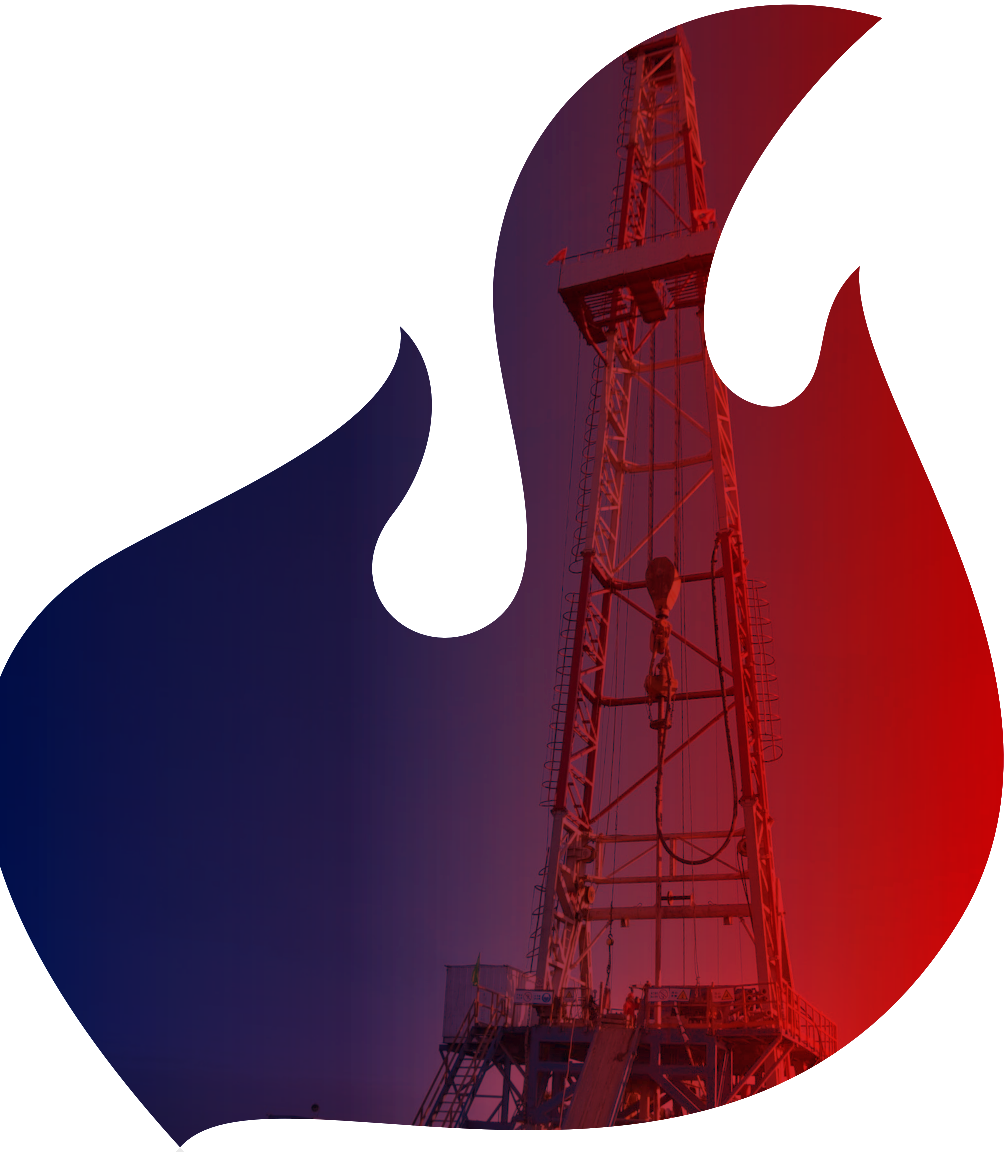
CHINA HUARONG ENERGY COMPANY LIMITED

中國華榮能源股份有限公司

(Formerly known as China Rongsheng Heavy Industries Group Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101



2014

ANNUAL REPORT

ABOUT HUARONG ENERGY

China Huarong Energy Company Limited (formerly known as China Rongsheng Heavy Industries Group Holdings Limited) and its subsidiaries are principally engaged in the businesses of shipbuilding, energy exploration and production, marine engine building, offshore engineering and engineering machinery, focusing on oil and gas related customers and markets. The Group operates the largest shipyard in the PRC, with manufacturing bases in Nantong (Jiangsu Province) and Hefei (Anhui Province).

In September 2014, we completed the acquisition of 60% interests in the Kyrgyzstan Project involving five oilfield zones located in the Fergana Valley of Central Asia. Through the upstream oil exploration and production activities in Kyrgyzstan, we have successfully launched the energy resources development business.

“2015 will be a crucial year for our bid to transform and upgrade our business and lift ourselves from our lowest ebb amid challenging conditions. We will continue to improve the operational status by industry value-chain upgrade and business transformation, and also steadily developing the energy service business including oil and gas exploitation. We will proactively ease the debt burden, enhance the flexibility of fund utilisation, better implement the strategy of business transformation and transform into an energy service provider focusing on the oil and gas market.”

The global shipbuilding industry, which had remained in doldrums in recent years under the profound impact of the financial crisis, continued to face difficult market conditions in 2014. The tension created by overcapacity was becoming more apparent, as the decline in both the volume and prices of new vessel orders during the year, after a short-lived recovery in the early months, sent the shipbuilding industry in general into doldrums again.

In a bid to turnaround the business conditions of the Company, we enhanced our production and operational efficiency, increased our productivity and shortened our dock turnover cycle to ensure the delivery of vessels under construction. In 2014, the Company delivered 11 vessels with total volume of 2,059,660 DWT, two more vessels compared to the number of vessels delivered in 2013. Meanwhile, a range of measures were vigorously implemented to broaden our business channels and increase cash flow. Since 2014, the Company has been fully leveraging on its facilities and technical expertise to undertake other business opportunities, with a focus on steel structures for bridges under construction and steel structures for construction, while enhancing cooperation in steel structure processing with large enterprises through multiple channels to explore new niche for economic growth. These measures have to an extent alleviated our cash flow pressure.

The Chinese government has announced a number of policies and measures relating to the shipbuilding industry to offer support to the viability and development of shipbuilders. Policies and measures calling for the acceleration of industry correction have been announced in the "Implementation Plan for Accelerating the Structural Correction of the Shipbuilding Industry to Drive Transformation and Upgrade (2013–2015)," while the "Conditions for Standardisation of the Shipbuilding Industry" have proposed to eliminate outdated production capacities by raising the industry standards. It is well foreseeable that the elimination of outdated capacities and elevation of market entry thresholds will enhance the focus of the industry to the benefit of the long-term development of major shipbuilding companies with established strengths. The promulgation of such policies has been aimed at accelerating adjustment of the industry structure and helping shipbuilding companies with proven strengths to move out of their difficult situation and secure long-term development. In September 2014, we were included in the "white list" of the first group of enterprises meeting the "Conditions for Standardisation of the Shipbuilding Industry" after passing an evaluation conducted by the Ministry of Industry and Information Technology. This means that we are in line for subsequent policy support in relation to finance and bank credit. Leveraging on the policy support of the government, we will advance our strategy of "transformation and upgrade" with added effort to lift the business from its predicament and assure its viability and development.

In recent years, the Chinese government has been actively engaged in the development of the "Silk Road Economic Belt." In line with the larger context of the new national strategy on energy security, industrial transformation and the encouragement of overseas investment, the Group has been seeking opportunities to diversify into the value chain of energy services in its drive for faster business transformation. Leveraging on sound working relationships with oil and gas producers developed over the years, the Group entered into the energy exploration and production business in 2014 by investing in КыргызжерНефтегаз ("Kyrgyzjer Neftegaz" Limited Liability Company*) to acquire the rights to cooperate in certain oilfields in Kyrgyzstan. The Group diversified into the value chain of energy services and extended its operations from the manufacturing of oil and gas transportation to oil and gas exploitation in the upstream segment. The Group's energy exploration and production business involves 5 oilfield zones in Kyrgyzstan with developed infrastructure. As stated in an independent third party

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assessment report, the remaining recoverable reserves amounted to approximately 88.34 million tons, representing huge potential in development and increase in production. At present, the oilfields are under operation with smooth progress in oil production, which is expected to be positive for the Company's operating cash flow.

With effect from 18 March 2015, the name of the Company was changed from "China Rongsheng Heavy Industries Group Holdings Limited" to "China Huarong Energy Company Limited". The renaming of the Company reflects the broadened scope of business of the Group and its diversified business operations, and is more aligned with the strategic positioning of the Company as an oil and gas development and production operator. The strategic move of tapping the energy sector will enhance the Company's business diversification and broaden its sources of revenue, bolster its profitability and core competitive strengths, effectively alleviate the impact of the cyclical factor of the shipbuilding business, thereby making greater contributions to the interests of the Company and its shareholders as a whole.

Looking back at 2014, we have experienced extremely severe challenges and tribulations. Nevertheless, the bleak winter will eventually be gone. 2015 will be a crucial year for our bid to transform and upgrade our business and lift ourselves from our lowest ebb amid challenging conditions. We will continue to improve the operational status by industry value-chain upgrade and business transformation, and also steadily developing the energy service business including oil and gas exploitation. We will proactively ease the debt burden, enhance the flexibility of fund utilisation, better implement the strategy of business transformation and transform into an energy service provider focusing on the oil and gas market.

My colleagues and I will work together to seize opportunities in the industry in close tandem with market developments, We will gear up fully and strive for progress in the ongoing intensification of project management models, business diversification and the streamlining and transformation of economic management models, in a bid to implement an efficient management model for sustainable development and foster core competitive strengths driven by technological innovation that would facilitate the transformation and upgrade of the Group into an integrated heavy industry player engaged in energy services. I would like to take this opportunity to express my sincere gratitude to our management team and employees for their concerted effort and to our shareholders, especially Mr. Zhang Zhi Rong, for their patience and ardent support.

Chen Qiang
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

OFFSHORE ENGINEERING

MARINE ENGINE BUILDING

SHIPBUILDING

ENERGY EXPLORATION AND PRODUCTION

ENGINEERING MACHINERY

BUSINESS REVIEW

For the year ended 31 December 2014 (the "**Period**"), the Group recorded a negative revenue of RMB3,802.4 million, which is attributable to the decrease in revenue from shipbuilding and other contracts and the reversal of revenue from cancellation of shipbuilding contracts, compared to the revenue of RMB1,343.6 million for the year ended 31 December 2013 (the "**Comparative Period**"). Losses attributable to the equity holders of the Company were RMB7,754.9 million, while losses attributable to the equity holders of the Company were RMB8,685.2 million for the Comparative Period. The significant decrease in revenue was primarily attributable to the reversal of revenue from cancellation of the shipbuilding contracts in alignment with the Group's strategic plan to optimise the production and operation of its shipbuilding business.

Shipbuilding

Our shipbuilding segment recorded a negative revenue of RMB3,891.4 million for the Period. For the Period, we delivered 11 vessels with a total volume of 2,059,660 DWT. It included 3 very large ore carriers, 4 Panamax bulk carriers, 1 6,500-twenty-foot equivalent unit ("**TEU**") containership and 3 Suezmax crude oil tankers. For the Period, we entered into new shipbuilding contracts for 3 250,000 DWT very large ore carriers and 6 64,000 DWT bulk carriers. However, since the Group has planned to optimise the production and operation of its shipbuilding business as well as sort out the order book of the shipbuilding business, the aforesaid orders have not been made effective.

As at 31 December 2014, our total orders on hand consisted of 35 vessels, representing a total volume of approximately 4,203,700 DWT with a total contract value of approximately USD1,668.4 million. They included 18 Panamax bulk carriers, 1 very large ore carrier, 1 Panamax crude oil tanker, 12 Suezmax crude oil tankers, 1 very large crude oil carrier, and 2 7,000-TEU containerships.

We sorted and optimised our order book by reducing the number of vessels under construction and cancelling some shipbuilding orders. In the Period, we negotiated proactively with ship owners and reached agreement with them on certain orders on hand, resulting in the cancellation, revision and variation of a number of shipbuilding contracts. We believe that this action will reduce our burden on working capital and effectively reduce the credit risk of our order book.

Steel Caisson Project

We utilised existing facilities and technical expertise to construct the No. 28 and No. 29 steel caisson projects of the Shanghai Yangtze River Bridge and successfully delivered them during the Period, demonstrating our ability in building non-vessel steel structures and securing new sources of revenue. The No. 29 steel caisson, weighing approximately 15,000 tons, is the largest steel caisson of its kind in the world.

Offshore Engineering

For the Period, there was no revenue contribution from the offshore engineering segment.

Energy Exploration and Production

On 11 September 2014, we completed the acquisition of 60% interest in the project (the "**Kyrgyzstan Project**") involving four oilfields located in the Fergana Valley of the Republic of Kyrgyzstan, which marked our breakthrough in the energy exploration and production industry. The Kyrgyzstan Project comprises of five oilfield zones namely, Maili-Su IV, Eastern Izbaskent, Izbaskent, Changyrtash and Chigirchik. The first three oilfield zones are located at the northeastern part of the Fergana Valley while the latter two are located at the Southeastern part of Fergana Valley. The total area covered by these five fields is approximately 545 square kilometres. The remaining recoverable reserves are estimated to be around 88.34 million tons which is equivalent to approximately 638 million barrels ("**MMbbl**") of oil. Under the agreements entered into with the national oil company of Kyrgyzstan, КыргызжерНефтегаз ("Kyrgyzjer Neftegaz" Limited Liability Company*), was granted rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oilfields zones.

From 11 September 2014 to 31 December 2014, we made satisfactory progress in the project. As at 31 December 2014, we had successfully completed drilling of 10 wells and produced 16,260 barrels ("**bbl**") of light crude oil, our daily production rate being about 252 bbl of light crude oil. We will continue the process of perforating, testing and fracturing of the new wells to ramp up production. Since the project is still at the initial development stage, the sales of oil had not been reflected as revenue for the Period under relevant accounting treatment.

Marine Engine Building

For the Period, revenue from external customers of our marine engine building segment was RMB65.1 million, a decrease of 50.3% from RMB131.1 million for the Comparative Period. Including inter-segment sales, revenue was RMB187.5 million for the Period.

For the Period, we completed and delivered 6 diesel engines (including 4 external sales and 2 inter-segment sales), and was contracted to modify 1 diesel engine. As at 31 December 2014, our marine engine building segment had orders on hand for a total of 26 engines with a total capacity of 546,174 horsepower.

Engineering Machinery

For the Period, revenue from the engineering machinery segment was RMB23.9 million, an increase of 42.3% from RMB16.8 million for the same period last year. It was primarily attributable to the engineering machinery market picking up slightly since the second half of 2014 as the Chinese government had increased its support in investment and financing for infrastructure.

FINANCIAL REVIEW

Revenue

For the Period, we recorded a negative revenue of RMB3,802.4 million as compared to a revenue of RMB 1,343.6 million for the Comparative Period. It was primarily attributable to the reversal of revenue from cancellation of the construction contracts in alignment with the Group's strategic plan to optimise the production and operation of its shipbuilding business.

Revenue from shipbuilding and other contracts was RMB728.4 million as compared to RMB1,343.6 million for the Comparative Period, representing a year-on-year decrease of approximately 45.8%. Revenue reversed from the cancellation of the shipbuilding contacts was RMB4,530.7 million (for the Comparative Period: nil).

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Cost of Sales

For the Period, cost of sales decreased by approximately 88.8% to RMB311.7 million (for the Comparative Period: RMB2,776.5 million), in line with the significant decrease in revenue. The significant decrease in cost of sales was primarily attributable to the reversal of cost of sales from cancellation of the shipbuilding contracts and provision of inventories amounted to RMB2,016.4 million.

Selling and Marketing Expenses

For the Period, selling and marketing expenses decreased by approximately 17.2% to RMB16.8 million (for the Comparative Period: RMB20.3 million). We have thoroughly implemented cost control measures while maintaining marketing activities.

General and Administrative Expenses

For the Period, general and administrative expenses decreased by approximately 18.7% to RMB1,115.8 million (for the Comparative Period: RMB1,371.7 million). This is mainly attributable to the implementation of cost control measures.

Provision for Impairments and Delayed Penalties

For the Period, provision for impairments and delayed penalties decreased by 46.3% to RMB2,742.1 million (for the Comparative Period: RMB5,107.0 million). It is mainly due to the provisions for impairments of trade receivables, other receivables and prepayments, amounts due from customers for contract works and the reversal of delayed penalties, which amounted to RMB335.8 million, RMB99.9 million, RMB2,333.5 million and RMB27.2 million respectively. The impairment of trade receivables for the Period is mainly due to the increase in risk of default in payment by our customers under the current market downturn.

Research and Development Expenses

For the Period, research and development expenses increased by approximately 1.9% to RMB63.1 million (for the Comparative Period: RMB61.9 million). This is mainly because of no capitalisation of research and development expenses as intangible assets during the Period.

Other gains/(losses) — Net

For the Period, other gains/(losses) — net increased by approximately 753.3% to RMB 1,811.7 million (for the Comparative Period: losses RMB 277.3 million) due to fair value change on the embedded derivatives in convertible bonds.

Finance Costs — Net

Finance income for the Period, which mainly came from interest income, decreased by approximately 91.0% to RMB13.8 million (for the Comparative Period: RMB153.4 million). Finance costs for the Period increased by approximately 108.4% to RMB2,045.4 million (for the Comparative Period: RMB981.4 million). The issuance of HKD4,000 million convertible bonds and reduction in interest capitalisation as a result of reduced production activities contributed principally to this increase.

Gross Loss

During the Period, we recorded a gross loss of RMB4,114.0 million (for the Comparative Period: RMB1,432.9 million). As a result of depressed market conditions and the lower prices of newbuildings, together with the cost of raw materials and labour which did not fall proportionately, the profitability of conventional shipbuilding business has diminished. We cancelled some shipbuilding contracts in response to the market downturn and to mitigate risks. In addition, a gross loss was incurred as a result of a reduction of our production activities while having to maintain a considerable fixed production cost.

Total Comprehensive Loss for the Period

During the Period, we recorded total comprehensive loss of RMB8,091.2 million (for the Comparative Period: RMB8,951.9 million), of which loss attributable to equity holders of the Company was RMB7,756.8 million (for the Comparative Period: RMB8,683.7 million). Loss attributable to the equity holders of the Company is the result of gross loss, the considerable fixed administrative expenses, the above-mentioned cancellation of shipbuilding contracts, provision for impairments and delayed penalties.

Liquidity and Going Concern

During the Period, the Group incurred a loss of approximately RMB8,089.2 million and had a net operating cash outflow of approximately RMB2,811.1 million due to the market downturn and financial difficulties of the Group's customers. As at 31 December 2014, the Group's current liabilities exceeded its current assets by approximately RMB20,723.3 million. The total borrowings and finance lease liabilities of the Group as at 31 December 2014 were RMB22,614.9 million, of which RMB20,773.7 million would be due within 12 months from 31 December 2014. Our cash and cash equivalents were RMB143.1 million as at 31 December 2014 (as at 31 December 2013: RMB117.0 million) of which RMB117.8 million (82.3%) was denominated in RMB and the remaining RMB25.3 million (17.7%) was denominated in other currencies such as US dollars ("**USD**") and HK dollars ("**HKD**"). Included in the Group's borrowings were certain current borrowings of RMB528.0 million, which were overdue and have not been renewed or repaid subsequent to year end. However, a series of plans and measures to mitigate liquidity pressure have been taken to improve the financial and liquidity positions of the Group. The Group has also been actively negotiating with the banks regarding the current and non-current borrowings (other than convertible bonds) not covered in the "Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement" (《江蘇熔盛重工有限公司債務優化銀團框架協議》) and "Debt Optimisation Framework Agreement for China Rongsheng's Entities in Hefei" (《中國熔盛系合肥企業債務優化銀團框架協議》) to extend the repayment and renewal terms of these existing current bank loans that had original maturity in 2013 and 2014 to the end of year 2015. Up to the date of approval of consolidated financial statements, none of the lenders or holders of convertible bonds has demanded immediate repayment of loans or indebtedness by the Group. Details regarding uncertainties on the going concerns of the Group are set out in the section headed "Going Concern Basis" in note 2.1(a) to the consolidated financial statements.

Borrowings and Finance Lease Liabilities

Our short-term borrowings and finance lease liabilities increased by RMB7,060.3 million from RMB13,713.4 million as at 31 December 2013 to RMB20,773.7 million as at 31 December 2014. Our long-term borrowings and finance lease liabilities decreased by RMB6,852.7 million to RMB1,841.2 million as at 31 December 2014 from RMB8,693.9 million as at 31 December 2013.

As at 31 December 2014, our total borrowings and finance lease liabilities were RMB22,614.9 million (as at 31 December 2013: RMB22,407.3 million), of which RMB19,877.9 million (87.9%) was denominated in RMB and the remaining RMB2,737.0 million (12.1%) was denominated in other currencies such as USD and HKD. Certain of the borrowings were secured by our raw materials, land use rights, buildings, plant and machinery, trade receivables, construction contracts, pledged deposits, available-for-sale financial asset and guarantees from related parties and companies within our Group. The majority of the borrowings were at floating interest rates.

Inventories

As at 31 December 2014, our inventories increased by RMB815.4 million to RMB2,392.9 million (as at 31 December 2013: RMB 1,577.5 million). The inventory turnover days increased from 254 days as at 31 December 2013 to 355 days as at 31 December 2014.

Amounts Due from/to Customers for Contract Works

As at 31 December 2014, the amounts due from customers for contract works decreased by RMB6,241.9 million to RMB1,165.4 million (as at 31 December 2013: RMB7,407.3 million). As at 31 December 2014, amounts due to customers for contract works were nil (as at 31 December 2013: RMB321.8 million). The decrease in amounts due from/to customers for contract works was the result of the reduction in production scale and cancellation of certain construction contracts.

Foreign Exchange Risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD while about 70% of the production costs were denominated in RMB and about 30% of the production costs were denominated in USD. The cash flows of unmatched currencies are subject to foreign exchange risks. Management continuously assesses the foreign exchange risks, with an aim to minimise the impact of foreign exchange fluctuations on our business operations. The Group incurred net foreign exchange gains of RMB107.6 million due to the depreciation of RMB against USD during the Period, which resulted in slight exchange gains on certain USD-denominated assets, including that of accounts receivable and pledged deposits of the Group.

Capital Expenditure

For the Period, our capital expenditure was approximately RMB68.9 million (for the Comparative Period: RMB694.0 million), which was mainly used in the acquisition of facilities and equipment for our construction plants.

Gearing Ratio

Our gearing ratio (measured by total borrowings and finance lease liabilities divided by the sum of total borrowings and finance lease liabilities and total equity) increased from 78.4% as at 31 December 2013 to 98.6% as at 31 December 2014. This is mainly because of the decrease in total equity from RMB6,169.1 million as at 31 December 2013 to RMB313.7 million as at 31 December 2014, which is mainly a result of the accumulated losses of RMB13,798.8 million as at 31 December 2014.

Contingent Liabilities

As at 31 December 2014, we had contingent liabilities of RMB2,419.1 million (as at 31 December 2013: RMB7,570.1 million), which resulted mainly from the agreements entered between our Group and several banks in China in relation to refund guarantees to our customers in respect of advances received from them and also litigation in relation to one shipbuilding customer and some suppliers.

Credit Assessment and Risk Management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 31 December 2014, all of the Group's cash and bank balances, short-term and long-term bank deposits and pledged deposits were placed with reputable banks which management believes are of high creditworthiness and without significant credit risk.

The Group carries out customer credit checks prior to entering into shipbuilding contracts and requests for progress payments from customers in accordance with the milestones of the shipbuilding contracts. Further, certain customers have issued irrevocable letters of guarantee from banks and related companies to provide guarantee on the collectability of the receivables from these customers. For customers of engineering machinery, we gave credit lines after evaluating the customer's credit profile, financial condition, past experiences and other factors.

As at 31 December 2014, trade receivables of RMB2,486.2 million (as at 31 December 2013: RMB2,195.3 million) and RMB322.1 million (as at 31 December 2013: RMB270.4 million) related to certain customers of the shipbuilding segment and engineering machinery segment were provided for respectively, as a result of the management's assessment on the recoverability of the balances.

Human Resources

As at 31 December 2014, we had approximately 3,100 employees (as at 31 December 2013: 4,738). The decrease in the number of employees was mainly in relation to the market downturn and the downsizing of the shipbuilding business of the Group. We implement human resource optimisation and consolidate business units to better control administrative expenses. Furthermore, cost control measures which began in the second half of 2013 by way of reduction of remuneration packages of our senior and middle management of the Group is continuing.

MARKET ANALYSIS AND PROSPECTS

Due to the profound impact of the slowdown in global economic growth and surplus shipping capacity, shipbuilders were confronted with numerous challenges in production and operations in 2014. As a result of lower prices for new shipbuilding orders and a significantly lower proportion of prepayment, together with the credit crunch in the industry, shipbuilders experience tight cash flow in their production and operations. At the same time, shipbuilders found it increasingly difficult to sustain profitability given higher fixed costs required to maintain operations. Global economic recovery will remain a challenging course in 2015. Freight fees will remain at low levels as any fundamental improvement to the situation of surplus capacity in the shipping market will be unlikely. It is well within expectations that China's shipbuilding industry will generally enter into a stage of structural realignment and rebuilding of strengths.

