31 December 2011 (2010: RMB17,441,369,000) are secured by the land use rights, buildings, construction contracts, pledged deposits and steel plates of the Company and certain of its subsidiaries (Notes 6, 7, 12 and 14). The remaining borrowings are secured by the corporate guarantees provided by the Company and certain of its subsidiaries.

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

The carrying amounts of the borrowings are denominated in the following currencies:

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**22,118,173**	15,879,045	**—**	—
USD	**3,267,651**	1,736,866	**1,751,645**	—
Euro	**33,957**	13,529	**—**	—
Others	**6,901**	5,928	**—**	—
	25,426,682	17,635,368	**1,751,645**	—

Notes to the Consolidated Financial Statements *(Continued)*

20 BORROWINGS *(continued)*

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	Group 31 December		Company 31 December	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
6 months or less	**21,917,138**	16,837,952	**1,068,049**	—
6–12 months	**1,719,748**	386,000	**—**	—
1–5 years	**1,789,796**	411,416	**683,596**	—
Over 5 years	**—**	—	**—**	—
	25,426,682	17,635,368	**1,751,645**	—

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Expiring within one year	**5,331,298**	11,674,314
Expiring beyond one year	**2,718,880**	4,078,690
	8,050,178	15,753,004

Finance lease liabilities — Group

Finance lease liabilities are effectively secured by the rights to the leased assets revert to the lessor in the event of default.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**305,370**	350,433
Later than 1 year and no later than 5 years	**607,635**	442,711
	913,005	793,144
Future finance charges on finance lease	**(107,625)**	(73,916)
Present value of finance lease liabilities	**805,380**	719,228
The present value of finance lease liabilities are as follows:		
No later than 1 year	**253,607**	312,812
Later than 1 year and no later than 5 years	**551,773**	406,416
	805,380	719,228

21 DEFERRED INCOME TAX — GROUP

The movement in deferred income tax assets and liabilities during the year ended 31 December 2011, without taking into consideration the offsetting of balances with the same tax jurisdiction, is as follows:

	Fair value gains RMB'000	Total RMB'000
Deferred tax liabilities		
At 31 December 2010	6,391	6,391
Credited to consolidated profit or loss	(845)	(845)
At 31 December 2011	5,546	5,546

	Government grant RMB'000	Provisions RMB'000	Total RMB'000
Deferred tax assets			
At 31 December 2010	10,169	3,523	13,692
Credited to consolidated profit or loss	—	60,157	60,157
At 31 December 2011	10,169	63,680	73,849

Deferred tax assets and liabilities are to be recovered after more than 12 months.

22 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2011		As at 31 December 2010	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward foreign exchange contracts — held for trading — Group	**9,729**	**—**	—	6,022
Interest rate swap — held for trading — Group and Company	**—**	**3,015**	—	—

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2011 was RMB484,310,000 (2010: RMB706,952,000).

The notional principal amount of the outstanding interest rate swap at 31 December 2011 was USD110,000,000 (equivalent to approximately RMB693,099,000) (2010: nil).

23 PROVISION FOR WARRANTY — GROUP

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

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
At 1 January	**228,654**	132,640
Provision for the year		
— Charged to consolidated statement of comprehensive income	**152,180**	99,841
— Change of estimate (Note a)	**(109,289)**	—
— Utilisation during the year	**(5,485)**	(3,827)
— Reversal during the year upon expiring of the warranty period	**(76,193)**	—
At 31 December	**189,867**	228,654

Note a: In view of the actual outcome on warranty expenses incurred for the delivered vessels, management revised estimates for the provision for warranty that RMB 109,289,000 was credited to the consolidated profit or loss (2010: nil).

24 ACCUMULATED LOSSES — COMPANY

	RMB'000
At 3 February 2010 (date of incorporation)	—
Loss for the period	177,890
At 31 December 2010	177,890
Loss for the year	570,342
At 31 December 2011	748,232

25 EXPENSES BY NATURE

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials and consumable used	**10,488,040**	7,922,484
Amortisation of land use rights (Note 6)	**13,641**	14,446
Depreciation of property, plant and equipment (Note 7)	**440,868**	367,411
Amortisation of intangible assets (Note 8)	**12,164**	8,768
Employee benefit expenses (Note 26)	**576,113**	395,612
Operating lease payments	**76,014**	55,031
Auditors' remunerations (Note d)	**10,178**	5,789
Outsourcing and processing costs	**1,074,451**	865,508
Commission expense	**154,589**	216,772
Design fees	**61,657**	104,312
Agency fees	**25,658**	97,658
Consultancy fees	**52,824**	38,664
Other tax-related expenses and customs duties (Note a)	**60,824**	78,096
Bank charges (include refund guarantee charges)	**142,543**	102,234
(Reversal of)/provision for warranty (Note 23)	**(33,302)**	99,841
Office expenses and utilities	**353,963**	238,629
Donations and sponsoring expenses	**13,286**	16,539
Reversal of impairment loss on inventory	**—**	(1,960)
Provision for trade and other receivables (Note 13)	**28,486**	2,833
Inspection fees	**55,231**	33,719
Insurance premiums	**58,760**	21,741
Storage and handling charges	**84,245**	29,200
Advertising, promotion and marketing expenses	**77,244**	97,651
Royalty expenses	**85,430**	7,927
Miscellaneous expenses	**59,602**	36,505
Total cost of sales, selling and marketing expenses, general and administrative expenses (Notes b, c)	**13,972,509**	10,855,410

Note

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

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

The Group has incurred employee benefit expenses, depreciation and amortisation of property, plant and equipment and intangible assets for the purpose of research and development. The research and development costs incurred for the year ended 31 December 2011 were RMB121,408,000 (2010: RMB69,286,000), among which RMB72,744,000 were capitalised in intangible assets as disclosed in Note 8 (2010:nil).

