熔盛重工
Rongsheng Heavy Industries

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01101

GLOBAL OFFERING

Joint Sponsors

Morgan Stanley　建银国际 CCB International　J.P.Morgan

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Morgan Stanley　建银国际 CCB International　J.P.Morgan　BOC INTERNATIONAL　Deutsche Bank


熔盛重工
RONGSHENG

IMPORTANT

If you are in any doubt about any of the content of this prospectus, you should obtain independent professional advice.

CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

中國熔盛重工集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	**:**	***1,750,000,000 Shares comprising 1,400,000,000 new Shares and 350,000,000 Sale Shares (subject to the Over-allocation Option)***
Number of Hong Kong Offer Shares	**:**	***87,500,000 Shares (subject to adjustment)***
Number of International Offer Shares	**:**	***1,662,500,000 Shares comprising 1,312,500,000 new Shares and 350,000,000 Sale Shares (subject to adjustment and the Over-allocation Option)***
Maximum Offer Price	**:**	***HK$10.10 per Offer Share (plus brokerage of 1.0%, HKSFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, payable in full on application in Hong Kong dollars and subject to refund)***
Nominal Value	**:**	***HK$0.10 per Share***
Stock Code	**:**	***01101***

Joint Sponsors

Morgan Stanley 建银国际 CCB International J.P.Morgan

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Morgan Stanley 建银国际 CCB International J.P.Morgan BOC INTERNATIONAL Deutsche Bank

Hong Kong Exchanges and Clearing Limited, the Hong Kong Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in the section headed "Documents Available for Inspection" in Appendix VIII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance. The HKSFC and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around November 12, 2010 and, in any event, not later than November 17, 2010. The Offer Price will not be more than HK$10.10 and is currently expected to be not less than HK$7.30, unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum offer price of HK$10.10 for each Offer Share together with a brokerage fee of 1%, HKSFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK$10.10 (the maximum Offer Price).

The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the number of Offer Shares or the indicative Offer Price range (as the case may be) will be published in the South China Morning Post (in English), and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set forth in the sections headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Joint Global Coordinators (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price, the Global Offering will not proceed and will lapse.

Prospective investors of the Offer Shares should note that the Joint Global Coordinators, in their sole and absolute discretion may, on behalf of the Hong Kong Underwriters, terminate the Hong Kong Underwriting Agreement by notice to our Company given by the Joint Global Coordinators (on behalf of the Underwriters), upon occurrence of any of the events set forth in the section headed "Underwriting — Grounds for Termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the day that trading in the Shares commences on the Hong Kong Stock Exchange. It is important that you refer to that section for further details.

Prior to making an investment decision, prospective investors should consider carefully all the information set forth in this prospectus including but not limited to the risk factors set forth in the section headed "Risk Factors" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered (i) within the United States in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A under the U.S. Securities Act or another exemption from registration under the U.S. Securities Act; and (ii) in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act.

November 8, 2010

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Application lists open[3]	11:45 a.m. on Thursday, November 11, 2010
Latest time to lodge **white** and **yellow** Application Forms	12:00 noon on Thursday, November 11, 2010
Latest time to give **electronic application instructions** to HKSCC[2]	12:00 noon on Thursday, November 11, 2010
Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**	11:30 noon on Thursday, November 11, 2010
Latest time to complete payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Thursday, November 11, 2010
Application lists close[3]	12:00 noon on Thursday, November 11, 2010
Expected Price Determination Date	Friday, November 12, 2010
Announcement of:	
• the Offer Price;	
• an indication of the level of interest in the International Offering;	
• the level of applications of the Hong Kong Public Offering; and	
• the basis of allocation of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Thursday, November 18, 2010
Results of allocations will be available through a variety of channels in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) as described in the section headed "How to Apply for Hong Kong Offer Shares — X. Results of allocations" in this prospectus from	Thursday, November 18, 2010
Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function	Thursday, November 18, 2010
Despatch of Share certificates/White Form e-Refund payment instructions/refund cheques in respect of wholly successful and wholly or partially unsuccessful application expected on or before	Thursday, November 18, 2010
Dealings in Shares on the Hong Kong Stock Exchange to commence on	Friday, November 19, 2010

Notes:

1. All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.
2. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — V. Applying by giving electronic application instructions to HKSCC" in this prospectus.

3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, November 11, 2010 the application lists will not open and close on that day. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares — VI. When may applications be made — Effect of bad weather on the opening of the application lists" in this prospectus. If the application lists do not open and close on Thursday, November 11, 2010, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
4. Applicants who apply by giving electronic application instructions to the HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — V. Applying by giving electronic application instructions to HKSCC" in this prospectus.
5. **Share certificates for the Hong Kong Offer Shares are expected to be issued on Thursday, November 18, 2010 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in the section headed "Underwriting — Grounds for Termination" in this prospectus has not been exercised and has lapsed.**
6. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.
7. Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques and (where applicable) Share certificates in person from our Company's Hong Kong Share Registrar may collect refund cheques and (where applicable) Share certificates in person from our Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, November 18, 2010. Identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection. Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Hong Kong Offer Shares is the same as that for **WHITE** Application Form applicants.

You should read carefully the sections headed "Underwriting", "How to Apply for Hong Kong Offer Shares" and "Structure of the Global Offering" in this prospectus, for details relating to the structure of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the despatch of refund cheques and Share certificates.

Uncollected Share certificates and refund cheques will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by China Rongsheng Heavy Industries Group Holdings Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorized by us, our Directors, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a large PRC heavy industries group with a leading shipbuilding business, rapidly growing marine engine building business, developing offshore engineering business and a focus on oil and gas related customers and markets. According to Clarkson Research, we were ranked second among all shipbuilders in the PRC, first among privately-owned shipbuilders in the PRC and were also a global market leader in the manufacture of VLOCs of over 300,000 DWT each in terms of total order book measured by DWT as of August 1, 2010. During the Track Record Period, our shipbuilding segment contributed most of our revenue, accounting for 100.0%, 99.4%, 96.9% and 94.5% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. However, our business model has been undergoing significant changes and now spans four segments, namely, shipbuilding, offshore engineering, marine engine building and engineering machinery. We expect our business to become more diversified in the future. Currently, our products include bulk carriers, crude oil tankers, containerships, offshore engineering products, low-speed marine diesel engines and small to mid-size excavators and cranes for construction and mining uses.

The NDRC has approved the construction of our four drydocks which are capable of construction of vessels of over 100,000 DWT, including our fourth drydock that will be primarily for use by our offshore engineering projects. The NDRC has also granted us approval for the construction of our low-speed marine diesel engine production facilities which are designed to have an annual production capacity of five million horsepower. We have entered into licensing agreements with two of the world's major power solution providers — Wärtsilä and MAN Diesel & Turbo — to build low-speed marine diesel engines.

We commenced the construction of our shipyard in Nantong, Jiangsu Province in October 2005 and signed our first shipbuilding contracts for six Panamax bulk carriers in the first quarter of 2006. We delivered our first vessel in March 2008, setting a record at the time in China for the shortest time period from the commencement of shipyard construction to the delivery of the first vessel according to China Enterprises Community and China Entrepreneur Association (中國企業聯合會及中國企業家協會). As of September 30, 2010, our order book for our shipbuilding segment included 84 vessels totaling approximately 15.1 million DWT from 20 customers, including Vale Shipping Singapore Pte. Ltd (a shipping subsidiary of Vale S.A.), Geden Line, Cardiff Marine Inc., MSFL and Frontline Ltd. In the offshore engineering segment, we secured our first offshore engineering order for a DPV in 2007 and we plan to complete its construction by the end of December 2010. In the marine engine building segment, Rong An Power Machinery delivered its first low-speed diesel marine engine in October 2009 within 16 months after the commencement of the construction of our Hefei plant in June 2008. In the engineering machinery segment, we acquired a majority interest in Zhenyu Machinery in the first half of 2010 and plan to construct new production facilities in anticipation of rising demand for engineering machinery in the PRC.

We are headquartered in Shanghai, where our main sales office and design and R&D centers are located. Our production facilities are strategically located in Nantong, Jiangsu Province and Hefei, Anhui Province, which enable us to benefit from the PRC government's economic policies targeting the development of those regions. Our vessels and offshore engineering products are constructed primarily at our shipyard in Nantong in the coastal area of the Yangtze River Delta. We primarily build and manufacture our marine engine and engineering machinery products at our production bases in Hefei, which is in eastern China.

We have benefitted from the rapid growth of the PRC economy and increasing global demand for oil and gas. Leveraging our flexibility as a privately-owned enterprise, we have developed multiple vessel products, acquired capabilities for offering various offshore engineering products, and expanded our business into marine engine building and engineering machinery segments. During the Track Record Period, we sold our vessels to customers in 11 countries and regions, including Turkey, Norway, Brazil, Singapore, Germany and the PRC.

- **Shipbuilding —** We manufacture a variety of vessels for our international and domestic customers at our shipyard in Nantong. Our principal products are bulk carriers, crude oil tankers and containerships. Currently, our key product offering includes 75,500 DWT ice-strengthened Panamax, 76,000 DWT Panamax and 176,000 DWT Capesize bulk carriers, 400,000 DWT VLOCs, 156,000 DWT and 157,000 DWT Suezmax crude oil tankers, 320,000 DWT VLCCs and 6,500 TEU containerships. We had a customer base spanning 11 countries and regions (including Turkey, Norway, Germany, Brazil, Singapore and the PRC) as of September 30, 2010, which included Vale Shipping Singapore Pte. Ltd (a shipping subsidiary of Vale S.A.), Geden Line, Cardiff Marine Inc., MSFL and Frontline Ltd. Our customer base primarily comprises large shipping companies, natural resource companies, and financial leasing companies. We delivered our first vessel in March 2008 and had delivered a total of 27 vessels, with an aggregate of approximately 3.8 million DWT, as of September 30, 2010.

  According to Clarkson Research, we ranked first among privately-owned shipbuilders in the PRC in terms of total order book in DWT as of August 1, 2010. As of September 30, 2010, our order book for the shipbuilding segment included 84 vessels totaling approximately 15.1 million DWT with an aggregate contract value of approximately US$6.0 billion. The following table sets forth information relating to our shipbuilding orders on hand as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively.

	As of December 31,									As of September 30,		
	2007			2008			2009			2010		
	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels
Bulk Carriers and VLOCs	2,540.0	1,161.2	19	6,962.5	2,521.2	26	9,095.0	3,247.4	37	10,035.0	3,688.4	52
Crude Oil Tankers and VLCCs	4,682.4	2,075.7	30	4,682.4	2,075.7	30	3,276.8	1,446.6	21	4,710.8	1,892.2	28
Containerships	—	—	—	338.6	411.8	4	338.6	411.8	4	338.6	411.8	4
TOTAL	**7,222.4**	**3,236.9**	**49**	**11,983.5**	**5,008.7**	**60**	**12,710.4**	**5,105.8**	**62**	**15,084.4**	**5,992.4**	**84**

Note: Our order book, as of the dates indicated above, represents the total nominal contract value of orders that had not been completed, including the portion of revenue in respect of those orders that we had recognized as of such dates, all as translated (where applicable) into US dollars on the respective balance sheet dates at the rate of US$1.00 = RMB6.68. For the purpose of calculating our order book as of December 31, 2007, 2008 and 2009, we considered an order to be effective when we signed the shipbuilding contract with the customer and received the first installment payment under the contract. For the purpose of calculating our order book as of September 30, 2010, we consider an order to be effective when we signed the shipbuilding contract with the customer, regardless of what the relevant contract may provide, including three orders for 157,000 DWT crude oil tanker that were conditionally signed and subject to customers' confirmation of the orders under certain circumstances. The total contract value of these three vessels amounts to approximately US$184.2 million. In addition, the figures shown exclude any orders that had been cancelled as of September 30, 2010. Going forward, our order book may be affected by delays, cancellations and renegotiations of the contracts.

We have obtained NDRC approval for the construction of our four drydocks (including our fourth drydock). We currently have three large drydocks, two material wharves and five outfitting wharves in operation, and one large drydock and three outfitting wharves under construction. The dimensions of drydocks 1, 2 and 3 are 102m x 464m, 102m x 530m and 106m x 530m, respectively. Each drydock is equipped with a mobile goliath gantry crane that has a maximum lifting capacity of 900 tonnes. Currently, our fourth drydock is under construction with a designed dimension of 139.5m x 580m. It will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes. We believe that the size of our drydocks and the lifting capacity of our gantry cranes will allow for a highly efficient shipbuilding process, which will be further enhanced by the completion of additional facilities which are currently under construction.

- **Offshore Engineering** — Our offshore engineering segment is a natural extension of our shipbuilding segment. We carry out our offshore engineering projects at our shipyard in Nantong. Our offshore engineering segment involves the manufacturing of development units, production units and offshore support vessels for the offshore oil and gas industry. Unlike demand for merchant vessels, which is primarily driven by global seaborne trade, the demand for offshore engineering products is fundamentally driven by the exploration, production and associated transportation and storage of oil and gas products. Certain offshore engineering products, such as FPSOs, are similar to merchant vessels and, largely, have similar production processes. However, some offshore engineering products require different manufacturing technologies and processes from shipbuilding, such as SEMIs and jack-ups. Therefore, despite similarities, the offshore engineering segment is distinct from shipbuilding. We branched into the offshore engineering business in 2007 when we obtained a contract to construct a DPV for COOEC. We plan to complete the construction of that DPV by the end of December 2010. We are one of the few privately-owned companies in China with the capability to build offshore engineering products and to have secured an order for the construction of a DPV. We are striving to further expand our business in this segment, including entering into a strategic cooperation agreement with CNOOC in 2010.

  Our offshore engineering segment largely shares space, facilities, workforce and other resources with our shipbuilding segment. Our fourth drydock will primarily be used for our offshore engineering projects, although it can also be used for shipbuilding. Upon completion, which is currently scheduled for March 2011, our fourth drydock will be 139.5 meters wide, 580 meters long, 13.3 meters deep and equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes.

  We believe our shipyard facilities, know-how and personnel will allow us to offer various offshore engineering products, which we have not yet produced, including jack-ups, SEMIs, drillships, FPSOs /FSOs and LNG carriers. As of September 30, 2010, our offshore engineering order book included one DPV, being the DPV we are constructing for COOEC.

- **Marine Engine Building** — We run our marine engine building business through Rong An Power Machinery, which was established in August 2007 by Mr. Zhang and acquired by us in the first half of 2010. Rong An Power Machinery commenced building marine engines in August 2009. We have obtained NDRC approval for the construction of our low-speed marine diesel engine production facilities with a designed annual production capacity of five million horsepower. As we have not finished the construction of our production facilities, currently our production facilities have an annual assembly capacity of approximately three million horsepower. We expect to reach our designed annual production capacity of five million horsepower when the construction of our production facilities is completed.

  Upon completion, our marine engine building facilities will cover an area of approximately 2.5 million sqm, of which approximately 571,000 sqm has been allocated to low-speed marine diesel engine production. Our low-speed marine diesel engine plant will be equipped with eight gantry type NC boring and milling machines, which will give us a relatively large production capacity and enable us to produce essential parts for our marine engines. We have entered into licensing agreements with two of the world's major power solution providers — Wärtsilä and MAN Diesel & Turbo. As part of these licensing relationships, we receive comprehensive technological support from them.

Rong An Power Machinery delivered its first marine engine product, a Wärtsilä 6RT-flex68D low-speed marine diesel engine in October 2009. We currently build three models of Wärtsilä and five models of MAN B&W low-speed marine diesel engines. As of September 30, 2010, our marine engine order book included 10 Wärtsilä 7RT-flex 82T, 18 Wärtsilä 5RT-flex58T-D, two MAN B&W 6S70MC, two MAN B&W 6S42MC, one MAN B&W 6S46MC-C and seven MAN B&W 5S60ME-C engines which in aggregate, amounted to approximately 849,760 horsepower with a total contract value of approximately RMB1,511.1 million. We expect to leverage our shipbuilding segment's order book to solicit more orders from our existing clients and strive to market our marine engines to third-party shipbuilders. We believe that strong domestic demand in China for marine engines, particularly from private shipbuilders, will support our continuous growth in this segment in the coming years.

- **Engineering Machinery** — We commenced our operations in the engineering machinery segment in the first half of 2010 by acquiring a majority interest in Zhenyu Machinery, a manufacturer of excavators and crawler cranes located in Hefei, Anhui Province. Through Zhenyu Machinery, we currently offer 16 varieties of hydraulic excavators and two varieties of hydraulic crawler cranes.

  Zhenyu Machinery's production facilities cover an area of approximately 53,300 sqm in Hefei. We expect the market demand for engineering machinery to increase substantially as a result of PRC government policies targeting the development of the central and western regions of the PRC and an increase in government spending on infrastructure. We are therefore planning to increase our production capacity and expand our product offering by constructing a new manufacturing base in Hefei. The new production base is to be constructed in three phases and will cover approximately 2.7 million sqm, subject to the timing and outcome of relevant government approvals. Phase I of the expansion is expected to cover approximately 566,700 sqm with production capacity of 30,000 excavators per year. We plan to start the construction of Phase I in 2010 and begin partial production in 2011. After completion of the remaining two phases, our new product offerings are expected to include a wide variety of earth moving, mining, road construction and concrete machinery.

Our rapid growth is largely attributable to a favorable business environment for the oil and gas industries and sustained growth in demand for related transportation and exploration vessels, equipment and infrastructure. In particular, the continuous increase in global demand for oil and gas products and rapid economic development in the PRC have created increased global demand for oil tankers and offshore vessels and have fueled oil and gas imports. We have also benefitted from favorable national policies that encourage the shipping of domestic products using domestic agents and vessels, as well as the exploration of offshore resources using offshore engineering equipment manufactured by PRC shipbuilders. In the global shipbuilding and offshore engineering markets, an increasing number of vessels are ordered from and manufactured in the PRC. Recent technical advancements have further contributed to the increase in the number of vessels and offshore engineering projects constructed in the PRC.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, our total revenue was approximately RMB661.7 million, RMB4,724.9 million, RMB9,473.2 million and RMB8,170.4 million, respectively. We had gross losses for the years ended December 31, 2007 and 2008 of RMB31.9 million and RMB90.6 million but had gross profit for the year ended December 31, 2009 and the eight months ended August 31, 2010 of RMB1,848.3 million and RMB1,835.4 million, respectively, primarily due to the following reasons:

- In 2007 and 2008, a significant portion of our current shipyard facilities was under construction, as most of our current shipyard facilities did not become operational until 2009. Our management team and shipbuilding workforce were still being assembled and trained in 2007 and 2008. Due to our limited operating history and our lack of shipbuilding experience as a new shipyard, we experienced cost overruns in 2007 and 2008. We incurred substantial costs, such as those incurred due to training a large number of employees, purchasing various machinery and systems and paying design fees, before we recognized any significant shipbuilding revenue or profit. In 2009, we were able to focus on vessel construction and the generation of shipbuilding revenue and profit after more of our shipyard facilities became operational and after our employees had the requisite training and experience.

- The percentage of completion of the vessels we were constructing was generally low in 2007 and 2008. According to our accounting policies, we do not recognize any profit from vessels until they have reached 20% of completion and thus our revenue recognized in connection with such vessels during these years was only equal to the aggregate costs we incurred; whereas the percentage of completion of our vessels under construction in 2009 and the eight months ended August 31, 2010 was mostly higher than 20% and we were able to recognize a gross profit to the extent that the revenue recognized based on the percentage of completion exceeded the actual costs incurred.

- Compared to that of the eight months ended August 31, 2009, our gross profit increased significantly in the eight months ended August 31, 2010 as we had an increased number of vessels under construction, including six VLOCs whose percentage of completion exceeded 20%, and the average percentage of completion was also higher after more shipyard facilities were commissioned.

- Our profit for the eight months ended August 31, 2010 was partly attributable to a government subsidy of RMB520.0 million we received, which contributed RMB426.7 million to our net profit attributable to our equity holders.

Our profit/loss attributable to our equity holders of our Company for the years ended December 31, 2007, 2008 and 2009 and eight months ended August 31, 2010 was a net loss of RMB439.6 million, a net loss of RMB527.2 million, a net profit of RMB1,302.2 million and a net profit of RMB1,118.8 million, respectively.

As a result of the significant development and expansion of our business during the Track Record Period and the expected further expansion and diversification of our business, our historical financial performance may not be indicative of our future performance. Please refer to the section headed “Risk Factors — Risks relating to our business” in this prospectus for more information on the risks associated with our future development.

OUR COMPETITIVE STRENGTHS

We believe we have the following key competitive strengths:

- A large PRC heavy industries group with a leading shipbuilding business, rapidly growing marine engine building business, developing offshore engineering business and a focus on oil and gas related customers and markets;

- Rapid growth in marine engine building and offshore engineering;

- Industry leadership supported by our strong ability to leverage multiple resources;

- An experienced and well-recognized management team with proven execution capabilities in building new businesses within a short period of time; and

- Advanced technology and information management systems with a focus on in-house research and development to sustain growth.

OUR STRATEGIES

Our objectives are to become a globally competitive and diversified heavy industries group by establishing a leading presence in our core business segments, and to increase profitability in order to maximize shareholder value. To accomplish this goal, we have adopted the following business strategies:

- Further develop our engine building, shipbuilding and offshore engineering businesses with a focus on oil and gas related customers and markets and energy-saving and emission-reducing technologies;
- Continue to leverage our market position and our relationships with banks, customers, suppliers and other business partners to support our growth and improve our competitiveness;
- Further strengthen our management, enhance efficiency, reduce costs and increase profitability and production capacity; and
- Develop new businesses through investments, mergers and acquisitions.

RISK FACTORS

Our operations and industry and the Global Offering involve certain risks, a summary of which is set forth in the section headed "Risk Factors" in this prospectus. These risks can be classified as follows:

Risks relating to our business

- We do not have a controlling equity interest in Rongsheng Shipbuilding and therefore can only rely on contractual arrangements to carry out our shipbuilding operations;
- The Structure Agreements and the Shipbuilding Agency Agreement may not be effective in providing us with control over Rongsheng Shipbuilding and these agreements may be difficult and costly to enforce under PRC law;
- We have a limited operating history and may face risks and difficulties in relation to expanding our business and it may be difficult for you to evaluate our future prospects;
- Our growth rate and the number of orders we have received in the past may not be indicative of our future growth rate or the number of orders we will receive in the future;
- We may not be able to compete successfully against our current competitors or new entrants to the industries in which we participate;
- If we are not able to meet our construction and delivery schedules, our business, financial condition and results of operations may be adversely affected;
- If our customers terminate or delay shipbuilding contracts, our revenue and profit may be adversely affected;
- Our order book may not be an accurate indicator of our future performance;
- Our business model is expected to change, our business is expected to become more diversified and our historical results of operations may not be indicative of our future performance;
- We may fail to acquire or integrate target businesses successfully into our existing operations;
- Failure to successfully execute our new business strategies or develop new business may materially and adversely affect our business, financial condition, results of operations and prospects;
- Fluctuation of the US dollar relative to the RMB may adversely affect our business, financial condition and results of operations;
- We are exposed to the risk of fluctuations in the prices of the raw materials, equipment and components that we use in our business;

- Our success depends on our key personnel;
- If we cannot renew our coastline use rights for our shipyard facilities in a timely manner, our business, financial condition and results of operations will be materially and adversely affected;
- We have not obtained title certificates for one of the properties we occupy;
- Failure or delays in obtaining required certification from classification societies may cause delays in our delivery schedules and disruptions in our business;
- We rely on the relationship among Rongsheng Heavy Industries, Rongsheng Investment and Rongsheng Shipbuilding, any deterioration of which may materially and adversely affect our performance and overall operation;
- Our Controlling Shareholders have the ability to exercise substantial control over us, which allows them to influence our business in ways which may not be in the interest of other Shareholders;
- If we cannot have qualified contract workers or outsource our work at acceptable costs, we may not be able to increase our production in a profitable manner and increases in labor costs may adversely affect our business, financial condition and results of operations;
- Our future expansion is limited by our production capacities and subject to risks beyond our control;
- We may require additional funds for the growth and development of our business and, if we are unable to obtain the required capital at acceptable costs, we may not be able to expand our business as planned;
- Our shipbuilding contracts are on a fixed-price basis, which may result in losses or lower profitability for us than anticipated in the event that we incur unforeseen or additional expenses;
- We rely on external design houses for our new product designs, especially for the basic designs and the detail designs for our shipbuilding and offshore engineering businesses;
- We depend on a limited number of major customers;
- We may incur repair costs for defects under our product warranties and face claims or contract price adjustments if our vessels fail to meet the standards stipulated in the relevant shipbuilding contracts;
- We face risks relating to the quality and timing of the work performed by our contract workers and outsourcing partners;
- Our indebtedness may adversely affect our results of operations and financial condition, and prevent us from fulfilling our financial obligations or business objectives;
- We may not be able to secure new contracts if our banks fail to issue the requisite refund guarantees;
- Our refund guarantee arrangements impose financial requirements that may restrict the use of our cash, fixed assets and land use rights;
- Our strategic cooperation agreements with various business partners may not yield the benefits we expect;
- Our insurance policies may not fully cover inherent risks associated with our shipbuilding, offshore engineering, marine engine building, engineering machinery businesses or our other production activities;
- If we experience power shortages, we may not be able to meet our contract schedules, and our business, financial condition and results of operations may be adversely affected as a result;
- Natural disasters, acts of war, political unrest, epidemics, terrorist attacks or other events which are beyond our control, may cause damage, loss or disruption to our business;
- The pricing arrangement under the Shipbuilding Agency Agreement, Services Agreement, and marine engine purchase agreements may be challenged by PRC tax authorities;

- Inaccurate application of percentage-of-completion accounting may have a significant impact on our period-to-period results of operations;
- Our shipbuilding and offshore engineering businesses are dependent on our information technology infrastructure and we rely on licensing from Wärtsilä and MAN Diesel & Turbo for our marine engine building business; and
- We may be involved in legal or other proceedings arising out of our operations from time to time and may face significant liabilities as a result.

Risks relating to our industry

- Worldwide demand and pricing for commercial ships are highly dependent on global economic conditions and cyclicality of the industries served by the shipping industry;
- We are highly dependent on the growth of the PRC and global trade activities for raw materials such as crude oil, coal and iron ore;
- Global financial markets have experienced significant volatility since 2008, and our business, financial condition and results of operations may be adversely affected by such volatility;
- Our costs may increase due to changes in regulations pertaining to the shipbuilding industry;
- We may incur additional costs or spend extra construction time due to our compliance with the international rules and standards applicable to the shipbuilding industry such as the CSR and PSPC;
- We face risks relating to our offshore engineering business;
- We face risks relating to our marine engine building business; and
- We face risks relating to our engineering machinery business.

Risks relating to PRC government regulations and policies

- Our business, financial condition and results of operations are highly susceptible to changes in the PRC's political, economic and social conditions as we conduct our operations primarily in the PRC;
- PRC restrictions on foreign ownership in the shipbuilding industry and marine engine building industry may adversely affect our business, expansion and growth;
- We may not be able to acquire the remaining equity interest in Rongsheng Shipbuilding;
- Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes in which we may be involved;
- It may be difficult to effect service of process upon us or our Directors who reside in the PRC or to enforce against us or them judgments obtained from non-PRC courts;
- We may fail to comply with PRC laws and regulations and the conditions stipulated in our licenses, permits or approvals;
- PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from the Global Offering to make loans or additional capital contributions to our PRC operating subsidiaries;
- Changes in the M&A Regulations by the PRC government may adversely affect our Reorganization or our proposed listing;
- We are subject to environmental laws and regulations which may increase our cost of doing business;
- PRC foreign exchange control may limit our ability to utilize our cash effectively and affect our ability to receive dividends and other payments from our PRC operating subsidiaries;

- PRC SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC operating subsidiaries or impair the ability of our PRC operating subsidiaries to pay dividends or other distributions to us;
- Changes in tax and other preferential policies may adversely affect our business, financial condition and results of operations;
- Withholding income tax on dividends received by our Company and Shareholders may be increased; and
- The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations.

Risks relating to the Global Offering

- There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile;
- We are a holding company and rely on dividend payments from our PRC operating subsidiaries for funding;
- We have significant discretion as to how we will use the net proceeds of the Global Offering and you may not necessarily agree with how we use them;
- Purchasers of our Offer Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future;
- Future sales of Shares could adversely affect our Company's Share price;
- We cannot assure you that there will be dividends available for distribution to our shareholders;
- You may face difficulties in protecting your interests due to less protection to minority shareholders under Cayman Islands law;
- Certain facts, forecasts and other statistics with respect to the PRC, the PRC economy and the shipbuilding industry in this prospectus are derived from various industry sources and official government information and may not be reliable; and
- You should not rely on any information contained in press articles or other media regarding us or the Global Offering.

REGULATORY MATTERS

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

In view of the abovementioned foreign ownership restrictions, Rongsheng Heavy Industries only owns a 49% equity interest in Rongsheng Shipbuilding and Rongsheng Investment owns the remaining 51% equity interest. Similarly, Rong An Power Machinery is owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Our Controlling Shareholder, Mr. Zhang ultimately controls Rongsheng Investment. Please refer to the section headed "History, Reorganization and Corporate Structure" in this prospectus for more details of our Group's shareholding structure.

Our PRC legal advisor has advised us that pursuant to the "Provisions on Mergers and Acquisitions of a Domestic Enterprise by Foreign Investors" promulgated by MOFCOM on September 8, 2006, the change in citizenship of a natural person who is a shareholder of a domestic enterprise does not affect the domestic enterprise's status as a domestic enterprise. Investors from Hong Kong, Macau and Taiwan are treated as non-PRC citizens in this regard. Rongsheng Investment was incorporated on February 12, 2004 as a PRC domestic enterprise. At that time, Mr. Zhang, who was then (as he is now) the controlling shareholder of Rongsheng Investment, was a PRC citizen. Mr. Zhang cancelled his PRC household registration and became a Hong Kong resident on October 4, 2004. Our PRC legal advisor is of the opinion that (i) Rongsheng Investment remains a PRC domestic enterprise regardless of Mr. Zhang's having cancelled his PRC household registration and becoming a Hong Kong resident; (ii) the ownership of Rongsheng Shipbuilding by Rongsheng Investment, which is ultimately controlled by Mr. Zhang, does not violate the requirements of the Foreign Investment Industries Catalogue; and (iii) similarly, as Rongsheng Shipbuilding, which is a PRC domestic company, owns a 51% equity interest in Rong An Machinery and foreign funded Rongye Mechanical only owns the remaining 49%, the shareholding structure of Rong An Power Machinery does not violate the related requirements of the Foreign Investment Industries Catalogue . According to a confirmation in relation to the identity of the de facto controlling shareholder of Rongsheng Shipbuilding dated September 2, 2010, issued by the Rugao Municipal Bureau of Commerce (the "**Bureau**"), the Bureau was informed that the de facto controlling shareholder of Rongsheng Shipbuilding, Mr. Zhang, became a Hong Kong resident in October 2004. The Bureau also confirmed in the same confirmation letter that the incorporation and standing of Rongsheng Shipbuilding in relation to non-foreign ownership complies with the applicable laws, rules and regulations and the foreign investment industry policies of the PRC.

Our PRC legal advisor has advised us that the 51% shareholding held by Rongsheng Investment in Rongsheng Shipbuilding may not be transferred to or held by another subsidiary of our Company.

