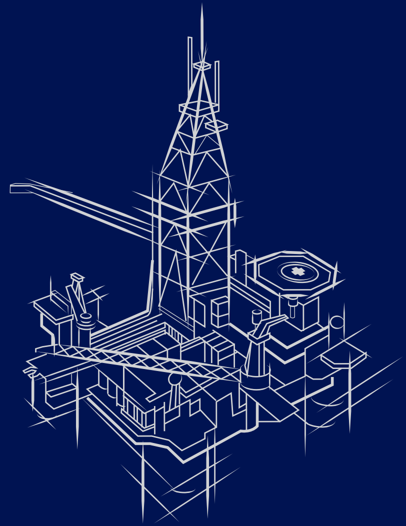


熔盛重工
RONGSHENG

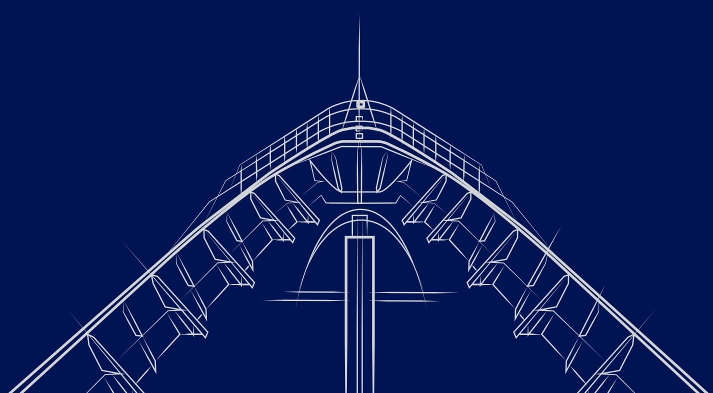
China Rongsheng Heavy Industries Group Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101

PASSION TO EXCEL

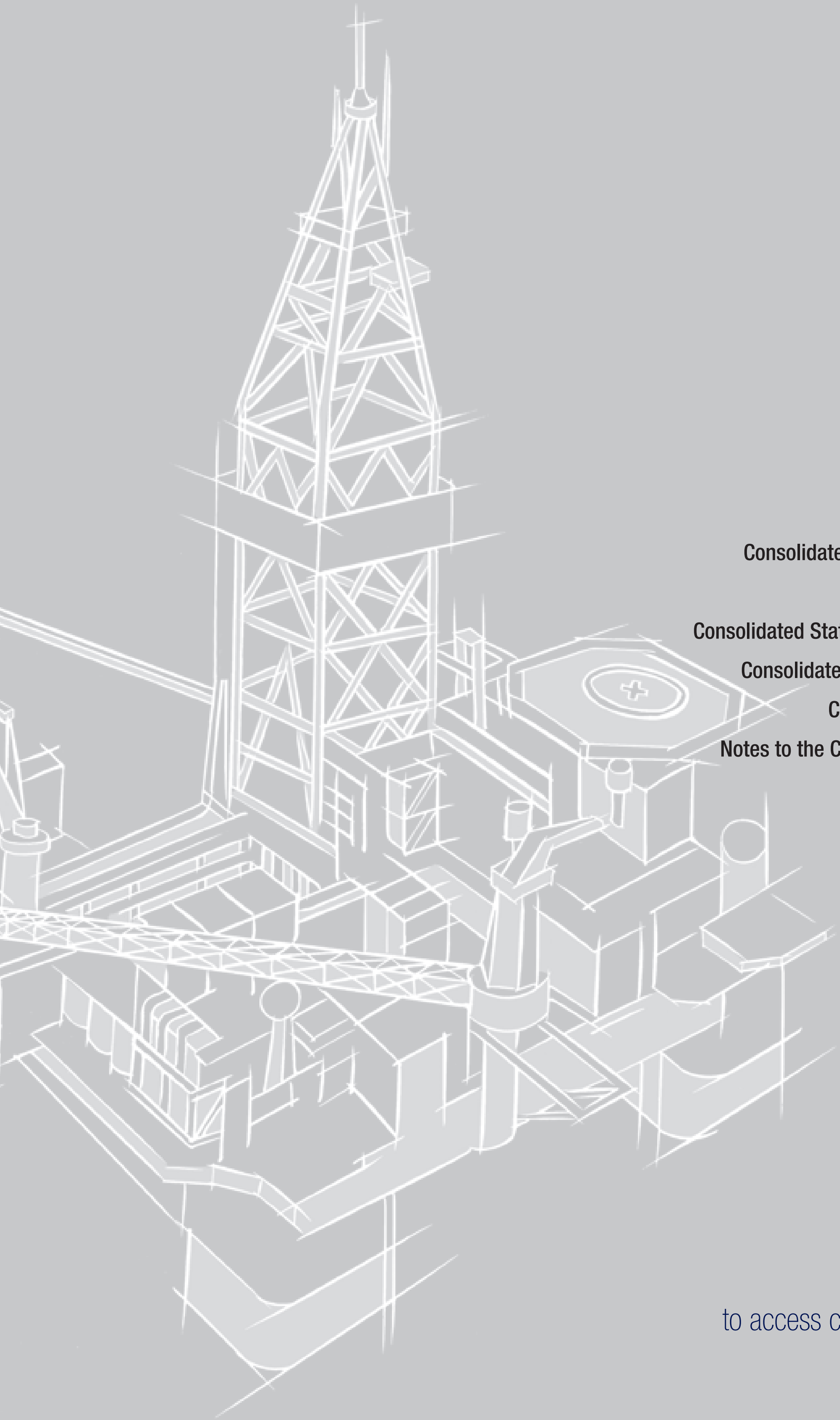
Annual Report 2012



ABOUT CHINA RONGSHENG

China Rongsheng Heavy Industries Group Holdings Limited and its subsidiaries are a leading diversified large heavy industries group in China. Our headquarters are located in Shanghai and Hong Kong, with manufacturing bases in Nantong (Jiangsu Province) and Hefei (Anhui Province). In 2012, Rongsheng Offshore & Marine was established in Singapore to promote our offshore engineering business. Our business segments include shipbuilding, offshore engineering, marine engine building and engineering machinery. According to Clarkson Research, China Rongsheng was the third 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 2012. The Group operates the largest shipyard in the PRC and is a global leader in the manufacture of the very large ore carrier ("VLOC").

Contents

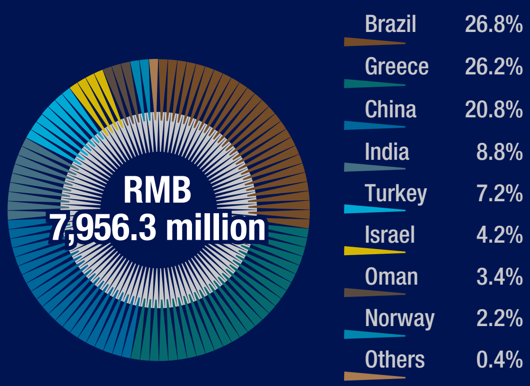


Scan the **QR Code**
to access corporate video of China Rongsheng

Financial Highlights

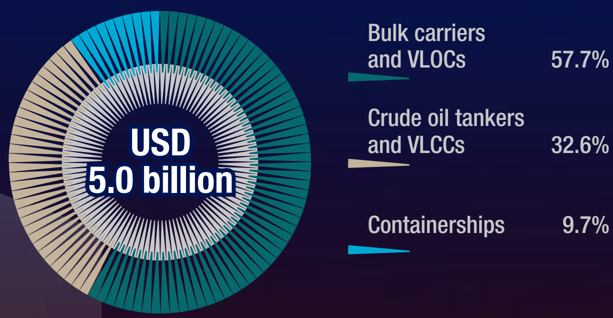
REVENUE
(RMB MILLION)

REVENUE IN 2012



DELIVERY OF VESSELS
('000 DWT)

SHIPBUILDING ORDERS ON HAND AS AT 31 DECEMBER 2012
(BY CONTRACT VALUE OF VESSELS)



	2012	2011
Revenue (RMB'000)	7,956,347	15,904,585
Gross profit (RMB'000)	1,140,697	3,193,700
(Losses)/Earnings attributable to the equity holders of the Company (RMB'000)	(572,577)	1,720,675
Gearing ratio (Total borrowings/(Total borrowings + Total equity))	62.5%	61.8%
Capital expenditure (RMB'000)	3,456,993	5,210,577

MILESTONES

2012

- Established Singapore-based offshore engineering cornerstone — Rongsheng Offshore & Marine
- Secured first international offshore engineering order to build a deepwater tender barge
- Delivered Asia's first 3,000-meter DPV
- Delivered six 380,000 DWT class VLOCs to Vale S.A. and Oman Shipping Company
- Delivered first 6,500-TEU containership
- Awarded "Seatrade Global Performer 2012"
- Garnered "2012 National Top 10 Innovative Enterprises" by Asian Manufacturing Association and "China Top 500 Private Enterprises" by All-China Federation of Industry and Commerce

2011

- Delivered first made-in-China VLOC to Vale S.A.
- Commenced operation of No. 4 drydock (139.5m x 580m) facilitating the production of offshore engineering products
- Accumulated production of low speed marine diesel engines surpassed 1 million horsepower
- Signed strategic cooperation agreement with China Development Bank

2010

- Signed shipbuilding contract with MSFL for 10 Panamax bulk carriers
- Signed first shipbuilding contract for VLCC
- Entered into five-year strategic cooperation agreement with China Eximbank
- Listed on the Main Board of the Hong Kong Stock Exchange

2009

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

2008

- Delivered first vessel
- 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

2007

- Signed first offshore engineering contract to build a 3,000-meter DPV
- First vessel keel-laid

2006

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

2005

- Commenced construction of shipyard in Nantong

CONNECTIONS AROUND **THE WORLD**


China
Germany
Singapore
Norway
Greece
South Korea
Denmark
Oman
Russia
Israel
Turkey
India
Japan

Chairman’s Statement

We firmly believe that opportunities are born from challenges. We adhere to the “Transformation and Advancement” strategy to weather the challenging shipbuilding industry, and transform ourselves into an integrated heavy industry conglomerate that effectively serves clients in the energy industry.

TRANSFORMATION • ADVANCEMENT

2012 was a challenging year for China Rongsheng and its peers in the global shipbuilding industry. Inherited from the weakness in 2011, the global economy failed to rebound in 2012. The international shipping industry continued to be under pressure and placed an even greater strain on shipping rates. Meanwhile, financial institutions became cautious on financing ship owners' new shipbuilding orders, which heavily affected the demand for new vessels. The global shipbuilding industry has hit the trough of the cycle and the new shipbuilding orders during the year plunged to the lowest level in the past decade. Shipbuilders around the world faced a number of challenges including sharp decreases in new orders and orders on hand, plummeting new vessel prices and unfavorable payment terms for new orders. Small-to-medium-sized shipbuilders, in particular, fell into dire straits.

Nevertheless, we firmly believe that opportunities are born from challenges. Maritime rights have become a heated political and economic topic in recent months. The Chinese government, greatly concerned about the shipbuilding industry, introduced a series of documents designed to support the shipbuilders and strategically listed the high-end offshore engineering equipment manufacturing as one of the key emerging industries. We adhere to the "Transformation and Advancement" strategy to weather the challenging shipbuilding industry. We are actively promoting our high-end equipment manufacturing business and transforming ourselves into an integrated heavy industry conglomerate that effectively serves clients in the energy industry. One of the top priorities in our working plan for 2012 was to proactively explore new opportunities in the offshore engineering equipment market.

On the back of the high global energy prices and the increasing consumption of natural gas, investments in offshore oil and gas exploration and exploitation continued to increase, as well as the demand for offshore engineering equipment. It is well known that the offshore engineering equipment manufacturing industry demands a high level of technological involvement, which therefore requires large amount of investments and makes it very difficult for new entrants. We have already begun our offshore engineering business in 2007, and completed the construction of a deepwater pipe-laying crane vessel ("**DPV**") and conducted in-depth research and development for various offshore engineering products in the past five years.

As a part of our important strategy to meet the threshold requirements for entering into the offshore engineering industry, Rongsheng Offshore & Marine ("**RSOM**") was established in Singapore in 2012. Being the cornerstone of our offshore engineering segment, RSOM primarily focuses on research and development, marketing, and project engineering, procurement and construction ("**EPC**"), while its sales team endeavors to capture a larger share of the international offshore engineering market. The professional team led by Mr. Don Lee has already secured our first international EPC order for the construction of a deepwater tender barge and two jack-up rig EPC contracts, and is perfectly positioned to secure more orders in the future. We are looking forward to securing more comprehensive offshore engineering orders in the future, such as jack-up drilling platforms, semi-submersible drilling rigs, tender barges, Floating Production Storage and Offloading Units ("**FPSO**") and Floating Storage and Re-gasification Units. Leveraging on the superior industry know-hows and the experienced talents in Singapore, together with our No. 4 drydock specialized in offshore engineering product manufacturing, comparative cost advantages and scale benefits in our shipyard in China, we are confident that RSOM can make further breakthroughs for China Rongsheng and become a significant player in the global offshore engineering market.

While holding the largest shipbuilding orders on hand as a single shipyard in China, we were also striving to enhance our production efficiency and execution, and were rewarded for our efforts. Our shipbuilding delivery in 2012 increased by 49.7% year-on-year to another record high level of 3.9 million deadweight tonnage ("**DWT**"), including six VLOCs and our first containership. In order to comply with the new requirements on fuel saving and emission reduction set by the International Maritime Organization ("**IMO**"), we strengthened the development in highly efficient and fuel saving products, improved technological capabilities, optimized product structure, launched high-end eco-friendly products to promote the upgrade of our vessels.

Driven by the robust offshore engineering market in recent years, the demand for electricity generators required in offshore engineering has grown at a phenomenal pace. Meanwhile, due to the Chinese government's rising concern over carbon emissions and the change of China's energy structure, natural gas consumption is set to rise in the future. It will herald the inevitable trend towards upgrading marine engines that are powered by oil to those powered by gas. To seize this new market opportunity, we invited an international expert, Mr. Urs Huwiler, to lead our marine engine building segment in 2013. We plan to enrich our product offerings, from low speed marine diesel engines to a more diversified product portfolio including offshore engineering electricity generators. We are also working closely with licensors to develop our dual-fuel marine engines and LNG marine engines.

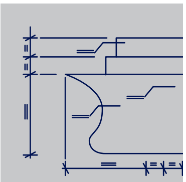
2012 was not only a crucial year for the transformation and advancement of our business, but it also allowed us to head into a new direction for corporate management. We sincerely believe that a strong vision must be found and a sustainable management model must be established for our future development. We listened carefully to the valuable comments made by investors and customers, adjusted our business directions in appropriate timing and aimed for breakthroughs. We also formulated clear and practical goals for each segment and staff member in view of the current market situation. Our professional management team will leverage on their flexible and forward-looking management mindsets, along with a constantly improving corporate governance system, to progressively develop ourselves into a well-known and sustainable brand.

It is with full trust from the Board of Directors that I was appointed as the Chairman of the Board, and it is with great honor and a deep sense of responsibility that I accept the position in this challenging time. In 2012, we laid the foundations of our "Transformation and Advancement" strategy and I will spare no effort with my colleagues to weather the challenges ahead, seize the opportunities and bring about a bright future for China Rongsheng in 2013. I would like to take this opportunity to thank our former Chairman Mr. Zhang Zhi Rong, former Vice Chairman Mr. Zhang De Huang, former Executive Director Mr. Deng Hui, and the former President of Rong An Power Machinery Mr. Zou Zhi Ming, for their valuable contributions to the Company. I would also like to welcome Mr. Xia Da Wei for joining the Group as an Independent Non-executive Director. Finally, I would like to express my sincere gratitude to our excellent management team and all our staff for their hard work and cooperation, and to all our shareholders for their patience and support.

CHEN Qiang
Chairman

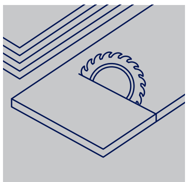
Hong Kong, 26 March 2013

CONSTRUCTION PROCESS OF **SHIPBUILDING AND OFFSHORE ENGINEERING**



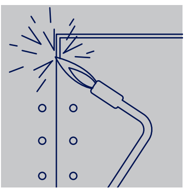
Step 1
Construction Preparation

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



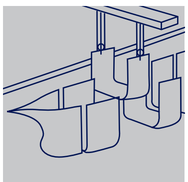
Step 2
Pretreatment, Steel Cutting, Pipe Fabrication, Manufacture of Small Parts

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



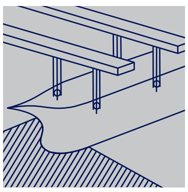
Step 3
Steel Block Assembly

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.



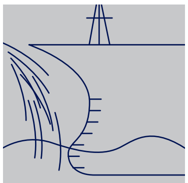
Step 4
Block Integration

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.



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.

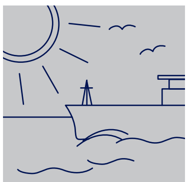


Step 6
Launching

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

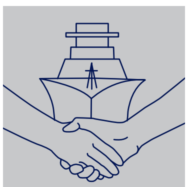
Step 7
Mooring Test

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



Step 8
Sea Trial

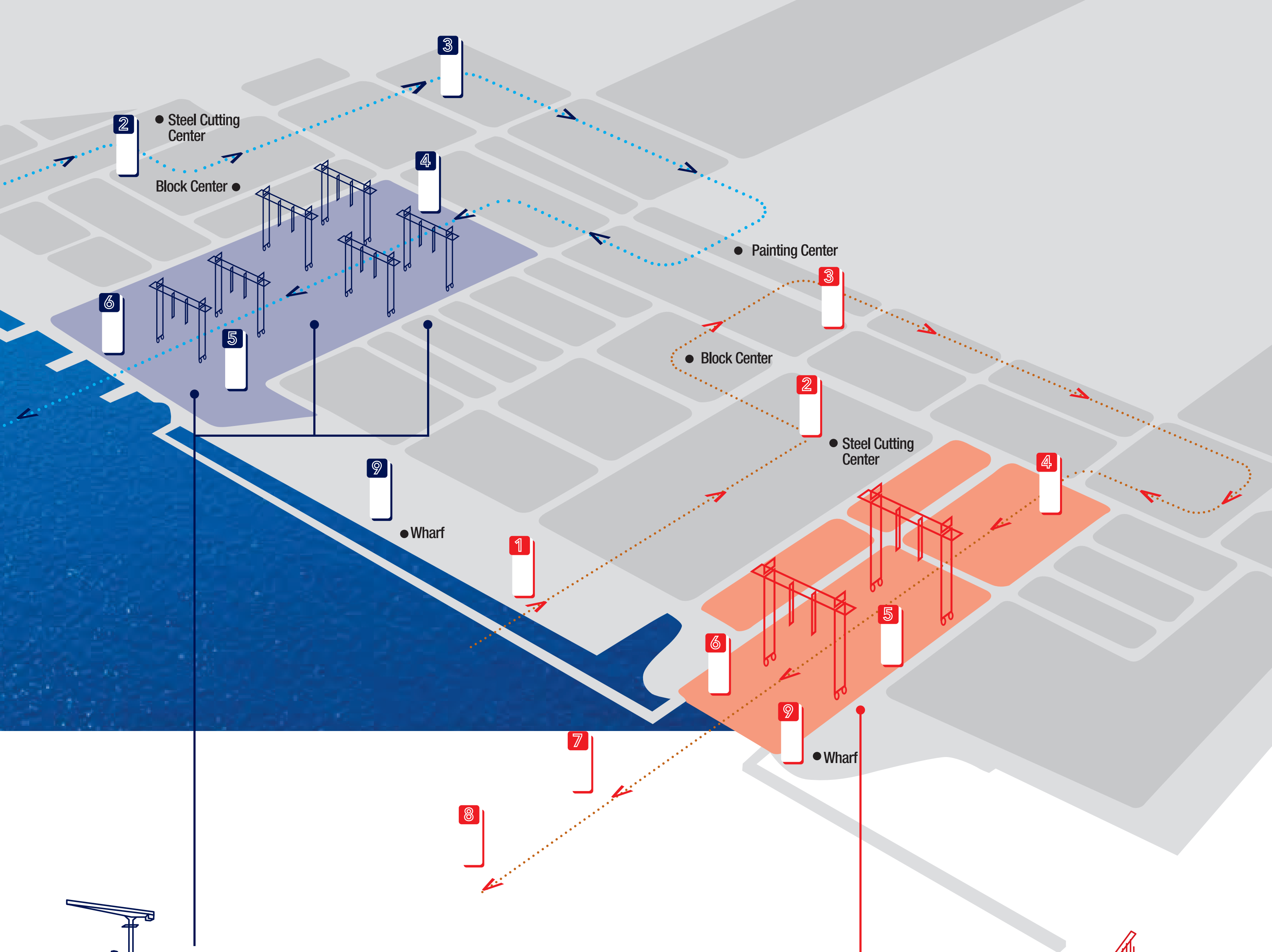
Sea trial is conducted to ascertain the vessel's seaworthiness and performance, and to make sure it conforms with the specifications set forth in the relevant purchase and technology agreements.

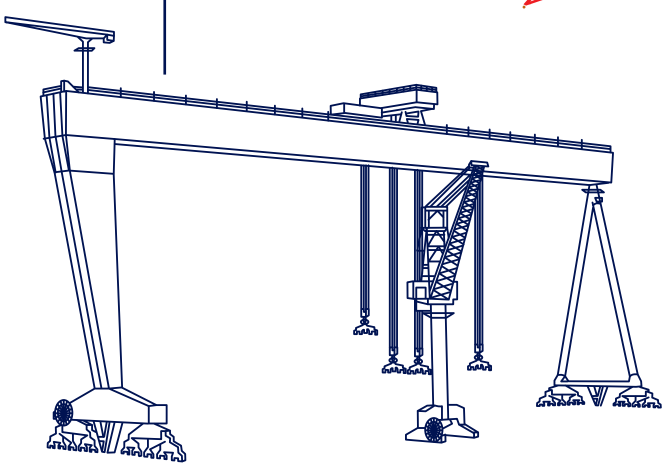


Step 9
Delivery

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

Outfitting is involved in steps 2, 3, 4, 5, 7. Painting is involved in steps 2, 3, 4, 5, 7, 8, 9.

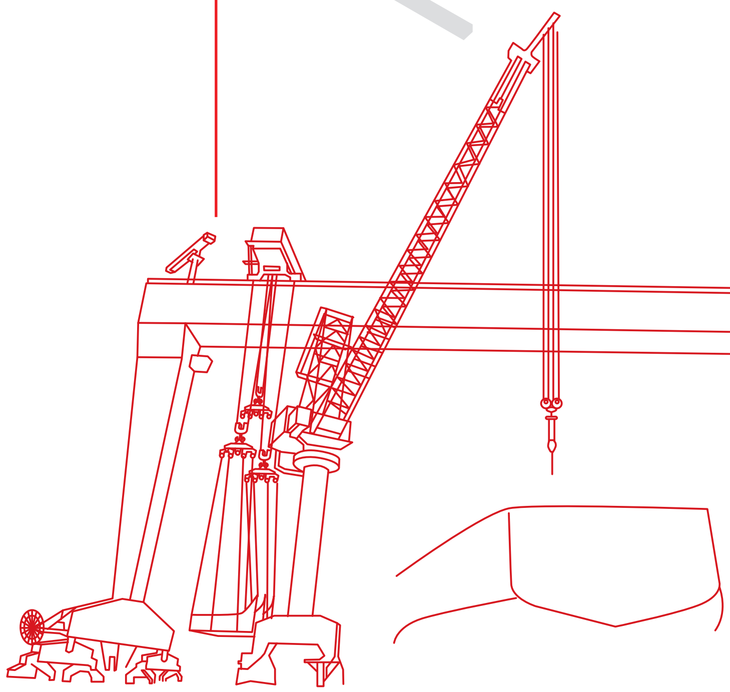




Docks No.1, 2 and 3

each equipped with two

900-T Gantry Cranes



Dock No.4 with a dimension of

139.5m x 580m is equipped with a

1,600-T Gantry Crane

and a 600-T Gantry Crane

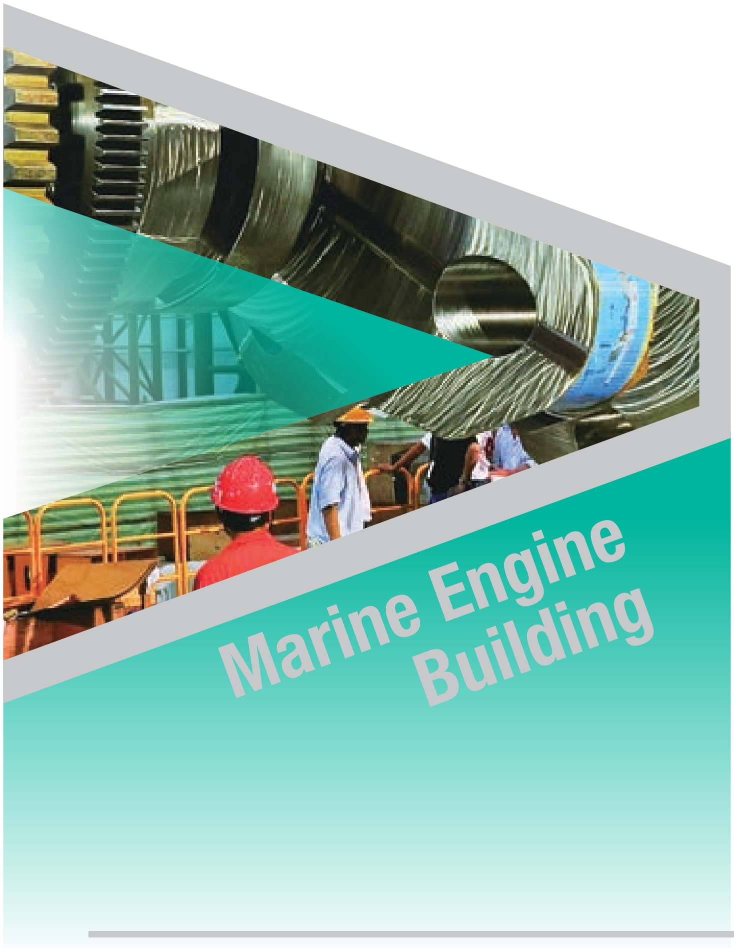
Management Discussion and Analysis

MARKET REVIEW

Worldwide economies stayed weak in 2012 as the long anticipated recovery failed to materialize and progress towards an eventual rebound was slow. The Eurozone was still affected by the unstable debt crisis. A number of monetary easing policies were put in place by developed economies such as Japan and the US, but was unable to stimulate their economies. Emerging markets such as China also witnessed slower economic growths, and were subject to weak external demand and domestic economic restructurings. Together with a rise in trade protectionism, the growth in global trade volume slowed down significantly and put further pressure on both shipping and shipbuilding industries. The Baltic Dry Index recorded an average of 920 points in 2012, a decrease of 40.6% from 2011. As it is closely related to the shipping industry, the shipbuilding industry was inevitably affected. In addition to the dismal macro-economic environment, financial institutions tightened their belts on shipbuilding finance and global new shipbuilding orders plunged to the lowest level in the past decade in 2012. The new shipbuilding prices and the payment terms of new shipbuilding orders were worsened at the same time. The global shipbuilding industry has hit the trough of the cycle.