25 EXPENSES BY NATURE *(continued)*

Note *(continued)*

(c) During the year ended 31 December 2011, the Group has received subsidy of RMB1,250,000,000 (2010: RMB830,000,000) from the Jiangsu Government authorities to compensate costs in which the Group has incurred for research and development of shipbuilding processes, designs and the related people development. The subsidy has been recognised in the consolidated profit and loss for the year ended 31 December 2011. The subsidy has been deducted against cost of sales of RMB500,000,000, general and administrative expenses of RMB214,589,000 and finance costs of RMB535,411,000. Among which, RMB206,192,000, RMB382,804,000, RMB18,010,000, RMB16,356,000 and RMB91,227,000 were allocated to the employee benefit expenses, outsourcing and processing costs, consultancy fees, other tax-related expenses and office expenses and utilities respectively (2010: Subsidy of RMB830,000,000 was deducted against cost of sales of RMB317,612,000, selling and marketing expenses of RMB2,611,000, general and administrative expenses of RMB197,549,000 and finance costs of RMB312,228,000. Among which, RMB201,759,000, RMB173,782,000 and RMB105,324,000 were allocated to the employee benefit expenses, outsourcing and processing costs and office expenses and utilities).

(d) Including remunerations for the Company's auditor and remunerations for auditors of the Company's subsidiaries in the PRC.

26 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries and wages	**342,385**	207,804
Social security costs	**77,896**	33,552
Contribution to pension plans	**12,911**	10,221
Other benefits	**101,911**	61,238
Share-based payment (Note 17)	**86,992**	82,827
	622,095	395,642
Capitalised in inventories	**—**	(30)
Capitalised in intangible assets	**(45,982)**	—
Charged to consolidated profit or loss (Note a)	**576,113**	395,612

Note a: During the year, the Group has received subsidy from the government to compensate the costs the Group has incurred and certain amounts have been rewarded by reducing employee benefits expenses. Please refer to Note 25(c) for details.

27 OTHER INCOME

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Compensation penalty received for cancelled shipbuilding contracts (Note a)	**—**	3,778
Government grants (Note b)	**38,177**	32,743
Scrap sales (Note c)	**262,444**	164,925
Others	**15,906**	4,290
	316,527	205,736

Note

(a) The other income of RMB3,778,000 for the year ended 31 December 2010 represents amount recognised to income in relation to termination penalty received for a shipbuilding contract cancelled in 2009.

(b) Government grants represent cash received from governmental authorities in the PRC during years ended 31 December 2010 and 2011 as incentives to develop the shipbuilding industry and heavy industry in the PRC.

(c) The Group recognised scrap sales of RMB262,444,000 during the year (2010: RMB164,925,000), as a result of sales of unused scrap steel plates materials.

28 OTHER (LOSSES)/GAINS — NET

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Fair value gains/(losses) on derivative instruments — forward contracts	**15,751**	(6,022)
Fair value losses on derivative instruments — interest rate swap	**(3,015)**	—
Net foreign exchange (losses)/gains (Note 31)	**(240,369)**	23,980
	(227,633)	17,958

29 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**109,086**	72,008
Net foreign exchange gains on financing activities (Note 31)	**88,004**	103,153
	197,090	175,161
Finance cost:		
Interest expense		
— Borrowings and finance lease liabilities	**(944,088)**	(429,240)
— Preferred shares	**—**	(19,569)
Less: borrowing costs capitalised	**833,450**	283,409
	(110,638)	(165,400)
Net finance income, net	**86,452**	9,761

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation for the year ended 31 December 2011 was 5.01% (2010: 4.18%).

30 INCOME TAX EXPENSE

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current income tax:		
— PRC Enterprise Income Tax ("EIT")	**358,701**	263,572
Deferred income tax	**(61,002)**	(93)
Total income tax expense	**297,699**	263,479

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

30 INCOME TAX EXPENSE *(continued)*

A PRC subsidiary is eligible for EIT exemption for two years commencing from the first taxable year, followed by a 50% reduction in the EIT rate for the next three years. The first taxable year of this subsidiary eligible for EIT exemption is 2008.

The tax on the Group's results before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated entities as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	**2,107,422**	2,043,524
Tax calculated at domestic tax rates applicable to profit of respective companies	**628,346**	550,342
Income not subject to tax	**(38,967)**	(12,453)
Expenses not deductible for tax purposes	**45,799**	20,794
Effect of tax exemption and tax holiday	**(345,766)**	(313,597)
Tax losses for which no deferred income tax asset was recognised	**21,709**	18,393
Utilisation of previously unrecognised tax losses	**(13,422)**	—
Tax charge	**297,699**	263,479

No Hong Kong profits tax has been provided during the years ended 31 December 2010 and 2011 as the Group had no assessable profit in Hong Kong.

The weighted average applicable tax rate was 30% for the year ended 31 December 2011 (2010: 27%).

As at 31 December 2011, the Group did not recognise deferred income tax assets of RMB31,078,000 (2010: RMB22,791,000) in respect of losses amounting to RMB124,347,000 (2010: RMB91,186,000) that can be carried forward and utilised against future taxable income.

The Group's PRC tax losses have expiration period of five years as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**—**	—
Within 2 years	**—**	—
Within 3 years	**5,688**	6,047
Within 4 years	**31,809**	21,331
Within 5 years	**86,850**	63,808
	124,347	91,186

30 INCOME TAX EXPENSE *(continued)*

Provided that the Hong Kong holding entities could meet criteria set out by the Chinese tax authorities for enjoying treaty benefit on dividend to be received from the PRC subsidiaries, the related withholding income tax on dividend income should be calculated in accordance with the Sino-HK tax arrangement. Deferred income tax liabilities of RMB195,381,000 as at 31 December 2011 (2010: RMB100,304,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totaled RMB3,907,620,000 at 31 December 2011 (2010: RMB2,006,078,000), and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

31 NET FOREIGN EXCHANGE (LOSSES)/GAINS

The exchange differences (charged)/credited in the consolidated statement of comprehensive income are included as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net foreign exchange (losses)/gains taken to:		
Other (losses)/gains — net (Note 28)	**(240,369)**	23,980
Finance income — net (Note 29)	**88,004**	103,153
	(152,365)	127,133

32 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and senior management's emoluments