In September 2014, we obtained the rights to co-operate with the national oil company of Kyrgyzstan in respect of five oilfield zones in Kyrgyzstan through the allotment of shares in the Company as consideration. Central Asia (where Kyrgyzstan is located) is a region subject to strong influence of Russia, whose export oil prices have not plunged in tandem with international oil prices and have remained apart from the international price level. Local domestic oil prices of Kyrgyzstan have not changed significantly despite the dramatic decline in international oil prices. In view of the low costs and stable local oil prices, we are of the view that, under the current adverse market conditions of the shipbuilding industry, exposure to the energy sector will enable us to diversify our operations and broaden our source of revenue, as well as drive our active transformation from a manufacturer to a supplier in the energy service sector, thereby enhancing contributions to the overall interests of our shareholders.

The directors of the Company are considering a potential sale and purchase transaction involving the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC (the "**Potential Transaction**"). On 10 March 2015, the Company and an independent third party (the "**Potential Purchaser**") have entered into a memorandum of understanding (the "**MOU**") in relation to the Potential Transaction. The Potential Transaction shall adjust and optimise the assets and business of the Group, and divest the relevant assets and liabilities of the shipbuilding business and offshore engineering business, which shall help to ease the debt burden of the Group, enhance the flexibility of fund utilisation, better implement the strategy of business transformation and transformation into an energy service provider focusing in the oil and natural gas market.

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 53, 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, a member of our corporate governance committee and a member of our remuneration committee. 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, of which are both subsidiaries of the Company. In 2002, 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). 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 was 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 Global Shipping Industry of 2012". 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 65, is the vice chairman and an executive Director of the Company. 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. 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. HONG Liang (洪樑)
Executive Director

Mr. Hong Liang, aged 43, 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. 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 19 years of experience in corporate finance and strategic investment gained from his service at 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 Dasheng 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 51, 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. 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 42, 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 Rong An 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 64, is an executive Director. Mr. Wei was appointed as an executive Director on 26 November 2012. Mr. Wei has served as the senior vice president of the Company since October 2012. He is a member of our nomination committee. He has also served as chief of the supervisory and audit department of Rongsheng Heavy Industries, a subsidiary of the Company, since June 2010; and he has become a vice president of Rongsheng Heavy Industries responsible for supervision and auditing in August 2013. 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.

Ms. ZHU Wen Hua (朱文花)
Executive Director

Ms. Zhu Wen Hua, aged 46, is an executive Director. Ms. Zhu was appointed as an executive Director on 31 December 2013. Since March 2014, she has served as vice-president of Rongsheng Heavy Industries, as well as head of the cost control department and director of the bidding office. She had served as an assistant supervisor of the supervisory and audit department and a supervisor of the bidding control department of Rongsheng Heavy Industries, a subsidiary of the Company, since 2009 and January 2012 respectively. She also had served as an assistant to the president of Rongsheng Heavy Industries since October 2013. Ms. Zhu graduated from the Graduate School of the Shanghai University (上海大學研究生部) in May 2010 studying a professional postgraduate course in Management Science & Engineering. She also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012.

Independent Non-executive Directors

Mr. XIA Da Wei (夏大慰)

Independent Non-executive Director

Mr. Xia Da Wei, aged 62, is an independent non-executive Director. He was appointed as an independent non-executive Director with effect from 28 December 2012. He is a member of our audit committee, corporate governance committee, finance and investment committee and nomination committee. 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 and 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), 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) and a member of the Listed Companies Committee (上市公司委員會) 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.

Mr. HU Wei Ping (胡衛平)

Independent Non-executive Director

Mr. Hu Wei Ping, aged 64, is an independent non-executive Director. He was appointed as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 28 May 2013. He is the chairman of our remuneration committee, and a member of our audit committee, corporate governance committee and nomination committee. He has over 30 years of experience in the chemical engineering and energy industries. Since 1991, he has held senior positions with several departments of the National Development and Reform Commission (國家發展和改革委員會) of the PRC, including serving as the deputy director general of the Department of Oil and Natural Gas of the National Energy Administration (國家能源局石油天然氣司) from 2008 to 2011. Mr. Hu is qualified as a senior engineer in the PRC. He obtained a bachelor's degree in chemical engineering from Zhengzhou University (鄭州大學) in 1977.

Mr. Hu is currently an independent director of GD Power Development Co., Ltd. (國電電力發展股份有限公司) (a company listed on the Shanghai Stock Exchange) and an independent non-executive director of CITIC Resources Holdings Limited (a company listed on the Hong Kong Stock Exchange).

Mr. WANG Jin Lian (王錦連)
Independent Non-executive Director

Mr. Wang Jin Lian, aged 69, is an independent non-executive Director. He was appointed as an independent non-executive Director on 31 July 2013. He is the chairman of our corporate governance committee and nomination committee and a member of our audit committee and remuneration committee. He was the secretary general of China Association of the National Shipbuilding Industry from May 2006 to August 2014, and he is currently a consultant for the China Association of the National Shipbuilding Industry. Mr. Wang has over 40 years of experience in shipbuilding industry. He is currently a member of the Expert Advisory Committee on the Development of Strategic Emerging Industries (戰略性新興產業發展專家諮詢委員會), a member of Jiangsu Province Marine Engineering Industry Technology Innovation Strategic Alliance Technical Committee (江蘇省海洋工程產業技術創新戰略聯盟技術委員會) and a member of Shanghai International Maritime Center Construction Committee. He previously held various senior positions, including deputy director general of the international bureau of China State Shipbuilding Corporation (中國船舶工業總公司), director general of the planning and development department of China State Shipbuilding Corporation (中國船舶工業集團公司), vice chairman of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司) and vice chairman of Hudong Heavy Machinery Co., Ltd. (滬東重機股份有限公司). He is currently an independent director of Shanghai CSR Hange Shipping Engineering Co., Ltd. (上海南車漢格船舶工程有限公司). Mr. Wang holds the senior engineer (researcher level) qualification in PRC. He graduated from Beijing Institute of Aeronautics (currently named as Beihang University) (北京航空學院，現為北京航空航天大學) in 1969.

Ms. ZHOU Zhan (周展)
Independent Non-executive Director

Ms. Zhou Zhan, aged 53, is an independent non-executive Director. She was appointed as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 21 May 2014. She is the chairman of our audit committee, a member of our finance and investment committee and a member of our remuneration committee. She is currently a partner at Beijing Promise Certified Public Accountants General Partnership (北京京重信會計師事務所). She participated in founding Sino-Reality Certified Public Accountants (華實會計師事務所) in 1997, where she served as a partner from 1997 to 2013. Ms. Zhou has more than 30 years of experience in auditing, accounting and taxation. Ms. Zhou holds Certified Public Accountant and Certified Public Tax Advisor qualifications in the PRC. She graduated from Zhongnan University of Economics and Law (中南財經政法大學) with a bachelor's degree in economics in 1983.

Senior Management Team

Mr. CHANG Jian Hua (常建華)

Mr. Chang Jian Hua, aged 45, executive vice-president of Rongsheng Heavy Industries, joined Rongsheng Heavy Industries in 2010 and served as vice-president and subsequently head of human resources, and has been appointed as executive vice-president of Rongsheng Heavy Industries in 2014. Mr. Chang is primarily responsible for work on human resources and administrative management. He graduated from Dalian University of Technology (大連理工大學) with a bachelor's degree in engineering in 1992 and received a master's degree in industrial engineering from School of Economics and Management of University of Science and Technology Beijing (北京科技大學管理學院), and obtained the title of senior engineer in 2005. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012. Prior to joining the Group, Mr. Chang served as director of human resources of Jianlong Group (建龍集團), deputy general manager of Tangshan Jianlong Industrial Co., Ltd. (唐山建龍實業有限公司) and vice-president of Yangfan Group Co., Ltd. (揚帆集團股份有限公司), thus possessing extensive experience in managing human recourses and administrative affairs.

Mr. CHEN Wen Jun (陳文軍)

Mr. Chen Wen Jun, aged 45, vice-president of Rongsheng Heavy Industries. Mr. Chen joined Rongsheng Heavy Industries on 4 May 2008, and served as its vice-president and chief economist, primarily responsible for information technology and technological development management of our Group. Prior to joining the Group, 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 in engineering mechanics 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. In October 2011, he also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania.

Mr. MIAO Ke (苗科)

Mr. Miao Ke, aged 39, vice-president of Rongsheng Heavy Industries, joined Rongsheng Heavy Industries in 2013. Mr. Miao served as assistant to president and subsequently general manager of our second shipbuilding business division. He has been appointed as vice-president of Rongsheng Heavy Industries since 2014 and served concurrently as head of the production management department and general manager of second shipbuilding business division. Mr. Miao is primarily responsible for the Company's production and shipbuilding management and planning management. He graduated from Jiangsu University of Science and Technology (江蘇科技大學) with a bachelor's degree in 1997 and obtained the title of engineer. Prior to joining the Group, Mr. Miao served as technician, constructor and section chief and deputy department head of production department in Hudong-Zhonghua Shipbuilding Group (滬東中華造船集團), assistant to president and general manager of production and operation department in Jinhai Heavy Industry (金海重工), thus possessing extensive experience in shipbuilding management.

Mr. ZHANG Hong Yu (張虹宇)

Mr. Zhang Hong Yu, aged 36, vice-president of Rongsheng Heavy Industries, is primarily responsible for production management. Since joining Rongsheng Heavy Industries in December 2007, Mr. Zhang had successively served as deputy head of shipbuilding business division, head of second business division, deputy chief economist and general manager of shipbuilding business division and assistant to the president of Rongsheng Heavy Industries. In June 2010, he took up the post of vice-president of Rongsheng Heavy Industries. Prior to joining the Group, he was deputy foreman of Shanghai Waigaoqiao Shipyard (上海外高橋造船廠). Mr. Zhang received his bachelor's degree in automation technology from Nanjing Hohai University (南京河海大學) in 2001. He obtained qualifications for the title of senior engineer in "shipping and marine engineering" in December 2012.

Mr. WANG Zhi Liang (王志良)

Mr. Wang Zhi Liang, aged 66, is executive vice-president and chief production officer of Rong An Power. Mr. Wang is primarily responsible for production management, safety and environmental protection, and power and material supply. Prior to joining Rong An Power Machinery in January 2009, Mr. Wang worked for Hudong Shipyard (滬東造船廠) from 1972 to 1998, successively serving as section chief of the laboratory of the machinery manufacturing department, general assembly workshop director, deputy director of the diesel engine business division and factory manager of the foundry (鑄造分廠). Mr. Wang served concurrently as assistant to the general manager of Hudong Heavy Machinery (滬東重機) and general manager of Jinqiao Branch Company (金橋分公司). Mr. Wang also served as general manager of Shanghai Eastern Boat Company (上海東舟公司).

Mr. LEE Fook Kang, Don (李福根)

Mr. Lee Fook Kang, Don, aged 66, serves as director and 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 Sembcorp Marine Ltd and Keppel Corporation Limited. Prior to joining us in September 2012, Mr. Lee served as senior vice president of marketing of Sembcorp Marine Ltd and senior general manager of Jurong Shipyard Pte Ltd, a subsidiary of Sembcorp Marine Ltd from 2000 to 2012. Mr. Lee also served as director of Jurong Brazil Pte Ltd and director of PPL Shipyard Pte Ltd from 2003 to 2012, and director of Brazil Netherlands BV from 2009 to 2012.

Mr. LIU Bu Ruo (劉步若)

Mr. Liu Bu Ruo, aged 54, serves as director and general manager of КыргызжерНефтегаз ("Kyrgyzjer Neftegaz" Limited Liability Company*), an indirect non-wholly owned subsidiary of the Company, upon the completion of the acquisition of 60% interests in the Kyrgyzstan Project on 11 September 2014. Mr. Liu is responsible for overseeing the E&P business of the Group. Mr. Liu has over 30 years of experience in the energy industry. Mr. Liu obtained his engineering degree from Tongji University (同濟大學) in 1983, and he started his career at the Baosteel Group (寶鋼集團). In 2001, Mr. Liu joined Tongda Energy Corporation Limited group of companies (通達能源集團公司) and has held various senior management roles in the group including general manager, vice president and directorship. Mr. Liu was with Tongda Energy from 2001 to 2007 and from 2011 to 2014. This group is involved in city gas pipeline network engineering. It is also involved in gas production and marketing of petroleum products. Mr. Liu also served as director of LNG technology development and business development at Zhangjiagang Furui Special Equipment Co., Ltd (富瑞特裝上海工程技術中心) between 2009 and 2011.

* *for identification purpose only*

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2014.

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, engineering machinery and energy exploration and production focusing on oil and gas related customers and markets.

Details of the analysis of the Group's turnover and contribution to gross loss 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 2014 are set out in the consolidated statement of comprehensive income on pages 53 to 54 of this annual report.

DIVIDENDS

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the period from Wednesday, 27 May 2015 to Monday, 1 June 2015 (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 1 June 2015 ("**2015 AGM**"). In order to be eligible to attend and vote at the 2015 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 Tuesday, 26 May 2015.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 18 to the consolidated financial statements.

ISSUE AND CONVERSION OF CONVERTIBLE BONDS

During the year ended 31 December 2014, the Company issued convertible bonds due 2016 with an aggregate principal amount of HKD4,000,000,000 on 9 January 2014, 30 April 2014, 20 May 2014 and 20 June 2014. The Board considered that the issue of convertible bonds represented an opportunity to improve the liquidity position of the Group and raise further capital. As at 31 December 2014, the Group had utilised approximately HKD3,853,100,000 of the net proceeds for general working capital, repayment of medium and short term loans, operating expenses and cost of production materials, and capital and operating expenditures of the Kyrgyzstan Project. The remaining proceeds (being approximately HKD131,900,000) was intended to be used as working capital in the Kyrgyzstan Project and/or other energy-related projects for funding various capital and operating expenditures. As at 31 December 2014, a total of 1,090,194,599 shares had been converted from the convertible bonds issued by the Company (including the convertible bonds issued during the year ended 31 December 2014 and the convertible bonds in an aggregate principal amount of HKD1,400,000,000 issued during the year ended 31 December 2013). As at 31 December 2014, the outstanding principal amount of all convertible bonds was HKD4,304,000,000. Mr. Zhang Zhi Rong, a substantial shareholder of the Company, has guaranteed the payment obligations of the Company under all the abovementioned convertible bonds. Details of the movements in the convertible bonds are set out in Note 22 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, Notes 18 and 20 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the reserves of the Company available for distribution to shareholders amounted to RMB8,850.3 million (2013: RMB5,709.6 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 8 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 2014 and for the previous four financial years are set out in the Five-Year Financial Summary section on page 151 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 2014, 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 2014, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 36,750,000 shares, which is equivalent to approximately 0.39% 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 optimise 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 HKD4.00.

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 2014:

		Number of Share Options						
Names of Grantees	Date of Grant	As at 1 January 2014	Exercised	Cancelled	Lapsed	As at 31 December 2014	Exercise Price (HKD)	Exercisable Period
Mr. Wu Zhen Guo	24 October 2010	**5,000,000**	–	–	–	**5,000,000**	4.00	Note
Mr. Hong Liang	24 October 2010	**4,375,000**	–	–	–	**4,375,000**	4.00	Note
Mr. Sean S J Wang	24 October 2010	**2,500,000**	–	–	–	**2,500,000**	4.00	Note
Mr. Wang Tao	24 October 2010	**4,375,000**	–	–	–	**4,375,000**	4.00	Note
Mr. Wei A Ning	24 October 2010	**750,000**	–	–	–	**750,000**	4.00	Note
Ms. Zhu Wen Hua	24 October 2010	**375,000**	–	–	–	**375,000**	4.00	Note
Senior Management and other employees (in aggregate)	24 October 2010	**25,750,000**	–	–	6,375,000	**19,375,000**	4.00	Note
Total		**43,125,000**	–	–	6,375,000	**36,750,000**		

Notes:

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

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

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

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

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

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. As at 31 December 2014, the total number of shares in respect of the outstanding options granted under the Share Option Scheme was 237,700,000 shares, which is equivalent to approximately 2.50% of the total existing issued share capital of the Company. During the Period, no share options had been granted under the Share Option Scheme.

Particulars of the Company's Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 19(a) 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 2014:

		Number of Share Options						
Name of Grantee	Date of Grant	As at 1 January 2014	Exercised	Cancelled	Lapsed	As at 31 December 2014	Exercise price (HKD)	Exercisable Period
Mr. Chen Qiang	30 April 2012	**70,000,000**	–	–	–	**70,000,000**	1.94	Note
Mr. Wu Zhen Guo	30 April 2012	**7,000,000**	–	–	–	**7,000,000**	1.94	Note
Mr. Hong Liang	30 April 2012	**14,000,000**	–	–	–	**14,000,000**	1.94	Note
Mr. Sean S J Wang	30 April 2012	**7,000,000**	–	–	–	**7,000,000**	1.94	Note
Mr. Wang Tao	30 April 2012	**6,380,000**	–	–	–	**6,380,000**	1.94	Note
Mr. Wei A Ning	30 April 2012	**6,380,000**	–	–	–	**6,380,000**	1.94	Note
Ms. Zhu Wen Hua	30 April 2012	**4,500,000**	–	–	–	**4,500,000**	1.94	Note
Senior Management and other employees (in aggregate)	30 April 2012	**148,540,000**	–	–	26,100,000	**122,440,000**	1.94	Note
Total		**263,800,000**	–	–	26,100,000	**237,700,000**		

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2014 are set out in Note 42 to the consolidated financial statements.

DISCLOSEABLE TRANSACTION

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.

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.

On 11 July 2013, the Company received a written notification from the Anhui Province Higher People's Court that it has accepted the litigation proceedings initiated by Rongsheng Heavy Industries against Anhui Province Property Rights Exchange Co., Ltd. for the return of the payment of RMB630,000,000 made by Rongsheng Heavy Industries as security deposit for bidding of the equity interest in respect of the Transaction, together with the relevant interest. On 10 September 2013, Rongsheng Heavy Industries requested that the Vendor be joined as a co-defendant in the Proceedings. On 19 November 2013, Rongsheng Heavy Industries received a notification from Anhui Province Higher People's Court on the initiation of a counter-claim by the Vendor seeking an order for the return of the deposit to Vendor and the payment by Rongsheng Heavy Industries of the amount of RMB427,182,520 for alleged breach of contract, interest on delay in payment and compensation for loss to Vendor.

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

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, 2 December 2012, 11 July 2013, 21 November 2013 and 28 August 2014 respectively.

THE ACQUISITION OF 60% INTEREST IN KYRGYZSTAN PROJECT

On 21 August 2014, Ocean Sino Holdings Limited (an indirectly wholly-owned subsidiary of the Company) as the purchaser, New Continental Oil & Gas Co. Ltd. as the vendor and Mr. Liu Buruo, Mr. Zhang Jiping, Mr. Wang Jiawei and Mr. Li Dongtai as the guarantors entered into a share purchase agreement (the "**Share Purchase Agreement**"), pursuant to which the Purchaser conditionally agreed to acquire a 60% equity interest in Central Point Worldwide Inc. (the "**Acquisition**") at the consideration of HKD2,184,000,000, which shall be satisfied by the allotment and issue of the new shares to be allotted and issued by the Company to New Continental Oil & Gas Co. Ltd. or person(s) nominated by the New Continental Oil & Gas Co. Ltd. pursuant to the Share Purchase Agreement. The completion of the Acquisition took place on 11 September 2014. On the same day 1,400,000,000 shares were allotted and issued by the Company to the nominees of New Continental Oil & Gas Co. Ltd. Following the completion, Ocean Sino Holdings Limited holds 60% equity interest in Central Point Worldwide Inc. and each of Central Point Worldwide Inc., Crown Winner Investment Limited and КыргызжерНефтегаз ("Kyrgyzjer Neftegaz" Limited Liability Company*) has become an indirect non-wholly owned subsidiary of the Company.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the following transactions are connected transactions or continuing connected transactions under the Listing Rules which are subject to the disclosure requirements under Chapter 14A of the Listing Rules.

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 (renamed as Xuming 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 (the "**Services**");

(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 2014, Rongsheng Investment had not received any dividend income from Rongsheng Shipbuilding.

* *for identification purpose only.*

The Services Agreement and the terms of the transactions thereunder during the year ended 31 December 2014 have been reviewed by the independent non-executive Directors who have confirmed that, pursuant to the terms of the Services Agreement:

(1) the transactions carried out during the year ended 31 December 2014 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.

Exempt Connected Transactions

During the year ended 31 December 2014, the Company entered into certain related party transactions which also constitute fully exempt connected transaction under Chapter 14A of the Listing Rules, details of which are set out below:

On 16 December 2013, Mr. Zhang Zhi Rong, a substantial shareholder of the Company, agreed to provide security-free and interest-free revolving facilities up to March 2015 to the Group for working capital purposes for an amount up to RMB3,000.0 million.

During the year ended 31 December 2014, directors and substantial shareholders of the Company or entities controlled by them provided guarantees and security in respect of certain bank borrowings and refund guarantees of the Group.

As the above financial assistance was provided by connected persons for the benefit of the Company on normal commercial terms (or better to the Company) and no security over the assets of the Company is granted in respect of the financial assistance, the financial assistance constitutes connected transactions for the Company exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

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 41 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 applicable requirements in accordance with Chapter 14A of the Listing Rules.

EVENTS AFTER THE BALANCE SHEET DATE

Termination of Proposed Warrants Issue

On 29 October 2014, the Company and Kingwin Victory Investment Limited (the "**Subscriber**") entered into a subscription agreement (the "**Subscription Agreement**") in connection with the proposed issue of 1,700,000,000 warrants by the Company, which shall entitle the holders thereof to subscribe for cash up to 1,700,000,000 new Shares, at the issue price of HKD510,000,000.

On 9 March 2015, the Company and the Subscriber entered into a deed of termination pursuant to which the parties agreed that the Subscription Agreement shall be terminated and be of no further force and effect. As a result of the termination of the Subscription Agreement, a resolution was proposed by the chairman of an extraordinary general meeting of the Company convened on 13 March 2015 and approved by the shareholders to adjourn sine die (i.e. to adjourn for an indefinite period of time) resolution no. 1 as set out in the notice of the extraordinary general meeting regarding the approval of the Subscription Agreement, the proposed issue of the warrants and the specific mandate to allot and issue subscription shares. Details of the proposed warrant issue and its termination were disclosed in the announcements dated 29 October 2014, 11 February 2015, 4 March 2015 and 9 March 2015 and the circular dated 17 February 2015 of the Company.

Memorandum of Understanding in relation to the Potential Transaction

On 10 March 2015, the Company and an independent third party (the "**Potential Purchaser**") entered into a memorandum of understanding, pursuant to which the Company and the Potential Purchaser have agreed that the Company intends to sell to the Potential Purchaser, and the Potential Purchaser intends to purchase from the Company, the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC (the "**Potential Transaction**"). Both parties shall further negotiate the scope and list of related assets and liabilities and terms and arrangements of the Potential Transaction.

Change of Company Name

With effect from 18 March 2015, the name of the Company was changed from "China Rongsheng Heavy Industries Group Holdings Limited" to "China Huarong Energy Company Limited" and "中國華榮能源股份有限公司" was adopted as the Chinese name of the Company to replace the existing Chinese name of the Company "中國熔盛重工集團控股有限公司".

No amendment was made to the Company's Articles of Association during the year.

Details of the change of name of the Company were disclosed in the announcement dated 29 October 2014 and the circular dated 17 February 2015.

Medium-Term Notes

On 30 March 2015, Rongsheng Heavy Industries, a non-wholly owned subsidiary of the Company, repaid medium-term notes with a principal amount of RMB2,000,000,000, together with interest thereon at a rate of 5.95% per annum, being the first tranche of the medium-term notes issued by it on 28 March 2012 in the national inter-bank market in the People's Republic of China with a term of three years.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2014, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 4.4% and 13.0%, respectively. The percentages of sales attributable to the Group's largest customer and the five largest customers were 45.3% and 95.4%, respectively. During the year ended 31 December 2014, 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.

PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 2.22 to the consolidated financial statements.

REMUNERATION POLICY

The remuneration of directors are recommended by the remuneration committee of the Company and approved by the Board, based on prevailing market conditions and with reference to other companies of a similar size, business nature and scope as the Company. In addition, the Company may grant share options to eligible directors and employees as incentives for their contributions to the Group.

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 2014 are set out in Note 34 to the consolidated financial statements.

DIRECTORS

Directors of the Company during the year ended 31 December 2014 and up to the date of this report are as follows:

Executive Directors

Mr. Chen Qiang *(Chairman and Chief Executive Officer)*
Mr. Wu Zhen Guo *(Vice Chairman)*
Mr. Hong Liang
Mr. Sean S J Wang *(Chief Financial Officer)*
Mr. Wang Tao
Mr. Wei A Ning
Ms. Zhu Wen Hua

Independent Non-executive Directors

Mr. Tsang Hing Lun *(retired after the conclusion of the 2014 annual general meeting held on 21 May 2014)*
Mr. Xia Da Wei
Mr. Hu Wei Ping
Mr. Wang Jin Lian
Ms. Zhou Zhan *(appointed after the conclusion of the 2014 annual general meeting held on 21 May 2014)*

In accordance with the Company's Articles of Association, Mr. Chen Qiang, Mr. Wu Zhen Guo, Mr. Hong Liang, and Ms. Zhou Zhan will retire by rotation at the 2015 annual general meeting ("**2015 AGM**"). All the retiring Directors, being eligible, will offer themselves for re-election.