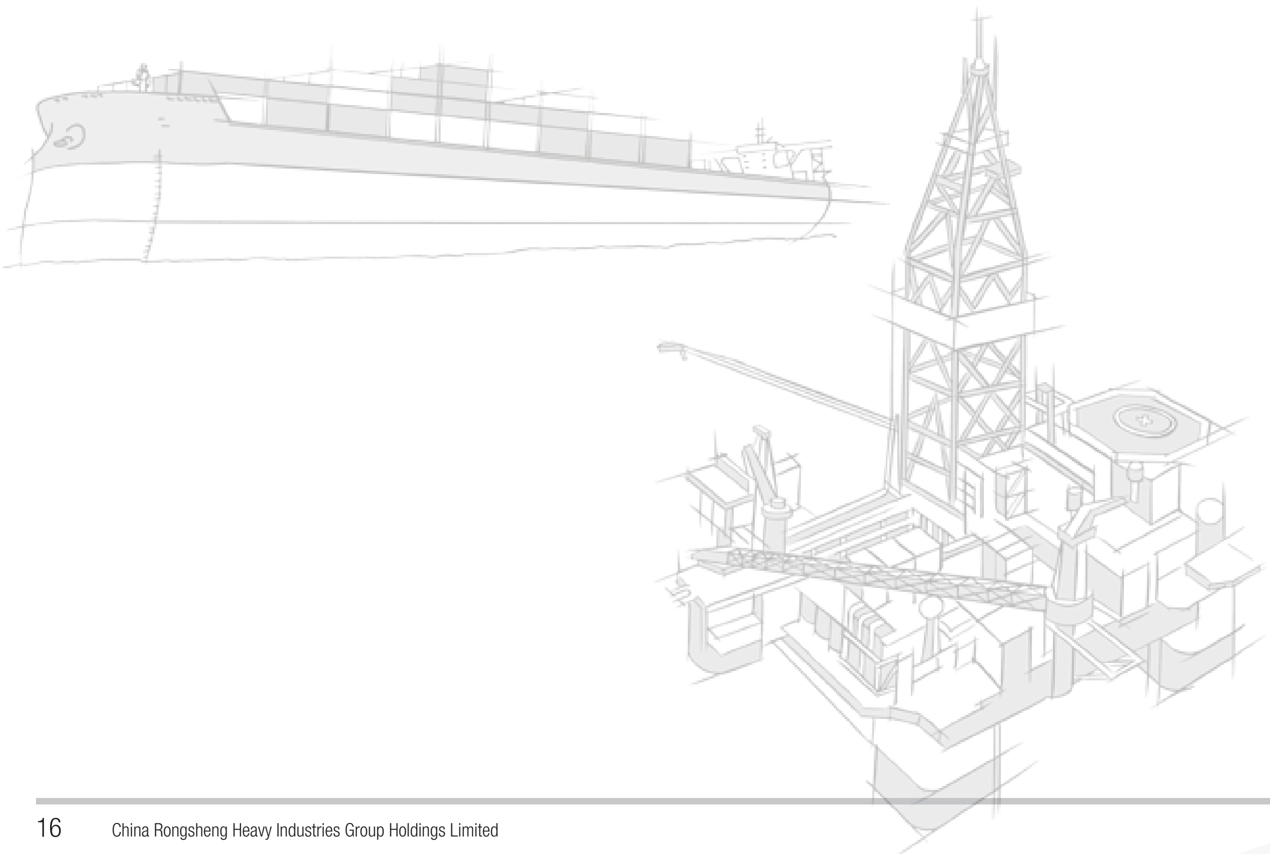
According to Clarkson Research, global completion volume of shipbuilding orders decreased by 7.0% year-on-year to 152.1 million DWT in 2012 and global new shipbuilding orders fell 44.5% year-on-year to 45.5 million DWT. Chinese shipbuilding industry followed the same trend with the shipbuilding completion volume decreased by 5.3% year-on-year to 64.6 million DWT and new shipbuilding orders fell 45.2% year-on-year to 19.0 million DWT. Due to the decline in new shipbuilding orders, global shipbuilding orders on hand decreased by 35.8% year-on-year to 109.9 million DWT as at the end of 2012. The new shipbuilding prices of three major vessel types which Chinese shipyards dominated fell about 10% year-on-year. Weak market sentiment challenged the profitability of shipbuilders and heralded further industry consolidation. Large shipbuilders with advanced technologies and better risk assessment capabilities were able to stay in the industry and maintained competitive edges for the eventual industry rebound.

The worldwide offshore engineering market remained robust thanks to the healthy demand for oil and strong oil prices. According to Clarkson Research, the contract value of global offshore engineering new orders was USD42.8 billion in 2012. However, the new order mix shifted from the mobile drilling platforms to floating production units and the prices reached record high. New offshore engineering orders were still concentrated in only a handful of countries such as Korea, Singapore and Brazil. As offshore engineering is one of the seven emerging strategic industries in China, the Chinese offshore engineering manufacturers are enjoying the government's favorable policies on research and development, technological advancement and overseas expansion.



The weak demand for new shipbuilding orders exerted pressure on the marine ancillary equipment industry and its market size contracted. Emerging domestic marine engine manufacturers also faced stiff competitions from foreign manufacturers as they were attracted by the enormous long-term market potential in China and used pricing strategies to penetrate the market. Although the market sentiment was weak for traditional marine ancillary equipment, ship owners began to shift their focuses to cost saving and efficient marine ancillary equipment to comply with the new international standards on fuel saving and emission reduction, as well as to lower operating costs. As a result, eco-friendly marine engines are quickly becoming the market standard. Chinese manufacturers were quick to seize the new market opportunities to develop their eco-friendly products to mitigate the impact of industry down cycle.

In 2012, China's engineering machinery industry experienced decline in sales due to the slow down in fixed asset investments. Thanks to the turnaround in infrastructure and property investments, there were some promising signs emerged for the industry approaching to the end of the year. Besides, the market share of Chinese brands in excavator segment continued to increase 8.1 percentage points year-on-year to 46.1%.

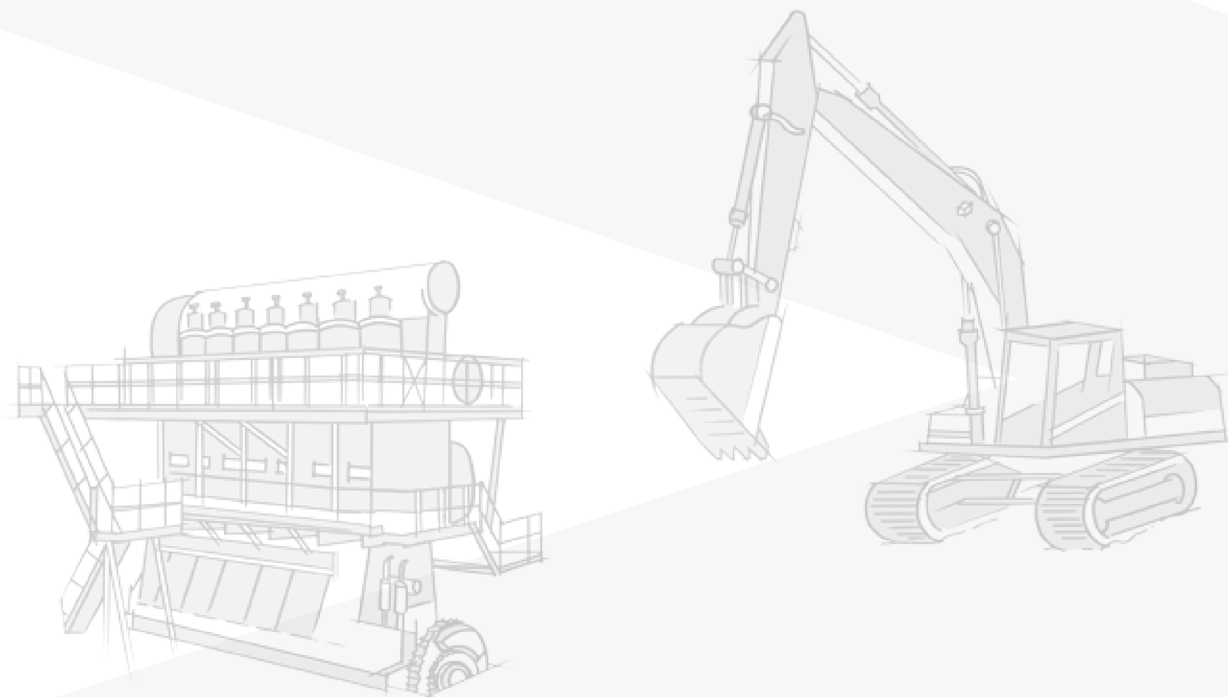


BUSINESS REVIEW

For the Period, revenue of the Company was RMB7,956.3 million, a decrease of 50.0% from RMB15.9 billion for the year ended 31 December 2011 (the "**Comparative Period**"). Losses attributable to the equity holders of the Company were RMB572.6 million, while earnings attributable to the equity holders of the Company were RMB1.7 billion for the Comparative Period. In 2012, operating environment for ship owners further worsened amid sluggish global shipping market. New shipbuilding prices continued their declines and ship owners requested shipyards to postpone the delivery of new vessels. Delays in constructions and deliveries of the Company's orders on hand in the core shipbuilding segment resulted in a significant decline of our revenue. Meanwhile, our results for the Period were also affected by the diminished economies of scale of the Company.

The following table sets forth the revenue by segment for the Period and the Comparative Period respectively.

	For the year ended 31 December 2012		For the year ended 31 December 2011	
	RMB'000	**% of revenue**	RMB'000	% of revenue
Shipbuilding	**7,558,567**	**95.0%**	15,373,924	96.7%
Offshore Engineering	**—**	**—**	31,295	0.2%
Marine Engine Building	**188,029**	**2.4%**	93,024	0.6%
Engineering Machinery	**209,751**	**2.6%**	406,342	2.5%
Total	**7,956,347**	**100%**	15,904,585	100%




HS PARIS
不让事故坑害人

>>>> SHIPBUILDING

In 2012, our delivery of vessels reached a record high level of

3.9 million DWT.

As at 31 December 2012, the total contract value of our orders on hand was

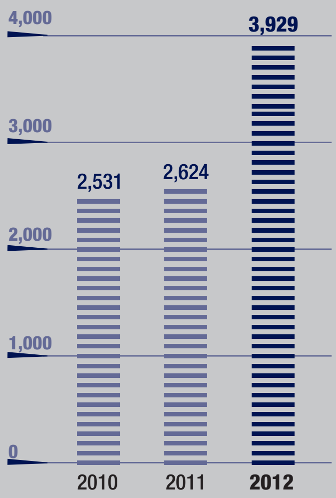
USD5.0 billion.

Shipbuilding was still our major business and also our primary revenue source. Revenue from our shipbuilding segment declined 50.8% year-on-year to RMB7,558.6 million for the Period, representing 95.0% of total revenue. The significant decrease in revenue was primarily attributable to the downturn of the shipbuilding industry.

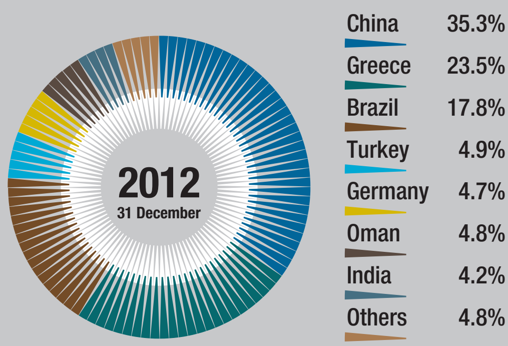
New orders and orders on hand

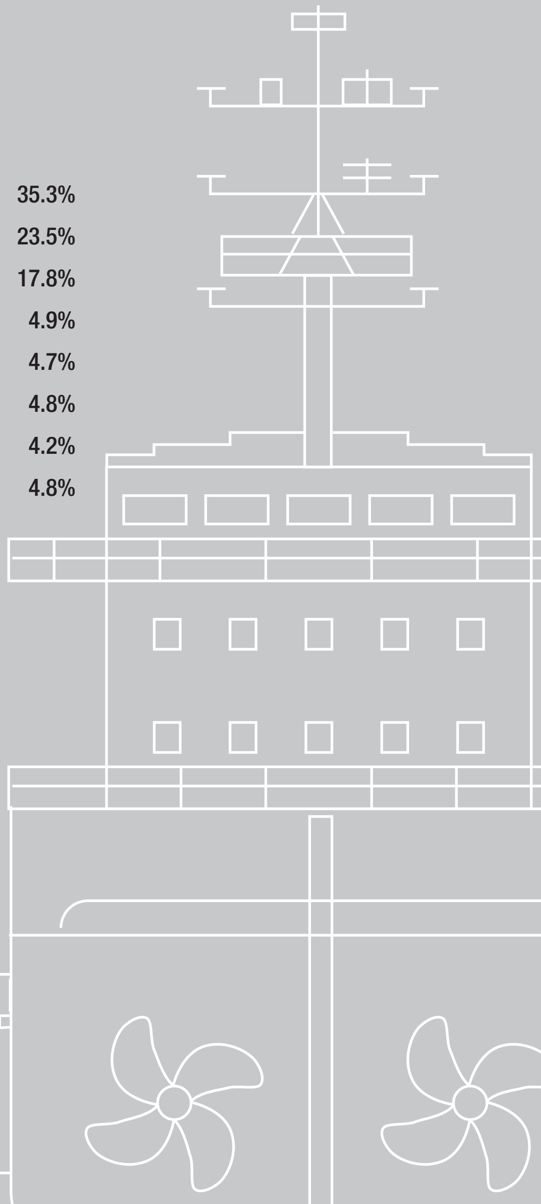
In 2012, the global economy failed to rebound and international trading activities continued to be weak. The supply and demand imbalance prevalent in the global shipping industry further worsened, leading to the worldwide new shipbuilding orders plunged to the lowest level in the past decade. According to Clarkson Research, worldwide new shipbuilding orders decreased by 44.5% year-on-year measured in DWT and new shipbuilding orders in China fell 45.2% year-on-year for the Period. The new shipbuilding prices were also under severe pressure and the Clarkson Research's new shipbuilding price index fell 9.2% in 2012. We adopted a defensive sales strategy and proactively moved towards the high-end of the value chain in response to the adverse market environment. Supported by our solid order book, the Company avoided the low-price new orders or new orders with unfavorable payment terms. Thus we secured only 2 new shipbuilding orders of Panamax bulk carriers for the Period, representing a total volume of 152,000 DWT with a total contract value of USD55.6 million.

Delivery of Vessels
('000 DWT)



Orders on Hand
(by contract value of vessels)





Our total orders on hand as at 31 December 2012 consisted of 91 vessels, representing a total volume of approximately 13.0 million DWT with a total contract value of approximately USD5.0 billion. It included 43 Panamax bulk carriers, 15 VLOCs, 1 Panamax crude oil tanker, 23 Suezmax crude oil tankers, 2 very large crude oil carriers ("**VLCC**"), 1 vessel of 6,500 twenty-foot equivalent unit ("**TEU**") containership and 6 vessels of 7,000-TEU containerships. All the vessels in our order book are scheduled to be delivered within the period from 2013 to 2015 as stated in the contracts. According to Clarkson Research, our orders on hand as at 31 December 2012 accounted for 11.9% market share in China and 5.0% worldwide market share measured by DWT, ranking first in China and third in the world.

The following table sets forth the information relating to our orders on hand from the shipbuilding segment as at 31 December 2012 and 31 December 2011, respectively.

	As at 31 December 2012			As at 31 December 2011		
	DWT ('000)	**Contract value (USD mm)**	**No. of vessels**	DWT ('000)	Contract value (USD mm)	No. of vessels
Bulk carriers and VLOCs	**8,097.6**	**2,895.6**	**58**	11,709.6	4,222.7	76
Crude oil tankers and VLCCs	**4,320.0**	**1,637.6**	**26**	4,476.0	1,724.7	27
Containerships	**573.4**	**489.2**	**7**	658.0	676.4	8
Total	**12,991.0**	**5,022.4**	**91**	16,843.6	6,623.8	111

Note: Our order book, as at the dates indicated above, represents the total nominal contract value of the orders that had not been completed, including the portion of revenue in respect of those orders that had been recognized as at such dates, all as translated (where applicable) into USD on the respective balance sheet dates at the rate of USD1 = RMB6.3009 as at 31 December 2011 for the 2011 figures and USD1 = RMB6.2855 as at 31 December 2012 for the 2012 figures. For the Period, the Company recorded cancellation of one Panamax bulk carrier.

For the Period, we delivered 21 vessels, representing the Company's record high of 3.9 million DWT, an increase of 49.7% year-on-year. Including the 6 VLOCs that we delivered for the Period, our total number of VLOCs delivered as at the end of 2012 increased to 7. These vessels are currently the world's biggest dry bulk carriers with the largest cargo capacity, featuring state-of-the-art technologies for mega-sized bulk carriers. We also successfully delivered our first 6,500-TEU containership for the Period.

The following table sets forth the information relating to our delivery record from the shipbuilding segment for the Period and the Comparative Period, respectively.

	For the 12 months ended 31 December 2012		For the 12 months ended 31 December 2011	
	DWT ('000)	**No. of vessels**	DWT ('000)	No. of vessels
Bulk carriers and VLOCs	**3,688.0**	**19**	1,532.0	8
Crude oil tankers and VLCCs	**156.0**	**1**	1,092.0	7
Containerships	**84.7**	**1**	—	—
Total	**3,928.7**	**21**	2,624.0	15

>>>> OFFSHORE ENGINEERING

We secured our 1st international offshore engineering order in 2012.

For the Period, there was no revenue contribution from the offshore engineering segment as the construction of the DPV was completed in 2011 and it was successfully delivered in early 2012. We strove to implement our "Transformation and Advancement" strategy in 2012 to transform ourselves into an integrated heavy industry conglomerate that effectively serves clients in energy industry, and seek to upgrade our product structure. We paid more efforts in our offshore engineering business development and recruited promising key talents. In October 2012, we established RSOM in Singapore as our offshore engineering business center and soon after it secured our first international deepwater tender barge contract.

Our plan is to offer standard offshore engineering products such as jack-ups, semi-submersible drilling units, tender barges, offshore engineering vessels including pipe-laying vessels and crane ships in the beginning, and then to enrich our product offerings to a comprehensive array of offshore engineering products such as drill ships, fixed platforms and FPSOs. Our ultimate goal is to provide full EPC solutions to our clients. We are actively pursuing the high-end offshore engineering projects from various countries and regions.

>>>> MARINE ENGINE BUILDING

In 2012, we delivered 15 marine engines with a total capacity of

349,000

horsepower.

As at 31 December 2012, the total capacity of our orders on hand was

887,000

horsepower.

For the Period, revenue from our marine engine building segment was RMB188.0 million, an increase of 102.2% from RMB93.0 million for the Comparative Period. The growth was mainly due to the increased external sales. Including inter-segment sales, the revenue was RMB740.5 million for the Period.

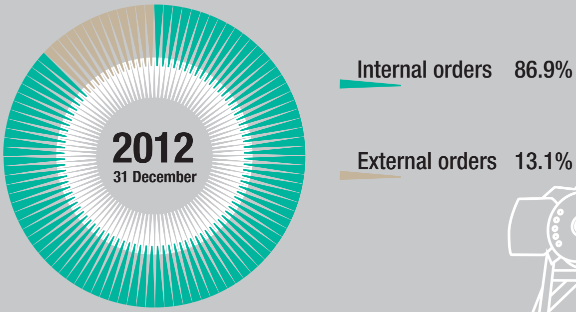
In 2012, the performance of the global marine ancillary equipment industry was below expectations. The sales of marine engines were affected by the downturn of the shipbuilding industry. Supported by the Company's internal orders from the shipbuilding segment and the breakthrough in external sales, the development of our marine engine building segment remained steady. For the Period, we secured new orders of 13 marine engines, representing a total capacity of 262,000 horsepower with a total contract value of RMB472 million. The Company's total orders on hand as at 31 December 2012 were 43 marine engines, representing a total capacity of 887,000 horsepower with a total contract value of RMB1.6 billion, of which 9 were external orders. For the Period, we delivered 15 marine engines, representing a total capacity of 349,000 horsepower.

Delivery of Marine Engines

('000 horsepower)

Orders on Hand

(by horsepower)




RONGSHENG

>>>> ENGINEERING MACHINERY

In 2012, revenue from engineering machinery segment was RMB209.8 million.

For the Period, revenue from our engineering machinery segment was RMB209.8 million, a decrease of 48.4% from RMB406.3 million for the Comparative Period. Our revenue from the engineering machinery segment was mainly attributable to the sales of 430 excavators during the year. Including the inter-segment sales, the revenue was RMB301.9 million for the Period.

Due to the slow down of China's economic growth, tightening control of infrastructure investments and a lethargic property market, a survey conducted by China Construction Machinery Business Online showed that major excavator manufacturers in China collectively sold 115,583 excavators in 2012, a decrease of 35.2% year-on-year.

During the Period, we further enhanced our long-term partnerships with major finance lease companies to optimize our sales model. Our focuses were shifted to payment collection and cost control. In order to enhance payment collection and improve cash flow, we centralized our sales in selected regions and optimized our distribution channel management. We strengthened the control on investments in the engineering machinery segment to reduce risk, and actively promoted the research and development of our new products for shipbuilding and offshore engineering segments to enhance internal synergies.

FINANCIAL REVIEW

Revenue

For the Period, our revenue was RMB7,956.3 million as compared to RMB15,904.6 million for the Comparative Period, representing year-on-year decrease of approximately 50.0%. The significant decrease in revenue was primarily attributable to the downturn of the shipbuilding and the engineering machinery industries.

Cost of sales

For the Period, our cost of sales decreased by approximately 46.4% to RMB6,815.7 million (for the Comparative Period: RMB12,710.9 million), in line with the significant decrease in revenue.

Selling and marketing expenses

For the Period, our selling and marketing expenses increased by approximately 50.6% to RMB91.7 million (for the Comparative Period: RMB60.9 million), due to increased advertising, promotion, and marketing activities to further promote our brand name. Moreover, we incurred additional costs for the promotion of shipbuilding segment and offshore engineering segment, expansion of our marine engine sector and entering into engineering machinery sector, which requires additional marketing efforts for their products.

General and administrative expenses

For the Period, our general and administrative expenses increased by approximately 21.7% to RMB1,401.9 million (for the Comparative Period: RMB1,152.1 million).This increase is mainly the result of the provision for receivables and decrease in government subsidy for relevant items.

Research and development expenses

For the Period, our research and development expenses increased by approximately 201.0% to RMB146.6 million (for the Comparative Period: RMB48.7 million), mainly because of the increased investment in research and development of the new shipbuilding and offshore engineering products.

Finance income and finance costs — Net

Our finance income for the Period, which mainly relate to an interest income of RMB183.6 million, decreased by approximately 2.9% to RMB191.3 million (for the Comparative Period: RMB197.1 million). Our finance costs for the Period increased by approximately 794.4% to RMB989.2 million (for the Comparative Period: RMB110.6 million) mainly due to the increase in average outstanding balance of borrowings and the decrease in foreign exchange gain to offset against the finance cost for the Period.

Liquidity and financial resources

As at 31 December 2012, our cash and cash equivalents balance was RMB2,143.8 million (as at 31 December 2011: RMB6,255.1 million). The difference is the result of bank loan repayment as well as an increased need for working capital to support ship construction under current market downturn. As at 31 December 2012, our pledged deposits were RMB3,937.1 million (as at 31 December 2011: RMB4,961.5 million).

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 2012, the Group has had significant cash outflows since certain of the Group's shipbuilding customers have asked for postponement in delivery of new vessels that led to slower collection of receivables from such customers. However, the Group had to continue to make payments to suppliers of raw materials, equipment and services and fulfill committed capital expenditures for the development of the Group's shipbuilding and offshore engineering production facilities. These caused the Group's cash and cash equivalents to decrease by RMB4,111 million compared to 31 December 2011 to RMB2,144 million as at 31 December 2012. Further, the Group's total borrowings as at 31 December 2012 amounted to RMB25,124 million, of which RMB15,649 million will be due within 12 months from 31 December 2012. 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.