Contractual Arrangements

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) a shareholders' agreement through Rongsheng Heavy Industries with Rongsheng Investment dated January 8, 2009 but effective as of May 21, 2008 (the "**Shareholders' Agreement**"), and a supplemental agreement in relation thereto through Rongsheng Heavy Industries with Rongsheng Investment dated October 18, 2010 but effective as of May 21, 2008 (the "**Supplemental Shareholders' Agreement**", together with the Shareholders' Agreement, the "**Shareholders' Agreements**"); and

(b) an exclusive consulting and services agreement through Rongsheng Heavy Industries with Rongsheng Shipbuilding and Rongsheng Investment dated October 20, 2010 (the "**Services Agreement**" and, together with the Shareholders' Agreements, the "**Structure Agreements**").

In order to carry out all necessary engineering processes arising from the construction of vessels at Rongsheng Shipbuilding's drydocks in compliance with PRC law, we have entered into a shipbuilding agency agreement through Rongsheng Heavy Industries with Rongsheng Shipbuilding dated January 1, 2008 (the "**Shipbuilding Agency Agreement**"). Please refer to the section headed "Risk Factors — Risks relating to our business" in this prospectus for risks in connection with our contractual arrangements.

Prior to the transfer of equity interests from Hinco International to Rongsheng Heavy Industries (the "**Share Transfer**") and the Shareholders' Agreement taking effect, our Group owned a 49% interest in Rongsheng Shipbuilding through Hinco International. We were able to govern and control the financial and operating policies of Rongsheng Shipbuilding pursuant to the following undertakings, each dated September 7, 2007:

(a) an undertaking signed by Zhang De Huang and Gao Qiang (in their capacity as directors of Rongsheng Shipbuilding appointed by Rongsheng Investment) pursuant to which they undertook to exercise their rights as Rongsheng Shipbuilding's directors according to the instructions of Rongsheng Investment and Mr. Zhang;

(b) an undertaking signed by Zhang De Huang and Gao Qiang (in their capacity as directors of Rongsheng Investment) pursuant to which they undertook to exercise their rights as Rongsheng Investment's directors according to the instructions of Mr. Zhang;

(c) an undertaking signed by Zhang De Huang (in his capacity as the legal representative of Rongsheng Investment) and Mr. Zhang pursuant to which Rongsheng Investment agreed that Mr. Zhang has the absolute right to remove and appoint the representatives to sit in the board of directors of Rongsheng Shipbuilding; and

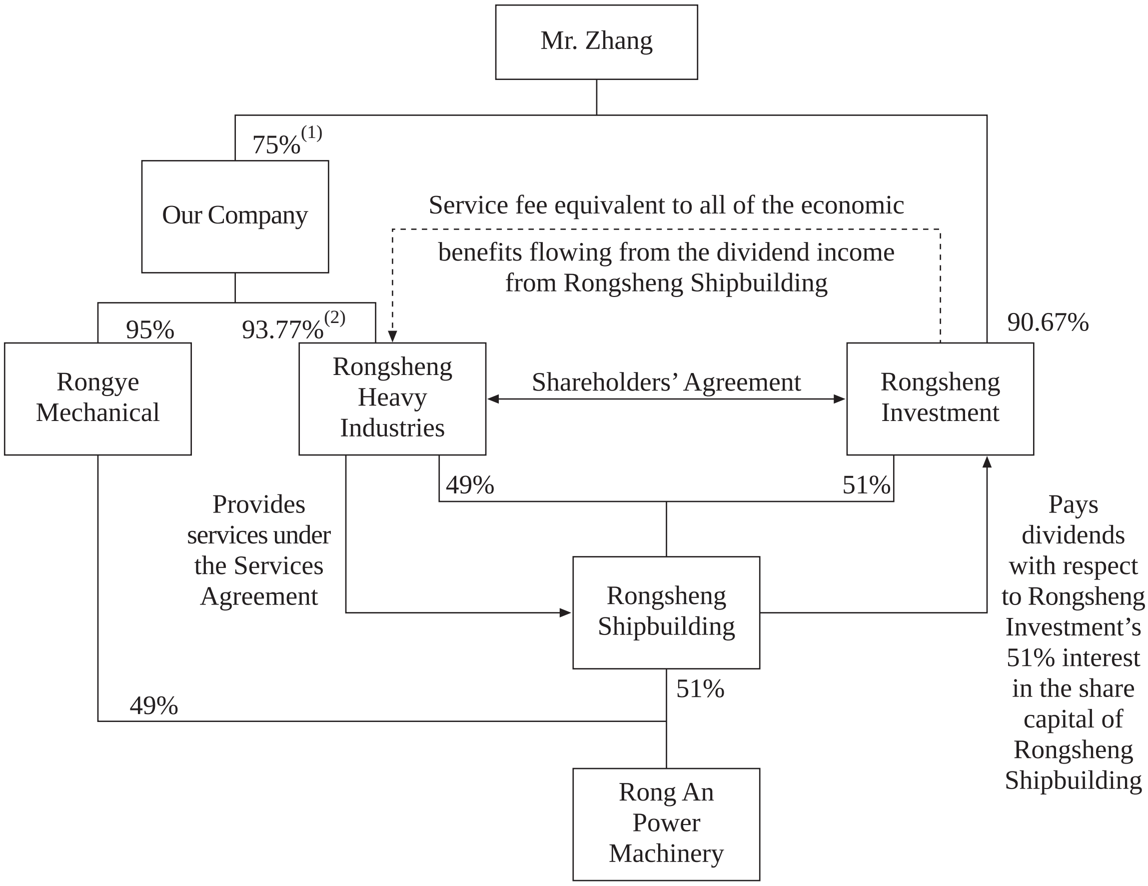
(d) an undertaking signed by Mr. Zhang who agreed that the directors appointed by Rongsheng Investment will vote the same way as those of Hinco International.

Accordingly, before the Share Transfer, we were able to consolidate the results of Rongsheng Shipbuilding as a 49% owned subsidiary of Hinco International.

After the Share Transfer, our Group was still able to consolidate the results of Rongsheng Shipbuilding as a 49% owned subsidiary of Rongsheng Heavy Industries as the Shareholders' Agreement entitles our Group to govern and control the financial and operating policies of Rongsheng Shipbuilding.

Commencing on the effective date of the Services Agreement (which is the Listing Date), Rongsheng Heavy Industries will enjoy 100% of the economic benefit of Rongsheng Shipbuilding and our Group will receive approximately 93.8% of the economic benefit from Rongsheng Shipbuilding (as we own Rongsheng Heavy Industries Holdings as to 98.5%, which in turn owns Rongsheng Heavy Industries as to 95.2%).

A brief diagram illustrating the Structure Agreements is set out below:



Notes:

(1) Mr. Zhang's effective interest over our Company is calculated without taking into account completion of the Global Offering and the exchange of the Exchangeable Notes and assuming that the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme are not exercised.

(2) Effective economic interest, based on our Company's 98.5% interest in Rongsheng Heavy Industries Holdings, which in turn indirectly holds a 95.2% interest in Rongsheng Heavy Industries.

The details of the Structure Agreements are outlined below.

The Shareholders' Agreements

The Shareholders' Agreement was entered into between Rongsheng Heavy Industries and Rongsheng Investment on January 8, 2009 but effective as of May 21, 2008, and was supplemented by the Supplemental Shareholders' Agreement entered into by the same parties dated October 18, 2010 but effective as of May 21, 2008. Pursuant to the terms of the Shareholders' Agreements, the parties have agreed:

- that Rongsheng Investment will not transfer any of its interest in Rongsheng Shipbuilding to any third party without our prior consent;
- that Rongsheng Heavy Industries shall have the right to nominate the general manager and chief financial officer of Rongsheng Shipbuilding;
- that all principal decisions with respect to Rongsheng Shipbuilding — for example, with respect to changes in registered capital, investments and the granting of any mortgages or charges over the assets of Rongsheng Shipbuilding — will only be made upon unanimous shareholders' approval;
- that Rongsheng Investment will vote in accordance with the vote of Rongsheng Heavy Industries at any shareholders' meetings of Rongsheng Shipbuilding;
- that upon the occurrence of any change to PRC regulation or policy that allows majority foreign-ownership of companies engaged in the shipbuilding industry in China, Rongsheng Investment shall transfer its interest in Rongsheng Shipbuilding to us at a price determined based on an independent valuation to be determined by an accredited international appraiser; and
- that (i) Rongsheng Investment shall procure that the directors of Rongsheng Shipbuilding appointed by it will resolve in favor of dividend distribution proposals recommended by the directors of Rongsheng Shipbuilding appointed by Rongsheng Heavy Industries; (ii) Rongsheng Shipbuilding's board of directors shall implement its dividend distribution policy accordingly; and (iii) Rongsheng Investment shall vote in the same way as Rongsheng Heavy Industries in accordance with the proposal of Rongsheng Heavy Industries with respect to the distribution of dividends.

The Services Agreement

The Services Agreement was entered into on October 20, 2010 among Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment. The Services Agreement is effective on the date of Listing and may only be terminated with the approval of our independent non-executive Directors. The key provisions of the Services Agreement are as follows:

- Rongsheng Heavy Industries agrees to provide shipbuilding technology guidance, support and improvements, engineering supervision, acceptance testing and other support work and related consulting and services to Rongsheng Shipbuilding (the "**Services**");
- Rongsheng Investment agrees 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 are due and payable on the same date when Rongsheng Shipbuilding pays any dividend to its shareholders);

- 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; and

- In case of the breach of the Services Agreement by Rongsheng Investment in relation to its obligation to pay thereunder, Rongsheng Heavy Industries has the right to appoint any then Director of our Company to commence arbitration proceedings pursuant to the arbitration clause thereunder to claim for the payment of the services fee and related interests and all other damages. In addition, with a view to protect its interests, Rongsheng Heavy Industries has the right to take all available legal measures including applying to competent courts for interim injunctive reliefs before an award is made by an arbitral tribunal.

The Services Agreement is for a period of twenty years, which shall be automatically renewed for subsequent periods of ten years upon request of Rongsheng Heavy Industries. The term of the Services Agreement is to mirror that of the Shipbuilding Agency Agreement. The Services Agreement does not provide for early termination and termination is subject to approval by the independent non-executive Directors. Although Rongsheng Shipbuilding is the direct recipient/beneficiary of the services provided under the Services Agreement, Rongsheng Investment is an indirect beneficiary of the services in light of its holding of the 51% equity interest in Rongsheng Shipbuilding. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that under PRC law, it is not necessary that fees or consideration be paid for services or that, if paid, they be paid by the direct recipient/beneficiary of those services. It is therefore open for parties to agree upon commercial arrangements such as those contemplated by the Services Agreement.

Neither Rongsheng Investment nor Mr. Zhang will obtain or receive any financial or economic benefit from their interest in Rongsheng Shipbuilding under the arrangements contemplated by the Structure Agreements (other than, in the case of Mr. Zhang, through his indirect controlling interest in our Company) despite holding direct and indirect equity interests in Rongsheng Shipbuilding, respectively. As described above, the Structure Agreements ensure that:

- we are able to exercise effective control over Rongsheng Shipbuilding;

- we are able to receive 93.8% of the economic benefits from Rongsheng Shipbuilding;

- we are able to consolidate the accounts of Rongsheng Shipbuilding into the accounts of our Group as if it were a wholly-owned subsidiary of Rongsheng Heavy Industries;

- we have a contractual right to acquire the equity interest in Rongsheng Shipbuilding not currently owned by our Group upon a change of relevant PRC laws; and

- Mr. Zhang does not take advantage of his position as controlling shareholder of our Company.

Our PRC legal advisor has advised us that: (i) the Structure Agreements are valid, binding and enforceable; (ii) the Structure Agreements do not contravene existing PRC laws or regulations; (iii) the Structure Agreements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; (iv) the Structure Agreements are in full compliance with the provisions of the articles of association of Rongsheng Investment, Rongsheng Heavy Industries and Rongsheng Shipbuilding; (v) Rongsheng Heavy Industries, Rongsheng Investment and Rongsheng Shipbuilding are not required to obtain any approval from the PRC authorities in relation to the signing and implementation of the Structure Agreements; and (vi) Mr. Zhang's investment in Rongsheng Shipbuilding through Rongsheng Investment and Rongsheng Heavy Industries and the business operation of Rongsheng Investment since its establishment have complied with all relevant PRC laws and regulations in relation to shipbuilding business.

Pursuant to the Shareholders' Agreement, Rongsheng Heavy Industries has the power to govern the financial and operating policies of Rongsheng Shipbuilding so as to obtain benefits from its activities. Pursuant to the Services Agreement, Rongsheng Investment has agreed to pay Rongsheng Heavy Industries a service fee (in consideration for the services stipulated in the Services Agreement) equivalent to the dividend income received as a result of its 51% equity interest in Rongsheng Shipbuilding.

As Rongsheng Investment will pay all of the dividend income received from Rongsheng Shipbuilding to Rongsheng Heavy Industries, Rongsheng Heavy Industries would enjoy 100% of the economic benefit from Rongsheng Shipbuilding. Since Rongsheng Heavy Industries is a 95.2% subsidiary of Rongsheng Heavy Industries Holdings, which is owned by the Company as to 98.5%, our Group will receive approximately 93.8% of the economic benefit from Rongsheng Shipbuilding when the Services Agreement becomes effective on the Listing Date (prior to which our Group only consolidated approximately 45.9% financial results of Rongsheng Shipbuilding). Entering into the Structure Agreements does not affect the business operation of our Group, which will continue to be conducted in the same manner as it was during the Track Record Period.

Based upon and relying on the professional advice given by the Joint Sponsors' PRC legal advisor, Jun He Law Offices, and with the support of the legal opinions from Jun He Law Offices and the Company's PRC legal advisor, Commerce & Finance Law Offices, the Joint Sponsors are of the view that the Structure Agreements are: (i) valid, binding and enforceable; (ii) do not contravene existing PRC laws and regulations; (iii) narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; and (iv) in full compliance with the provisions of the articles of association of Rongsheng Investment, Rongsheng Heavy Industries and Rongsheng Shipbuilding.

We and our Directors, including the independent non-executive Directors, are of the view that (i) the Structure Agreements are fundamental to our Company's legal and operating structure and (ii) the Services Agreement was entered into in our ordinary and usual course of business, on normal commercial terms (or better to our Company) and is fair and reasonable and in the interests of our Shareholders as a whole. We and our Directors, including the independent non-executive Directors, also believe that the nature of the arrangement whereby the financial results of Rongsheng Shipbuilding are consolidated into our Company's consolidated financial results as if it was a wholly-owned subsidiary of Rongsheng Heavy Industries and the financial and economic benefits of its business flow to our Group, places the Services Agreement in a special position in relation to the connected transaction rules under the Listing Rules. The Hong Kong Stock Exchange has agreed to grant a conditional waiver from strict compliance with the announcement and shareholders' approval requirements, the annual cap requirement, and the requirement that the term of the agreements be of a duration not exceeding three years under Chapter 14A of the Listing Rules. In addition to the current Structure Agreements, there may be other agreements entered into between our Group and Rongsheng Shipbuilding and its subsidiaries. Given that the financial results of Rongsheng Shipbuilding are consolidated into our Group's financial results as if it were a wholly-owned subsidiary of Rongsheng Heavy Industries, and given the relationship between our Group and Rongsheng Shipbuilding created by the Structure Agreements, transactions between our Group and Rongsheng Shipbuilding and its subsidiaries will be exempted from the "continuing connected transactions" provisions set out in Chapter 14A of the Listing Rules.

The waiver from the Stock Exchange is based on our Company and other relevant parties undertaking to comply with the following conditions:

a) There will be no change to the terms of the Structure Agreements without our independent Shareholders and independent non-executive Directors' approval;

b) We will disclose details relating to the Services Agreement on an ongoing basis as follows:

   a. The Services Agreement will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules;

b. Our independent non-executive Directors will review the Services Agreement annually and confirm in our annual report and accounts for the relevant year that:

   i. the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Services Agreement and have been operated so that any profits generated by Rongsheng Shipbuilding have been retained by the Group;

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

   iii. Rongsheng Heavy Industries has obtained its entitlement under the Services Agreement.

c) Our auditors will carry out review procedures annually on the transactions carried out pursuant to the Services Agreement and will provide a letter to the board of directors, with a copy to the Listing Division of the Hong Kong Stock Exchange, at least ten business days before we bulk print our annual report, confirming that the transactions have received the approval of the board of directors, have been entered into in accordance with the Services Agreement and that all dividends and other distributions have been paid solely to our Group;

d) Rongsheng Investment will undertake that, for so long as our Company's Shares are listed on the Hong Kong Stock Exchange, it will provide our Group and its auditors with access to relevant accounting records for the purpose of our Group's auditors' review of all relevant transactions; and

e) Mr. Zhang will undertake to procure that, for so long as he remains controlling shareholder of our Company, he will provide us and our auditors with access to relevant accounting records of Rongsheng Investment (if so required) for the purpose of our Group's auditors' review of all relevant transactions and will procure Rongsheng Investment's compliance with its obligations set out in the Structure Agreements.

For the purposes of Chapter 14A of the Listing Rules, the directors, chief executive or substantial shareholders (other than Rongsheng Heavy Industries) of Rongsheng Shipbuilding and their respective associates will continue to be treated as connected persons and transactions between these connected persons and our Group shall comply with Chapter 14A of the Listing Rules.

We consider that the main purposes of the Structure Agreements are to allow our Group to exercise effective control over Rongsheng Shipbuilding and to receive substantially all the economic benefits from Rongsheng Shipbuilding, as a result of which potential conflicts of interest between the Controlling Shareholders and the public shareholders of our Company arising from the shareholding structure of Rongsheng Shipbuilding can be minimized. Our PRC legal advisor, Commerce & Finance Law Offices and the Joint Sponsors' PRC legal advisor have advised that the Structure Agreements are valid, binding and enforceable and do not contravene existing PRC laws and regulations. On the basis of the foregoing and the Directors' view in relation to the Structure Agreements set out above, the Joint Sponsors are of the view that the Structure Agreements are fundamental to our Group in relation to (i) minimizing potential conflicts of interest between the Controlling Shareholders and other public shareholders of the Company arising from the shareholding structure of Rongsheng Shipbuilding and (ii) the continuing operation of our shipbuilding business through Rongsheng Shipbuilding while enabling our Group to receive substantially all of the economic benefits of Rongsheng Shipbuilding.

Our legal advisor, Commerce & Finance Law Offices, advised that according to the relevant PRC laws and regulations, (i) if Rongsheng Heavy Industries commences arbitration proceedings against Rongsheng Investment in case of breach by Rongsheng Investment of the Services Agreement, and (ii) if Rongsheng Heavy Industries believes that the conduct of Rongsheng Investment may result in a future arbitral award becoming unable to be carried out or difficult to be carried out, then it has the right to apply to equal competent court to preserve the assets of Rongsheng Investment. The court, at its sole discretion, may then preserve the assets of Rongsheng Investment by sealing up, the assets. In such case the courts may request Rongsheng Heavy Industries to provide assets of a value as guarantee.

Shipbuilding Agency Agreement

Rongsheng Heavy Industries was established on June 8, 2006 as a wholly foreign-owned enterprise, and its controlling shareholder, Mr. Zhang, had already become a Hong Kong resident by that time. In view of the restrictions over foreign ownership in a ship repair, design and manufacture company in the PRC, Rongsheng Heavy Industries has engaged Rongsheng Shipbuilding to complete the production process carried out in the drydocks by entering into a twenty-year Shipbuilding Agency Agreement effective from January 1, 2008. This agreement is subject to extension upon mutual agreement between the parties. In practice, Rongsheng Heavy Industries contracts directly with customers and commissions Rongsheng Shipbuilding to carry out all necessary engineering processes arising from the construction and pre-construction of vessels at its drydocks pursuant to the Shipbuilding Agency Agreement, whilst Rongsheng Heavy Industries, Rongsheng Painting, Rongye Mechanical and Rongye Storage undertake other work for the construction of such vessels. Undertaking such other work does not fall within the restricted business of shipbuilding.

Our PRC legal advisor is of the view that Rongsheng Heavy Industries' shareholding structure and scope of business are in compliance with the relevant PRC laws and regulations.

Future Expansion

According to the "Plan on Adjusting and Revitalizing the Shipbuilding Industry" and the "Notice of Several Opinions on Curbing Overcapacities and Redundant Constructions in Certain Industries and Guiding the Healthy Development of Industries" promulgated on June 9, 2009 and September 26, 2009, respectively, (the "**Notice**"), during the three years starting from the date of the Notice, the relevant government departments will no longer accept applications for new drydock or slipway construction projects, will suspend the examination and approval of projects expanding existing shipyards or berths of ship-building enterprises, and will guide shipbuilding enterprises to utilize their existing shipbuilding facilities to manufacture offshore and marine equipment.

On March 11, 2008, the NDRC approved the reconstruction of our four drydocks with dimensions of 102m x 464m, 102m x 530m, 106m x 530m and 139.5m x 380m, respectively. On June 11, 2010, the Development and Reform Commission of Rugao City, Jiangsu Province put on record the reconfiguration of our fourth drydock revising its dimensions to 139.5m x 580m upon the completion of the reconstruction. On June 29, 2010, the Jiangsu Economic and Information Technology Commission issued a letter, which confirmed that the change in the dimension of our fourth drydock from 139.5m x 380m to 139.5m x 580m is in compliance with PRC industry policies. Our PRC legal advisor, Commerce & Finance Law Offices, is of the view that we have obtained all of the necessary approvals from the relevant PRC governmental authorities for the reconstruction and technical reconfiguration of our four drydocks. Given that we have no intention to construct additional drydocks or further expand our existing drydocks beyond what has already been approved, we and our PRC legal advisor are of the view that the Notice has no impact on our businesses or operational activities.

Based on discussions with Commerce & Finance Law Offices and due diligence conducted, the Joint Sponsors are of the view that the Notice is not expected to have an impact on the Group's ability to perform or complete its existing contracts with its customers, nor is it expected to have an impact on the Group's ability to take up or enter into any additional new orders after the Listing, as such orders are being fulfilled utilizing the Group's existing production capabilities. With regard to the expansion plan in the Group's shipbuilding and offshore engineering segments disclosed in the prospectus, such plan had already been approved by the relevant authorities before the issuance of the Notice, therefore the Joint Sponsors are of the view that the Notice will not have any impact on the implementation of such expansion plan, as disclosed in the prospectus.

Please refer to "Appendix V — Summary of the Relevant PRC Laws and Regulations" to this prospectus for a description of the PRC laws and regulations applicable to our Group.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Our financial information included in this prospectus has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The following tables set forth our selected combined financial information, which should be read in conjunction with the Accountant's Report set out in Appendix I to this prospectus. The selected combined statements of comprehensive income for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2009 and 2010, the information of the revenue by segment and product type for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2009 and 2010, the selected combined balance sheets information as of December 31, 2007, 2008 and 2009 and August 31, 2010 set forth below are derived from the Accountant's Report set out in Appendix I to this prospectus.

Combined Statements of Comprehensive Income

	Year ended December 31,			Eight months ended August 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	661,665	4,724,911	9,473,206	4,816,272	8,170,383
Cost of sales	(693,543)	(4,815,557)	(7,624,915)	(3,851,103)	(6,334,972)
Gross (loss)/profit	**(31,878)**	**(90,646)**	**1,848,291**	**965,169**	**1,835,411**
Selling and marketing expenses	(1,030)	(3,404)	(4,605)	(2,060)	(36,468)
General and administrative expenses	(363,058)	(393,345)	(561,253)	(311,643)	(489,878)
Other operating expenses	(10,879)	(30,906)	—	—	(272)
Other income	—	46,598	123,317	65,264	127,868
Other (losses)/gains	(35,094)	(19,326)	(37,981)	(39,061)	3,642
Operating (loss)/profit	**(441,939)**	**(491,029)**	**1,367,769**	**677,669**	**1,440,303**
Finance income	3,216	22,862	33,385	19,988	78,678
Finance costs	—	(72,142)	(94,604)	(66,687)	(170,405)
Finance income/(costs) - net	3,216	(49,280)	(61,219)	(46,699)	(91,727)
(Loss)/profit before income tax	**(438,723)**	**(540,309)**	**1,306,550**	**630,970**	**1,348,576**
Income tax (expense)/credit	(842)	24	(1,889)	(1,237)	(201,474)
(Loss)/profit for the year/period	**(439,565)**	**(540,285)**	**1,304,661**	**629,733**	**1,147,102**
Other comprehensive income for the year/period	**—**	**—**	**—**	**—**	**—**
Total comprehensive (loss)/income for the year/period	**(439,565)**	**(540,285)**	**1,304,661**	**629,733**	**1,147,102**
Attributable to:					
Equity holders of the Company	(439,565)	(527,173)	1,302,183	652,721	1,118,763
Non-controlling interests	—	(13,112)	2,478	(22,988)	28,339
	(439,565)	(540,285)	1,304,661	629,733	1,147,102

Government Subsidy

On August 17, 2010, the Rugao Harbor Management Committee (如皋港區管理委員會) of the Rugao Municipal Government granted Rongsheng Heavy Industries, one of our subsidiaries, a subsidy of RMB830.0 million, of which RMB520.0 million was received and credited to Rongsheng Heavy Industries' account in August 2010. The amount of RMB520.0 million was granted to subsidize Rongsheng Heavy Industries for its expenditures in research and construction of high value-added vessels and offshore engineering equipment. The remaining amount of RMB310.0 million is to be granted to Rongsheng Heavy Industries based on the actual costs it incurs by the end of 2010. The subsidy was based on a number of factors including our position as an industry leader, the essential role we play in the local economy, the multiple lines of vessels we build, our offshore engineering capability, our substantial investment in high-technology research, vessel designs and production processes, training of technicians, introduction of new technology and managers and our achievements in obtaining new patents and projects. No condition was imposed upon us in relation to the grant of this subsidy.

We accounted for this subsidy in accordance with International Accounting Standards No. 20 ("**IAS 20**"). Pursuant to paragraph 7 of IAS20, we used the subsidy to offset expenses in our profit and loss for the eight months ended August 31, 2010, including cost of sales of RMB317.6 million, selling and marketing expenses of RMB2.6 million, general and administrative expenses of RMB117.6 million and finance costs of RMB82.2 million. The cost of sales offset comprised our production costs. The amounts allocated to offset the employee benefit expenses, outsourcing and processing costs and office expenses and utilities expenses were RMB125.3 million, RMB173.8 million and RMB88.1 million, respectively. Our offset was in line with the purposes for this subsidy and we believe it is appropriate to recognize the subsidy in this manner.

Our cost of sales and other operating expenses would have been higher than the amounts recorded in our financial statements for the eight months ended August 31, 2010, if we had not received such subsidy. We cannot assure you that we will be able to receive similar government subsidies in the future. If we do not receive subsidies similar to the one we received in August 2010, our net profit and net profit margin may be adversely affected.

Revenue by Segment and Product Type

The following table sets forth, after elimination of inter-segment results, the sales from our principal products and their respective percentages by product type during the indicated period:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Revenue	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**
Shipbuilding										
Bulk carriers	543,377	82.1%	952,269	20.1%	2,371,612	25.0%	325,426	6.8%	3,138,379	38.4%
VLOCs[(1)]	—	—	—	—	—	—	—	—	2,382,412	29.2%
Crude oil tankers[(2)]	118,288	17.9%	3,745,824	79.3%	6,812,272	71.9%	4,307,437	89.4%	2,113,432	25.9%
VLCCs	—	—	—	—	—	—	—	—	—	—
Containerships[(3)]	—	—	—	—	—	—	—	—	77,938	1.0%
Subtotal	**661,665**	**100.0%**	**4,698,093**	**99.4%**	**9,183,884**	**96.9%**	**4,632,863**	**96.2%**	**7,712,161**	**94.5%**
Offshore engineering (DPV)	**—**	**—**	**26,818**	**0.6%**	**289,322**	**3.1%**	**183,409**	**3.8%**	**330,682**	**4.0%**
Marine engine building	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,179**	**0.0%**
Engineering machinery										
Excavator	—	—	—	—	—	—	—	—	118,376	1.5%
Crane	—	—	—	—	—	—	—	—	940	0%
Others	—	—	—	—	—	—	—	—	2,045	0%
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**121,361**	**1.5%**
TOTAL	**661,665**	**100.0%**	**4,724,911**	**100.0%**	**9,473,206**	**100.0%**	**4,816,272**	**100.0%**	**8,170,383**	**100.0%**

Notes:

(1) We commenced construction of three VLOCs in late 2009 but none reached 20% completion within that year. We recognized no revenue in respect of these vessels because the cost incurred in that year was very minimal.

(2) We commenced construction of six crude oil tankers in 2007 but none reached 20% completion within that year. We recognized revenue, however, to the extent of the actual costs we incurred in respect of these vessels.

(3) The revenue was recognized in connection with the preparatory work we performed prior to steel cutting, on the basis that certain costs were specifically incurred in connection with the orders of the four containerships. The costs included primarily customs duties, design fees and first installment payments of agent commissions.

Combined Balance Sheets

	As of December 31,			As of August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Land use rights	75,082	73,518	71,954	643,824
Property, plant and equipment	2,876,621	5,688,272	7,163,511	10,901,558
Intangible assets	31,812	28,930	34,622	110,578
Long-term deposit	—	—	55,594	68,663
Deferred tax assets	—	—	—	12,931
TOTAL	**2,983,515**	**5,790,720**	**7,325,681**	**11,737,554**
Current assets				
Non-current assets held for sale	—	—	220,000	—
Inventories	329,200	912,559	999,479	1,533,900
Amounts due from customers for contract works	53,578	1,641,095	4,645,737	4,274,106
Trade and bills receivables	—	1,794	268,143	382,962
Other receivables, prepayments and deposits	3,567,712	5,673,449	3,781,779	7,717,917
Pledged deposits	24,476	1,607,400	1,866,789	4,785,642
Cash and cash equivalents	297,567	2,086,712	2,862,810	3,444,992
TOTAL	**4,272,533**	**11,923,009**	**14,644,737**	**22,139,519**
Total assets	**7,256,048**	**17,713,729**	**21,970,418**	**33,877,073**
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Share Capital	—	—	—	95
Other reserves	559,201	559,201	683,189	2,910,088
(Accumulated losses)/retained earnings	(501,652)	(1,028,825)	149,370	1,181,539
	57,549	(469,624)	832,559	4,091,722
Non-controlling interests	**562,410**	**410,795**	**413,273**	**725,021**
Total equity/(deficit)	**619,959**	**(58,829)**	**1,245,832**	**4,816,743**

	As of December 31,			As of August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Preferred shares	1,856,201	—	—	—
Borrowings	—	—	5,000	9,901,966
Finance lease liability - non-current	—	—	308,291	256,414
Deferred tax liabilities	—	—	—	6,652
TOTAL	**1,856,201**	**—**	**313,291**	**10,165,032**
Current liabilities				
Amounts due to customers for contract works	1,710,034	8,857,570	8,084,311	6,057,021
Advances received from customers for contract works	95,100	—	505,287	184,590
Trade and other payables	2,937,498	5,087,212	4,816,624	3,002,771
Provision for foreseeable losses	17,259	66,089	—	—
Current income tax liabilities	842	2	1,889	145,167
Borrowings	—	1,395,610	3,976,033	9,043,255
Preferred shares	—	2,240,344	2,702,600	—
Derivative financial instruments	3,640	—	383	—
Provision for warranty	15,515	125,731	132,640	196,969
Finance lease liability - current	—	—	191,528	265,525
TOTAL	**4,779,888**	**17,772,558**	**20,411,295**	**18,895,298**
Total liabilities	**6,636,089**	**17,772,558**	**20,724,586**	**29,060,330**
Total equity and liabilities	**7,256,048**	**17,713,729**	**21,970,418**	**33,877,073**
Net current (liabilities)/assets	**(507,355)**	**(5,849,549)**	**(5,766,558)**	**3,244,221**
Total assets less current liabilities	**2,476,160**	**(58,829)**	**1,559,123**	**14,981,775**

PROFIT FORECAST

We forecast that, on the bases and assumptions set out in "Appendix III — Profit Forecast" to this prospectus, the consolidated profit attributable to Shareholders for the year ending December 31, 2010 is unlikely to be less than RMB1,610.5 million (approximately HK$1,872.7 million).