The biographical details of the Directors and senior management of the Company as at the date of this Report are set out in the Directors and Senior Management section on pages 13 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

During the year ended 31 December 2014, none of the Directors had entered into a service contract with the Group which was not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE OR ARRANGEMENTS

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) or arrangements 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 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 2014.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2014, 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.

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

As at 31 December 2014, 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)[2]**	**Total**	**Percentage of issued share capital[3]**
Mr. Chen Qiang	–	1,046,000,000[1]	70,000,000	1,116,000,000	11.76%
Mr. Wu Zhen Guo	–	–	12,000,000	12,000,000	0.13%
Mr. Hong Liang	–	–	18,375,000	18,375,000	0.19%
Mr. Sean S J Wang	–	–	9,500,000	9,500,000	0.10%
Mr. Wang Tao	–	–	10,755,000	10,755,000	0.11%
Mr. Wei A Ning	–	–	7,130,000	7,130,000	0.08%
Ms. Zhu Wen Hua	–	–	4,875,000	4,875,000	0.05%

Notes:

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

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

3 These percentages have been compiled based on the total number of issued shares of the Company of 9,490,194,599 as at 31 December 2014 and rounded to two decimal places.

(B) Long Positions in Associated Corporations

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

Note:

1 As at 31 December 2014, 15,000 shares in Rongsheng Heavy Industries Holdings Limited were held by Boom Will Limited, a company 100% beneficially owned by Mr. Chen Qiang.

Save as disclosed above, as at 31 December 2014, none of the Directors or the chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(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 2014, the interests of substantial shareholders (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Number of shares interested	Percentage of issued share capital [9]
Kingwin Victory Investment Limited [1]	3,465,855,227	36.52%
Mr. Wang Ping [1]	3,465,855,227	36.52%
Fine Profit Enterprises Limited [2]	2,052,281,157	21.63%
Mr. Zhang Zhi Rong [2]	2,052,281,157	21.63%
Action Phoenix Limited [3]	1,555,555,555	16.39%
VMS Investment Group Ltd [3]	1,555,555,555	16.39%
VMS Holdings Limited [3]	1,555,555,555	16.39%
Ms. Mak Siu Hang Viola [3]	1,555,555,555	16.39%
Partners Financial Holdings Limited [4]	1,322,566,259	13.94%
Winnex International Investments Limited [4]	1,322,566,259	13.94%
Mr. Cheng Kin Ming [4]	1,322,566,259	13.94%
Partners Kingwin Fund (I) [4]	1,322,566,259	13.94%
Partners and Kingwin Asset Management Limited [4]	1,322,566,259	13.94%
Bullion Riches Limited [4]	1,322,566,259	13.94%
Vogel Holding Group Limited [5]	910,579,439	9.59%
Ms. Shi Jing [5]	910,579,439	9.59%
Mr. Shi Yuzhu [5]	910,579,439	9.59%
Central Huijin Investment Ltd [6]	871,508,977	9.18%
Bank of China Limited [6]	871,508,977	9.18%
Bank of China Group Investment Limited [6]	871,508,041	9.18%
Goldway Financial Corp. [6]	871,508,041	9.18%
Star Team Enterprises Inc. [6]	871,508,041	9.18%
Gallop Sun Limited [7]	800,000,000	8.43%
Mr. Zhang De Huang [7]	800,000,000	8.43%
Mr. Zhang Jiping	750,000,000	7.90%
Outspace Limited [8]	490,000,000	5.16%

Notes:

1 Among these interests include derivative interests directly held by Partners Kingwin Fund (I) (see note 4 below) in the 1,321,093,917 underlying shares of the Company in relation to the convertible bonds issued by the Company. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

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

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

4 Among these interests include derivative interests directly held by Partners Kingwin Fund (I) in the 1,321,093,917 underlying shares of the Company in relation to the convertible bonds issued by the Company. Partners Kingwin Fund (I) is 100% directly beneficially owned by Partners and Kingwin Asset Management Limited, which is 50% directly beneficially owned by each of Bullion Riches Limited and Kingwin Victory Investment Limited (see note 1 above) respectively. Bullion Riches Limited is a wholly-owned subsidiary of Partners Financial Holdings Limited, which is 100% directly beneficially owned by Winnex International Investments Limited, a company 100% directly beneficially owned by Mr. Cheng Kin Ming. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

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

6 Among these interests include derivative interests directly held by Star Team Enterprises Inc. in the 812,500,003 underlying shares of the Company in relation to the convertible bonds issued by the Company. Star Team Enterprises Inc. is 100% directly owned by Goldway Financial Corp. which is in turn 100% directly owned by Bank of China Group Investment Limited. Bank of China Group Investment Limited is 100% directly beneficially owned by Bank of China Limited, a company 67.72% owned by Central Huijin Investment Ltd.

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

8 490,000,000 shares were directly held by Outspace Limited, which is 100% directly beneficially owned by Mr. Chen Qiang.

9 These percentages have been compiled based on the total number of issued shares of the Company of 9,490,194,599 as at 31 December 2014 and rounded to two decimal places.

Save as disclosed above, as at 31 December 2014, the Company had not been notified of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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 2014 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 2014.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 34 to 43 of this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the 2015 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 2015 AGM.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements 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 financial statements for the year ended 31 December 2014, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the financial statements 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, 30 March 2015

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 emphasise transparency, accountability and independence. Set out below are those principles of corporate governance adopted by the Company.

During the year ended 31 December 2014, 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.

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 2014, less than 14 days' notice was given for five Board meetings to suit the tight and busy schedules of the participants.

Code provision A.2.1 of the Code stipulates that the roles of the chairman of the board (the "**Chairman**") and the chief executive officer should be separate and should not be performed by the same individual. Mr. Chen Qiang had performed both the roles of Chairman and chief executive officer of the Company in deviation from code provision A.2.1 of the Code during the year ended 31 December 2014. The Company believes that it is more efficient and effective for the Company to develop its long term strategies and in the execution of its business plans if Mr. Chen Qiang serves as both the Chairman and the chief executive officer of the Company.

THE BOARD

Board Composition

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. Hong Liang, Mr. Sean S J Wang (Chief Financial Officer), Mr. Wang Tao, Mr. Wei A Ning and Ms. Zhu Wen Hua, and four independent non-executive Directors, namely Mr. Xia Da Wei, Mr. Hu Wei Ping, Mr. Wang Jin Lian and Ms. Zhou Zhan. The Board considers this composition to be balanced, and reinforces a strong independent review and monitoring function on overall management practices.

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on page 28.

The Directors' biographical details are set out in the Directors and Senior Management section on pages 13 and 19 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 and interim results, approving Directors' appointments to the Board, major capital transactions and other significant operational and financial matters. The Board also exercises powers to issue equity securities under the relevant general mandates.

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.

Delegation to Management

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

- execution of business and operational strategies and initiatives adopted by the Board;
- preparation of reports and accounts for the Board's approval before publication;
- adoption of the remuneration policy approved by the Board;
- implementation of internal controls and risk management procedures; and
- compliance with relevant statutory requirements, rules and regulations.

Attendance Records of Directors and Board Committee Members

During the year ended 31 December 2014, the Board held seven Board meetings. The agendas and accompanying board papers are given to all Directors in a timely manner. All Directors are properly briefed on issues arising at Board meetings by the Chairman.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with all independent non-executive Directors, without the presence of the executive Directors.

	Meetings Attended/Held							Continuous Professional Development
	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	Annual General Meeting	Extraordinary General Meeting	Type of Training (Notes)
Executive Directors								
Mr. Chen Qiang (Chairman)	7/7		2/2		2/2	0/1	0/2	A
Mr. Wu Zhen Guo	7/7				2/2	0/1	0/2	A
Mr. Hong Liang	7/7					1/1	0/2	A
Mr. Sean S J Wang	7/7		2/2			1/1	2/2	A
Mr. Wang Tao	7/7					1/1	0/2	A
Mr. Wei A Ning	7/7			2/2		0/1	1/2	A
Ms. Zhu Wen Hua	7/7					1/1	0/2	A
Independent non-executive Directors								
Mr. Tsang Hing Lun [1] (retired after the conclusion of 2014 annual general meeting held on 21 May 2014)	4/4	1/1			2/2	1/1	1/1	A
Mr. Xia Da Wei	7/7	2/2	2/2	2/2		1/1	0/2	A
Mr. Hu Wei Ping	6/7	2/2	2/2	2/2	2/2	0/1	0/2	A
Mr. Wang Jin Lian	7/7	2/2	2/2	2/2	2/2	0/1	0/2	A
Ms. Zhou Zhan [2] (appointed after the conclusion of 2014 annual general meeting held on 21 May 2014)	2/3	1/1				0/0	1/1	B

Notes relating to attendance records of meetings:

1 Attendance of meetings of Mr. Tsang Hing Lun is stated with reference to the number of the meetings held during the period from 1 January 2014 to the conclusion of the 2014 annual general meeting held on 21 May 2014 (his date of retirement as an independent non-executive Director upon which he also ceased to be the chairman of the Audit Committee and a member of each of the Finance and Investment Committee and the Remuneration Committee).

2 Attendance of meetings of Ms. Zhou Zhan is stated with reference to the number of the meetings held during the period from her appointment as chairman of the Audit Committee and a member of each of the Finance and Investment Committee and Remuneration Committee from the conclusion of the 2014 AGM held on 21 May 2014.

Notes relating to attendance records of trainings:

A Receiving training from the Company's external legal advisor about corporate governance requirements and statutory disclosure obligations.

B Keeping abreast of matters relevant to their role as directors by means of induction training and studying materials.

Continuous Professional Development

Code Provision A.6.5 of the Code stipulates that all directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Company also makes available continuous professional development to Directors at the expense of the Company and to ensure that their contribution to the Board remains informed and relevant.

Directors regularly receive training from the Company's external legal advisor on corporate governance requirements and statutory disclosure obligations. All Directors received their training by attending either in person or via telephone and/or by studying the training materials at their own leisure. All newly appointed Directors have received the induction programme and briefing on directors' duties and obligations on corporate governance and regulatory requirements prepared and delivered by our external legal advisor immediately prior to or on their respective date of appointment.

The Group has also regularly organised and conducted continuous training and development programmes to executive Directors and senior management staff through lectures, seminars and/or workshops by internal or external speakers with professional expertise and experience, covering areas in financial, industrial, commercial, management, legal and regulatory matters.

During the year ended 31 December 2014, the Company organised one training session conducted by external legal advisor for all Directors. Please refer to the attendance records of the training of each Director in association with their attendance records of meetings in the table above.

Independence of Independent Non-executive Directors

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Directors, whereby 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 with 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 to 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.

Each of the executive Directors entered into a service contract with the Company for a term of three years commencing on 24 October 2013 (save for Ms. Zhu Wen Hua whose service contract commenced on her date of appointment on 31 December 2013).

All independent non-executive Directors are appointed by the Company for a term of three years. Each of Mr. Xia Da Wei, Mr. Hu Wei Ping, Mr. Wang Jin Lian and Ms. Zhou Zhan has entered into a letter of appointment for a term of three years commencing on their date of appointment on 28 December 2012, 28 May 2013, 31 July 2013 and 21 May 2014 respectively.

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 29 to 30 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. 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 during the year ended 31 December 2014.

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 2014, 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 of four members:Ms. Zhou Zhan, being chairman of the Audit Committee, Mr. Xia Da Wei, Mr. Hu Wei Ping and Mr. Wang Jin Lian, all of whom are independent non-executive Directors. Ms. Zhou Zhan, as the chairman of the Audit Committee, possesses appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules.

Mr. Tsang Hing Lun ceased to be a chairman of the Audit Committee upon his retirement as an independent non-executive Director after the conclusion of the 2014 AGM held on 21 May 2014. Ms. Zhou Zhan served as a chairman of the Audit Committee on the conclusion of the 2014 AGM held on 21 May 2014.

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 2014, 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 of the Group's consolidated financial statements for the year ended 31 December 2013;
- review of and recommendation for the Board's approval the Group's interim condensed consolidated financial information for the six months ended 30 June 2014;
- 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 2014; and
- review of the external auditor's remuneration and terms of engagement.

The consolidated financial statements of the Group for the year ended 31 December 2014 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 2014.

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 independent non-executive Directors. The Remuneration Committee comprises five members: Mr. Hu Wei Ping (an independent non-executive Director), being the chairman of the Remuneration Committee, Mr. Chen Qiang (Chairman of the Board and an executive Director), Mr. Wu Zhen Guo (vice chairman of the Board and an executive Director), Mr. Wang Jin Lian (an independent non-executive Director) and Ms. Zhou Zhan (an independent non-executive Director).

Mr. Tsang Hing Lun ceased to be a member of the Remuneration Committee upon his retirement as an independent non-executive Director after the conclusion of the 2014 AGM held on 21 May 2014. Ms. Zhou Zhan served as a member of the Remuneration Committee after the conclusion of the 2014 AGM held on 21 May 2014.

During the year ended 31 December 2014, 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; and
- review of and recommendation for the Board's approval of the remuneration package under an appointment letter of a newly appointed independent non-executive Director.

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 34 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 2014 is set out below:

Remuneration bands (RMB)	Number of persons
Below 1,000,000	1
1,000,001 to 2,000,000	6
2,000,001 to 5,000,000	0
5,000,001 to 10,000,000	0
10,000,001 or above	1

Nomination Committee

The Nomination Committee was established on 1 April 2012 with written terms of reference. The Nomination Committee comprises of four members, namely Mr. Wang Jin Lian (an independent non-executive Director) being the chairman of the Nomination Committee, Mr. Wei A Ning (an executive Director), Mr. Xia Da Wei (an independent non-executive Director) and Mr. Hu Wei Ping (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 year ended 31 December 2014, the Nomination Committee held two meetings. The meetings were held, amongst other things, to review and recommend for the Board's approval the new appointment of an independent non-executive Director and chairman of Audit Committee, member of the Finance and Investment Committee, and the Remuneration Committee.

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 a written notice of his/her intention to propose such candidate for election and also a 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 by making reference to the Company's Board Diversity Policy, which was adopted by the Board on 26 March 2013 and 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 to be 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 recommendations to the Board for consideration and approval.

Corporate Governance Committee

The Corporate Governance Committee was established on 1 April 2012 with written terms of reference. The Corporate Governance Committee comprises of five members, namely Mr. Wang Jin Lian (an independent non-executive Director) being the chairman of the Corporate Governance Committee, Mr. Chen Qiang (Chairman of the Board and an executive Director), Mr. Sean S J Wang (an executive Director), Mr. Xia Da Wei (an independent non-executive Director) and Mr. Hu Wei Ping (an independent non-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 year ended 31 December 2014, the Corporate Governance Committee held two meetings. The meetings were held to:

- review the compliance with the Code and the relevant disclosure in the draft 2013 Annual Report and the draft 2014 interim report; and

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

Finance and Investment Committee

The Finance and Investment Committee was established on 1 April 2012 with written terms of reference. The Finance and Investment Committee comprises of five members, namely Mr. Chen Qiang (Chairman of the Board and an executive Director) being the chairman of the Finance and Investment Committee, Mr. Hong Liang (an executive Director), Mr. Sean S J Wang (an executive Director), Mr. Xia Da Wei (an independent non-executive Director) and Ms. Zhou Zhan (an independent non-executive Director).

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 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.

Board Diversity Policy

The Board Diversity Policy was adopted by the Company pursuant to the resolutions passed at a Board meeting held on 26 March 2013. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, the nomination and the board appointments during the year ended 31 December 2014 were made after considering the board diversity in a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

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 Board reviewed the effectiveness of the Group's internal controls systems, including financial, operational and compliance control and risk management systems. During the year ended 31 December 2014, 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 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.

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 laws, rules and regulations, are followed. During the year ended 31 December 2014, the company secretary had 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 2014 was approximately HKD17.3 million (2013: HKD19.8 million), of which HKD17.0 million (2013: HKD19.7 million) represents annual audit and other audit-related services and HKD0.3 million (2013: HKD0.1 million) represents fees for certain non-audit related services, which mainly consist of taxation, review, consultancy and other reporting services.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS AND AUDITOR'S RESPONSIBILITY

All Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2014 and of ensuring that the preparation of the consolidated financial statements of the Company is in accordance with the applicable standards and requirements.

The statement of the auditor about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 45 of this annual report.

GOING CONCERN AND MITIGATION MEASURES

During the year ended 31 December 2014, the Group incurred a loss of approximately RMB8,089.2 million and had a net operating cash outflow of approximately RMB2,811.1 million due to the market downturn and financial difficulties of the Group's customers. As at 31 December 2014, the Group's current liabilities exceeded its current assets by approximately RMB20,723.3 million. The total borrowings and finance lease liabilities of the Group as at 31 December 2014 were RMB22,614.9 million, of which RMB20,773.7 million would be due within 12 months from 31 December 2014. Included in the Group's borrowings were certain current borrowings of RMB528.0 million, which were overdue and have not been renewed or repaid subsequent to year end. These conditions, together with others described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. However, a series of plans and measures to mitigate liquidity pressure have been taken to improve the financial and liquidity positions of the Group. For further details of these mitigating plans and measures, please refer to note 2.1(a) to the consolidated financial statements.

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:

Investor Relations Department

China Huarong Energy Company 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 of the Company. 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 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 laws and the Articles of Association of the Company.

CORPORATE AND SOCIAL RESPONSIBILITY

The Group is committed to attract, develop and maintain outstanding employees, and to provide a career path with promotion opportunities and good working atmosphere. By holding an annual commendation ceremony, the Group expressed its appreciation and commendation to the contribution of employees in 2014. The Group also organised collective activities to enhance the sense of belonging and spirit of solidarity of the employees in order to overcome the difficulties of this moment.

INVESTOR RELATIONS

The Group is committed to regular and proactive communication with its shareholders. It has adopted a policy of disclosing clear, adequate and relevant information to Shareholders in a timely manner through various channels.

The Board communicates with its shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at annual general meetings and other general meetings.

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

The Company's website (http://www.huarongenergy.com.hk) 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.

CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
CHINA HUARONG ENERGY COMPANY LIMITED
(Formerly known as China Rongsheng Heavy Industries Group Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Huarong Energy Company Limited (formerly known as China Rongsheng Heavy Industries Group Holdings Limited) (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 49 to 150, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, it is not possible to form an opinion on the consolidated financial statements as we were not able to obtain sufficient appropriate audit evidence and due to the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements.

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Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in Note 2.1(a) to the consolidated financial statements, the Group incurred a net loss of approximately RMB8,089,228,000 and had a net operating cash outflow of approximately RMB2,811,141,000 during the year ended 31 December 2014. As at the same date, the Group's current liabilities exceeded its current assets by RMB20,723,255,000, and its current borrowings amounted to RMB20,773,695,000 while its cash and cash equivalents amounted to RMB143,101,000 only. In addition, a substantial amount of loan principals and interests were overdue, and based on the financial position of the Group as at 31 December 2014, the Group was not in compliance with certain restrictive financial covenants of certain borrowings. These caused the relevant bank loans to become immediately repayable in accordance with the respective loan agreements. In addition, as a result of the above-mentioned overdue of principal and interest repayments and non-compliance with the loan covenants, current borrowings totaling RMB18,184,012,000 as at 31 December 2014 became immediately repayable pursuant to the cross-default terms under the relevant loan or convertible bond agreements, and certain non-current borrowings have been classified as current liabilities. These conditions, together with others described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to restructure its businesses which are set out in Note 2.1(a) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) whether the Group can complete the potential transaction as described in Note 43 (the "**Potential Transaction**"), which requires executing a definitive agreement with the potential purchaser before the expiry date of 30 June 2015, agreeing the details of the transaction, raising the additional funding required, if any, to complete the Potential Transaction, and obtaining the necessary approvals from regulatory authorities and shareholders; (ii) whether the Group can successfully implement a business plan for the businesses to be excluded from the Potential Transaction as described in (i) above; (iii) the availability of financing from banks through successful negotiations for extension or renewal of outstanding bank loans, including those with overdue principal and interests, and obtaining from the lenders waivers from complying with certain restrictive financial covenants and due payments of loan principal and interests pursuant to the cross-default terms for certain borrowings; (iv) whether the Group is able to convince the convertible bondholders not to exercise their early redemption options to redeem the outstanding convertible bonds in year 2015; (v) whether the Group is able to implement its operation plan to generate cashflow from its operations; and (vi) availability of additional sources of financing, including those to finance its new energy exploration and production business.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

Basis for Disclaimer of Opinion (Continued)

Impairment of land use rights and property, plant and equipment and the Company's amounts due from subsidiaries

As at 31 December 2014, the carrying amount of the Group's land use rights and property, plant and equipment amounted to RMB3,955,560,000 and RMB17,192,897,000, respectively. As described in Note 43 to the consolidated financial statements, on 10 March 2015, the Group and a potential purchaser ("**Potential Purchaser**") have entered into a memorandum of understanding (the "**MOU**"), pursuant to which the Group intends to sell to the Potential Purchaser, and the Potential Purchaser intends to purchase from the Group, the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC. Both parties would further negotiate and expect to enter into a definitive agreement prior to the expiry of the MOU on 30 June 2015 detailing the scope, list of related assets and liabilities to be included and terms and arrangements of the Potential Transaction.

In determining the recoverable amounts of the non-current assets including land use rights and property, plant and equipment under the Shipbuilding and Offshore Engineering segments amounting to RMB17,754,904,000, the directors of the Company consider that these assets will be included in the Potential Transaction as described in Note 43, and therefore has taken into account the estimated consideration of the Potential Transaction when assessing whether any impairment charge is necessary. In determining the recoverable amounts of the non-current assets including land use rights and property, plant and equipment under the Marine Engine Building and the Engineering Machinery segments amounting to RMB3,247,766,000, the Group considers the implementation of a robust business plan which include active marketing of the existing products and development of new revenue streams; therefore such recoverable amounts are determined based on value-in-use calculations.

As the estimated consideration under the Potential Transaction exceeds the carrying value of the non-current assets of the Shipbuilding and Offshore Engineering segments, and that the value-in-use amounts for the Marine Engine Building and the Engineering Machinery segments exceed the carrying values of the corresponding non-current assets, the directors of the Company are of the opinion that there was no impairment of non-current assets amounting to RMB21,002,670,000 as at 31 December 2014.

However, with respect to the non-current assets of the Shipbuilding and Offshore Engineering segments, the Potential Transaction is subject to, amongst others, the execution of a definitive transaction agreement, the final terms and conditions of which are still under further negotiations and agreement by both parties, and the necessary approvals by the regulatory authorities and shareholders. With respect to the non-current assets of the Marine Engine Building and the Engineering Machinery segments, the business plan to be implemented involves certain assumptions, the reasonableness of which cannot be ascertained based on historical data nor industry trends in the future. We were unable to obtain sufficient appropriate audit evidence we consider necessary to assess the recoverable amount of these non-current assets. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of these land use rights of RMB3,955,560,000 and property, plant and equipment of RMB17,047,110,000, totaling RMB21,002,670,000; and whether any impairment charge should be made. Any impairment provision for these non-current assets found to be necessary would affect the Group's net assets as at 31 December 2014, the Group's loss for the year then ended and the related note disclosures to the consolidated financial statements. In addition, as these assets were held by various material subsidiaries, any impairment provision for these assets found to be necessary would also affect the recoverable amount of the Company's amounts due from subsidiaries which amounted to RMB11,480,873,000 as at 31 December 2014, the Company's loss for the year then ended and the related disclosures to the consolidated financial statements.