Inventories

With the global shipping industry further worsening, our inventories as at 31 December 2012 decreased by RMB321.0 million to RMB2,289.0 million (as at 31 December 2011: RMB2,610.0 million). The inventory turnover days increased from 73 days as at 31 December 2011 to 136 days as at 31 December 2012.

Amounts due from/to customers for contract works

As at 31 December 2012, the amounts due from customers for contract works increased by RMB1,100.8 million to RMB8,299.8 million (as at 31 December 2011: RMB7,199.0 million). As at 31 December 2012, amounts due to customers for contract works decreased by RMB836.7 million to RMB331.6 million (as at 31 December 2011: RMB1,168.3 million). The increase in amounts due from customers for contract works was a result of our closer strategic cooperation with ship owners and the acceleration of shipbuilding in response to the market uncertainties and risks. Also, we were committed to maintaining a stable backlog and continuous market development. The decrease in amounts due to customers for contract works was a result of an increase of completion percentage of vessels under construction. As at 31 December 2012, trade and bill receivables increased by RMB211.2 million to RMB3,811.4 million (as at 31 December 2011: RMB3,600.2 million).

Loans

Our short-term borrowings increased by RMB239.5 million from RMB15,409.1 million as at 31 December 2011 to RMB15,648.6 million as at 31 December 2012. Our long-term borrowings decreased by RMB541.6 million to RMB9,476.0 million as at 31 December 2012 from RMB10,017.6 million as at 31 December 2011.

As at 31 December 2012, our total loans were RMB25,124.6 million (as at 31 December 2011: RMB25,426.7 million), of which RMB22,036.6 million (87.7%) was denominated in RMB and the remaining RMB3,088.0 million (12.3%) was denominated in foreign currencies such as US dollars ("**USD**"). Certain of the borrowings were secured by our land-use rights, buildings, construction contracts, pledged deposits and guarantees from related parties and companies within our Group.

Foreign exchange risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD and RMB 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 minimize 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 or qualified for hedge accounting, and as such, any changes in fair values will be recognised in the consolidated income statement in the period which such change occurs.

Capital expenditure

For the Period, our capital expenditure was approximately RMB3,457.0 million (for the Comparative Period: RMB5,210.6 million), which was mainly used in prepayments for land, acquiring facilities and equipment for our constructed plants.

Gearing ratio

Our gearing ratio (measured by total borrowings divided by the sum of total borrowings and total equity) increased from 61.8% as at 31 December 2011 to 62.5% as at 31 December 2012 mainly because the total equity decreased from RMB15,691.9 million as at 31 December 2011 to RMB 15,088.2 million as at 31 December 2012.

Contingent liabilities

As at 31 December 2012, we had contingent liabilities of RMB9,792.7 million (as at 31 December 2011: RMB12,764.2 million), which mainly resulted from the agreements entered between our Group and over ten banks in China, respectively, in relation to the grant of refund guarantees to us and also a dispute in relation to one of our shipbuilding customers.

Credit assessment and risk management

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 31 December 2012, all the Group's cash and bank balances, short term bank deposits and pledged deposits were placed in reputable banks located in the PRC which management believes are of high credit quality and without significant credit risk.

The Group carries 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.

As at 31 December 2012, trade receivables of RMB213.7 million (as at 31 December 2011: RMB45.4 million) and RMB168.5 million (as at 31 December 2011: nil) related to certain customers of the engineering machinery segment and shipbuilding segment were impaired and provided for respectively.

For credit exposures to other receivables, management assesses the credit quality of the counterparties, 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 2012 (2011: nil).

Human resources

As at 31 December 2012, we had 6,594 employees (2011: 7,046). The slight decrease in number of employees was mainly in relation to the market downturn. We are proactively setting up an employment system of "Survival of the Fittest" and offer competitive remuneration packages to employees. Moreover, discretionary bonuses and share options are granted to qualified employees according to the performance of the individual employee 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 nurturing the concept of teamwork.

PROSPECTS

We believe that the shipbuilding industry has already reached the trough of the cycle in 2012. Looking ahead to 2013, we expect limited room for further declines in new shipbuilding orders and their prices. In fact, whether there will be a full recovery of the industry largely depends on the performance of the global economies, in particular whether the debt crises in Europe and the US can be completely curtailed. While major developed economies are actively strengthening their monetary easing policies, economists foresee that the growth of global trade volume is possible to rebound gradually in 2013. The imbalance between demand and supply of the shipping industry will be improved and it will help the upstream shipbuilding industry. We expect that the shipbuilding market will remain in the consolidation period in the first half of 2013 and may see early signs of recovery in the second half of the year. Meanwhile, the low-end surplus shipbuilding capacities in China will be further consolidated and eliminated. Leading shipyards will leverage on their scale benefits, cost efficiencies and technological advantages to expand their market shares. Our dominant position in the Chinese shipbuilding industry will enable us to grow during the industry consolidation period. The ongoing revisions of the international standard for marine operations will lead to the dominance of the new generation eco-friendly vessels in the mainstream market. We are speeding up our product upgrade to enhance fuel saving and emission reduction.

In response to current market conditions, we will continue to implement our “Transformation and Advancement” strategy in 2013. Oil and gas prices are expected to remain high, supported by robust worldwide demand and monetary easing policies. As a result, we expect that the global energy services sector will continue to shift the focus to offshore segment and the strong demand for offshore exploration and production engineering equipment will be maintained. The orders for offshore engineering equipment will stay at high level. Our offshore engineering cornerstone in Singapore, RSOM, has been established in October 2012 and secured the first international deepwater tender barge EPC contract. Recently, we secured another two jack-up EPC contracts. Singapore is one of the global centers of offshore engineering and has an active customer base. RSOM will seek to integrate the market advantages in Singapore as well as its talents pool, with the cost and scale advantages in our manufacturing bases in China. With the support of government policies, we will actively participate in the international offshore engineering market to promote the transformation and advancement of the Company.

Due to the ongoing releases of new emission standards by the IMO, the structure of the marine ancillary equipment market is set to change as manufacturers are upgrading their technologies in fuel saving and emission reduction. We are working closely with licensors to develop our low-emission dual-fuel marine engines in order to capitalize on the market opportunities and increase our market share. While if the shipbuilding industry is going to be bottomed out, we expect that the demand for marine engines will slowly recover. We will also strengthen our cost control in the marine engine building segment to enhance competitiveness. Our aim is that the marine engine building segment will not only provide solid support for our shipbuilding segment, but also will be able to capture external market share.

Urbanization is one of the key focuses of China’s future development. Investments in housings and infrastructure facilities are expected to resume growth after consolidation. We are optimistic for the mid-to-long term prospects of the engineering machinery industry in China. In the meantime, we will continue to consolidate our existing production capacities in our engineering machinery segment to enhance production efficiency. We will also further control costs and investments, as well as strengthen account receivables collection to improve cash flow. The partnerships with reputable finance lease companies will optimize our sales model and the development of our new products used in shipbuilding and offshore engineering industries will enhance internal synergies.

As each business segment only begins to show early signs of recovery in 2013, we will impose further cost control measures to lower operating costs and shorten production cycle through enhancing internal system, improving production management, optimizing supply chain, increasing domestic procurement ratio and strengthening supplier management system. We will continue to stringent capital expenditure control and work closely with our customers to ensure timely collections of account receivables. We will also negotiate with financial institutions to extend our existing borrowings and obtain new financings to maintain the stability of our working capital. We will stay firm to implement our established strategic initiatives to proactively upgrade and transform ourselves into an integrated heavy industry conglomerate that effectively services clients in energy industry, and to build a solid foundation for the industry recovery.

1st 6,500-TEU CONTAINERSHIP SUCCESSFULLY DELIVERED IN 2012

Breakthrough in high-end commercial vessels market

Principal Particulars:

Overall Length :
299.95m

Depth :
24.2m

Design Draught :
12.0m

Scantling Draught :
14.5m

Speed :
25.6kn

Breadth :
40.0m

6 VLOCs SUCCESSFULLY DELIVERED IN 2012

Enhanced production efficiency & execution

Corporate Social Responsibility Report

China Rongsheng incorporates social responsibility as an integral part of our development strategy and operations management. As a responsible corporate citizen, we believe that a sustainable development strategy should be regarded as an integral factor in the long-term growth of a corporation. In 2012, we continued our efforts in employee welfare, environmental protection, community involvement and talent development.

EMPLOYEE WELFARE

Employees form the nucleus of a corporation. China Rongsheng is committed to enhancing our work environment and creating an enviable corporate culture.

The sustainable growth of a corporation requires an effective management of employee welfare. We sincerely encourage our employees to achieve a sense of community and contribute to a peaceful work environment. Throughout 2012, we continued to listen to their concerns and organize events to ensure the wellbeing of them, leaving a solid footprint over the past seven years that proves our care to the employees.

Migrant workers form the backbone of China Rongsheng. We shall never forget the sacrifices they have made, leaving their families and homes to provide their strongest support in protecting our reputation and fulfilling our promise to customers. During the traffic rush before the Chinese New Year Holidays, most of the migrant workers faced extreme difficulties in obtaining a ticket back to their hometowns, and we are committed to assisting them by providing free shuttle bus services to return them to their families and ensuring the precious time they spend with their families would not be impacted by the periodic congested transportation system.

In 2012, more than 400 migrant workers, farewelled by our management team and other workers, took shuttle buses to their hometowns, such as Zhengzhou, Fuyang, Nanyang, Hefei, Suzhou, Xuzhou, Lianyungang, and Heze.

Migrant workers are on our ride to their hometown before Chinese New Year

We also understood the migrant workers have concerns over housing needs, especially for the young workforce. A new housing estate, Rongsheng Garden, has been built in our Nantong manufacturing base, satisfying the immediate needs of apartment-hunters. In addition, we established 4 apartment buildings designated for college graduates and a new Workers' Home, a 10,000m^2 leisure facility for outsourced workforce. The new Workers' Home aims to provide rest and relaxation with multi-functional facilities. The facility received a "Workers' Library" bronze award from the All-China Federation of Labor. Health and safety also plays an important role in our commitment to employees. Every year, through collaboration with Nantong City People's Hospital, we arrange regular medical checkups for our employees. Physical fitness is not only a basic standard of living, it also ensures a healthy and safe workplace.

Art and culture is an important facet of life, and we seek to provide our employees this opportunity through a series of enriching activities. The Culture and Art Festival was organized in our manufacturing bases every September and October and it functioned as one of the Group's key corporate cultural building projects. The fifth festival since 2008 attracts hundreds of participants who could find a platform to express their talent, through activities such as tug-o-war, cybergames, card games, basketball, photography, badminton and table tennis. Our "555111" project also engages various interest groups, such as "The Rongsheng Vigour Male Percussion Team", "The Rongsheng Hundred-People Choir", "The Rongsheng Women Drum Team" and "The Rongsheng Brass Band". Our active cultural events in Nantong and Rugao have won us some acclaim; the Rongsheng Heavy Industries Choir received a silver prize in the Rugao City Choir Competition.

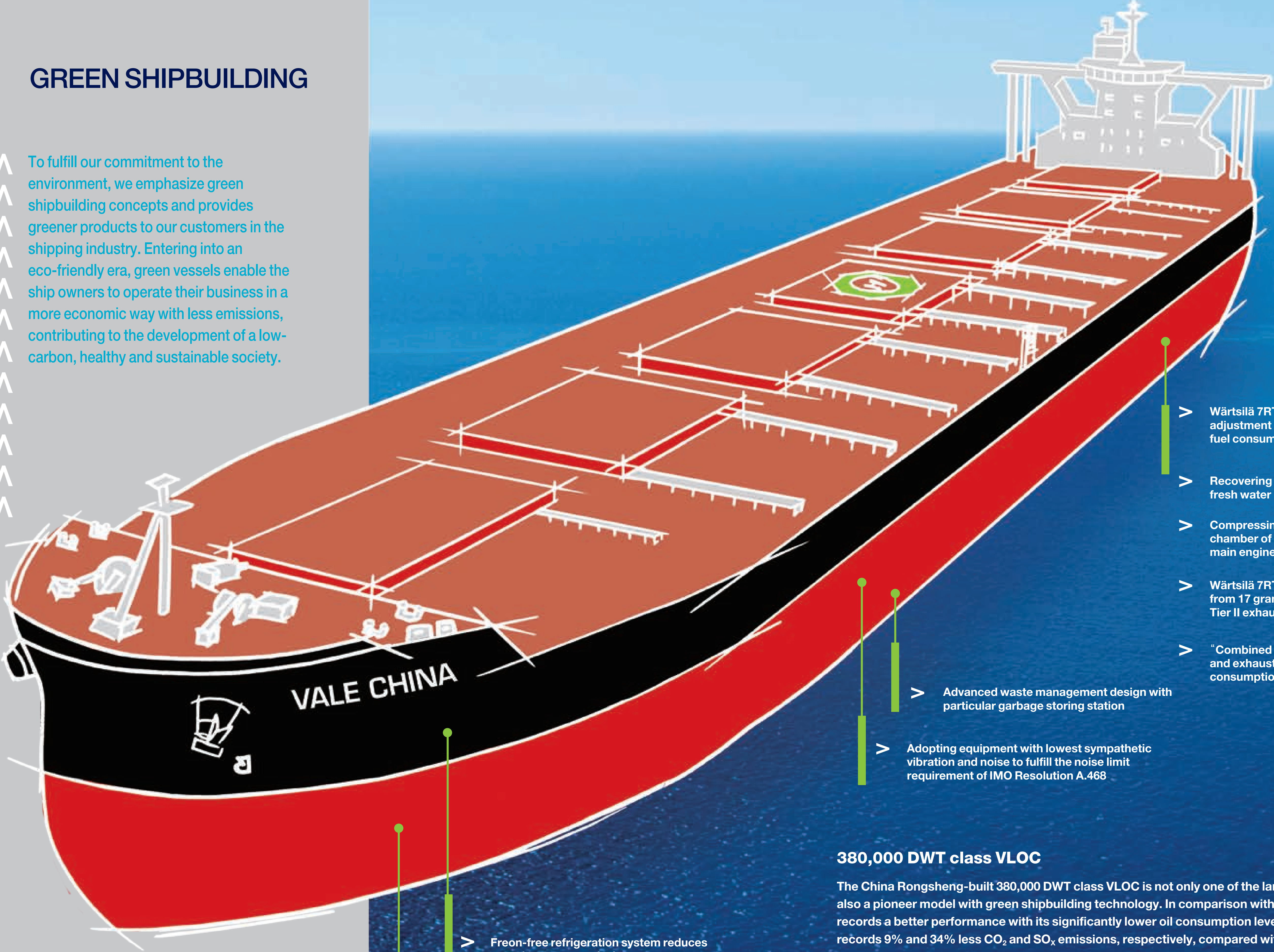
We realized the significance of engaging with our employees on multiple levels, and offered regular channels of communication and psychological therapy. Through the establishment of the "Joyful Fund" and the "Mutual Fund", we reached out and provided subsidies to disadvantaged families suffering from serious or sudden illnesses and children's education issues. We aim to fundamentally improve the livelihood of our employees and encourage them seeking breakthroughs in difficult time.

Our workers performed in the Fifth Cultural and Art Festival

Library in our new "Worker's Home" provides a joyful reading experience to our employees

GREEN SHIPBUILDING

To fulfill our commitment to the environment, we emphasize green shipbuilding concepts and provides greener products to our customers in the shipping industry. Entering into an eco-friendly era, green vessels enable the ship owners to operate their business in a more economic way with less emissions, contributing to the development of a low-carbon, healthy and sustainable society.



380,000 DWT class VLOC

The China Rongsheng-built 380,000 DWT class VLOC is not only one of the largest ore carriers in the world, but also a pioneer model with green shipbuilding technology. In comparison with other dry bulk carriers, the VLOC records a better performance with its significantly lower oil consumption level per ton nautical mile. The VLOC records 9% and 34% less CO_2 and SO_x emissions, respectively, compared with those from 300,000 DWT bulk carrier and 175,000 DWT bulk carrier. With the Energy Efficiency Design Index ("EEDI") of approximately 1.99 during sea trials, the VLOC are fully in line with low-carbon and green product initiatives. Our emission record successfully meets both the benchmark requirements on emission reduction set by the IMO, which came into effect as of 1 January 2013, and the IMO Tier III emission requirements.

To advance environmental performance, we implemented a number of modifications to our VLOC design by optimizing the hull structure, main engine system, ballast water system and fuel tank. The vessel meets requirements set by the IMO on a series of indicators of new standards set by the IMO, including fuel tank protection, ballast water tank coating, hull coating, NO_x and SO_x emissions, ballast water management, EEDI, and Green Passports.

76,000 DWT Panamax Bulk Carrier

We optimized the hull structure and force flow design of our 76,000 DWT Panamax, and made further improvements with highly efficient large diameter propellers, energy-saving devices and propeller boss cap fins technology. Compared with similar bulk vessels under the same speed, the power output of the main engine could be reduced by 875 kW, making it 11% more efficient. With our EEDI performance improved by 27%, the 76,000 DWT Panamax's design efficiency has acquired its EEDI verification from Lloyd's Register. The vessel not only reaches the EEDI reference line set in Phase 0, but is also in accordance with the Phase 1 (2015–2020) requirement and its NO_X emission volume satisfies the IMO's TIER II standard. The 76,000 DWT Panamax represents cutting-edge green shipbuilding technology in the dry bulk shipping industry. The optimized 76,000 DWT Panamax meets the requirements of the North Sea region environmental regulation by adopting a number of advanced designs, including a designated contaminated water and ballast water treatment system which falls under the "International Convention for the Control and Management of Ships' Ballast Water and Sediments, 2004".

7,000-TEU Containership

We delivered our very first containership for the Period. Due to differences in calling port requirements, design speed and main engine configuration, a higher standard of eco-friendly design and performance must be set for containerships than for other types of vessels. Through optimization of the hull structure, force flow design, large diameter propeller and rudder bulb, our 7,000-TEU containership's EEDI performance is 38% better than the basic requirements set by the IMO, and 11% better for our 6,500-TEU containership. We carefully calculated the optimized sailing speed that allowing us to adjust our engines accordingly. By meeting the lowest fuel consumption level under an optimized speed, the 7,000-TEU containership is in compliance with the TIER II emission standard set by the IMO. Our advanced ballast water system also helps to minimize the transfer of non-indigenous harmful aquatic organisms and pathogens from one area to another. In compliance with specific zero emission restrictions in certain areas, we installed an optimized oil-contaminated water and domestic sewage treatment system.

Green Design of Diesel Engine

Diesel engines manufactured by the Group has incorporated eco-friendly designs and the emission volume fully complies with the requirements of the IMO. 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 engines are subjected to testing to ensure discharged pollutants are in compliance with set limits

76,000 DWT Panamax bulk carrier

COMMUNITY INVOLVEMENT

As a strong and emerging heavy industry corporation, China Rongsheng shall never forget that our success in business is derived from the community. We are committed to deploying more resources and motivating our staff to support social development.

We continued our involvement in charity work and sports sponsorships, and provided support to maritime education in Hong Kong. We believe our involvement would share our success with the community and contribute to social welfare charities.

Established in 2012, the "Youths of Rongsheng" Volunteer Service Team has engaged in voluntary activities 375 times over, and recorded 2,285 volunteer hours within the year. The program encouraged employees to get involved in their community and build up a sense of social responsibility. In March, we established a partnership with the China Library Project and collected book donations, exercise materials and various accessories. Education is the key to end the cycle of poverty. We hope that through the donation of education materials we can encourage children in disadvantaged schools and orphanages to learn and improve their quality of life.

"Youths of Rongsheng" Volunteer Service Team actively participated in volunteer activities


Two offshore engineering dioramas portrays the development of offshore equipment industry in China

Following a series of torrential rains, floods affected thousands of homes and farmlands in the Xide Prefecture of Liangshan, Sichuan Province in August 2012. Harvests were destroyed, directly threatening the livelihood of refugees. The situation was further worsened by rapidly dropping temperature, as refugees were in extreme need of winter clothing. We gathered over 2,000 items of clothing, weighing 976 kilograms in total, and sent them to the afflicted region and the Kailash Volunteers' Family of China. In November 2012, the "Youths of Rongsheng" Volunteer Service Team also gathered and shipped winter clothing, massage tools and learning accessories to Rugao Special Education School and Rugao Taoyuan Elderly Service Centre. The Rongsheng Heavy Industries Charitable Foundation received the Fourth Rugao City Top 10 "Heart Team" Honour in 2012.

Sports can uplift the spirit of a nation. China Rongsheng sees the promotion of sport culture as a long-term social welfare undertaking and has provided major support towards the area. We aim to promote the essence of sport — in particular, health and a dedication to excellence — among society. We sponsored the Bayi Table Tennis Team as an ongoing part of supporting its competitive spirit in the hope that the team brings glory to our nation.

We are also committed to promoting the maritime industry among local communities in Hong Kong. The new Hong Kong Maritime Museum at Central Pier No. 8 was officially opened in February 2013. There we leased three ship models and dioramas, which included a 380,000 DWT class VLOC, a 3,000-meter deepwater pipe-laying crane vessel and a FPSO unit, with nominal fee. By demonstrating the leading product models of the Chinese shipbuilding industry in a dedicated exhibition hall at the centre of Hong Kong, the Group aspires to portray a comprehensive story of the development of Chinese shipbuilding technology and contemporary maritime strategy. The Hong Kong Maritime Museum introduces visitors to a history of how China, Asia and the West have contributed to the development of boats, ships, maritime exploration and trade, and naval warfare. While the Museum concentrates on the South China coast and its neighbouring seas, it also covers global trends and provides a comprehensive account of Hong Kong's growth and development as a major world port and top maritime center.

TALENT DEVELOPMENT

We provide training for our employees that seeks to develop new skills for a better future. We are glad to develop industry talent while contributing to sustainable corporate growth.

We pay close attention to recruiting and developing talent. Since its inception, the team working for China Rongsheng has grown from approximately 30 people to 20,000. In line with the Second Five-Year Strategic Plan of Rongsheng Heavy Industries, we initiated the "Youths of Rongsheng" scheme, aimed at training a core workforce which revolves around our corporate values for the future. The Group intends to train 10 experts that are entitled to special allowances from the State Council, as well as 100 senior professionals, 1,000 intermediate professionals,10 doctoral level professionals, 500 masters degree holders and 2,000 bachelor degree holders by the end of 2015, thereby providing sufficient talent for the sustainable growth of us.

On top of the existing talent pool, comprised of shipbuilding and management experts from Jiangsu, Shanghai, Singapore, Hong Kong and Canada, we have has established partnerships with various outstanding universities, including Shanghai Jiaotong University, Harbin Engineering University, Heilongjiang Institute of Technology, Jiangsu University of Science and Technology, Jiangsu Maritime Institute, and Wuxi Institute of Communications Technology. These partnerships enabled our "Rongsheng Heavy Industries Education Fund" to reward outstanding students, classes and teachers, and allowed the Group to reduce the employment concerns of engineering graduates. For instance, both Rongsheng Heavy Industries and Heilongjiang Institute of Technology partnered a traineeship with three years college study and one year internship, targeting a new blood of 20 welding technology graduates to join the Group each year.

We also encouraged a technical exchange with peers, by co-organizing national technician competition. In addition to our initiatives that sought to build up a capable R&D workforce, we also targeted to motivate our technicians' enthusiasm for learning and constructed a strong technician talent base. The Welding Skill Final of the Fourth National Technicians Vocational Skills Competition was held in Rongsheng Secondary Vocational School, which gathered hundreds of outstanding welding specialists around China.

Rongsheng Heavy Industries won "China's Best Enterprise for Talent Development 2011 (Top 10)", receiving praise from a host of spectators joining the 8th China Enterprise Training & Development Forum. Rongsheng Heavy Industries also received the honour of "The First Technician Training Unit" in Nantong City.

Since its published in 2008, Rongsheng Newspaper acted as an important channel for sharing our latest move

Welding specialists form the cornerstone of heavy industry

Directors and Senior Management

1
Mr. CHEN Qiang
Chairman of the Board, Executive Director and Chief Executive Officer

2
Mr. WU Zhen Guo
Vice Chairman of the Board and Executive Director

3
Mr. LUAN Xiao Ming
Executive Director and Chief Operating Officer

4
Mr. HONG Liang
Executive Director

5
Mr. Sean S J WANG
Executive Director and Chief Financial Officer

6
Mr. WANG Tao
Executive Director

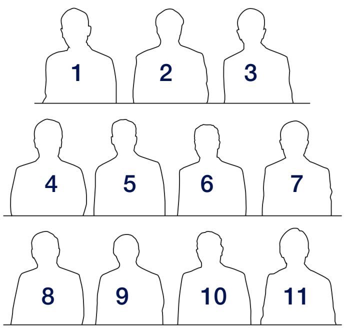
7
Mr. WEI A Ning
Executive Director

8
Mr. CHEN Gang
Independent Non-executive Director

9
Mr. TSANG Hing Lun
Independent Non-executive Director

10
Mr. ZHANG Xu Sheng
Independent Non-executive Director

11
Mr. XIA Da Wei
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 eleven Directors, seven of whom are executive Directors, and four of whom are independent non-executive Directors.