On a fully diluted basis and on the assumption that we have been listed since January 1, 2010 and that a total of 7,068,493,114 Shares (comprising 7,000,000,000 Shares to be in issue immediately after the Global Offering and 68,493,114 Shares to be issued upon the exercise of all of the options granted under the Pre-IPO Share Option Scheme based on an Offer Price of HK$7.30) and 7,049,504,918 Shares (comprising 7,000,000,000 Shares to be in issue immediately after the Global Offering and 49,504,918 Shares to be issued upon the exercise of all of the options granted under the Pre-IPO Share Option Scheme based on an Offer Price of HK$10.10) were issued for the whole year ending December 31, 2010, our forecast earnings per share for the year ending December 31, 2010 is approximately RMB0.228 (equivalent to approximately HK$0.265) and RMB0.228 (equivalent to approximately HK$0.266) respectively. This calculation has been prepared on the basis that we will not receive any proceeds from the exercise of any options under the Pre-IPO Share Option Scheme and without taking into account the impact of the fair value of the Shares on computation of the number of potentially dilutive Shares.

GLOBAL OFFERING STATISTICS (1)

	Based on an Offer Price of HK$7.30	**Based on an Offer Price of HK$10.10**
Market capitalization of the Shares(2)	HK$51.10 billion	HK$70.70 billion
Prospective price/earnings multiple on a pro forma fully diluted basis(3)	27.6 times	38.0 times
Unaudited pro forma net tangible assets value per Share(4)	HK$2.05	HK$2.59

Notes:

(1) All statistics in this table are presented on the assumption that the Reorganization, the Capitalization Issue, the exchange of the Exchangeable Notes and Global Offering are completed and the Over-allocation Option is not exercised.

(2) The calculation of market capitalization is based on 7,000,000,000 Shares expected to be in issue following completion of the Reorganization, the Capitalization Issue, the exchange of the Exchangeable Notes and the Global Offering, assuming no Shares are issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme or the options which may be granted under the Share Option Scheme.

(3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma diluted basis at the assumed Offer Price of HK$7.30 and HK$10.10 per Share respectively.

(4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in "Unaudited Pro Forma Financial Information" included in Appendix II and on the basis of a total of 7,000,000,000 Shares expected to be in issue following the completion of the Global Offering. This calculation assumes respective Offer Prices of HK$7.30 and HK$10.10 and that no Shares are issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme.

SELLING SHAREHOLDER

The Selling Shareholder is offering 350,000,000 Shares, representing 5% of the total issued share capital of the Company immediately following the completion of the Global Offering, the Capitalization Issue and exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the proposed Offer Price range without taking into account the exercise of the Over-allocation Option, the exercise of any options granted pursuant to the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme), for sale under the International Offering. The shareholding of the Selling Shareholder immediately prior to and following the completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the proposed Offer Price range and the Over-allocation Option is not exercised, and excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme) are set out in the table below:

Name of Selling Shareholder	Number of Shares held by Selling Shareholder prior to the Global Offering and the exchange of the Exchangeable Notes, and assuming the Capitalization Issue has been completed	Number of Shares to be sold by Selling Shareholder[1]	Number of Shares (approximate percentage of total issued share capital of the Company) to be held by the Selling Shareholder immediately following the completion of the Global Offering, the Capitalization Issue, the exchange of the Exchangeable Notes (before the exercise of the Over-allocation Option)
Fine Profit	4,091,276,000	350,000,000	3,644,969,180 (52.1%)

Notes:

(1) Subject to increase in the event the Over-allocation Option is exercised.

DIVIDEND POLICY

We currently do not have a formal dividend policy. The declaration and payment of future dividends will depend upon our operating results, financial condition, other cash requirements including capital expenditures, the terms of borrowing arrangements (if any) and other factors deemed relevant by our Directors. Final dividends paid by us must be approved by an ordinary resolution of our Shareholders at a general meeting and must not exceed the amount recommended by our Directors. Our Directors may, without the approval of our Shareholders, also declare an interim dividend. We must pay all dividends out of profits. We did not declare or pay any dividends during the Track Record Period. There can be no assurance that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in the PRC. PRC Law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from IFRS. Under the Company Law of the PRC and other relevant laws, all foreign-invested enterprises are required to transfer at least 10% of their net profit (after offsetting any prior years' losses) to a statutory reserve until the reserve balance reaches 50% of their registered capital. The transfer to such a reserve must be made prior to distribution of dividends to the equity holders of an enterprise. Distributions from our PRC operating subsidiaries may also be restricted if they incur losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our PRC operating subsidiaries may enter into in the future.

USE OF PROCEEDS

The aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK$8.70 per Share, being the mid-point of the indicative range of the Offer Price of HK$7.30 to HK$10.10 per Share) will be approximately HK$11,595.3 million. The Directors intend to apply the net proceeds from the Global Offering as follows:

(i) Shipbuilding and Offshore Engineering segment - approximately 12.5% for the continuing construction of our fourth drydock, the outfitting quays, the material wharves and some work-shops, utilities stations, a mobile goliath gantry crane with a designed lifting capacity of 900 tonnes and other facilities in order to facilitate the development of our offshore engineering segment; and approximately 12.5% for further capital expenditure to increase productivity in our shipbuilding segment;

(ii) Marine engine building segment - approximately 20% for the continuing construction of our low-speed marine engine plant;

(iii) Engineering machinery segment - approximately 10% for the construction of a new manufacturing plant in the western part of Hefei for the manufacture of excavators in addition to the existing production facilities of our Group, which is expected to increase our Group's annual production capacity to 30,000 excavator units;

(iv) approximately 10% for potential investments and acquisitions in related businesses, including the acquisition of non-controlling interests in the Group's non-wholly owned subsidiaries, such as Rongsheng Painting, Rongye Storage, Rongye Mechanical and Rongding Marine Engineering;

(v) approximately 25% of the net proceeds for the repayment of borrowings; and

(vi) approximately 10% is expected to be used for working capital.

Investment into the above categories will take place up to 2013.

We have not identified targets for potential investments and acquisitions.

In relation to (v) above, part of the allocated portion of the net proceeds may be used to repay the borrowing in the amount of US$210 million from China Construction Bank, Hong Kong Branch, which carries an interest rate of Libor + 1.70% per annum. The maturity date is July 12, 2012, but we have the option to prepay such borrowing in full or in part together with accrued interest. The use of such borrowing was for repayment of part of the RMB1.7 billion shareholder's loan which was used to redeem the preferred shares on January 15, 2010.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range, we will receive additional net proceeds of approximately HK$1,887.6 million, which will be allocated to the above uses on a pro-rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, the net proceeds of the Global Offering will decrease by approximately HK$1,887.6 million. Under such circumstances, the amount of proceeds for each use set out above will be reduced on a pro-rata basis.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes, the Directors may place part or all of the proceeds in short-term interest-bearing deposits with authorized financial institutions and/or licensed banks in Hong Kong and/or China.

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds.

We will not receive any of the proceeds from the sale of the Sale Shares, nor will we receive any of the proceeds from the exercise of the Over-allocation Option.

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Arrangement"	The Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned
"Articles of Association"	the articles of association of our Company, conditionally adopted on October 24, 2010, to become effective upon the Listing as amended from time to time, a summary of which is set out in Appendix VI to this prospectus
"Asiafair International"	Asiafair International Limited (雅發國際有限公司), a company incorporated under the laws of Hong Kong with limited liability on April 25, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Board"	the board of Directors of our Company
"BOCI"	BOCI Asia Limited, licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Boom Will"	Boom Will Limited (盛意有限公司), a company incorporated under the laws of the BVI with limited liability on October 2, 2007 and wholly-owned by Mr. Chen
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks are open for business in Hong Kong
"Buyback Mandate"	the general unconditional buyback mandate to repurchase Shares, details of which are set out in the section headed "Statutory and General Information — A. Further information about the Company and its subsidiaries — 7. Repurchase of Shares by the Company" in Appendix VII to this prospectus
"BVI"	the British Virgin Islands
"BVI Holding Companies"	Mega New International, Nice In, Charm Dragon Holdings, Grace Shine International, Head Park Group and New Sea Enterprises, each of which is incorporated in the BVI and is our wholly-owned subsidiary
"CAGR"	compound annual growth rate

"Capitalization Issue"	the issue of Shares to be made upon the capitalization of the share premium account of our Company as referred to in the "Statutory and General Information — A. Further information about the Company and its subsidiaries" in Appendix VII to this prospectus
"Capital Sign International"	Capital Sign International Limited, a company incorporated under the laws of the BVI with limited liability on April 25, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Cayman Islands Companies Law"	the Companies Law, Cap 22 (2010 Revision) of the Cayman Islands
"CBRC"	China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CCBI"	CCB International Capital Limited, licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"CCMA"	China Construction Machinery Association (中國工程機械工業協會)
"Charm Dragon Holdings"	Charm Dragon Holdings Limited (美龍控股有限公司), a company incorporated under the laws of the BVI with limited liability on April 19, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Chen Qiang" or "Mr. Chen Qiang" or "Mr. Chen"	Mr. Chen Qiang, our chief executive officer and executive Director
"China" or "PRC"	the People's Republic of China excluding, for the purposes of this prospectus, Hong Kong, the Macau Special Administrative Region of China and Taiwan
"China Accord"	China Accord Investment Limited (漢毅投資有限公司), a company incorporated in Hong Kong on April 1, 2010 and wholly-owned by a friend of Mr. Zhang
"China Eximbank"	the Export-Import Bank of China, an Independent Third Party

"CISA"	China Iron and Steel Association (中國鋼鐵協會)
"Clarkson Research" or "CRSL"	Clarkson Research Services Limited, an Independent Third Party
"Clear Joy International"	Clear Joy International Limited (明欣國際有限公司), a company incorporated under the laws of the BVI with limited liability on April 2, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 883) and the New York Stock Exchange (stock code: CEO), an Independent Third Party
"Code"	the Hong Kong Code on Takeovers and Mergers
"Common Structural Rule" or "CSR"	the Common Structural Rules for Tankers and Bulk Carriers (關於油輪和散貨船的共同結構規範) promulgated on December 14, 2005 by the Council of the International Association of Classification Societies adopted for implementation on April 1, 2006
"Company" or "our Company"	China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司), incorporated as an exempted company with limited liability in the Cayman Islands on February 3, 2010
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended
"Compliance Advisor"	Guotai Junan Capital Limited
"Connected Person"	has the meaning ascribed to it in the Listing Rules, including any person who is, or group of person who are, entitled to exercise 30% or more of voting power at our general meetings or are in a position to control the composition of a majority of our Board
"Controlling Shareholder(s)"	Mr. Zhang and Fine Profit
"COOEC"	Offshore Oil Engineering Co., Ltd (海洋石油工程股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600583), an Independent Third Party
"CSIC"	China Shipbuilding Industry Corporation (中國船舶重工集團公司), an Independent Third Party
"CSRC"	China Securities Regulatory Commission (中國證券業監督管理委員會)
"CSSC"	China State Shipbuilding Corporation (中國船舶工業集團公司), an Independent Third Party
"Director(s)"	director(s) of our Company

"Deed of Non-compete Undertaking"	the deed entered into between Mr. Zhang, Fine Profit and our Company on October 24, 2010, as further described in the section headed "Relationship with Controlling Shareholders" in this prospectus
"Deutsche Bank"	Deutsche Bank AG, Hong Kong Branch, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO, and a licensed bank under the Banking Ordinance (Chapter 155 of the laws of Hong Kong)
"Dragon Courage Investments"	Dragon Courage Investments Limited, a company incorporated under the laws of the BVI with limited liability on April 2, 2009 and our wholly-owned subsidiary
"Doosan Engine"	Doosan Engine Co., Ltd., an Independent Third Party
"Earn Vast"	Earn Vast Limited (廣盈有限公司), a company incorporated in the BVI on June 11, 2010 and wholly-owned by a relative of Mr. Zhang
"Exchangeable Notes"	the exchangeable notes issued by Fine Profit to Smart Prove Limited and Star Team Enterprise Inc. which are mandatorily exchangeable to Shares on the Listing Date, as further described in the section headed "History, Reorganization and Corporate Structure — Exchangeable Notes issued by Fine Profit" in this prospectus
"FIE"	foreign invested enterprise
"FIE Tax Law"	Foreign Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法), which was promulgated by the National People's Congress on April 9, 1991, became effective on July 1, 1991 and was abolished on January 1, 2008
"Fine Profit"	Fine Profit Enterprises Limited (好利企業有限公司), a company incorporated under the laws of the BVI with limited liability on March 30, 2007 and wholly-owned by Mr. Zhang
"Foreign Invested Enterprise Law"	Law of the People's Republic of China on Foreign-funded Enterprises （中華人民共和國外資企業法）, which was approved by the Fourth Session of the Sixth National People's Congress on April 12, 1986, revised in accordance with the Decision to Revise the Foreign Capital Enterprises Law of the People's Republic of China made at the 18th meeting of the Standing Committee of the Ninth National People's Congress on October 31, 2000, promulgated by Order No.41 of the President of the People's Republic of China to go into effect on the day it is promulgated
"Foreign Investment Industries Catalogue"	the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (promulgated by the NDRC and the MOFCOM on October 31, 2007) which became effective on December 1, 2007
"Frost & Sullivan"	Frost & Sullivan, an Independent Third Party

"Fu Hong"	Fu Hong Wei Ye Petrochemical Holdings Limited (富宏偉業石油化工控股集團有限公司), a company indirectly wholly-owned by Mr. Zhang
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Glorious Property Holdings"	Glorious Property Holdings Limited, a company incorporated in the Cayman Islands on July 27, 2007 as an exempted company and whose shares are listed on the Hong Kong Stock Exchange (stock code: 845), of which Mr. Zhang is a controlling shareholder
"Glorious Wuxi"	Glorious Wangjiarui (Wuxi) Co. Ltd. (恒盛旺佳瑞(無錫)有限公司), formerly known as 無錫旺佳瑞有限公司, a company established under the laws of the PRC on September 7, 2004 and an indirect wholly-owned subsidiary of Glorious Property Holdings
"Glory Sources"	Glory Sources Limited (源鴻有限公司), a company incorporated under the laws of Hong Kong with limited liability on January 25, 2010 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Grace Shine International"	Grace Shine International Limited (明恩國際有限公司), a company incorporated under the laws of the BVI with limited liability on April 19, 2007 and our wholly-owned subsidiary
"Great Felicity"	Great Felicity Limited (祥佳有限公司), a company incorporated in the BVI on June 1, 2010 and wholly-owned by a relative of Mr. Zhang
"GREEN Application Form(s)"	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
"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
"Head Park Group"	Head Park Group Limited (栢源集團有限公司), a company incorporated under the laws of the BVI with limited liability on April 25, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Hinco International"	Hinco International Limited (興高國際有限公司), a company incorporated under the laws of Hong Kong with limited liability on April 12, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"HK$", "HK dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited

"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"HKSFC"	the Securities and Futures Commission of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"Hong Kong Listing Rules" or "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
"Hong Kong Offer Shares"	the 87,500,000 new Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment and reallocation as described in the section headed "Structure of the Global Offering" in this prospectus)
"Hong Kong Public Offering"	the issue and offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong for cash at the Offer Price subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus, being the underwriters of the Hong Kong Public Offering
"Hong Kong Underwriting Agreement"	the underwriting agreement relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and our Company, as further described in the section headed "Underwriting — Underwriting arrangements and expenses" in this prospectus
"Host Rich International Enterprises"	Host Rich International Enterprises Limited (東富國際企業有限公司), a company incorporated under the laws of the BVI with limited liability on May 13, 2009 and our wholly-owned subsidiary
"Independent Third Party"	a person or company which is independent of any of our members, our Directors and the directors of the Company's subsidiaries, the chief executive (as defined in the Listing Rules) of the Company or its subsidiaries or associated companies, the controlling shareholders and their respective associates
"International Convention for the Safety of Life at Sea" or "SOLAS"	an international maritime safety treaty which was originally passed in 1914

"International Maritime Organization" or "IMO"	the United Nations agency for maritime safety and the prevention of marine pollution by ships established in 1948
"International Offer Shares"	the 1,662,500,000 Shares initially being offered at the Offer Price under the International Offering, of which 1,312,500,000 new Shares are to be issued by our Company and 350,000,000 existing Shares are to be offered for sale by the Selling Shareholder, together, where relevant, with any Shares that may be sold by the Selling Shareholder pursuant to any exercise of the Over-allocation Option, subject to reallocation as described in the section headed "Structure of the Global Offering" in this prospectus
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters with professional, institutional and/or other investors at the Offer Price, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Underwriters"	the underwriters of the International Offering
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering expected to be entered into by, among others, the Joint Global Coordinators, the International Underwriters, the Selling Shareholder and our Company, as further described in the section headed "Underwriting — International Offering" in this prospectus
"Invested Entity"	the Company, any of its subsidiaries or any entity in which any member of the Group holds an equity interest
"Jian Zhi"	Jian Zhi Limited (建智有限公司), a company incorporated in the BVI on June 3, 2010 and wholly-owned by a relative of Mr. Zhang
"Jingfu"	Jingfu Limited (京福有限公司), a company incorporated in the BVI on June 9, 2010 and wholly-owned by a relative of Mr. Zhang
"Joint Sponsors"	Morgan Stanley, CCBI and J.P. Morgan
"Joint Global Coordinators", "Joint Bookrunners" and "Joint Lead Managers"	in respect of Hong Kong Public Offering, Morgan Stanley, CCBI, J.P. Morgan Securities (Asia Pacific) Limited, BOCI and Deutsche Bank; in respect of the International Offering, Morgan Stanley, CCBI, J.P. Morgan Securities Ltd., BOCI and Deutsche Bank
"J.P. Morgan"	J.P. Morgan Securities (Asia Pacific) Limited licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO
"KOMAC"	Korea Maritime Consultants Co., Ltd., an Independent Third Party

"Labor Contract Law"	Labor Contract Law of the PRC (中華人民共和國勞動合同法) enacted by the Standing Committee of the National People's Congress on June 29, 2007 which became effective on January 1, 2008
"Labor Law"	Labor Law of the PRC (中華人民共和國勞動法) which was promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and became effective on January 1, 1995
"Latest Practicable Date"	November 1, 2010, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	the date, expected to be on or about November 19, 2010, on which the Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Long Express"	Long Express Limited (恒迅有限公司), a company incorporated in the BVI on June 3, 2010 and wholly-owned by a relative of Mr. Zhang
"Main Board"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Hong Kong Stock Exchange
"MAN Diesel & Turbo"	MAN Diesel & Turbo SE, Germany, an Independent Third Party
"Mega New International"	Mega New International Limited (宏新國際有限公司), a company incorporated under the laws of the BVI with limited liability on May 2, 2007 and a wholly owned subsidiary of Rongsheng Heavy Industries Holdings
"Memorandum"	the memorandum of association of our Company, conditionally adopted on October 24, 2010, to become effective upon the Listing and as amended from time to time, a summary of which is set out in Appendix VI to this prospectus
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Morgan Stanley"	Morgan Stanley Asia Limited, licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
"Mr. Hu"	Mr. Hu Qian Kun (胡乾坤), a shareholder of Zhenyu Engineering Machinery as to 5% and a director of Zhenyu Engineering Machinery
"Mr. Zhang"	Mr. Zhang Zhi Rong (張志熔), our chairman, non-executive Director, and ultimate controlling shareholder

"MSFL"	Minsheng Financial Leasing Co., Ltd (民生金融租賃股份有限公司), an Independent Third Party
"Nanjing Steel"	Nanjing Iron Steel Co., Ltd (南京鋼鐵股份有限公司), an Independent Third Party
"Nantong Accessories"	Nantong Rongsheng Infrastructure Accessories Company Limited (南通熔盛基礎設施配套工程有限公司), formerly know as 南通熔盛船舶機電配套有限公司, a company established under the laws of the PRC with limited liability on June 15, 2005 and a wholly-owned subsidiary of Rongsheng Investment
"Nantong Zhuowei"	Nantong Zhuowei Trade Development Company Limited (南通焯煒貿易發展有限公司), formerly known as Nantong Zhuowei Property Company Limited (南通焯煒房地產有限公司), a company established under the laws of the PRC on June 5, 2003, and a wholly owned subsidiary of Glorious Property Holdings
"NDRC"	The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"New Income Tax Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was promulgated by the National People's Congress on March 16, 2007 and became effective on January 1, 2008
"M&A Regulations"	Regulations on Foreign Investors Merging with or Acquiring Domestic Enterprises (關於外國投資者併購境內企業的規定) issued jointly by the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the State Administration of Foreign Exchange on August 8, 2006, which became effective on September 8, 2006 and was amended on June 22, 2009
"New Sea Enterprises"	New Sea Enterprises Limited (新時企業有限公司), a company incorporated under the laws of the BVI with limited liability on May 2, 2007 and our wholly-owned subsidiary
"Nice In Holdings"	Nice In Holdings Limited (美來控股有限公司), a company incorporated under the laws of the BVI with limited liability on April 13, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Occupation of Riverway for Construction Projects Certificate"	Occupation of Riverway for Construction Projects Certificate (河道工程佔用證)
"Ocean Power International Industrial"	Ocean Power International Industrial Limited (海裕國際實業有限公司), a company incorporated under the laws of Hong Kong with limited liability on January 28, 2010 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings

"Ocean Sino Holdings"	Ocean Sino Holdings Limited, a company incorporated under the laws of the BVI with limited liability on January 18, 2010 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Offer Price"	the final offer price per Offer Share (exclusive of a brokerage fee of 1.0%, the HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK$10.10 and expected to be not less than HK$7.30, such price to be agreed upon by our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before the Price Determination Date
"Offer Shares"	the Hong Kong Offer Shares and the International Offer Shares
"Oracle"	Oracle Corporation, an Independent Third Party
"Over-allocation Option"	the option to be granted by the Selling Shareholder to the International Underwriters under the International Underwriting Agreement, pursuant to which the Selling Shareholder may be required to sell up to an aggregate of 262,500,000 Shares (representing 15% in aggregate of the Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, the details of which are described in the section headed "Structure of the Global Offering" in this prospectus
"Pacific Atlantic"	Pacific Atlantic Limited (僑洋有限公司), a company incorporated under the laws of Hong Kong with limited liability on April 24, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"PBOC"	The People's Bank of China (中國人民銀行), the central bank of PRC
"PBOC Rate"	the medium exchange rate of Renminbi for foreign exchange transactions published daily by PBOC based on the China inter-bank foreign exchange market closing rate of the previous day and with reference to current exchange rates on the world financial markets
"%"	Per Centum or percentage
"Performance Standard for Protective Coatings" or "PSPC"	the new Performance Standard for Protective Coatings (保護塗層性能標準) adopted by the International Maritime Organization, a United Nations agency tasked with improving maritime safety and preventing pollution from ships, on December 8, 2006
"PICC"	People's Insurance Company of China Group (中國人民保險集團股份有限公司), an Independent Third Party
"Power Shine Investments"	Power Shine Investments Limited, a company incorporated under the laws of the BVI with limited liability on January 7, 2010 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings

"PRC Companies law"	the Company Law of the PRC (中華人民共和國公司法) as enacted by the Standing Committee of the 8th National People's Congress on December 29, 1993, which became effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time
"PRC Constitution"	the Constitution of the PRC (中華人民共和國憲法) which as enacted by the National People's Congress on December 4, 1982, which became effective on the same date, as amended, supplemented or otherwise modified from time to time
"PRC Enterprise Income Tax Law"	中華人民共和國企業所得税法, as enacted by the Tenth National People's Congress on March 16, 2007 and effective on January 1, 2008, also referred to as the new tax law in this prospectus
"PRC government"	the central government of China, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
"Pre-IPO Share Option Scheme"	the existing share option scheme for director, employees, officers, consultants and business associates of our Group conditionally approved and adopted by our Company pursuant to a resolution passed by our Shareholders on October 24, 2010
"Price Determination Agreement"	the agreement to be entered into among our Company and the Joint Global Coordinators (on behalf of the Underwriters) at the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or around November 12, 2010 but not later than November 17, 2010, on which the Offer Price is fixed for the purpose of the Global Offering
"Profit On International Development"	Profit On International Development Limited (安利國際發展有限公司), a company incorporated under the laws of Hong Kong with limited liability on May 15, 2009 and our wholly-owned subsidiary
"Prospectus"	this offering document dated November 8, 2010
"Puchang"	Puchang Limited (普昌有限公司), a company incorporated in the BVI on March 18, 2010 and wholly-owned by a relative of Mr. Zhang
"QIB"	a qualified institutional buyer within the meaning of Rule 144A
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act
"Regulations on Paid Annual Leave for Employees"	Regulations for Paid Annual Leave for Employees (職工帶薪年休假條例) which was promulgated by the State Council on December 14, 2007 and became effective on January 1, 2008

"Reorganization"	the reorganization of our Group in anticipation of the Listing, the details of which are set out in the section headed "History, Reorganization and Corporate Structure" in this prospectus
"RMB" or "Renminbi"	the lawful currency of the PRC
"Rong An Mechanical & Electrical Equipment"	Shanghai Rong An Mechanical & Electrical Equipment Company Limited (上海熔安機電設備有限公司), a company established under the laws of the PRC on November 10, 2009 and our non-wholly owned subsidiary
"Rong An Heavy Industries"	Anhui Rongan Heavy Industries Machinery Company Limited (安徽熔安重工機械有限公司), a company established under the laws of the PRC on March 11, 2010 and our wholly-owned subsidiary
"Rong An Power Machinery"	Hefei Rongan Power Machinery Co. Ltd. (合肥熔安動力機械有限公司), a company established under the laws of the PRC on August 15, 2007, and our non-wholly owned subsidiary
"Rongding Marine Engineering"	Nantong Rongding Marine Engineering Co. Ltd. (南通熔鼎海洋工程有限公司), formerly known as Nantong Rongding Pipe Engineering Co. Ltd. (南通熔鼎管道工程有限公司), a company established under the laws of the PRC on June 22, 2007, and owned by us as to 95% and owned as to 5% by Rongsheng Investment
"Rongjin Steel Engineering"	Nantong Rongjin Steel Construction Engineering Company Limited (南通熔錦鋼結構工程有限公司), formerly known as 南通熔盛建材貿易有限公司 and 南通熔盛船舶貿易有限公司, a company established under the laws of the PRC on March 16, 2005 and a wholly-owned subsidiary of Rongsheng Heavy Industries after the Reorganization
"Rongsheng Capital"	Rongsheng Capital Limited (熔盛資本有限公司), a company incorporated in the Cayman Islands on July 28, 2010 and our wholly-owned subsidiary
"Rongsheng Engineering Machinery"	Rongsheng Engineering Machinery Limited (熔盛工程機械有限公司), a company incorporated in the Cayman Islands on July 28, 2010 and our wholly-owned subsidiary
"Rongsheng Heavy Industries"	Jiangsu Rongsheng Heavy Industries Co., Ltd. (江蘇熔盛重工有限公司), formerly known as 江蘇熔燁鋼結構有限公司/富宏偉業(江蘇) 物流有限公司, a company established under the laws of the PRC on June 8, 2006 and a company owned by Rongsheng Heavy Industries Holdings as to 95.2% and owned by Rongsheng Investment as to 4.8%
"Rongsheng Heavy Industries Holdings"	Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司), formerly known as Rongsheng Heavy Industries Limited, a company incorporated in the Cayman Islands with limited liability on July 27, 2007 and owned by us as to 98.5%

"Rongsheng Investment"	Jiangsu Rongsheng Investment Group Co. Ltd. (江蘇熔盛投資集團有限公司), formerly known as 江蘇熔盛工程機械集團有限公司, 江蘇熔盛投資集團有限公司, 江蘇熔盛重工集團有限公司 and 南通熔盛造船有限公司, a company established under the laws of the PRC on February 12, 2004, and ultimately controlled by Mr. Zhang
"Rongsheng Marine Engineering"	Rongsheng Marine Engineering Petroleum Services Limited (熔盛海洋工程石油服務有限公司), a company incorporated in the Cayman Islands on July 28, 2010 and our wholly-owned subsidiary
"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 June 21, 2007, and owned by Rongsheng Heavy Industries Holdings as to 95% and owned by Rongsheng Investment as to 5%
"Rongsheng Power Machinery"	Rongsheng Power Machinery Limited (熔盛動力機械有限公司), a company incorporated in the Cayman Islands on July 28, 2010 and our wholly-owned subsidiary
"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 March 4, 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), formerly known as 南通熔鼎盛造船有限公司 (Nantong Rongding Shipbuilding Co. Ltd.), a company established under the laws of the PRC on June 21, 2007 owned by Rongsheng Heavy Industries as to 49% and Rongsheng Investment as to 51%, and our non-wholly owned subsidiary
"Rongye Mechanical"	Nantong Rongye Ship 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 June 21, 2007, and owned by us as to 95% and owned by Rongsheng Investment as to 5%
"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 June 21, 2007, and owned by Rongsheng Heavy Industries Holdings as to 95% and owned by Rongsheng Investment as to 5%
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	The State Administration of Foreign Exchange of China (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
"SAIC"	State Administration of Industry and Commerce（國家工商行政管理局）
"Sale Shares"	the 350,000,000 existing Shares (subject to adjustment) offered for sale by the Selling Shareholder under the International Offering

"SDARI"	Shanghai Merchant Ship Design and Research Institute (上海船舶研究設計院), an Independent Third Party
"SEC"	the United States Securities and Exchange Commission
"Selling Shareholder"	Fine Profit
"Series A Preferred Shares"	161,800 Series A preferred shares of Rongsheng Heavy Industries Holdings of HK$0.10 each (particulars of which are set out in the section headed "History, Reorganization and Corporate Structure — Issuance of Series A Preferred Shares to Investors and Subsequent Redemption" in this prospectus)
"Services Agreement"	the consulting and services agreement entered into among Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment dated October 20, 2010, details of which are set out in the section headed "Relationship with Controlling Shareholders" in this prospectus
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
"Shanghai Jinhao Property"	Shanghai Jinhao Property Limited (上海錦豪房地產開發有限公司), a company established under the laws of the PRC on December 25, 2009, and our indirect wholly-owned subsidiary before completion of the Reorganization and an indirect wholly-owned subsidiary of Glorious Property Holdings after completion of the Reorganization
"Shanghai Rongsheng Shipbuilding Trading"	Shanghai Rongsheng Shipbuilding Trading Company Limited (上海熔盛船舶貿易有限公司), a company established under the laws of the PRC on March 27, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries
"Shanghai Rongxiang Property"	Shanghai Rongxiang Property Limited (上海熔祥房地產開發有限公司), a company established under the laws of the PRC on December 29, 2009, and our indirect wholly-owned subsidiary before completion of the Reorganization and an indirect wholly-owned subsidiary of Glorious Property Holdings after completion of the Reorganization
"Shareholders"	holders of the Shares from time to time
"Shareholders' Agreement"	the shareholders' agreement entered into between Rongsheng Heavy Industries and Rongsheng Investment dated January 8, 2009 but effective as of May 21, 2008, details of which are set out in the section headed "Relationship with Controlling Shareholders" in this prospectus
"Shareholders' Agreements"	the Shareholders' Agreement and the Supplemental Shareholders' Agreement
"Share Option Scheme"	the share option scheme we conditionally adopted pursuant to a resolution passed by our Shareholders on October 24, 2010 and described in details in the section headed "Statutory and General Information — D. Other information — 2. Share Option Scheme" in Appendix VII to this prospectus