Disclaimer of Opinion

Because we have not been able to obtain sufficient appropriate audit evidence and the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion paragraphs, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report 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, 30 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**3,955,560**	4,045,028
Property, plant and equipment	8	**17,192,897**	17,471,432
Intangible assets	9	**1,493,345**	–
Long-term deposits	15	**136,000**	149,430
Prepayments for non-current assets	15	**63,979**	82,459
Available-for-sale financial asset	12	**36,374**	41,547
		22,878,155	21,789,896
Current assets			
Inventories	13	**2,392,920**	1,577,495
Amounts due from customers for contract works	14	**1,165,371**	7,407,254
Trade and bills receivables	15	**1,036,356**	1,318,923
Other receivables, prepayments and deposits	15	**2,270,533**	2,632,931
Pledged deposits	16	**119,820**	1,131,225
Cash and cash equivalents	17	**143,101**	117,020
		7,128,101	14,184,848
Total assets		**30,006,256**	35,974,744
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**797,296**	599,526
Share premium	18	**9,512,510**	7,490,812
Other reserves	20	**3,522,724**	3,514,818
Accumulated losses		**(13,798,797)**	(6,043,869)
		33,733	5,561,287
Non-controlling interests		**279,963**	607,765
Total equity		**313,696**	6,169,052

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**1,436,656**	7,979,016
Finance lease liabilities — non-current	22	**404,548**	714,843
Advances from a related party — non-current	41(ii)	**–**	243,838
		1,841,204	8,937,697
Current liabilities			
Amounts due to customers for contract works	14	**–**	321,778
Trade and other payables	21	**6,125,115**	6,243,083
Advances from a related party — current	41(ii)	**381,629**	–
Borrowings	22	**20,488,142**	13,615,249
Derivative financial instruments	24	**532,805**	482,997
Provision for warranty	25	**38,112**	106,731
Finance lease liabilities — current	22	**285,553**	98,157
		27,851,356	20,867,995
Total liabilities		**29,692,560**	29,805,692
Total equity and liabilities		**30,006,256**	35,974,744
Net current liabilities		**(20,723,255)**	(6,683,147)
Total assets less current liabilities		**2,154,900**	15,106,749

The consolidated financial statements on pages 49 to 150 were approved by the Board of Directors on 30 March 2015 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2014	2013
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**1,514,444**	33
Current assets			
Other receivables and prepayments	15	**–**	4,570
Amounts due from subsidiaries	15	**11,480,873**	9,829,316
Cash and cash equivalents	17	**8,209**	4,134
		11,489,082	9,838,020
Total assets		**13,003,526**	9,838,053
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	**797,296**	599,526
Share premium	18	**9,512,510**	7,490,812
Other reserves	20	**335,876**	314,971
Accumulated losses	26	**(662,233)**	(1,781,197)
Total equity		**9,983,449**	6,624,112

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2014 RMB'000	2013 RMB'000
LIABILITIES			
Current liabilities			
Other payables	21	**15,926**	580,091
Amount due to a related company	21	**–**	27,903
Amounts due to subsidiaries	21	**5,995**	5,995
Borrowings	22	**2,465,351**	2,116,955
Derivative financial instruments	24	**532,805**	482,997
		3,020,077	3,213,941
Total liabilities		**3,020,077**	3,213,941
Total equity and liabilities		**13,003,526**	9,838,053
Net current assets		**8,469,005**	6,624,079
Total assets less current liabilities		**9,983,449**	6,624,112

The consolidated financial statements on pages 49 to 150 were approved by the Board of Directors on 30 March 2015 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue			
— Revenue from shipbuilding and other contracts	5	**728,372**	1,343,566
— Revenue related to the cancellation of the construction contracts	6	**(4,530,737)**	–
		(3,802,365)	1,343,566
Cost of sales			
— Cost of shipbuilding and other sales	27	**(2,014,828)**	(2,776,491)
— Cost of sales related to the cancellation of the construction contracts	6, 27	**1,703,170**	–
		(311,658)	(2,776,491)
Gross loss		**(4,114,023)**	(1,432,925)
Selling and marketing expenses	27	**(16,773)**	(20,341)
General and administrative expenses	27	**(1,115,843)**	(1,371,716)
Research and development expenses	27	**(63,081)**	(61,853)
Provisions for impairments and delayed penalties	27	**(2,742,109)**	(5,107,036)
Other income — net	29	**182,504**	40,613
Other gains/(losses) — net	30	**1,811,647**	(277,284)
Operating loss		**(6,057,678)**	(8,230,542)
Finance income	31	**13,840**	153,357
Finance costs	31	**(2,045,390)**	(981,392)
Finance costs — net	31	**(2,031,550)**	(828,035)
Loss before income tax		**(8,089,228)**	(9,058,577)
Income tax credit	32	**–**	105,142
Loss for the year		**(8,089,228)**	(8,953,435)
Loss attributable to:			
Equity holders of the Company		**(7,754,928)**	(8,685,175)
Non-controlling interests		**(334,300)**	(268,260)
		(8,089,228)	(8,953,435)

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Other comprehensive (loss)/income for the year:			
Items that may be reclassified to profit or loss			
— Fair value (loss)/gain on an available-for-sale financial asset		**(1,947)**	1,547
Other comprehensive (loss)/income for the year, net of tax		**(1,947)**	1,547
Total comprehensive loss for the year		**(8,091,175)**	(8,951,888)
Attributable to:			
Equity holders of the Company		**(7,756,819)**	(8,683,688)
Non-controlling interests		**(334,356)**	(268,200)
		(8,091,175)	(8,951,888)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	35	**(1.01)**	(1.24)
Dividends			
Dividends (expressed in RMB per share)	36	**–**	–

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						
		Share capital	Share premium	Other reserves	Accumulated losses	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014		599,526	7,490,812	3,514,818	(6,043,869)	5,561,287	607,765	6,169,052
Loss for the year		–	–	–	(7,754,928)	(7,754,928)	(334,300)	(8,089,228)
Other comprehensive loss								
Fair value loss on an available-for-sale financial asset		–	–	(1,891)	–	(1,891)	(56)	(1,947)
Total comprehensive loss for the year		–	–	(1,891)	(7,754,928)	(7,756,819)	(334,356)	(8,091,175)
Transactions with equity holders in their capacity as owners								
Acquisition of subsidiaries	38	–	–	–	–	–	6,554	6,554
Exchange difference on translation of foreign operations		–	–	(11,108)	–	(11,108)	–	(11,108)
Share-based payment	19	–	–	20,905	–	20,905	–	20,905
Issuance of ordinary shares		111,354	1,403,057	–	–	1,514,411	–	1,514,411
Issue shares upon conversion of convertible bonds		86,416	618,641	–	–	705,057	–	705,057
Transactions with equity holders of the Company		197,770	2,021,698	9,797	–	2,229,265	6,554	2,235,819
Balance at 31 December 2014		797,296	9,512,510	3,522,724	(13,798,797)	33,733	279,963	313,696

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013		599,526	7,490,812	3,480,596	2,641,306	14,212,240	875,965	15,088,205
Loss for the year		–	–	–	(8,685,175)	(8,685,175)	(268,260)	(8,953,435)
Other comprehensive income								
Fair value gain on an available-for-sale financial asset		–	–	1,487	–	1,487	60	1,547
Total comprehensive income/(loss) for the year		–	–	1,487	(8,685,175)	(8,683,688)	(268,200)	(8,951,888)
Transactions with equity holders in their capacity as owners								
Share-based payment	19	–	–	32,735	–	32,735	–	32,735
Transactions with equity holders of the Company		–	–	32,735	–	32,735	–	32,735
Balance at 31 December 2013		599,526	7,490,812	3,514,818	(6,043,869)	5,561,287	607,765	6,169,052

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash used in operations	37(a)	**(1,893,817)**	(1,687,472)
Interest paid		**(917,324)**	(1,594,797)
Income tax refund		**–**	78,994
Net cash used in operating activities		**(2,811,141)**	(3,203,275)
Cash flows from investing activities			
Purchase of property, plant and equipment and deposits for land use rights		**(68,944)**	(548,863)
Purchase of intangible assets		**–**	(145,128)
Capital return of an available-for-sale financial asset		**3,226**	–
Refund of a deposit		**–**	40,000
Interest received		**13,840**	72,398
Pledged deposits		**1,011,405**	2,805,856
Proceeds from sales of property, plant and equipment		**81,424**	–
Cash acquired upon acquisition of Co-operation Rights (as defined in Note 2.8(d)) and related assets and liabilities	38	**648**	–
Net cash generated from investing activities		**1,041,599**	2,224,263
Cash flows from financing activities			
Proceeds from bank borrowings	37(b)	**14,470,442**	17,575,760
Proceeds from other borrowings		**–**	603,000
Repayment of other borrowings		**(603,000)**	–
Repayment of bank borrowings	37(b)	**(15,215,089)**	(20,839,468)
Net proceeds from issuance of convertible bonds	22	**3,156,860**	1,097,257
Proceeds from finance lease liabilities	37(b)	**25,200**	–
Repayments of finance lease liabilities	37(b)	**(178,627)**	(160,875)
Net advances from related parties		**137,791**	690,346
Net cash generated from/(used in) financing activities		**1,793,577**	(1,033,980)
Net increase/(decrease) in cash and cash equivalents		**24,035**	(2,012,992)
Cash and cash equivalents at beginning of the year		**117,020**	2,143,788
Exchange gain/(loss) on cash and cash equivalents		**2,046**	(13,776)
Cash and cash equivalents at end of the year	17	**143,101**	117,020

The notes on pages 58 to 150 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

China Huarong Energy Company Limited (formerly known as 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 Certificate of Incorporation on Change of Name of the Company was issued by the Registrar of Companies in the Cayman Islands on 18 March 2015. Details are set out in Note 43 to the consolidated financial statements.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 42 to the consolidated financial statements.

The consolidated financial statements are presented in Renminbi (RMB), unless otherwise stated.

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 basis

During the year ended 31 December 2014, the Group continued to be affected by the unsatisfactory performance of the global shipping market. Operation of the Group has been minimal owing to the shortage of funds to complete its existing shipbuilding orders on schedule and the lack of availability of banking facilities required for accepting new orders. Certain shipbuilding contracts were therefore cancelled at the request of shipowners or the Group, which required the Group to refund instalments and pay interest penalties totaling RMB1,840,677,000. Furthermore, although management has already implemented measures to reduce costs, the Group was still experiencing high level of operating expenses as well as finance costs. As a result, the Group has incurred a loss of approximately RMB8,089,228,000 and had a net operating cash outflow of approximately RMB2,811,141,000.

As at 31 December 2014, the Group's current liabilities exceeded its current assets by RMB20,723,255,000, and the cash and cash equivalents of the Group amounted to RMB143,101,000. As at the same date, the Group's total borrowings and finance lease liabilities amounted to RMB22,614,899,000, out of which RMB16,463,804,000 were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also include convertible bonds with outstanding principal totaling HKD4,304,000,000 (equivalent to approximately RMB3,395,296,000) as of 31 December 2014 which are redeemable in year 2015.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

Although the Group has been actively re-negotiating the terms and conditions of its existing borrowings with the respective banks and has successfully deferred part of the principal and interests, certain loan principal repayments and interest payments totaling RMB606,645,000 were still overdue as at 31 December 2014. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB2,347,647,000 have been classified as current liabilities. Subsequent to the year end, additional loan principals and interest payments totaling RMB558,265,000 were not renewed or repaid upon the scheduled payment dates and thus became overdue. Based on the financial position of the Group as at 31 December 2014, the Group was not in compliance with certain restrictive financial covenants of current bank borrowings amounting to RMB697,523,000 as at 31 December 2014. The Group has obtained waivers for compliance with such financial covenants subsequent to year end. In addition, bank loans of RMB16,981,417,000 and convertible bonds with principal amount of HKD4,304,000,000 (equivalent to approximately RMB3,395,296,000), totaling RMB20,376,713,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,184,012,000 as at 31 December 2014 became immediately repayable pursuant to the cross-default terms under the relevant loans and convertible bond agreements; and in this connection, certain non-current borrowings totaling RMB105,959,000 have been classified as current liabilities. As at the date of the approval of these consolidated financial statements, the Group has not obtained waviers from the relevant banks and bondholders on these cross-default clauses; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group has issued six convertible bonds with original principal amounts totaling HKD5,400,000,000 (equivalent to approximately RMB4,259,898,000) up to 31 December 2014. According to the bond agreements, the bondholders have early redemption options to request the Company to redeem the outstanding convertible bonds should the market price of the Company's shares fall below a certain level or when the respective convertible bonds reach the one-year non-redemption period. The first convertible bond with outstanding principal totaling HKD1,400,000,000 (equivalent to approximately RMB1,104,418,000) issued in August 2013 already reached its one-year non-redemption period in August 2014 and the remaining bonds will reach their one-year non-redemption period between January to June 2015. The share price level has not reached the redemption level, nor have any of the convertible bonders requested for redemption up to the date of approval of these consolidated financial statements.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) *Going concern basis (Continued)*

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

In view of such circumstances, the directors of the Company have during the year ended and up to the date of the approval of these consolidated financial statements taken the following measures to mitigate the liquidity pressure and to improve financial position of the Group, and to restructure its businesses:

i) The Group intends to diversify its operation through investing into the energy exploration and production business. In September 2014, the Group acquired 60% interests in a Kyrgystan oil extraction project with a view to diversifying its operations, broadening its source of revenue, and promoting its transformation into a comprehensive heavy industry player in the energy sector. The acquisition was made through the issuance of 1,400,000,000 ordinary shares at HKD1.36 each (see Note 38 for details). Management expects to realise an increase of oil output through upgrade and consolidation of the existing exploration technology and thereby to generate steady operating cash flows;

ii) On 10 March 2015, the Group and an independent third party (the "**Potential Purchaser**") entered into a memorandum of understanding (the "**MOU**"), pursuant to which the Group intends to sell to the Potential Purchaser, and the Potential Purchaser intends to purchase from the Group, the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC (the "**Potential Transaction**"). The MOU remains in effect until 30 June 2015 (Note 43). Prior to the expiry of the MOU, the Group expects to enter into a definitive agreement with the Potential Purchaser, detailing the arrangements and completion conditions of the Potential Transaction, including but not limited to, the assets and liabilities to be included, the consideration of the transaction, funding required from the Group, if any, for the completion of the Potential Transaction, which are yet to be finalised. The directors considered that the Potential Transaction would adjust and optimise the assets and business of the Group, divest the relevant assets and liabilities of the shipbuilding business and offshore engineering business, and help ease the debt burden of the Group and enhance the flexibilities of fund utilisation;

iii) The Company successfully issued five convertible bonds in year 2014 with terms and conditions similar to the bonds issued by the Company in August 2013. The net proceeds from these convertible bonds were HKD3,985,000,000 (equivalent to approximately RMB3,156,860,000) in aggregate. During the year, convertible bonds with total principal amounts of HKD1,096,000,000 (equivalent to approximately RMB868,832,000) were converted into 1,090,195,000 ordinary shares of the Company. As at 31 December 2014, convertible bonds with principal amounts of HKD4,304,000,000 (equivalent to approximately RMB3,395,296,000) remain outstanding and are redeemable in the coming twelve months. The Group is in discussion with the bondholders and has requested them not to exercise their redemption options in year 2015;

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) *Going concern basis (Continued)*

iv) In March 2014, the Group entered into a "Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimisation Framework Agreement" (《江蘇熔盛重工有限公司債務優化銀團框架協議》) (the "**Jiangsu Framework Agreement**") with a group of banks in the Jiangsu Province of the People's Republic of China ("**PRC**") to extend the repayment of and renewal terms of the existing bank loans that had original maturity in 2014 to the end of year 2015. During the year, pursuant to this framework agreement, the Group has successfully extended the repayment dates and renewed certain loans, totaling RMB8,674,030,000 (inclusive of principal amount of RMB8,438,817,000 and interest amount of RMB235,213,000), which will be due before the end of 2015. As at 31 December 2014, the Group's total outstanding current and non-current borrowings with respect to this Jiangsu Framework Agreement amounted to RMB10,300,766,000 and RMB404,548,000 respectively, of which RMB32,000,000 have been overdue since 2014. The Group is planning to further negotiate with these banks for renewal and extension of these outstanding bank loans as and when they fall due during the year 2015;

v) In October 2014, the Group entered into a "Debt Optimisation Framework Agreement for China Rongsheng's Entities in Hefei" (《中國熔盛系合肥企業債務優化銀團框架協議》) (the "**Hefei Framework Agreement**") with a group of banks in Hefei, Anhui Province of the PRC to extend the repayment and renewal terms of the existing bank loans that had original maturity in 2014 to the end of year 2015. During the year, pursuant to this framework agreement, the Group has successfully extended the repayment dates of and renewed certain loans amounting to RMB214,004,000, (inclusive of principal amount of RMB209,590,000 and interest amount of RMB4,414,000), which will be due before the end of 2015. As at 31 December 2014, the Group had total outstanding current borrowings amounting to RMB1,418,911,000 with respect to this Hefei Framework Agreement, of which RMB228,291,000 have been overdue since 2014. The Group is planning to further negotiate with these banks for renewal and extension of these outstanding bank loans as and when they fall due during the year 2015;

vi) The Group has also been actively negotiating with the banks regarding the current and non-current borrowings (other than convertible bonds) of RMB7,197,734,000 and RMB1,436,656,000 respectively not covered in the above Jiangsu Framework Agreement and Hefei Framework Agreement (together with "**Framework Agreements**") to extend the repayment and renewal terms of these existing current bank loans that had original maturity in 2013 and 2014 to the end of year 2015. The Group has during the year successfully extended the repayment dates of and renewed certain loans amounting to RMB852,254,000 (inclusive of principal amount of RMB758,589,000 and interest amount of RMB93,665,000), so that these loans are now repayable before the end of 2015. Out of the renewed amounts during the year, an amount of RMB50,000,000 represented bank loans that were overdue as of 31 December 2013. As at 31 December 2014, total current bank loans from these banks amounted to RMB7,197,734,000, of which RMB59,000,000 have been overdue since 2013 and 2014. The Group is now actively negotiating with the remaining banks on the terms and conditions of the extension and renewal of borrowings which are either overdue or will fall due in 2015. Subsequent to the year end, loans of RMB710,000,000 were successfully extended and will be repayable in year 2016;

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

vii) Subsequent to the year end, the Group obtained waivers for compliance with the financial covenants of certain current borrowings amounting to RMB697,523,000;

viii) Subsequent to the year end, the Group obtained a new bank loan of RMB2,000,000,000 in March 2015, which will be repayable in December 2015. Such bank loan has been used to refinance the medium-term note of RMB1,982,000,000, which was due on 29 March 2015. The Group is planning to further negotiate with this bank for renewal and extension of this new bank loan as and when they fall due during the year 2015 ;

ix) During the year, the Group successfully obtained project-based loans totalling RMB602,439,000 for completing certain of the Group's existing shipbuilding contracts. The Group is continuing its negotiation with banks to obtain further project-based financing;

x) In relation to those bank loans that have been overdue (including those mentioned in (iv) to (vi) above) because the Group failed to repay on or before the scheduled repayment dates or those bank loans that became immediately repayable under the cross-default terms, the Group is in the process of negotiating with the relevant banks to extend the repayment and renewal of the loans; and to obtain waivers from the lenders for the due payment pursuant to the relevant cross-default clauses; and

xi) The Group continues to implement measures to improve the operating cash flows, including (1) re-sale of certain completed shipbuilding orders to new customers should the original customers do not accept delivery; (2) utilising the capacity of the production plants in manufacturing of steel structures for infrastructure projects; and (3) taking active measures to expedite collections of outstanding receivables, control administrative costs and contain capital expenditures.

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

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) *Going concern basis (Continued)*

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

i) executing a definitive agreement with the Potential Purchaser and completing the Potential Transaction for selling the core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC. This would include, prior to the MOU expiry date of 30 June 2015, entering into a definitive agreement for agreeing the details and completion conditions of the Potential Transaction, including the scope, the assets and liabilities to be included and the consideration of the transaction, obtaining the necessary approvals from regulatory authorities and shareholders in order to complete the Potential Transaction, and raising the additional funding required, if any, for the completion of the Potential Transaction and for the settlement of any borrowings or liabilities not included in the Potential Transaction;

ii) segregating the assets and liabilities to be excluded from the Potential Transaction from the ones included, and successfully implementing a business plan for those businesses;

iii) convincing the convertible bondholders not to exercise their redemption options to request the Company to redeem the outstanding convertible bonds as at 31 December 2014;

iv) negotiating with the relevant banks for the renewal or extension for repayments beyond year 2015 for those loans that (i) are scheduled for repayment (either based on the original agreement or the existing arrangements) in year 2015; (ii) were overdue at 31 December 2014 because the Group failed to repay on or before the scheduled repayment dates; and (iii) became or might become overdue in year 2015;

v) obtaining from the relevant lenders waivers for the due payment in relation to those bank loans that have cross-default clauses in the respective loan agreements;

vi) obtaining additional project-based loans for completing the Group's outstanding shipbuilding orders and implementing its operations plan described above to control costs and generate adequate cash flows; and

vii) obtaining additional sources of financing other than those above-mentioned, including those to finance the Group's new energy exploration and production business.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) *Going concern basis (Continued)*

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any future liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

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

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

During the year ended 31 December 2014, the Group has adopted the following new standards, amendments and interpretations to standards which are mandatory for accounting periods beginning on 1 January 2014:

IFRS 10, IFRS 12 and IAS 27 (2011) (Amendment)	Investment Entities
IAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendment)	Impairment of Assets — Recoverable Amount Disclosures for Non-financial Assets
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement
IFRIC 21	Levies

The adoption of these new standards, amendments and interpretations to standards does not have significant impact to the Group's results of operation and financial position.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(d) New standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2014 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16 and IAS 41 (Amendment)	Agriculture: Bearer Plants	1 January 2016
IAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets between Investor and its Associate or Joint Venture	1 January 2016
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
Annual Improvements Project	Annual Improvements 2010–2012 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2011–2013 Cycle	1 July 2014
Annual Improvements Project	Annual Improvements 2012–2014 Cycle	1 January 2016

The Group will adopt the above new standards and amendments to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

(e) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2 Principal accounting policies (Continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. 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.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in the consolidated statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 Principal accounting policies (Continued)

2.2 Subsidiaries (Continued)

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 dividends received 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 of the Company who make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income within 'finance income' or 'finance costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains/(losses) — net'.

Translation differences on non-monetary financial assets and liabilities such as derivative financial instruments are recognised as part of the fair value gain or loss.

2 Principal accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(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.

2.5 Oil properties

The successful efforts method of accounting is used for oil exploration and production activities. Costs are accumulated on a field-by-field basis. All costs for development wells, support equipment and facilities, and proved mineral interests in oil properties are capitalised within construction in progress under property, plant and equipment. Geological and geophysical costs are expensed when incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised within construction in progress until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to profit or loss.

Once commercial reserves are found, construction in progress relevant to oil properties are tested for impairment, or whenever facts and circumstances indicate impairment. No depreciation and depletion is charged during the exploration and evaluation phase when development is completed on a specific field it is transferred to oil properties.

An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

2 Principal accounting policies (Continued)

2.5 Oil properties (Continued)

Oil properties are depreciated and depletion using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil reserves estimated to be recovered from existing facilities using current operating methods. Oil volumes are considered to be part of production once they have been measured through meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

Proven oil properties 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 of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.6 Property, plant and equipment

The Group's buildings, including buildings under construction, are stated at revalued amount. All other property, plant and equipment, except for construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses. 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 derecognised. All other repairs and maintenance are charged in the profit or loss during the financial period in which they are incurred.

Except for oil properties, the depreciation of which is calculated using the unit-of-production method, 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.

Plant and equipment under construction or pending installation are stated at cost less accumulated depreciation and 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 in the consolidated statement of comprehensive income.

2 Principal accounting policies (Continued)

2.7 Land use rights

Land use rights represented upfront payments made for the use of land and the attached coastal line, if any, and are stated at cost and amortised over the period of the lease and the rights to use the land ranged from 5 to 50 years 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.

2.8 Intangible assets

(a) 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 and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of 5 years.

(b) 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 respective estimated useful lives of 2 to 10 years.

(c) 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)

2.8 Intangible assets (Continued)

(c) 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.

(d) Co-operation Rights

The Co-operation Rights represent rights to cooperate with the national oil company of the Republic of Kyrgyzstan ("**Kyrgyzstan**") in the operation of the five oil fields zones ("**Co-operation Rights**"). The Co-operation Rights are stated at cost less accumulated amortisation and any impairment losses. The Co-operation Rights are amortised using the unit-of-production method.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: 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) 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 'long-term deposits', 'trade and bills receivables', 'other receivables', 'pledged deposits' and 'cash and cash equivalents' in the consolidated statement of financial position.

(b) Available-for-sale financial asset

Available-for-sale financial asset 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 after the end of the reporting period.

2 Principal accounting policies (Continued)

2.9 Financial assets (Continued)

2.9.2 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 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 asset are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

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 gains/(losses) — net.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated 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.

2.9.3 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 Principal accounting policies (Continued)

2.9 Financial assets (Continued)

2.9.3 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill or intangible assets not ready for 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.

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

2 Principal accounting policies (Continued)

2.12 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, 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.

2.13 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.

2.14 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.

2.15 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.

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

2.17 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 or loss over the period of the borrowings using the effective interest method.

2 Principal accounting policies (Continued)

2.17 Borrowings (Continued)

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 prepayment 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.

2.18 Convertible bonds

(a) Convertible bonds with equity component

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry or when the Company redeems some or all of the convertible bonds upon exercise of the put option by the bondholders.

(b) Convertible bonds without equity component

All other convertible bonds which do not exhibit the characteristics mentioned in (a) above are accounted for as hybrid instruments consisting of an embedded derivative and a host debt contract. At initial recognition, the embedded derivative of the convertible bonds is accounted for as derivative financial instruments and is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as liability under the contract. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability under the contract. The derivative component is subsequently carried at fair value and changes in fair value are recognised in the profit or loss. The liability under the contract is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity. When the convertible bonds are converted, the carrying amount of the liability under the contract together with the fair value of the relevant derivative component at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. When the convertible bonds are redeemed, any difference between the redemption amount and the carrying amounts of both components are recognised in the profit or loss.

2 Principal accounting policies (Continued)

2.18 Convertible bonds (Continued)

(c) Convertible bonds issued for unidentified services

If the identifiable consideration received by the Company appears to be less than the fair value of the convertible bonds issued, the Company measures the unidentifiable services received (to be received) as the difference between the fair value of the convertible bond issued and that of the identifiable consideration received, and the difference is recognised in the profit or loss immediately unless qualified for capitalisation.

The debt component (i.e. the bondholder's right to demand payment in cash) of the convertible bond will be accounted for as a cash-settled share-based payment transaction while the equity component (i.e. the bondholder's right to demand settlement in the Company's shares) of the convertible bonds will be accounted for as an equity settled share-based payment transaction. The entity first measures the fair value of the liability component, and then measure the fair value of the equity component by taking into account that the bondholder must forfeit the right to receive cash in order to receive the equity instrument. Subsequent to initial recognition, the debt component of the convertible bond is stated at fair value, with changes recorded in the income statement under other gains/(losses), net. The equity component is not re-measured subsequent to initial recognition.

2.19 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.

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.

Provisions 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 end of each reporting period for expected warranty claims for repairs and returns based on industry practice and past experience of the Group.