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Directors		
— Fees	**1,592**	73
— Basic salaries, housing allowances, other allowances and benefit-in-kind	**38,461**	19,925
— Contribution to pension plans	**314**	253
— Discretionary bonuses	**—**	25,857
— Share-based payment	**34,795**	33,130
	75,162	79,238
Senior management		
— Basic salaries, housing allowances, other allowances and benefit-in-kind	**4,145**	5,530
— Contribution to pension plans	**128**	278
— Share-based payment	**8,699**	15,074
	12,972	20,882
	88,134	100,120

32 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

For the year ended 31 December 2011:

Name	Fees	Basic salaries, housing allowances, other allowance and benefit-in-kind	Contribution to pension plans	Discretionary bonuses	Share- based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-executive Director						
Zhang Zhi Rong	995	—	—	—	—	995
Executive Directors						
Chen Qiang	—	12,000	65	—	—	12,065
Zhang De Huang (i)	—	633	—	—	—	633
Wu Zhen Guo	—	3,600	—	—	6,959	10,559
Luan Xiao Ming	—	3,600	60	—	6,089	9,749
Deng Hui	—	3,600	66	—	6,089	9,755
Hong Liang	—	3,600	60	—	6,089	9,749
Sean S J Wang	—	7,828	3	—	3,480	11,311
Wang Tao	—	3,600	60	—	6,089	9,749
Independent Non-executive Directors						
Chen Gang	199	—	—	—	—	199
Tsang Hing Lun	199	—	—	—	—	199
Zhang Xu Sheng	199	—	—	—	—	199
	1,592	38,461	314	—	34,795	75,162

32 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

For the year ended 31 December 2010:

Name	Fees RMB'000	Basic salaries, housing allowances, other allowance and benefit- in-kind RMB'000	Contribution to pension plans RMB'000	Discretionary bonuses RMB'000	Share- based payment RMB'000	Total RMB'000
Non-executive Director						
Zhang Zhi Rong	—	8,835	—	—	—	8,835
Executive Directors						
Chen Qiang	—	2,031	46	10,185	—	12,262
Wu Zhen Guo	—	738	—	2,612	6,625	9,975
Luan Xiao Ming	—	627	46	2,612	5,798	9,083
Deng Hui	—	1,315	69	2,612	5,798	9,794
Hong Liang	—	626	46	2,612	5,798	9,082
Sean S J Wang (ii)	—	5,127	—	2,612	3,313	11,052
Wang Tao	—	626	46	2,612	5,798	9,082
Independent Non-executive Directors						
Chen Gang	24	—	—	—	—	24
Tsang Hing Lun	25	—	—	—	—	25
Zhang Xu Sheng	24	—	—	—	—	24
	73	19,925	253	25,857	33,130	79,238

(i) Appointed as director on 26 September 2011.

(ii) Included in the director's emolument of Sean S J Wang, for the year ended 31 December 2010, is a sign-on bonus amounting to RMB2,900,000.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 include five (2010: five) directors, whose emoluments are reflected in the analysis presented above.

(c) During the year ended 31 December 2011, no directors or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2010: no remuneration was paid for inducement to join, upon joining the Group, leave the Group or as compensation for loss of office except for the one-off sign-on bonus paid to a director as disclosed in note 32(a) above).

33 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the results attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2011	2010
Earnings attributable to equity holders of the Company (RMB'000)	**1,720,675**	1,718,704
Weighted average number of ordinary shares in issue	**7,000,000,000**	5,761,095,890
Basic earnings per share (RMB per share)	**0.25**	0.30

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year (2010: same).

34 DIVIDENDS

The dividends paid in 2011 were RMB840,000,000 (2010: nil), including the final dividend paid in May 2011 for the year ended 31 December 2010 amounting to RMB476,000,000 and interim dividend paid in September 2011 for the year ended 31 December 2011 amounting to RMB364,000,000. A final dividend in respect of the year ended 31 December 2011 of RMB0.022 per share (2010: RMB0.068 per share), amounting to a total dividend of RMB154,000,000 (2010: RMB476,000,000), is to be proposed at the forthcoming annual general meeting. These consolidated financial statements do not reflect this dividend payable.

	2011	2010
	RMB'000	RMB'000
Interim dividend paid of RMB 0.052 (2010: nil) per ordinary share	**364,000**	—
Proposed final dividend of RMB0.022 (2010: RMB 0.068) per ordinary share	**154,000**	476,000
	518,000	476,000

The aggregate amounts of the dividend paid and proposed during 2010 and 2011 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordinance.

Notes to the Consolidated Financial Statements *(Continued)*

35 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash used in operations

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	**2,107,422**	2,043,524
Adjustments for:		
— Amortisation of land use rights (Note 6)	**13,641**	14,446
— Depreciation (Note 7)	**440,868**	367,411
— Amortisation of intangible assets (Note 8)	**12,164**	8,768
— Share-based compensation (Note 17)	**86,992**	82,827
— Fair value (gain)/loss on derivative financial instruments	**(12,736)**	6,022
— Write off on property, plant and equipment	**—**	22
— Reversal of impairment loss on inventory	**—**	(1,960)
— Provision for trade and other receivables	**28,486**	2,833
— (Reversal of)/provision for warranty (Note 23)	**(33,302)**	99,841
— Utilisation of provision for warranty (Note 23)	**(5,485)**	(3,827)
— Interest income	**(109,086)**	(72,008)
— Interest expense	**110,638**	165,400
— Unrealised exchange loss	**165,863**	55,754
Changes in working capital:		
— Inventories	**(1,052,652)**	(456,003)
— Amounts due from customers for contract works	**(3,108,043)**	554,744
— Trade and bills receivables, and other receivables, prepayments and deposits	**(1,563,459)**	(1,096,376)
— Amounts due to customers for contract works	**(3,685,007)**	(3,230,985)
— Advanced received from customers for contract works	**(299,253)**	(243,139)
— Trade and other payables	**4,340,320**	(963,458)
— Derivative financial instruments	**—**	(383)
— Long-term deposit	**40,978**	(82,515)
Cash used in operations	**(2,521,651)**	(2,749,062)