Executive Directors

Mr. CHEN Qiang (陳強)
Chairman of the Board,
Executive Director and Chief Executive Officer

Mr. Chen Qiang, aged 51, an executive Director, Chairman and chief executive officer of the Company. Mr. Chen joined us in 2004 and was appointed as an executive Director on 24 October 2010. He was further appointed as the Chairman with effect from 26 November 2012. 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 chairman of Rongsheng Heavy Industries and Rongsheng Research and Design, both 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. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. 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 an executive 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. In 2011, 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". In 2012, Lloyd's List ranked him the 88th among the "100 Most Influential People in the Shipping Industry 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 13th Council of the Shanghai Society of Naval Architects and Ocean Engineers (上海市船舶與海洋工程學會), a vice chairman of the Council of Ministers of the "Marine Technology" magazine, the president of the Jiangsu Association of Offshore Engineering (江蘇省海洋工程協會), a vice chairman of the Nantong Association for Science and Technology of Jiangsu Province (江蘇省南通市科協), 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 four biggest ship classification societies, namely, DNV GL, ABS, LR and CCS.

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

Mr. Wu Zhen Guo, aged 63, 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 a member of our remuneration committee (with effect from 26 November 2012). 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. (上海陽光投資集團有限公司) 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 Xiao Ming, aged 41, is an executive Director and chief operating officer of the Company. 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 Rongsheng Offshore 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 and his MBA degree from China Europe International Business School (中歐國際工商學院) in 2012. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. Mr. Luan has 19 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 and a member of the ABS China Committee.

Mr. HONG Liang (洪樑)
Executive Director

Mr. Hong Liang, aged 41, 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 Rongsheng Heavy Industries, Rongsheng Painting, Rongye Storage, and the Chairman of Rongsheng Machinery and Rong An Power Machinery, all being subsidiaries of the Company. 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. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. Mr. Hong has 17 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.

Mr. Sean S J WANG (王少劍)
Executive Director and Chief Financial Officer

Mr. Sean S J Wang, aged 49, is an executive Director and the chief financial officer of the Company. 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. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011.

Mr. WANG Tao (王濤)
Executive Director

Mr. Wang Tao, aged 40, 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, Rongsheng Offshore Engineering, Hefei Rongan Heavy Machine Co., Ltd. and Rong An Power Machinery. Mr. Wang is primarily responsible for legal affairs. 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. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. From 1999 to 2008, Mr. Wang had held various positions in Shanghai Sun Glow Investment Group Co. Ltd. (上海陽光投資集團有限公司), 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.

Mr. WEI A Ning (魏阿寧)
Executive Director

Mr. Wei A Ning, aged 61, is an executive Director. Mr. Wei has served as the senior vice president of the Company since October 2012. He is a member of our nomination committee (with effect from 26 November 2012). He has also served as chief of the supervisory audit department of Rongsheng Heavy Industries, a subsidiary of the Company, since June 2010. Mr. Wei graduated from the Nanjing Political College of the Chinese People's Liberation Army (中國人民解放軍南京政治學院) in July 2001 majoring in economics and management. He also completed the Real Estate MBA Core Subjects program (房地產MBA核心課程高級研修班) offered by Shanghai Jiao Tong University in October 2008 and the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012. Mr. Wei has served as the legal representative and executive director of China Yangguang Investment Group Co. Ltd. (中國陽光投資集團有限公司) since February 2008.

Independent Non-executive Directors

Mr. CHEN Gang (陳剛)
Independent Non-executive Director

Mr. Chen Gang, aged 50, is an independent non-executive Director. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Chen is also the chairman of our remuneration committee, and a member of our audit committee, finance and investment committee and nomination committee, all 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).

Mr. TSANG Hing Lun (曾慶麟)
Independent Non-executive Director

Mr. Tsang Hing Lun, aged 63, is an independent non-executive Director. 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. ZHANG Xu Sheng (張緒生)
Independent Non-executive Director

Mr. Zhang Xu Sheng, aged 56, is an independent non-executive Director. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Zhang 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 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 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.

Mr. Xia Da Wei (夏大慰)
Independent Non-executive Director

Mr. Xia Da Wei, aged 60, is an independent non-executive Director. He was appointed as an independent non-executive Director with effect from 28 December 2012. Mr. Xia has held various positions at the Shanghai University of Finance and Economics (上海財經大學) since 1993, including dean of its School of International Business Administration, assistant to the president, vice president and executive vice president, and dean of the Shanghai National Accounting Institute (上海國家會計學院) since 2000. Mr. Xia is also currently the officer of the academic affairs department, a professor and supervisor for doctoral candidates of the Shanghai National Accounting Institute (上海國家會計學院), a vice president of the Chinese Industrial Economic Association (中國工業經濟學會), a consultant of the China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), a member of the Committee on Internal Control Standard of Enterprises of the Ministry of Finance (財政部企業內部控制標準委員會), the president of the Shanghai Accounting Association (上海市會計學會), an honorary professor of the School of Accountancy of the Chinese University of Hong Kong (香港中文大學), a part-time professor of the School of Management of Fudan University (復旦大學) and a member of the Research Council for Listed Companies Committee (上市公司專家委員會) of Shanghai Stock Exchange.

Mr. Xia is currently an independent director of Shanghai Electric Power Co., Ltd. (上海電力股份有限公司) (a company listed on the Shanghai Stock Exchange) and China United Network Communications Limited (中國聯合網路通信股份有限公司) (a company listed on the Shanghai Stock Exchange), an outside director of China National Offshore Oil Corporation (中國海洋石油總公司), and an independent non-executive director of Lianhua Supermarket Holdings Co., Ltd. (a company listed on the Hong Kong Stock Exchange) and a member of its audit committee and nomination committee and the chairman of its remuneration and appraisal committee.

Previously, Mr. Xia was an independent non-executive director (including serving as a member of the nomination committee and audit committee) of Shanghai Jin Jiang International Hotels (Group) Company Limited (a company listed on the Hong Kong Stock Exchange) from November 2006 to October 2012.

Mr. Xia graduated with a master's degree in economics from Shanghai University of Finance and Economics (上海財經大學) in October 1985.

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)

Mr. Chen Wen Jun, aged 43, 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.

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

Shipbuilding Segment

Mr. CHEN Guo Rong (陳國榮)

Mr. Chen Guo Rong, aged 52, currently serves as the president of Rongsheng Heavy Industries and is also the 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 section chief and party branch secretary and deputy director general 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.

Offshore Engineering Segment

Mr. LEE Fook Kang, Don (李福根)

Mr. Lee Fook Kang, Don, aged 64, currently serves as the director and the chief executive officer of Rongsheng Offshore & Marine. Mr. Lee is responsible for overseeing the offshore EPC business of the Group. Mr. Lee has over 40 years of experience in the marine and offshore industry and held various senior management positions at world-class offshore companies including Keppel Corporation Ltd and Sembcorp Marine Ltd. Prior to joining us in September 2012, Mr. Lee served as a senior general manager at Sembcorp Marine Ltd's subsidiary, Jurong Shipyard Pte Ltd, and a senior vice president of marketing of Sembcorp Marine Ltd from 2000 to 2012. Mr. Lee also served as a director of Jurong Brazil Pte Ltd and a director of PPL Shipyard Pte Ltd from 2003 to 2012, and a director of Brazil Netherlands BV from 2009 to 2012.

Marine Engine Building Segment

Mr. Urs Karl HUWILER

Mr. Urs Karl Huwiler, aged 60, currently serves as the president of Rong An Power Machinery. Mr. Huwiler is responsible for the company's development and the enhancement of the product portfolio in marine engine building segment, and overseeing the daily operations of Rong An Power Machinery. Mr. Huwiler has more than 30 years of experience in the marine power industry. Prior to joining us in March 2013, Mr. Huwiler worked for Sulzer Switzerland Co., Ltd. and held various positions from 1976 to 1998, including commissioning engineer, marine gears project engineer, and manager of license support in the marine engine branch. After the merger between Sulzer Switzerland and Wartsila Finland, Mr. Huwiler continued his service at Wartsila Switzerland and its Asian branches with a focus on the Asian and in particular the Chinese market, holding various positions from 1998 to 2013, including licensees area director of China, sales area director of China, sales area director of Japan and Taiwan, manager of custom support, and license director of China. Mr. Huwiler graduated from the University of Applied Science of the State of Zurich, Switzerland in 1976, majoring in mechanical engineering.

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 2012.

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 2012 are set out in the consolidated statement of comprehensive income on page 87 of this annual report.

DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: RMB0.022 per Share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the period from Thursday, 23 May 2013 to Tuesday, 28 May 2013 (both days inclusive), during which no transfers will be registered, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on 28 May 2013 ("**2013 AGM**"). In order to be eligible to attend and vote at the 2013 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 at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 22 May 2013.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 17 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 17 and Note 19 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the reserves of the Company available for distribution to shareholders amounted to RMB6,472.4 million (2011: RMB6,896.6 million).

DONATIONS

Charitable donations made by the Group during the year amounted to RMB26.6 million (2011: RMB12.3 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 2012 and for the previous four financial years are set out in the Five-Year Financial Summary section on page 168 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's amended and restated articles of association (the "**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 2012, 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 2012, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 61,000,000 shares, which is equivalent to approximately 0.87% 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 the 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 the Group.

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

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 2012:

		Number of Share Options						
Names of Grantees	Date of Grant	As at 1 January 2012	Exercised	Cancelled	Lapsed	As at 31 December 2012	Exercise Price HK$	Exercisable Period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note 1
Mr. Luan Xiao Ming	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Deng Hui	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note 1
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note 1
Mr. Wei A Ning (Note 2)	24 October 2010	750,000	–	–	–	750,000	4.00	Note 1
Senior Management and other employees (in aggregate)	24 October 2010	35,750,000	–	–	500,000	35,250,000	4.00	Note 1
Total		**61,500,000**				**61,000,000**		

Notes:

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

(i) up to 20% of the shares that are subject to the options granted to the relevant grantee (rounded down to the nearest whole number of shares) at any time during the period commencing on 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; and

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

(2) Mr. Wei A Ning was appointed as an executive Director of the Company on 26 November 2012.

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 2012, 348,580,000 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 2012. 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 HK$1.00 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 18 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 Share Option Scheme and their movements during the year ended 31 December 2012:

		Number of Share Options							
Name of Grantee	Date of Grant	As at 1 January 2012	Granted	Exercised	Cancelled	Lapsed	As at 31 December 2012	Exercise price (HK$)	Exercisable Period
Mr. Chen Qiang	30 April 2012	–	70,000,000	–	–	–	70,000,000	1.94	Note 1
Mr. Wu Zhen Guo	30 April 2012	–	7,000,000	–	–	–	7,000,000	1.94	Note 1
Mr. Luan Xiao Ming	30 April 2012	–	14,000,000	–	–	–	14,000,000	1.94	Note 1
Mr. Deng Hui	30 April 2012	–	7,000,000	–	–	–	7,000,000	1.94	Note 1
Mr. Hong Liang	30 April 2012	–	14,000,000	–	–	–	14,000,000	1.94	Note 1
Mr. Sean S J Wang	30 April 2012	–	7,000,000	–	–	–	7,000,000	1.94	Note 1
Mr. Wang Tao	30 April 2012	–	6,380,000	–	–	–	6,380,000	1.94	Note 1
Mr. Wei A Ning (Note 2)	30 April 2012	–	6,380,000	–	–	–	6,380,000	1.94	Note 1
Senior Management and other employees (in aggregate)	30 April 2012	–	216,820,000	–	–	–	216,820,000	1.94	Note 1
Total		**–**	**348,580,000**	**–**	**–**	**–**	**348,580,000**		

Notes:

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

(2) Mr. Wei A Ning was appointed as an executive Director of the Company on 26 November 2012.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2012 are set out in Note 40 to the consolidated financial statements.

ACQUISITION OF A SUBSIDIARY

On 26 April 2011, Rongsheng Heavy Industries, a non-wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Agreement**") with The People's Government of Quanjiao County, Anhui Province (the "**Vendor**"), pursuant to which Rongsheng Heavy Industries conditionally agreed to acquire, after the Agreement has taken effect, the entire equity interest in Anhui Quanchai Group Corp. from the Vendor for an aggregate consideration of RMB2,148,870,000 (the "**Transaction**"). In accordance with applicable PRC laws and regulations, the Transaction required Rongsheng Heavy Industries to make a general offer ("**General Offer**") for all of the outstanding equity interest of Anhui Quanchai Engine Co., Ltd. ("**Quanchai Engine**"), whose shares are listed on the Shanghai Stock Exchange and the equity interest of which was owned by the Vendor as to 44.39% as of the date of the Agreement. Details of the Transaction were disclosed in the announcements of the Company dated 26 April 2011, 1 June 2012, 5 June 2012, 17 July 2012, 17 August 2012, 21 August 2012 and 2 December 2012 respectively.

After consultation with the Vendor, an application was made on 17 August 2012 by Rongsheng Heavy Industries to the China Securities Regulatory Commission ("**CSRC**") for the withdrawal of its application for the approval by the CSRC of the Transaction. The materials submitted to the CSRC in respect of the application for approval for the General Offer were returned to Rongsheng Heavy Industries on 20 August 2012 and Rongsheng Heavy Industries will not proceed with the General Offer; and Rongsheng Heavy Industries will not conduct any acquisition of equity interest in Quanchai Engine within 12 months from 21 August 2012. The amount of RMB523,890,000, being the deposit previously paid to China Securities Depositary and Clearing Corp. Ltd. Shanghai Branch in respect of the General Offer, together with interest, was returned to Rongsheng Heavy Industries. Consultations between Rongsheng Heavy Industries and the Vendor will continue to be conducted with respect to the consequential matters relating to the Transaction.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 15.2% and 48.5%, respectively. The percentages of sales attributable to the Group's largest customer and the five largest customers were 26.8% and 57.0%, respectively. During the year ended 31 December 2012, none of the Directors or any of their associates, or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any interest in any of the Group's five largest suppliers or customers.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2012, none of the Directors were 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, on 24 October 2010, the then controlling shareholders of the Company, namely, Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong, entered into a deed of non-compete undertaking (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, at any time during which the securities of the Company are listed on the Stock Exchange and for so long as they or their associates (within the meaning of Rule 1.01 of the Listing Rules) directly or indirectly hold, whether individually or taken together, 30% or more of the issued shares in the Company, 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 2012.

The independent non-executive Directors of the Company ("**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 2012.

After certain share transfers which were disclosed in our announcement dated 24 January 2013, Mr. Zhang Zhi Rong and Fine Profit Enterprises Limited ceased to be the Controlling Shareholders of the Company on 28 January 2013 (being the date of completion of the said share transfers). Therefore, pursuant to the terms of the Deed of Non-compete Undertaking, the Deed of Non-compete Undertaking was automatically terminated on the same date.

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 39 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.

During the year ended 31 December 2012, Mr. Zhang De Huang, who is the father of Mr. Zhang Zhi Rong (the then controlling shareholder of the Company and prior to his resignation on 26 November 2012, a non-executive Director) and who was an executive Director prior to his resignation on 26 November 2012, was the controlling shareholder of Shanghai Ditong.

For the year ended 31 December 2012, 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 RMB796 million and the actual amount for the construction and installation services paid by the Group to Shanghai Ditong is RMB643 million.

Pursuant to Rule 14A.38 of the Listing Rules, the Company engaged the external 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 2012, 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 2012 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 for the year ended 31 December 2012, 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%. Mr. Zhang Zhi Rong, who is currently a substantial shareholder of the Company and who was formerly the Chairman and a non-executive director of the Company prior to his resignation on 26 November 2012, is the ultimate controlling shareholder of 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 2012, 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 2012 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 2012 were entered into in accordance with the relevant provisions of the Services Agreement and had been operated so that any profits generated by Rongsheng Shipbuilding had 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 had been forwarded to Rongsheng Heavy Industries by way of payment of the fee for the Services); and

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

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 2.20 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, the five highest-paid individuals and senior management of the Group for the year ended 31 December 2012 are set out in Note 33 to the consolidated financial statements.

DIRECTORS

Non-executive Director

Mr. Zhang Zhi Rong *(resigned as Chairman and non-executive Director on 26 November 2012)*

Executive Directors

Mr. Chen Qiang *(Chief Executive Officer and appointed as Chairman on 26 November 2012)*
Mr. Zhang De Huang *(resigned as Vice Chairman and executive Director on 26 November 2012)*
Mr. Wu Zhen Guo *(Vice Chairman)*
Mr. Luan Xiao Ming *(Chief Operating Officer)*
Mr. Deng Hui *(resigned as executive Director on 28 February 2013)*
Mr. Hong Liang
Mr. Sean S J Wang *(Chief Financial Officer)*
Mr. Wang Tao
Mr. Wei A Ning *(appointed on 26 November 2012)*

Independent Non-executive Directors

Mr. Chen Gang
Mr. Tsang Hing Lun
Mr. Zhang Xu Sheng
Mr. Xia Da Wei *(appointed on 28 December 2012)*

In accordance with the Company's Articles of Association, Mr. Wang Tao, Mr. Wei A Ning, Mr. Chen Gang and Mr. Xia Da Wei will retire by rotation at the 2013 AGM. All the retiring directors, being eligible, will offer themselves for re-election, except for Mr. Chen Gang, who has indicated to the Board that he does not offer himself for re-election and therefore will retire at the 2013 AGM.

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 40 to 47 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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 2012.

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

As at 31 December 2012, the Directors and chief executive of the Company had the following interests in the Shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were recorded in the register required to be kept under section 352 of the SFO or 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

	Number of Shares Interested				
Name of Director	Personal interest	Corporate Interest	Equity derivatives (share options) (Note 2)	Total	Percentage of issued share capital
Mr. Chen Qiang	–	606,000,000 (Note 1)	70,000,000	676,000,000	9.66%
Mr. Wu Zhen Guo	–	–	12,000,000	12,000,000	0.17%
Mr. Luan Xiao Ming	–	–	18,375,000	18,375,000	0.26%
Mr. Deng Hui	–	–	11,375,000	11,375,000	0.16%
Mr. Hong Liang	–	–	18,375,000	18,375,000	0.26%
Mr. Sean S J Wang	–	–	9,500,000	9,500,000	0.14%
Mr. Wang Tao	–	–	10,755,000	10,755,000	0.15%
Mr. Wei A Ning	–	–	7,130,000	7,130,000	0.10%

Notes:

(1) As at 31 December 2012, Mr. Chen Qiang was deemed to have interests in 186,000,000 shares held by Boom Will Limited, a company 100 per cent. beneficially owned by Mr. Chen Qiang, and 420,000,000 shares held by Leader World Investments Limited, a company 38.33 per cent. beneficially owned by Mr. Chen Qiang.

(2) These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "Share Option Schemes" 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. Chen Qiang	Rongsheng Heavy Industries Holdings Limited	Interest in a controlled corporation	15,000 (Note 1)	1.5%

Note:

(1) As at 31 December 2012, 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 2012, none of the Directors or the chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(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.

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

As at 31 December 2012, the interests of substantial shareholders (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Number of shares interested	Percentage of issued share capital (Note 3)
Fine Profit Enterprises Limited (Note 1)	3,342,281,157	47.75%
Zhang Zhi Rong (Note 1)	3,342,281,157	47.75%
Leader World Investments Limited (Note 2)	420,000,000	6.00%

Notes:

(1) Among the 3,342,281,157 shares, 3,233,557,157 shares were directly held by Fine Profit Enterprises Limited and 108,724,000 shares were directly held by Wealth Consult Limited, which is a wholly-owned subsidiary of Fine Profit Enterprises Limited. Both Fine Profit Enterprises Limited and Wealth Consult Limited are 100 per cent. directly or indirectly beneficially owned by Mr. Zhang Zhi Rong.

(2) The 420,000,000 shares were directly held by Leader World Investments Limited, a company 38.33 per cent. beneficially owned by Mr. Chen Qiang.

(3) These percentages have been compiled based on the total number of issued shares of the Company of 7,000,000,000 as at 31 December 2012 and rounded up to two decimal places.

Save as disclosed above, as at 31 December 2012, the Company had not been notified of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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 39 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules, are set out in the section headed "Connected Transactions" above, and the Company has complied with the disclosure requirements in accordance 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 2012 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 2012.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 62 to 75 of this annual report.

AUDITOR

The financial statements for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the 2013 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 2013 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 2012, 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
CHEN Qiang
Chairman

Hong Kong, 26 March 2013

Corporate Governance Report

The board of Directors (the "**Board**") and the 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 2012, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules, save for the deviations as described in this Corporate Governance Report (the "**Report**").

Code provision A.1.3 of the Code stipulates that at least 14 days' notice should be given for a regular Board meeting to give all Directors an opportunity to attend. During the year ended 31 December 2012, less than 14 days' notice was given for two regular Board meetings to suit the tight and busy schedules of the participants.

Code provision A.2.1 of the Code stipulates that the roles of the chairman of the board (the "**Chairman**") and the chief executive officer should be separate and should not be performed by the same individual. Mr. Zhang Zhi Rong resigned as a non-executive Director and the Chairman, with effect from 26 November 2012, in order to devote more time to his personal endeavours and Mr. Chen Qiang, an executive Director and the chief executive officer of Company, was appointed as the Chairman in place of Mr. Zhang Zhi Rong. As a result, Mr. Chen Qiang has performed both the roles of Chairman and chief executive officer of the Company in deviation from code provision A.2.1 of the Code. The Company believes that it is more efficient and effective for the Company to develop its long term strategies and in execution of its business plans if Mr. Chen Qiang serves as both the Chairman and the chief executive officer of the Company.

Code provision E.1.2 of the Code stipulates that the Chairman should attend the annual general meeting (the "**AGM**") and code provision A.6.7 of the Code stipulates that the independent non-executive directors ("**INED**") and other non-executive directors should attend the AGM. The then Chairman of the Board, Mr. Zhang Zhi Rong and an INED of the Company, namely, Mr. Chen Gang, both did not attend the AGM of the Company held on 23 May 2012 due to other engagements. Mr. Chen Qiang, the executive Director and chief executive officer of the Company, attended and chaired and AGM and answered shareholders' questions.

THE BOARD

Board Composition

Mr. Zhang Zhi Rong resigned as a non-executive Director and the Chairman, with effect from 26 November 2012. Mr. Zhang De Huang resigned as an executive Director and vice chairman of the Board due to his retirement and Mr. Wei A Ning was appointed as an executive Director, both with effect from 26 November 2012. Mr. Xia Da Wei was appointed as an independent non-executive Director with effect from 28 December 2012. As at the date of this Report, subsequent to the resignation of Mr. Deng Hui as an executive Director due to health reasons with effect from 28 February 2013, the Board currently comprises seven executive Directors, namely Mr. Chen Qiang (Chairman and Chief Executive Officer), Mr. Wu Zhen Guo (vice chairman of the Board), Mr. Luan Xiao Ming (Chief Operation Officer), Mr. Hong Liang, Mr. Sean S J Wang (Chief Financial Officer), Mr. Wang Tao and Mr. Wei A Ning, and four independent non-executive Directors, namely, Mr. Chen Gang, Mr. Tsang Hing Lun, Mr. Zhang Xu Sheng and Mr. Xia Da Wei. 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 40 and 47 of this annual report.

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 the Group's overall strategies, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointments or re-appointments, approval of major capital transactions and other significant operational and financial matters.

Our independent non-executive Directors offer diverse industry expertise, serve the important functions of advising the management on strategies, 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 shareholders and the Company as a whole.

The Company also funded and arranged a continuous professional development training course in May 2012, which was lectured by its external legal advisor, to its Directors in order to develop and refresh their knowledge and skills and to ensure that their contribution to the Board remains informed and relevant. All of the Directors received their training by attending either in person or via telephone and/or by studying the training materials at their own leisure. Mr. Wei A Ning and Mr. Xia Da Wei, who were only appointed as our Directors on 26 November 2012 and 28 December 2012, respectively, received the directors' induction programme on directors' duties prepared and delivered by our external legal advisor immediately prior to or on their respective date of appointment.

The Group had regularly organized and conducted continuous training and development course to executive Directors, senior management and/or a group of selected senior staff, delivered in the form of lectures, seminars and/or workshops by internal or external speakers with professional expertise and experience, covering areas in management, budgeting, auditing, internal control, and legal and regulatory compliance.

Delegation to Management

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

- preparation of annual and interim accounts and reports for the Board's approval before public reporting;

- execution of business strategies and initiatives adopted by the Board;

- monitoring of operating budgets adopted by the Board;
- implementation of adequate systems of internal controls and risk management procedures; and
- compliance with relevant statutory requirements, rules and regulations.

Board Meetings

During the year ended 31 December 2012, the Board held four Board meetings. The attendance record of each Director at the meetings are set out in the following table:

Members of the Board	Attendance/Number of Meetings
Non-executive Director	
Mr. Zhang Zhi Rong	4/4 (Note 1)
Executive Directors	
Mr. Chen Qiang *(Chairman)* (Note 2)	4/4
Mr. Zhang De Huang	2/4 (Note 3)
Mr. Wu Zhen Guo	4/4
Mr. Luan Xiao Ming	4/4
Mr. Deng Hui	4/4
Mr. Hong Liang	4/4
Mr. Sean S J Wang	4/4
Mr. Wang Tao	4/4
Mr. Wei A Ning	1/1 (Note 4)
Independent Non-executive Directors	
Mr. Chen Gang	4/4
Mr. Tsang Hing Lun	4/4
Mr. Zhang Xu Sheng	4/4
Mr. Xia Da Wei	0/0 (Note 5)

Notes:

(1) Attendance of Board meetings of Mr. Zhang Zhi Rong is stated by reference to the number of Board meetings held during the period from 1 January 2012 to 26 November 2012 (his date of resignation as a non-executive Director and the Chairman).

(2) Mr. Chen Qiang was appointed as the Chairman in place of Mr. Zhang Zhi Rong with effect from 26 November 2012.

(3) Attendance of Board meetings of Mr. Zhang De Huang is stated by reference to the number of Board meetings held during the period from 1 January 2012 to 26 November 2012 (his date of resignation as an executive Director and vice chairman of the Board).

(4) Attendance of Board meetings of Mr. Wei A Ning is stated by reference to the number of Board meetings held during the period from 26 November 2012 (his date of appointment as an executive Director) to 31 December 2012.