2 Principal accounting policies (Continued)

2.20 Current and deferred income 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 end of each reporting period 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 end of each reporting period 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, 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)

2.21 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 end of each reporting period 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).

When the construction contract is cancelled either mutually or unilaterally, revenue recognised up to the cancellation date together with the corresponding cost of sales are reversed in the period in which the cancellation takes place.

2.22 Employee benefits

(a) Pension and employee social security and benefits obligations

The group companies in the 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)

2.22 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 the end of each reporting period, 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.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, 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.

(a) *Revenue from construction contracts*

Please refer to Note 2.21 "Construction contracts" for the accounting policy on revenue from construction contracts.

(b) *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.

2.24 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 loans and receivables are recognised using the original effective interest rate.

2 Principal accounting policies (Continued)

2.25 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.

2.26 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.

2.27 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 leases.

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.

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)

2.28 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.

2.29 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 foreign exchange rate risk and interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The 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 borrowings denominated in USD and Hong Kong dollar ("**HKD**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency.

The shipbuilding business generates a major portion of its revenue with the contract prices denominated in USD and incurs substantial portion of its manufacturing costs in RMB. The unmatched currency cash flows are subject to foreign exchange risk. Management continually assesses the Group's exposure to foreign exchange rate risks to mitigate the impact of currency exchange rate fluctuations for the operating business.

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, deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings are denominated in USD and HKD which are also exposed to foreign exchange risk. Details of the Group's trade and other receivables, deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings denominated in foreign currencies are disclosed in Notes 15, 16, 17, 21 and 22 respectively.

At 31 December 2014, if RMB had weakened/strengthened by 2% against the USD and HKD respectively with all other variables held constant, pre-tax loss for the year would have been approximately RMB38,922,000 (2013: RMB22,120,000) higher/lower, mainly as a result of foreign exchange differences on translation of USD and HKD denominated monetary assets and liabilities.

(ii) 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 short-term and long-term borrowings at fixed rates expose the Group to fair value interest-rate risk. Certain 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 2014, if interest rate had increased/decreased by 100 basis points with all other variables held constant, pre-tax loss for the year would have been approximately RMB93,847,000 (2013: RMB92,978,000) higher/lower.

(b) Credit risk

Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables, prepayments and amounts due from customers for contract works. As at 31 December 2014, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC, Kyrgyzstan, Singapore and Hong Kong 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.

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 market downturn. The Group is exposed to concentration of credit risk as the three largest debtors, of the Shipbuilding segment represented over 80% (2013: over 50%) of the total trade receivables (before provisions) of the Group as at 31 December 2014. Accordingly, the Group's consolidated results would be heavily affected by the financial capability of these debtors to fulfill the obligations under the shipbuilding contracts with the Group. The Group regularly reviews the credit profiles, business prospects, background and financial capability of the customers. As a result, management has made a provision for doubtful receivable of RMB284,095,000 (2013: RMB2,026,759,000) and provision for amounts due from customers for contract works of RMB2,333,541,000 (2013: RMB275,590,000) as at 31 December 2014 respectively.

For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial positions, past experience and other factors, before granting credit limits. The Group has a large number of customers on this segment and has no significant concentration of credit risk. During the year ended 31 December 2014, trade receivables of RMB51,716,000 (2013: RMB56,708,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for.

For credit exposures to other receivables and prepayments, management assesses the credit quality of the counterparties on a case-by-case basis, taking into account their financial positions, past experience, amounts and timing of expected receipts and other factors. During the year ended 31 December 2014, other receivables and prepayments amounted to RMB99,920,000 was impaired and provided for (2013: RMB892,381,000).

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

During the year ended 31 December 2014, the Group incurred a net loss of approximately RMB8,089,228,000. In addition, the Group has had a significant net operating cash outflow of approximately RMB2,811,141,000 due to the unsatisfactory performance of the global shipping market and refund instalments and pay interest penalties to certain customers for the cancelled shipbuilding contracts. As at 31 December 2014, the Group's current liabilities exceeded its current assets by RMB20,723,255,000, and the cash and cash equivalents of the Group amounted to RMB143,101,000. As at the same date, the Group's total borrowings and finance lease liabilities amounted to RMB22,614,899,000, out of which RMB16,463,804,000 were either overdue or would be due for repayment within 12 months in accordance with the repayment dates of the respective agreements or under existing arrangements. The Group's current borrowings also include convertible bonds with outstanding principal totaling HKD4,304,000,000 (equivalent to approximately RMB3,395,296,000) as of 31 December 2014 which are redeemable in year 2015. Although the Group has been actively re-negotiating the terms and conditions of its existing borrowings with the respective banks and has successfully deferred part of the principal and interests, certain loan principal repayments and interest payments totaling RMB606,645,000 were still overdue as at 31 December 2014. The non-payment of loan principal and interests in accordance with the scheduled repayment dates caused the relevant bank loans to become immediately repayable pursuant to the respective loan agreements. In this connection, certain non-current borrowings totaling RMB2,347,647,000 have been classified as current liabilities. Subsequent to the year end, additional loan principals and interest payments totaling RMB558,265,000 were not renewed or repaid upon the scheduled payment dates and thus became overdue. In addition, bank loans of RMB16,981,417,000 and convertible bonds with principal amount of HKD4,304,000,000 (equivalent to approximately RMB3,395,296,000), totaling RMB20,376,713,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,184,012,000 as at 31 December 2014 became immediately repayable pursuant to the cross-default terms under the relevant loans and convertible bond agreements; and in this connection, certain non-current borrowings totaling RMB105,959,000 have been classified as current liabilities. As at the date of the approval of these consolidated financial statements, the Group has not obtained waviers from the relevant banks and bondholders on these cross-default clauses; nor have these banks and bondholders have taken any action against the Group to demand immediate repayment.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

In view of these adverse factors, a series of remedial measures to mitigate the liquidity pressure have been taken to improve its financial and liquidity position of the Group as a whole.

Management continued to negotiate with principal banks for the renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates. In particular, the Group had extended the repayment of and renewal terms of the existing bank loans original maturity in 2014 to the end of year 2015 with a group of banks under Jiangsu Framework Agreement and Hefei Framework Agreement. The Group has also been actively negotiating with the banks not covered in the Framework Agreements to extend the repayment and renewal terms of the existing bank loans that had original maturity in 2013 and 2014 to the end of year 2015. During the year, the Group successfully extended the repayment dates of and renewed certain loans amounting to RMB852,254,000 to the end of year 2015.

In relation to those bank loans that have been overdue because the Group failed to repay on or before the scheduled repayment dates or those bank loans that become immediately repayable because of the cross-default terms, the Group is in the process of negotiating with the relevant banks to extend the repayment and renewal of the loans; and to obtain waivers from the lenders for the due payment pursuant to the relevant cross-default clauses.

Subsequent to the end of the reporting period, loans of RMB 710,000,000 were successfully extended and will be repayable in year 2016. In addition, the Group obtained a new bank loan of RMB2,000,000,000 in March 2015, which will be repayable in December 2015. Such bank loan has been used to refinance the medium-term note of RMB1,982,000,000, which was due on 29 March 2015. The Group is planning to further negotiate with this bank for renewal and extension of this new bank loan as and when they fall due during the year 2015.

In relation to convertible bonds are redeemable in year 2015, the Group is in discussion with the bondholders and has requested them not to exercise their redemption options in year 2015.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

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 end of each reporting period 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.

Specifically, for borrowings which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the borrowings with immediate effect.

Group	Repayable on demand/less than 1 year	Between 1 and 2 years	More than 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2014				
Borrowings	**22,915,705**	**558,646**	**988,889**	**24,463,240**
Finance lease liabilities	**298,662**	**459,049**	**–**	**757,711**
Derivative financial instruments	**532,805**	**–**	**–**	**532,805**
Trade and other payables	**5,531,901**	**–**	**–**	**5,531,901**
Advances from a related party	**381,629**	**–**	**–**	**381,629**
At 31 December 2013				
Borrowings	16,773,772	3,400,396	1,557,823	21,731,991
Finance lease liabilities	153,060	763,828	–	916,888
Derivative financial instruments	482,997	–	–	482,997
Trade and other payables	5,521,042	–	–	5,521,042
Advances from a related party	–	243,838	–	243,838

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

Company	Repayable on demand/less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 31 December 2014				
Amounts due to subsidiaries	**5,995**	**–**	**–**	**5,995**
Other payables	**15,926**	**–**	**–**	**15,926**
Borrowings	**4,255,786**	**–**	**–**	**4,255,786**
Derivative financial instruments	**532,805**	**–**	**–**	**532,805**
At 31 December 2013				
Amounts due to subsidiaries	5,995	–	–	5,995
Amount due to a related party	27,903	–	–	27,903
Other payables	580,091	–	–	580,091
Borrowings	2,540,277	–	–	2,540,277
Derivative financial instruments	482,997	–	–	482,997

Maturity Analysis — borrowings based on scheduled repayments

Certain borrowings contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflows based on the scheduled repayment. The amount includes interest payments computed using contractual rates. Taking into account the Group's situation and arrangement with certain banks under the Framework Agreements, the directors do not consider that it is probable that the banks will exercise their discretion to immediate repayment. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 31 December 2014	**17,094,487**	**4,284,918**	**4,316,694**	**25,696,099**
As 31 December 2013	**14,799,694**	**4,714,772**	**4,546,996**	**24,061,462**

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 31 December 2014	**860,360**	**3,534,331**	**–**	**4,394,691**
As 31 December 2013	**1,439,597**	**77,048**	**1,477,048**	**2,993,693**

3 Financial risk management (Continued)

3.2 Capital 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. This ratio is calculated as total liabilities divided by total assets.

The Group's total liabilities and total assets positions and debt-asset ratio at 31 December 2014 and 2013 were as follows:

	2014	2013
	RMB'000	RMB'000
Total liabilities	**29,692,560**	29,805,692
Total assets	**30,006,256**	35,974,744
Debt-asset ratio	**0.99**	0.83

3.3 Fair value estimation

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

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

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial asset	**–**	**–**	**36,374**	**36,374**
Total assets	**–**	**–**	**36,374**	**36,374**
Liabilities				
Financial derivative component of borrowings	**–**	**(532,805)**	**–**	**(532,805)**
Total liabilities	**–**	**(532,805)**	**–**	**(532,805)**

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

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

There were no transfers between levels 2 and 3 during the year.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in levels 2 and 3

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. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2014.

	Available-for-sale financial asset RMB'000
Balance at 1 January 2013	**40,000**
Fair value gain on revaluation recognised in other comprehensive income	**1,547**
Balance at 31 December 2013	**41,547**
Balance at 1 January 2014	**41,547**
Capital return of the available-for-sale financial asset	**(3,226)**
Fair value loss on revaluation recognised in other comprehensive income	**(1,947)**
Balance at 31 December 2014	**36,374**

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 includes evaluation of customer's reputation, credit profile, historical performance and relationship with the Group.

4 Critical accounting estimates, assumptions and judgement (Continued)

(b) 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 or fair value less cost to sell, whichever is higher. 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. Based on management's assessment, including sensitivity analysis, no impairment charge was recognised during the year ended 31 December 2014 (2013: RMB1,447,715,000). Details of which have been disclosed in Note 8.

(c) Impairment of trade and other receivables, prepayments and amounts due from customers for contract works

Provision for impairment of trade and other receivables, prepayments 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)).

(d) Convertible bond classification

The Group's convertible bonds are financial instruments, which were all accounted for under International Accounting Standard 32 — "Financial Instruments: Presentation" ("**IAS 32**") and International Accounting Standard 39 — "Financial Instruments: Recognition and Measurement" ("**IAS 39**"). During the year ended 31 December 2014, the Company issued five guaranteed convertible bonds and the net proceeds from these convertible bonds were HKD3,985,000,000 (equivalent to approximately RMB3,156,860,000) in aggregate. The cash considerations of the convertible bonds were lower than the aggregate fair value of the host debt contract and the embedded derivative (Note 4(e)) at the respective completion dates. Such difference may imply that unidentifiable services or goods could be received by the Group, where the convertible bonds could be accounted for in accordance with International Financial Reporting Standard 2 — "Share-based Payment" (Note 2.18(c)). After taking into account of the Group's current financial performance, liquidity position and other appropriate factors, management concluded that there were no unidentifiable services received and have accounted for the convertible bonds in accordance with IAS 32 and IAS 39.

4 Critical accounting estimates, assumptions and judgement (Continued)

(e) Estimated fair value of convertible bonds

Convertible bonds consisted of host debt contracts and embedded derivatives. The fair value of the host contract and embedded derivative are determined based on the directors' estimation in light of the latest information obtained relating to the convertible bonds and with reference to independent valuer assessment. Any new development in the convertible redeemable bonds or the market conditions and changes in assumptions and estimates, including but not limited to the Company's share price and its volatility, interest rates, the likelihood of the exercise of the conversion right and redemption rights of the convertible redeemable bonds by the bondholders and the Company, could affect the fair value of such host contract and embedded derivative and as a result affect the Group's financial position and results of operations.

(f) Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation expense for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation expense where useful lives are less than previously estimated lives. It will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expense in future periods.

(g) 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.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

5 Segment 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, and the Offshore Engineering segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while the Marine Engine Building segment derives its revenue from building marine engines. The Energy Exploration and Production segment will derive its revenue from sales of crude oil where this segment has not commenced commercial production yet therefore no revenue was recognised during the year ended 31 December 2014. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. Segment results are calculated by offsetting segment revenue from external customers with segment cost of sales. The segment information provided to the Executive Directors for the reportable segments for the year ended 31 December 2014 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		Energy Exploration and Production Year ended 31 December		Total Year ended 31 December	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from shipbuilding and other contracts	**639,293**	1,195,727	**–**	–	**27,646**	18,350	**187,543**	232,361	**–**	–	**854,482**	1,446,438
Reversal of revenue related to the cancellation of the shipbuilding contracts	**(4,530,737)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(4,530,737)**	–
Segment revenue	**(3,891,444)**	1,195,727	**–**	–	**27,646**	18,350	**187,543**	232,361	**–**	–	**(3,676,255)**	1,446,438
Inter-segment revenue	**–**	–	**–**	–	**(3,701)**	(1,573)	**(122,409)**	(101,299)	**–**	–	**(126,110)**	(102,872)
Revenue from external customers	**(3,891,444)**	1,195,727	**–**	–	**23,945**	16,777	**65,134**	131,062	**–**	–	**(3,802,365)**	1,343,566
Segment results	**(3,888,607)**	(1,033,387)	**–**	–	**(42,738)**	(322,189)	**(182,678)**	(77,349)	**–**	–	**(4,114,023)**	(1,432,925)
Selling and marketing expenses											**(16,773)**	(20,341)
General and administrative expenses											**(1,115,843)**	(1,371,716)
Research and development expenses											**(63,081)**	(61,853)
Provisions for impairments and delayed penalties											**(2,742,109)**	(5,107,036)
Other income-net											**182,504**	40,613
Other gains/(losses)-net											**1,811,647**	(277,284)
Finance costs – net											**(2,031,550)**	(828,035)
Loss before income tax											**(8,089,228)**	(9,058,577)
Segment assets	**2,181,991**	7,526,873	**1,102,238**	1,076,649	**510,808**	745,578	**3,343,221**	3,706,833	**1,688,041**	–	**8,826,299**	13,055,933
Unallocated											**21,179,957**	22,918,811
Total assets											**30,006,256**	35,974,744
Segment liabilities	**–**	202,176	**193,664**	192,722	**279,309**	548,379	**4,414,409**	4,643,575	**105,022**	–	**4,992,404**	5,586,852
Unallocated											**24,700,156**	24,218,840
Total liabilities											**29,692,560**	29,805,692

5 Segment information (Continued)

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.

During the year ended 31 December 2014, revenue from the top customer of the Shipbuilding segment, excluding cancellation of construction contracts, amounted to RMB327,370,000 (2013: RMB388,075,000), representing 44.9% of the total revenue from shipbuilding and other contracts (2013: 28.9%).

No customers of the Engineering Machinery and the Marine Engine Building segments individually accounted for 10% or more of the Group's consolidated revenue for the year ended 31 December 2014 (2013: same).

The top three customers of the Group amounted to RMB573,406,000 (2013: RMB809,086,000), representing 78.7% of the total revenue from shipbuilding and other contracts, excluding cancellation of construction contracts (2013: 60.2%).

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

The Group's revenue from shipbuilding and other contracts is analysed as follows:

	2014 **RMB'000**	2013 RMB'000
Greece	**414,441**	252,661
China	**199,569**	573,396
Brazil (Note a)	**166,182**	(34,371)
Israel	**48,824**	212,095
India	**25,902**	160,171
Germany (Note a)	**(127,529)**	(812)
Turkey	**–**	96,813
Norway	**–**	83,549
Others	**983**	64
	728,372	1,343,566

Note:

(a) The reduction in revenue from certain customers during the year was mainly due to the change in contract price and accounting estimates.

Geographically, total assets and capital expenditures are allocated based on where the assets are located. Assets are mainly located in the PRC, except for assets under Energy Exploration and Production segment which are mainly located in Kyrgyzstan.

6 Cancellation of the construction contracts

During the year, 29 shipbuilding contracts of the Group were cancelled (the "**29 Contracts**"). 20 of these contracts were cancelled on a mutual basis with customers and one shipbuilding contract was unilaterally cancelled by a customer. According to the agreements and cancellation notice, the Group had to refund to these customers the instalments received from them and to pay interest on these instalments at the interest rate in accordance with the contracts. Furthermore, 8 shipbuilding contracts were unilaterally cancelled by the Group through the issuance of cancellation notices to the customers since these customers failed to make contract payments in accordance with the relevant contractual payment schedules.

The impact of the above cancelled contracts is as follows:

	2014	2013
	RMB'000	RMB'000
Reversal of revenue	**(4,530,737)**	–
Reversal of cost of sales (Note 27)	**3,650,440**	–
Provision for vessels under construction relating to cancelled contracts (Note 13)	**(1,947,270)**	–
Compensation (Note 27)	**(231,928)**	–
Installment forfeited (Note 29)	**124,656**	–
	(2,934,839)	–

7 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:

	2014	2013
	RMB'000	RMB'000
Opening net book amount	**4,045,028**	875,666
Additions	**–**	3,233,367
Amortisation (Note 27)	**(81,660)**	(64,005)
Disposals	**(7,808)**	–
Closing net book amount	**3,955,560**	4,045,028
In the PRC, held on:		
Leases between 10 to 50 years	**3,955,560**	4,045,028

Borrowings and refund guarantees are secured by certain land use rights with an aggregate carrying value of RMB3,883,210,000 as at 31 December 2014 (2013: RMB746,602,000) (Notes 22 and 39(a)).

As at 31 December 2014, the Group was in the process of renewing and obtaining the certificate of a coastal line in the PRC with carrying amount of approximately RMB3,162,785,000 (2013: RMB3,191,799,000). In the opinion of directors, the absence of the certificate of a coastal line does not impair its carrying value to the Group and the probability of being prohibited to use in the absence of the certificate of the coastal line are remote.

Amortisation of the Group's land use rights has been charged to the consolidated statement of comprehensive income as general and administrative expenses (Note 27).

8 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 2013							
Opening net book amount	6,758,110	9,155,313	2,616,080	18,234	36,369	32,393	18,616,499
Additions	354,057	1,082	11,067	845	580	1,278	368,909
Disposal	(9,727)	(78,856)	(4,614)	(385)	(351)	(6,437)	(100,370)
Transfer	(269,414)	128,924	140,490	–	–	–	–
Impairment loss	(408,323)	(368,467)	(161,668)	(1,295)	(1,922)	(2,464)	(944,139)
Depreciation (Note 27)	–	(187,476)	(261,304)	(8,568)	(9,652)	(2,467)	(469,467)
Closing net book amount	6,424,703	8,650,520	2,340,051	8,831	25,024	22,303	17,471,432
Year ended 31 December 2013							
Cost or valuation	6,424,703	8,650,520	3,537,817	48,841	61,143	46,757	18,769,781
Accumulated depreciation and impairment loss	–	–	(1,197,766)	(40,010)	(36,119)	(24,454)	(1,298,349)
Net book amount	6,424,703	8,650,520	2,340,051	8,831	25,024	22,303	17,471,432
At 31 December 2013							
At Valuation	4,842,723	8,650,520	–	–	–	–	13,493,243
At Cost	1,581,980	–	2,340,051	8,831	25,024	22,303	3,978,189
Year ended 31 December 2014							
Opening net book amount	**6,424,703**	**8,650,520**	**2,340,051**	**8,831**	**25,024**	**22,303**	**17,471,432**
Acquisition of subsidiaries (Note 38)	**25,924**	**–**	**–**	**–**	**20**	**205**	**26,149**
Additions	**188,231**	**2,068**	**25,870**	**63**	**947**	**180**	**217,359**
Disposals	**(4,863)**	**(80,874)**	**(5,412)**	**(229)**	**(533)**	**(73)**	**(91,984)**
Transfer	**(1,956,961)**	**1,926,161**	**30,800**	**–**	**–**	**–**	**–**
Depreciation (Note 27)	**–**	**(196,497)**	**(215,161)**	**(5,147)**	**(8,098)**	**(4,448)**	**(429,351)**
Exchange difference	**(705)**	**–**	**–**	**–**	**(1)**	**(2)**	**(708)**
Closing net book amount	**4,676,329**	**10,301,378**	**2,176,148**	**3,518**	**17,359**	**18,165**	**17,192,897**
At 31 December 2014							
Cost or valuation	**4,676,329**	**10,301,378**	**3,588,706**	**48,447**	**62,072**	**47,068**	**18,724,000**
Accumulated depreciation and impairment loss	**–**	**–**	**(1,412,558)**	**(44,929)**	**(44,713)**	**(28,903)**	**(1,531,103)**
Net book amount	**4,676,329**	**10,301,378**	**2,176,148**	**3,518**	**17,359**	**18,165**	**17,192,897**
At 31 December 2014							
At Valuation	**4,531,064**	**10,301,378**	**–**	**–**	**–**	**–**	**14,832,442**
At Cost	**145,265**	**–**	**2,176,148**	**3,518**	**17,359**	**18,165**	**2,360,455**

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

8 Property, plant and equipment — Group (Continued)

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

	2014 RMB'000	2013 RMB'000
Cost of sales	**328,346**	267,271
Selling and marketing expenses	**156**	473
General and administrative expenses	**100,849**	201,723
Charged to the profit or loss (Note 27)	**429,351**	469,467

Borrowings and refund guarantees are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB6,610,320,000 as at 31 December 2014 (2013: RMB6,513,230,000) (Notes 22 and 39(a)).

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

	2014 RMB'000	2013 RMB'000
Cost — capitalised finance lease	**1,416,645**	1,438,704
Accumulated depreciation	**(260,219)**	(232,684)
Net book amount	**1,156,426**	1,206,020

As at 31 December 2014, certain plant and machineries under non-cancellable leases, with costs of RMB1,416,645,000 (2013: RMB1,438,704,000), were held by the Group under certain sale and leaseback arrangements. These leases have a 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 2014, the Group was in the process of obtaining the property ownership certificates in respect of certain properties held under medium term land use rights in the PRC with carrying amount of approximately RMB757,101,000 (2013: RMB1,168,608,000). In the opinion of directors, the absence of the property ownership certificates of these properties does not impair their carrying values to the Group as the Group has paid the purchase consideration of these properties in full and the probability of being evicted on the ground of an absence of property ownership certificates is remote.

Included in the construction in progress are oil properties of RMB145,265,000 as at 31 December 2014 in respect of the Co-operation Rights in Kyrgyzstan.

For the year ended 31 December 2014, the Group continued to be significantly affected by prolonged unfavourable global shipping market conditions. Operation of the Group has been minimal owing to the shortage of funds to complete its existing shipbuilding orders on schedule and the lack of availability of banking facilities required for accepting new orders. As described in Note 43, the Group has entered into a MOU of a Potential Transaction to sell the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group, and as a result to release the debt burden of the Group.

8 Property, plant and equipment — Group (Continued)

Management has therefore performed an impairment assessment of the Group's land use rights and property, plant and equipment at the CGU level. The CGUs are the Shipbuilding and Offshore Engineering, the Engineering Machinery, the Marine Engine Building and the Energy Exploration and Production segments of the Group.

The Group's land use rights and property, plant and equipment are analysed as follows:

	Shipbuilding and Offshore Engineering Segment	Engineering Machinery Segment	Marine Engine Building Segment	Energy Exploration and Production Segment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights	3,593,780	188,789	172,991	–	3,955,560
Property, plant and equipment	14,161,124	131,573	2,754,413	145,787	17,192,897
Total	17,754,904	320,362	2,927,404	145,787	21,148,457

On 10 March 2015, the Group and a Potential Purchaser entered into a MOU, pursuant to which the Group intends to sell to the Potential Purchaser, and the Potential Purchaser intends to purchase from the Group, the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC (Note 43).

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment, under the Shipbuilding and the Offshore Engineering segments amounting to RMB17,754,904,000 as at 31 December 2014, which was based on the fair value less costs to sell of these assets, the directors made reference to the estimated consideration of these assets under the Potential Transaction. The estimated consideration of these assets under the Potential Transaction is dependent on the scope of assets and liabilities to be included in the Potential Transaction, and the directors expect that balances of liabilities to be transferred out would be higher than the aggregate carrying amount of the assets to be disposed of under the Potential Transaction. Therefore, the directors are of the view that the estimated consideration to be allocated to each individual asset would exceed the carrying value of such asset and hence, no impairment charge with respect to the non-current assets of the Shipbuilding and the Offshore Engineering segments is necessary.