35 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Financing activities

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Borrowings at the beginning of year	**17,635,368**	4,480,852
Merger of Rong An Power Machinery	**—**	1,200,000
Merger of Shanghai Rongsheng Shipbuilding Trading	**—**	275,000
Acquisition of ZhenYu Machinery	**—**	71,400
Proceeds received from borrowings	**18,441,170**	26,118,294
Proceeds from shareholder's loans	**—**	1,783,488
Proceeds received from finance leases	**542,700**	460,000
Repayments made for borrowings	**(10,736,008)**	(14,729,587)
Repayments made for shareholder's loans	**—**	(1,783,488)
Repayments made for finance lease	**(456,548)**	(240,591)
Borrowings at the end of year	**25,426,682**	17,635,368

36 CONTINGENCIES

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contingencies:		
Refund guarantees (Note a)	**12,434,396**	9,569,246
Litigation (Note b)	**326,333**	100,140
Financial guarantees (Note c)	**3,513**	50,440
	12,764,242	9,719,826

(a) Refund guarantees

Refund guarantees relate to the guarantees provided by the bankers 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 31 December 2011, refund guarantees are secured by certain land and buildings, pledged deposits, vessels under constructions and corporate guarantees from the Company and certain of its subsidiaries.

Notes to the Consolidated Financial Statements *(Continued)*

36 CONTINGENCIES *(continued)*

(b) Litigation

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

As at 31 December 2011, subsidiaries of the Group were in dispute with its suppliers and employees in relation to the procurement of inventories and injuries. The alleged claims against the Group amounted to approximately RMB111,956,000 (2010: RMB99,730,000) and RMB477,000 (2010: RMB410,000) respectively. Provision amounted to RMB17,186,000 (2010: nil) has been made in relation to one of the litigations with a supplier with reference to the primary adjudication. Although appeal was in progress, management is of the view that the final outcome will be close to the primary adjudication. No provision has been made in respect of other claims as at 31 December 2011 as management has determined, on the basis of legal advice from the Group's external counsel that it is not probable that these claims would result in an outflow of economic benefits from the Group.

As at 31 December 2011, 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 RMB231,086,000) (2010: nil). No provision has been made in respect of this claim as at 31 December 2011 as management has determined, on the basis of legal advice from the Group's external counsel, that it is not probable that this claim would result in an outflow of economic benefits from the Group.

(c) Financial guarantees

The Group has provided guarantees to certain banks in the PRC in respect of mortgage loans drawn by certain customers of the Engineering Machinery segment. The loans 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 banks should the customers default on the mortgage loans. As at 31 December 2011, the total value of the guaranteed mortgage loan outstanding was RMB20,228,000 (2010: RMB57,931,000) in which the Group has made a provision of RMB16,715,000 (2010: RMB7,491,000) for mortgage loans with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB3,513,000 (2010: RMB50,440,000) is required as the relevant customers have no history of default and it is not probably that the Group would have to make payments to the banks for the guarantees.

37 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment — Contracted but not provided for	**2,951,877**	3,591,282
Other capital commitment — Contracted but not provided for (note i)	**3,614,417**	—

(i) Commitment for acquisition of Anhui Quanchai Group Corp.

Rongsheng Heavy Industries has entered into a sale and purchase agreement to acquire 100% equity interest of Anhui Quanchai Group Corp. (安徽全柴集團有限公司) ("Quanchai Group") from the People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) for cash consideration of RMB2,148,870,000 and this transaction is subject to obtaining the approvals from the relevant regulators as at 31 December 2011. During the year ended 31 December 2011, the Group has made an advance payment of RMB630,000,000 to Anhui Province Property Rights Exchange Co., Ltd. (安徽省產權交易中心有限責任公司) for proposed acquisition of Quanchai Group and the Group paid another deposit in the amount of RMB523,890,000 to the China Securities Depository and Clearing Corp. Ltd. Shanghai Branch (中國証券登記結算有限責任公司上海分公司) in respect of the mandatory general offer to purchase the outstanding shares of Anhui Quanchai Engine Co., Ltd. (安徽全柴動力股份有限公司) ("Quanchai Engine"), a 44.39% owned subsidiary of Quanchai Group with its shares listed on the Shanghai Stock Exchange (Stock Code: 600218), that was triggered by the Group proposed acquisition of Quanchai Group. Assuming the proposed acquisition of Quanchai Group will be approved, the Group will have to pay at most RMB1,518,870,000 to complete the acquisition of Quanchai Group and a further amount of approximately RMB2,095,547,000 for the mandatory general offer to acquire shares of Quanchai Engine on the basis that all holders of the outstanding Quanchai Engine A-shares accept the offer.

(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 31 December	
	2011	2010
	RMB'000	RMB'000
No later than 1 year	**143,030**	93,114
Later than 1 year and no later than 5 years	**126,148**	66,442
	269,178	159,556

Notes to the Consolidated Financial Statements *(Continued)*

38 RELATED PARTY TRANSACTIONS

Fine Profit Enterprises Limited (incorporated in British Virgin Islands), the immediate and ultimate holding company of the Group, owns 52.19% of the issued shares of the Company as at 31 December 2011 (2010: 52.19%). Fine Profit Enterprises Limited is wholly owned by Mr. Zhang as at 31 December 2011 (2010: same), who is the ultimate controlling party of the Group and owns 53.75% of the issued shares of the Company as at 31 December 2011.