"Shares"	ordinary shares in our Company with a nominal value of HK$0.10 each
"Shipbuilding Agency Agreement"	the shipbuilding agency agreement entered into between Rongsheng Heavy Industries and Rongsheng Shipbuilding dated January 1, 2008, details of which are set out in the section headed "Connected Transactions" in this prospectus
"Sinwell (H.K.)"	Sinwell (H.K.) Limited (信華(香港)有限公司), a company incorporated under the laws of Hong Kong with limited liability on May 10, 2007 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"SOE"	State-owned enterprise
"Spring Pioneer"	Spring Pioneer Limited (鋒泉有限公司), a company incorporated in the BVI on June 3, 2010 and wholly-owned by a relative of Mr. Zhang
"Stabilizing Manager"	J.P. Morgan, its affiliates or any person acting for it
"State Council"	the State Council (中華人民共和國國務院)
"Stock Borrowing Agreement"	the securities lending agreement entered into on or about November 12, 2010 between the Stabilizing Manager and Fine Profit pursuant to which Fine Profit will agree to lend up to 262,500,000 Shares to the Stabilizing Manager on terms set out therein
"Structure Agreements"	the Shareholders' Agreement and the Services Agreement
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in section 2 of the Companies Ordinance, pursuant to which, among other things, a company will be deemed to be a subsidiary of another company if (a) that other company (i) controls the composition of the board of directors of the first-mentioned company, or (ii) controls more than half of the voting power of the first mentioned company; or (iii) holds more than half of the issued share capital of the first-mentioned company (excluding any part of it which carries no right to participate beyond a specified amount in distribution of either profits or capital) or (b) the first-mentioned company is a subsidiary of any company which is that other company's subsidiary
"Supplemental Shareholders' Agreement"	the shareholders' agreement entered into between Rongsheng Heavy Industries and Rongsheng Investment dated October 18, 2010 but effective as of May 21, 2010, the details of which are set out in the section headed "Relationship with Controlling Shareholders" in this prospectus
"System Advance"	System Advance Limited, a company incorporated under the laws of the BVI with limited liability on January 12, 2010 and a wholly-owned subsidiary of Rongsheng Heavy Industries Holdings
"Track Record Period"	the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010

"Transition Notice"	Notice on Transition Guidelines for Preferential Income Tax Treatment (國務院關於實施企業所得稅過渡優惠政策的通知) promulgated by the State Council on December 29, 2007 and became effective on the same date
"Trophy Ray"	Trophy Ray Limited (錦威有限公司), a company incorporated in the BVI on May 13, 2010 and wholly-owned by a relative of Mr. Zhang
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
"U.S." or "USA" or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act" or "Securities Act"	the United States Securities Act of 1933, as amended from time to time
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"Wärtsilä"	Wärtsilä Switzerland Ltd., an Independent Third Party
"Wealth Consult"	Wealth Consult Limited, a company incorporated under the laws of the BVI on November 5, 2007 and a company wholly-owned by Mr. Zhang
"Wellbo Holdings"	Wellbo Holdings Limited (運寶集團有限公司), a company incorporated in Hong Kong on May 10, 2007 and a wholly-owned subsidiary of Rongsheng Heavy industries Holdings
"Wenca Development"	Wenca Development Limited (偉佳發展有限公司), a company incorporated under the laws of Hong Kong with limited liability on April 25, 2007 and a wholly-owned subsidiary of Rongsheng Heavy industries Holdings
"WFOE"	wholly foreign-owned enterprise
"World Profit Corporation"	World Profit Corporation Limited (薈利有限公司), a company incorporated under the laws of Hong Kong with limited liability on February 5, 2010 and a wholly-owned subsidiary of Rongsheng Heavy industries Holdings
"White Form eIPO"	the application for Hong Kong Offer Shares to be issued in the applicant's own name through the designated website of White Form eIPO **www.eipo.com.hk**
"White Form eIPO Service Provider"	Computershare Hong Kong Investor Services Limited
"Xiangtan Steel"	Hunan Hualing Xiangtan Steel and Iron Co., Ltd. (湖南華菱湘潭鋼鐵有限公司), an Independent Third Party

"Yes Power Corporation"	Yes Power Corporation Limited (佑力有限公司), a company incorporated under the laws of Hong Kong with limited liability on January 28, 2010 and a wholly-owned subsidiary of Rongsheng Heavy industries Holdings
"Zhenyu Engineering Machinery"	Hefei Zhenyu Engineering Machinery Company Limited (合肥振宇工程機械有限公司), formerly known as 合肥振宇機械施工有限責任公司 and 合肥振宇工程機械股份有限公司 a company established under the laws of the PRC on December 10, 1998, and owned by Rong An Heavy Industries as to 95% and owned by an Independent Third Party as to 5%
"Zhenyu Yida Engineering Machinery"	Hefei Zhenyu Yida Engineering Machinery Company Limited (合肥振宇意達工程機械有限公司), formerly known as 安徽科化新材料科技有限公司 a company established under the laws of the PRC on April 18, 2003, and our non-wholly owned subsidiary

In this prospectus, the terms "associate", "connected person", "connected transaction", "controlling shareholder" and "substantial shareholder" shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or US dollars and vice versa at an exchange rate of RMB0.86 = HK$1.00 or RMB6.68 = US$1.00, respectively, and certain amounts denominated in US dollars have been translated into HK dollars and vice versa at an exchange rate of US$1.00 = HK$7.77, in each case, for illustration purposes only. Such conversions shall not be construed as representations that amounts in Renminbi or US dollars were or may have been converted into those currencies and vice versa at such rates or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons, other entities or product names included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

This glossary of technical terms contains explanation of certain terms used in this prospectus as they relate to the Company and are used in this prospectus in connection with the Group and its business. These terms and their given meanings may not correspond to standard industry meaning or usage.

"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
"Aframax"	oil tankers between 80,000 and 119,999 DWT and with a breadth above 32.31 meters
"berth"	a place alongside a quay where a vessel may load or discharge its cargo
"bpd"	barrels per day
"Brake Horse Power"	the actual amount of power that an engine can deliver at a certain speed without the loss in power caused by auxiliary components
"bulk carrier"	a vessel that is designed to carry unpacked cargo, usually consisting of a dry commodity, such as grain or coal
"BV"	Bureau Veritas, a classification society founded in Belgium in 1828, is an international group specialized in the inspection, analysis, audit, and certification of products, infrastructure (including maritime vessels) and management systems in relation to regulatory or voluntary standards
"Capesize"	cargo ship of 150,000 DWT and above with a draft above 18.91m
"CCS"	China Classification Society, a classification society founded in the PRC in 1956, is a specialized non-profit organization providing classification service
"CGT"	compensated gross tonnage, calculated by multiplying the tonnage of a ship by a coefficient determined according to type and size of a particular ship, and used as an indicator of the volume of work necessary to build a given ship
"classification society"	worldwide non-governmental, experienced and reputable organizations or groups of professionals, ship surveyors and representatives of offices that promote the safety and protection of the environment of vessels and offshore structures. To do so, such societies set technical rules, confirm that designs and calculations meet these rules, survey vessels and structures during the process of construction and commissioning, and periodically survey vessels to ensure that they continue to meet the rules
"CNC"	computed numerically controlled
"Containerships"	Containerships are cargo ships that carry all of their load in truck-size containers, in a technique called containerization

"DNV"	Det Norse Veritas, a classification society founded in 1864 and originally a Norwegian-based organization that inspected and evaluated the technical condition of merchant vessels there. Since then, the core competencies have expanded to cover the identification, assessment and advisement on managing risk in a variety of industries (including maritime vessels)
"DPV"	deepwater pipe laying crane vessel, self propelled vessel dedicated to subsea pipe laying in deepwater regions. These vessels also generally have their own cranes and derricks, sometimes with heavy lift capability
"Dynamic Positioning Class 3 System"	dynamic positioning is a computer controlled system to automatically maintain a vessel's position and heading by using her own propellers and thrusters. Class 3 is a class notation which means automatic and manual position and heading control under specified maximum environmental conditions, during and following any single fault including loss of a compartment
"drillship"	a drillship is a maritime vessel that has been fitted with drilling apparatus. It is most often used for exploratory offshore drilling of new oil or gas wells in deep water or for scientific drilling
"drydock" or "dry dock"	A drydock is a narrow basin that can be flooded to allow a load to be floated in, then drained to allow that load to come to rest on a dry platform. Drydocks are used for the construction, maintenance, and repair of ships, boats, and other watercraft
"DWT", "deadweight tonnes" or "dwt"	one DWT equals to 1,000 kilogrammes, a unit of measurement of the maximum permitted load of a vessel, including the weight of cargo, passengers, fuel, stores and crew, when loaded to its maximum summer load line
"FPSO"	floating production storage and offloading vessel, large, flexible units used in the offshore industry for the processing and storage of oil and gas that has been produced from nearby platforms or subsea templates. They can be built new or converted from oil or gas carriers, and are capable of operating in deepwater environments
"FSO"	floating storage and offloading vessel, large, flexible units used in the offshore industry for the storage of oil and gas that has been produced from nearby platforms or subsea templates. It differs from an FPSO insofar as it does not have the capability to process the oil and gas. FSOs are generally converted, single-hull VLCCs and are capable of operating in deepwater environments
"GL"	Germanisher Lloyd, a classification society founded in 1867, which is a German-based organization that serves a wide range of industries in both the maritime and energy sectors

"GT"	gross tons or formerly known as "gross registered tons". It refers to the volume enclosed by the ship's hull and superstructure in hundreds of cubic feet
"horsepower"	a unit for measuring the power of an engine with one horsepower equaling 0.736kW
"ice-strengthened"	vessels with a strengthened hull to enable them to navigate through sea ice
"IMO"	International Maritime Organization of the United Nations
"ISO"	the International Organization for Standardization, a worldwide federation of national standardization bodies
"ISO14001"	ISO Standards for environmental management which are primarily concerned with what an organization does to minimize harmful effects on the environment caused by its activities and which set requirements for what an organization must do to manage processes influencing the impact of its activities on the environment
"ISO9001"	a series of international standards on quality management and quality assurance developed by the ISO 9001:1994(E), which has been adopted by more than 30 countries, including the United Kingdom and the United States, as their national quality system standards
"jack-up"	a type of mobile platform that is able to stand still on the sea floor, resting on a number of supporting legs. The most popular designs use three independent legs, although some jack-ups have four legs or more. On "mat-type" jack-ups the legs are connected to a submerged hull
"keel"	a large beam around which the hull of a ship is built. The keel runs in the middle of the ship, from the bow to the stern, and serves as the foundation or spine of the structure, providing the major source of structural strength of the hull. The keel is generally the first part of a ship's hull to be constructed
"keel laying"	the placing of the keel in the cradle in which a vessel will be built. This is generally also an indication that the construction of the vessel in the drydock has started
"kW"	kilowatt, a unit for measuring power, 1kW is equivalent to one thousand watts of electricity
"LNG"	liquefied natural gas
"LNG carrier"	liquefied natural gas carrier
"LPG"	liquefied petroleum gas
"LPG carrier"	liquefied petroleum gas carrier

"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
"NC"	numerical control
"crude oil tanker"	a vessel which is designed to carry crude oil or other petroleum products in big tanks
"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)
"Post-Panamax"	ships larger than Panamax, which do not fit in the Panama Canal
"rpm"	revolution(s) per minute
"SEMI"	Semi-submersible Drilling Rig for drilling for offshore oil and gas. A SEMI is a multi-legged floating structure with a large deck. The legs are interconnected at the bottom underwater with horizontal buoyant members called pontoon
"sqm"	square meters
"Suezmax"	ships of between 120,000 DWT and 200,000 DWT, with dimensions allowing it to transit the Suez Canal fully loaded
"TEU"	twenty-foot equivalent unit, an inexact unit of cargo capacity often used to described the capacity of containerships and container terminals. It is based on the volume of a 20-foot-long (film) intermodal container, a standard-sized metal box
"tonne"	a metric tonne equaling 1,000 kilograms
"tonnage"	a measure of the size or cargo capacity of a ship, and a "tonne" is a unit of such measure
"undocking"	the moving away of a vessel from a dry dock
"VLCC"	very large crude oil carrier of 200,000 DWT or above
"VLOC"	very large ore carrier greater than 220,000 DWT

This prospectus contains forward looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in the shipbuilding, offshore engineering, marine engine building and engineering machinery industries in the PRC and elsewhere;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions in the PRC and elsewhere; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as "believe", "seek", "intend", "anticipate", "estimate", "project", "forecast", "plan", "potential", "will", "may", "should", "going forward", "expect" and other similar expressions to identify forward looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward looking statements. Although we believe that the expectations reflected in those forward looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events as of the date of this prospectus and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward looking statements as a result of a number of factors.

We disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

Investing in the Offer Shares involves certain risks. You should carefully consider each of the following factors and uncertainties and all of the other information set forth in this prospectus, including the Accountant's Report included in Appendix I to this prospectus, before deciding to invest in Offer Shares. If any of the following factors and uncertainties develops into actual events, our business, financial condition or results of operations could be materially and adversely affected. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations. In such case, the trading price of our Offer Shares could decline due to any of these factors and uncertainties, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We do not have a controlling equity interest in Rongsheng Shipbuilding and therefore can only rely on contractual arrangements to carry out our shipbuilding operations

Under the Foreign Investment Industries Catalogue, a Chinese party is required to have an interest of not less than 51% of the equity interests in companies engaged in the repair, design or manufacture of vessels, the repair, design and manufacture of offshore engineering products and the design and manufacture of low-speed and medium-speed marine diesel engines. As such, Rongsheng Investment, a PRC domestic enterprise, currently owns 51% of Rongsheng Shipbuilding, through which the drydocks are owned and our shipbuilding operations are conducted, and Rongsheng Shipbuilding owns, in turn a 51% equity interest in Rong An Power Machinery. The remaining 49% equity interests in Rongsheng Shipbuilding and Rong An Power Machinery are owned by Rongsheng Heavy Industries and Rongye Mechanical, respectively, both of which are subsidiaries of our Company.

We entered into the Shipbuilding Agency Agreement with Rongsheng Shipbuilding for the use of all its drydocks in Nantong, Jiangsu Province, as well as its manpower, equipment and other facilities, to carry out all necessary shipbuilding operations at its drydocks on behalf of Rongsheng Heavy Industries. We also entered into the Engine Purchase Agreements with Rong An Power Machinery pursuant to which we purchase engines for installation in the vessels we sell to our customers. We depend on these arrangements for substantially all of our business.

Notwithstanding the fact that Rongsheng Shipbuilding is majority owned by Rongsheng Investment, it is treated as a subsidiary of our Group by virtue of the fact that we have signed the Structure Agreements. Commencing from the Listing Date, the Structure Agreements will collectively allow our Group to govern the financial and operating policies of Rongsheng Shipbuilding as well as, in substance, exercise all of the voting rights of the shares of Rongsheng Shipbuilding. The Structure Agreements also allow us to receive substantially all the related economic risks and benefits from Rongsheng Shipbuilding. In particular, the Services Agreement provides that Rongsheng Investment shall pay Rongsheng Heavy Industries a fee equivalent to the economic benefits from the dividend income it receives from its 51% interest in Rongsheng Shipbuilding, which enables our Company to consolidate the financial results of Rongsheng Shipbuilding in the financial results of our Group as if Rongsheng Shipbuilding was a wholly-owned subsidiary of Rongsheng Heavy Industries. For details of our shareholding structure and our contractual arrangements, see the section headed "Business — Regulatory — PRC Laws and Regulations — Contractual Arrangements" in this prospectus.

We have been advised by our PRC legal advisor that such contractual arrangements are in compliance with, and to the extent governed by the PRC laws currently in force, enforceable under, the current PRC laws and that in the event of any breach or default by Rongsheng Investment, we may take legal actions against it. We have also been advised by our PRC legal advisor that (i) Rongsheng Investment remains a PRC domestic enterprise after Mr. Zhang became a Hong Kong resident in October 2004; (ii) the ownership of Rongsheng Shipbuilding by Rongsheng Investment does not violate the requirements of the Foreign

Investment Industries Catalogue; (iii) Rongsheng Heavy Industries' scope of business is in compliance with the relevant laws and regulations of the PRC; (iv) the M&A Regulations does not apply in our case, because Mr Zhang became a Hong Kong resident in October 2004; and (v) Mr. Zhang's investment in Rongsheng Shipbuilding through Rongsheng Investment and Rongsheng Heavy Industries and the business operation of Rongsheng Investment and Rongsheng Shipbuilding since their establishment have complied with all relevant PRC laws and regulations in relation to shipbuilding business.

However, given the substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including the Guidance of Foreign Investment Industries Catalogue and the M&A Regulations, there can be no assurance that the interpretation of the contractual arrangements by our PRC legal advisor is or will be in line with the interpretation of the PRC governmental authorities or that the contractual arrangements will not be considered by such PRC governmental authorities and courts to be in violation of PRC laws and regulations. In addition, there can be no assurance that PRC governmental authorities will not in the future interpret or issue laws, regulations or policies that result in the contractual arrangements being deemed to be in violation of the existing or then prevailing PRC laws and regulations. If the PRC regulatory authorities (i) restrict or forbid us to continue the operations of our Group; (ii) require our Group to restructure the relevant ownership structure or operations; (iii) impose conditions or requirements in respect of the contractual arrangements with which we or Rongsheng Investment may not be able to comply; (iv) revoke the business licenses and/or NDRC approvals of our subsidiaries and/or void the contractual arrangements; or (v) take regulatory or enforcement actions, in particular, in the form of imposing economic penalties, our business, financial condition and results of operations may be materially and adversely affected.

The Structure Agreements and the Shipbuilding Agency Agreement may not be effective in providing us with control over Rongsheng Shipbuilding and these agreements may be difficult and costly to enforce under PRC law

We rely on the Structure Agreements and the Shipbuilding Agency Agreement to exercise control over and the power to govern the financial and operating policies of Rongsheng Shipbuilding. However, such contractual arrangements may not give us as much control and power as direct legal and beneficial ownership of 100% of Rongsheng Shipbuilding and Rong An Power Machinery. There is no assurance that Rongsheng Heavy Industries will be able to exercise its rights to protect its interests in the event of any breach or default by Rongsheng Investment or Rongsheng Shipbuilding. We may have to incur substantial costs and expend significant resources to enforce the terms of these agreements, and rely on legal remedies under PRC laws, which may provide us with remedies that are less effective than those in other jurisdictions. These legal remedies may include seeking specific performance or injunctive relief, and claiming damages, any or all of which may not be effective. For example, if Rongsheng Investment refuses to transfer its equity interest in Rongsheng Shipbuilding to us or our designee when we are permitted to purchase the equity interests in Rongsheng Shipbuilding under PRC laws and regulations, or if Rongsheng Investment otherwise acts in bad faith towards us, we may have to take legal action to compel it to fulfill its contractual obligations. Legal proceedings could result in the disruption of our business in the PRC and result in substantial legal costs to us.

In addition, it may be difficult for us to change our corporate structure or to bring claims against Rongsheng Investment if it fails to perform its obligations under the Structure Agreements or does not cooperate with us. The Structure Agreements are governed by PRC laws. Uncertainties in the PRC legal system could limit our ability to enforce the related agreements. In the event we are unable to enforce the Structure Agreements, which relate to critical aspects of our operations, we may be unable to exert effective control over Rongsheng Shipbuilding and/or Rong An Power Machinery. As a result, we might be unable to consolidate the financial results of Rongsheng Shipbuilding and/or Rong An Power Machinery in our Group's financial results. We would instead be required to account for our investments in Rongsheng Shipbuilding and/or Rong An Power Machinery using the equity method of accounting, under which we would adjust our cost of investment to reflect our share of the net profit or loss of Rongsheng Shipbuilding and/or Rong An

Power Machinery. Alternatively, even if we are able to consolidate the financial statements of Rongsheng Shipbuilding and/or Rong An Power Machinery, we may be required to adjust our financial statements to reflect minority interests. Any of these events could materially and adversely affect our business, financial conditions, results of operations and prospects.

We have a limited operating history and may face risks and difficulties in relation to expanding our business and it may be difficult for you to evaluate our future prospects

We have a limited operating history, and it may be difficult for you to evaluate our future prospects. Many members of our senior management, including our CFO, recently joined us and most of our senior management team members have therefore only worked together for a limited period of time. Moreover, our workforce has experienced rapid growth in its size increasing from approximately 25 permanent employees and contract workers in 2005 to approximately 20,000 permanent employees and contract workers as of September 30, 2010.

We have limited operating history in all of our four business segments. In our shipbuilding segment, our drydocks have been in operation for only a limited period of time. Our first drydock was completed on September 28, 2007 and our fourth drydock will commence operations in the first half of 2011. We delivered our first vessel in March 2008 and had delivered 27 vessels as of September 30, 2010. We started our offshore engineering business in 2007. We run our marine engine building business through Rong An Power Machinery, which was founded in 2007, started building marine diesel engines in August 2009 and became part of our Group in the first half of 2010. Rong An Power Machinery delivered its first low-speed diesel engine in October 2009. We operate our engineering machinery business through Rong An Heavy Industries, which was incorporated in March 2010. We plan to start the steel structure business in the near future.

You must consider our business prospects in light of the risks and difficulties we may encounter due to the fact that we have only a limited operating history and a business model that has not been fully tested, including, but not limited to the following:

- insufficient number of effective management personnel;
- inability to gain widespread recognition for our products among existing and potential customers;
- inability to successfully increase production, including inability to master the necessary know-how to produce progressively larger vessels, more advanced engines or better quality machineries;
- inability to meet production schedules or customer demands;
- lack of the productivity, efficiency and stability of our workforce; and
- the evolving nature of the global shipbuilding, marine engine building and offshore engineering and engineering machinery industries in general.

We may not be able to successfully address these risks and difficulties, which may adversely affect our business, financial condition and results of operations.

Our growth rate and the number of orders we have received in the past may not be indicative of our future growth rate or the number of orders we will receive in the future

We cannot assure you that we will be able to maintain our past growth rate or secure the same number of orders we have received in the past. Our past growth rate or secured orders should not be relied upon as indicators of our future growth rate or orders we will receive in the future. To the extent that we experience any significant decrease in demand for our products, increase in competition or increase in the prices of raw materials, equipment and components, our business, financial condition and results of operations may be materially and adversely affected. Our continuous growth depends on a number of factors, many of which are beyond our control, including the impact on demand for our products resulting from the macroeconomic policies of the PRC government and governments in other countries, the level of competition in the PRC and sectors in which we conduct business and the prices we pay for raw materials, equipment and components. For example, one of the main drivers behind the underlying demand for new vessels is the growth in seaborne trade. Following the onset of the global economic crisis in the third quarter of 2008, seaborne trade fell sharply. There can be no assurance that global seaborne trade will not experience similar trends in the future and if such trends are experienced, our business, financial condition and results of operations may be materially and adversely affected.

Moreover, our financial results during the eight months ended August 31, 2010 were partly attributed to a subsidy of RMB520.0 million from the Rugao Municipal Government. We were provided this subsidy for our efforts in applying new and high technologies in designing and manufacturing new types of vessels. We used this subsidy to offset cost of sales, selling and marketing expenses, general and administrative expenses and finance cost incurred in connection with our R&D for designing and manufacturing new types of vessels. The amounts offsetting the cost of sales, selling and marketing expenses, general and administrative expenses and finance cost were RMB317.6 million, RMB2.6 million, RMB117.6 million and RMB82.2 million, respectively. As a result, our cost of sales and other operating expenses in our financial statements would have been higher than the amounts recorded in the financial statements for the eight months ended August 31, 2010 if we had not received such subsidy. We cannot assure you that we will be able to receive similar government subsidies in the future. If we do not receive such subsidies, our profit and profit margin may be substantially less than if we were to receive such subsidies.

Furthermore, we face risks of a low growth rate of orders because the shipbuilding orders placed by our customers are typically non-recurring in nature. As a result, we cannot assure you that we will receive the same number of orders as or more orders than we have received in the past or that the contract value of the order book will remain the same or increase. As a result, you should not take the number of orders we have received in the past or the current contract value of our order book as an indicator of our performance or numbers of orders in the future.

We may not be able to compete successfully against our current competitors or new entrants to the industries in which we participate

The shipbuilding industry is highly competitive. We face risks from strong competition from existing competitors mainly located in the PRC, Japan and Korea, as well as from new entrants to the industry. We compete on the basis of our ability to fulfill our contractual obligations including our shipyard's capacity and capabilities, and the price and quality of our vessels.

Some of our competitors may have more resources and lower operational costs than we do and some may have competitive advantages in building certain types of vessels. Our competitors from time to time may engage in aggressive pricing in order to expand their market shares. Although some of these shipbuilders do not currently compete with us, their infrastructure and technical know-how might allow them to build the types of vessels we build and there can be no assurance that they will not compete with us in the future. We compete with, among others, China State Shipbuilding Corporation and China Shipbuilding Industry Corporation, two state-owned enterprises that are among the largest shipbuilding groups in the PRC that mainly produce large vessels. Among the key assets of these two shipbuilding groups are Shanghai Waigaoqiao Shipbuilding Co., Ltd. and Dalian Shipbuilding Industry Corp. (Group), both of which compete with us directly for shipbuilding contracts. They may have greater financial and management resources, larger manufacturing capacities, more sophisticated know-how and higher productivity and efficiency than we have. Furthermore, they may receive stronger support from the government due to their status as state-owned enterprises.

In our product segment of Capesize bulk carriers and Suezmax crude oil tankers, we also face strong competition from major privately-owned PRC shipbuilders such as New Century Shipbuilding Corporation and Jiangsu Yangzijiang Shipbuilding Co., Ltd. For Suezmax crude oil tankers and offshore engineering vessels, we compete with Korean shipbuilders such as Hyundai Heavy Industries Co., Ltd., Samsung Heavy Industries Co., Ltd., Daewoo Shipbuilding & Marine Engineering Co., Ltd and STX Shipbuilding Co., Ltd. As we expand further into the markets for products such as 7,500 TEU to 8,500 TEU containerships and offshore engineering vessels, we may encounter more intense competition from PRC and Korean shipbuilders, including existing participants and new entrants to those segments.

We also face competition from domestic and international offshore engineering products manufacturers. Domestic manufacturers are mainly state-owned shipbuilding enterprises such as Dalian Shipbuilding Industry Co., Ltd., Shanghai Waigaoqiao Shipbuilding Co., Ltd. and Nantong Cosco Ship Engineering Co., Ltd, while foreign manufacturers are mainly from South Korea and Singapore such as Daewoo Shipbuilding and Marine Engineering Co., Ltd. and Keppel Corporation Limited. Moreover, the rapid growth of the PRC shipbuilding industry has created strong demand for low-speed marine diesel engines and auxiliary systems. As a result, we also face strong competition from domestic and international marine engine builders. Domestic manufacturers consist mainly of state-owned shipbuilding enterprises such as Hudong Heavy Machinery Co., Ltd., CSSC-MES Diesel Co., Ltd., Dalian Marine Diesel Co., Ltd. and Yichang Marine Diesel Co., Ltd, while the foreign manufacturers are mainly from South Korea such as Hyundai Heavy Industries Co., Ltd., Doosan Heavy Industries and Construction Co., Ltd and STX Engine Co., Ltd. As most of our competitors entered the market earlier than we did, they may have better pricing strategies, distribution channels, research and development capabilities, responsiveness to design specifications of customers and customer services than we have.

Our engineering machinery business also currently faces competition mainly from domestic and joint venture manufacturers in the PRC, such as Sany Group Co., Ltd, Zoomlion Heavy Industry, Xuzhou Heavy Machinery Co., Ltd and Liaoning Fuwa Heavy Industry Co., Ltd. As market demand for engineering machinery in the PRC increases, other manufacturers may also enter the market. Increased competition may dilute our market share, may require us to reduce our prices and to increase the amount of money we spend on marketing and product development. In addition, our future competition from foreign competitors, who may have greater financial resources or more advanced technology or other competitive advantages, may intensify. These foreign competitors may include wholly-foreign owned enterprises or joint ventures set up in the PRC by international manufacturers, particularly in the excavator market.

We may face competition in other industries or sectors where we conduct or plan to conduct business. In our marine engine building business, we may face competition from state-owned manufacturers that have longer operating history and larger market shares. We may also face competition from new entrants if the NDRC grant approvals to other privately-owned enterprise. As we plan to enter into the steel structure business, we may also need to compete with a large number of existing manufactures. There can be no assurance that we can succeed in entering this highly-competitive market or gaining enough market share to make our new business profitable.

Our market position depends on our ability to anticipate and quickly respond to various competitive factors, including the introduction of new or improved products by our competitors, pricing strategies adopted by our competitors and changes in our customers' preferences. We cannot assure you that our current and potential competitors will not offer products that are comparable or superior to our products, at the same or lower prices, or adapt more quickly to evolving industry trends or market requirements. To the extent that our competitors, whether domestic or foreign, gain competitive advantages in terms of pricing, product quality, brand name recognition and financial and technical resources, our market share, future plans and development (including our ability to launch or market new products in a commercially viable manner) and results of operations may be adversely affected.

If we are not able to meet our construction and delivery schedules, our business, financial condition and results of operations may be adversely affected

Our ability to meet our construction and delivery schedules is subject to various factors beyond our control. We depend on our suppliers for the timely delivery of raw materials such as steel plates and marine equipment such as marine engines, diesel generators and boilers. We count on the completion of our production bases within the planned timeframe and uninterrupted operations of our drydocks and other manufacturing facilities. We also rely on a skilled workforce and competent management to carry out our business strategies. We also depend on the timely completion of outsourced work for some projects. Any breach by our subcontractors or outsourcing partners of their contractual obligations or any failure by them to timely complete their work according to specifications will affect our ability to deliver vessels or other products to our customers in accordance with the specifications in the relevant shipbuilding or other purchase contracts. In addition, we are also subject to natural disasters and various risks inherent in shipbuilding activities that may also affect our ability to meet our obligations. Moreover, building new types of vessels may take longer than we expect because our estimate may not be accurate. Any material operational disruptions due to these factors may adversely affect our ability to meet our construction schedules and could result in delays in the delivery of vessels to our customers. Under our shipbuilding contracts with our customers, we generally have a 30 day grace period beyond the contractual delivery date to deliver vessels to our customers. If a delay extends beyond the grace period, our customers are normally entitled to liquidated damages stipulated in the contracts for the part of the delay falling within the next 180 days, after which they have the right to terminate. The liquidated damages are typically calculated based on the number of days elapsed after the 30 day grace period and on per day basis according to the terms of the relevant contract. During the Track Record Period, we experienced delays in the delivery of 11 vessels (including eight crude oil tankers and three bulk carriers) as we were attaining our desired production capacity. Liquidated damages for delay in deliveries were paid by our Group for nine of the said 11 vessels by way of downward adjustment of the relevant consideration under the shipbuilding contracts. The aggregated downward adjustment of the consideration amounted to approximately US$10.2 million. In addition, we had experienced delays in the delivery of two vessels and failed to deliver 12 vessels on time during the period from August 31, 2010 to the Latest Practicable Date. We made downward adjustments to the contract prices of the two vessels in the aggregate amount of US$0.8 million and are negotiating with our customers for additional grace periods with regard to the remaining 12. Due to an increased number of vessels under construction and a higher number of vessels to be delivered in 2010 and thereafter, we may experience more delays if we are not able to expand our production capacity effectively or meet our customers' requirements before the scheduled deliveries. In addition to the liquidated damages under the relevant contracts, our operations may be further affected by the slipped docking or undocking time of the subsequent vessels, which may have further adverse effects on our business, financial condition and results of operations. Also, shipowners may request renegotiation of a contract in terms of delivery date and under such circumstances, any downward adjustment of the consideration is decided on a case by case basis. Delays in our delivery of vessels due to our failure to meet the schedule may have a negative impact on our customer relationships and business reputation and result in significant damages, which could adversely affect our business, financial condition and results of operations.