In determining the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment under the Engineering Machinery and the Marine Engine Building segments amounting to RMB3,247,766,000 as at 31 December 2014, the directors expected that the implementation of a robust business plan would generate positive operating cashflows in the future (including active marketing of the existing products, for example, the promotion of the Group's marine engines and excavators to shipbuilding manufacturers/distributors in Jiangsu and Anhui Provinces and the development of new products such as dynamic compactors and wetland excavators). In addition, after completion of the Potential Transaction, the directors expected that the Group will be able to focus its cashflow arrangements and optimise its funding structure for the Engineering Machinery and the Marine Engine Building segments to enhance the growth of these segments. Therefore, the recoverable amounts of these non-current assets under the Engineering Machinery and the Marine Engine Building segments were determined based on value-in-use calculations.

8 Property, plant and equipment — Group (Continued)

Recoverable amounts of non-current assets based on value-in-use calculations are calculated using pre-tax discounted cash flow projections based on the financial budgets approved by the Board covering a five-year period (including the revenue growth and costs estimates during the five-year projection period, which reflect the directors' expectation on the future development of the respective segments).

Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates for the business in which the respective segment operates as estimated by the directors.

Key assumptions used for the value-in use calculations of the Marine Engine Building and the Engineering Machinery segments:

Segment	Gross profit margin	Discount rate	Terminal growth rate
Marine Engine Building	Range from 11% to 12%	16%	3%
Engineering Machinery	Range from 13% to 22%	16%	3%

The terminal growth rate does not exceed the long-term average growth rate for the business in which the segment operates as estimated by the directors. Gross profit margin as estimated by the directors were based on past performance and expected growth in sales volume of the respective segments, whilst the pre-tax discount rate (which reflect specific risk relating to relevant cash-generating units) was estimated by the directors based on comparable companies in the industry. The directors are of the opinion that the above assumptions used are appropriate.

As a result of the above assessment, the recoverable amounts of the non-current assets, including land use rights and property, plant and equipment, of the Engineering Machinery and the Marine Engine Building segments as estimated by the directors exceeded the carrying amounts of these assets and therefore, the directors are of the opinion that no impairment charge was considered necessary of these assets for the year ended 31 December 2014.

Please refer to Note 9 for the impairment assessment associated with the property, plant and equipment of the Energy Exploration and Production segment, together with the related intangible asset of the Co-operation Rights.

9 Intangible assets — Group

	As at 31 December										
	2014						2013				
	Goodwill	Co-operation Rights	Patents	Computer software	Development costs	Total	Goodwill	Patents	Computer software	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January costs	55,139	–	21,644	77,517	514,191	668,491	55,139	21,644	74,768	371,812	523,363
Accumulated impairment	(55,139)	–	(3,535)	(35,122)	(409,780)	(503,576)	–	–	–	–	–
Accumulated amortisation	–	–	(18,109)	(42,395)	(104,411)	(164,915)	–	(13,469)	(26,756)	(14,549)	(54,774)
Net book amount	–	–	–	–	–	–	55,139	8,175	48,012	357,263	468,589
Movement during the year											
Opening net book amount	–	–	–	–	–	–	55,139	8,175	48,012	357,263	468,589
Additions (Note 27(a), 38)	–	1,504,498	–	–	–	1,504,498	–	–	2,749	142,379	145,128
Impairment (Note 8)	–	–	–	–	–	–	(55,139)	(3,535)	(35,122)	(409,780)	(503,576)
Amortisation charge (Note 27)	–	–	–	–	–	–	–	(4,640)	(15,639)	(89,862)	(110,141)
Exchange difference	–	(11,153)	–	–	–	(11,153)	–	–	–	–	–
Closing net book amount	–	1,493,345	–	–	–	1,493,345	–	–	–	–	–
At 31 December costs	55,139	1,493,345	21,644	77,517	514,191	2,161,836	55,139	21,644	77,517	514,191	668,491
Accumulated impairment	(55,139)	–	(3,535)	(35,122)	(409,780)	(503,576)	(55,139)	(3,535)	(35,122)	(409,780)	(503,576)
Accumulated amortisation	–	–	(18,109)	(42,395)	(104,411)	(164,915)	–	(18,109)	(42,395)	(104,411)	(164,915)
Closing net book amount	–	1,493,345	–	–	–	1,493,345	–	–	–	–	–

In determining the recoverable amounts of the Co-operation Rights under Energy Exploration and Production segment amounting to RMB1,493,345,000, the directors expect that the fair value of the Co-operation Rights would be approximately its exploitable oil reserve of 88.34 million ton which exceeded the carrying amount of the Co-operation Rights. The key assumptions on the fair value are crude oil price in future with approximately US$50–60 (equivalent to RMB306–367) per barrel and estimated oil reserve which is based on the feasibility assessment conducted by Research Institute of Petroleum Exploration & Development of Sinopec Henan Oilfield Company (中石化河南油田分公司石油勘探開發研究院). In addition, the recoverable amounts of the exploration and evaluation assets classified in construction in progress were determined based on value-in-use calculation using pre-tax cash flow projections derived from estimated oil reserve at a discount rate of 18%.

10 Investments in subsidiaries — Company

	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**1,514,444**	33

During the year, the Company acquired 60% equity interest in Central Point Worldwide Inc. through allotment and issuance of 1,400,000,000 shares (Note 38).

Details of the principal subsidiaries of the Group are set out in Note 42.

11 Financial instruments by category

The following is an analysis of financial instruments by category:

Group

	Available-for-sale financial asset	**Loans and receivables**	**Total**
	RMB'000	RMB'000	RMB'000
Assets as per consolidated statement of financial position			
As at 31 December 2014			
Trade and bills receivables (Note 15 (a))	**–**	**1,036,356**	**1,036,356**
Other receivables and deposits	**–**	**784,261**	**784,261**
Available-for-sale financial asset (Note 12)	**36,374**	**–**	**36,374**
Pledged deposits (Note 16)	**–**	**119,820**	**119,820**
Cash and cash equivalents (Note 17)	**–**	**143,101**	**143,101**
Total	**36,374**	**2,083,538**	**2,119,912**
As at 31 December 2013			
Trade and bills receivables (Note 15 (a))	–	1,318,923	1,318,923
Other receivables and deposits	–	1,857,890	1,857,890
Available-for-sale financial asset (Note 12)	41,547	–	41,547
Pledged deposits (Note 16)	–	1,131,225	1,131,225
Cash and cash equivalents (Note 17)	–	117,020	117,020
Total	41,547	4,425,058	4,466,605

11 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 2014			
Trade and other payables	**–**	**5,531,895**	**5,531,895**
Advances from a related party (Note 41(ii))	**–**	**381,629**	**381,629**
Borrowings (Note 22)	**–**	**21,924,798**	**21,924,798**
Derivative financial instruments (Note 24)	**532,805**	**–**	**532,805**
Finance lease liabilities (Note 22)	**–**	**690,101**	**690,101**
Total	**532,805**	**28,528,423**	**29,061,228**
As at 31 December 2013			
Trade and other payables	–	5,521,042	5,521,042
Advances from a related party (Note 41(ii))	–	243,838	243,838
Borrowings (Note 22)	–	21,594,265	21,594,265
Derivative financial instruments (Note 24)	482,997	–	482,997
Finance lease liabilities (Note 22)	–	813,000	813,000
Total	482,997	28,172,145	28,655,142

Company

	Loans and receivables RMB'000
Assets as per statement of financial position	
As at 31 December 2014	
Amounts due from subsidiaries (Note 15(b))	**11,480,873**
Cash and cash equivalents (Note 17)	**8,209**
Total	**11,489,082**
As at 31 December 2013	
Other receivables (Note 15(b))	4,570
Amounts due from subsidiaries (Note 15(b))	9,829,316
Cash and cash equivalents (Note 17)	4,134
Total	9,838,020

11 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 2014			
Amounts due to subsidiaries (Note 21)	**–**	**5,995**	**5,995**
Other payables (Note 21)	**–**	**15,926**	**15,926**
Borrowings (Note 22)	**–**	**2,465,351**	**2,465,351**
Derivative financial instruments (Note 24)	**532,805**	**–**	**532,805**
Total	**532,805**	**2,487,272**	**3,020,077**
As at 31 December 2013			
Amounts due to subsidiaries (Note 21)	–	5,995	5,995
Amounts due to a related party (Note 21)	–	27,903	27,903
Other payables (Note 21)	–	580,091	580,091
Borrowings (Note 22)	–	2,116,955	2,116,955
Derivative financial instruments (Note 24)	482,997	–	482,997
Total	482,997	2,730,944	3,213,941

12 Available-for-sale financial asset

	Group	
	2014 RMB'000	2013 RMB'000
Unlisted equity investment outside Hong Kong at fair value	**36,374**	41,547

The fair value of unlisted securities amounted to RMB36,374,000 (2013: RMB41,547,000) is determined based on the valuation prepared by management using inputs that are not observable in active market.

A bank borrowing is secured by the available-for-sale financial asset with an aggregate amount of RMB36,374,000 as at 31 December 2014 (2013: RMB41,547,000).

13 Inventories — Group

	2014 RMB'000	2013 RMB'000
Raw materials	**1,167,397**	1,465,512
Work in progress	**225,045**	263,469
Finished goods	**217,093**	218,131
Vessels under construction	**3,169,423**	–
Less: Provision for inventories	**(2,386,038)**	(369,617)
	2,392,920	1,577,495

Movements on the Group's provision for impairment of inventories are as follows:

	2014 RMB'000	2013 RMB'000
At 1 January	**369,617**	25,746
Written off during the year	**–**	(16,932)
Reversal during the year (Note 27)	**(75,849)**	–
Provision made during the year (Note 27)	**2,092,270**	360,803
At 31 December	**2,386,038**	369,617

The cost of inventories recognised as expense and included in cost of sales amounted to RMB1,282,291,000 for the year ended 31 December 2014 (2013: RMB1,168,788,000).

As at 31 December 2014, vessels under construction of RMB1,947,270,000 (2013: nil) of the Shipbuilding segment were impaired with respect to the inventories pursuant to the cancelled contracts (Note 6).

Bank borrowings are secured by certain inventories with an aggregate amount of RMB1,042,468,000 as at 31 December 2014 (2013: RMB6,233,816,000).

14 Construction contracts — Group

	2014 RMB'000	2013 RMB'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**6,480,698**	15,242,880
Less: Provision for amounts due from customers for contract works	**(2,435,969)**	(275,590)
Less: Progress billings	**(2,879,358)**	(7,881,814)
Net position for ongoing contracts	**1,165,371**	7,085,476
Presented as:		
Amounts due from customers for contract works	**1,165,371**	7,407,254
Amounts due to customers for contract works	**–**	(321,778)
	1,165,371	7,085,476

14 Construction contracts — Group (Continued)

Bank borrowings and refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB3,819,464,000 as at 31 December 2014 (2013: RMB9,106,777,000) (Note 37(a)).

As at 31 December 2014, RMB2,333,541,000 (2013: RMB275,590,000) amounts due from customers for contract works of the Shipbuilding segment were impaired and provided after management assessed the recoverability of these construction contracts and consideration of the future construction plan.

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

(a) Trade and bills receivables

	Group 31 December	
	2014	2013
	RMB'000	RMB'000
Trade receivables	**3,844,053**	3,784,629
Less: Provision for doubtful receivables	**(2,808,297)**	(2,465,706)
Bills receivable	**600**	–
	1,036,356	1,318,923

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

	Group 31 December	
	2014	2013
	RMB'000	RMB'000
Undue	**4,657**	36,020
Past due 1–180 days	**27,050**	55,071
Past due 181–360 days	**12,332**	60,431
Over 361 days	**992,317**	1,167,401
	1,036,356	1,318,923

Movements on the provision for doubtful receivables are as follows:

	2014	2013
	RMB'000	RMB'000
At 1 January	**2,465,706**	382,239
Provision for the year (Note 27)	**347,326**	2,115,652
Reversal during the year (Note 27)	**(11,515)**	(32,185)
Exchange difference	**6,780**	–
At 31 December	**2,808,297**	2,465,706

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

(a) Trade and bills receivables (Continued)

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 2014, trade receivables of RMB2,486,179,000 (2013: RMB2,195,304,000) and RMB322,118,000 (2013: RMB270,402,000) related to certain customers of the Shipbuilding segment and the Engineering Machinery segment were impaired and provided for respectively. Trade receivables impaired and provided for were past due over 361 days.

As at 31 December 2014, trade receivables of RMB1,031,699,000 (2013: RMB1,282,903,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is listed above.

As at 31 December 2014, no trade receivables were secured by guarantees issued by the banks or related companies of certain customers (2013: RMB206,107,000). The carrying amounts of trade and bills receivables approximate their fair values. The maximum exposure to credit risk at the reporting date is the fair value of RMB1,036,356,000 (2013: RMB1,318,923,000) less the secured trade receivables.

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

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

	Group 31 December	
	2014	2013
	RMB'000	RMB'000
RMB	**140,533**	197,707
USD	**895,823**	1,121,216
	1,036,356	1,318,923

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

(Continued)

(b) Other receivables, prepayments and deposits

	Group		Company	
	31 December		31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receivables from agents (i)	**301,576**	300,839	**–**	–
Other receivables				
— Third parties	**493,344**	1,328,285	**–**	–
— Subsidiaries	**–**	–	**11,480,873**	9,829,316
— Deposits for the Framework Agreements (ii)	**167,284**	59,570		
VAT receivable	**859,220**	770,562	**–**	–
Deposits (iii)	**154,074**	169,196	**–**	–
Prepayments for property, plant and equipment and land use rights				
— Third parties	**320,368**	318,188	**–**	–
Prepayments for raw materials and production costs				
— Third parties (iv)	**1,111,213**	748,442	**–**	–
Prepayments — others				
— Third parties	**55,734**	62,119	**–**	4,570
Less: allowance for impairment of other receivables and prepayments	**(992,301)**	(892,381)	**–**	–
	2,470,512	2,864,820	**11,480,873**	9,833,886
Less: non-current deposits and prepayments	**(199,979)**	(231,889)	**–**	–
Current portion	**2,270,533**	2,632,931	**11,480,873**	9,833,886

15 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 contracts and procure the relevant refund guarantees. Pursuant to the agency contracts, the customers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the customers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents. As at 31 December 2014, receivables from agents amounted to RMB119,389,000 (2013: RMB118,958,000) were impaired, as a result of the management's assessment on the recoverability of these receivables.

(ii) As at 31 December 2014, according to the Framework Agreements, the Shipbuilding Segment and the Marine Engine Building Segment placed deposits of RMB50,000,000 and RMB117,284,000 (2013: RMB59,570,000 and nil) into bank accounts which were under the name of the Jiangsu and Anhui government respectively. Such deposits are to be used for the payments of the Group's operating expenses and the renewal of the Group's bank borrowings.

(iii) Finance lease is secured by certain refundable deposits with an aggregate carrying value of RMB136,000,000 as at 31 December 2014 (2013: RMB136,000,000).

(iv) According to the contracts entered into with certain suppliers, the Group placed deposits and prepayments to secure the supply of raw materials. As at 31 December 2014, the Group prepaid RMB777,240,000 to the five largest suppliers (2013: RMB349,283,000).

(v) Except as described above, the provision for impairments of other receivables and prepayments represented provision for certain prepayments for raw materials and property, plant and equipment and other receivables, on which management has performed assessment on their recoverability. Based on management's assessment, there may be risks that the counterparties may not have the financial ability to fulfil their contractual obligations. As a result, a total provision of RMB872,912,000 (2013: RMB773,423,000) was provided for these prepayments and other receivables.

As at 31 December 2014, no other receivables were past due (2013: nil). The carrying amounts of receivables from agents, other receivables and deposits approximate their fair values.

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

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

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

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

	Group 31 December		Company 31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**2,232,344**	2,528,878	**–**	–
HKD	**1,765**	6,373	**11,480,873**	9,833,886
USD	**231,295**	287,891	**–**	–
Euro	**–**	4,004	**–**	–
Japanese Yen	**5,108**	37,674	**–**	–
	2,470,512	2,864,820	**11,480,873**	9,833,886

16 Pledged deposits — Group

Pledged deposits are denominated in the following currencies:

	2014	2013
	RMB'000	RMB'000
RMB	**119,755**	887,245
USD	**65**	243,980
	119,820	1,131,225

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

As at 31 December 2014, the weighted average effective interest rate 0.71% per annum (2013: 1.35% per annum).

17 Cash and cash equivalents

	Group 31 December 2014 RMB'000	2013 RMB'000	Company 31 December 2014 RMB'000	2013 RMB'000
Cash on hand	**100**	156	**–**	–
Cash at banks	**143,001**	116,864	**8,209**	4,134
Total cash and cash equivalents	**143,101**	117,020	**8,209**	4,134
Maximum exposure to credit risk	**143,001**	116,864	**8,209**	4,134

Cash and cash equivalents are denominated in the following currencies:

	Group 31 December 2014 RMB'000	2013 RMB'000	Company 31 December 2014 RMB'000	2013 RMB'000
RMB	**117,816**	95,206	**434**	290
USD	**12,921**	12,347	**432**	523
HKD	**10,808**	2,288	**–**	–
Singapore dollar ("**SGD**")	**1,376**	7,060	**7,343**	3,321
Others	**180**	119	**–**	–
	143,101	117,020	**8,209**	4,134

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

As at 31 December 2014, the Group has cash at banks and short-term bank deposits amounting to approximately RMB113,751,000 (2013: RMB96,419,000) which are denominated in RMB 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.

18 Share capital and share premium

	Number of ordinary shares	Nominal value of ordinary shares HKD	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Authorised					
Ordinary shares of HKD0.1 each at 31 December 2014 and 2013	38,000,000,000	3,800,000,000	–	–	–
Issued:					
Ordinary shares of HKD0.1 each at 1 January 2014	7,000,000,000	700,000,000	599,526	7,490,812	8,090,338
Issuance of ordinary shares	1,400,000,000	140,000,000	111,354	1,403,057	1,514,411
Issue shares upon conversion of convertible bonds	1,090,194,599	109,019,459	86,416	618,641	705,057
Ordinary shares of HKD0.1 each at 31 December 2014	9,490,194,599	949,019,459	797,296	9,512,510	10,309,806

19 Share-based payment — Group and Company

(a) Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees were granted a total share options of 62,500,000 shares (the "**Pre-IPO Share Options**") under the Pre-IPO Share 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. HKD4 per share). Each of the Pre-IPO Share Options has a 10-year exercisable period, from 19 November 2010 ("**Old Grant Date**"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020. As at 31 December 2014, 36,750,000 share options were exercisable (2013: 34,500,000).

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

The fair value of the share options granted on 24 October 2010, determined using the binominal model (the "**Model**"), ranged from HKD4.38 to HKD5.17 per option. The significant inputs into the Model were the share price of HKD8 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.

19 Share-based payment — Group and Company (Continued)

(a) 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 HKD per share	Number of share options (thousands)
At 1 January 2013	4	61,000
Granted	–	–
Exercised	–	–
Lapsed	4	(17,875)
At 31 December 2013	4	43,125
At 1 January 2014	**4**	**43,125**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**4**	**(6,375)**
At 31 December 2014	**4**	**36,750**

(b) Share Option Scheme

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

Pursuant to the written resolutions of the Directors dated 30 April 2012, selected employees were granted a total of 348,580,000 share options under the Share Option Scheme. The exercise price per share under the Share Option Scheme is HKD1.94. No share option is exercisable prior to the first anniversary of 30 April 2012 (the "**New Grant Date**"). On each of the first, second, third, fourth and fifth anniversaries of the New Grant Date, a further 20% of the share options granted to the selected employees may be exercised, provided that no share option shall be exercised after 30 April 2022. As at 31 December 2014, 95,080,000 share options were exercisable (2013: 52,760,000).

The fair value of the share options granted on 30 April 2012, determined using the Model, ranged from HKD0.63 to HKD0.64 per option. The significant inputs into the Model were the share price of HKD1.94 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.

19 Share-based payment — Group and Company (Continued)

(b) Share Option Scheme (Continued)

	Average exercise price in HKD per share	Number of share options (thousands)
At 1 January 2013	1.94	348,580
Granted	–	–
Exercised	–	–
Lapsed	1.94	(84,780)
At 31 December 2013	1.94	263,800
At 1 January 2014	**1.94**	**263,800**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**1.94**	**(26,100)**
At 31 December 2014	**1.94**	**237,700**

The total expense recognised in the consolidated statement of comprehensive income for share options granted to directors and employees was approximately RMB20,905,000 during the year ended 31 December 2014 (2013: RMB32,735,000). The amount of RMB1,344,000 (2013: RMB4,599,000) is recognised for the Pre-IPO Share Scheme and RMB19,561,000 (2013: RMB28,136,000) is recognised for the Share Option Scheme. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

20 Other reserves

(a) Group

	Capital reserve RMB'000	Available-for-sale financial asset reserve RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2013	2,462,930	–	518,812	498,854	–	3,480,596
Available-for-sale financial asset reserve	–	1,487	–	–	–	1,487
Share-based payment reserve (Note 19)	–	–	32,735	–	–	32,735
At 31 December 2013	2,462,930	1,487	551,547	498,854	–	3,514,818
At 1 January 2014	**2,462,930**	**1,487**	**551,547**	**498,854**	**–**	**3,514,818**
Available-for-sale financial asset reserve	**–**	**(1,891)**	**–**	**–**	**–**	**(1,891)**
Share-based payment reserve (Note 19)	**–**	**–**	**20,905**	**–**	**–**	**20,905**
Exchange difference on translation of foreign operations	**–**	**–**	**–**	**–**	**(11,108)**	**(11,108)**
At 31 December 2014	**2,462,930**	**(404)**	**572,452**	**498,854**	**(11,108)**	**3,522,724**

(b) Company

	Capital reserve RMB'000	Share-based payment reserve RMB'000	Total RMB'000
At 1 January 2013	33	282,203	282,236
Share-based payment reserve	–	32,735	32,735
At 31 December 2013	33	314,938	314,971
Share-based payment reserve	–	20,905	20,905
At 31 December 2014	33	335,843	335,876

21 Trade and other payables

	Group 31 December		Company 31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**1,920,660**	1,734,475	**–**	–
Bills payable				
— Third parties	**–**	574,610	**–**	–
— Related parties (Note 41)	**–**	52,190	**–**	–
Other payables for purchase of property, plant and equipment				
— Third parties	**472,736**	482,360	**–**	–
— Related parties (Note 41)	**608,870**	175,659	**–**	–
Other payables				
— Third parties	**1,313,849**	1,335,149	**3,998**	566,086
— Related parties (Note 41)	**21,234**	28,002	**–**	27,903
— Subsidiaries	**–**	–	**5,995**	5,995
Receipt in advance	**108,227**	147,742	**–**	–
Accrued expenses				
— Payroll and welfare	**95,134**	116,118	**–**	–
— Design fees	**47,421**	68,407	**–**	–
— Utilities	**8,733**	30,475	**–**	–
— Outsourcing and processing fee	**173,756**	558,573	**–**	–
— Interest	**667,406**	182,027	**11,928**	8,149
— Exploration costs	**31,515**	–	**–**	–
— Others	**170,587**	182,997	**–**	5,856
Provision for litigation cases	**317,917**	149,402	**–**	–
Provision for delayed penalties	**111,274**	407,883	**–**	–
VAT payable	**2,952**	1,344	**–**	–
Other tax-related payables	**52,844**	15,670	**–**	–
Current trade and other payables	**6,125,115**	6,243,083	**21,921**	613,989

Ageing analysis of trade and bills payables is as follows:

	Group 31 December		Company 31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
0–30 days	**144,382**	154,312	**–**	–
31–60 days	**39,259**	88,836	**–**	–
61–90 days	**5,013**	39,596	**–**	–
Over 90 days	**1,732,006**	2,078,531	**–**	–
	1,920,660	2,361,275	**–**	–

21 Trade and other payables (Continued)

Trade and other payables are denominated in the following currencies:

	Group 31 December 2014 RMB'000	Group 31 December 2013 RMB'000	Company 31 December 2014 RMB'000	Company 31 December 2013 RMB'000
RMB	**5,629,917**	5,370,662	**–**	–
USD	**449,784**	227,166	**–**	–
HKD	**19,231**	639,192	**21,921**	613,989
Euro	**16,611**	6,063	**–**	–
Others	**9,572**	–	**–**	–
	6,125,115	6,243,083	**21,921**	613,989

22 Borrowings

	Group 31 December 2014 RMB'000	Group 31 December 2013 RMB'000	Company 31 December 2014 RMB'000	Company 31 December 2013 RMB'000
Non-current				
Bank borrowings	**1,436,656**	5,997,016	**–**	–
The medium-term notes	**–**	1,982,000	**–**	–
Finance lease liabilities	**404,548**	714,843	**–**	–
	1,841,204	8,693,859	**–**	–
Current				
Bank borrowings	**16,649,856**	12,841,859	**609,065**	1,343,565
Convertible bonds	**1,856,286**	773,390	**1,856,286**	773,390
The medium-term notes	**1,982,000**	–	**–**	–
Finance lease liabilities	**285,553**	98,157	**–**	–
	20,773,695	13,713,406	**2,465,351**	2,116,955
Total borrowings	**22,614,899**	22,407,265	**2,465,351**	2,116,955

22 Borrowings (Continued)

Borrowings and finance lease liabilities amounting to RMB20,632,899,000 as at 31 December 2014 (2013: RMB19,024,407,000) were secured by the raw materials, land use rights, buildings, plant and machinery, vessels under constructions, pledged deposits, available-for-sale financial asset, guarantee of the Group, guarantee from a director of the Company, certain shareholders of the Company and the related parties, and land use rights, buildings, plant and equipment and share capital of certain related parties.