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 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 controlled by a close family member of Mr. Zhang
Jiangsu Rongsheng Investment Group Co. Ltd. 江蘇熔盛投資集團有限公司	Entity controlled by a close family member of Mr. Zhang
Nantong Shengshi Building Materials Co. Ltd. 南通晟昰建材有限公司	Entity controlled by a close family member of Mr. Zhang
Shanghai Yi Wang Enterprise Development Co. Ltd. 上海弋泓企業發展有限公司	Entity controlled by a close family member of Mr. Zhang
Jiangsu Rong Tong Marine Mechanical and Electrical Co. Ltd. 江蘇熔通海工機電有限公司	Entity controlled by a close family member of 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 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 close family member of Mr. Zhang
Glorious Wangjiarui (Wuxi) Co. Ltd. 恒盛旺佳瑞(無錫)有限公司	Entity controlled by Mr. Zhang
Shanghai Chuang Meng International Architectural Design Co. Ltd. 上海創盟國際建築設計有限公司	Entity controlled by Mr. Zhang
Shanghai Sunshine Ming Di Catering Management Co. Ltd. 上海陽光名邸餐飲管理有限公司	Entity controlled by Mr. Zhang
Nantong Rongsheng Infrastructure Accessories Company Limited Nantong Rongsheng Infrastructure Accessories Co. Ltd. 南通熔盛基礎設施配套工程有限公司	Entity controlled by a close family member of 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 close family member of Mr. Zhang
Jiangsu Rongdezhi Education Investment Co. Ltd. 江蘇熔德智教育投資有限公司	Entity controlled by a close family member of Mr. Zhang

38 RELATED PARTY TRANSACTIONS *(continued)*

During the year, the Group carried out the following transactions with related parties:

(i) Purchase of goods and services

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Continuing transactions:		
Purchase of catering services		
— Entities controlled by Mr. Zhang	**1,137**	247
Purchase of cranes		
— Entities controlled by close family members of Mr. Zhang	**—**	1,818
Purchase of motor vehicles		
— Entity controlled by Mr. Zhang	**—**	1,102
Purchase of consultation services		
— Entity controlled by close family members of Mr. Zhang	**2,684**	318
	3,821	3,485

(ii) Purchase of construction services

Continuing transactions:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Purchase of construction services		
— Entities controlled by close family members of Mr. Zhang	**1,477,146**	1,256,615
— Entity controlled by Mr. Zhang	**231**	1,955
	1,477,377	1,258,570

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

38 RELATED PARTY TRANSACTIONS *(continued)*

(iii) Year-end balances with related parties:

Group

As at 31 December 2010 and 2011, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Prepayments for property, plant and equipment (Note 13):		
— Entities controlled by close family members of Mr. Zhang	**43,152**	44,224
Prepayments for raw materials (Note 13):		
— Entities controlled by close family members of Mr. Zhang	**170,846**	170,856
Other receivables — non-trade (Note 13):		
— Entities controlled by Mr. Zhang or close family members of Mr. Zhang	**449,646**	464,355
— Mr. Zhang	**70**	—
— Key management	**5**	2,680
	449,721	467,035
Bills payable for property, plant and equipment (Note 19)		
— Entities controlled by close family members of Mr. Zhang	**81,432**	—
Other payables for property, plant and equipment (Note 19):		
— Entities controlled by close family members of Mr. Zhang	**762,722**	199,924
Other payables — non-trade (Note 19):		
— Mr. Zhang	**470**	228

38 RELATED PARTY TRANSACTIONS *(continued)*

(iii) Year-end balances with related parties: *(continued)*

Company

As at 31 December 2010 and 2011, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Other receivables — non-trade (Note 13):		
— Subsidiaries	**8,071,680**	7,440,310
Other payables — non-trade (Note 19):		
— Subsidiaries	**5,991**	7,743

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2011, the Company has direct and indirect interests in the following subsidiaries:

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27/07/07	Limited liability company	Investment holding; Hong Kong	HK$100,000	98.50%
Rongsheng Engineering Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Rongsheng Power Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Rongsheng Capital Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Clear Joy International Limited	British Virgin Islands	02/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%
Nice In Holdings Limited	British Virgin Islands	13/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%

Shares held directly by the Company

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Charm Dragon Holdings Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%
Grace Shine International Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	100%
Head Park Group Limited	British Virgin Islands	25/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%
New Sea Enterprises Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	100%
Mega New International Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%
Host Rich International Enterprise Limited	British Virgin Islands	13/05/09	Limited liability company	Investment holding; Hong Kong	USD1	100%
System Advance Limited	British Virgin Islands	12/01/10	Limited liability company	Investment holding; Hong Kong	USD1	98.50%
Ocean Sino Holdings Limited	British Virgin Islands	18/01/10	Limited liability company	Investment holding; Hong Kong	USD1	98.50%
Power Shine Investment Limited	British Virgin Islands	07/01/10	Limited liability company	Investment holding; Hong Kong	USD1	98.50%
Capital Sign International Limited	British Virgin Islands	26/03/09	Limited liability company	Investment holding; Hong Kong	USD1	98.50%
Dragon Courage Investments Limited	British Virgin Islands	02/04/09	Limited liability company	Investment holding; Hong Kong	USD1	98.50%
Hinco International Limited	Hong Kong	12/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Pacific Atlantic Limited	Hong Kong	24/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Wenca Development Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%
Asiafair International Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Wellbo Holdings Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Profit On International Development Limited	Hong Kong	15/05/09	Limited liability company	Investment holding; Hong Kong	HK$1	100%
Yes Power Corporation Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Ocean Power International Industrial Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Glory Source Limited	Hong Kong	25/01/10	Limited liability company	Dormant	HK$1	98.50%
World Profit Corporation Limited	Hong Kong	05/02/10	Limited liability company	Dormant	HK$1	98.50%
Jiangsu Rongsheng Shipbuilding Co., Ltd. 江蘇熔盛造船有限公司 (formerly known as "Nantong Rongding Shipbuilding Co., Ltd. 南通熔鼎造船有限公司")	PRC	21/06/07	Limited liability company	Manufacturing, maintaining and machining of shipping; Trading of self-produced products; PRC	RMB778,784,897	96.09%
Nantong Rongsheng Painting Co., Ltd. 南通熔盛塗裝有限公司	PRC	21/06/07	Limited liability company	Painting, coating and fabrication of shipping; Manufacturing and trading of self-produced products; PRC	USD29,500,000	93.58%
Nantong RongYe Ship Mechanical and Equipment Installation Co., Ltd. 南通熔燁船舶機電安裝有限公司	PRC	21/06/07	Limited liability company	Manufacturing mechanical and electrical equipments and accessories for shipping production; Trading of self-produced products; PRC	USD29,600,000	95%
Nantong Rongye Storage Co., Ltd. 南通熔燁倉儲有限公司	PRC	21/06/07	Limited liability company	Storing of shipping material; Carry cargo; PRC	USD29,700,000	93.58%