(5) Attendance of Board meetings of Mr. Xia Da Wei is stated by reference to the number of Board meetings held during the period from 28 December 2012 (his date of appointment as an independent non-executive Director) to 31 December 2012.

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 2012, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Directors and at least 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 his 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 amended and restated articles of association (the "**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 Articles of Association, one-third of the Directors who have served longest on the Board must retire, and if eligible, may be subject for re-election at each AGM. To further reinforce accountability, any further re-appointment 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 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 November 2012, each of the executive Directors entered into a service contract with the Company for a term of three years commencing on 24 October 2010.

Save for one of the independent non-executive Directors who was appointed by the Company for a term of three years commencing on 28 December 2012, each of the independent non-executive Directors were appointed by the Company for a term of three years commencing on 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 2012, no claim was made against the Directors.

Board Committees

The Board has established an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**"), 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. 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 2012, the Audit Committee held two meetings. The following is a summary of the work of the Audit Committee during the year:

- review of and recommendation for the Board's approval the Group's consolidated financial statements for the year ended 31 December 2011;
- review of and recommendation for the Board's approval the Group's interim condensed consolidated financial information for the six months ended 30 June 2012;
- review of the reports from the external auditor;
- review of the internal controls and risk management system of the Group;
- review of the reports from the internal auditor;
- approval of the internal audit plan for the year ended 31 December 2012;
- review of the continuing connected transactions of the Group;
- review of the external auditor's remuneration and terms of engagement; and
- review of and recommendation for the Board's approval the revised terms of reference of the Audit Committee.

The attendance of each member at the meetings of the Audit Committee during the year ended 31 December 2012 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

The consolidated financial statements of the Group for the year ended 31 December 2012 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2012.

Remuneration Committee

The Remuneration Committee was established on 24 October 2010 and has been delegated with the responsibility of determining the remuneration policy and structure for all Directors and senior management, 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. Wu Zhen Guo (vice chairman of the Board and an executive Director), who was appointed as a member of the Remuneration Committee in place of Mr. Zhang Zhi Rong (the then Chairman of the Board and non-executive Director) with effect from 26 November 2012, and Mr. Zhang Xu Sheng (an independent non-executive Director).

During the year ended 31 December 2012, the Remuneration Committee held two meetings. The following is a summary of the work of the Remuneration Committee during the year:

- annual review of the remuneration packages of the Directors and senior management of the Company;
- review of and recommendation for the Board's approval the revised remuneration packages for independent non-executive Directors;
- review of and recommendation for the Board's approval the remuneration package of the newly appointed executive Director; and
- review of and recommendation for the Board's approval the revised terms of reference of the Remuneration Committee.

All the members of the Remuneration Committee had also passed written resolutions to approve and recommend for the Board's approval (i) share options awards to Directors, senior management and other eligible employees; and (ii) the remuneration packages of a newly appointed executive Director and a member of senior management.

The attendance of each member at the meetings of the Remuneration Committee during the year ended 31 December 2012 is as follows:

Members of the Committee	Attendance/Number of Meetings
Mr. Zhang Zhi Rong	2/2 (Note 1)
Mr. Chen Gang	2/2
Mr. Wu Zhen Guo	0/0 (Note 2)
Mr. Zhang Xu Sheng	2/2

Notes:

(1) Attendance of the meetings of Mr. Zhang Zhi Rong is stated by reference to the number of meetings held during the period from 1 January 2012 to 26 November 2012 (his date of cessation as a member of the Remuneration Committee).

(2) Attendance of meetings of Mr. Wu Zhen Guo is stated by reference to the number of meetings held during the period from 26 November 2012 (his date of appointment as a member of the Remuneration Committee) to 31 December 2012.

The particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 33 to the consolidated financial statements.

Pursuant to B.1.5 of the Code, the remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (RMB)	Number of persons
below 1,000,000	2
1,000,001 to 2,000,000	3
2,000,001 to 3,000,000	—
3,000,001 to 4,000,000	1
4,000,001 to 5,000,000	—

Nomination Committee

On 20 March 2012, the Board approved the establishment of the Nomination Committee with effect from 1 April 2012. The Nomination Committee comprises three members, namely Mr. Zhang Xu Sheng (chairman of the Nomination Committee and an independent non-executive Director), Mr. Wei A Ning (an executive Director with effect from 26 November 2012), who was appointed as a member of the Nomination Committee in place of Mr. Zhang Zhi Rong (the then Chairman of the Board and non-executive Director) with effect from 26 November 2012 and Mr. Chen Gang (an independent non-executive Director). 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.

During the period from 1 April 2012 (being the date of establishment of the Nomination Committee) to 31 December 2012, the Nomination Committee held one meeting. The meeting was held to review and recommend for the Board's approval on: (i) the appointment of Mr. Chen Qiang as the new Chairman of the Board in place of Mr. Zhang Zhi Rong; and (ii) the appointment of Mr. Wei A Ning as an executive Director. All the members of the Nomination Committee had also passed a written resolution to recommend for the Board's approval the new appointment of an independent non-executive Director, Mr. Xia Da Wei.

The attendance of each member at the meetings of the Nomination Committee during the period from 1 April 2012 to 31 December 2012 is as follows:

Members of the Committee	**Attendance/Number of Meetings**
Mr. Zhang Zhi Rong	1/1 (Note 1)
Mr. Zhang Xu Sheng	1/1
Mr. Wei A Ning	0/0 (Note 2)
Mr. Chen Gang	1/1

Notes:

(1) Attendance of the meetings of Mr. Zhang Zhi Rong is stated by reference to the number of meetings held during the period from 1 January 2012 to 26 November 2012 (his date of cessation as a member of the Nomination Committee).

(2) Attendance of meetings of Mr. Wei A Ning is stated by reference to the number of meetings held during the period from 26 November 2012 (his date of appointment as a member of the Nomination Committee) to 31 December 2012.

Nomination Procedures and Criteria

A shareholder may at any general meeting nominate a candidate for directorship if, within the 7 days commencing the day after the despatch of the notice of such general meeting, such shareholder (being entitled to attend and vote at such general meeting and not being the candidate) gives to the company secretary written notice of his/her intention to propose such candidate for election and also written notice signed by such candidate of his/her willingness to be elected.

Other than the nomination of directors by shareholders, at present, candidates for directorship may be nominated by the chief executive officer of the Company, who will provide the Nomination Committee with notice of such nomination once a candidate has been identified.

The Nomination Committee is responsible for making recommendations to the Board with respect to the nomination of candidates for directorship. When doing so, the Nomination Committee takes into account various aspects of the candidate, including (but not limited to) his/her education background, professional experience, experience in the relevant industry and past directorships. In particular, for candidates for independent non-executive directors, the Nomination Committee assesses his/her independence under Rule 3.13 of the Listing Rules. Then, the Nomination Committee will make its recommendation(s) to the Board for consideration and approval.

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 comprises three members, namely Mr. Zhang Xu Sheng (chairman of the Corporate Governance Committee and an independent non-executive Director), Mr. Chen Qiang (an executive Director) and Mr. Sean S J Wang (an executive Director). 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.

During the period from 1 April 2012 (being the date of establishment of the Corporate Governance Committee) to 31 December 2012, the Corporate Governance Committee held one meeting. The meeting was held to

- review the compliance with the Code and the relevant disclosure in the draft 2012 Interim Report; and

- review the training and continuous professional development of Directors and senior management.

The attendance of each member at the meetings of the Corporate Governance Committee during the period from 1 April 2012 to 31 December 2012 is as follows:

Members of the Committee	Attendance/Number of Meetings
Mr. Zhang Xu Sheng	1/1
Mr. Chen Qiang	1/1
Mr. Sean S J Wang	1/1

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 of 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 Company's internal controls systems, including financial, operational and compliance control and risk management systems. During the year 31 December 2012, 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 systems are 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 58 to 59 of this annual report.

MODEL CODE ON SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**"). Having made specific enquiry of the Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

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 consolidated financial statements of the Company for the year ended 31 December 2012 are set out on page 81 of this annual report.

COMPANY SECRETARY

The company secretary, Ms. Lee Man Yee, is a full time employee of the Group and reports to the chief executive officer of the Company. All Directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed. During the year ended 31 December 2012, the company secretary has taken no less than 15 hours of relevant professional training.

EXTERNAL AUDITOR

The Company has engaged PricewaterhouseCoopers as its external auditor. The aggregate remuneration in respect of services provided by PricewaterhouseCoopers for the year ended 31 December 2012 was approximately HK$18.2 million (2011: HK$12.4 million), of which HK$15 million (2011: HK$9.3 million) represents annual audit and other audit-related services and HK$3.2 million (2011: HK$3.1 million) represents fees for certain non-audit related services, which mainly consist of taxation, review, consultancy and other reporting services.

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' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department whose contact details are as follows:

The Investor Relations Department

China Rongsheng Heavy Industries Group Holdings Limited
Suite 2505–2508, 25/F., Two Exchange Square, 8 Connaught Place, Central, Hong Kong
Email: ir@rshi.cn
Tel no.: +852 3900 1888
Fax no.: +852 2180 7880

The Investor Relations Department will forward the shareholders' enquiries and concerns to the Board and/or the relevant board committees and answer any shareholders' questions (where applicable and appropriate).

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 websites of the Hong Kong Exchanges and Clearing Limited 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 law and the Articles of Association of the Company.

During the period ended 31 December 2012, no extraordinary general meeting of shareholders was held. The attendance records of the Directors at the general meeting(s) of the Company are as follows:

Members of the Board	Attendance/Number of Meetings
Non-executive Director	
Mr. Zhang Zhi Rong	0/1 (Note 1)
Executive Directors	
Mr. Chen Qiang *(Chairman)* (Note 2)	1/1
Mr. Zhang De Huang	0/1 (Note 3)
Mr. Wu Zhen Guo	1/1
Mr. Luan Xiao Ming	1/1
Mr. Deng Hui	1/1
Mr. Hong Liang	1/1
Mr. Sean S J Wang	1/1
Mr. Wang Tao	1/1
Mr. Wei A Ning	0/0 (Note 4)
Independent Non-executive Directors	
Mr. Chen Gang	0/1
Mr. Tsang Hing Lun	1/1
Mr. Zhang Xu Sheng	1/1
Mr. Xia Da Wei	0/0 (Note 5)

Notes:

(1) Attendance of general meeting(s) of Mr. Zhang Zhi Rong is stated by reference to the number of general meeting(s) held during the period from 1 January 2012 to 26 November 2012 (his date of resignation as a non-executive Director and the Chairman).

(2) Mr. Chen Qiang was appointed as the Chairman in place of Mr. Zhang Zhi Rong with effect from 26 November 2012.

(3) Attendance of general meeting(s) of Mr. Zhang De Huang is stated by reference to the number of general meeting(s) held during the period from 1 January 2012 to 26 November 2012 (his date of resignation as an executive Director and vice chairman of the Board).

(4) Attendance of general meeting(s) of Mr. Wei A Ning is stated by reference to the number of general meeting(s) held during the period from 26 November 2012 (his date of appointment as an executive Director) to 31 December 2012.

(5) Attendance of general meeting(s) of Mr. Xia Da Wei is stated by reference to the number of general meeting(s) held during the period from 28 December 2012 (his date of appointment as an independent non-executive Director) to 31 December 2012.

INVESTOR RELATIONS

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 76 to 78 of this Annual Report.

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

Investor Relations Report

OVERVIEW

The Company commits proactively to promote an open, transparent and efficient communications with all capital market participants. The establishment of Investors Relations Department aims to allow shareholders, investors and equity analysts, by providing all necessary information in a timely manner, to better understand the Company's operations, strategies and prospects.

COMMUNICATIONS WITH CAPITAL MARKET

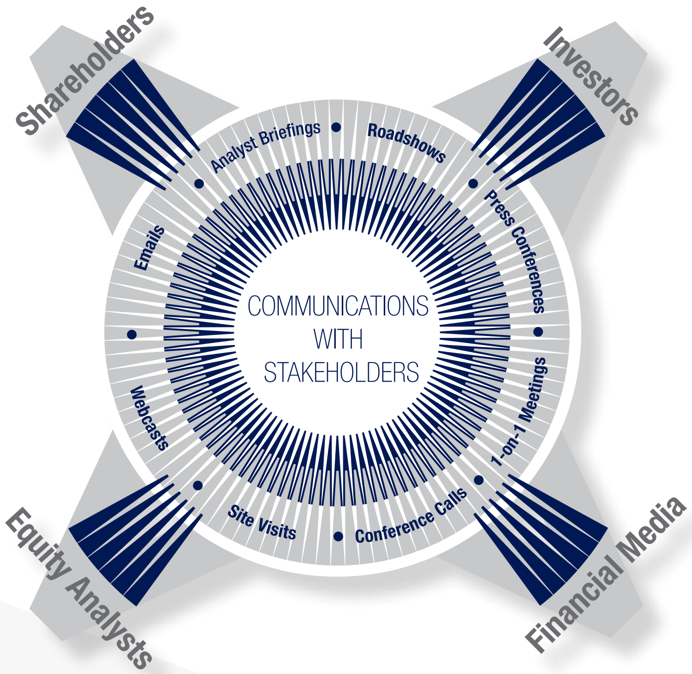
The Company's senior management team presents the annual and interim results in Hong Kong every year. Through various investor relations events such as analyst briefings, press conferences and global investor roadshows, the senior management team shares the views on the Company's latest operating performance and strategic initiatives, and directly addresses the key concerns of capital market participants. For the convenience of the global participants, live webcasts were arranged for the analyst briefings starting from 2012, followed by the on-line Q&A sessions. During the annual general meeting held in Hong Kong in May 2012, most of the Company's Board members attended to directly communicate with shareholders.

Besides, the Investor Relations Department closely communicates with the investment community through various channels such as one-on-one meetings, conference calls, emails, site visits and company website. In 2012, there were increasing concerns about the Company's operations and strategies as a result of the challenging worldwide shipbuilding market. Thus the Investor Relations Department proactively promoted the Company's "Transformation and Advancement" strategy and frequently updated the Company's latest development. The Company also revamped its website with enriched content and restructured layout to facilitate readers. Site visits to the Company's manufacturing bases in Nantong and Hefei were arranged throughout the year to enhance investors' understanding of the Company's operations.

The Company held the 2012 Annual General Meeting in Hong Kong

The Company held the 2011 Annual Results announcement in Hong Kong

The Investor Relations Department values and is eager to hear suggestions and comments from all capital market participants through the channels below:



The Company participated in the following investor conferences held by major international investment banks in 2012:

Date	Name of Conference
January	Deutsche Bank Access China Conference
January	Credit Suisse Offshore & Marine Corporate Day
April	Nomura China Investor Forum
May	Macquarie Greater China Conference
May	BOCI Investors Conference
May	Morgan Stanley Hong Kong Summit
May	Deutsche Bank Access Asia Conference
June	Credit Suisse China Investment Conference
June	JP Morgan China Conference
July	HSBC Industrial Day
September	Sunwah Kingsway Investors Conference
September	BofA Merrill Lynch Industrial Corporate Day
October	Jefferies Asia Summit
November	BofA Merrill Lynch China Conference
November	Morgan Stanley Asia Pacific Summit
November	Macquarie Asia-Pacific Industrials, Infrastructure & Transportation Conference

INVESTOR PERCEPTION STUDY

Since its listing in 2010, the Company has delegated an independent research entity to conduct an annual investor perception study to collect comments and suggestions from global investors and equity analysts. These feedbacks are valuable for the Company to develop future business strategies.

RECOGNITIONS

The Company's continuous efforts in investor relations has been well-recognized by the capital market. The Company's 2011 annual report won the Grand Winner Award (Best of Hong Kong/ PRC) and three Gold Winner Awards (Including "Overall Annual Report", "Interior Design: Shipbuilding and Constructions" and "Interior Design: Heavy Machinery") in the 2012 International ARC Awards. This annual report also accredited the Gold Award by the League of American Communications Professionals and was selected as one of the top twenty-five annual reports in China. In the FinanceAsia's Asia Best Managed Companies Poll 2012, the Company was awarded the "Best Managed Mid-Cap Company in China".

> 1 International ARC Grand Winner Award — "Best of Hong Kong/PRC"

> 2 FinanceAsia's Asia Best Managed Companies — "Best Managed Mid-Cap Company in China"

> 3 International ARC Gold Winner Award — "Overall Annual Report: Shipbuilding and Constructions"

> 4 International ARC Gold Winner Award — "Interior Design: Shipbuilding and Constructions"

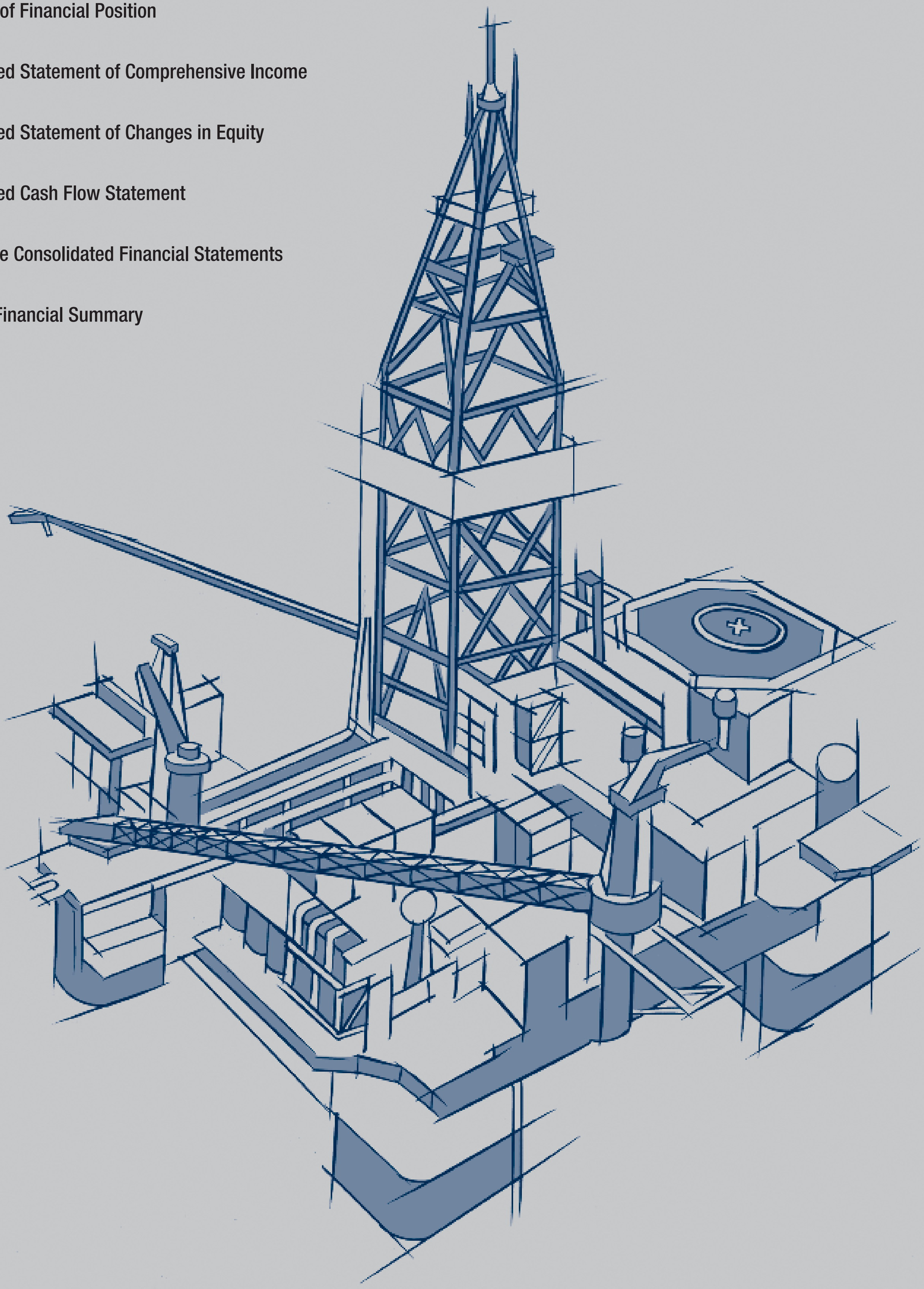
> 5 International ARC Gold Winner Award — "Interior Design: Heavy Machinery"

2011 Annual Report

INTEGRATED

Heavy Industry Conglomerate Serving Clients in Energy Industry

Financial Sections



pwc 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 83 to 167, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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.

22/F Prince's Building, Central, Hong Kong
Tel: +852 2289 8888 Fax: +852 2810 9888

香港中環太子大廈廿二樓
電話: +852 2289 8888 傳真: +852 2810 9888

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 2012, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for 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, 26 March 2013

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	875,666	643,565
Property, plant and equipment	7	18,616,499	16,188,645
Intangible assets	8	468,589	185,125
Long-term deposits	14	153,343	97,131
Prepayments for non-current assets	14, 38	1,868,540	2,798,282
Deferred tax assets	22	168,052	73,849
Available-for-sale financial asset	11	40,000	—
		22,190,689	19,986,597
Current assets			
Inventories	12	2,288,978	2,609,958
Amounts due from customers for contract works	13	8,299,806	7,199,036
Trade and bills receivables	14	3,811,363	3,600,151
Other receivables, prepayments and deposits	14	7,497,132	6,638,493
Derivative financial instruments	23	—	9,729
Pledged deposits	15	3,937,081	4,961,514
Cash and cash equivalents	16	2,143,788	6,255,138
		27,978,148	31,274,019
Total assets		50,168,837	51,260,616
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	599,526	599,526
Share premium	17	7,490,812	7,644,812
Other reserves	19	3,480,596	3,340,517
Retained earnings		2,641,306	3,241,578
		14,212,240	14,826,433
Non-controlling interests		875,965	865,423
Total equity		15,088,205	15,691,856

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	21	8,788,822	9,465,808
Finance lease liabilities — non-current	21	687,144	551,773
Deferred tax liabilities	22	4,191	5,546
		9,480,157	10,023,127
Current liabilities			
Amounts due to customers for contract works	13	331,616	1,168,319
Advances received from customers for contract works	13	—	133,220
Trade and other payables	20	9,278,474	8,493,043
Current income tax liabilities		190,069	149,068
Borrowings	21	15,282,755	15,155,494
Derivative financial instruments	23	5,094	3,015
Provision for warranty	24	146,655	189,867
Finance lease liabilities — current	21	365,812	253,607
		25,600,475	25,545,633
Total liabilities		35,080,632	35,568,760
Total equity and liabilities		50,168,837	51,260,616
Net current assets		2,377,673	5,728,386
Total assets less current liabilities		24,568,362	25,714,983

The consolidated financial statements on pages 83 to 167 were approved by the Board of Directors on 26 March 2013 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	33	33
Current assets			
Other receivables and prepayments	14	110	155
Amounts due from subsidiaries	14	9,553,692	8,071,680
Cash and cash equivalents	16	190,693	1,363,171
		9,744,495	9,435,006
Total assets		9,744,528	9,435,039
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	599,526	599,526
Share premium	17	7,490,812	7,644,812
Other reserves	19	282,236	169,852
Accumulated losses	25	(1,018,453)	(748,232)
Total equity		7,354,121	7,665,958

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	21	752,346	1,751,645
Current liabilities			
Amounts due to subsidiaries	20	5,991	5,991
Other payables	20	5,076	8,430
Borrowings	21	1,621,900	—
Derivative financial instruments	23	5,094	3,015
		1,638,061	17,436
Total liabilities		2,390,407	1,769,081
Total equity and liabilities		9,744,528	9,435,039
Net current assets		8,106,434	9,417,570
Total assets less current liabilities		8,106,467	9,417,603

The financial statements on pages 83 to 167 were approved by the Board of Directors on 26 March 2013 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	7,956,347	15,904,585
Cost of sales	26	(6,815,650)	(12,710,885)
Gross profit		1,140,697	3,193,700
Selling and marketing expenses	26	(91,741)	(60,907)
General and administrative expenses	26	(1,401,868)	(1,152,053)
Research and development expenses	26	(146,552)	(48,664)
Other income	28	668,878	316,527
Other gains/(losses)—net	29	56,242	(227,633)
Operating profit		225,656	2,020,970
Finance income	30	191,288	197,090
Finance costs	30	(989,166)	(110,638)
Finance (costs)/income — net	30	(797,878)	86,452
(Loss)/profit before income tax		(572,222)	2,107,422
Income tax credit/(expense)	31	10,187	(297,699)
(Loss)/profit for the year		(562,035)	1,809,723
Other comprehensive income for the year		—	—
Total comprehensive (loss)/income for the year		(562,035)	1,809,723
Attributable to:			
Equity holders of the Company		(572,577)	1,720,675
Non-controlling interests		10,542	89,048
		(562,035)	1,809,723
(Losses)/earnings per share for earnings attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	34	(0.08)	0.25

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

Dividend	35	—	518,000
Dividend (expressed in RMB per share)		—	0.074

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012		599,526	7,644,812	3,340,517	3,241,578	14,826,433	865,423	15,691,856
(Loss)/profit for the year		—	—	—	(572,577)	(572,577)	10,542	(562,035)
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive (loss)/income for the year		—	—	—	(572,577)	(572,577)	10,542	(562,035)
Transactions with equity holders in their capacity as owners								
Dividend paid	35	—	(154,000)	—	—	(154,000)	—	(154,000)
Share-based payment reserve	18	—	—	112,384	—	112,384	—	112,384
Transfer to statutory reserve	19	—	—	27,695	(27,695)	—	—	—
Transactions with equity holders of the Company		—	(154,000)	140,079	(27,695)	(41,616)	—	(41,616)
Balance at 31 December 2012		599,526	7,490,812	3,480,596	2,641,306	14,212,240	875,965	15,088,205

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

	Note	Attributable to equity holders of the Company 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 2011		599,526	8,484,812	3,043,068	1,731,360	13,858,766	776,375	14,635,141
Profit for the year		—	—	—	1,720,675	1,720,675	89,048	1,809,723
Other comprehensive income		—	—	—	—	—	—	—
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	35	—	(840,000)	—	—	(840,000)	—	(840,000)
Share-based payment reserve	18	—	—	86,992	—	86,992	—	86,992
Transfer to statutory reserve	19	—	—	210,457	(210,457)	—	—	—
Transactions with equity holders of the Company		—	(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 pages 91 to 167 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	36(a)	129,753	(2,521,651)
Interest paid		(1,973,318)	(944,088)
Income tax paid		(44,370)	(282,729)
Net cash used in operating activities		(1,887,935)	(3,748,468)
Cash flows from investing activities			
Purchase of property, plant and equipment and deposits for land use rights		(3,144,025)	(5,122,184)
Purchase of intangible assets	8	(312,968)	(88,393)
Net cash outflow for acquisition of Nantong Rongjin Steel Construction Engineering Company Limited		—	(5,000)
Refund from/(prepayment for) proposed acquisition of Anhui Quanchai Group Corp.	38(a)(i)	523,890	(1,153,890)
Purchases of available-for-sale financial asset	11	(40,000)	—
Interest received		183,599	109,086
Pledged deposits		1,024,433	(951,752)
Net cash used in investing activities		(1,765,071)	(7,212,133)
Cash flows from financing activities			
Dividend paid	35	(154,000)	(840,000)
Proceeds from bank borrowings	36(b)	17,513,387	18,441,170
Repayment of bank borrowings	36(b)	(19,959,142)	(10,736,008)
Proceeds received from finance lease	36(b)	600,000	542,700
Repayments of finance lease	36(b)	(438,394)	(456,548)
(Repayment of advances to)/net advances received from related parties		(4,504)	17,314
Net proceeds from issuance of medium-term note	36(b)	1,982,000	—
Net cash (used in)/generated from financing activities		(460,653)	6,968,628
Net decrease in cash and cash equivalents		(4,113,659)	(3,991,973)
Cash and cash equivalents at beginning of the year		6,255,138	10,412,974
Exchange gain/(loss) on cash and cash equivalents		2,309	(165,863)
Cash and cash equivalents at end of the year	16	2,143,788	6,255,138

The notes on pages 91 to 167 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

(a) 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 40 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 26 March 2013.