As at 31 December 2014, a current borrowing totaling RMB609,065,000 of the Group required the Group to maintain consolidated tangible net worth at any time of not less than RMB5,000,000,000, and the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 4.0 to 1.0. As at 31 December 2014, the Group failed to comply with these covenants. The Group has obtained a waiver for such financial covenants subsequent to year end.

As at 31 December 2014, current borrowings totaling RMB88,458,000 required Jiangsu Rongsheng Heavy Industries Co., Ltd., a subsidiary of the Group, to maintain the debt to asset ratio not exceeding 0.95 and that the total guarantee amount to the external entities should not exceed two times of the entity's total net assets. As at 31 December 2014, the Group failed to comply with these covenants. The Group has obtained waivers for such financial covenants subsequent to year end.

Included in the Group's borrowings were certain current bank loans of approximately RMB527,954,000, which were overdue and have not been renewed or repaid subsequent to 31 December 2014.

Bank loans of RMB16,981,417,000 and convertible bonds with principal amount of HKD4,304,000,000 (equivalent to approximately RMB3,395,296,000), totaling RMB20,376,713,000 contain cross-default terms in their respective financing agreements. As a result of the above-mentioned overdue of principal and interest repayments and non-compliance with loan covenants, current borrowings totaling RMB18,184,012,000 as at 31 December 2014 became immediately repayable pursuant to the cross-default terms under the relevant loans and convertible bond agreements; and in this connection, certain non-current borrowings totaling RMB105,959,000 have been classified as current liabilities. As at the date of the approval of these consolidated financial statements, the Group has not obtained waivers from the relevant banks and bondholders on these cross-default clauses; nor have these banks and bondholders taken any action against the Group to demand immediate repayment.

The Group's borrowings, after taking into account of repayable on demand clauses of certain borrowings, are repayable as follow:

	Group		Company	
	31 December		31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**20,773,695**	13,713,406	**2,465,351**	2,116,955
Between 1 and 2 years	**894,448**	5,194,763	**–**	–
Between 2 and 5 years	**946,756**	2,680,096	**–**	–
Over 5 years	**–**	819,000	**–**	–
	22,614,899	22,407,265	**2,465,351**	2,116,955

22 Borrowings (Continued)

The Group's borrowings repayable based on the scheduled repayment dates were as follows:

	Group		Company	
	31 December		31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**16,528,410**	12,940,016	**609,065**	1,343,565
Between 1 and 2 years	**3,240,733**	5,194,763	**1,856,286**	–
Between 2 and 5 years	**2,426,756**	3,453,486	**–**	773,390
Over 5 years	**419,000**	819,000	**–**	–
	22,614,899	22,407,265	**2,465,351**	2,116,955

The weighted average effective interest rates at the end of each reporting period were as follows:

	Group		Company	
	31 December		31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease liabilities	**6.49%**	6.76%	**–**	–
Bank borrowings	**5.80%**	6.10%	**5.31%**	2.90%

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

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

	Group		Company	
	31 December		31 December	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**19,877,873**	20,025,265	**–**	–
HKD	**1,856,286**	773,390	**1,856,286**	773,390
USD	**880,740**	1,608,610	**609,065**	1,343,565
	22,614,899	22,407,265	**2,465,351**	2,116,955

22 Borrowings (Continued)

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

	Group		Company	
	31 December		31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less	14,035,593	15,667,664	609,065	1,343,565
6–12 months	6,723,020	3,637,211	–	–
1–5 years	1,856,286	3,102,390	1,856,286	773,390
	22,614,899	22,407,265	2,465,351	2,116,955

The Group has the following undrawn borrowing facilities:

	2014	2013
	RMB'000	RMB'000
Expiring within one year	1,111,813	2,382,962
Expiring beyond one year	9,604	744,000
	1,121,417	3,126,962

Finance lease liabilities — Group

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

	2014	2013
	RMB'000	RMB'000
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	298,662	153,060
Later than 1 year and no later than 5 years	459,049	763,828
	757,711	916,888
Future finance charges on finance lease	(67,610)	(103,888)
Present value of finance lease liabilities	690,101	813,000
The present value of finance lease liabilities are as follows:		
No later than 1 year	285,553	98,157
Later than 1 year and no later than 5 years	404,548	714,843
	690,101	813,000

22 Borrowings (Continued)

Convertible bonds

During the year ended 31 December 2014, the Company issued five guaranteed convertible bonds and the net proceeds from these convertible bonds were HKD3,985,000,000 (equivalent to approximately RMB3,156,860,000) in aggregate.

As at 31 December 2014, the Group had six guaranteed convertible bonds outstanding, all of which had coupon rate of 7%. The table below summarised the details and features of these guaranteed convertible bonds:

Guaranteed convertible bonds	Principal as at 31 December 2014	Issuance and closing date	Maturity date	Conversion period	Conversion price as at 31 December 2014
1st	HKD1,400,000,000	7 August 2013	30 months after the closing date	After issue date up to maturity date	HKD0.90 per share
2nd	HKD919,000,000	9 January 2014	30 months after the closing date	After issue date up to maturity date	HKD0.94 per share
3rd	HKD100,000,000	30 April 2014	30 months after the closing date	After issue date up to maturity date	HKD0.97 per share
4th	HKD340,000,000	20 May 2014	30 months after the closing date	After issue date up to maturity date	HKD0.99 per share
5th	HKD845,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	HKD1.04 per share
6th	HKD700,000,000	20 June 2014	30 months after the closing date	After issue date up to maturity date	HKD1.07 per share

Subject to the following conditions, amongst others, the Company has the right to redeem all or any part of the principal amount of the convertible bonds outstanding. (1) The Company may redeem the respective convertible bonds at any time up to (and excluding) the commencement of the 7 calendar day-period ending on the (and including) maturity date, when the principal amount of the relevant convertible bonds outstanding is equal to or less than 10% of its original aggregate principal amount issued by the Company. Except for the 1st convertible bond, whose redemption price is equal to 100% of the principal amount plus the unpaid interest, the redemption price of all the other five convertible bonds is equal to 100% of the principal amount plus the unpaid interest and an amount equal to 3% per annum on the principal amount outstanding from time to time accrued on a daily basis and calculated for actual number of days elapsed, on a 365-day year calculated from and including the original date of issue of the convertible bonds concerned up to the date of repayment ("**Compensation Amount**"). (2) The Company may redeem the respective bonds at any time on or after the second anniversary from the closing date and up to the third business day prior to the maturity date. Except for the 1st convertible bond, whose redemption price is equal to 105% of the principal amount plus the unpaid interest, the redemption price of all the other five convertible bonds is equal to 100% of the principal amount plus the unpaid interest and the Compensation Amount.

22 Borrowings (Continued)

Convertible bonds (Continued)

Subject to certain conditions, the bondholders have the right to require the Company to redeem all or part of the convertible bonds. Any bondholders may (1) at any time on or after the 12 months from the closing date and up to the third business day prior to the maturity date; or (2) at any time where the share price of the Company's shares in respect of a Share at a particular date, the average of the closing prices published in the Stock Exchange's daily quotations sheet for one Share for the 5 consecutive trading days ending on and including the trading day last preceding such date is equal to or below HKD0.6 up to the third business day prior to the maturity date, to require the Company to redeem the whole or any part of the principal amount outstanding under the bonds at a value at 100% of the principal amount plus the unpaid interest and Compensation Amount, except for the 1st convertible bonds whose redemption price is 103% of the principal amount plus the unpaid interest.

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

The conversion feature of the above convertible bonds fails the fixed-for-fixed requirement for equity classification. The conversion option, together with all other options, are therefore regarded as a single embedded derivative with changes in fair value through profit or loss in accordance with IAS 39. For details, please refer to Note 24.

The fair value of the above convertible bonds was determined by an independent qualified valuer based on the COX, Ross and Rubinstein Binomial Model (the "**Binomial Model**"). The fair value of the liability component on initial recognition was valued as the proceeds of the convertible redeemable bond (net of transaction cost) minus the fair value of the embedded derivative. The fair value of the embedded derivative was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the embedded derivatives and changes in fair value would be recognised in the consolidated statement of comprehensive income. During the year ended 31 December 2014, changes in fair value of the embedded derivatives amounted to RMB1,883,476,000.

All of the convertible bonds are guaranteed by Mr. Zhang Zhi Rong ("**Mr. Zhang**"), the Company's single largest shareholder (before full conversion of the convertible bonds and exercise of the share options issued by the Company).

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

	2014 **RMB'000**	2013 RMB'000
Carrying amount as at 1 January	**773,390**	–
Issuance of convertible bonds	**3,168,719**	1,097,257
Fair value of the embedded derivatives	**(2,279,595)**	(389,941)
Transaction cost	**(11,859)**	(13,046)
Conversion to ordinary shares	**(359,532)**	–
Interest expenses (Note 31)	**643,380**	80,294
Interest paid	**(77,650)**	–
Exchange losses	**(567)**	(1,174)
Carrying amount as at 31 December	**1,856,286**	773,390

22 Borrowings (Continued)

Convertible bonds (Continued)

The fair value of the liability component of the convertible bonds at 31 December 2014 amounted to RMB3,104,256,000 (31 December 2013: RMB973,699,000). The fair value is calculated using the market price of the convertible bonds on the date of the statement of the financial position (or the nearest day of trading).

23 Deferred income tax — Group

The movement in deferred income tax assets and liabilities during the year ended 31 December 2014, 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 1 January 2013	4,191	4,191
Credit to profit or loss	(4,191)	(4,191)
At 31 December 2013 and 2014	–	–

	Government grant RMB'000	**Provisions** RMB'000	**Total** RMB'000
Deferred tax assets			
At 1 January 2013	–	168,052	168,052
Charged to profit or loss	–	(168,052)	(168,052)
At 31 December 2013	–	–	–
At 1 January 2014	–	–	–
Charged to profit or loss	–	–	–
At 31 December 2014	–	–	–

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

Save as those disclosed in note 32, the Group does not have other material unrecognised deferred income tax.

24 Derivative financial instruments — Group and Company

	31 December 2014		31 December 2013	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Interest rate swap	–	–	–	1,538
Embedded derivatives in convertible bond	–	532,805	–	481,459
	–	532,805	–	482,997

The fair value of the embedded derivatives in convertible bonds as at 31 December 2014 is determined using the Binomial Model. The table below shows the significant inputs into the Binomial Model:

Guaranteed convertible bonds	Principal as at 31 December 2014	Issuance date	Stock price as at 31 December 2014 of the underlying shares (HKD)	Exercise price (HKD)	Expected option life (years)	Risk-free interest rate (%)	Expected dividend yield (%)	Expected volatility (%)
1st	HKD1,400,000,000	7 August 2013	0.69	1,400,000,000	1.1	0.2705	0	52
2nd	HKD919,000,000	9 January 2014	0.69	919,000,000	1.5	0.4161	0	55
3rd	HKD100,000,000	30 April 2014	0.69	100,000,000	1.8	0.5237	0	53
4th	HKD340,000,000	20 May 2014	0.69	340,000,000	1.9	0.5437	0	53
5th	HKD845,000,000	20 June 2014	0.69	845,000,000	2.0	0.5723	0	53
6th	HKD700,000,000	20 June 2014	0.69	700,000,000	2.0	0.5723	0	53

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

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

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

	2014 **RMB'000**	2013 RMB'000
At 1 January	**106,731**	146,655
Provision for the year		
— Charged to profit or loss (Note 27)	**1,010**	11,503
— Utilisation during the year	**(11,525)**	(2,014)
— Reversal during the year upon expiring of the warranty period (Note 27)	**(58,104)**	(49,413)
At 31 December	**38,112**	106,731

26 Accumulated losses — Company

	RMB'000
At 1 January 2013	1,018,453
Loss for the year	762,744
At 31 December 2013	1,781,197
Profit for the year	(1,118,964)
At 31 December 2014	662,233

27 Expenses by nature

	2014 RMB'000	2013 RMB'000
Raw materials and consumable used	**999,353**	1,052,221
Cost of sales reversed from the cancellation of the construction contracts (Note 6)	**(3,650,440)**	–
Amortisation of land use rights (Note 7)	**81,660**	64,005
Depreciation of property, plant and equipment (Note 8)	**429,351**	469,467
Amortisation of intangible assets (Note 9)	**–**	110,141
Employee benefits expenses (Note 28)	**492,256**	541,598
Operating lease payments	**29,864**	126,420
Auditors' remuneration (Note b)	**11,019**	11,268
Outsourcing and processing costs	**215,119**	626,534
Commission expense	**29,792**	55,138
Consultancy and professional fees	**49,094**	95,650
Bank charges (include refund guarantee charges)	**31,032**	61,729
(Reversal of)/provision for warranty		
— charged for the year (Note 25)	**1,010**	11,503
— reversal upon expiring of the warranty period (Note 25)	**(58,104)**	(49,413)
Inspection fees	**16,822**	18,359
Insurance premiums	**12,392**	16,090
Storage and handling charges	**29,538**	36,699
Advertising, promotion and marketing expenses	**5,611**	101,556
Royalty expenses	**14,543**	22,108
Trade receivables written off	**68,475**	263,250
(Reversal of)/provision for delayed penalties	**(27,163)**	407,883
Provision for inventories (Note 13)	**2,016,421**	360,803
Impairment provisions of		
— trade receivables, net (Note 15(a))	**335,811**	2,083,467
— other receivables and prepayments (Note 15(b))	**99,920**	892,381
— amounts due from customers for contract works (Note 14)	**2,333,541**	275,590
— property, plant and equipment (Note 8)	**–**	944,139
— intangible assets (Note 9)	**–**	503,576
Provision and compensation for litigations	**242,619**	149,403
Compensation to ship owners for cancellation of contracts (Note 6)	**231,928**	–
Miscellaneous expenses	**208,000**	85,872
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses (Notes a and b)	**4,249,464**	9,337,437

Notes:

(a) The research and development expenses incurred during the year ended 31 December 2014 were RMB63,081,000 (2013: RMB204,232,000), no research and development expenses were capitalised in intangible assets as disclosed in Note 9 (2013: RMB142,379,000).

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

28 Employee benefit expenses (including directors' emoluments)

	2014 RMB'000	2013 RMB'000
Salaries and wages	**414,295**	474,658
Social security costs	**35,746**	36,281
Contribution to pension plans	**6,167**	5,118
Other benefits	**16,563**	18,613
Share-based payment (Note 19)	**20,905**	32,735
	493,676	567,405
Less: Capitalised in intangible assets	**–**	(1,421)
Capitalised in property, plant and equipment	**(1,420)**	(24,386)
Charged to profit or loss (Note 27)	**492,256**	541,598

29 Other income — net

	2014 RMB'000	2013 RMB'000
Government grants (Note a)	**12,371**	26,464
Installment forfeited (Note 6)	**124,656**	–
Others	**45,477**	14,149
	182,504	40,613

Note:

(a) Government grants represented cash received from Jiangsu and Anhui Government authorities during the years ended 31 December 2014 and 2013.

30 Other gains/(losses) — net

	2014 RMB'000	2013 RMB'000
Fair value change on derivative instruments — interest rate swap	**–**	3,557
Fair value change on derivative instruments — embedded derivative in convertible bonds	**1,883,476**	(91,518)
Loss on sales of scrapped parts	**(179,445)**	–
Net foreign exchange gains/(losses) (Note 33)	**107,616**	(189,323)
Total	**1,811,647**	(277,284)

31 Finance income and costs

	2014	2013
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**13,840**	72,398
Net foreign exchange gains on financing activities (Note 33)	**–**	80,959
	13,840	153,357
Finance costs:		
Interest expenses		
— Borrowings and finance lease liabilities	**(1,416,528)**	(1,615,976)
— Convertible bonds (Note 22)	**(643,380)**	(80,294)
Net foreign exchange losses on financing activities (Note 33)	**(9,248)**	–
Less: borrowing costs capitalised	**23,766**	714,878
	(2,045,390)	(981,392)
Net finance costs	**(2,031,550)**	(828,035)

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation for the year ended 31 December 2014 was 3% (2013: 4.37%).

32 Income tax credit

	2014	2013
	RMB'000	RMB'000
Current income tax:		
— PRC Enterprise Income Tax ("**EIT**")	**–**	–
— Over-provision in prior year	**–**	(271,782)
Deferred income tax	**–**	166,640
Total income tax credit	**–**	(105,142)

32 Income tax credit (Continued)

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:

	2014 RMB'000	2013 RMB'000
Loss before income tax	**(8,089,228)**	(9,058,577)
Tax calculated at domestic tax rates applicable to profit of respective companies	**(2,281,368)**	(2,007,541)
Income not subject to tax	**(2,129)**	(28,828)
Expenses not deductible for tax purposes	**8,707**	107,331
Items which no deferred income tax asset was recognised	**2,274,790**	2,095,678
Over-provision in prior year	**–**	(271,782)
Tax credit	**–**	(105,142)

No Hong Kong profits tax has been provided for the years ended 31 December 2014 and 2013, respectively, as the Group had no assessable profit in Hong Kong. All PRC subsidiaries are subject to EIT rate of 25%.

The weighted average applicable tax rate was 28% for the year ended 31 December 2014 (2013: 22%).

As at 31 December 2014, the Group did not recognise deferred income tax assets of RMB1,160,360,000 (2013: RMB1,447,170,000) in respect of certain provisions and accruals amounting to RMB4,705,099,000 (2013: RMB6,227,654,000) as future profit before income tax is not probable.

As at 31 December 2014, the Group did not recognise deferred income tax assets of RMB2,081,190,000 (2013: RMB968,327,000) in respect of losses amounting to RMB8,335,747,000 (2013: RMB3,873,342,000) that can be carried forward and utilised against future taxable income.

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

	2014 RMB'000	2013 RMB'000
Within 1 year	**15,911**	5,688
Within 2 years	**33,466**	15,911
Within 3 years	**143,899**	33,466
Within 4 years	**3,674,378**	143,899
Within 5 years	**4,468,093**	3,674,378
	8,335,747	3,873,342

32 Income tax credit (Continued)

Provided that the Hong Kong holding entities could meet the 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. No deferred income tax liabilities as at 31 December 2014 (2013: nil) have been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. There were no unremitted earnings as at 31 December 2014 (2013: nil).

33 Net foreign exchange gains/(losses)

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

	2014	2013
	RMB'000	RMB'000
Net foreign exchange gains/(losses) taken to:		
Other gains/(losses) — net (Note 30)	**107,616**	(189,323)
Finance (costs)/income (Note 31)	**(9,248)**	80,959
	98,368	(108,364)

34 Directors' and senior management's emoluments

(a) Directors' and senior management's emoluments

	2014	2013
	RMB'000	RMB'000
Directors		
— Fees	**1,521**	1,534
— Basic salaries, housing allowances, other allowances and benefit-in-kind	**23,423**	34,921
— Contribution to pension plans	**352**	344
— Share-based payment	**9,937**	14,615
	35,233	51,414
Senior management		
— Basic salaries, housing allowances, other allowances and benefit-in-kind	**18,232**	20,150
— Contribution to pension plans	**428**	501
— Share-based payment	**2,184**	4,534
	20,844	25,185

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

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

For the year ended 31 December 2014:

Name	Fees RMB'000	Basic salaries, housing allowances, other allowance and benefit-in-kind RMB'000	Contribution to pension plans RMB'000	Discretionary bonus RMB'000	Share-based payment RMB'000	Total RMB'000
Executive Directors						
Chen Qiang	–	6,000	88	457	5,761	12,305
Wu Zhen Guo	–	1,798	–	–	576	2,374
Hong Liang	–	1,800	88	166	1,312	3,366
Sean S J Wang	–	4,292	13	–	667	4,973
Wang Tao	–	1,787	88	–	685	2,560
Wei A Ning	–	1,800	–	168	552	2,521
Zhu Wen Hua	–	1,800	75	235	384	2,494
Independent Non-executive Directors						
Tsang Hing Lun (i)	148	–	–	–	–	148
Xia Da Wei	380	–	–	–	–	380
Hu Wei Ping	380	–	–	–	–	380
Wang Jin Lian	380	–	–	–	–	380
Zhou Zhan (ii)	233	–	–	–	–	233
	1,522	19,277	352	1,026	9,938	32,115

(i) Retired as an independent non-executive director of the Company after the conclusion of 2014 annual general meeting held on 21 May 2014

(ii) Appointed as an independent non-executive director of the Company after the conclusion of 2014 annual general meeting held on 21 May 2014

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

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

For the year ended 31 December 2013:

Name	Fees	Basic salaries, housing allowances, other allowance and benefit-in-kind	Contribution to pension plans	Discretionary bonus	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Chen Qiang	–	10,871	80	–	7,465	18,416
Wu Zhen Guo	–	3,261	–	–	1,415	4,676
Luan Xiao Ming (iii)	–	3,261	79	–	–	3,340
Deng Hui (iv)	–	600	14	–	–	614
Hong Liang	–	3,261	80	–	2,078	5,419
Sean S J Wang	–	7,140	11	–	1,081	8,232
Wang Tao	–	3,261	80	–	1,265	4,606
Wei A Ning	–	3,261	–	–	781	4,042
Zhu Wen Hua (v)	–	5	–	–	530	535
Independent Non-executive Directors						
Chen Gang (vi)	158	–	–	–	–	158
Tsang Hing Lun	383	–	–	–	–	383
Zhang Xu Sheng	225	–	–	–	–	225
Xia Da Wei	383	–	–	–	–	383
Hu Wei Ping (vii)	226	–	–	–	–	226
Wang Jin Lian (viii)	159	–	–	–	–	159
	1,534	34,921	344	–	14,615	51,414

(iii) Resigned as an executive director and the chief operating officer of the Company from 31 December 2013
(iv) Resigned as an executive director of the Company from 28 February 2013
(v) Appointed as an executive director of the Company from 31 December 2013
(vi) Retired as an independent non-executive director of the Company after the conclusion of 2013 annual general meeting held on 28 May 2013
(vii) Appointed as an independent non-executive director of the Company after the conclusion of 2013 annual general meeting held on 28 May 2013
(viii) Appointed as an independent non-executive director of the Company on 31 July 2013

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 are four directors and one senior management personnel (2013: same). The emoluments of the four directors are reflected in the analysis presented above. The emolument of the senior management personnel is approximately RMB11,706,000 (2013: RMB11,426,000) including basic salaries, housing allowances, other allowances and benefit-in-kind RMB11,687,000 and contribution to pension plans RMB19,000 respectively (2013: RMB11,405,000 and RMB21,000).

(c) During the year ended 31 December 2014, 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 (2013: same).

35 Loss per share

Basic

Basic loss 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.

	2014	2013
Loss attributable to equity holders of the Company (RMB'000)	**7,756,819**	8,683,688
Weighted average number of ordinary shares in issue	**7,659,911,810**	7,000,000,000
Basic loss per share (RMB per share)	**1.01**	1.24

Diluted loss per share is the same as basic loss per share as there were no potential dilutive ordinary shares outstanding during the year (2013: same).

36 Dividends

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

37 Note to the consolidated cash flow statement

(a) Cash used in operations

	2014 RMB'000	2013 RMB'000
Loss before income tax	**(8,089,228)**	(9,058,577)
Adjustments for:		
— Amortisation of land use rights (Note 7)	**81,660**	64,005
— Depreciation (Note 8)	**429,351**	469,467
— Amortisation of intangible assets (Note 9)	**–**	110,141
— Share-based compensation (Note 19)	**20,905**	32,735
— Fair value (gain)/loss on derivative financial instruments	**(1,883,476)**	87,961
— Trade receivables written off (Note 27)	**68,475**	263,250
— Provision for inventories (Note 13)	**2,016,421**	360,803
— (Reversal of)/provision for delayed penalties	**(27,163)**	407,883
— Impairment provisions of		
trade receivables	**335,811**	2,083,467
other receivables and prepayment (Note 15(b))	**99,920**	892,381
amounts due from customers for contract works	**2,333,541**	275,590
property, plant and equipment (Note 8)	**–**	944,139
intangible assets (Note 9)	**–**	503,576
— Reversal of warranty (Note 27)	**(57,094)**	(37,910)
— Interest income	**(13,840)**	(72,398)
— Interest expense	**2,059,907**	1,525,939
— Gain on disposal of property, plant and equipment	**(31,437)**	(1,818)
— Unrealised exchange loss	**107,616**	13,776
Changes in working capital:		
— Inventories	**337,577**	350,680
— Amounts due from customers for contract works	**738,919**	616,962
— Trade and bills receivables, and other receivables, prepayments and deposits	**34,146**	2,846,034
— Amounts due to customers for contract works	**(321,778)**	(9,838)
— Trade and other payables	**(135,955)**	(4,357,619)
— Long-term deposit	**13,430**	3,913
— Utilisation of provision for warranty (Note 25)	**(11,525)**	(2,014)
Cash used in operations	**(1,893,817)**	(1,687,472)

37 Note to the consolidated cash flow statement (Continued)

(b) Movements of bank borrowings and finance lease liabilities

	2014 RMB'000	2013 RMB'000
Bank borrowings and finance lease liabilities at 1 January	**22,407,265**	25,124,533
Proceeds from bank borrowings	**14,470,442**	17,575,760
Proceeds from finance lease liabilities	**25,200**	–
Acquisition of Co-operates rights and related assets and liabilities (Note 38)	**13,000**	–
Repayments of bank borrowings	**(15,215,089)**	(20,839,468)
Repayments of finance lease liabilities	**(178,627)**	(160,875)
Convertible bonds — liability component (Note a)	**1,082,896**	773,390
Exchange difference	**9,812**	(66,075)
Bank borrowings and finance lease liabilities at 31 December	**22,614,899**	22,407,265

Note a: The movements of convertible bonds are shown in the session of convertible bonds

38 Acquisition of Co-operation Rights and related assets and liabilities

As at 11 September 2014, the Group acquired 60% interest in Central Point Worldwide Inc. ("**Central Point**") and its subsidiaries which was granted rights to cooperate with the national oil company of Kyrgyzstan in the operation of the five oilfields zones namely, Maili-Su IV, Eastern Izbaskent, Izbaskent, Changyrtash and Chigirchik in the Fergana Valley of the Republic of Kyrgyzstan.