If our customers terminate or delay shipbuilding contracts, our revenue and profit may be adversely affected

Since the onset of the global financial crisis in late 2008, shipowners with vessels on order have experienced financing problems as a result of decreased demand in the shipping market, declines in asset values and lack of financing alternatives. These factors exacerbate the risk of cancellation or delays of orders and have caused delays and cancellations of orders throughout the shipping industry. As such, some of our customers may be reluctant or lack sufficient financing or funds to make payments or fulfill their contractual obligations in accordance with our shipbuilding contracts. If our customers terminate their orders and there has been no default on our part, we may retain the installments paid by our customer, and the vessels will be at our sole disposal for sale. The proceeds we receive from the sale will first be used to cover expenses of the sale and our costs as a result of the customer's default, and then to settle either all unpaid installments (in the case that the construction of the vessel is completed), or all costs of construction and expenses incurred for the vessel (in the case that the construction of the vessel is yet to be completed). We will then refund the remainder to the customers. During the Track Record Period, we experienced 24 cancellations of our shipbuilding contracts. Upon our customers' termination of these contracts, we refund part or all of payments we have received on account of the vessel and, in some cases, plus interest stipulated in the contracts. In addition, some of our customers approached us to reschedule the delivery of vessels they ordered by postponing the contractual delivery dates of the vessels. The cancellation of one or more sizeable orders may have a substantial and immediate effect on our business and results of operation. As a result, any cancellation of orders by our customers or significant delay in the delivery of vessels at our customers' request could materially and adversely affect our business, financial condition and results of operations. Furthermore, we cannot assure you that we will not be subject to any material modifications, terminations, delays or cancellations of our contracts by our customers or that the revenue projected from orders in our order book will be realized.

Our order book may not be an accurate indicator of our future performance

Our order book on hand as of a certain date represents the total nominal contract value of the contracts that have not been completed, including the portion of revenue in respect of those orders that we have recognized as of such date. During the Track Record Period, our Group's order book increased substantially. As of September 30, 2010, our shipbuilding order book consisted of 84 vessels with a total tonnage of approximately 15.1 million DWT and an aggregate contract value of approximately US$6.0 billion. These shipbuilding orders are to be completed between 2010 and 2014. For the purpose of calculating our shipbuilding order book in 2010, we consider an order to be effective when we sign the shipbuilding contract with the customer, regardless of what the relevant contract provided. There can be no assurance that we can receive the first installment payments from these customers or we can retain part of the payments as damages if the contracts are cancelled. Under certain circumstances, we may enter into shipbuilding contracts that are to become effective upon satisfaction of preconditions or subject to customers' discretion. We may treat such contracts as new orders. However, if the preconditions under these contracts are not met or the customers elect not to put the signed contracts into effect, we may no longer count these contracts as our orders and the size of our order book will be reduced. As our order book as of a certain date includes the portion of revenue that we have recognized as of such date, the revenue to be recognized after such date may be substantially smaller than the order book value. Furthermore, the commencement of construction in respect of an individual vessel may be months or years from the date the relevant contract was signed. Such a contract is also counted in our order book during this period and our order book thus does not accurately reflect the amount of revenue or the timing of recognizing revenue from such an order. In addition, we take no account for potential delivery problems in calculating our order book. The successful conversion of these orders into our revenue depends on a number of factors including, among other things, absence of adverse changes in the PRC and global shipping markets, the availability of funds to shipowners, competition, our production capacity, our research and development and our ability to deliver the vessels on time. Some of the factors are beyond our control and by nature, are subject to uncertainty. Going forward, our order book may be affected by delays, cancellations and the renegotiations of the contracts, therefore we cannot assure you that we will be able to deliver all of our existing orders on schedule and successfully turn them into our revenue.

As of the Latest Practicable Date, we had only obtained one order for our offshore engineering segment. We cannot assure you that we will be able to obtain more orders in this segment. As of September 30, 2010, our marine engine order book included 40 new engines, amounted to 849,760 horsepower and had a total contract value of approximately RMB1,511.1 million. However, as we have limited experience in building marine diesel engines, we cannot assure you that we will not encounter delays in delivery of our engines or that our engines will not have defects, poor workmanship or non-conformity to specifications. In addition, as of September 30, 2010, 30 out of our 40 orders were from our shipbuilding segment. There can be no assurance that we may be able to successfully obtain more orders from external purchasers. Therefore, you should not consider our order book as an accurate indicator of our future performance or future revenue.

Our business model is expected to change, our business is expected to become more diversified and our historical results of operations may not be indicative of our future performance

Our production has concentrated on bulk carriers of 75,500 DWT, 76,000 DWT and 176,000 DWT, crude oil tankers of 156,000 DWT, VLOCs of 400,000 DWT and containerships of 6,500 TEU. Our shipbuilding order book included 36 bulk carriers, 16 VLOCs, 26 crude oil tankers, two VLCCs and four containerships as of September 30, 2010. As part of our growth strategy, however, we intend to diversify our product offerings to include vessels such as 7,500 TEU-8,500 TEU containerships and 113,000 DWT Aframax oil tankers. Our offshore engineering products offerings are expected to include jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels (such as DPVs) and LNG carriers.

As we do not have sufficient experience in manufacturing these new products and our contracts are typically fixed price contracts and provide damages for late delivery, we may encounter greater risks of cost overruns and delays in delivery on these contracts than on those for the vessels we built in the past. These vessels and offshore engineering products are often more complex in design and more difficult to build. We may be unable to spread the cost of design and research and development among similar vessels or have a profit margin comparable to that from our bulk carrier and oil tanker contracts. We do not yet have all the technological know-how or intellectual property rights to build these vessels and offshore engineering products and may have to spend large amounts of fees to obtain licenses or invest a substantial amount of capital and human resources in conducting research and designing and building prototypes. Development costs of these new products may be excessive and may adversely affect our business, financial condition and results of operations.

Moreover, our business model is expected to change in terms of both the businesses we conduct and products we offer. We derived the majority of our revenue from our shipbuilding business, which accounted for 100.0%, 99.4%, 96.9% and 94.5% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. We started our marine engine building business in 2008 and delivered our first low-speed diesel engine in October 2009. We expect to gain the capacity to manufacture Wärtsilä and MAN B&W low-speed diesel engines in the near future and a wider variety of diesel engines in the long run. In 2010, we further acquired Zhenyu Machinery and gained the capacity to manufacture excavators and cranes. Aiming to become a major competitor in the global heavy industry, we further plan to enter into the steel structure business in the near future.

Our fast expansion within a short period of time has imposed on us new operational, management and planning demands, which are significantly different from those we encountered in operating our shipbuilding business and for which we may require different expertise and experience. The private sector of the PRC began to conduct marine engine building relatively recently. We delivered our first engine in October 2009 and thus have limited experience in assessing and addressing risks particular to marine engine building. Our assumptions and judgments relating to the costs of marine engine building and the general undertaking of these projects are yet to be tested and could prove to be incorrect. Marine engine building and engineering machinery are new businesses to us, and we may need to quickly develop new technologies, acquire new skills, train new personnel, obtain additional financing and substantially change the way we run our business to properly and effectively execute our business strategies.

There can be no assurance that our successful shipbuilding experience may be applied successfully to our new businesses. As we may not have adequate experience, technology, capital or other resources, we may not be able to reach our business targets or compete effectively in new markets or business, and the risks of cost overruns and delays in product deliveries for newly-commenced businesses may be greater than those for our shipbuilding business. There can be no assurance that our revenues or profits will continue to increase or that our profit margin will not significantly decrease or that we will not experience losses from our new businesses. As a result, our historical results of operations may not be indicative of our future performance.

We may fail to acquire or integrate target businesses successfully into our existing operations

As part of our expansion strategy, we intend to enhance our market position through the acquisition of companies with product offerings, research and development capabilities and access to new markets and relationships which complement our existing business operations. The implementation of such expansion strategy is subject to a number of risks, including, but not limited to the risks of:

- failing to identify and acquire suitable target businesses at acceptable costs;
- failing to identify material risks or liabilities associated with the acquired business prior to our acquisition;
- failing to integrate the acquired business, its personnel or products into our existing business;
- experiencing higher costs of integration than anticipated;
- experiencing delays or failures in realizing the expected benefits of the acquired business or its products;
- experiencing difficulties in obtaining regulatory approvals;
- being adversely affected by changes in market conditions and demands;
- experiencing the diversion of our management's time and attention from other business concerns; and
- experiencing difficulties in retaining the key employees of acquired businesses who are essential to successfully managing those businesses.

If any of these uncertainties materializes, it may have an adverse effect on our business, financial condition and results of operations.

Failure to successfully execute our new business strategies or develop new business may materially and adversely affect our business, financial condition, results of operations and prospects

We may implement new business strategies, including a strategy of launching a finance leasing marketing model through Rongsheng Capital or other entities to lease the vessels we manufacture to foreign or domestic shipping companies. We do not have any experience in implementing or executing such a strategy and we cannot assure you that we will be successful due to, among others, the following factors:

- our failure to correctly identify relevant market trends including those relating to, customer demand for the type of vessels that we propose to build on this basis, the cost of raw materials, movements in foreign exchange rates and the price of such vessels;
- our inability to properly manage our cash flow, financing resources and in relation to the new business model;
- higher interest expense or reduced interest income due to funding the new business model using our own capital;
- our failure to manage construction costs and cost overruns; or
- our inability to find customers to purchase or lease these vessels at prices acceptable to us.

We have no pre-determined timeframe as our plan to start this new business depends on a number of factors including the time and qualifications needed for obtaining the necessary permits and approvals, the market demand for our vessels and our available financial and other resources. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that pursuant to the Measures for Administering Finance Leasing Companies promulgated by the CBRC (the "**Measures**"), which became effective on March 3, 2007, a finance leasing company must obtain the approval of the CBRC and its minimum registered capital is

RMB100 million. In addition, according to the Measures, a large enterprise, registered in China and whose main business is to produce products suitable for finance leasing, shall also satisfy the requirements: (i) the year-end revenue for the most recent year is not less than RMB5 billion or equivalent amount in freely convertible currency; (ii) it has made profit for the latest two years consecutively; (iii) the year-end net assets ratio for the most recent year is not less than 30%; (iv) the revenue from its main business accounts for 80% or more of its total revenue; (v) it has good credit records; and (vi) it complies with the laws and regulations of its place, and has not been involved in any significant dispute or committed any serious illegal or unlawful act within the last two years. Our PRC legal advisor is of the opinion that, there is no substantial legal impediment for us to obtain the approval for the finance leasing business, if we can submit to the CBRC relevant application documents meeting the aforesaid requirements. However, there is no assurance that we will be able to obtain such approval or that our finance leasing business will be launched in the near future or at all.

We set out our business strategies in the section headed "Business — Our strategies" in this prospectus. The successful implementation of these strategies depends on a number of factors including, among other things, absence of adverse changes in the PRC and global shipping markets, the availability of funds, competition, government policies and our ability to retain and recruit competent employees. Some of the factors are beyond our control and by nature, are subject to uncertainty. There is no assurance that our strategies can be implemented successfully. Any failure or delay in the implementation of any or all of these strategies may have a material adverse effect on our profitability and prospects.

Fluctuation of the US dollar relative to the RMB may adversely affect our business, financial condition and results of operations

There has been considerable volatility in the exchange rates between the RMB and US dollar. While our reporting currency is the RMB and our payments for labor, raw materials and marine equipment purchased in the PRC are denominated in the RMB, most of our shipbuilding contracts provide for payment in US dollars and our payments for imported raw materials and marine equipment are also denominated in US dollars. Changes in the value of the US dollar relative to the RMB may affect our gross margins due to our inability to adjust the prices in our shipbuilding contracts to account for these changes. In addition, any unfavorable movement in the exchange rates may lead to an increase in our costs or liabilities or a decline in revenue, which could materially and adversely affect our business, financial condition and results of operations.

We enter into fixed-price shipbuilding contracts generally up to two to four years before scheduled delivery. After we receive the first installment payment from the shipowners, which can vary from 5% to 30%, we do not receive the balance of the contract price until we achieve certain milestones during the construction period. As a result, we are exposed to changes in exchange rates during the period from the initial payment to the final payment under the contract. In addition, because we receive payments in accordance with the progress of construction, our options to hedge against currency risks are limited. Furthermore, we are also exposed to foreign exchange fluctuations to the extent that we have assets and liabilities denominated in currencies other than the RMB, the reporting currency.

The value of the RMB against US dollar fluctuates and is affected by, among other things, changes in the political and economic conditions in the PRC and the United States. The conversion of the RMB into US dollar has been based on the PBOC exchanges rates. On July 21, 2005, the PRC Government changed its policy of pegging the value of the RMB to the US dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On September 23, 2005, the PRC Government widened the daily trading band for RMB against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new exchange system. Between July 21, 2005 and October 24, 2010, the RMB appreciated approximately 21.6% against the US dollar. Recently, there has been increased international pressure on the PRC Government to adopt an even more flexible currency policy. The PRC may decide to permit the RMB to fluctuate more widely against the US dollar in the future which could result in the gradual appreciation of the RMB against the US dollar. Due to the fluctuations in the value of the RMB against the other currencies we used during the Track Record Period, we had exchange losses of RMB31.5 million, RMB19.3 million, RMB37.6 million and exchange gains of RMB3.6 million in 2007, 2008 and 2009 and eight months ended August 31, 2010, respectively. As of August 31, 2010, if the RMB had strengthened by 2% against the US dollar and HKD, with all other variables held constant, our pre-tax results for the period would have been approximately RMB59.4 million lower, mainly as a result of foreign exchange differences on the translation of our US dollar and HKD denominated assets.

Changes in the relative value of the RMB and these other currencies will result in realized and unrealized foreign exchange gains and losses. We attempt to factor in the estimated RMB appreciation against the US dollar in the contract price of our vessels. However, our estimates may not be accurate. Any significant fluctuation between the RMB and US dollar, especially any appreciation of the RMB against the US dollar, could result in foreign exchange losses and may adversely affect our business, financial condition and results of operations.

We are exposed to the risk of fluctuations in the prices of the raw materials, equipment and components that we use in our business

Steel plates, which constitute the largest component of our cost of sales, represented approximately 27.9%, 42.7%, 37.5% and 41.1% of our total cost of sales for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. Like many other major shipbuilders in the PRC, we enter into fixed-price shipbuilding contracts with our customers. We are generally unable to enter into fixed-price supply contracts with our major suppliers due to the strong demand for steel products in the PRC. We have entered into strategic cooperation agreements with some of our major suppliers to ensure stable and timely supply of steel plates for our production needs. However, these agreements generally do not shield us from price fluctuations and we are still subject to market prices on our purchases from these suppliers. A period of up to six months may lapse between the time we sign our fixed-price shipbuilding contracts with our customers and the time we purchase steel plates for the construction of the related vessel. During this period, we are exposed to price fluctuations of steel products. Our ability to make purchases is subject to factors such as our available cashflow and production needs. The price of steel has fluctuated substantially since we started building our first vessel in 2007. In the second half of 2008 and early 2009, the average steel price declined substantially due to decreased demand resulting from the global economy slowdown. However, there can be no assurance that steel plate prices will remain at a low level. In the event that the cost of steel plates increases at a faster pace or more significantly than we expect, increases may not be fully reflected in our existing fixed-price shipbuilding contracts and this may adversely affect our business, financial condition and results of operations.

Marine equipment and components such as marine engines, diesel generators and boilers generally constitute the second largest component of our cost of sales, accounting for 16.3%, 27.8%, 32.5% and 32.5% for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. Due to a limited number of qualified suppliers in the PRC, we usually import marine engines, diesel generators and boilers from international suppliers such as Hyundai Heavy Industries Co., Ltd. and Doosan Engine. The prices for the marine equipment and components are usually determined at the time we place our purchase orders. While we try to order marine equipment and components to match the vessels promptly after we sign our fixed-price contracts, we are typically required to make advance payments or deposit 15% of the contract price with our suppliers. If we do not have sufficient cashflow to make advance payments or deposits, we may be exposed to price increases and may not obtain the earlier favorable prices. In the event that the cost of marine equipment and components increases at a faster pace or significantly more than we expect, such increases may not be fully reflected in our existing fixed-price shipbuilding contracts. In these circumstances, we may not be able to pass these price increases to our customers under existing contracts, which may adversely affect our business, financial condition and results of operations.

Our success depends on our key personnel

Our success depends, to a significant extent, upon the continuing service of our key management personnel and technicians at our PRC operating subsidiaries. A large number of our key management personnel have worked for major PRC or international shipbuilders and have brought with them valuable knowledge, experience and connections. They have been instrumental in charting our business direction and spearheading our growth. In particular, Mr. Chen Qiang, with more than 25 years' work experience in shipbuilding industry, along with other key personnel, has formulated the strategies for our rapid growth and efficient operations. Mr. Chen Qiang is well-known in the shipbuilding industry both inside and outside of the PRC. Furthermore, Mr. Chen Kai Guo is one of the leaders of our shipbuilding segment, and had been the vice general manager at Jiangnan Shipyard Group Co., Ltd. Mr. Deng Hui has been working in the marine power related fields for more than 28 years. Mr. Sean S J Wang, our CFO, has many years of experience in financial operation and project management at various multinational firms listed in the U.S. as well as a company listed on the Hong Kong Stock Exchange. We rely on their extensive knowledge and experience in corporate management, strategic planning, production, finance, research and development and business practices of the shipbuilding industry. We expect to face increasing competition for management personnel from other shipbuilders, driven largely by strong growth in the PRC shipbuilding industry. If we lose the services of any of our existing key management personnel without timely and suitable replacements, or if we are unable to attract a sufficient number of management personnel to meet the needs of our growth, our business, financial condition and results of operations may be adversely affected.

We may need additional employees and contract workers to sustain and expand our operations. Competition for skilled shipyard, machinery and engineering labor in the PRC is intense. Expansion of the operations of our competitors and the resulting hire of additional workers may lead to salary increases for our employees and higher labor costs for our contract workers. As a result, we may from time to time experience difficulties in attracting and retaining highly skilled employees. Labor shortages or the inability to retain skilled employees may increase our cost of labor and hinder our productivity and ability to complete the construction of our vessels on time and increase the prices at which we must sell our products to maintain profits.

Our shipbuilding, offshore engineering and marine engine building operations require highly skilled and qualified personnel, such as engineers, crane operators, welders and painters. For example, our engineers in the design and research department are instrumental in preparing the production design and play a central role in scheduling the production process. They also play a critical role in our cost management system, as we depend on them to formulate production design plans that will allow for the efficient utilization of raw materials.

If we are unable to maintain a sufficient number of skilled and qualified personnel to handle the more sophisticated and technology-intensive processes, or if we are required to pay substantially higher salaries to procure these personnel, our business, financial condition and results of operations may be materially and adversely affected.

If we cannot renew our coastline use rights for our shipyard facilities in a timely manner, our business, financial condition and results of operations will be materially and adversely affected

According to the relevant coastline laws and regulations of the PRC (the "**PRC Coastline Regulations**"), businesses utilizing the coastline, such as us, are required to enter into a coastline occupation agreement with the relevant PRC authorities and pay the prescribed annual fees for the use of the coastline. These fees vary depending, in part, on the length of the coastline and the area of the water occupied. In addition, we are required to obtain a coastline use right evidenced by an Occupying Certificate of Riverway Construction Project (a "**Coastline Right Certificate**").

We possess Coastline Right Certificates in respect of an aggregate of 3,058 meters of coastline, which are critical to our business operations. One of our certificates is valid from 2007 to 2012, one is valid from 2008 to 2013 while the other two are valid from 2010 to 2015. Renewal of the certificates will require us to pay the fees for the continued use of the coastline and water area as prescribed in the relevant coastline occupation agreement and a review by the relevant PRC authorities of whether we are in compliance with the PRC's Water Law and Flood Prevention Law.

In addition, relevant approvals are required for any construction projects involving the use of the coastline under the PRC Water Law. If the facilities are constructed without the requisite approvals, the PRC authorities have the right to require us to cease operations and to demolish our facilities.

In the event we fail to pay the requisite coastline occupation fees to the PRC government or otherwise fail to satisfy our obligations under the coastline occupation agreements, such as compliance with relevant PRC laws relating to water resources, including the PRC's Water Law and Flood Prevention Law, and with approvals and requirements issued by Yangtze River Water Resource Commission and local water resources agencies, the PRC government could impose fines on us resulting in a material adverse effect on our business, financial condition and results of operations. In addition, if we are unable to renew or extend either the coastline right certificates or the coastline occupation agreements, we may lose the right to use all or a portion of our coastline and be required to cease operation along the affected coastline, which would materially and adversely affect our business, financial condition and results of operations.

We have not obtained title certificates for one of the properties we occupy

As of September 30, 2010, we had not obtained building ownership certificates or real estate title certificates for one of our buildings to allow us to use or transfer the properties freely. The property is used as offices. It was constructed without the relevant construction planning permit and its aggregate gross floor area is approximately 580 sqm. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that as we have not obtained the relevant construction planning permits, (i) we may be ordered to correct this violation within a certain time limit and be imposed a fine of 5% to 10% of the construction cost, if the relevant government authority concludes that it is possible for us to take measures to eliminate the impact on the implementation of urban and rural planning and (ii) in case the government authority concludes that it is impossible for us to take measures to eliminate the impact, we may be ordered to dismantle the buildings within a certain time limit, or face the confiscation of the entire building or the gain from the buildings if dismantlement is infeasible, and we may also be assessed a fine of up to 10% of the construction cost. The book value of the building is approximately RMB661,143. We believe our construction costs of the building are the same as the book value. As a result, we estimate the potential maximum fine to be approximately RMB66,114. However, the relevant government authorities may not agree with our estimation and the actual fine could be more than this amount. In addition, we may be required to relocate our business operations carried out on the building and we estimate our relocation time may be up to a year and the cost may be up to RMB800,000.

Failure or delays in obtaining required certification from classification societies may cause delays in our delivery schedules and disruptions in our business

We are required to construct our vessels in accordance with contractual specifications and requirements and the rules and regulations of the classification societies. According to the PRC Governing Survey of Ships and Offshore Installations (《中華人民共和國船舶和海上設施檢驗條例》) we need to obtain certification from the classification societies that is allowed to conduct statutory surveys on behalf of the register of shipping subject to the latter's authorization for each vessel. For example, the Lloyd's Register Quality Assurance (Shanghai) retains the right to inspect our premises once every six months and check the standards of our quality, safety and management. The Lloyd's Register Quality Assurance (Shanghai) may refuse to allow us to use the certificate if we fail to resolve issues it raises. As a result, we may experience delays and disruptions in our shipbuilding process which may adversely affect our business, financial condition and results of operations.

We rely on the relationship among Rongsheng Heavy Industries, Rongsheng Investment and Rongsheng Shipbuilding, any deterioration of which may materially and adversely affect our performance and overall operation

We operate our shipbuilding and offshore engineering business in China on the basis of the Shipbuilding Agency Agreement with Rongsheng Shipbuilding. There is no assurance that we will be able to extend the Shipbuilding Agency Agreement or extend it with substantial similar terms as those stipulated in the Shipbuilding Agency Agreement when its term expires. In addition, our relationship with Rongsheng Investment and Rongsheng Shipbuilding is governed by the Structure Agreements, which aim to provide our Group with effective control over the business operations of Rongsheng Shipbuilding and allow us to gain all the revenue and substantially all the economic benefit from Rongsheng Shipbuilding. However, these contractual arrangements may not be effective in providing control over the business operation of Rongsheng Shipbuilding or allowing us to retain all the revenue and substantially all the economic benefit from Rongsheng Shipbuilding if a deterioration of the relationship between Rongsheng Heavy Industries and Rongsheng Investment and/or Rongsheng Shipbuilding occurs. A deterioration of the relationship could cause Rongsheng Investment and/or Rongsheng Shipbuilding to act in bad faith or fail to perform its obligations under the contractual arrangements and in such event, our reputation and business, financial condition, results of operations and prospects could be severely and adversely affected.

Furthermore, the revenue recognized by Rongsheng Shipbuilding from the transactions between Rongsheng Heavy Industries and Rongsheng Shipbuilding will be eliminated upon consolidation. Taxes arising from such transactions, such as the enterprise income tax payable on the income of Rongsheng Shipbuilding from such transactions, however, may remain payable by our Group despite the elimination. Our financial results will be affected to the extent that such taxes remain payable by our Group.

Our Controlling Shareholders have the ability to exercise substantial control over us, which allows them to influence our business in ways which may not be in the interest of other Shareholders

Following the completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the indicative Offer Price range and the Over-allocation Option is not exercised, and excluding any Shares which may be issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme), Fine Profit will be entitled to exercise voting rights over approximately 52.1% of the shares and Mr. Zhang will have control over our Company through his holding the entire issued share capital of Fine Profit and Wealth Consult, which will hold approximately 53.7% of our voting shares (assuming the low point of the Offer Price). The Controlling Shareholders will be able to exercise significant influence over all matters requiring shareholder approval, including the appointment of directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by the Listing Rules to abstain from voting. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our Company and our Group or otherwise discourage a potential acquirer from attempting to obtain control of us through corporate actions such as merger or takeover attempts, which could conflict with the interests of Shareholders.

In addition, if our Controlling Shareholder and/or Mr. Zhang, have any conflicts of interest with our Group, our business may be adversely affected. Rongsheng Investment holds a 51% equity interest in Rongsheng Shipbuilding. Rongsheng Investment holds an indirect interest in Rong An Power Machinery through its 51% equity interest in Rongsheng Shipbuilding and its 5% equity interest in Rongye Mechanical. Under the Services Agreement, Rongsheng Investment has 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% equity interest in Rongsheng Shipbuilding (which is due and payable on the same date as Rongsheng Shipbuilding pays any dividend to its shareholders). As Mr. Zhang ultimately controls Rongsheng Investment, we cannot assure you that if any conflict arises and requires Mr. Zhang to take actions, Mr. Zhang will act in the best interest of our Group or that such conflict will be resolved in our Group's favor. In addition, we cannot assure you that any ongoing or future connected transactions between Rongsheng Investment, Rongsheng Shipbuilding and Rong An Power Machinery on the one hand and any other member of our Group on the other hand will not result in a flow of benefits to Mr. Zhang. In such an event, our business, financial condition, results of operations and prospects could be adversely affected.

If we cannot have qualified contract workers or outsource our work at acceptable costs, we may not be able to increase our production in a profitable manner and increases in labor costs may adversely affect our business, financial condition and results of operations

We rely on contract workers working at our shipyard for a significant part of the shipbuilding process. As of December 31, 2007, 2008 and 2009 and August 31, 2010, the number of our contract workers was 1,982, 7,466, 11,504 and 16,148, respectively, and the labor costs had accounted for approximately 2.4%, 6.0%, 7.5% and 4.8% of our total costs for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. We select contract workers through companies that provide contract labor services. We expect to continue using contract workers on a regular basis and increase the number of contract workers we hire at our shipyard in the future. In addition, when the need arises, we outsource certain aspects of our shipbuilding work, such as the construction and assembly of blocks, to our subcontractors or outsourcing partners. If we are unable to increase the number of contract workers at our facilities or outsource work to our subcontractors or outsourcing partners at acceptable prices, we may lose business opportunities and our business, financial condition and results of operations may be materially and adversely affected.

The costs of the contract workers may substantially increase as a result of various factors such as demands from the labor union, labor disputes and change of competition environment. We enter into contracts with labor agencies for the employment of contract workers. The labor agencies are required to enter into employment contracts with the contract workers, pay them salaries and obtain social insurance for them. We pay salaries, social insurance fees and housing funds for the contract workers to labor agencies. A labor agency is responsible for handling the accidents leading to occupational injuries, diseases or deaths of the contract workers, while we and the labor agency bear the relevant fees pursuant to PRC laws and regulations. According to our PRC legal advisor, if the labor agency fails to pay the contract workers, we may be held jointly responsible for the contract workers' losses, though we are entitled to ask the labor agency to compensate all of our losses pursuant to the contract. We cannot assure you that labor agencies will carry out their responsibilities as agreed or that we will not be held jointly responsible for the contract workers' losses. We can neither assure you that the social insurance obtained by the labor agencies are sufficient to cover the injuries or accidents nor that we will not be required to pay for the injuries or damages suffered by the contract workers. If such event happens, our labor costs may increase substantially, and our business, financial condition and results of operations may be adversely affected.

Our future expansion is limited by our production capacities and subject to risks beyond our control

Our expansion in the shipbuilding segment may be limited by our production capacity our shipyard, which in turn is limited by, among other things, the availability of berths in our shipyard, the number and size of our drydocks, wharves, plant and equipment. Currently, we have three drydocks in operation and one drydock under construction. When the construction of our fourth drydock is completed, which is scheduled for March 2011, we estimate we will have an aggregate production capacity of eight million DWT in 2012 (or a larger capacity if approved by the relevant governmental authority). Further, to achieve full operational capacity of our drydocks, we may need additional equipment and drydock facilities.

However, we cannot assure you that the construction of our fourth drydock will be completed as scheduled, or will become operational as soon or operate as efficiently as planned. If there are delays in the construction of our fourth drydock, operational problems with the facilities unit or for other reasons, the fourth drydock does not function as efficiently as intended, or our utilization of the fourth drydock does not reach the expected level, our business, financial condition and results of operations could be materially and adversely affected.

In addition, if we need additional equipment and drydocks facilities, we cannot assure you that we will be able to obtain land, approvals or capital required for the construction of the new shipyard facilities. If we are unable to complete construction of the new shipyard facilities in a timely manner, we may have to rely on our existing drydocks, cranes, equipment and facilities to fulfill orders for larger vessels, which may restrict our ability to accept new orders. Moreover, any delay in constructing the new shipyard facilities or for the new shipyard facilities to reach their full production potential may affect our ability to execute our plans to expand our manufacturing capacity, which may adversely affect our business, financial condition and results of operations.

Further, during the expansion of our production capacity, we are subject to a number of construction, financing, operational and other risks beyond our control, including, but not limited to:

- shortages of materials, equipment and labor;
- adverse weather conditions and natural disasters;
- changes in demand for our products and services;
- loss of business during the reconstruction or upgrading of our existing shipyard facilities;
- labor disputes or disputes with subcontractors;
- inadequate infrastructure, including as a result of failure by third parties to fulfill their obligations relating to the provision of utilities and transportation links that are necessary or desirable for the successful operation of a project;
- failure by our contractors to complete projects according to our specifications;
- accidents;
- changes in governmental policies relating to the shipbuilding industry, approvals and financing;
- inability to obtain and maintain requisite government licenses, permits or approvals; and
- over-capacity in global shipbuilding and marine engine building.

For example, the shipbuilding industry has periodically suffered from depressed prices and lower profit margins resulting from over-capacity. Prior to the global economic downturn that started in 2008, global shipbuilding capacity expanded significantly, particularly in the PRC and Korea, driven in part by strong growth in the global demand for vessels. This resulted in over-capacity when global demand for vessels decreased as a result of the financial crisis which commenced in 2008. Over-capacity may be exacerbated by the large number of vessels which were contracted for prior to the financial crisis, are currently under construction and are scheduled for delivery within the next couple of years. This over-capacity may affect our ability to increase sales and production in general, as well as reduce the prices in US dollar terms of our principal products, which may adversely affect our business, financial condition and results of operations.