(b) Key events

On 28 March 2012, the Company's subsidiary, Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Jiangsu Rongsheng Heavy Industries"), issued the first tranche of the medium-term notes (the "Notes") in the national inter-bank market in the People's Republic of China, with principal amount of RMB2,000,000,000 at the interest rate of 5.95% per annum and with a term of three years.

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 all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Going concern

During the year ended 31 December 2012, the Group reported a loss for the year of RMB562,035,000. The loss during the year ended 31 December 2012 was primarily due to the sluggish global shipping market that caused significant decline in new shipbuilding orders. Amid the challenging operating environment, certain of the Group's shipbuilding customers have asked for postponement in delivery of new vessels that led to slower collection of receivables from such customers. However, the Group had to continue to make payments to suppliers of raw materials, equipment and services and fulfill committed capital expenditures for the development of the Group's Shipbuilding and Offshore Engineering production facilities. As a result, the Group recorded net operating cash outflows of RMB1,887,935,000 and investing cash outflows of RMB1,765,071,000. These caused the Group's cash and cash equivalents to decrease by RMB4,111,350,000 to RMB2,143,788,000 as at 31 December 2012. Further, the Group's total borrowings as at 31 December 2012 amounted to RMB25,124,533,000, of which RMB15,648,567,000 will be due within 12 months from 31 December 2012. In addition, certain borrowings also require the Group to comply with restrictive financial covenants as set out in Note 21. The above conditions indicate the existence of uncertainties which may cast doubt on the Group's ability to continue as a going concern. Notwithstanding the above, the consolidated financial statements are prepared on a going concern basis.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) Going concern (Continued)

In order to improve the Group's operating performance and alleviate its liquidity risk, management is implementing measures to control costs and contain capital expenditure. Moreover, the Group has reached agreements with certain suppliers of raw materials to obtain repayment of previously paid advances and agreed more favorable payment terms for future purchases. Management is also working closely with shipbuilding customers to expedite the collection of outstanding receivables and the Group is implementing strategy to focus on Offshore Engineering businesses with enterprises in the energy sector. With regards to the Group's financing and borrowings, management has successfully renewed borrowing facilities that were due during the year ended 31 December 2012 and will continue the negotiation with other lenders as the borrowings fall due in the coming twelve months. Management expects these will improve the Group's cash flows and financial position in the coming twelve months. Up to the date of approval of these consolidated financial statements, the directors of the Company are not aware of any intention of the principal banks to withdraw their banking facilities or require early repayment of the utilised facilities.

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

The Group invested in an available-for-sale financial asset during the period ended 31 December 2012. Available-for-sale financial asset is non-derivative that is either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial asset is initially recognised at fair value plus transaction costs. Available-for-sale financial asset is derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial asset is subsequently carried at fair value. Changes in the fair value of non-monetary securities classified as available for sale are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

(d) Amendments and interpretations to existing standards effective in 2012 but have no significant impact to the Group's results and finance positions

- Amendment to IFRS 7 "Disclosures — transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This is not relevant to the Group, as it has not made any relevant financial assets transfer transactions.

- Amendment to IFRS 1 "Severe hyperinflation and removal of fixed dates for first-time adopters" beginning on or after 1 July 2011. This is not currently applicable to the Group as it is not operating in hyperinflation region.

- Amendment to IAS 12 "Deferred tax: recovery of underlying assets" beginning on or after 1 January 2012, this is not relevant to the Group as it does not have any investment property.

(e) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

- Amendments to IAS 1 "Financial statement presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- IFRS 9 "Financial instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale investment, for example, will therefore have to be recognised directly in profit or loss.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(e) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted (Continued)

- IFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 12 "Disclosure of interests in other entities" includes the disclosure requirements for a all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- IFRS 13 "Fair value measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for the use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

- IAS 19 (Amendment) "Employee benefits" eliminate the corridor approach and calculate finance cost on a net funding basis. The Group is yet to assess the amendments to IAS19's impact.

The Group has assessed that the adoption of IFRS 10 does not have any financial impact on the Group as all subsidiaries within the Group satisfy the requirements for control under IFRS 10 and there are no new subsidiaries identified under the new guidance.

Apart from IFRS 10, management is in the process of making an assessment of the impact of the above standards, amendments to standards and interpretations. Management is not yet in a position to state what impact they would have, if any, on the Group's results of operations and financial positions.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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.

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.

(a) *Business combinations*

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 owners 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.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) *Business combinations (Continued)*

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 statement of comprehensive income.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 the 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 or valuation where items are re-measured. 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 for each statement of comprehensive income 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 rate on 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.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

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. The carrying amount of the replaced part is derecognize. All other repairs and maintenance are charged in the 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	50 years
Plant and machinery	5 – 20 years
Computer equipment	3 – 5 years
Office equipment	5 years
Motor vehicles	4 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period. 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 gains/(losses) — 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 profit or loss.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred over the acquired subsidiary's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(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. 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 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(d) Research and development costs (Continued)

Amortisation of development costs is calculated on a straight-line basis over the estimated useful lives of 5 years from the date that they are available for use. The useful lives of intangible assets that are not being amortised are reviewed at the end of each reporting period to determine whether events and circumstances continue to support definite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.12 and 2.13).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as other gain/(loss), net.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (Continued)

2.8.2 Recognition and measurement (Continued)

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life -for example, goodwill or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 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 within "other (losses)/gains — net" in the consolidated statement of comprehensive income.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. 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. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges purchases of raw materials.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 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.

2.14 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.

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 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 profit and loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

2.17 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.17 Provisions (Continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 substantively 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability 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.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.19 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.

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).

2.20 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.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.20 Employee benefits (Continued)

(b) Share-based compensation

The employees receive equity instruments of the Company as consideration for their services rendered to the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments 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 equity instrument 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.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Revenue from construction contracts

Please refer to the paragraph "Construction contracts" (Note 2.19) 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.

2.22 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.24 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.

2.25 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 statement of comprehensive income 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 has 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. 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 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. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Sale and leaseback transactions — where the Group is the lessee.

A sale and leaseback transaction involves the sale of an asset by the Group and the leasing of the same asset back to the Group. The lease payments and the sale price are usually interdependent as they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved and the economic and commercial substance of the whole arrangement.

Finance leases

Sale and leaseback arrangements that result in the Group retaining the majority of the risks and rewards of ownership of assets are accounted for as finance leases. Any excess/(deficit) of sales proceeds over the carrying amount is deferred and amortised over the lease term.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.26 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.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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, Hong Kong dollar ("HK$") and EUR which 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 14, 15,16, 20 and 21 respectively.

At 31 December 2012, if RMB had weakened/strengthened by 2% against the USD, HKD and EUR respectively with all other variables held constant, pre-tax results for the year would have been approximately RMB29,156,000 (2011: RMB70,203,000) higher/lower, mainly as a result of foreign exchange differences on translation of USD, HK$ and EUR denominated monetary assets and liabilities.

(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 and long-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 2012, if interest rate had increased/decreased by 100 basis points with all other variables held constant, pre-tax results for the year would have been approximately RMB136,130,000 (2011: RMB119,858,000) lower/higher.

(b) Credit risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 31 December 2012, 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

For customers of the Shipbuilding segment, the Group actively monitors the financial situations of its customers who are affected by the credit crisis and procedures are taken to renegotiate the shipbuilding contract terms as necessary. The Group assesses on a case-by-case basis at each balance sheet date whether there is any objective evidence that individual trade receivable from customer of the Shipbuilding segment is impaired. For those trade receivables where objective evidence of impairment exists, the amount of loss is measured as the difference between the carrying amount of the trade receivables and the present value of estimated future cash flows discounted at the current market rate of similar financial assets. The Group is exposed to concentration of credit risk as the three largest debtors of the Shipbuilding segment represented over 50% (2011: no debtor accounted for more than 10% of total trade receivables) of the total trade receivables of the Group as at 31 December 2012. Accordingly, the Group's consolidated results would be heavily affected by the financial capability of these debtors to fulfill the obligations under the shipbuilding contracts with the Group. The Group's credit risk monitoring activities relating to these debtors include review of their credit profiles, business prospects, background and their financial capability. As at 31 December 2012, management has determined to record provision for doubtful receivable in the amount of RMB168,545,000 (2011: nil). As at 31 December 2012, no other customer contributed more than 10% of the trade receivables of the Group.

For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial positions, past experience and other factors, before granting credit limits. The Group's trade receivables are due from parties of appropriate credit history. As at 31 December 2012, trade receivables of RMB213,694,000 (2011: RMB45,370,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for.

For credit exposures to other receivables, management assesses the credit quality of the counterparties on a case-by-case basis, taking into account their financial positions, past experience, amounts and timing of expected receipts and other factors. No significant impairment in relation to these receivables has occurred during the year ended 31 December 2012 (2011: nil).

In relation to the deposits and prepayments for raw materials and production costs, the credit quality of the counterparties is assessed by taking into account their financial positions, relationship with the Group, credit history and other factors. Management will also regularly review the realisability of these deposits and prepayments and follow up the disputes or amounts overdue, if any. The directors do not expect any losses from non-performance by these counterparties. For details of these amounts, please refer to note 14(b).

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 (Note 2.1(a)). During the year ended 31 December 2012, the Group has had significant cash outflows since certain of the Group's shipbuilding customers have asked for postponement in delivery of new vessels that led to slower collection of receivables from such customers. However, the Group had to continue to make payments to suppliers of raw materials, equipment and services and fulfill committed capital expenditures for the development of the Group's Shipbuilding and Offshore Engineering production facilities. 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 2012 are summarised in Note 21.

The table below analyses the Group's non-derivative 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. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**More than 2 years** RMB'000	**Total** RMB'000
Group				
At 31 December 2012				
Borrowings	16,257,818	4,148,959	5,681,198	26,087,975
Finance lease liabilities	426,568	394,232	331,326	1,152,126
Derivative financial instruments	5,094	—	—	5,094
Trade and other payables	8,913,101	—	—	8,913,101
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

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 2012				
Amount due to subsidiaries	5,991	—	—	5,991
Other payables	5,076	—	—	5,076
Borrowings	1,682,113	756,623	—	2,438,736
Derivative financial instruments	5,094	—	—	5,094
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

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, issue new shares or sell assets to reduce debt.

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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (Continued)

The Group's total liabilities and total assets positions and debt-asset ratio at 31 December 2012 and 2011 were as follows:

	2012 RMB'000	2011 RMB'000
Total liabilities	35,080,632	35,568,760
Total assets	50,168,837	51,260,616
Debt-asset ratio	0.70	0.69

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 18) 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 2012, the Group was holding certain Level 3 trading derivative assets fair valued of RMB nil (2011: RMB9,729,000), available-for-sale financial asset fair valued at RMB40,000,000 (2011: nil) and trading derivative liabilities fair valued at RMB5,094,000 (2011: RMB3,015,000), for which inputs that are not observable in active market (for example, over-the-counter derivatives) were used in determining the fair values.

As at 31 December 2012, the Group was not holding certain Level 2 trading derivative assets at fair value (2011: RMB9,729,000) but trading derivative liabilities fair valued at RMB5,094,000 (2011: RMB3,015,000) 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, ASSUMPTIONS AND JUDGEMENT

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.

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) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. This method places considerable importance on accurate estimates of the extent of progress towards completion. The Group measures the stage of completion of construction contracts 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.

The Group commences recognition of profit for each shipbuilding construction contract when the construction of the relevant vessels reaches a stage where the outcome of the contract can be reasonably ascertained and the total contract costs attributable to the contract can be measured reliably by management.

The Group has assessed on a case-by-case basis whether it is probable contracts to construct vessels for all shipbuilding customers, including those with long aged trade receivables, will generate future economic benefits that will flow to the Group. The assessment include evaluation of customer's reputation, credit profile, historical performance and relationship with the Group.

(b) 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. 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 current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets " to determine when assets are impaired, which requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of assets is less than their carrying balance, including factors such as the industry performance and changes in operational and financing cash flows. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (a CGU). The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations require the use of estimates, including operating results, income and expenses of the business, future economic conditions on growth rates and future returns. Significant changes in the key assumptions on which the recoverable amount of the assets is based could significantly affect the Group's financial position and results of operations.

4 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENT (CONTINUED)

(d) 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 (Note 3.1(b)).

(e) Capitalisation of development costs

In determining the development costs to be capitalised, the Group makes estimates and assumptions based on expected future economic benefits generated by intangible assets that are the result of these development costs. Other important estimates and judgement in this assessment process are the distinction between research and development stage and the estimated useful life. Changes in these key assumptions and judgement on which the capitalisation of the development costs is based could significantly affect the Group's financial position and results of operations.

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 primarily 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 2012 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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	7,558,567	15,373,924	–	31,295	301,855	680,938	740,526	1,130,217	8,600,948	17,216,374
Inter-segment revenue	–	–	–	–	(92,104)	(274,596)	(552,497)	(1,037,193)	(644,601)	(1,311,789)
Revenue from external customers	7,558,567	15,373,924	–	31,295	209,751	406,342	188,029	93,024	7,956,347	15,904,585
Segment results	1,108,047	3,219,050	–	(88,495)	49,272	74,927	(16,622)	(11,782)	1,140,697	3,193,700
Selling and marketing expenses									(91,741)	(60,907)
General and administrative expenses									(1,401,868)	(1,152,053)
Research and development expenses									(146,552)	(48,664)
Other income									668,878	316,527
Other gains/(losses), net									56,242	(227,633)
Finance (expenses)/income, net									(797,878)	86,452
(Loss)/profit before income tax									(572,222)	2,107,422

	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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	11,185,400	9,041,303	1,136,265	1,211,808	1,773,632	2,044,990	4,573,595	5,432,346	18,668,892	17,730,447
Unallocated									31,499,945	33,530,169
Total assets									50,168,837	51,260,616

	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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment liabilities	331,616	1,125,350	105,367	176,189	1,142,624	2,062,877	4,188,012	4,891,946	5,767,619	8,256,362
Unallocated									29,313,013	27,312,398
Total liabilities									35,080,632	35,568,760

5 SEGMENTAL INFORMATION (CONTINUED)

Segment assets are measured in accordance with IFRSs 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.

No revenue was derived from the Offshore Engineering segment for the year ended 31 December 2012. All the revenue of the Offshore Engineering segment for the year ended 31 December 2011 was derived from one customer.

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 2012 (2011: same).

During the year ended 31 December 2012, revenue from one (2011: three) customer 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:

	2012 RMB'000	2011 RMB'000
Shipbuilding customer 1	2,128,536	5,094,710
Shipbuilding customer 2	701,165	2,504,283
Shipbuilding customer 3	643,476	1,888,075

Geographically, management considers the performance of Shipbuilding, Offshore Engineering, Engineering Machinery and Marine Engine Building segments 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:

	2012 RMB'000	2011 RMB'000
Brazil	2,133,094	5,094,710
Greece	2,083,127	1,265,772
China	1,654,648	5,770,768
India	701,165	—
Turkey	568,722	137,854
Israel	337,704	—
Oman	273,132	1,888,075
Norway	177,782	255,709
Germany	13,911	1,449,051
Russia	—	17,949
Others	13,062	24,697
	7,956,347	15,904,585

5 SEGMENTAL INFORMATION (CONTINUED)

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:

	2012 RMB'000	2011 RMB'000
Opening net book amount	643,565	657,206
Additions	248,184	—
Amortisation (Note 26)	(16,083)	(13,641)
Closing net book amount	875,666	643,565
In the PRC, held on:		
Leases between 10 to 50 years	875,666	643,565

Borrowings and refund guarantees are secured by certain land use rights with an aggregate carrying value of RMB761,404,000 as at 31 December 2012 (2011: RMB468,268,000) (Notes 21 and 37(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 26).

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 2011							
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 26)	—	(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
Year ended 31 December 2012							
Opening net book amount	6,567,303	7,627,893	1,899,147	24,225	33,492	36,585	16,188,645
Additions	2,762,130	34,395	52,398	4,733	12,683	2,685	2,869,024
Disposal	—	—	(58)	(996)	(480)	(317)	(1,851)
Transfer	(2,571,323)	1,709,437	861,375	511	—	—	—
Depreciation (Note 26)	—	(216,412)	(196,782)	(10,239)	(9,326)	(6,560)	(439,319)
Closing net book amount	6,758,110	9,155,313	2,616,080	18,234	36,369	32,393	18,616,499
At 31 December 2012							
Cost	6,758,110	9,864,815	3,390,493	48,383	61,296	51,914	20,175,011
Accumulated depreciation	—	(709,502)	(774,413)	(30,149)	(24,927)	(19,521)	(1,558,512)
Net book amount	6,758,110	9,155,313	2,616,080	18,234	36,369	32,393	18,616,499

7 PROPERTY, PLANT AND EQUIPMENT — GROUP (CONTINUED)

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

	2012 RMB'000	2011 RMB'000
Cost of sales	**243,681**	218,746
Selling and marketing expenses	**454**	488
General and administrative expenses	**195,184**	221,634
Charged to consolidated profit or loss (Note 26)	**439,319**	440,868

Borrowings and refund guarantees are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB5,433,560,000 as at 31 December 2012 (2011: RMB1,820,893,000) (Notes 21 and 37(a)).

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

	2012 RMB'000	2011 RMB'000
Cost — capitalised finance lease	**1,566,877**	926,217
Accumulated depreciation	**(199,007)**	(35,909)
Net book amount	**1,367,870**	890,308

As at 31 December 2012, the Group entered into certain sale and leaseback arrangements in respect of certain plant and machineries under a non-cancellable lease, with costs of RMB1,566,877,000 (2011: RMB926,217,000). The leases have bargain purchase option and with terms of 3 to 5 years where substantial risks and rewards of ownership of the assets retained with the Group.

At 31 December 2012, the Group was in the process of obtaining the property ownership certificates in respect of property interests held under medium term land use rights in PRC with carrying amount of approximately RMB845,846,000 (2011: RMB227,630,000) . In the opinion of directors, the absence of the property ownership certificates to these property interests does not impair their carrying value to the Group as the Group has paid the full purchase consideration of these property interests and the probability of being evicted on the ground of an absence of property ownership certificates is remote.

7 PROPERTY, PLANT AND EQUIPMENT — GROUP (CONTINUED)

During the year, management has performed impairment assessment of the Group's non-current assets at the CGU level. The CGUs are the Shipbuilding and Offshore Engineering, Engineering Machinery and Marine Engine Building segments of the Group.

The recoverable amount of each 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 and the key assumptions in these financial budgets are set out below. The revenue growth and costs estimates during the five-year projection period reflect the Group's expectation of stabilization in the shipbuilding market, anticipated demand in offshore marine equipment, impact of new products and initiatives to contain cost. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the segment operates. Management determined budgeted gross margin based on past performance and its expectations for market development. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to relevant CGUs.

Key assumptions used for the value-in use calculations of the respective segments were shown below:

Segments	Gross margin	Discount rate	Terminal growth rate
Shipbuilding and Offshore Engineering	Range from 14% to 17%	13%	4%
Marine Engine Building	Range from 15% to 31%	15%	4%
Machinery Engineering	Range from 14% to 28%	15%	4%

As a result of this impairment assessment, no impairment charge of non-current assets was recognised in respective CGU as its respective recoverable amounts of non-current assets exceeded its respective carry value of the non-currents assets. Management believes no reasonably possible change in assumptions would cause the carrying amount of any CGUs to exceed its recoverable amount.

8 INTANGIBLE ASSETS — GROUP

	As at 31 December									
	2012					2011				
	Goodwill RMB'000	Patents RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000	Goodwill RMB'000	Patents RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000
Opening 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)
Opening net book amount	55,139	13,023	44,219	72,744	185,125	55,139	18,189	35,568	—	108,896
Movement during the year										
Opening net book amount	55,139	13,023	44,219	72,744	185,125	55,139	18,189	35,568	—	108,896
Additions	—	—	13,900	299,068	312,968	—	—	15,649	72,744	88,393
Amortisation charge (Note 26)	—	(4,848)	(10,107)	(14,549)	(29,504)	—	(5,166)	(6,998)	—	(12,164)
Closing net book amount	55,139	8,175	48,012	357,263	468,589	55,139	13,023	44,219	72,744	185,125
Closing costs	55,139	21,644	74,768	371,812	523,363	55,139	21,644	60,868	72,744	210,395
Accumulated amortisation	—	(13,469)	(26,756)	(14,549)	(54,774)	—	(8,621)	(16,649)	—	(25,270)
Closing net book amount	55,139	8,175	48,012	357,263	468,589	55,139	13,023	44,219	72,744	185,125

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").

For key assumptions of used for the value-in-use calculations, please refer to the Note 7.

9 INVESTMENTS IN SUBSIDIARIES — COMPANY

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	33	33

Details of the principal subsidiaries of the Group are set out in Note 40.

10 FINANCIAL INSTRUMENTS BY CATEGORY

The following is an analysis of financial instruments by category:

Group

	Assets at fair value through equity RMB'000	Assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Assets as per consolidated statement of financial position				
As at 31 December 2012				
Amounts due from customers for contract works (Note 13)	—	—	8,299,806	8,299,806
Trade and bills receivables (Note 14a)	—	—	3,811,363	3,811,363
Other receivables and deposits	—	—	3,448,346	3,448,346
Available-for-sale financial asset (Note 11)	40,000	—	—	40,000
Pledged deposits (Note 15)	—	—	3,937,081	3,937,081
Cash and cash equivalents (Note 16)	—	—	2,143,788	2,143,788
Total	40,000	—	21,640,384	21,680,384
As at 31 December 2011				
Amounts due from customers for contract works (Note 13)	—	—	7,199,036	7,199,036
Trade and bills receivables (Note 14a)	—	—	3,600,151	3,600,151
Other receivables and deposits	—	—	1,356,153	1,356,153
Derivative financial instruments (Note 23)	—	9,729	—	9,729
Pledged deposits (Note 15)	—	—	4,961,514	4,961,514
Cash and cash equivalents (Note 16)	—	—	6,255,138	6,255,138
Total	—	9,729	23,371,992	23,381,721

10 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The following is an analysis of financial instruments by category:

Group

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per consolidated statement of financial position			
As at 31 December 2012			
Trade and other payables	—	8,913,101	8,913,101
Borrowings (Note 21)	—	24,071,577	24,071,577
Derivative financial instruments (Note 23)	5,094	—	5,094
Finance lease liabilities (Note 21)	—	1,052,956	1,052,956
Total	5,094	34,037,634	34,042,728
As at 31 December 2011			
Trade and other payables	—	8,113,122	8,113,122
Borrowings (Note 21)	—	24,621,302	24,621,302
Derivative financial instruments (Note 23)	3,015	—	3,015
Finance lease liabilities (Note 21)	—	805,380	805,380
Total	3,015	33,539,804	33,542,819

10 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	Loans and receivables RMB'000
Assets as per statement of financial position	
As at 31 December 2012	
Other receivables (Note 14b)	110
Amounts due from subsidiaries (Note 14b)	9,553,692
Cash and cash equivalents (Note 16)	190,693
Total	9,744,495
As at 31 December 2011	
Other receivables (Note 14b)	155
Amounts due from subsidiaries (Note 14b)	8,071,680
Cash and cash equivalents (Note 16)	1,363,171
Total	9,435,006

10 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	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 position			
As at 31 December 2012			
Amounts due to subsidiaries (Note 20)	—	5,991	5,991
Other payable (Note 20)	—	5,076	5,076
Borrowings (Note 21)	—	2,374,246	2,374,246
Derivative financial instrument (Note 23)	5,094	—	5,094
Total	5,094	2,385,313	2,390,407
As at 31 December 2011			
Amounts due to subsidiaries (Note 20)	—	5,991	5,991
Other payable (Note 20)	—	8,430	8,430
Borrowings (Note 21)	—	1,751,645	1,751,645
Derivative financial instrument (Note 23)	3,015	—	3,015
Total	3,015	1,766,066	1,769,081

11 AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Unlisted equity investment outside Hong Kong at fair value	40,000	—	—	—

The fair value of unlisted securities amounted to RMB40,000,000 (2011: nil) is determined based on the valuation performed by an independent professional valuer using inputs that are not observable in active market.