Notes to the Consolidated Financial Statements *(Continued)*

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Nantong Rongding Marine Engineering Co. Ltd. 南通熔鼎海洋工程有限公司 (formerly known as "Nantong Rongding Pipe Engineering Co., Ltd. 南通熔鼎管道工程有限公司")	PRC	22/06/07	Limited liability company	Manufacturing and installing of pipeline and shipping equipments; Trading of self-produced products; PRC	USD29,900,000	95%
Jiangsu Rongsheng Heavy Industries Co., Ltd. 江蘇熔盛重工有限公司 (formerly known as "江蘇熔燁鋼結構有限公司／富宏偉業(江蘇)物流有限公司")	PRC	08/06/06	Limited liability company	Manufacturing of shipping; Trading of self-produced products; Providing services of shipping; PRC	USD611,000,000	96.09%
Jiangsu Rongsheng shipbuilding Engineering Research and Design Company Limited 江蘇熔盛船舶工程研究設計院有限公司	PRC	04/03/08	Limited liability company	Researching, designing and providing consultation for shipbuilding; PRC	RMB10,000,000	96.09%
Nantong Rongjin Steel Construction Engineering Company Limited 南通熔錦鋼結構工程有限公司	PRC	16/03/05	Limited liability company	Steel construction engineering; manufacture, processing and sales of steel and accessories and sales of building materials, PRC	RMB50,000,000	96.09%
Shanghai Rongsheng Shipbuilding Trading Company Limited 上海熔盛船舶貿易有限公司	PRC	27/03/07	Limited liability company	Trading of vessel accessories; PRC	RMB100,000,000	96.09%
Rongsheng Machinery Company Limited 熔盛機械有限公司 (formerly known as "Anhui Rongan Heavy Industries Machinery Company Limited 安徽熔安重工機械有限公司")	PRC	11/03/10	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB63,000,000	100%

39 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity interest attributable to the Group
Hefei Zhenyu Engineering Machinery Company Limited 合肥振宇工程機械有限公司 (formerly known as "合肥振宇機械施工有限責任公司／合肥振宇工程機械股份有限公司")	PRC	10/12/98	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB100,000,000	95%
Hefei Zhenyu Yida Engineering Machinery Company Limited 合肥振宇意達工程機械有限公司 (formerly known as "安徽科化新材料科技有限公司")	PRC	18/04/03	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB10,000,000	95%
Hefei Rongan Power Machinery Co., Ltd. 合肥熔安動力機械有限公司	PRC	15/08/07	Limited liability company	Building of marine engines; PRC	RMB1,232,300,000	95.55%
Shanghai Rong An Mechanical & Electrical Equipment Company Limited 上海熔安機電設備有限公司	PRC	10/11/09	Limited liability company	Wholesale and retail sales of electronic machinery, PRC	RMB10,000,000	95.55%
Jiangsu Bosheng Industrial Trading Development Co. Ltd. 江蘇博盛興業貿易發展有限公司	PRC	26/04/11	Limited liability company	Manufacturing and sales of metal proceeding products; PRC	RMB200,000,000	96.09%
Nantong Rongsheng Shipowners Club Construction Co. Ltd. 南通熔盛船東會所建設有限公司	PRC	20/06/11	Limited liability company	Building of shipowners club; PRC	RMB100,000,000	96.09%

Five-Year Finanical Summary

CONSOLIDATED RESULTS

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**15,904,585**	12,665,479	9,473,206	4,724,911	661,665
Cost of sales	**(12,710,885)**	(9,833,975)	(7,624,915)	(4,815,557)	(693,543)
Gross profit/(loss)	**3,193,700**	2,831,504	1,848,291	(90,646)	(31,878)
Selling and marketing expenses	**(60,907)**	(63,728)	(4,605)	(3,404)	(1,030)
General and administrative expenses	**(1,200,717)**	(957,707)	(561,253)	(393,345)	(363,058)
Other operating expenses	**—**	—	—	(30,906)	(10,879)
Other income	**316,527**	205,736	123,317	46,598	—
Other (losses)/gains — net	**(227,633)**	17,958	(37,981)	(19,326)	(35,094)
Operating profit/(loss)	**2,020,970**	2,033,763	1,367,769	(491,029)	(441,939)
Finance income	**197,090**	175,161	33,385	22,862	3,216
Finance costs	**(110,638)**	(165,400)	(94,604)	(72,142)	—
Finance income/(costs) — net	**86,452**	9,761	(61,219)	(49,280)	3,216
Profit/(loss) before income tax	**2,107,422**	2,043,524	1,306,550	(540,309)	(438,723)
Income tax (expense)/credit	**(297,699)**	(263,479)	(1,889)	24	(842)
Profit/(loss) for the year	**1,809,723**	1,780,045	1,304,661	(540,285)	(439,565)
Attributable to:					
Equity holders of the Company	**1,720,675**	1,718,704	1,302,183	(527,173)	(439,565)
Non-controlling interests	**89,048**	61,341	2,478	(13,112)	—
	1,809,723	1,780,045	1,304,661	(540,285)	(439,565)
Earnings/(loss) per share for earnings/(loss) attributable to the equity holders of the Company (expressed in RMB per share) — Basic/diluted	**0.25**	0.30	0.23	(0.09)	(0.08)
Dividend	**518,000**	476,000	—	—	—
Dividend per share (expressed in RMB per share)	**0.074**	0.068	—	—	—

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**19,986,597**	13,041,788	7,325,681	5,790,720	2,983,515
Total current assets	**31,274,019**	27,954,183	14,644,737	11,923,009	4,272,533
Total assets	**51,260,616**	40,995,971	21,970,418	17,713,729	7,256,048
Total non-current liabilities	**10,023,127**	8,179,653	313,291	—	1,856,201
Total current liabilities	**25,545,633**	18,181,177	20,411,295	17,772,558	4,779,888
Total liabilities	**35,568,760**	26,360,830	20,724,586	17,772,558	6,636,089
Net assets/(liabilities)	**15,691,856**	14,635,141	1,245,832	(58,829)	619,959