On June 9, 2009, the General Office of the State Council promulgated the Plan on Adjusting and Revitalizing the Shipbuilding Industry (船舶工業調整和振興規劃) (the "**Plan**"). On September 26, 2009, the State Council promulgated the Notice of Several Opinions on Curbing Overcapacities and Redundant Constructions in Certain Industries and Guiding the Healthy Development of Industries (國務院批轉發展改革委等部門關於抑制部份行業產能過剩和重複建設引導產業健康發展若干意見的通知(國發〔2009〕38號)) (the "**Notice**"). According to the Plan and the Notice, the PRC shipbuilding industry is currently experiencing serious over-capacity. Within three years starting from the date of the Notice, land, maritime, environmental protection, finance and other relevant departments at all levels shall no longer accept applications for new docks or slipway projects, and shall suspend the examination and approval of projects regarding the expansion of existing docks or slipways of ship-building enterprises. On March 11, 2008, the NDRC approved the reconstruction of our four drydocks with dimensions of 102m x 464m, 102m x 530m, 106m x 530m and 139.5m x 380m, respectively. On June 11, 2010, the Development and Reform Commission of Rugao City, Jiangsu Province put on record the reconfiguration of our fourth drydock with a changed dimension of 139.5m x 580m upon the completion of the reconstruction. On June 29, 2010, the Jiangsu Economic and Information Technology Commission issued a letter, which confirms that the change in the dimension of our fourth drydock to 139.5m x 580m is in compliance with the PRC industry policies. Our PRC legal advisor, Commerce & Finance Law Offices, is of the view that the reconstruction and technical reconfiguration of our four drydocks have obtained all approvals from the relevant PRC governmental authorities. Given that we have no current intention to apply for construction of new drydocks or expansion of our existing drydocks, we and our PRC legal advisor are of the view that the Notice has no impact on our businesses and operational activities. However, given the uncertainties in the application and interpretation of applicable PRC laws and regulations, the relevant central government agencies, such as the NDRC, may require us to obtain certain approvals at the central government level for extension in the length of our fourth drydock, notwithstanding the confirmation received from the local government authorities for such extension. If we are required to obtain any such approvals, but fail to do so, we may be required to restore our fourth drydock to its originally approved length by eliminating extended area, which may cause delay in the completion of our fourth drydock and the enhancement of our production capacity. Moreover, the Notice affects our ability to further expand our manufacturing capacity during the next three years, which may adversely affect our business, financial condition and results of operations.

As for our marine engine building segment, the Chinese low-speed marine diesel engine market has grown rapidly to US$2.7 billion in 2009, however the CAGR is expected to slow down to about 7.1% over the next six years, primarily as a result of the downturn in the global shipbuilding industry. According to Catalogue of Government Verified Investment Projects, 2004 (政府核准的投資項目目錄, 2004), the medium and low speed diesel engine manufacturing projects need to be approved by the NDRC. According to Frost & Sullivan, the estimated new capacity will be smaller than total demand in 2015, which may adversely affect our business, financial condition and results of operations.

The occurrence of one or more of these events may negatively affect our ability to complete our current or future expansion plans within our budget and may prevent us from achieving the projected revenue, rate of return or capacity in these expansion plans. Furthermore, there is no assurance that the cashflow generated from our operating or financing activities will be sufficient to cover the associated construction and development costs.

We may require additional funds for the growth and development of our business and, if we are unable to obtain the required capital at acceptable costs, we may not be able to expand our business as planned

Expanding on the basis of our shipbuilding business, we are diversifying into the sectors of offshore engineering, marine engine building and engineering machinery. Our operations and expansion of business require significant amounts of capital, and we may be required to seek additional sources of funds for the future growth and development of our business. Our primary needs include:

- capital expenditure to maintain and expand our production capacity, including acquisition of more land and construction of shipyard and other manufacturing facilities;
- product diversification;
- purchases of raw materials including steel plates and key marine equipment such as marine engines, diesel generators and engine parts;
- payment to employees and subcontractors;
- payment to shipbrokers, trading companies and commercial banks;
- research and development of new products and technologies;
- other working capital requirements; and
- payment to Rongsheng Shipbuilding for the shipbuilding activities carried out in the drydocks.

If we decide to meet these funding requirements through debt financing, we will have increased debt servicing costs and may become subject to restrictive financial and other covenants, including those that restrict present or future operations. Furthermore, due to the uncertainties in the capital market, financial institutions in the PRC and other parts of the world may restrict the availability of credit. As a result it may be increasingly difficult for us to obtain financing. There is no assurance as to the terms or availability of additional capital. Without adequate liquidity, we will be forced to curtail our operations and expansion plans. Disruption, uncertainty or volatility in the capital markets or credit markets may limit our access to capital for our operations and for the expansion of our business, decrease our profitability and significantly reduce our financial flexibility. Furthermore, our liquidity also depends on cash generated from operating activities and our existing cash and cash equivalents. The higher level of our indebtedness will require us to allocate a higher portion of our cash flow from operating activities to fund repayments of our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditure and other general corporate purposes. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our shipbuilding contracts are on a fixed-price basis, which may result in losses or lower profitability for us than anticipated in the event that we incur unforeseen or additional expenses

All of our shipbuilding contracts are fixed-price contracts. We enter into these contracts up to four years prior to the scheduled delivery of a vessel. We attempt to forecast costs of labor and raw materials when we enter into our fixed-price contracts and retain all cost savings on completed contracts but remain liable for the full amount of all cost overruns. The actual costs incurred and profits we realize on a fixed-price contract may vary from our estimates due to factors such as:

- unanticipated variations in labor and equipment productivity over the term of a contract;
- unanticipated increases in labor, raw material, subcontracting and overhead costs, including as a result of forces beyond our control; and
- delivery delays and corrective measures.

Depending on the size of the project, variations from estimated contract performance may significantly reduce our earnings and even result in losses. Furthermore, our fixed-price contracts usually provide for liquidated damages if we are unable to deliver vessels according to the schedules in these contracts. In these situations, significant cost overruns on our fixed-price contracts may adversely affect our business, financial condition and results of operations.

We rely on external design houses for our new product designs, especially for the basic designs and the detail designs for our shipbuilding and offshore engineering businesses

We contract a substantial part of our new ship designs, including basic design and detail designs, to a few external design houses. To ensure design quality, we have business relationships with a limited number of reputable design houses, including KOMAC, a leading ship design, engineering and consulting company in South Korea and SDARI, a leading ship design institute in the PRC. Our DPV was designed by a Dutch design institute. As we continue to expand our product offerings, our dependence on these external houses will increase. If we fail to maintain good relationships with these design houses or if they fail to deliver quality design products to us on a timely basis, we may lose business opportunities or may not be able to meet our delivery schedule. In addition, we face competition from other shipbuilders for the services of well-known design houses. If we are required to pay substantially higher design fees to procure the services of these design houses, our costs will increase and we may not be able to maintain our cost structure. Any of these events may adversely affect our business, financial condition and results of operations.

We depend on a limited number of major customers

As of September 30, 2010, our aggregate order book includes orders for 84 vessels, among which approximately 57.0% are from our top five customers in terms of contract value. We have a relatively short operating history in offshore engineering business and started the segment in 2007 with a contract to construct a DPV for COOEC. With regard to our marine engine building segment, as of September 30, 2010, our order book included 40 new engines, of which 30 represented intra-group orders from our own shipbuilding segment.

A number of our major customers are global shipping companies with stringent requirements for their vessels. If we are unable to deliver these products on time or build these products to the specifications of these customers, our reputation may be damaged, and we may incur financial losses or lose our customers. We cannot assure you that these customers will continue to engage us or that we will continue to sustain the general level of revenue that we have secured from them in the past. If any of our major customers ceases to have business dealings with us or materially reduces the level or frequency of their orders from us and we are unable to secure new orders from other sources to replace such a loss or reduction, our business, financial condition and results of operations may be adversely affected.

We may incur repair costs for defects under our product warranties and face claims or contract price adjustments if our vessels fail to meet the standards stipulated in the relevant shipbuilding contracts

We may face claims by our customers in respect of defects, poor workmanship or non-conformity to our customers' specifications in respect of vessels, offshore engineering products, marine diesel engines and engineering machinery built by us. In addition, our customers are entitled to price adjustments at the time of vessel delivery if we fail to meet the standards in respect of speed, fuel consumption and deadweight specified under the relevant shipbuilding contracts. We typically provide a warranty period of 12 months commencing from the delivery of the vessel to our customers. For our marine diesel engines, the warranty period is typically 18 months starting from the delivery of the engine or 12 months starting from the delivery of the vessel, whichever is shorter. For our engineering machinery, the warranty generally covers the first 1,500 or 2,000 hours of the operation of the machinery or 12 months after delivery, whichever is short. Due to the length of the warranty period provided by us, we may be subject to claims from our customers and we may incur additional costs if rectification work is required in order for us to satisfy our obligations during the warranty period. We generally estimate the costs of rectification work to be in the range of 1% to 2% of the contract price depending on the types of the products and make provisions for these costs in our operations. However, due to our limited operating history, there is no assurance that our warranty provisions will be sufficient to cover the costs incurred for defects. If the cost of any rectification work and the amount of any warranty claims exceed the warranty provisions we have made, our business, financial condition and results of operations may be adversely affected.

We face risks relating to the quality and timing of the work performed by our contract workers and outsourcing partners

While our engagement of contract workers and outsourcing arrangements provides us with flexibility in managing our costs, our contract workers may not comply with our quality assurance and safety measures, and may not be properly managed by labor agencies from which they are sourced. As advised by our PRC legal advisor, the labor agencies are responsible for damages and compensation resulting from the non-compliance with safety measures by the contract workers they provide. However, any significant accidents that may occur on our site may damage our corporate image or reputation. We have required our labor agencies to obtain accident insurance policies for contract workers, but these policies may not be sufficient to cover the damages or injuries suffered by our contract workers arising from accidents on our sites.

In addition, the subcontractors or outsourcing partners to whom we outsource a portion of our production may use poor quality or defective sub-components or unqualified or less skilled workers at their facilities. Where we outsource our construction work or lease the facilities from our outsourcing partners, we may not have the exclusive use of or access to the facilities at which the work was performed or have the authority to give instructions to the employees of our outsourcing partners to perform work pursuant to our standards. Any material claim by our customers against us in respect of defects, poor quality or workmanship or non-conformity to our customers' specifications resulting from work performed by our contract workers or outsourcing partners could lead to rectification costs to be borne by us. We may further suffer from delays if our outsourcing partners do have sufficient production capacity or fail to make proper schedules for our outsourced work. Their breach may cause us to default under the contracts we entered into with our customers. Any default by our subcontractors or outsourcing partners of their contractual obligations or any inability by them to complete their work according to specifications or schedule will affect our ability to deliver the vessels to our customers in accordance with the quality or timing specifications in the shipbuilding contract, which may adversely affect our business, financial condition and results of operations. Moreover, skilled workers, and in particular engineers and experts, also play a significant role in our marine engine building business and offshore engineering business. Any default may result in a bottleneck situation and adversely affect our business, financial condition and results of operations.

Our indebtedness may adversely affect our results of operations and financial condition, and prevent us from fulfilling our financial obligations or business objectives

As of September 30, 2010, we had approximately RMB19,559.4 million of outstanding borrowings. Approximately RMB9,432.6 million of borrowings is due and payable within one year. Part of the net proceeds of the Global Offering will be used to repay our existing debts. We expect to borrow significant amounts in the future to finance our growing marine engine building and engineering machinery business and pay off the bank loans we borrowed, including those we borrowed prior to the Listing for the settlement of various amounts due to related parties. Our existing and future indebtedness and related obligations could have important future consequences for us, such as:

- potentially limiting our ability to obtain additional financing to fund growth, working capital, and capital expenditures or to meet debt service or other cash requirements;
- exposing us to the risk of increased interest costs if the underlying interest rates rise significantly;
- potential restrictions on our ability to make distributions to our Shareholders;
- potentially limiting our ability to invest operating cash flow in our business due to debt service requirements; or
- increasing our vulnerability to economic downturns and changing market conditions.

On October 19, 2010, the PRC government raised the interest rate by 25 basis points, which marked the start of a more aggressive phase of monetary tightening in the PRC. Based on our interest rate sensitivity test, as of August 31, 2010, if our interest rate had increased by 100 basis points, with all other variables held constant, our pre-tax results for that period would have been approximately RMB26.9 million lower. As a result, interest increases may have a material and adverse impact on our business, financial condition and result of operations.

Our ability to meet our debt service obligations, borrow additional funds or refinance our debt will depend on many factors, including prevailing financial or economic conditions, our past performance and our financial and operational outlook. If we do not have enough cash to satisfy our debt service obligations, we may be required to refinance all or part of our debt, sell assets or reduce our spending. At any given time, we may not be able to refinance our debt or sell assets on terms acceptable to us or at all. In such a case, if we default in performing our obligations, our results of operations and financial condition could be materially and adversely affected.

We may not be able to secure new contracts if our banks fail to issue the requisite refund guarantees

As the contract prices for new vessels are high, we are usually required to furnish our customers with refund guarantees issued by our banks as security for the refund of installment payments made by our customers if we fail to fulfill our contractual obligations under our shipbuilding contracts. In order to decide whether to grant us the refund guarantees, banks review, among other things, our financial standing and creditworthiness. Generally, we arrange for banks to issue refund guarantees to our customers from our available banking facilities and we pay finance fees to our banks. Under the current arrangement with our banks, we are required to provide cash collateral between 5%-10% of the contract value of the vessel and pledge the vessels under construction to the banks as collateral.

We must ensure that collateral documents are properly registered with the appropriate government authority to meet the banks' requirements. To comply with relevant rules and regulations that require the party registering the collateral documents to be the manufacturer of the relevant vessels, we need to transfer certain rights related to the vessels under construction from Rongsheng Heavy Industries, which is not allowed to engage in shipbuilding activities due to its status as a foreign invested company, to Rongsheng Shipbuilding for the collateral documents to be properly registered. After registration, Rongsheng Shipbuilding is obligated to transfer all assigned rights back to Rongsheng Heavy Industries upon request, provided that the banks release Rongsheng Shipbuilding from any liability or obligations.

In the event that we are unable to satisfy the financial or registration requirements prescribed by our banks or a governmental authority, or if any transfer is improperly made, we may not be able to procure the requisite refund guarantees or deliver vessels to our customers upon their completion. As a result, we may be unable to secure new contracts or fulfill our obligations under existing contracts, which may adversely affect our business, financial condition and results of operations.

Our refund guarantee arrangements impose financial requirements that may restrict the use of our cash, fixed assets and land use rights

In order for the banks to issue refund guarantees on our behalf, we typically deposit approximately 5%-10% of the amount of the contract value of the vessel in cash with the bank, which will not be released to us until delivery of the vessel. If we do not have available banking facilities to issue the refund guarantees and we cannot procure additional banking facilities from our existing banks, we may request trading companies to arrange for their banks or financial institutions to issue the refund guarantees to our customers on our behalf. We typically pay these trading companies a commission of about 1.5% of the contract value of the vessels. If we are unable to obtain refund guarantees directly from our banks and are forced to use trading companies, finance costs associated with refund guarantees may increase. Under a standard agreement with a trading company, our ultimate customers are required to make all payments under our shipbuilding contracts into the restricted bank accounts held by the trading company's banks issuing the refund guarantees to our ultimate customers. In the event of any bankruptcy or liquidation of a trading company, there is no assurance that the successor to or creditors of the trading company will not claim or attempt to make use of the money in the restricted bank accounts without our prior written consent or that the relevant bank will not freeze the restricted bank accounts and require us to seek a court order to claim or make use of the money in the accounts. Any delay in the availability of funds from the restricted bank accounts at our banks or our trading companies' banks may adversely affect our business, financial condition and results of operations.

Our strategic cooperation agreements with various business partners may not yield the benefits we expect

We have entered into a number of strategic cooperation agreements with various business partners, including customers, commercial banks, ship design institutes, suppliers, universities and classification societies, and we expect to enter into more strategic cooperation agreements during the development of our business. However, the strategic cooperation agreements may not actually bring us benefits as we expected. These strategic cooperation agreements generally set forth a basis for future cooperation. We typically enter into individual contracts for specific matters and our relevant rights and obligations are subject to further negotiation, and in some cases, subject to approvals of third parties. Moreover, these strategic cooperation agreements are typically non-exclusive. Our strategic cooperation partners can enter into strategic cooperation agreements with other parties as they deem necessary. Entering into a strategic cooperation agreement may not necessarily bring us more competitive advantages. Furthermore, a strategic cooperation agreement may not be implemented as we expected. If our strategic cooperation partners refuse to carry out the relevant strategic cooperation agreements or enter into individual contracts with us in relation to a specific matter, we may not have legal rights to hold them liable for our damages or lost of profits. Therefore, a strategic cooperation agreement may not convey any actual benefit to us. You should not rely on the strategic cooperation agreements to evaluate or predict our business performance.

Our insurance policies may not fully cover inherent risks associated with our shipbuilding, offshore engineering, marine engine building, engineering machinery businesses or our other production activities

Our shipbuilding and offshore engineering processes depend on certain critical shipyard facilities, such as drydocks, berths and cranes, which are subject to unexpected interruptions, including these due to natural disasters and human errors. Our shipyard operations, marine engine building, engineering machinery manufacturing and other production activities may be adversely affected by events such as the breakdown, malfunction or misuse of equipment, damage to drydocks, difficulties or delays in obtaining spare parts, labor disputes, raw material shortages, natural disasters, civil disorders and industrial accidents. For example, at our shipyard, a substantial portion of our activities involves the fabrication and assembly of large steel structures, the operation of cranes and other engineering machinery, erection of vessels in our drydocks and docking and undocking of vessels. At our engine and engineering machinery plants, we often use large steel parts, engineering machinery and equipment and inflammable materials in the process of manufacturing diesel engines and heavy machinery. Each of these activities and materials involve inherent operational hazards.

We may, as a result, be exposed to substantial liability for personal injuries, deaths, product liabilities, property damages and environmental damages. The occurrence of any of these events may result in the interruption of our operations, while we do not have insurance for business interruption. Our insurance covers only some of the risks that we face and may not be sufficient to cover all our potential losses or liabilities. Moreover, our current insurance coverage may be at significantly lower levels of compensation than international market practice. Furthermore, we cannot assure you that the insurance will be generally available in the future or, if available, that the premiums will not increase or remain commercially justifiable. Any major disruption or disaster at our production facilities could have a material adverse effect on our business, results of operations and financial condition.

If we experience power shortages, we may not be able to meet our contract schedules, and our business, financial condition and results of operations may be adversely affected as a result

Our ability to meet our construction and delivery schedule is subject to a continued and adequate supply of power. As a result, we may experience delays and disruptions in our shipbuilding operations due to power shortages, and our product delivery to customers could be delayed beyond delivery schedules, which could adversely affect our revenues, gross margins and results of operations. Under the shipbuilding contracts with our customers, we generally have a 30 days grace period beyond the contractual delivery date to deliver vessels to our customers. If a delay extends beyond the grace period, our customers are normally entitled to liquidated damages stipulated in the contracts for the part of the delay falling within the next 180 days, after which they have the right to terminate. The liquidated damages are calculated based on the number of days elapsed after the 30 day grace period and the amount of damages per day according to the terms of each contracts. Delays in the delivery of vessels may have a negative impact on our customer relationships and business reputation and could result in significant damages, which may adversely affect our business, financial condition and results of operations.

Natural disasters, acts of war, political unrest, epidemics, terrorist attacks or other events which are beyond our control, may cause damage, loss or disruption to our business

We generally bear the risk of loss of raw materials or equipment and components in transit after our suppliers ship the supplies to us. We may face the risk of loss or damage to our properties, machinery and inventories due to natural disasters, such as snow storms, typhoons and flooding. Acts of war, political unrest, epidemics and terrorist attacks may also cause damage or disruption to us, our employees, our facilities and our markets, any of which could materially and adversely affect our sales, costs, overall operating results and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. In addition, certain Asian countries, including the PRC, have encountered epidemics such as severe acute respiratory syndrome, or SARS and incidents of avian influenza, or H5N1 bird flu. Past occurrences of epidemics have caused different degrees of damage to the national and local economies in the PRC. A recurrence of an outbreak of SARS, avian influenza or any other similar epidemic could cause a slowdown in the levels of economic activity generally, which may adversely affect our business, financial condition and results of operations. In the event any loss exceeds our insurance coverage or is not covered by our insurance policies, we will bear the shortfall. In such an event, our business, financial condition and results of operations could be materially and adversely affected.

The pricing arrangement under the Shipbuilding Agency Agreement, Services Agreement and marine engine purchase agreements may be challenged by PRC tax authorities

From January 1, 2008, Rongsheng Heavy Industries engaged Rongsheng Shipbuilding to complete the production process carried out in the drydocks by entering into a twenty year Shipbuilding Agency Agreement. Pursuant to the Services Agreement, which is to become effective on the date of the Listing, Rongsheng investment will pay Rongsheng Heavy Industries a service fee equivalent to the dividend it receives from Rongsheng Shipbuilding in respect of its 51% equity interest in Rongsheng Shipbuilding. In addition, several of our vessels, including some VLOCs, are powered or may be powered by engines manufactured by Rong An Power Machinery pursuant to the contracts between Rongsheng Heavy Industries and Rong An Power Machinery. These transactions may be treated as related party transactions under applicable PRC tax rules and reviewed by the PRC tax authorities. Our determination of service fees, contract prices and payments to or from Rongsheng Shipbuilding, Rongsheng Heavy Industries, Rongsheng Investment or Rong An Power Machinery may be challenged. If the PRC tax authorities determine that the transactions between these parties have not been made on an arm's length basis, they may make tax adjustments, which may result in a higher tax liability for our Group and lower distributable profits. In such an event, our business, financial condition and results of operations may be adversely affected.

Inaccurate application of percentage-of-completion accounting may have a significant impact on our period-to-period results of operations

We use the percentage-of-completion method to recognize and account for revenue derived from our shipbuilding contracts. Under this method, no profit will be recognized until the outcome of the contract can be reasonably ascertained, which is typically when the percentage of completion of the vessel under construction exceeds 20%. Costs are recognized as they are incurred and revenue is recognized based on the costs actually incurred relative to the total estimated costs. Before the percentage of completion of a vessel reaches 20%, the revenue recognized is not more than the costs actually incurred. If there are inaccuracies or flaws in our measurements for any given project or in our estimation methodology as a whole, such inaccuracies or flaws could have a material and adverse effect on the amount of revenue or profit recognized and timing of recognizing revenue and profit. Furthermore, we make provisions for estimated losses on uncompleted contracts in the period in which the losses are determined. To the extent that those provisions result in a reduction of our profits, we must recognize a charge against current earnings. These charges may significantly reduce our earnings, depending on the size of the contract and the adjustment. Because many of these contracts are completed over a period of several years, inaccurate cost estimates may affect the amount and timing of the revenue and profit recognized and may adversely affect our results of operations during this period.

Our shipbuilding and offshore engineering businesses are dependent on our information technology infrastructure and we rely on licensing from Wärtsilä and MAN Diesel & Turbo for our marine engine building business

We are dependent on our information technology infrastructure to conduct our shipbuilding and offshore engineering activities, manage risks, implement our internal control systems and manage and monitor our business operations. The key systems in place include an enterprise resource planning system, which enables our management to more accurately assess the inventory, production capacity and procurement requirements and the performance of each of our operating subsidiaries and assists them in allocating resources throughout our shipbuilding and offshore engineering segments and improves operational efficiency by enhancing supply chain and distribution management. We have introduced Tribon M3 Software, a program designed to produce a 3D model for the entire ship, as ship design aided tool. We rely on third party information technology service providers to maintain and upgrade our systems and have contracted reputable information technology companies widely accepted by the shipbuilding industry such as AVEVA Group PLC, MARS and Oracle to construct and improve our information technology infrastructure. A failure or breakdown of any part of our information technology infrastructure can interrupt our normal business operations, result in a slowdown in operational and management efficiency and impact our ability to meet our construction schedules. A serious dispute with our information technology service providers or termination of service contracts can impact our ability to upgrade our information technology infrastructure on a timely and cost-effective basis, which is critical to maintaining our competitiveness. If any of these events occur, our business, financial condition and result of operations may be adversely affected.

We rely on the licenses from Wärtsilä and MAN Diesel & Turbo to conduct our marine engine building business. We have entered into a ten-year licensing agreement with Wärtsilä and MAN Diesel & Turbo in August 2007 and September 2008, respectively. A dispute with Wärtsilä and MAN Diesel & Turbo or early termination of the licensing agreement can materially and adversely impact our engine building business. Each licensing agreement will terminate at the end of the specified period unless we can extend the term of the agreement or enter into a new licensing agreement with the licensor. However, we cannot assure you that we will be able to renew existing licenses or enter into new licenses on terms acceptable to us. Even if we successfully extended the licensing terms or entered into new licensing agreements, we cannot assure you that we will be able to have substantially similar terms and conditions as those stipulated in the current licensing agreements. If we cannot successfully implement or extend our licensing agreements or enter into new licensing agreements, our marine diesel engine building business, financial condition and results of operations may be adversely affected.

We may be involved in legal or other proceedings arising out of our operations from time to time and may face significant liabilities as a result

We may be involved from time to time in material disputes with various parties involved in the building of our vessels, offshore engineering products, marine diesel engines and engineering machinery, including but not limited to subcontractors, suppliers, contract workers, labor agencies, insurers, trading companies, banks and purchasers. These disputes may lead to protests, or legal or other proceedings, and may result in damages to our reputation, substantial costs and diversion of our resources and management's attention. In addition, we may encounter additional compliance issues in the course of our operations, which may subject us to administrative proceedings and unfavorable results, and result in liabilities and delays relating to our production schedules. For further information regarding the material legal proceedings we are currently involved, please refer to the section headed "Business — Legal Proceedings" in this prospectus. We cannot assure you as to the outcome of such legal proceedings, and any negative outcome may materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO OUR INDUSTRY

Worldwide demand and pricing for commercial ships are highly dependent on global economic conditions and cyclicality of the industries served by the shipping industry

Worldwide demand and pricing for commercial ships fluctuate with conditions in the shipping industry, which in turn are significantly influenced by trends in world seaborne trade and global economic conditions. The commercial shipbuilding industry is highly cyclical in nature. The global economic slowdown that started in 2008 resulted in lower global demands for products and raw materials and caused declines in the volume of exports and imports, which in turn have reduced the freight rates for vessels carrying products such as grain, coal, iron ore and crude oil. Demand for and pricing of our products are particularly sensitive to trends in the shipping, transportation, oil and other trade-related industries. Companies in these industries experience significant fluctuations in their revenues and profitability due to a variety of factors, including general economic conditions and factors affecting each of these industries individually. Freight rates were also affected by frozen credit markets and the reduction in banks' willingness to provide letters of credit used by traders to fund purchases of cargo. The low utilization rate, falling freight rates and the expected high delivery of new vessels in the future may reduce carriers' profitability and cause a number of ships to remain idle. Prices of new vessels may fall and shipowners may be unable to pay for new vessels. If the level of world seaborne trade in any of these industries such as shipping and oil industries, continues to decrease due to the global economic downturn or other factors, it may result in market conditions characterized by weaker demand and falling prices for our vessels and may adversely affect our business, financial condition and results of operations.

We are highly dependent on the growth of the PRC and global trade activities for raw materials such as crude oil, coal and iron ore

The commercial shipbuilding industry has traditionally experienced fluctuations in freight and charter rates and vessel values, depending on factors including the demand for, and supply of, shipping capacity, which in turn has been largely influenced by the PRC and global demands for, and supplies of raw materials such as crude oil, coal and iron ore. Our product offerings are concentrated on Suezmax crude oil tankers, Ice-1C Class Capesize bulk carriers, 6500 TEU containerships and 320,0000 DWT VLCCs, which are mainly used by shipping companies and cargo owners to transport crude oil, coal and iron ore to destinations in the PRC and worldwide. It is expected that sustained economic growth in the PRC and worldwide would create a growing demand for these raw materials, the prices and volumes of which have largely determined the growth of the global shipping industry. The expected increase in demand for crude oil in the PRC and worldwide would necessitate further exploration of new reserves in deep seas, which would in turn create a demand for offshore engineering products used to explore and extract crude oil from seabeds. The growth of our offshore engineering segment is highly dependent on the continuous PRC and global demands for these raw materials. However, the global economic slowdown that started in 2008 caused declines in the volume and price of exports and imports. We cannot assure you that the demand for raw materials can be sustained or will continue to grow or will not decrease. A decrease in demand in the PRC or globally may cause a reduction in demand for the bulk carriers, crude oil tankers or offshore engineering vessels we build and this decrease may adversely affect our business, financial condition and results of operations.

Global financial markets have experienced significant volatility since 2008, and our business, financial condition and results of operations may be adversely affected by such volatility

Certain recent adverse financial developments have impacted the global financial markets. These developments include a slowdown of economic growth in Europe, the U.S. and PRC, substantial volatility in securities markets, significant volatility and tightening of liquidity in credit markets. These adverse developments have negatively affected and may continue to affect our business, operating results or financial condition in a number of ways.

For example, volatility in exchange rates may lower our profit margins because the price of a number of our shipbuilding contracts, as well as our payments for imported raw materials and marine equipment are denominated in US dollars. In addition, the countries we imported raw materials from or export products to may increase tariffs in response to the changes in the global financial markets and we may be unable to pass these costs on to our customers. Moreover, if any of the countries institutes blockades against PRC imports or exports, our current or potential customers may delay, decrease or cancel orders, or not pay us or delay paying us.

These conditions may present various risks for an extended period of time and cause an increase in interest expenses on our bank borrowings, or reduce the amount of banking facilities currently available to us. If the economic downturn continues, our business, financial condition and results of operations could be materially and adversely affected.

Our costs may increase due to changes in regulations pertaining to the shipbuilding industry

The shipbuilding industry is heavily regulated by both PRC and international regulations. Among other things, the vessels we construct for our customers are required to meet the standards and requirements of the classification society specified by our customer and the rules applicable to the type and size of vessels promulgated by the relevant regulatory authorities that may comprise maritime authorities of the country of registry and of nations which the vessel is likely to trade or transit through, such as the Panama and Suez canals. Furthermore, construction of certain shipyard facilities is subject to approvals from the PRC government. Due to the rapid expansion of our business, our existing licenses, permits, authorizations or approvals may not match our growth and we may need to apply for new licenses, permits, authorizations or approvals. For example, we may need goliath gantry cranes with lifting capacities higher than the existing ones at our shipyard for the construction of large vessels or customized offshore engineering products. If we cannot obtain the requisite licenses, permits, authorizations or approvals, we may not be able to construct such new gantry cranes or may be ordered to remove any such existing facilities.

If PRC or international regulations applicable to the shipping industry become more stringent in the future or additional regulations or controls requiring the adoption of new construction requirements are introduced that we cannot satisfy in a cost efficient manner or we are unable to pass any additional costs resulting from these new requirements to our customers, our costs will increase. For example, the PRC has proposed new regulations on the Management of Production License for Shipbuilding, which, if implemented, will specify safety and environmental standards for shipbuilding and have cost implications for the shipbuilding industry. The Commission of Science Technology and Industry for National Defense issued the Guidelines on Increasing the Speed of the Building of Modern Shipbuilding Model, which requires the shipbuilding companies to build upgraded shipbuilding systems, which may increase costs for the shipbuilding industry. Any significant increase in cost due to changes in regulations in the shipbuilding industry may adversely affect our business, financial condition and results of operations.