12 INVENTORIES — GROUP

	2012 RMB'000	2011 RMB'000
Raw materials	1,703,461	1,923,150
Work in progress	156,816	288,534
Finished goods	428,701	398,274
	2,288,978	2,609,958

The cost of inventories recognised as expense and included in cost of sales amounted to RMB4,807,489,000 for the year ended 31 December 2012 (2011: RMB10,112,278,000), which included inventory write-down of RMB19,790,000 (2011: Nil).

13 CONSTRUCTION CONTRACTS — GROUP

	2012 RMB'000	2011 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	12,154,930	41,931,938
Less: Progress billings	(4,186,740)	(35,901,221)
Net balance sheet position for ongoing contracts	7,968,190	6,030,717
Presented as:		
Amounts due from customers for contract works	8,299,806	7,199,036
Amounts due to customers for contract works	(331,616)	(1,168,319)
Provision for foreseeable losses	—	—
	7,968,190	6,030,717
Advances received from customers for contract works	—	133,220

Refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB2,243,969,000 as at 31 December 2012 (2011: RMB4,424,768,000) (Note 37(a)).

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

(a) Trade and bills receivables

	Group 31 December 2012 RMB'000	Group 31 December 2011 RMB'000	Company 31 December 2012 RMB'000	Company 31 December 2011 RMB'000
Trade receivables	4,187,652	3,618,755	—	—
Less: Provision for doubtful receivables	(382,239)	(45,370)	—	—
Bills receivables	5,950	26,766	—	—
	3,811,363	3,600,151	—	—

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

	Group 31 December 2012 RMB'000	Group 31 December 2011 RMB'000	Company 31 December 2012 RMB'000	Company 31 December 2011 RMB'000
Undue	266,369	337,173	—	—
Past due 1–180 days	359,746	2,483,669	—	—
Past due 181– 360 days	1,956,856	761,498	—	—
Past due 361– 720 days	1,228,392	17,811	—	—
	3,811,363	3,600,151	—	—

14 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

(a) Trade and bills receivables (Continued)

Movements on the provision for doubtful receivables are as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	45,370	16,884
Provision for the year	338,304	31,893
Reversal during the year	(1,435)	(3,407)
At 31 December	382,239	45,370

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 2012, trade receivables of RMB213,694,000 (2011: RMB45,370,000) and RMB168,545,000 (2011: nil) related to certain customers of the Engineering Machinery segment and the Shipbuilding segment were impaired and provided for respectively.

As at 31 December 2012, trade receivables of RMB3,544,994,000 (2011: RMB3,262,978,000) were past due but not impaired. The ageing analysis of these trade receivables by due dates is listed above, among which, approximately RMB2,703,022,000 (2011: RMB2,272,584,000) is due from the three largest debtors. Based on the Group's review of the credit risk exposure and expected pattern of settlement at year end as disclosed in Note 3.1(b), management has determined to record provision for doubtful receivable amounted to RMB168,545,000 (2011: nil) in respect of the receivables from these debtors.

As at 31 December 2012, trade receivables amounting to RMB359,441,000 (2011: 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 of RMB3,811,363,000 less the secured trade receivables.

During the year ended 31 December 2012, the Group assigned trade receivables amounted to RMB502,840,000 to a bank (2011: nil). Such arrangement is secured by deposits of RMB251,420,000. These pledged deposits will be released upon the earlier of the termination of the arrangement on 28 June 2014 or settlement of the assigned trade receivables to the bank from the customers.

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

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

14 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 31 December		Company 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	623,205	574,086	—	—
USD	3,188,158	3,018,525	—	—
Euro	—	7,540	—	—
	3,811,363	3,600,151	—	—

(b) Other receivables, prepayments and deposits

	Group 31 December		Company 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receivables from agents (i)	332,154	316,634	—	—
Other receivables				
— Third parties (ii)	2,471,081	442,927	110	155
— Related parties (Note 39)	453,857	449,721	—	—
— Subsidiaries	—	—	9,553,692	8,071,680
VAT receivable	1,097,631	883,385	—	—
Deposits (iii)	191,254	146,871	—	—
Prepayments for property, plant and equipment and land use rights				
— Third parties	3,125,784	2,891,282	—	—
— Related parties (Note 39)	1,054	43,152	—	—
Prepayments for raw materials and production costs				
— Third parties (iv)	1,662,251	2,930,987	—	—
— Related parties (Note 39)	170,846	170,846	—	—
Prepayments — others				
— Third parties	13,103	1,258,101	—	—
	9,519,015	9,533,906	9,553,802	8,071,835
Less: non-current deposits and prepayments	(2,021,883)	(2,895,413)	—	—
Current portion	7,497,132	6,638,493	9,553,802	8,071,835

14 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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

(i) 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 20).

(ii) The other receivables as at 31 December 2012 included RMB630,000,000 (2011: RMB1,153,890,000 in non-current prepayments) paid in respect of the proposed acquisition of Anhui Quanchai Group Corp. (Note 38). Total deposits of RMB1,153,890,000 was paid in 2011, which comprised RMB630,000,000 of deposit paid to Anhui Property Rights Exchange Co., Ltd ("Anhui Property Exchange") and RMB523,890,000 of deposit to China Securities Depository and Clearing Corp. Ltd, Shanghai Branch ("China Securities Clearing"). Management applied for the refund of the deposits. As at 31 December 2012, RMB523,890,000, being the deposit previously paid to the China Securities Clearing, together with interest, had been received by the Group. Management is of the view that the recoverability of the deposit made to Anhui Property Exchange amounting to RMB630,000,000, is reasonably certain and hence no provision for impairment is required as at 31 December 2012.

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

(iii) Finance lease and letters of credit are secured by certain refundable deposits with an aggregate carrying value of RMB154,880,000 as at 31 December 2012 (2011: RMB85,416,000). As at 31 December 2012, the Group has a non-current time deposit of RMB13,450,000 (2011: nil) at the interest rate of 3.6% per annum and with maturity date on 27 August 2015.

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

(iv) According to the contracts entered with certain suppliers, the Group placed deposits and prepayments to secure the supply of raw materials. As at 31 December 2012, the Group prepaid RMB571,025,000 to the five largest suppliers (2011: RMB1,485,528,000).

14 TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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

As at 31 December 2012, no other receivables were past due (2011: 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 carrying amounts of other receivables, prepayments and deposits are denominated in the following currencies:

	Group		Company	
	31 December		31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**8,708,820**	8,156,541	**—**	—
HK$	**179,190**	165,569	**9,553,802**	7,014,919
USD	**531,505**	913,386	**—**	1,056,916
Euro	**98,193**	188,494	**—**	—
Japanese Yen	**1,307**	109,916	**—**	—
	9,519,015	9,533,906	**9,553,802**	8,071,835

15 PLEDGED DEPOSITS — GROUP

Pledged deposits are denominated in the following currencies:

	2012	2011
	RMB'000	RMB'000
RMB	**3,645,363**	4,955,929
USD	**291,718**	5,585
	3,937,081	4,961,514

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

As at 31 December 2012, the weighted average effective interest rate is 1.92% per annum (2011: 1.59% per annum).

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December		31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**1,786,122**	4,703,898	**180,420**	542,087
Short-term bank deposits	**357,666**	1,551,240	**10,273**	821,084
	2,143,788	6,255,138	**190,693**	1,363,171

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

	Group		Company	
	31 December		31 December	
	2012	2011	**2012**	2011
Effective interest rate	**3.01%**	1.46%	**3.00%**	0.77%
Maturity (months)	**2.9**	1.5	**0.9**	0.7

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	31 December		31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**1,508,896**	3,545,833	**12,434**	74,551
USD	**627,324**	2,392,529	**177,379**	1,282,684
HK$	**4,413**	307,019	**880**	5,936
SGD	**2,998**	—	**—**	—
Others	**157**	9,757	**—**	—
	2,143,788	6,255,138	**190,693**	1,363,171

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 2012, the Group has cash at bank and short-term bank deposits amounting to approximately RMB1,828,944,000 (2011: RMB5,402,603,000) 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.

17 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Nominal value of ordinary shares HK$	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised					
Ordinary shares of HK$0.1 each at 31 December 2011 and 2012	38,000,000,000	3,800,000,000	—	—	—
Issued:					
Ordinary shares of HK$0.1 each at 1 January 2011	7,000,000,000	700,000,000	599,526	8,484,812	9,084,338
Dividend paid				(840,000)	(840,000)
Ordinary shares of HK$0.1 each at 31 December 2011	7,000,000,000	700,000,000	599,526	7,644,812	8,244,338
Dividends paid (Note 35)				(154,000)	(154,000)
Ordinary shares of HK$0.1 each at 31 December 2012	7,000,000,000	700,000,000	599,526	7,490,812	8,090,338

18 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 ("Old Grant Date"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020 ("Expiry Date"). 36,600,000 (2011: 24,600,000) share option is exercisable as at 31 December 2012.

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

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

18 SHARE-BASED PAYMENT — GROUP AND COMPANY (CONTINUED)

Pre-IPO Share Option Scheme (Continued)

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 2011	4	62,500
Granted	—	—
Exercised	—	—
Lapsed	—	(1,000)
At 31 December 2011	4	61,500
At 1 January 2012	4	61,500
Granted	—	—
Exercised	—	—
Lapsed	—	(500)
At 31 December 2012	4	61,000

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 Main Board of the Hong Kong Stock Exchange.

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

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

18 SHARE-BASED PAYMENT — GROUP AND COMPANY (CONTINUED)

Share Option Scheme (Continued)

	Average exercise price in HK$ per share	Number of share options (thousands)
At 1 January 2012	—	—
Granted	1.94	348,580
Exercised	—	—
Forfeited	—	—
At 31 December 2012	1.94	348,580

The total expense recognised in the consolidated statement of comprehensive income for share options granted to directors and employees approximates RMB112,384,000 during the current year (2011: RMB86,992,000). Amount of RMB48,354,000 (2011: RMB86,992,000) is recognised for Pre-IPO Share Scheme and RMB64,030,000 (2011: nil) is recognised for Share Option Scheme. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

19 OTHER RESERVES

(a) Group

	Note	Capital reserve RMB'000	Available-for-sale financial asset reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Total RMB'000
Balance at 1 January 2011		2,462,930	—	319,436	260,702	3,043,068
Share-based payment reserve (Note 18)		—	—	86,992	—	86,992
Transfer to statutory reserve	(i)	—	—	—	210,457	210,457
Balance at 31 December 2011		2,462,930	—	406,428	471,159	3,340,517
Balance at 1 January 2012		2,462,930	—	406,428	471,159	3,340,517
Available-for-sale financial asset reserve		—	—	—	—	—
Share-based payment reserve (Note 18)		—	—	112,384	—	112,384
Transfer to statutory reserve	(i)	—	—	—	27,695	27,695
Balance at 31 December 2012		2,462,930	—	518,812	498,854	3,480,596

19 OTHER RESERVES (CONTINUED)

(a) Group (Continued)

(i) 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 2012 amounted to approximately RMB27,695,000(2011: RMB210,457,000).

(b) Company

	Capital reserve RMB'000	Share-based payment reserve RMB'000	Total RMB'000
Balance at 1 January 2011	33	82,827	82,860
Share-based payment reserve	—	86,992	86,992
Balance at 31 December 2011	33	169,819	169,852
Share-based payment reserve	—	112,384	112,384
Balance at 31 December 2012	33	282,203	282,236

20 TRADE AND OTHER PAYABLES

	Group 31 December 2012 RMB'000	Group 31 December 2011 RMB'000	Company 31 December 2012 RMB'000	Company 31 December 2011 RMB'000
Trade payables	2,815,079	2,839,805	—	—
Bills payables				
— Third parties	3,686,309	2,741,654	—	—
— Related parties (Note 39)	2,950	81,432	—	—
Other payables for purchase of property, plant and equipment				
— Third parties	370,889	662,577	—	—
— Related parties (Note 39)	904,420	762,722	—	—
Other payables				
— Third parties	234,686	503,078	—	—
— Related parties (Note 39)	102	470	—	—
— Subsidiaries	—	—	5,991	5,991
Receipt in advance	158,822	99,463	—	—
Accrued expenses				
— Payroll and welfare	90,810	79,805	—	—
— Design fees	88,560	55,638	—	—
— Utilities	7,369	59,610	—	—
— Outsourcing and processing fee	466,005	254,236	—	—
— Others	336,732	151,900	5,076	8,430
VAT payable	5,841	27,570	—	—
Other tax—related payables	109,900	173,083	—	—
	9,278,474	8,493,043	11,067	14,421

Ageing analysis of trade and bills payables is as follows:

	Group 31 December 2012 RMB'000	Group 31 December 2011 RMB'000	Company 31 December 2012 RMB'000	Company 31 December 2011 RMB'000
0 – 30 days	2,007,458	2,588,939	—	—
31 – 60 days	1,047,057	1,279,997	—	—
61 – 90 days	588,370	669,909	—	—
Over 90 days	2,861,453	1,124,046	—	—
	6,504,338	5,662,891	—	—

20 TRADE AND OTHER PAYABLES (CONTINUED)

Trade and other payables are denominated in the following currencies:

	Group 31 December		Company 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**9,167,792**	8,200,692	**—**	—
USD	**98,435**	165,504	**—**	—
HK$	**7,103**	662	**11,067**	14,421
Euro	**5,083**	41,628	**—**	—
Others	**61**	84,557	**—**	—
	9,278,474	8,493,043	**11,067**	14,421

21 BORROWINGS

	Group 31 December		Company 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Bank borrowings	**6,806,822**	9,465,808	**752,346**	1,751,645
The Notes (note 1 (b))	**1,982,000**	—	**—**	—
Finance lease liabilities	**687,144**	551,773	**—**	—
	9,475,966	10,017,581	**752,346**	1,751,645
Current				
Bank borrowings	**15,282,755**	15,155,494	**1,621,900**	—
Finance lease liabilities	**365,812**	253,607	**—**	—
	15,648,567	15,409,101	**1,621,900**	—
Total borrowings	**25,124,533**	25,426,682	**2,374,246**	1,751,645

21 BORROWINGS (CONTINUED)

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

	Group 31 December		Company 31 December	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within 1 year	15,648,567	15,409,101	1,621,900	—
Between 1 and 2 years	4,118,625	4,315,956	752,346	1,005,158
Between 2 and 5 years	3,699,339	3,749,861	—	746,487
Over 5 years	1,658,002	1,951,764	—	—
	25,124,533	25,426,682	2,374,246	1,751,645

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

	Group 31 December		Company 31 December	
	2012	2011	2012	2011
Finance lease liabilities	6.79%	7.29%	—	—
Borrowings	6.12%	6.90%	3.30%	3.25%

Borrowings amounting to RMB22,492,534,000 as at 31 December 2012 (2011: RMB24,139,077,000) are secured by the land use rights, buildings, construction contracts, pledged deposits and guarantee of the Group.

Three borrowings of the Group (2011: two) required the Group to maintain consolidated tangible net worth at any time of not less than RMB13,000,000,000 and the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 1.8 to 1.0. Among the three borrowings, two borrowings amounting to RMB1,257,100,000 were secured by 50% ownership of shares of Wellbo Holding Limited, one of the subsidiaries of the Group which holds 100% of the Jiangsu Rongsheng Heavy Industries Co., Ltd (Note 40).

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

21 BORROWINGS (CONTINUED)

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

	Group 31 December		Company 31 December	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**22,036,574**	22,118,173	**—**	—
USD	**3,059,834**	3,267,651	**2,374,246**	1,751,645
Euro	**915**	33,957	**—**	—
JPY	**27,138**	4,755	**—**	—
Others	**72**	2,146	**—**	—
	25,124,533	25,426,682	**2,374,246**	1,751,645

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	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
6 months or less	**19,350,896**	21,917,138	**2,374,246**	1,068,049
6 – 12 months	**3,063,768**	1,719,748	**—**	—
1– 5 years	**2,709,869**	1,789,796	**—**	683,596
	25,124,533	25,426,682	**2,374,246**	1,751,645

The Group has the following undrawn borrowing facilities:

	2012	2011
	RMB'000	RMB'000
Expiring within one year	**1,706,518**	5,331,298
Expiring beyond one year	**1,900,848**	2,718,880
	3,607,366	8,050,178

21 BORROWINGS (CONTINUED)

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.

	2012 RMB'000	2011 RMB'000
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	426,568	305,370
Later than 1 year and no later than 5 years	725,558	607,635
	1,152,126	913,005
Future finance charges on finance lease	(99,170)	(107,625)
Present value of finance lease liabilities	1,052,956	805,380
The present value of finance lease liabilities are as follows:		
No later than 1 year	365,812	253,607
Later than 1 year and no later than 5 years	687,144	551,773
	1,052,956	805,380

22 DEFERRED INCOME TAX — GROUP

The movement in deferred income tax assets and liabilities during the year ended 31 December 2012, 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 2011	5,546	5,546
Credited to consolidated profit or loss	(1,355)	(1,355)
At 31 December 2012	4,191	4,191

22 DEFERRED INCOME TAX — GROUP (CONTINUED)

	Government grant RMB'000	Provisions RMB'000	Total RMB'000
Deferred tax assets			
At 31 December 2011	10,169	63,680	73,849
(Charged)/Credited to consolidated profit or loss	(10,169)	104,372	94,203
At 31 December 2012	—	168,052	168,052

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

23 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2012		31 December 2011	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Forward foreign exchange contracts — held for trading — Group	—	—	9,729	—
Interest rate swap — held for trading — Group and Company	—	5,094	—	3,015

There is no outstanding forward foreign exchange contracts as at 31 December 2012 (2011: RMB484,310,000).

The notional principal amount of the outstanding interest rate swap as at 31 December 2012 was USD110,000,000 (equivalent to approximately RMB693,099,000) (2011: USD110,000,000).

24 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 management estimates and industry practice.

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

	2012 RMB'000	2011 RMB'000
At 1 January	189,867	228,654
Provision for the year		
— Charged to consolidated profit or loss	40,875	152,180
— Change of estimate (Note a)	—	(109,289)
— Utilisation during the year	(2,733)	(5,485)
— Reversal during the year upon expiring of the warranty period	(81,354)	(76,193)
At 31 December	146,655	189,867

Note:

(a) In prior year, in view of the actual outcome on warranty expenses incurred for the delivered vessels, management revised estimates for the provision for warranty that RMB109,289,000 was credited to the consolidated profit or loss.

25 ACCUMULATED LOSSES — COMPANY

	RMB'000
At 1 January 2011	177,890
Loss for the year	570,342
At 31 December 2011	748,232
Loss for the year	270,221
At 31 December 2012	1,018,453

26 EXPENSES BY NATURE

	2012 RMB'000	2011 RMB'000
Raw materials and consumable used	5,166,753	10,488,040
Amortisation of land use rights (Note 6)	16,083	13,641
Depreciation of property, plant and equipment (Note 7)	439,319	440,868
Amortisation of intangible assets (Note 8)	29,504	12,164
Employee benefit expenses (Note 27)	655,495	576,113
Operating lease payments	77,497	76,014
Auditors' remunerations (Note d)	13,049	10,178
Outsourcing and processing costs	797,353	1,074,451
Commission expense	72,926	154,589
Design fees	68,234	61,657
Agency fees	27,815	25,658
Consultancy fees	60,859	52,824
Other tax-related expenses and customs duties (Note a)	60,709	60,824
Bank charges (include refund guarantee charges)	75,445	142,543
Reversal of warranty (Note 24)	(40,479)	(33,302)
Office expenses and utilities	262,609	353,963
Donations and sponsoring expenses	26,600	13,286
Write down on inventories	19,790	—
Provision for impairment of trade receivables (Note 14)	336,869	28,486
Inspection fees	49,252	55,231
Insurance premiums	21,553	58,760
Storage and handling charges	55,109	84,245
Advertising, promotion and marketing expenses	82,912	77,244
Royalty expenses	39,485	85,430
Miscellaneous expenses	41,070	59,602
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses (Notes b, c)	8,455,811	13,972,509

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 2012 were RMB445,620,000 (2011: RMB121,408,000), among which RMB299,068,000 were capitalised in intangible assets as disclosed in Note 8 (2011: RMB72,744,000).

26 EXPENSES BY NATURE (CONTINUED)

Note: (Continued)

(c) During the year ended 31 December 2012, the Group has received subsidy of RMB1,271,758,000 (2011: RMB1,250,000,000) from various governmental authorities to compensate costs in which the Group has incurred for research and development of shipbuilding processes, designs investment in the heavy industries and the related people development. The subsidies have been recognised in the consolidated profit and loss for the year ended 31 December 2012. Amount of RMB1,271,758,000 (2011: RMB1,250,000,000) was deducted against cost of sales of RMB1,022,132,000 (2011: RMB500,000,000), general and administrative expenses of RMB159,114,000 (2011: RMB214,589,000); other (losses)/gains — net of RMB1,749,000 (2011:nil), finance costs of RMB76,572,000 (2011: RMB535,411,000), selling and marketing expenses of RMB12,191,000 (2011: nil).

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

27 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2012 RMB'000	2011 RMB'000
Salaries and wages	570,594	342,385
Social security costs	80,351	77,896
Contribution to pension plans	14,539	12,911
Other benefits	67,181	101,911
Share-based payment (Note 18)	112,384	86,992
	845,049	622,095
Less: Capitalised in intangible assets	(179,805)	(45,982)
Capitalised in property, plant & equipment	(9,749)	—
Charged to consolidated profit or loss (Note a)	655,495	576,113

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 26(c) for details.

28 OTHER INCOME

	2012 RMB'000	2011 RMB'000
Government grants (Note a)	88,036	38,177
Scrap sales (Note b)	312,279	262,444
Compensation income (Note c)	239,689	—
Others	28,874	15,906
	668,878	316,527

28 OTHER INCOME (CONTINUED)

Note:

(a) Government grants represent cash received from government authorities in the PRC during the years ended 31 December 2011 and 2012 as incentives to develop the shipbuilding industry and heavy industry in the PRC.

(b) The Group recognised scrap sales of RMB312,279,000 during the year (2011: RMB262,444,000), as a result of sales of unused scrap steel plates materials.

(c) The Group recognised compensation income of RMB239,689,000 (2011: nil) during the year from certain suppliers.

29 OTHER GAINS/(LOSSES) — NET

	2012 **RMB'000**	2011 RMB'000
Fair value change of derivative instruments — forward contracts	(9,729)	15,751
Fair value losses on derivative instruments — interest rate swap	(2,079)	(3,015)
Net foreign exchange gains/(losses) (Note 32)	68,050	(240,369)
Total	56,242	(227,633)

30 FINANCE INCOME AND COSTS

	2012 **RMB'000**	2011 RMB'000
Finance income:		
Interest income from bank deposits	183,599	109,086
Net foreign exchange gains on financing activities (Note 32)	7,689	88,004
	191,288	197,090
Finance costs:		
Interest expense		
— Borrowings and finance lease liabilities	(1,973,318)	(944,088)
Less: borrowing costs capitalised	984,152	833,450
	(989,166)	(110,638)
Net finance (costs)/income	(797,878)	86,452

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation for the year ended 31 December 2012 was 5.15% (2011: 5.01%).

31 INCOME TAX (CREDIT)/EXPENSE

	2012 RMB'000	2011 RMB'000
Current income tax:		
— PRC Enterprise Income Tax ("EIT")	85,371	358,701
Deferred income tax	(95,558)	(61,002)
Total income tax (credit)/expense	(10,187)	297,699

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

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

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:

	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	(572,222)	2,107,422
Tax calculated at domestic tax rates applicable to profit of respective companies	(94,645)	628,346
Income not subject to tax	(1,642)	(38,967)
Expenses not deductible for tax purposes	133,179	45,799
Effect of tax exemption and tax holiday	(69,093)	(345,766)
Tax losses for which no deferred income tax asset was recognised	37,778	21,709
Utilisation of previously unrecognised tax losses	(15,764)	(13,422)
Tax (credit)/charge	(10,187)	297,699

No Hong Kong profits tax has been provided during the years ended 31 December 2011 and 2012 as the Group had no assessable profit in Hong Kong.

The weighted average applicable tax rate was 17% for the year ended 31 December 2012 (2011: 30%).

As at 31 December 2012, the Group did not recognise deferred income tax assets of RMB48,530,000 (2011: RMB31,078,000) in respect of losses amounting to RMB198,964,000 (2011: RMB124,347,000) that can be carried forward and utilised against future taxable income.