Glossary

"2012 AGM"	the annual general meeting of the Company to be held on 23 May 2012
"ABS"	American Bureau of Shipping, a classification society founded in the United States in 1862, is a non-profit organization that provides marine and offshore classification services
"Board"	the board of Directors of our Company
"bulk carrier"	a vessel that is designed to carry unpacked cargo, usually consisting of a dry commodity, such as grain or coal
"BV"	Bureau Veritas, a classification society founded in Belgium in 1828, is an international group specialized in the inspection, analysis, audit, and certification of products, infrastructure (including maritime vessels) and management systems in relation to regulatory or voluntary standards
"Capesize"	cargo ships of 150,000 DWT and above with a draft above 18.91 meters
"CCS"	China Classification Society, a classification society founded in the PRC in 1956, is a specialized non-profit organization providing classification service
"CGT"	compensated gross tonnage, calculated by multiplying the tonnage of a ship by a coefficient determined according to type and size of a particular ship, and used as an indicator of the volume of work necessary to build a given ship
"China" or "PRC"	the People's Republic of China excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan
"China Eximbank"	the Export – Import Bank of China (中國進出口銀行)
"classification society"	worldwide non-governmental, experienced and reputable organizations or groups of professionals, ship surveyors and representatives of offices that promote the safety and protection of the environment of vessels and offshore structures. To do so, such societies set technical rules, confirm that designs and calculations meet these rules, survey vessels and structures during the process of construction and commissioning, and periodically survey vessels to ensure that they continue to meet the rules
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 883) and the New York Stock Exchange (stock code: CEO)
"Company", "our Company", "China Rongsheng" or "China Rongsheng Heavy Industries"	China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands on 3 February 2010

"Containerships"	cargo ships that carry all of their load in truck-size containers, in a technique called containerization
"Director(s)"	director(s) of our Company
"DNV"	Det Norse Veritas, a classification society founded in 1864 and originally a Norwegian-based organization that inspected and evaluated the technical condition of merchant vessels there. Since then, the core competencies have expanded to cover the identification, assessment and advisement on managing risk in a variety of industries (including maritime vessels)
"DPV"	deepwater pipe laying crane vessel, self propelled vessel dedicated to subsea pipe laying in deepwater regions. These vessels also generally have their own cranes and derricks, sometimes with heavy lift capability
"drillship"	a maritime vessel that has been fitted with drilling apparatus. It is most often used for exploratory offshore drilling of new oil or gas wells in deep water or for scientific drilling
"drydock" or "dry dock"	a narrow basin that can be flooded to allow a load to be floated in, then drained to allow that load to come to rest on a dry platform. Drydocks are used for the construction, maintenance, and repair of ships, boats, and other watercraft
"DWT", "deadweight tonnes" or "dwt"	one DWT equals to 1,000 kilogrammes, a unit of measurement of the maximum permitted load of a vessel, including the weight of cargo, passengers, fuel, stores and crew, when loaded to its maximum summer load line
"Foreign Investment Industries Catalogue"	the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (promulgated by the NDRC and the MOFCOM on 31 October 2007) which became effective on 1 December 2007
"GL"	Germanisher Lloyd, a classification society founded in 1867, which is a German-based organization that serves a wide range of industries in both the maritime and energy sectors
"Group", "our Group", "we" or "us"	the Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
"HK$", "HK dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended and supplemented from time to time

Glossary *(Continued)*

"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"horsepower"	a unit for measuring the power of an engine with one horsepower equaling 0.736kW
"ISO"	the International Organization for Standardization, a worldwide federation of national standardization bodies
"ISO9001"	a series of international standards on quality management and quality assurance developed by the ISO 9001:1994(E), which has been adopted by more than 30 countries, including the United Kingdom and the United States, as their national quality system standards
"jack-up"	a type of mobile platform that is able to stand still on the sea floor, resting on a number of supporting legs. The most popular designs use three independent legs, although some jack-ups have four legs or more. On "mat-type" jack-ups the legs are connected to a submerged hull
"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	19 November 2010, being the date on which the Shares are listed on the Main Board of the Hong Kong Stock Exchange
"LNG"	liquefied natural gas
"LR"	Lloyd's Register Society, a classification society and independent risk management organization founded in 1760 in the United Kingdom, is a non-profit organization that provides risk assessment and mitigation services and management systems certification
"MAN Diesel & Turbo" or "MAN"	MAN Diesel & Turbo SE, Germany
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Zhang"	Mr. Zhang Zhi Rong (張志熔), our chairman of the Board, non-executive Director and controlling shareholder
"MSFL"	Minsheng Financial Leasing Co., Ltd (民生金融租賃股份有限公司)
"NDRC"	The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Panamax"	ships classified as Panamax are of the maximum dimensions that will fit through the locks of the Panama Canal, each of which is 1,000 feet long by 110 feet wide and 85 feet deep. Accordingly, a Panamax ship will usually have dimension of approximately 965 feet long (294.0 meters), 106 feet wide (32.3 meters) and a draft of 39.5 feet (12.0 meters)