The directors believe that the acquisition offers the Group a great opportunity to enter into the energy sector. Given the relatively adverse market conditions for shipbuilding industry for the time being, the acquisition can assist the Group in diversifying operations and broadening its source of revenue, and promoting the Group's transformation to a comprehensive heavy industry player in the energy industry, in order to make a larger contribution to the interests of the Company and its shareholders as a whole.

With reference to the closing price of the shares of the Company on 11 September 2014, the fair value of the consideration was HKD1,904,000,000 (equivalent to approximately RMB1,514,410,000). Management regards such transaction as acquisition of assets instead of business combination since Central Point and its subsidiaries were still at the initial development stage and did not own material assets other than the Co-operation Rights as at 11 September 2014. As a result, no goodwill or discount on acquisition has been recognised during the year.

38 Acquisition of Co-operation Rights and related assets and liabilities

(Continued)

	RMB'000
Issue shares for acquisition of Central Point Worldwide Inc. and its subsidiaries	1,514,411
Assets acquired and liabilities assumed	
Intangible assets ("**Co-operation Rights**") (Note 9)	1,504,498
Property, plant and equipment (Note 8)	26,149
Prepayments for non-current assets	17,128
Prepayments, deposit and other receivables	9,358
Cash and cash equivalents	648
Amounts due to related parties	(21,003)
Other payables	(2,813)
Short-term borrowing (Note 37(b))	(13,000)
	1,520,965
Non-controlling interest	(6,554)
	1,514,411

39 Contingencies

	2014 **RMB'000**	2013 RMB'000
Contingencies:		
Refund guarantees (Note a)	**2,000,155**	6,143,433
Litigation (Note b)	**225,654**	1,261,158
Financial guarantees (Note c)	**193,291**	165,475
	2,419,100	7,570,066

Notes:

(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 2014, refund guarantees are secured by land and buildings, pledged deposits, vessels under constructions, corporate guarantees from the Company and certain of its subsidiaries and personal guarantee from a director of the Group.

39 Contingencies (Continued)

(b) Litigation

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

As at 31 December 2014, certain subsidiaries of the Group were in dispute with certain of their suppliers in relation to the procurement of inventories, subcontracting services, construction of property, plant and equipment, and certain of banks in relation to the repayment of bills payable and certain of its employees in relation to the employment contracts. The alleged claims against the Group amounted to RMB531,677,000 (2013: RMB769,025,000). Provision amounted to RMB531,677,000 had been provided for in respect of the claims as at 31 December 2014 (2013: RMB768,654,000) as management has determined, on the basis of internal legal advice from the Group that it is not probable that these claims would result in an outflow of economic benefits exceeding the provisions made by the Group.

As at 31 December 2014, the Group was in dispute with one of its customers in relation to a shipbuilding contract. The alleged claim against the Group amounted to approximately USD36,675,000, equivalent to approximately RMB225,654,000 (2013: USD36,675,000, equivalent to approximately RMB223,604,000). No provision has been provided for in respect of this claim as at 31 December 2014 as management has determined, on the basis of legal advice from the Group's external legal counsel that it is not probable that this claim would result in an outflow of economic benefits from the Group.

On 11 July 2013, litigation proceedings were initiated by Jiangsu Rongsheng Heavy Industries Co., Ltd. with Anhui Province Higher People's Court (安徽省高級人民法院) against Anhui Province Property Rights Exchange Co., Ltd (安徽省產權交易中心有限責任公司) ("**Anhui Property Exchange**") for the return of the payment of RMB630,000,000 made by Jiangsu Rongsheng Heavy Industries Co., Ltd. to Anhui Property Exchange as a security deposit (the "**Deposit**") for the bidding of the equity interest in Anhui Quanchai Group (the "**Transaction**"), together with the relevant interest (the "**Proceedings**"). On 10 September 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. requested that the People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) ("**Quanjiao People's Government**"), the vendor in the Transaction, be joined as a co-defendant in the Proceedings. On 19 November 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. received a notification from Anhui Province Higher People's Court on the initiation of a counter-claim (the "**Counter-claim**") by Quanjiao People's Government seeking an order for (i) the return of the Deposit to Quanjiao People's Government, (ii) the payment by Jiangsu Rongsheng Heavy Industries Co., Ltd. of the amount of RMB427,183,000 for alleged breach of contract, interest on delay in payment and compensation for loss to Quanjiao People's Government, and (iii) all the costs of the litigation proceedings be borne by Jiangsu Rongsheng Heavy Industries Co., Ltd. As at 31 December 2013, RMB20,000,000 had been provided in respect of this claim as management has determined, on the basis of legal advice from the Group's external legal counsel, that it is not probable that this claim would result in an outflow of economic benefits exceeding the provisions made by the Group. During the year ended 31 December 2014, this case has been settled with an amount of RMB86,000,000 payable to the vendor, and the balance of the deposit was returned to Jiangsu Rongsheng Heavy Industries Co.,Ltd., save for a sum of RMB6,450,000, which shall be temporarily retained by Anhui Property Exchange pending further negotiations between the relevant parties. Management is of the view that its recoverability is in doubt. The remaining sum amounting to RMB6,450,000 was therefore fully provided for as at 31 December 2014.

39 Contingencies (Continued)

(c) Financial guarantees

The Group has provided guarantees to certain financial institutions in the PRC in respect of borrowings drawn by certain customers of the Engineering Machinery segment. The borrowings were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the financial institutions should the customers default on the borrowings. As at 31 December 2014, the total value of the guaranteed borrowings outstanding was RMB195,225,000 (2013: RMB167,409,000) in which the Group has made a provision of RMB1,934,000 (2013: RMB1,934,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB193,291,000 (2013: RMB165,475,000) is required as the relevant customers have no history of default and it is not probable that the Group would have to make payments to the financial institutions for the guarantees.

40 Commitments

(a) Capital commitments

Capital expenditure committed at the end of each reporting period but not yet incurred is as follows:

	2014 **RMB'000**	2013 RMB'000
Property, plant and equipment — Contracted but not provided for	**806,158**	936,433
Other capital commitment — Contracted but not provided for (note i)	**160,000**	160,000

Note:

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

On 16 January 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 2014, the Group has paid the first instalment of RMB40,000,000 to the Fund which is classified as available-for-sale financial asset in the consolidated statement of the financial position (Note 12).

(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:

	2014 **RMB'000**	2013 RMB'000
No later than 1 year	**13,286**	26,984
Later than 1 year and no later than 5 years	**3,909**	17,424
	17,195	44,408

41 Related party transactions

Fine Profit Enterprises Limited (a company incorporated in the British Virgin Islands) ("**Fine Profit**") owned 21.63% of the issued shares of the Company as at 31 December 2014 (2013: 29.32%). Fine Profit was wholly-owned by Mr. Zhang as at 31 December 2014.

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

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co., Ltd. 上海地通建設(集團)有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Jiangsu Xu Ming Investment Group Co., Ltd. 江蘇旭明投資集團有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Rongsheng Infrastructure Accessories Co., Ltd. 南通熔盛基礎設施配套工程有限公司	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
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
Zhang Jiping 張繼平	Non-controlling interest shareholder of a subsidiary

41 Related party transactions (Continued)

During the year ended 31 December 2014, the Group carried out the following transactions with the related parties:

(i) Year-end balances with related parties

Group

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

	2014 **RMB'000**	2013 RMB'000
Bills payable for property, plant and equipment (Note 21):		
— Entity controlled by Mr. Zhang/close family member of Mr. Zhang	**–**	52,190
Other payables for property, plant and equipment (Note 21):		
— Entities controlled by Mr. Zhang or a shareholder/close family members of Mr. Zhang	**608,870**	175,659
Other payables — non-trade (Note 21):		
— Entities controlled by Mr. Zhang or a shareholder/close family members of Mr. Zhang	**490**	28,002
— Non-controlling interest shareholder of a subsidiary	**20,744**	–
	21,234	28,002

Company

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

	2014 **RMB'000**	2013 RMB'000
Other receivables — non-trade (Note 15):		
— Subsidiaries	**11,480,873**	9,829,316
Other payables — non-trade (Note 21):		
— Subsidiaries	**5,995**	5,995
— Entity controlled by Mr. Zhang or a shareholder/close family member of Mr. Zhang	**–**	27,903
	5,995	33,898

41 Related party transactions (Continued)

(ii) Advances from a related party

During the year ended 31 December 2014, the single largest shareholder (before full conversion of the convertible bonds and exercise of the share options issued by the Company) provides security-free and interest-free revolving facilities up to RMB3,000,000,000 for use by the Group, for working capital purposes. As at 31 December 2014, RMB381,629,000 (2013: RMB243,838,000) has been drawn down by the Group and is not repayable until March 2015.

(iii) Guarantee by a director

As at 31 December 2014, certain bank borrowings and refund guarantees are secured by a director of the Group (2013: same).

(iv) Guarantee by the shareholders and related parties

As at 31 December 2014, certain bank borrowings are secured by the shareholders and the controlling entities of the shareholders.

(v) Guarantee by a non-controlling interest shareholder of a subsidiary

As at 31 December 2014, a borrowing is secured by the non-controlling interest shareholder of a subsidiary.

(vi) Key management compensation

Key management includes directors and senior management. Details of key management compensation are disclosed in Note 34.

42 Particulars of principal subsidiaries

(a) As at 31 December 2014, 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 2014	2013
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27/07/07	Limited liability company	Investment holding; Hong Kong	HKD100,000	**98.50%**	98.50%
Rongsheng Engineering Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Power Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Rongsheng Capital Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	**100%**	100%
Clear Joy International Limited	British Virgin Islands	02/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Nice In Holdings Limited	British Virgin Islands	13/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Charm Dragon Holdings Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Grace Shine International Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**100%**	100%
Head Park Group Limited	British Virgin Islands	25/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
New Sea Enterprises Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**100%**	100%
Mega New International Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	**98.50%**	98.50%
Host Rich International Enterprise Limited	British Virgin Islands	13/05/09	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	100%
System Advance Limited	British Virgin Islands	12/01/10	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Ocean Sino Holdings Limited	British Virgin Islands	18/01/10	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	98.50%
Power Shine Investment Limited	British Virgin Islands	07/01/10	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%

42 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2014, the Company has direct and indirect interests in the following 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 2014	2013
Capital Sign International Limited	British Virgin Islands	26/03/09	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Dragon Courage Investments Limited	British Virgin Islands	02/04/09	Limited liability company	Investment holding; Hong Kong	USD1	**98.50%**	98.50%
Xcellcrest Holdings Pte. Ltd.	Singapore	01/11/12	Limited liability company	Investment holding; Singapore	SGD1	**100%**	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; Singapore	SGD1,000,000	**95%**	95%
Hinco International Limited	Hong Kong	12/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Pacific Atlantic Limited	Hong Kong	24/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Wenca Development Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Asiafair International Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Wellbo Holdings Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Profit On International Development Limited	Hong Kong	15/05/09	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Yes Power Corporation Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Ocean Power International Industrial Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	98.50%
Glory Source Limited	Hong Kong	25/01/10	Limited liability company	Dormant	HKD1	**98.50%**	98.50%
World Profit Corporation Limited	Hong Kong	05/02/10	Limited liability company	Dormant	HKD1	**98.50%**	98.50%
Jiangsu Rongsheng Shipbuilding Co., Ltd. 江蘇熔盛造船有限公司 (Note 1)	PRC	21/06/07	Limited liability company	Manufacturing, maintaining and machining of shipping; Trading of self-produced products; PRC	RMB778,784,897	**96.38%**	96.09%

42 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2014, the Company has direct and indirect interests in the following 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 2014	2013
Nantong Rongsheng Painting Co., Ltd. 南通熔盛塗裝有限公司	PRC	21/06/07	Limited liability company	Engaging in coating and corrosing resistance, tank coating projects; Manufacturing and trading of self-produced products; PRC	USD29,500,000	**93.58%**	93.58%
Nantong Rongye Ship Mechanical and Equipment Installation Co., Ltd. 南通熔燁船舶機電安裝有限公司	PRC	21/06/07	Limited liability company	Manufacturing mechanical and electrical equipments and accessories for shipping production; Trading of self-produced products; PRC	USD29,600,000	**95%**	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	USD196,889,000	**97.76%**	97.03%
Jiangsu Rongsheng Offshore Engineering Co., Ltd. 江蘇熔盛海洋工程有限公司	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%**	95%
Jiangsu Rongsheng Heavy Industries Co., Ltd. 江蘇熔盛重工有限公司	PRC	08/06/06	Limited liability company	Manufacturing of steel structures for vessels; Trading of self-produced products; Providing services of shipping; PRC	USD766,000,000	**96.38%**	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	**96.38%**	96.09%

42 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2014, the Company has direct and indirect interests in the following 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 2014	2013
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	**96.38%**	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	**96.38%**	96.09%
Rongsheng Machinery Company Limited 熔盛機械有限公司	PRC	11/03/10	Limited liability company	Manufacturing and sales of engineering machineries; PRC	USD78,000,000	**100%**	100%
Hefei Zhenyu Engineering Machinery Company Limited 合肥振宇工程機械有限公司	PRC	10/12/98	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB100,000,000	**95%**	95%
Hefei Zhenyu Yida Engineering Machinery Company Limited 合肥振宇意達工程機械有限公司	PRC	18/04/03	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB10,000,000	**95%**	95%
Hefei Rong An 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	**95.70%**	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	**95.70%**	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	**96.38%**	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	**96.38%**	96.09%

42 Particulars of principal subsidiaries (Continued)

(a) As at 31 December 2014, the Company has direct and indirect interests in the following 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 2014	2013
Hefei Rong An Heavy Machinery Co., Ltd. 合肥熔安重機有限公司	PRC	06/12/11	Limited liability company	Design, manufacture and sale of marine high-power diesel engine parts and semi-finished parts; PRC	RMB37,917,000	**95.92%**	100%
Rongsheng Machinery Hefei Sales Co., Ltd 熔盛機械合肥銷售有限公司	PRC	17/09/13	Limited liability company	Wholesale and retail sale of engineering machinery; PRC	RMB100,000	**100%**	100%
Radiant Business Global Limited 盛業環球有限公司	British Virgin Islands	03/09/14	Limited liability company	Investment holding; Hong Kong	USD1	**100%**	N/A
КыргызжерНефтегаз "Kyrgyzjer Neftegaz" Limited Liability Company* 吉爾吉斯大陸油氣有限公司*	Kyrgyzstan	13/08/13	Limited liability company	Oil exploration and production and sales of petroleum products; Kyrgyzstan	KGS100,000	**60%**	0%
Crown Winner Investment Limited	Hong Kong	8/11/13	Limited liability company	Investment holding; Hong Kong	HKD10,000	**60%**	0%
Central Point Worldwide Inc.	British Virgin Islands	19/06/14	Limited liability company	Investment holding; Hong Kong	USD100	**60%**	N/A

\# Shares held directly by the Company

* For identification purpose only

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 Jiangsu Rongsheng Shipbuilding Co., Ltd, ("**Rongsheng Shipbuilding**") and the remaining 51% equity interest in Rongsheng Shipbuilding is owned by Jiangsu Xu Ming Investment Group Co., Ltd.. The Group has obtained confirmations from Jiangsu Xu Ming Investment Group Co., Ltd. where Jiangsu Xu Ming Investment Group Co., Ltd. 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, Jiangsu Xu Ming Investment Group Co., Ltd. does not share profit or loss of Rongsheng Shipbuilding.

42 Particulars of principal subsidiaries (Continued)

(b) Material non-controlling interests

Material non-controlling interests amounting to RMB329,026,000 (2013: RMB346,926,000) mainly represented an 51% equity interest in Rongsheng Shipbuilding held by Jiangsu Xu Ming Investment Group Co., Ltd.. Such non-controlling interest was recognised on the date when the Group had control over the finance and operating policies of Rongsheng Shipbuilding in relation to the restructuring before the initial public offering of the Company in year 2010.

Pursuant to certain confirmations and undertakings obtained from Mr. Zhang, the Company's substantial shareholder and also the controlling shareholder of Jiangsu Xu Ming Investment Group Co., Ltd., the Group is entitled to 51% of the economic benefits of Rongsheng Shipbuilding held by Jiangsu Xu Ming Investment Group Co., Ltd.. Accordingly, Rongsheng Shipbuilding has been consolidated as a subsidiary of the Company and Jiangsu Xu Ming Investment Group Co., Ltd. does not share any profit or loss of Rongsheng Shipbuilding after the restructuring.

As at 31 December 2014, the Group held 96.4% equity interest in Rongsheng Shipbuilding (2013: 96.1%).

Except for the above, there were no other individually material non-controlling interests as at 31 December 2014.

(c) Summarised financial information on a subsidiary with material non-controlling interests

Set out below is the summarised financial information for the subsidiary that has non-controlling interest which is material to the Group.

Material non-controlling interests

Summarised statement of financial position

	Rongsheng Shipbuilding	
	2014	2013
	RMB'000	RMB'000
Current		
Assets	**1,678,227**	2,644,039
Liabilities	**(6,539,291)**	(4,862,263)
Net current liabilities	**(4,861,064)**	(2,218,224)
Non-current		
Assets	**4,469,285**	4,641,126
Liabilities	**–**	(2,389,000)
Net non-current assets	**4,469,285**	2,252,126
Net (liabilities)/assets	**(391,779)**	33,902

The information above is the amount before inter-company eliminations.

42 Particulars of principal subsidiaries (Continued)

(c) Summarised financial information on a subsidiary with material non-controlling interest (Continued)

Summarised statement of comprehensive income

	Rongsheng Shipbuilding	
	For the year ended 31 December 2014 RMB'000	For the year ended 31 December 2013 RMB'000
Revenue	**213,079**	339,575
Loss before income tax	**(424,059)**	(1,152,810)
Income tax credit	**–**	10,143
Total comprehensive loss	**(424,059)**	(1,142,667)
Total comprehensive loss allocated to non-controlling interests	**(17,900)**	(42,462)
Dividends paid to non-controlling interests	**–**	–

Summarised cash flows

	Rongsheng Shipbuilding	
	For the year ended 31 December 2014 RMB'000	For the year ended 31 December 2013 RMB'000
Net cash used in operating activities	**(88,110)**	(733,420)
Net cash generated from/(used in) investing activities	**266,666**	(98,676)
Net cash (used in)/generated from financing activities	**(186,846)**	684,248
Net decrease in cash and cash equivalents	**(8,290)**	(147,848)
Cash and cash equivalents at beginning of year	**55,902**	203,750
Cash and cash equivalents at end of year	**47,612**	55,902

The information above is the amount before inter-company eliminations.

43 Events after the reporting period

(a) Memorandum of understanding in relation to the Potential Transaction

On 10 March 2015, the Company and an independent third party have entered into a memorandum of understanding, pursuant to which the Company and the Potential Purchaser have agreed that the Company intends to sell to the Potential Purchaser, and the Potential Purchaser intends to purchase from the Company, the related core assets and liabilities of the onshore shipbuilding and offshore engineering business of the Group in the PRC. Both parties shall further negotiate the scope and list of related assets and liabilities and terms and arrangements of the Potential Transaction.

(b) Change of the name of the Company

On 18 March 2015, the Registrar of Companies in the Cayman Islands issued the Certificate of Incorporation on Change of Name of the Company.

The name of the Company was changed from "China Rongsheng Heavy Industries Group Holdings Limited" to "China Huarong Energy Company Limited" and to adopt "中國華榮能源股份有限公司" as the Chinese name of the Company to replace the existing Chinese name of the Company "中國熔盛重工集團控股有限公司".

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**(3,802,365)**	1,343,566	7,956,347	15,904,585	12,665,479
Gross (loss)/profit	**(4,114,023)**	(1,432,925)	1,140,697	3,193,700	2,831,504
Operating (loss)/profit	**(6,057,678)**	(8,230,542)	225,656	2,020,970	2,033,763
Total comprehensive (loss)/ income for the year	**(8,091,175)**	(8,951,888)	(562,035)	1,809,723	1,780,045
Attributable to:					
Equity holders of the Company	**(7,756,819)**	(8,683,688)	(572,577)	1,720,675	1,718,704
Non-controlling interests	**(334,356)**	(268,200)	10,542	89,048	61,341

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**30,006,256**	35,974,744	50,168,837	51,260,616	40,995,971
Non-current assets	**22,878,155**	21,789,896	22,190,689	19,986,597	13,041,788
Current assets	**7,128,101**	14,184,848	27,978,148	31,274,019	27,954,183
Total liabilities	**29,692,560**	29,805,692	35,080,632	35,568,760	26,360,830
Non-current liabilities	**1,841,204**	8,937,697	9,480,157	10,023,127	8,179,653
Current liabilities	**27,851,356**	20,867,995	25,600,475	25,545,633	18,181,177
Total equity	**313,696**	6,169,052	15,088,205	15,691,856	14,635,141

GLOSSARY

"2015 AGM"	the annual general meeting of the Company to be held on 1 June 2015
"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
"bbl"	barrels
"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
"CCS"	China Classification Society, a classification society founded in the PRC in 1956, is a specialized non-profit organization providing classification service
"China" or "PRC"	the People's Republic of China excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan
"Company", "our Company" or "Huarong Energy"	China Huarong Energy Company Limited (中國華榮能源股份有限公司) (formerly known as 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 containerisation
"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 risks in a variety of industries (including maritime vessels); Germanisher Lloyd is a classification society founded in 1867, which is a Germanbased 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.

"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
"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 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) and the Ministry of Commerce of the PRC (中華人民共和國商務部) on 31 October 2007) which became effective on 1 December 2007
"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
"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
"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
"MMBbl"	million barrels

"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
"RMB" or "Renminbi"	the lawful currency of the PRC
"Rong An Heavy industries"	Anhui Rong An 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 Power Machinery"	Hefei Rong An 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" or "Xuming 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, now renamed as Jiangsu Xuming Investment Group Co., Ltd. (江蘇旭明投資集團有限公司)
"Rongsheng Machinery"	Rongsheng Machinery Co., Ltd. (熔盛機械有限公司), formerly known as Rong An Heavy Industries

"Rongsheng Offshore & Marine"	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 HKD0.10 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
"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

INFORMATION FOR SHAREHOLDERS

Listing Information

Listing	:	Hong Kong Stock Exchange
Stock Code	:	01101

Financial Key Dates

Announcement of 2014 Annual Results	:	30 March 2015
Annual General Meeting	:	1 June 2015
Book Closure Period for determining entitlement to attend and vote at AGM	:	27 May 2015 to 1 June 2015 (both days inclusive)

Share Information

Board Lot Size	:	500 shares
Issued Shares as at 31 December 2014	:	9,490,194,599 shares
Interim Dividend per Share for 2014	:	—
Final Dividend per Share for 2014	:	—

Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

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

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

Registered Office

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

Principal Place of Business and Headquarters

Suites 2505–2508,
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8 Connaught Place, Central, Hong Kong

Contact Enquiries

Investor Relations

Tel	:	(852) 3900-1888
Email	:	ir@rshi.cn
Website	:	www.huarongenergy.com.hk

CORPORATE INFORMATION

Executive Directors	CHEN Qiang (Chairman and Chief Executive Officer) WU Zhen Guo (Vice Chairman) HONG Liang Sean S J WANG (Chief Financial Officer) WANG Tao WEI A Ning ZHU Wen Hua
Independent Non-executive Directors	XIA Da Wei HU Wei Ping WANG Jin Lian ZHOU Zhan
Audit Committee	ZHOU Zhan (Chairman) XIA Da Wei HU Wei Ping WANG Jin Lian
Corporate Governance Committee	WANG Jin Lian (Chairman) CHEN Qiang Sean S J WANG XIA Da Wei HU Wei Ping
Nomination Committee	WANG Jin Lian (Chairman) WEI A Ning XIA Da Wei HU Wei Ping
Remuneration Committee	HU Wei Ping (Chairman) CHEN Qiang WU Zhen Guo WANG Jin Lian ZHOU Zhan
Finance and Investment Committee	CHEN Qiang (Chairman) HONG Liang Sean S J WANG XIA Da Wei ZHOU Zhan
Company Secretary	LEE Man Yee
Auditor	PricewaterhouseCoopers
Principal Bankers	The Export-Import Bank of China (Jiangsu Province Branch) China Development Bank (Jiangsu Province Branch) Bank of China Limited (Nantong Gangzha Branch) Shanghai Pudong Development Bank Limited (Hefei Branch)
Legal Advisors	Paul Hastings Commerce & Finance Law Offices
Company Website	http://www.huarongenergy.com.hk

CHINA HUARONG ENERGY
COMPANY LIMITED
中國華榮能源股份有限公司