31 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

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

	2012 RMB'000	2011 RMB'000
Within 1 year	—	—
Within 2 years	5,688	—
Within 3 years	15,911	5,688
Within 4 years	33,466	31,809
Within 5 years	143,899	86,850
	198,964	124,347

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 RMB171,950,000 as at 31 December 2012 (2011: RMB195,381,000) 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 RMB3,439,002,000 at 31 December 2012 (2011: RMB3,907,620,000), and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

32 NET FOREIGN EXCHANGE (LOSSES)/GAINS

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

	2012 RMB'000	2011 RMB'000
Net foreign exchange gains/(losses) taken to:		
Other gains/(losses) — net (Note 29)	68,050	(240,369)
Finance income — net (Note 30)	7,689	88,004
	75,739	(152,365)

33 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and senior management's emoluments

	2012 RMB'000	2011 RMB'000
Directors		
—Fees	1,912	1,592
—Basic salaries, housing allowances, other allowances and benefit-in-kind	40,330	38,461
—Contribution to pension plans	341	314
—Discretionary bonuses	—	—
—Share-based payment	44,124	34,795
	86,707	75,162
Senior management		
—Basic salaries, housing allowances, other allowances and benefit-in-kind	9,561	4,145
—Contribution to pension plans	172	128
—Share-based payment	10,004	8,699
	19,737	12,972

33 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

For the year ended 31 December 2012:

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 (i)	882	–	–	–	–	882
Executive Directors						
Chen Qiang (ii)	–	12,000	66	–	12,858	24,924
Zhang De Huang (iii)	–	2,167	–	–	–	2,167
Wu Zhen Guo	–	3,600	–	–	5,154	8,754
Luan Xiao Ming	–	3,600	66	–	5,956	9,622
Deng Hui (iv)	–	3,600	66	–	4,671	8,337
Hong Liang	–	3,600	66	–	5,956	9,622
Sean S J Wang	–	7,813	11	–	3,220	11,044
Wang Tao	–	3,600	66	–	4,557	8,223
Wei A Ning (v)	–	350	–	–	1,752	2,102
Independent Non-executive Directors						
Chen Gang	342	–	–	–	–	342
Tsang Hing Lun	342	–	–	–	–	342
Zhang Xu Sheng	342	–	–	–	–	342
Xia Da Wei (vi)	4	–	–	–	–	4
	1,912	40,330	341	–	44,124	86,707

(i) Resigned as a non-executive director of the Company and Chairman of the Board from 26 November 2012.

(ii) Appointed as Chairman of the Board on 26 November 2012 who is also an executive director and the Chief Executive Officer of the Company.

(iii) Resigned as an executive director of the Company and Vice Chairman of the Board from 26 November 2012.

(iv) Resigned as an executive director of the Company from 28 February 2013.

(v) Appointed as an executive director of the Company on 26 November 2012.

(vi) Appointed as an independent non-executive director of the Company on 28 December 2012.

33 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) Directors' and senior management's emoluments (Continued)

For the year ended 31 December 2011:

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	995	—	—	—	—	995
Executive Directors						
Chen Qiang	—	12,000	65	—	—	12,065
Zhang De Huang	—	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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 are all directors (2011: same), whose emoluments are reflected in the analysis presented above.

(c) During the year ended 31 December 2012, 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 (2011: same).

34 (LOSSES)/EARNINGS PER SHARE

(a) Basic

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

	2012	2011
(Losses)/earnings attributable to equity holders of the Company (RMB'000)	(572,577)	1,720,675
Weighted average number of ordinary shares in issue	7,000,000,000	7,000,000,000
Basic (losses)/earnings per share (RMB per share)	(0.08)	0.25

(b) Diluted

Diluted (losses)/earnings per share is the same as basic (losses)/earnings per share as there were no potential dilutive ordinary shares outstanding during the year (2011: same).

35 DIVIDENDS

The dividends paid in 2012 was RMB154,000,000 (2011: RMB840,000,000), representing the final dividend paid in May 2012 for the year ended 31 December 2011. No final dividend in respect of the year ended 31 December 2012 (2011: RMB0.022 per share, amounting to a total dividend of RMB154,000,000), is to be proposed at the forthcoming annual general meeting.

	2012 RMB'000	2011 RMB'000
Interim dividend paid of nil (2011: RMB0.052) per ordinary share	–	364,000
Proposed final dividend of nil (2011: RMB0.022) per ordinary share	–	154,000
	–	518,000

The aggregate amounts of the dividend paid and proposed during 2011 and 2012 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordinance.

36 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from/(used in) operations

	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	(572,222)	2,107,422
Adjustments for:		
—Amortisation of land use rights (Note 6)	16,083	13,641
—Depreciation (Note 7)	439,319	440,868
—Amortisation of intangible assets (Note 8)	29,504	12,164
—Share-based compensation (Note 18)	112,384	86,992
—Fair value (gain)/loss on derivative financial instruments	11,808	(12,736)
—Provision for impairment loss on inventories	19,790	—
—Provision for trade and other receivables	336,869	28,486
—Reversal of warranty (Note 24)	(40,479)	(33,302)
—Utilisation of provision for warranty (Note 24)	(2,733)	(5,485)
—Interest income	(183,599)	(109,086)
—Interest expense	1,660,439	110,638
—Unrealised exchange loss	(2,309)	165,863
Changes in working capital:		
—Inventories	301,190	(1,052,652)
—Amounts due from customers for contract works	(1,100,770)	(3,108,043)
—Trade and bills receivables, and other receivables, prepayments and deposits	(772,584)	(1,563,459)
—Amounts due to customers for contract works	(836,703)	(3,685,007)
—Advanced received from customers for contract works	(133,220)	(299,253)
—Trade and other payables	935,789	4,340,320
—Long-term deposit	(88,803)	40,978
Cash generated from/(used in) operations	129,753	(2,521,651)

(b) Financing activities

	2012 RMB'000	2011 RMB'000
Borrowings at the beginning of year	25,426,682	17,635,368
Proceeds received from borrowings	17,513,387	18,441,170
Net proceeds from issuance of medium-term note	1,982,000	—
Proceeds received from finance leases	600,000	542,700
Repayments made for borrowings	(19,959,142)	(10,736,008)
Repayments made for finance leases	(438,394)	(456,548)
Borrowings at the end of year	25,124,533	25,426,682

37 CONTINGENCIES

	2012 RMB'000	2011 RMB'000
Contingencies:		
Refund guarantees (Note a)	9,408,887	12,434,396
Litigation (Note b)	261,072	326,333
Financial guarantees (Note c)	122,722	3,513
	9,792,681	12,764,242

(a) Refund guarantees

Refund guarantees relate to the guarantees provided by the banks to the Group's customers in respect of advances received from customers. In the event of non-performance, the customers may call upon the refund guarantees and the Group would be liable to the banks in respect of the refund guarantees provided. As at 31 December 2012, refund guarantees are secured by land and buildings, pledged deposits, vessels under constructions and corporate guarantees from the Company and certain of its subsidiaries.

(b) Litigation

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

As at 31 December 2012, certain subsidiaries of the Group were in dispute with its suppliers in relation to the procurement of inventories. The alleged claims against the Group amounted to RMB111,951,000 (2011: RMB112,433,000). Provision amounted to RMB97,770,000 has been made in respect of the claims as at 31 December 2012 (2011: RMB17,186,000) as management has determined, on the basis of legal advice from the Group's external counsel that it is not probable that these claims would result in an outflow of economic benefits from the Group.

On 13 September 2012, Jiangsu Rongsheng Heavy Industries received a writ of proceedings (民事訴狀) (the "Writ") filed by Aegon Industrial Fund Management Co., Ltd. (興業全球基金管理有限公司) ("Aegon Industrial Fund") with the Intermediate People's Court of Nantong City, Jiangsu Province (江蘇省南通市中級人民法院) ("Nantong People's Court") against Jiangsu Rongsheng Heavy Industries (the "Action"). Pursuant to the Writ, Aegon Industrial Fund was seeking: (i) compensation from Jiangsu Rongsheng Heavy Industries for the loss it allegedly suffered from its investment in the shares of Anhui Quanchai Engine Co., Ltd. (安徽全柴動力股份有限公司) ("Quanchai Engine") in the amount of RMB16,370,200 as a result of Jiangsu Rongsheng Heavy Industries' fault in concluding a contract (締約過失) in relation to the mandatory bid for the acquisition of all the outstanding equity interest in Quanchai Engine; (ii) an order that Jiangsu Rongsheng Heavy Industries shall bear the litigation costs of the Action. Pursuant to a written judgement passed on 31 December 2012, the Nantong People's Court dismissed all the claims made by Aegon Industrial Fund against Jiangsu Rongsheng Heavy Industries. However, on 18 January 2013, Aegon Industries Fund filed for appeal. Jiangsu Rongsheng Heavy Industries believes that the Action is frivolous and as such it will be strenuously defended. No provision has been made in respect of this claim as at 31 December 2012 as management has determined, on the basis of legal advice from the Group's external legal counsel, that it is not probable that this claim would result in an outflow of economic benefits from the Group.

37 CONTINGENCIES (CONTINUED)

(b) Litigation (Continued)

As at 31 December 2012, 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 RMB230,521,000) (2011: USD36,675,000, equivalent to approximately RMB231,086,000). No provision has been made in respect of this claim as at 31 December 2012 as management has determined, on the basis of legal advice from the Group's external legal counsel, that it is not probable that this claim would result in an outflow of economic benefits from the Group.

(c) Financial guarantees

The Group has provided guarantees to certain financial institutions in the PRC in respect of borrowings drawn by certain customers of the Engineering Machinery segment. The borrowings were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the financial institutions should the customers default on the borrowings. As at 31 December 2012, the total value of the guaranteed borrowings outstanding was RMB126,618,000 (2011: RMB20,228,000) in which the Group has made a provision of RMB3,896,000 (2011: RMB16,715,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB122,722,000 (2011: RMB3,513,000) is required as the relevant customers have no history of default and it is not probable that the Group would have to make payments to the financial institutions for the guarantees.

38 COMMITMENTS

(a) Capital commitments

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

	2012 RMB'000	2011 RMB'000
Property, plant and equipment — Contracted but not provided for	1,967,175	2,951,877
Land use right — Contracted but not provided for	177,416	—
Other capital commitment — Contracted but not provided for (note i)	160,000	3,614,417

38 COMMITMENTS (CONTINUED)

(a) Capital commitments (Continued)

(i) Other capital commitment

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

On 16 January 2012, the Group entered into an agreement with 6 strategic investors for the fund, where the Group proposed to invest RMB200,000,000 into the fund, representing 6.66% of the total capital of the fund. As at 31 December 2012, the Group has paid the first instalment of RMB40,000,000 to the fund which is classified as available-for-sale financial assets in the consolidated statement of the financial position (Note 11).

(b) *Capital commitment for acquisition of Anhui Quanchai Group Corp*

On 26 April 2011, the Group entered into a sale and purchase agreement (the "Agreement") to acquire, after the Agreement has taken effect, 100% equity interest of Anhui Quanchai Group Corp. ("Quanchai Group") from the People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) (the "Vendor") and the related capital commitment as at 31 December 2011 comprised approximately at most RMB1,518,870,000 to complete the acquisition of Quanchai Group and approximately RMB2,095,547,000 in respect of the mandatory general offer ("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"), which was a 44.39% owned subsidiary of Quanchai Group with its shares listed on the Shanghai Stock Exchange (Stock Code: 600218) as at the date of the Agreement, that was triggered by the Group's proposed acquisition of Quanchai Group (the "Transaction") assuming the proposed acquisition of Quanchai Group would be approved and on the basis that all holders of the outstanding A-shares of Quanchai Engine accept the offer.

On 17 August 2012, after consultation with the Vendor, amongst other things, an application was made by the Group to the China Securities Regulatory Commission ("CSRC") for the withdrawal of its application for the approval by the CSRC of the Transaction. Subsequently, the materials submitted to the CSRC in respect of the application for approval for the General Offer were returned to the Group on 20 August 2012. The Group has decided not to proceed with the General Offer and will not conduct any acquisition of equity interest in Quanchai Engine within 12 months from 21 August 2012. Thus, there was no capital commitment in connection with the Group's proposed acquisition of Quanchai Group as at 31 December 2012.

(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:

	2012 **RMB'000**	2011 RMB'000
No later than 1 year	**155,514**	143,030
Later than 1 year and no later than 5 years	**76,187**	126,148
Over 5 years	**—**	—
	231,701	269,178

39 RELATED PARTY TRANSACTIONS

As at 31 December 2012, Mr. Zhang Zhi Rong ("Mr. Zhang") had a 47.75% beneficial interest in the Company as the single largest shareholder.

Fine Profit Enterprises Limited (incorporated in British Virgin Islands) ("Fine Profit") owns 47.75% of the issued shares of the Company as at 31 December 2012 (2011: 52.19%). Fine Profit was wholly owned by Mr. Zhang as at 31 December 2012.

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

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co. Ltd. 上海地通建設（集團）有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Nantong Heloifu Shipping Equipment Co. Ltd. 南通和來福船舶配套設備有限公司	Entity ultimately controlled by Mr. Zhang
Jiangsu Rongsheng Investment Group Co. Ltd. 江蘇熔盛投資集團有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Shengshi Building Materials Co. Ltd. 南通晟昰建材有限公司	Entity ultimately controlled by Mr. Zhang
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 ultimately controlled by Mr. Zhang
Rugao Ru Gang New City Development and Investment Co. Ltd. 如皋市如港新城開發投資有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Drawshine Petrochemical Co. Ltd. 南通焯晟石油化工有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Glorious Wangjiarui (Wuxi) Co. Ltd. 恒盛旺佳瑞（無錫）有限公司	Entity ultimately controlled by Mr. Zhang
Shanghai Chuang Meng International Architectural Design Co. Ltd. 上海創盟國際建築設計有限公司	Entity ultimately 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 ultimately 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 (Formerly known as Nantong Rongsheng Shipping Equipment Co. Ltd. 南通船舶電機配套有限公司)	Entity ultimately controlled by Mr. Zhang

39 RELATED PARTY TRANSACTIONS (CONTINUED)

Name	Relationship with the Group
Shanghai Zhuo Xin Investment Management Co. Ltd. 上海卓信投資管理有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Jiangsu Rongdezhi Education Investment Co. Ltd. 江蘇熔德智教育投資有限公司	Entity ultimately controlled by Mr. Zhang

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

(i) Purchase of goods and services

	2012 RMB'000	2011 RMB'000
Non-continuing transactions:		
Purchase of catering services		
— Entities controlled by Mr. Zhang	–	1,137
Purchase of consultation services		
— Entity controlled by close family members of Mr. Zhang	–	2,684
	–	3,821

(ii) Purchase of construction services

	2012 RMB'000	2011 RMB'000
Continuing transactions:		
Purchase of construction services		
— Entities controlled by Mr. Zhang/a close family member of Mr. Zhang	643,132	1,477,146
— Entity controlled by Mr. Zhang	–	231
	643,132	1,477,377

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

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Year-end balances with related parties

Group

As at 31 December 2011 and 2012, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	2012 RMB'000	2011 RMB'000
Prepayments for property, plant and equipment (Note 14):		
— Entities controlled by Mr. Zhang	1,054	43,152
Prepayments for raw materials (Note 14):		
— Entities controlled by Mr. Zhang	170,846	170,846
Other receivables — non-trade (Note 14):		
— Entities controlled by Mr. Zhang or a director/close family member of Mr. Zhang	453,857	449,646
— Mr. Zhang	—	70
— Key management	—	5
	453,857	449,721
Bills payable for property, plant and equipment (Note 20)		
— Entities controlled by Mr. Zhang/a close family member of Mr. Zhang	2,950	81,432
Other payables for property, plant and equipment (Note 20):		
— Entities controlled by Mr. Zhang or a director/close family members of Mr. Zhang	904,420	762,722
Other payables — non-trade (Note 20):		
— Mr. Zhang	102	470

39 RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Year-end balances with related parties (Continued)

Company

As at 31 December 2011 and 2012, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	2012 RMB'000	2011 RMB'000
Other receivables — non-trade (Note 14):		
—Subsidiaries	9,553,692	8,071,680
Other payables — non-trade (Note 20):		
—Subsidiaries	5,991	5,991

(iv) Acquisition of shares by directors and senior management from Fine Profit

On 30 April 2012, Fine Profit and Leader World Investments Limited ("Leader World") entered into a share transfer agreement (the "Share Transfer Agreement"), pursuant to which Fine Profit agreed to sell to Leader World, and Leader World agreed to acquire from Fine Profit, an aggregate of 420,000,000 Shares, representing approximately 6.0% of the issued share capital of the Company, at a total consideration of HK$796,320,000, calculated at a share price at HK$1.896 per Share. The consideration of HK$1.896 per Share represents the average closing price of HK$1.896 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the last trading day prior the date of the Share Transfer Agreement. Leader World is held by some directors and senior management of the Group. Immediately after completion of the share transfer, Mr. Zhang held approximately 47.75% of the total issued share capital of the Company and Leader World held approximately 6.0% of the total issued share capital of the Company. Management considered the share transfer between Fine Profit and directors and senior management does not have any impact to the Group's financial results.

40 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2012, 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%
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%

40 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
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%
Xcellest Holding Pte. Limited	Singapore	01/11/12	Limited liability company	Investment holding; Singapore	SGD1	100%
Rongsheng Offshore & Marine Pte. Ltd.	Singapore	05/04/12	Limited liability company	Installation of industrial machinery and equipment; Manufacture and repair of marine engine and ship parts	SGD1,000,000	95%
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%

40 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
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%
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") (Note 1)	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%

40 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 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%
Jiangsu Rongsheng Offshore Engineering Co., Ltd. 江蘇熔盛海洋工程有限公司 (formerly known as "Nantong Rongding Marine Engineering Co., Ltd. 南通熔鼎海洋工程有限公司")	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%

40 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 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%
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%

40 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 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%
Hefei Rongan Heavy Machinery Co. Ltd. 合肥熔安重機有限公司	PRC	6/12/11	Limited liability company	Design, manufacture and sale of marine high-power diesel engine parts and semi-finished parts	RMB37,917,000	100%

Shares held directly by the Company

Note:

(1) 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.

41 EVENTS AFTER THE BALANCE SHEET DATE

On 24 January 2013, Fine Profit Enterprises Limited ("Fine Profit"), and Boom Will Limited ("Boom Will"), wholly-owned by Chen Qiang, entered into a share transfer agreement (the "Share Transfer Agreement"), pursuant to which Fine Profit agreed to sell to Boom Will, and Boom Will agreed to acquire from Fine Profit, an aggregate of 490,000,000 shares of a nominal value of HK$0.1 each in the Company ("Shares"), representing approximately 7.0% of the issued share capital of the Company, at a total consideration of HK$820,260,000, representing HK$1.674 per Share (the "First Share Transfer"). The consideration of HK$1.674 per Share for First Transfer represents the average closing price of HK$1.674 per Share as quoted on The Stock Exchange of Hong Kong Limited for the last five consecutive trading days up to and including the last trading day prior to the date of the Share Transfer Agreement. Management considered the share transfer between Fine Profit and Boom Will does not have any impact to the Group's financial result.

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

Immediately after the completion of the Share Transfers, each of Mr. Zhang and Fine Profit ceased to be a controlling shareholder of the Company and Mr. Zhang remains as the single largest beneficial shareholder of the Company with a beneficial interest of 29.32%.

CONSOLIDATED RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	7,956,347	15,904,585	12,665,479	9,473,206	4,724,911
Cost of sales	(6,815,650)	(12,710,885)	(9,833,975)	(7,624,915)	(4,815,557)
Gross profit/(loss)	1,140,697	3,193,700	2,831,504	1,848,291	(90,646)
Selling and marketing expenses	(91,741)	(60,907)	(63,728)	(4,605)	(3,404)
General and administrative expenses	(1,401,868)	(1,152,053)	(957,707)	(561,253)	(393,345)
Research and development expenses	(146,552)	(48,664)	—	—	—
Other operating expenses	—	—	—	—	(30,906)
Other income	668,878	316,527	205,736	123,317	46,598
Other (losses)/gains — net	56,242	(227,633)	17,958	(37,981)	(19,326)
Operating profit/(loss)	225,656	2,020,970	2,033,763	1,367,769	(491,029)
Finance income	191,288	197,090	175,161	33,385	22,862
Finance costs	(989,166)	(110,638)	(165,400)	(94,604)	(72,142)
Finance income/(costs) — net	797,878	86,452	9,761	(61,219)	(49,280)
Profit/(loss) before income tax	(572,222)	2,107,422	2,043,524	1,306,550	(540,309)
Income tax (expense)/credit	10,187	(297,699)	(263,479)	(1,889)	24
Profit/(loss)for the year	(562,035)	1,809,723	1,780,045	1,304,661	(540,285)
Attributable to:					
Equity holders of the Company	(572,577)	1,720,675	1,718,704	1,302,183	(527,173)
Non-controlling interests	10,542	89,048	61,341	2,478	(13,112)
	(562,035)	1,809,723	1,780,045	1,304,661	(540,285)
Earnings/(loss) per share for earnings/(loss) attributable to the equity holders of the Company (expressed in RMB per share) — Basic/diluted	(0.08)	0.25	0.30	0.23	(0.09)
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				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Total non-current assets	22,190,689	19,986,597	13,041,788	7,325,681	5,790,720
Total current assets	27,978,148	31,274,019	27,954,183	14,644,737	11,923,009
Total assets	50,168,837	51,260,616	40,995,971	21,970,418	17,713,729
Total non-current liabilities	9,480,157	10,023,127	8,179,653	313,291	—
Total current liabilities	25,600,475	25,545,633	18,181,177	20,411,295	17,772,558
Total liabilities	35,080,632	35,568,760	26,360,830	20,724,586	17,772,558
Net assets/(liabilities)	15,088,205	15,691,856	14,635,141	1,245,832	(58,829)

"2013 AGM"	the annual general meeting of the Company to be held on 28 May 2013
"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
"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

"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
"containership"	cargo ship that carry all of its load in truck-size containers, in a technique called containerization
"crude oil tanker"	a vessel which is designed to carry crude oil or other petroleum products in big tanks
"Director(s)"	director(s) of our Company
"DNV GL"	Det Norse Veritas is 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); Germanisher Lloyd is 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. DNV and GL signed an agreement to merge in December 2012. The new entity will be called DNV GL Group.
"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"	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"	one DWT equals 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

Glossary

"Energy Efficiency Design Index" or "EEDI"	an index quantifying the amount of carbon dioxide that a vessel emits in relation to the goods transported
"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
"FPSO"	floating production storage and offloading vessel, large flexible units used in the offshore industry for the processing and storage of oil and gas that has been produced from nearby platforms or subsea templates
"FSRU"	floating storage regasification unit, large flexible units to receive liquefied natural gas from offloading liquefied natural gas carriers, and the onboard regasification system provides natural gas exported to shore through risers and pipelines
"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$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"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
"International Maritime Organization" or "IMO"	the United Nations agency for maritime safety and the prevention of marine pollution by ships established in 1948

"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
"keel"	a large beam around which the hull of a ship is built. The keel runs in the middle of the ship, from the bow to the stern, and serves as the foundation or spine of the structure, providing the major source of structural strength of the hull. The keel is generally the first part of a ship's hull to be constructed
"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
"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
"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
"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)

Glossary

"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 dated 8 November 2010 issued in connection with its Listing
"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
"Rongsheng Offshore Engineering"	Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), 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" or "Jiangsu 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 (which changed its name to Jiangsu Xuming Investment Group Co. Ltd. (江蘇旭明投資集團有限公司) with effect from 27 March 2013)
"Rongsheng Machinery"	Rongsheng Machinery Co. Ltd. (熔盛機械有限公司), formerly known as Rong An Heavy Industries
"Rongsheng Offshore & Marine" or "RSOM"	Rongsheng Offshore & Marine Pte. Ltd., a company incorporated in the Republic of Singapore on 5 April 2012 and owned by the Company indirectly as to 95%
"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
"Share(s)"	ordinary share(s) in our Company with a nominal value of HK$0.10 each
"Suezmax"	ships of between 120,000 DWT and 200,000 DWT, with dimensions allowing it to transit the Suez Canal fully loaded
"TEU"	twenty-foot equivalent unit, an inexact unit of cargo capacity often used to describe the capacity of containerships and container terminals. it is based on the volume of a 20-foot-long (film) intermodal container, a standard-sized metal box
"US$", "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

Listing Information

Listing	:	Hong Kong Stock Exchange
Stock Code	:	01101

Financial Key Dates

Announcement of 2012 Annual Results	:	26 March 2013
Annual General Meeting	:	28 May 2013
Book Closure Period for determining entitlement to attend and vote at AGM	:	23 May 2013 to 28 May 2013 (both days inclusive)

Share Information

Board Lot Size	:	500 shares
Issued Shares as at 31 December 2012	:	7,000,000,000 shares
Interim Dividend per Share for 2012	:	—
Final Dividend per Share for 2012	:	—

Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

Tel : (852) 2862-8628
Email : hkinfo@computershare.com.hk

Registered Office

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

Principal Place of Business in Hong Kong

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

Principal Place of Business and Headquarters in the PRC

No. 31 Lane 168 Daduhe Road,
Pu Tuo District, Shanghai, 200062, PRC

Contact Enquiries

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

Corporate Information

Executive Directors

CHEN Qiang (Chairman and Chief Executive Officer)
WU Zhen Guo (Vice Chairman)
LUAN Xiao Ming (Chief Operating Officer)
HONG Liang
Sean S J WANG (Chief Financial Officer)
WANG Tao
WEI A Ning

Independent Non-executive Directors

CHEN Gang
TSANG Hing Lun
ZHANG Xu Sheng
XIA Da Wei

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)
WEI A Ning
CHEN Gang

Remuneration Committee

CHEN Gang (Chairman)
WU Zhen Guo
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)

Legal Advisors

Paul Hastings
Commerce & Finance Law Offices

Company Website

http://www.rshi.cn

WE ARE **RONGSHENG**

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

www.rshi.cn

Design And Produced By: EDICO Financial Press Services Limited

This report is printed on environmentally friendly paper