We may incur additional costs or spend extra construction time due to our compliance with the international rules and standards applicable to the shipbuilding industry such as the CSR and PSPC

Like many other major PRC and global shipbuilders, we are subject to various international rules and standards applicable to the shipbuilding industry, which include the recently adopted Common Structural Rule and Performance Standard for Protective Coatings. On December 14, 2005, the Council of the International Association of Classification Societies adopted the Common Structural Rules for Tankers and Bulk Carriers for implementation on April 1, 2006. The CSR constitutes a single set of global classification standards for shipbuilding, which are intended to make new ships stronger and safer. Under the CSR, a minimum fatigue life of 25 years in the North Atlantic is applied to a new vessel and thus the CSR normally requires changes of hull scantlings and steel distribution in the vessel and more attention to the vessel's structural details. The CSR introduces a net scantling approach to ship design and construction and the material required for the strength of the vessel. It further requires additional specified thickness to account for corrosion as the vessel is operated and steel must be replaced to the original thickness if the vessel corrodes to the point where this additional thickness is lost. The CSR applies to double-hull oil tankers of 150 meters in length and above, and to single-side-skin and double-side-skin bulk carriers of 90 meters in length or above, constructed generally with hopper and topside tanks and hybrid bulk carriers where at least one cargo hold is constructed with hopper and topside tanks. As a number of our vessels fall into the categories governed by the CSR, we may incur additional costs due to our use of a larger amount of steel in building our vessels and adoption of more complex designs and more detailed construction plans for our vessels in meeting the CSR requirements. We may further need to spend more time to build our vessels due to the increased CSR requirements.

On December 8, 2006, the IMO adopted the new Performance Standard for Protective Coatings (the "**PSPC**"). The PSPC is intended to improve safety at sea by reducing the effects of corrosion in steel ships, and applies specifically to the protective coatings used for dedicated seawater ballast tanks in all types of ships of 500 gross tonnage and above and also in the double-side skin spaces of bulk carriers of 150 meters or more in length. The PSPC sets out detailed requirements for improved procedures and better quality control via increased inspection requirements at all stages within the areas of surface preparation, coating application and coating quality. The PSPC applies to all shipbuilding contracts dated on or after July 1, 2008. It further applies to all keels laid from January 1, 2009 onwards and to all vessels delivered from January 1, 2012 onwards. The PSPC already applies to the ballast tanks and single-side-skin spaces of tankers and bulk carriers built in accordance with the CSR since December 8, 2006, the date on which the PSPC standard was adopted. Our compliance with the PSPC may result in additional costs at the construction stage. In addition to the use of paint with specifications in compliance with the PSPC criteria, we further need to document the entire coating process from the raw steel plates to the final coating system. We must compile a coating technical file, which is to be kept on board and maintained throughout the life of the vessel. Our compliance with the PSPC may further result in extra construction time and slower throughput, a need to train more staff to carry out inspections and possible investments in new facilities and additional manpower.

If the cost increases or extra construction time arising from our compliance with international rules or standards have not been taken into account in our shipbuilding contracts or if they substantially exceed our estimates in existing fixed-price contracts, we may be unable to pass these costs on to or request additional construction time from our customers and our business, financial condition and results of operations may be adversely affected.

We face risks relating to our offshore engineering business

We commenced our offshore engineering business at our shipyard as a natural extension of shipbuilding and plan to complete our DPV by the end of December 2010. We expect the demand for our offshore engineering equipment to increase and to receive more orders in this segment in the near future.

Offshore engineering vessels and drilling units are generally used in exploration, development and production of oil and gas from offshore locations. The demand for our offshore engineering products is thus affected by changes of oil and gas prices.

Prices for oil and gas may be subject to wide fluctuations in response to changes in the supply and demand for oil and gas, marked uncertainty and various factors that are beyond our control. A prolonged downturn in oil and gas prices could depress the level of exploration, development and production activity offshore, which would reduce the demand for our products and put pressure on the prices that we charge for our products. If our profit margins and cash flow fluctuates due to these circumstances, our business, financial condition and results of operations may be adversely affected.

On April 20, 2010, the semi-submersible rig “Deepwater Horizon” caught fire in the Mississippi Canyon, Gulf of Mexico. The fire resulted in the total loss of the rig, 11 fatalities and a deepwater blowout. BP p.l.c. announced at the end of July 2010 that it had set aside US$32.2 billion to cover the costs associated with the oil spill. The U.S. government recommended a series of increased inspection and safety measures. In early June 2010, the Norwegian and Canadian governments announced that they would also suspend processing new license applications for deep water drilling while the UK and PRC governments have announced additional inspection requirements. The long-term impact for the offshore market is unclear given the uncertainty currently surrounding the decisions that oil companies, regulators and politicians will make. On the whole, however, deepwater drilling is likely to become more time consuming and expensive. For example, discussions are ongoing regarding a mandatory two-tack drilling system, where a relief well runs alongside the primary one, containment systems, safety protocol and the use of remotely operated vehicles in emergency situations. Other technical and regulatory areas are likely to be scrutinized as a result of this event. Although any conclusions regarding the impact on offshore engineering vessel designs would be speculative at present and there is no clear evidence to show that the incident has or will have direct impact on our offshore engineering business, we cannot assure you that our offshore engineering business will not be affected in the long run, or our offshore engineering business, financial condition and results of operations will not be adversely affected in the future.

We face risks relating to our marine engine building business

We commenced building low-speed marine diesel engines at our newly-built engine plant, Rong An Power Machinery in Hefei, Anhui province in 2008 and delivered our first diesel engine in October 2009. Our plant is expected to gain the capacity to manufacture more series of marine diesel engines in the near future and a wide variety of engines for vessels and vehicles in the long run. The majority of the low-speed marine engines it is manufacturing are expected to be used in the vessels we construct. We also expect to market these engines to other major shipbuilders in the world.

Our marine engine building subsidiary, Rong An Power Machinery, is required to comply with the environmental protection laws and regulations promulgated by the PRC government. Due to the nature of its operations, certain amounts of pollution are produced during its production process which is within the limits prescribed by PRC laws and regulations. However, the PRC government and the relevant local authorities may promulgate new environmental laws and regulations in the future, the compliance with which may require Rong An Power Machinery to upgrade or modify its existing facilities. Any additional costs so incurred may have an adverse effect on its profitability and financial conditions. If any stringent laws and regulations are imposed on the company, it may impact the economic viability of the company's production facilities resulting in the reduction or cessation of production of certain of the company's products.

Furthermore, Rong An Power Machinery relies on a limited number of suppliers such as Hyundai Heavy Industries for the supply of diesel engine parts and certain services, the details of which are set out in the section headed "Business" in this prospectus. These services and diesel engine parts are important to the manufacture of diesel engines by the company, and the future relationships between the company and these suppliers and the performance of their obligations under their respective agreements with the company will be critical to its continued success. Should any of these suppliers suspend or discontinue the provision of the relevant services or the supply of the relevant diesel engine parts to the company for any reason, Rong An Power Machinery may not be able to secure similar services on similar or better terms from an independent third party in the market and the business and operations of the company may be adversely affected.

Currently, Rong An Power Machinery relies on the licenses, know-how and technical support of several major engine manufacturers, including Wärtsilä and MAN Diesel & Turbo. Rong An Power Machinery is generally required to pay Wärtsilä licensing fees per Brake Horse Power as soon as the licensed engine is completed, in addition to engine drawing fees. It is also generally required to pay MAN Diesel & Turbo an initial payment and licensing fees per kW when the licensed engine is delivered, in addition to certain engine drawing fees. Disputes over issues such as rights and obligations of respective parties under the relevant licensing arrangements, provision of technical support and other services, and amount and frequency of license fee payments may arise during the course of business. Resolution of such disputes could be costly and any failure to resolve such disputes may deprive us of the needed technology. If these companies refuse to grant us such licenses, or significantly raise their license fees, there can be no assurance that we will be able to find replacements on commercially reasonable terms or at all or that the business or operations of Rong An Power Machinery will not be adversely affected.

We face risks relating to our engineering machinery business

Continuous technological developments to deliver better performance are an important factor in the market in which our engineering machinery products are sold to. Research and development activities require considerable human resources and capital investment. Our continued growth depends on our research and development capabilities. Our R&D of excavators and other infrastructure machinery is only at an early stage when compared to leading international engineering machinery manufacturers. If we are unable to enhance our R&D capabilities to improve our existing products or to develop new products that meet engineering machinery users' changing requirements or if we are unsuccessful in developing excavators and/or other engineering machinery, we may be placed at a disadvantageous position against our competitors, which may adversely affect our results of operations and future development.

Even if our research and development efforts are successful, we may not be able to apply these newly developed technologies to products that will be accepted by the market or apply them in a timely manner to take advantage of the opportunities presented in the market. Furthermore, the market demand expected at the development stage may not materialize or the market may not accept our new products when we introduce them. The level of economic benefits that can be derived from newly developed technologies or products may be affected by how quickly our competitors can replicate these technologies or products or develop newer or cheaper alternatives. If our technologies or products are replicated, replaced or made redundant in a manner that we did not anticipate, our revenue may not offset the costs that we have incurred in developing the new technologies. Furthermore, if we are not able to anticipate trends in technological or product developments and rapidly develop new and innovative technologies or products required by our customers, we may not be able to produce sufficiently advanced products at competitive prices, which in turn may have a material and adverse impact on our business, financial position and results of operations.

In addition, our patents, trade secrets, technology licenses and other intellectual property rights are important to our business. We own or otherwise have rights to a number of patents. We cannot assure you that these measures will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop alternative technologies that are equivalent or superior to technologies based on our intellectual property. Existing laws in the PRC offer limited protection of our intellectual property rights. Enforcing our intellectual property rights could be costly and we may not be able to detect unauthorized use or take appropriate and timely actions to enforce our intellectual property rights.

If potentially infringing conduct is discovered or claims on use or infringement of intellectual property are brought by or against us, we may need to defend our intellectual property rights in legal proceedings. Bringing or defending such claims, should they arise, would divert our financial and human resources from the core activities related to our operations. If we do not prevail in such proceedings, we may not be able to stop the third parties from continuing to use the relevant intellectual property and may be required to pay damages and be barred from using certain technologies, designs or other intellectual property rights. No assurance can be given that we will be able to develop non-infringing substitutes or replacements or to obtain licenses to such intellectual property rights on commercially reasonable terms or at all.

Moreover, we may be subject to product liability claims, suits and complaints incidental to our business in the PRC. If our products are found defective and/or cause property or economic loss or damage or physical injury to any person, we may have to devote significant resources to defend any such potential claims or to provide compensation. This may also adversely affect our relationship with our customers, lead to negative publicity and have other adverse consequences, any of which may adversely affect our business, financial condition and results of operations.

Furthermore, the continuous growth of the infrastructure and construction-related industries, which are in turn affected by government policies and the general economic conditions in the PRC, is one of the reasons for the growth in the sale of our excavators and cranes. Any government policy affecting the infrastructure and construction-related industries and any significant economic downturn in the PRC could have a material impact on the level of demand for excavators in the PRC. If a prolonged downturn in the infrastructure and construction-related industries occurs, our financial condition and results of operations will be adversely affected.

RISKS RELATING TO PRC GOVERNMENT REGULATIONS AND POLICIES

Our business, financial condition and results of operations are highly susceptible to changes in the PRC's political, economic and social conditions as we conduct our operations primarily in the PRC

Our production activities and principal place of business are located in the PRC. Accordingly, our business and future growth are dependent on the political, economic, regulatory and social conditions of the PRC. Any changes in the policies implemented by the government of the PRC which result in currency and interest rate fluctuations, capital restrictions, and changes in duties and taxes detrimental to our business may adversely affect our business, financial condition and results of operations. Unfavorable changes in the social, economic and political conditions of the PRC and in PRC government policies in the future may adversely affect our operations in the PRC which in turn may adversely affect our business, financial condition and results of operations. In particular, the recent global financial slowdown has resulted in unprecedented financial situations for the businesses and regulatory authorities in the PRC. Various untested regulatory measures may be taken within a short period of time by the PRC government to stabilize the economy which may result in uncertainties in the PRC's political, economic and social conditions. For example, to cope with the international financial crisis, on June 9, 2009, the General Office of the State Council issued the Plan on Adjusting and Revitalizing the Ship Building Industry (船舶工業調整和振興規劃) which specifies that the overall requirements on maintaining growth, expanding domestic demand and adjusting industrial structure, accelerate the structural adjustment of the ship industry, improve the independent innovation ability of the enterprises, enhance industrial upgrading and promote the sustainable, healthy and stable development of the ship industry of China. This plan is made as a comprehensive action plan for the ship industry for the period between 2009 and 2011. However on September 26, 2009, the State Council promulgated the Notice of Several Opinions on Curbing Overcapacities and Redundant Constructions in Certain Industries and Guiding the Healthy Development of Industries (國務院批轉發展改革委等部門關於抑制部份行業產能過剩和重複建設引導產業健康發展若干意見的通知(國發(2009)38號)). According to this notice, within three years starting from the date of the notice, no applications for new dock on slipway projects are accepted, and examination and approval of projects for the expansion of existing shipyards and berths of ship-building enterprises are suspended.

Some of our PRC subsidiaries are foreign-invested enterprises and thus are subject to the PRC government's foreign investment policies and laws. For example, according to the Foreign Investment Industries Catalogue, industries are categorized as encouraged, restricted or prohibited for the purpose of approving and monitoring inbound foreign investments. Under the newly promulgated Foreign Investment Industries Catalogue, which became effective on December 1, 2007, our shipbuilding business falls into the restricted category. Our marine engine building is encouraged but foreign ownership is only allowed up to 49%. As the Foreign Investment Industries Catalogue is updated every few years to reflect the changing policies on foreign investment in China, more of our business may fall into the restricted or even prohibited category when the government further amends the Foreign Investment Industries Catalogue and if so, we will be subject to stringent restrictions on the operation, development and administration of our business. Consequently, our business, financial condition and results of operations may be adversely affected.

PRC restrictions on foreign ownership in the shipbuilding industry and marine engine building industry may adversely affect our business, expansion and growth

To ensure compliance with PRC law relating to restrictions on foreign investment in the PRC shipbuilding industry, we may not make an equity contribution to Rongsheng Shipbuilding unless Rongsheng Investment makes a proportionate equity contribution to Rongsheng Shipbuilding. Should Rongsheng Investment refuse to do so, we may be unable to utilize the proceeds of the Global Offering to increase our equity contribution to Rongsheng Shipbuilding. As a result, Rongsheng Shipbuilding may face difficulties in raising funds for its business, and this may adversely affect our business, financial condition and results of operations.

Similarly, in our marine engine building segment, in order to comply with PRC law relating to restrictions on foreign investment in the enterprise designing and manufacturing low-speed and medium-speed marine diesel engine and crankshafts, our Company may not make an equity contribution to Rong An Power Machinery, unless Rongsheng Shipbuilding makes proportionate equity contribution. Since we do not own a majority equity interest in Rongsheng Shipbuilding, we cannot assure you that we may be unable to utilize the proceeds of the Global Offering to increase our equity contribution on Rong An Power Machinery.

In addition, if we seek to acquire other PRC shipbuilders and engine builders, the PRC law relating to restrictions on foreign investment in the PRC shipbuilding and engine building industries require us to limit our equity interest in any such acquired target companies to not more than 49%. Accordingly, our equity interest in any such acquired target companies would be less than a majority equity interest, and as a result, subject to the terms and conditions of the acquisition, we may not be able to effectively exercise management and financial control over any of these companies acquired.

We may not be able to acquire the remaining equity interest in Rongsheng Shipbuilding

Under the Shareholders' Agreements entered into between Rongsheng Investment and Rongsheng Heavy Industries which came into effect on May 21, 2008, Rongsheng Investment has undertaken to transfer its equity interest in Rongsheng Shipbuilding to our Group as and when permitted by applicable PRC laws and regulations, if our Company remains a listed company. As existing PRC laws and regulations prohibit foreign equity control of shipbuilding enterprises and there is no indication that these laws will be amended, we cannot assure you that we will be able to acquire additional equity interest in Rongsheng Shipbuilding in the future. In addition, our acquisition of additional equity interest in Rongsheng Shipbuilding depends on Rongsheng Investment's cooperation. If Rongsheng Investment does not adhere to or refuse to carry out its contractual obligations under our contractual arrangements, or if the PRC government determines that our contractual arrangements are not in compliance with applicable PRC laws, rules and regulations, we will not be able to acquire additional equity interest in Rongsheng Shipbuilding. As a result, our business, financial conditions, results of operations and prospects could be materially and adversely affected.

Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes in which we may be involved

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are subject to policy changes and therefore, enforcement of laws in China is uncertain. We cannot assure you that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not adversely affect our business, financial condition and results of operations.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited and decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolution may not be as consistent or predictable as in other jurisdictions and it may be difficult to obtain the enforcement of a judgment by a court of another jurisdiction in the PRC. We may also be affected by any regulation implemented by the PRC government affecting our investments in our PRC subsidiary, such as any regulation requiring us to reduce our shareholding in our PRC subsidiary. In such an event, we may lose management and operational control of these subsidiaries, which may adversely affect our business, financial condition and results of operations.

It may be difficult to effect service of process upon us or our Directors who reside in the PRC or to enforce against us or them judgments obtained from non-PRC courts

We are incorporated in the Cayman Islands. Most of our Directors are residents of the PRC. Almost all of our assets are located within the PRC. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most other jurisdictions. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. On July 14, 2006, Hong Kong and mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of this judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of this judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service or process against our assets or Directors in China in order to seek recognition and enforcement for foreign judgments in China.

We may fail to comply with PRC laws and regulations and the conditions stipulated in our licenses, permits or approvals

Our business and operations in the PRC are subject to government rules and regulations, including safety and health regulations. We may be unable to meet the requirements set by the PRC authorities at all times. We may also be required to incur higher costs to comply with new PRC regulations if stricter or more onerous laws, rules or regulations are imposed, and our business, financial condition and results of operations may be adversely affected.

We are required to obtain various licenses, permits and approvals for our operations, including pollutant discharge licenses, foreign investment approvals, business licenses, tax registration certificates and foreign exchange registration certificates. Our failure to obtain and maintain any licenses, permits or approvals necessary to operate our business may adversely affect our business, financial condition and results of operations.

Breach or non-compliance with these PRC laws and regulations may result in the suspension, withdrawal or termination of our business licenses or permits, or the imposition of penalties by the relevant authorities. Our subsidiaries' business licenses were granted for a limited period and any extension is subject to the approval of the relevant authorities. Any suspension, withdrawal, termination or refusal to extend our business licenses or permits would require us to cease production of some or all of our products, which may adversely affect our business, financial condition and results of operations.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds from the Global Offering to make loans or additional capital contributions to our PRC operating subsidiaries

As an offshore holding company, our ability to make loans or additional capital contributions to our PRC operating subsidiaries is subject to PRC regulations and approvals. These regulations and approvals may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC operating subsidiaries, and impair our ability to fund and expand our business which may adversely affect our business, financial condition and results of operations.

In utilizing the proceeds of the Global Offering in the manner described in the section headed "Future Plans and Use of Proceeds" in this prospectus, we may make loans to our PRC operating subsidiaries or we may make additional capital contributions to our PRC operating subsidiaries. Any loan to our PRC operating subsidiaries will be subject to PRC regulations and approvals. For example, loans by us to our PRC operating subsidiaries, each of which is a foreign-investment entity, to finance their activities cannot exceed statutory limits and must be registered with SAFE, or its local counterpart. We may also decide to finance our PRC operating subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC operating subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of the Global Offering and to capitalize our PRC operations may be negatively affected. As a result, our liquidity and our ability to fund and expand our business could be impaired, which may adversely affect our business, financial condition and results of operations.

Changes in the M&A Regulations by the PRC government may adversely affect our Reorganization or our proposed listing

On August 8, 2006, six PRC central government bodies — the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued the M&A Regulations, effective on September 8, 2006 and amended on June 22, 2009. Article 40 of the M&A Regulations stipulates that the overseas listing and trading of shares of a special purpose vehicle requires the approval of the CSRC. The term special purpose vehicles is defined in Article 39 of the M&A Regulations as overseas companies directly or indirectly controlled by PRC companies or individuals formed for the purpose of overseas listing of their equity interests in PRC domestic entities. On September 21, 2006, the CSRC published guidelines on the M&A Regulations setting out the application procedure and requirements. The special purpose vehicles that have obtained the approval of MOFCOM and SAFE prior to September 8, 2006 for an overseas listing would not be required to seek the approval of CSRC under the M&A Regulations.

Our PRC legal advisors have advised us that all approvals required for the foreign acquisition and the Reorganization have been validly obtained and no approval from MOFCOM and CSRC is required for our proposed listing on the Stock Exchange because Mr. Zhang is not a PRC resident as his PRC citizenship was cancelled and he obtained his Hong Kong identity card in 2004. We cannot assure you that the PRC regulatory authorities will not issue new regulations or further interpretations of the M&A Regulations or other current PRC laws and regulations that may require us to obtain further approvals from PRC government bodies with respect to our Reorganization or in connection with our listing on the Stock Exchange. Any of these factors may adversely affect our business, financial condition and results of operations.

The M&A Regulations also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit the completion of such transactions, which could affect our ability to expand our business.

We are subject to environmental laws and regulations which may increase our cost of doing business

The operations of our PRC operating subsidiaries are subject to laws and regulations of the PRC relating to the protection of the environment and human health. These environmental laws and regulations impose limitations on the emission of noise and discharge of pollutants into the environment and establish standards for the generation, handling, storage, transportation, treatment and disposal of raw materials, hazardous waste and other materials. The government may impose significant fines or penalties for violations of these environmental laws and regulations. The production activities of our PRC operating subsidiaries may produce harmful emissions including volatile or noxious chemical compounds, metal waste, noise, odor and wastewater. They are required to obtain permits for discharging pollutants from the relevant environmental authorities in accordance with PRC law and such permits are subject to annual inspections at the end of every year. In addition, due to the rapid expansion of our business, our existing licenses, permits, authorizations or approvals may not match our growth and we may need to apply for new licenses, permits, authorizations or approvals. For example, we may not have the permission to discharge the increased amount of industrial waste water due to our increased manufacturing activities without obtaining new permits. If we fail to comply with these requirements or fail to obtain/renew such permits or pass any inspections (including but not limited to noise pollution checks, industrial discharge inspections) conducted by any relevant PRC authorities, we could be subject to fines or suspension of operations, which may adversely affect our business, financial condition and results of operations.

In addition, as all of our products are exported to overseas markets, we are also subject to the environmental laws and regulations of various jurisdictions or international industry organizations. As awareness of environmental issues and protection increases, our business may be required to adapt to new laws and changes and any failure to comply with such laws and regulations may subject us to penalties and damage the reputation of our Group.

Some environmental laws impose joint and several strict liability for remediation of spills and releases of oil and hazardous substances. Under these laws and regulations, we could be liable for environmental damage regardless of negligence or fault on our part. As a result, these laws expose us to potential liability for the conduct of or conditions caused by others. In addition, environmental laws in the PRC are subject to change. We are unable to predict the future costs or other future effects of environmental laws on the operations of our PRC operating subsidiaries. In addition, any changes in environmental or other laws affecting our business may further increase our costs, which may adversely affect our business, financial condition and results of operations.

PRC foreign exchange control may limit our ability to utilize our cash effectively and affect our ability to receive dividends and other payments from our PRC operating subsidiaries

Our PRC operating subsidiaries — Rongsheng Heavy Industries, Rongsheng Painting, Rongye Mechanical, Rongye Storage, Rongding Marine Engineering and Rong An Heavy Industries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Currently, FIEs (including wholly foreign-owned enterprises) are required to apply to SAFE for Foreign Exchange Registration Certificates for FIEs. With this registration certification (which must be renewed annually), FIEs are permitted to open foreign currency accounts including a current account and a capital account. Currently, transactions within the scope of a current account (for example, remittance of foreign currencies for payment of dividends) can be effected without requiring the approval of SAFE. However, conversion of currency in a capital account (for example, for capital items such as direct investments, loans and securities) requires the approval of SAFE. Our PRC operating subsidiaries have obtained Foreign Exchange Registration Certificates for FIEs, which are subject to annual inspection and renewal.

We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of RMB or issue new rules and regulations or further interpretations of its foreign exchange control laws, rules and regulations that will strengthen PRC foreign exchange control. In the years ended December 31, 2007, 2008 and 2009 and for the eight months ended August 31, 2010, approximately 100%, 99.4%, 96.9%, 91.8% of our revenue were denominated in US dollars, while around 10%-20% of our costs were denominated in RMB. As such, any future restrictions on currency exchange may limit our ability to utilize funds generated in the PRC to fund any business activities outside the PRC or to distribute dividends to our Shareholders.

PRC SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC operating subsidiaries or impair the ability of our PRC operating subsidiaries to pay dividends or other distributions to us

SAFE issued the Notice of SAFE on Relevant Laws concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment Via Overseas Special Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知(匯發[2005]75號)) (the "**SAFE Notice**") on October 21, 2005, effective on November 1, 2005, requiring PRC residents, including both legal persons and natural persons, to register with the local SAFE branch before establishing or controlling any company outside of China, referred to as an offshore special purpose company, for the purpose of acquiring any assets of or equity interest in PRC companies and raising funds from overseas. In addition, any PRC resident that is the shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch, to reflect its new shareholding in the offshore special purpose company as a result of any increase or decrease of capital, transfer of shares, merger, equity investment or creation of any security interest of that offshore special purpose company and is not involved in return investment. If any PRC shareholder of any offshore special purpose company fails to make the required SAFE registration and amendment, the PRC subsidiary of that offshore special purpose company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore special purpose company. Moreover, failure to comply with the SAFE registration and amendment requirements described above may result in personal liability under PRC laws for the evasion of applicable foreign exchange restrictions.

Our current owners, Mr. Zhang and Fine Profit are not PRC residents. There is no assurance that a PRC resident will not become one of our beneficial owners. If any of our beneficial owners is or becomes a PRC resident or any PRC resident becomes one of our beneficial owners, they may need to file and/or amend their registration with the local SAFE branch pursuant to the SAFE Notice. We cannot assure you that the PRC regulatory authorities will not issue new regulations or further interpretations of the SAFE Notice or other current PRC laws and regulations that may require our beneficial owners file and/or amend their registration with the local SAFE branch with respect to our Reorganization or in connection with our listing on the Stock Exchange. The failure of the aforesaid beneficial owners to file and/or amend their SAFE registrations in a timely manner pursuant to the SAFE notice or the future regulations or/and interpretations may subject such beneficial owners to fines and legal sanctions and may also restrict our overseas or cross-border investment activities or result in a restriction on the ability of our PRC operating subsidiaries to distribute profits to us or otherwise materially and adversely affect our business.

Changes in tax and other preferential policies may adversely affect our business, financial condition and results of operations

Our Company is incorporated under the laws of the Cayman Islands with substantially all of our operations conducted through our PRC operating subsidiaries. Our business benefits from certain PRC government incentives are described below. Expiration of, or changes to, these incentives may adversely affect our business, financial condition and results of operations. In particular, Rongsheng Heavy Industries, Rongsheng Painting, Rongye Mechanical, Rongye Storage, Rongding Marine Engineering and Rong An Heavy Industries were established either as FIE or WFOE. Under the previous Foreign Invested Enterprise and Foreign Enterprise Income Tax Law and related administrative regulations in China, FIEs were entitled to an enterprise income tax exemption for two years commencing from the first profit-making year after offsetting all tax losses carried forward from previous years, and a 50% tax reduction for the following three consecutive years. The Enterprise Income Tax Law of the PRC, which was promulgated on March 16, 2007 and came into effect on January 1, 2008, imposes a unified enterprise income tax rate of 25% for both FIEs and domestic enterprises. On December 26, 2007, the State Council promulgated a Notice on Transition Guidelines for Preferential Income Tax Treatment (the "**Transition Notice**") which provides, among other things, that FIEs established prior to March 16, 2007 that were eligible for preferential tax treatment under the previous FIE Tax Law will be eligible to become subject to the new tax rate over a transitional period starting from the date of effectiveness of the New Income Tax Law.

Under the new Enterprise Income Tax Law and the Transition Notice, Rongsheng Heavy Industries, as an FIE established in June 8, 2006, is eligible for a full exemption from enterprise income tax for two years commencing from 2006, regardless of whether it becomes profitable by January 1, 2008 as measured under the previous FIE Tax Law, and a 50% tax reduction of its current enterprise income tax rate of 25% for the following three years until 2012. Since Rongsheng Painting, Rongye Mechanical, Rongye Storage, Rongding Marine Engineering and Rong An Heavy Industries were established either as FIE or WFOE after the promulgation of the New Income Tax Law, they are not entitled to any tax holiday or preferential tax rate in respect of the enterprise income tax and subject to the statutory income tax rate of 25% since their establishment.

The preferential tax treatment enjoyed by Rongsheng Heavy Industries from 2008 resulted in lower effective tax rates for our Group, which were 0.2%, 0.004%, 0.1% and 14.9% for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. When our current tax benefits expire or become unavailable as a result of the enactment of new laws or for any other reasons, the effective income tax rate applicable to our PRC operating subsidiaries will increase significantly. Any further increase of the income tax rate applicable to our PRC operating subsidiaries may adversely effect our business, financial condition and results of operations and may adversely affect the value of our Shares. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax benefits currently available to us and other reasons.

Withholding income tax on dividends received by our Company and Shareholders may be increased

We are incorporated under the laws of the Cayman Islands and hold interests in our PRC operating subsidiaries through our Hong Kong subsidiaries. Dividends derived from our business operations in the PRC before January 1, 2008 are not subject to withholding income tax under PRC tax law. Under the New Income Tax Law, as a non-PRC tax resident enterprise without an establishment or premises in the PRC, the withholding income tax rate of 10% will be applicable to any dividends paid to us, unless we are entitled to claim a tax treaty benefit in respect of dividends under tax treaty concluded between the PRC and other countries/regions. According to the tax treaty concluded between the PRC and Hong Kong Special Administrative Region and the related PRC tax circulars, dividends paid by a foreign-invested enterprise in China to its shareholder(s) in Hong Kong would be subject to withholding tax at a rate of no more than 5% if the relevant criteria are met.

In addition, the PRC State Administration of Taxation promulgated the Notice of Taxation on How to Understand and Determine the "Beneficial Owners" in Tax Agreements ("**Circular 601**") (國家稅務總局關於如何理解和認定稅收協定中"受益所有人"的通知 (國稅函 [2009] 601 號)) on October 27, 2009. Circular 601 provides that the tax treaty benefits on dividends will be denied to "conduit" — or shell companies that without business substance and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits. Thus, if the tax treaty benefit on dividends under the tax treaty concluded between the PRC and HKSAR is not granted, the withholding tax rate of 10% will be applicable to dividends derived from our business operations in the PRC. Besides, it is unclear whether the dividends we pay with respect to our Shares would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the New Income Tax Law to withhold PRC income tax on any dividends we pay to our foreign Shareholders, the value of your investment in our Shares may be materially and adversely affected.

In addition, the new laws provide that if an enterprise incorporated outside the PRC has its de facto management organization located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income. Furthermore, a recent circular issued by the State Administration of Taxation on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a "resident enterprise" with its "de facto management bodies" located within the PRC if the following requirements are satisfied:

(i) the senior management and core management departments in charge of its daily operations function mainly in the PRC;

(ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC;

(iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and

(iv) more than half of the enterprise's directors or senior management with voting rights reside in the PRC.