"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally approved and adopted by our Company pursuant to a resolution passed by our Shareholders on 24 October 2010
"Prospectus"	the prospectus of the Company issued in connection with its Listing on the Hong Kong Stock Exchange dated 8 November 2010
"RMB" or "Renminbi"	the lawful currency of the PRC
"Rong An Heavy Industries"	Anhui Rongan Heavy Industries Machinery Company Limited (安徽熔安重工機械有限公司), a company established under the laws of the PRC on 11 March 2010 and our wholly-owned subsidiary, now renamed as Rongsheng Machinery
"Rong An Mechanical & Electrical Equipment"	Shanghai Rong An Mechanical & Electrical Equipment Company Limited (上海熔安機電設備有限公司), a company established under the laws of the PRC on 10 November 2009 and our non-wholly owned subsidiary
"Rong An Power Machinery"	Hefei Rongan Power Machinery Co. Ltd. (合肥熔安動力機械有限公司), a company established under the laws of the PRC on 15 August 2007, and our non-wholly owned subsidiary
"Rongding Marine Engineering"	Nantong Rongding Marine Engineering Co. Ltd. (南通熔鼎海洋工程有限公司), a company established under the laws of the PRC on 22 June 2007, and owned by us as to 95% and owned as to 5% by Rongsheng Investment
"Rongye Mechanical"	Nantong Rongye Ship Mechanical and Electrical Equipment Installation Co. Ltd (南通熔燁船舶機電安裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by us as to 95% and owned by Rongsheng Investment as to 5%
"Rongsheng Heavy Industries"	Jiangsu Rongsheng Heavy Industries Co., Ltd. (江蘇熔盛重工有限公司), a company established under the laws of the PRC on 8 June 2006 and a company owned by Rongsheng Heavy Industries Holdings as to 97.55% and Rongsheng Investment as to 2.45%
"Rongsheng Heavy Industries Holdings"	Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司), a company incorporated in the Cayman Islands with limited liability on 27 July 2007 and owned by us as to 98.5%
"Rongsheng Investment"	Jiangsu Rongsheng Investment Group Co. Ltd. (江蘇熔盛投資集團有限公司), a company established under the laws of the PRC on 12 February 2004, and ultimately controlled by Mr. Zhang
"Rongsheng Machinery"	Rongsheng Machinery Co. Ltd. (熔盛機械有限公司), formerly known as Rong An Heavy Industries

Glossary *(Continued)*

"Rongsheng Painting"	Nantong Rongsheng Painting Co. Ltd. (南通熔盛塗裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by Rongsheng Heavy Industries Holdings as to 95% and owned by Rongsheng Investment as to 5%
"Rongsheng Research and Design"	Jiangsu Rongsheng Shipbuilding Engineering Research and Design Company Limited (江蘇熔盛船舶工程研究設計院有限公司), a company established under the laws of the PRC on 4 March 2008 and a wholly-owned subsidiary of Rongsheng Heavy Industries
"Rongsheng Shipbuilding"	Jiangsu Rongsheng Shipbuilding Co. Ltd. (江蘇熔盛造船有限公司), a company established under the laws of the PRC on 21 June 2007 and owned by Rongsheng Heavy Industries as to 49% and Rongsheng Investment as to 51% and our non-wholly owned subsidiary
"Rongye Storage"	Nantong Rongye Storage Co. Ltd. (南通熔燁倉儲有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by Rongsheng Heavy Industries Holdings as to 95% and owned by Rongsheng Investment as to 5%
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
"Share Option Scheme"	the share option scheme we conditionally adopted pursuant to a resolution passed by our Shareholders on 24 October 2010
"Shares"	ordinary shares in our Company with a nominal value of HK$0.10 each
"Suezmax"	ships of between 120,000 DWT and 200,000 DWT, with dimensions allowing it to transit the Suez Canal fully loaded
"TEU"	twenty-foot equivalent unit, an inexact unit of cargo capacity often used to described the capacity of containerships and container terminals. It is based on the volume of a 20-foot-long (film) intermodal container, a standard-sized metal box
"US$", "US dollars" or "USD"	United States dollars, the lawful currency of the United States
"VLCC"	very large crude oil carrier of 200,000 DWT or above
"VLOC"	very large ore carrier greater than 220,000 DWT
"Wärtsilä"	Wärtsilä Switzerland Ltd.
"Zhenyu Machinery"	Hefei Zhenyu Engineering Machinery Company Limited (合肥振宇工程機械有限公司), a company established under the laws of the PRC on 10 December 1998 and owned by Rong An Heavy Industries as to 95% and an independent third party as to 5%

Information for Shareholders

Listing Information

Listing	:	Hong Kong Stock Exchange
Stock Code	:	01101

Index Constituent

MSCI Index Series

Financial Key Dates

Announcement of 2011 Annual Results	:	20 March 2012
Annual General Meeting	:	23 May 2012
Book Closure Period for determining entitlement to attend and vote at AGM	:	18 May 2012 to 23 May 2012 (both dates inclusive)
Proposed Final Dividend Payment Date	:	14 June 2012
Book Closure Period for determining entitlement of final dividend	:	30 May 2012 to 1 June 2012 (both dates inclusive)

Share Information

Board Lot Size	:	500 shares
Issued Shares as at 31 December 2011	:	7,000,000,000 shares
Basic Earnings per Share for 2011	:	RMB0.25
Interim Dividend per Share for 2011	:	RMB5.2 cents
Proposed Final Dividend per Share for 2011	:	RMB2.2 cents

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,
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Tel : (852) 2862-8628
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Website : www.rshi.cn

Corporate Information

Chairman and Non-executive Director	ZHANG Zhi Rong
Executive Directors	CHEN Qiang (Chief Executive Officer) ZHANG De Huang (Vice Chairman) WU Zhen Guo (Vice Chairman) LUAN Xiao Ming (Chief Operating Officer) DENG Hui HONG Liang Sean S J WANG (Chief Financial Officer) WANG Tao
Independent Non-executive Directors	CHEN Gang TSANG Hing Lun ZHANG Xu Sheng
Audit Committee	TSANG Hing Lun (Chairman) CHEN Gang ZHANG Xu Sheng
Corporate Governance Committee	ZHANG Xu Sheng (Chairman) CHEN Qiang Sean S J WANG
Nomination Committee	ZHANG Xu Sheng (Chairman) ZHANG Zhi Rong CHEN Gang
Remuneration Committee	CHEN Gang (Chairman) ZHANG Zhi Rong ZHANG Xu Sheng
Finance and Investment Committee	CHEN Qiang (Chairman) HONG Liang Sean S J WANG CHEN Gang TSANG Hing Lun
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) China Everbright Bank (Hefei Branch) Industrial and Commercial Bank of China (Hefei City Wangjiang Road Branch)
Legal Advisors	Paul Hastings Commerce & Finance Law Offices
Compliance Advisor	Guotai Junan Capital Limited
Company Website	http://www.rshi.cn

We are RONGSHENG

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中國熔盛重工集團控股有限公司

www.rshi.cn

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Design, Production and Printing: REF Financial Press Limited www.ref.com.hk