The PRC tax resident enterprise status will be assessed based on totality of facts of each case with reference to the four factors mentioned above. If the PRC tax authority views us as a PRC tax resident enterprise based on their assessment and determination according to the local practices and relevant tax regulation, we would subject to an enterprise income tax rate of 25% on our worldwide income (including dividend income received from our subsidiaries), which excludes the dividends received directly from another PRC tax resident.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and our results of operations

On June 29, 2007, the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. Compared to the Labor Law, the Labor Contract Law establishes more restrictions and increases the cost to employers upon termination of employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee general assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labor Contract Law, an employer is obligated to sign an unlimited term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts. The employer also has to pay compensation to employees if the employer terminates an unlimited term labor contract. Unless an employee refuses to extend an expired labor contract, even though the conditions offered by the employer are the same as or better than those stipulated in the current contracts, compensation is also required when the labor contract expires. Further, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive this vacation time at the request of employers may be compensated at three times their normal salaries for each waived vacation day. As a result of these new protective labor measures, our labor costs may increase. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future.

Moreover, we are required to contribute to a number of employee social insurance schemes such as pension insurance. We provide social insurance to our employees in accordance with local government authorities' implementation policies. We believe that such policies could be less stringent than the requirements under the PRC labor laws and regulations. Therefore, we may be required to incur additional expenses to comply with such laws and regulations, which in turn may affect our results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile

Prior to the listing of our Shares on the Stock Exchange, there has been no public market for our Shares. The Offer Price for our Offer Shares will be the result of negotiations between us and the Joint Global Coordinators (on behalf of the Underwriters), and may differ from the market prices for our Shares after listing. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, we cannot assure you that the listing of our Shares on the Stock Exchange will result in the development of an active and liquid public trading market for our Shares.

The market price, liquidity and trading volume of our Shares may be volatile. There can be no assurance as to the ability of the holders to sell their Shares or the price at which those Shares can be sold. As a result, shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares under the Global Offering. Factors that may affect the volume and price at which our Shares will be traded include, among other things:

- success or failure of our management team in implementing our business and growth strategy;
- gain or loss of an important business relationship or adverse financial performance by a significant customer or group of customers;
- addition or departure of key personnel;
- involvement in litigation;
- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts' recommendations, perceptions or estimates of our financial performance;
- changes in conditions affecting the industry, general economic conditions, or stock market sentiments or other events and factors;
- changes in market valuations and share prices of companies with similar businesses to our Company that may be listed in Hong Kong;
- liquidity of the market for our Shares; and
- fluctuations in stock market prices and volume.

Furthermore, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past due to reasons unrelated to their performance, and our Shares may also be subject to changes in price not directly related to our performance.

We are a holding company and rely on dividend payments from our PRC operating subsidiaries for funding

We are a holding company incorporated in the Cayman Islands and operate our business through our PRC operating subsidiaries in the PRC. Therefore, the availability of funds to us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from our PRC operating subsidiaries. If our consolidated PRC operating subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us.

Our ability to declare dividends in relation to our Shares will also depend on our future financial performance, which, in turn, depends on successfully implementing our strategy and on financial, competitive, regulatory, and other factors, general economic conditions, demand and prices for our vessels, costs of raw materials and other factors specific to our industry or specific projects, many of which are beyond our control. The receipt of dividends from our consolidated PRC operating subsidiaries may also be affected by the passage of new laws, adoption of new regulations or changes to, or the interpretation or implementation of existing laws and regulations and other events outside our control. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including Hong Kong and the Cayman Islands. PRC laws also require foreign-invested enterprises, such as our consolidated PRC operating subsidiaries in the PRC, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

In addition, restrictive covenants in our bank credit facilities or other borrowings may restrict the ability of our combined PRC operating subsidiaries to distribute dividends to us. Similar financing agreements or other agreements that we or our PRC operating subsidiaries may enter into in the future may also restrict the ability of our PRC operating subsidiaries to make contributions to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

We have significant discretion as to how we will use the net proceeds of the Global Offering and you may not necessarily agree with how we use them

The net proceeds to be received by us from the Global Offering will be HK$11,595.3 million, assuming an Offer Price of HK$8.70 per Offer Share, being the mid-point of the proposed Offer Price range of HK$7.30 to HK$10.10 per Offer Share. Our management may spend the net proceeds from the offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering for capital expenditures for expansion of our production facilities, investments in research and development, repayment of debt and other general corporate purposes. We may also use part of the net proceeds to repay our existing debts. Our management will have discretion as to the actual application of our net proceeds, and you are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from the Global Offering.

Purchasers of our Offer Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than the pro forma net tangible assets value per Share of approximately HK$2.59 as of August 31, 2010 based on the maximum Offer Price of HK$10.10 per share after adjusting for the estimated net proceeds from the issue of the Shares and based on our Company's post Global Offering issued share capital of 7,000,000,000 Shares. Therefore, purchasers of our Offer Shares in the Global Offering will experience an immediate dilution by a pro forma net tangible assets value of HK$7.48 per Share, based on the maximum offer price of HK$10.10. Further, in order to expand our capabilities and business, we may consider offering and issuing additional Shares in the future. Purchasers of our Offer Shares may experience dilution in the net tangible assets book value per Share if we issue additional Shares in the future at a price which is lower than the net tangible assets value per Share.

Future sales of Shares could adversely affect our Company's Share price

Any future sale or availability of our Shares in the public market could have a downward pressure on our Share price. The sale of a significant amount of Shares in the public market after the Global Offering, or the perception that such sales may occur, could materially and adversely affect the market price of our Shares. These factors also affect our ability to sell additional equity securities. We anticipate that our Controlling Shareholder, Fine Profit, will collectively hold approximately 52.1% of our entire issued share capital after the completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the indicative Offer Price range and the Over-allocation Option is not exercised, and excluding any Shares which may be issued pursuant to the exercise of the options which have been granted under the pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme). Mr. Zhang will hold approximately 53.7% of our voting shares through his holding of the entire issued share capital of Fine Profit and Wealth Consult after the Global Offering (assuming the low point of the offer price), subject to certain lock-up undertakings for periods ending six months after the date on which trading in the Shares commences on the Stock Exchange. Any substantial sale of our Shares over a short period of time after the expiry of the applicable moratorium period (where applicable) could cause our Share prices to fall.

We cannot assure you that there will be dividends available for distribution to our shareholders

We did not declare or pay any dividends to our Shareholders during the Track Record Period. The dividends available for distribution to our Shareholders mainly depend on whether profits are available for distribution by us, which in turn partly depends on whether dividends are distributed to us by our PRC operating subsidiaries. However, distributions by our PRC operating subsidiaries require both the shareholders' approvals in accordance with the terms of their articles of association and the approval by either the boards of directors or shareholders of such other subsidiaries in accordance with the terms of their respective articles of association. There can be no assurance that the shareholders or the boards of directors or shareholders of such entities will approve dividend distributions in the future. If there is little or no profit distribution by our PRC operating subsidiaries, we may not be able to make dividend payments to our shareholders. Even if profits are available for distribution by us to our Shareholders, our Directors may decide that a dividend distribution would not be in the best interests of our Company.

Distributable profits of our Company and its subsidiaries are determined in accordance with their accounting policies in PRC GAAP and the terms of the relevant articles of associations and joint venture contracts. Such profits differ from those that would be calculated using accounting policies in IFRS in certain respects, including recognition of profits of jointly-controlled entities and associates. According to the relevant PRC rules and regulations, distributable profits of a company listed on the Stock Exchange are the lesser of the profits determined under PRC GAAP and that determined under IFRS. In addition, under the relevant PRC financial regulations, profits available for distribution are determined after setting aside statutory reserve funds required under PRC law which are not available for distribution as cash dividends. As a result, we may not have distributable profits to pay dividends.

You may face difficulties in protecting your interests due to less protection to minority shareholders under Cayman Islands law

We are incorporated under Cayman Islands law and our corporate affairs are governed by our Memorandum and Articles and by the Cayman Islands Companies Law and common law of the Cayman Islands. The Cayman Islands Companies Law and related laws provide less protection to minority shareholders' interests compared with statutes and judicial precedents in existence in Hong Kong or some other jurisdictions. For instance, the Cayman Islands does not have a statutory equivalent of section 168A of the Companies Ordinance which provides a remedy for shareholders who have been unfairly prejudiced by the conduct of our affairs. More details are set forth in "Summary of the Constitution of our Company and Cayman Islands Companies Law" in Appendix VI to this prospectus.

Certain facts, forecasts and other statistics with respect to the PRC, the PRC economy and the shipbuilding industry in this prospectus are derived from various industry sources and official government information and may not be reliable

Certain facts, forecasts and other statistics in this prospectus relating to the PRC, the PRC economy or our industry and markets have been derived from official government information and industry sources, generally believed to be reliable. We have taken reasonable care in reproducing these facts and statistics in this prospectus from their respective official government information and industry sources. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Selling Shareholder, the Joint Global Coordinators, the Underwriters or any of its or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. You should not put undue weight or importance on such facts, forecasts or statistics.

You should not rely on any information contained in press articles or other media regarding us and the Global Offering

Prior to the completion of the Global Offering, there has been press and media coverage regarding us and the Global Offering, such as the article appeared in Headline Daily on July 22, 2010, articles published in Apple Daily, Hong Kong Economic Journal, Oriental Daily News, the Sun and Wen Wei Po on October 16, 2010, articles published in Sing Tao Daily and Ta Kung Pao on October 18, 2010 and the article on Ta Kung Pao on November 1, 2010. We do not accept any responsibility for the accuracy or completeness of such information. Our Directors make no representation as to the appropriateness, accuracy, completeness or reliability of any such information included in or referred to by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding us or our Shares. To the extent that any statements are inconsistent with, or conflict with, the information contained in this prospectus, our Directors would not accept any responsibility for such statements. Accordingly, you are cautioned that, in making your decisions as to whether to subscribe for our Shares, you should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to subscribe for our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than the information contained in this prospectus and the Application Forms.

In preparation for the Listing, our Company has sought the following waiver from strict compliance with the relevant provision of the Listing Rules:

CONNECTED TRANSACTIONS

We have entered into certain transactions, which would constitute non-exempted continuing connected transactions of our Company under the Listing Rules after the listing of our shares on the Hong Kong Stock Exchange. We have applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for such non-exempted continuing connected transactions. Further details of such connected transactions and the waiver are set out in the section headed "Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations are managed and conducted primarily in the PRC, and all the executive Directors, except for Mr. Zhang and Mr. Sean S J Wang, currently reside in the PRC, our Company considers that it would be practically difficult and commercially unnecessary to either relocate two executive Directors to Hong Kong or to appoint two additional executive Directors who are ordinarily resident in Hong Kong. We do not have, and do not contemplate in the foreseeable future that we will have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. Therefore, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules and the following arrangements have been made for maintaining regular and effective communication with the Hong Kong Stock Exchange:

(a) we have appointed Mr. Sean S J Wang and Mr. Hong Liang as its two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Hong Kong Stock Exchange. Mr. Sean S J Wang ordinarily resides in Hong Kong. Both of the authorized representatives and Mr. Hong Liang's alternate representative (Ms. Lee Man Yee) will be available to meet with the Hong Kong Stock Exchange on reasonable notice as and will be readily contactable by telephone, facsimile and email. Each of the authorized representatives is authorized to communicate on behalf of the Company with the Hong Kong Stock Exchange;

(b) each of the authorized representatives has means to contact all members of the board of Directors (including the independent non-executive Directors) and of the senior management team promptly at all times as and when the Hong Kong Stock Exchange wishes to contact the Directors for any matters;

(c) all Directors and authorized representative have provided their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Hong Kong Stock Exchange;

(d) each of the Directors possesses or can apply for valid travel documents to visit Hong Kong for business purpose and would be able to come to Hong Kong and meet the Hong Kong Stock Exchange upon reasonable notice;

(e) we have appointed the Compliance Advisor pursuant to Rule 3A.19 of the Listing Rules who will act as an additional channel of communication with the Hong Kong Stock Exchange and will have access at all times to the authorized representatives and the alternate authorized representative, the Directors and the other officer of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Hong Kong Stock Exchange in respect of our Company, and will also provide professional advice on matters relating to compliance with the Listing Rules and other obligations for companies listed in Hong Kong; and

(f) the Joint Sponsors have stressed to the Directors and the authorized representatives of the Company the importance of maintaining regular and uninterrupted communication with the Stock Exchange and, in particular, the requirements set out in Chapter 3 and Rule 3A.05 of, and Appendix 14 to, the Listing Rules.

CLAWBACK MECHANISM

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Public Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. An application has been made for, and the Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that the allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to the following adjustments:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 131,250,000 Offer Shares, representing 7.5% of the Offer Shares initially available under the Global Offering;

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 65 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 175,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering; and

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 65 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 350,000,000 Offer Shares, representing 20% of the Offer Shares initially available under the Global Offering.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors collectively and individually accept full responsibilities for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of our Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The International Offering is expected to be underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators, on behalf of the Underwriters, the Global Offering will not proceed.

The Global Offering is managed by the Joint Global Coordinators.

For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.

SELLING RESTRICTIONS

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or by his acquisition of the Offer Shares be deemed to confirm, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S..

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Company, the Selling Shareholder, the Joint Global Coordinators, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Applications Forms.

The content of our websites do not form part of this prospectus. No reliance shall be made on the content of our websites.

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Offer Shares and any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or that may be granted under the Share Option Scheme. Dealings in our Shares on the Hong Kong Stock Exchange are expected to commence on or about November 19, 2010. None of our Shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Hong Kong Stock Exchange and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. None of us, the Selling Shareholder, the Joint Global Coordinators, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, or dealing in, Shares.

OVER-ALLOCATION OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allocation Option and stabilization are set out in the section headed "Structure of the Global Offering" in this prospectus.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by its principal registrar, Codan Trust Company (Cayman) Limited, in the Cayman Islands, and our Company's Hong Kong register of members will be maintained by the Hong Kong Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited.

No stamp duty is payable by applicants in the Global Offering.

Dealings in the Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

PROCEDURE FOR APPLYING FOR THE HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in Renminbi and US dollars have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK$1.00 : RMB0.86

HK$7.77 : US$1.00

No representation is made that any amounts in Renminbi, US dollars or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
CHEN Qiang（陳強）	Room 14B No. 7 Lane 2084 Xie Tu Road Xu Hui District Shanghai PRC	Chinese
WU Zhen Guo（鄔振國）	Room 603 No. 14 3rd Tai Shan Village Pu Tuo District Shanghai PRC	Chinese
DENG Hui（鄧輝）	710 No. 2199 Gudai Road Min Hang District Shanghai PRC	Chinese
HONG Liang（洪樑）	Room 301 No. 25 Lane 368 Qing Yu Road Pu Tuo District Shanghai PRC	Chinese
LUAN Xiao Ming（欒曉明）	Room 1202 No. 24 Lane 2328 Yi Shan Road Shanghai PRC	Chinese
WANG Tao（王濤）	Room 2703 No 36 Lane 8 Lin Yi Road Shanghai PRC	Chinese
Sean S J WANG (王少劍)	Flat E, 9/F Tower 3 The Harbour Side 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong	United States
Non-Executive Director		
ZHANG Zhi Rong（張志熔）	35/F Bowen Lookout 13 Bowen Road Mid-Levels Hong Kong	Chinese

Name	Residential Address	Nationality
Independent Non-executive Directors		
CHEN Gang（陳剛）	Room 1302 No. 2 Lane 416 Wu Yi Road Chang Ning District Shanghai PRC	Chinese
TSANG Hing Lun（曾慶麟）	Flat B 16/F Block 3 The Grand Panorama 10 Robinson Road Hong Kong	Singapore
ZHANG Xu Sheng（張緒生）	No. 15 Flat 1 5 Bo Shu Hu Tong Dong Cheng District Beijing PRC	Chinese

PARTIES INVOLVED

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	*Hong Kong Public Offering* Morgan Stanley Asia Limited 46th Floor, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong CCB International Capital Limited 34/F, Two Pacific Place 88 Queensway, Admiralty Hong Kong J.P. Morgan Securities (Asia Pacific) Limited 28/F, Chater House 8 Connaught Road Central Hong Kong BOCI Asia Limited 26/F, Bank of China Tower 1 Garden Road Central Hong Kong Deutsche Bank AG, Hong Kong Branch 48/F, Cheung Kong Center 2 Queen's Road Central Hong Kong *International Offering* Morgan Stanley Asia Limited 46th Floor, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong CCB International Capital Limited 34/F, Two Pacific Place 88 Queensway, Admiralty Hong Kong J.P. Morgan Securities Ltd. 125 London Wall London EC2Y 5AJ United Kingdom BOCI Asia Limited 26/F, Bank of China Tower 1 Garden Road Central Hong Kong

Deutsche Bank AG, Hong Kong Branch
48/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Joint Sponsors

Morgan Stanley Asia Limited
46th Floor, International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway, Admiralty
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central
Hong Kong

Reporting Accountant

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Legal advisors to our Company

as to Hong Kong law and United States law
Paul, Hastings, Janofsky & Walker
21-22/F Bank of China Tower
1 Garden Road
Central
Hong Kong

as to PRC law
Commerce & Finance Law Offices
6/F NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing 100022 PRC

as to Cayman Islands law
Maples and Calder
53/F, The Center
99 Queen's Road Central
Hong Kong

Legal advisors to the Joint Sponsors and the Underwriters	*as to Hong Kong law and United States law* Herbert Smith 23/F, Gloucester Tower 15 Queen's Road Central Hong Kong
	as to PRC law Jun He Law Offices 20/F China Resources Building 8 Jianguomenwai Avenue Beijing 100005 PRC
Property valuer	Jones Lang LaSalle Sallmanns Limited 17/F Dorset House, Taikoo Place 979 King's Road, Quarry Bay Hong Kong
Receiving bankers	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
	China Construction Bank (Asia) Corporation Limited 16th Floor, York House, The Landmark 15 Queen's Road Central, Central Hong Kong
	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road, Kowloon Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business and headquarter in the PRC	No. 31 Lane 168 Daduhe Road Pu Tuo District Shanghai 200062 PRC
Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance	Suites 2505-2508 25/F., Two Exchange Square 8 Connaught Place Central Hong Kong
Company Website	www.rshi.cn (The contents of these websites do not form part of this prospectus)
Company secretary	Lee Man Yee (ACIS, ACS)
Authorized representatives	Hong Liang Room 301 No. 25 Lane 368 Qing Yu Road Pu Tuo District Shanghai PRC Sean S J Wang Flat E, 9/F Tower 3 The Harbour Side 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong
Alternate authorized representative	Lee Man Yee (alternate to Hong Liang) Flat B, 3/F 6 Wah King Hill Road Kwai Chung New Territories Hong Kong
Audit committee	Tsang Hing Lun (chairman) Zhang Xu Sheng Chen Gang
Remuneration committee	Zhang Zhi Rong (chairman) Zhang Xu Sheng Chen Gang

Principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 GT 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
Principal bankers	The Export-Import Bank of China (Jiangsu Province Branch) Levels 40-42, Business Century Plaza No. 49 Zhongnan Road Nanjing, Jiangsu China China Development Bank (Jiangsu Province Branch) No. 188 Guangzhou Road Nanjing, Jiangsu China Bank of China Limited (Nantong Gangzha Branch) No. 38 Chenggang Road Nantong, Jiangsu China Shanghai Pudong Development Bank Limited (Hefei Branch) No. 3 Changjiangxi Road Hefei, Anhui China China Everbright Bank (Hefei Branch) No. 200 Changjiangxi Road Hefei, Anhui China Industrial and Commercial Bank of China (Hefei City Wangjiang Road Branch) No. 921 Jinzhainan Road Hefei, Anhui China
Compliance advisor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

This section contains certain information which is derived from official government publications and industry sources. While we believe that the sources of this information are appropriate sources for such information and have exercised reasonable care in compiling and reproducing such information from official government publications and industry sources and we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us nor by the Selling Shareholder, our Joint Sponsors, our Joint Global Coordinators, any of the Underwriters, or any of our directors, officers, representatives or affiliates, or any party involved in the Global Offering. The information from official government publications and industry sources may not be consistent with information available from other sources within or outside the PRC. We, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, or any of our or their respective directors, officers, representatives or affiliates, or any party involved in the Global Offering, do not make any representation as to the accuracy, completeness or fairness of such information from official government publications and industry sources and, accordingly, you should not unduly rely on such information.

The information and data contained in this prospectus relating to the international shipping and offshore industries has been provided by Clarkson Research Services Limited, or CRSL, and is taken from CRSL's database and other sources. We do not have any knowledge that the information provided by CRSL is inaccurate in any material respect. CRSL has advised that: (i) some information in CRSL's database is derived from estimates or subjective judgments; (ii) the information in the databases of other maritime data collection agencies may differ from the information in CRSL's database; (iii) whilst CRSL has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures and may accordingly contain errors; (iv) CRSL, its agents, officers and employees do not accept liability for any loss suffered in consequence of reliance on such information or in any other manner; (v) the provision of such information does not obviate any need to make appropriate further enquiries; (vi) the provision of such information is not an endorsement of any commercial policies and/or any conclusions by CRSL; and (vii) shipping is a variable and cyclical business and any forecasting concerning it cannot be very accurate.

CCMA is a nation-wide infrastructure machinery industry organization, which is accredited and registered by the Ministry of Civil Affairs of the PRC in 1993. The membership of CCMA comprises infrastructure machinery manufacturers, research institutes, universities and tertiary institutions and other enterprises and institutions relating to infrastructure machinery industry. It engages in the promotion of the development of the PRC infrastructure machinery industry, industry development, technology exchange, statistical analysis and consulting service in relation to the infrastructure machinery industry in the PRC.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

CISA was founded in 1999, renamed from its original entity China Metallurgical Enterprises Management Association. Currently, it has 175 collective members and 8 individual members, 105 executive members and 59 standing executive members. It is dedicated to provide service to steel producers in the PRC with business scope of providing a framework of rules and regulations for the PRC steel industry in accordance with national policies, helping promote the development of the PRC steel industry domestically and internationally and performing statistical analysis and training service in relation to the steel industry in the PRC.

THE INTERNATIONAL SHIPBUILDING INDUSTRY

Introduction

The global shipbuilding industry is concerned with the production of new ships to supply the world merchant fleet. It is a heavy engineering business that requires technical expertise and substantial capital investment. Shipbuilding prices are generally governed by the supply of, and demand for, shipbuilding berths, the cost of building ships, and exchange rates as well as fluctuations of the wider shipping markets.

Cycles in the shipbuilding market have followed a number of long term trends. Shipbuilding output peaked in 1975 but the result of stagnation of seaborne trade in the 1980s, combined with a larger shipbuilding capacity, was widespread overcapacity. Global shipbuilding output reached a low point in 1988 when it was similar to levels recorded in the early 1960s. From the low point in 1988, the shipbuilding market recovered by the 1990s due to growth in global seaborne trade and demand coming from the replacement of the 1970s built fleet. Deadweight output was greater than the 1975 peak for the first time in 2004 and output has continued to rise since, with deliveries in 2009 reaching record levels. Due to the onset of the global economic downturn in the third quarter of 2008, both contracting activity and newbuilding prices fell significantly. During 2009, with delays and cancellations increasing, delivery of the order book became increasingly uncertain. Vessel delivery delays and cancellations of orders create financial difficulties for shipyards. However, in early 2010, general economic conditions have improved, as evidenced by increasing contracting activity and newbuilding prices — however contracting and pricing levels remain well below the previous highs reported in the subsequent years. Shipbuilding capacity has increased significantly in recent years, reflected in an increase in global deliveries from 71.2 million DWT in 2005 to 116.9 million DWT deliveries in 2009, a CAGR of 13%. Global deliveries in 2010 are expected to reach record levels.

Demand Factors

The two main drivers behind long-term demand for new ships are the growth in global seaborne trade and the replacement of old ships. The replacement of old ships has a direct correlation to the age of the global shipping fleet. The growth in global seaborne trade is closely linked to fluctuations in the world economy and can vary greatly from one year to the next which is why the global shipbuilding market can be so volatile and why the level of new orders and deliveries, as well as the prices paid for ships, can vary so much from one year to another.

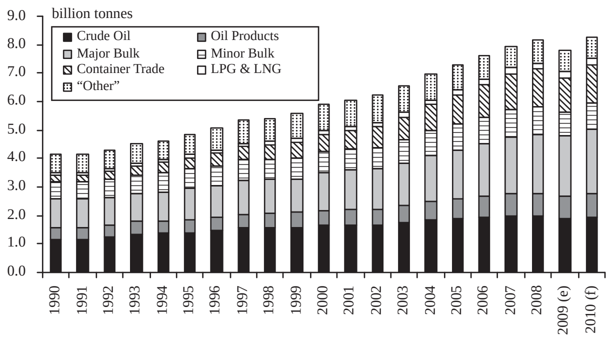
Historically, ship earnings have been cyclical, but these cycles have varied in length. However, in the short- and medium-term, ship earnings and the related second hand prices relative to newbuilding prices, are very important in determining shipbuilding demand. Ship earnings are influenced by the supply of and demand for shipping capacity and are therefore volatile. Ship demand can also increase when shipowners perceive that new building prices are relatively low.

Growth in Seaborne Trade

The four largest segments in the shipping industry are: tankers, which are vessels designed to carry liquid bulk cargoes such as crude oil, and petroleum products, etc.; bulk carriers, which are single deck dry cargo vessels that transport a range of bulk cargoes, including iron ore, coal, and grain; containerships, which are cargo ships constructed and equipped to only carry containers; and gas tankers, which are specially designed tankers used for the transportation of liquefied gases, primarily LPG and LNG. Between 1990 and 2008, world seaborne trade grew at a CAGR of 3.9%. According to the latest available figures, total annual world seaborne trade in 2008 is estimated to have reached 8.2 billion metric tonnes, of which dry bulk cargoes accounted for 3.1 billion tonnes and oil cargoes accounted for 2.8 billion tonnes.

In broad terms, demand for the commodities traded by sea is principally affected by world and regional macro- and micro-economic and political conditions as well as other factors such as changes in seaborne and other transportation patterns, and changes in the regional prices of raw materials and products. Demand cycles for commodities traded by sea move broadly in line with developments in the global economy, and until recently, demand for seaborne trade benefited from the recent expansion in industrial production in Asia, particularly China. As such, with the onset of the global economic crisis in the third quarter of 2008, seaborne trade levels fell notably. Following the marginal contraction of global output in 2009, most international forecasting agencies anticipate that despite downside risks, the global economy will grow in 2010. The following table illustrates the evolution of the various categories of cargoes that comprise world seaborne trade.

World Seaborne Trade



	% Change 2009-2010	CAGR 2004-2009	CAGR 1999-2009
Crude Oil.	2.9%	0.5%	1.7%
Oil Products	2.5%	3.8%	4.0%
Major Dry Bulk	7.1%	5.5%	5.9%
Minor Dry Bulk	8.7%	-0.4%	1.6%
Container.	10.9%	5.5%	7.9%
LPG & LNG	7.0%	5.4%	6.1%
Other	-1.2%	-3.4%	-1.1%
Total	5.6%	2.3%	3.5%

Source: Clarkson Research, August 2010.

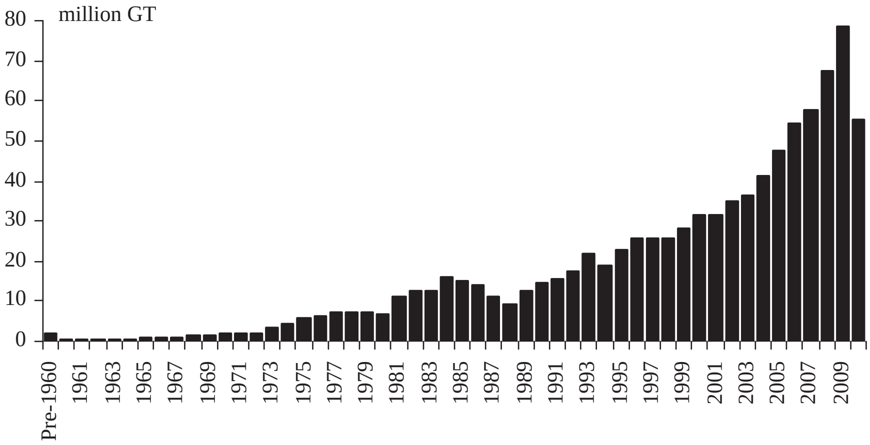
Note: The 2010 world trade forecast is based on August 2010 for full year 2010 and subject to change. There is only limited trade and economic data for 2010. Forecasts are subjective and dependent on continued economic recovery; there is no guarantee that trends are sustainable.

Replacement Demand

The second facet of long-term shipbuilding requirement is replacement demand. Ships are sold for scrap when the cost of maintaining and operating them outweighs the earnings they can make. In addition to the influence of freight rates, regulatory requirements sometimes affect the age at which ships are scrapped, forcing the removal of certain types of vessels. For example, the MARPOL regulation 13G requires the gradual phase-out of single hull tankers, which came into force in April 2005 (renamed MARPOL Annex 1, Regulation 20).

The graph below shows the date of construction of the current global shipping fleet and provides a general guide to the volume of vessels that will need to be replaced in the coming years. In recent years, the world fleet has become increasingly modern, with approximately 39% (in terms of GT) having been built since 2005. Fewer vessels were constructed in the 1980s than in the 1970s and the resulting relatively young age of the fleet may reduce demand for replacement of ships in the medium-term.

Global Fleet Age Profile by Year of Construction (>100 GT)



Source: Clarkson Research, August 2010.

The Current Make-Up of the Global Fleet & Existing Order book

The world deep sea cargo ship fleet (as detailed in Clarkson Research's *Shipping Intelligence Weekly*) at the start of August 2010 comprised 55,876 ships with a total capacity of 1,303.7 million DWT. This included 8,788 oil tankers, 3,543 chemical tankers, 7,748 bulkers (of 10,000 DWT and above), 4,914 containerships, 1,524 gas (LPG and LNG) carriers and 4,997 offshore support vessels (AHTS/PSV).

Measured by DWT, at the beginning of August 2010, the world deep sea cargo vessel order book was equal to 36.3% of the existing fleet. According to Clarkson Research, although the order book has shrunk in size since October 2008 and the full delivery of the order book is unlikely, it is still historically large and will result in a high level of deliveries and fleet growth over the next few years. Without strong trade growth, these deliveries may put downward pressure on ship earnings and reduce demand for new ships.

The following table shows the breakdown of the global shipyard order book (deep sea plus others) by ship type.

Global Shipyard Order book by Ship Type ('000 DWT)

	2010	2011	2012	2013	2014+	Total	2009 Non-Delivery Rate
Bulkers	67,064	113,286	76,231	21,998	3,069	281,649	40%
Tankers	31,587	59,012	25,511	9,109	748	125,967	26%
Containerships	11,139	18,755	13,078	2,075	1,127	46,174	44%
Gas Carriers	1,719	1,128	645	298	53	3,843	21%
Others	9,277	8,858	2,883	941	27	21,985	48%
Total	120,785	201,040	118,348	34,421	5,024	479,618	35%

Source: Clarkson Research, August 2010.
Note: Based on current order book as at August 1, 2010. Order book only, does not account for (potential) non-deliveries. Non-deliveries are the vessels that were expected to be delivered according to the January 2009 order book schedule, but due to delays, cancellations, re-negotiations of contracts and new market information have not yet entered the fleet. Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

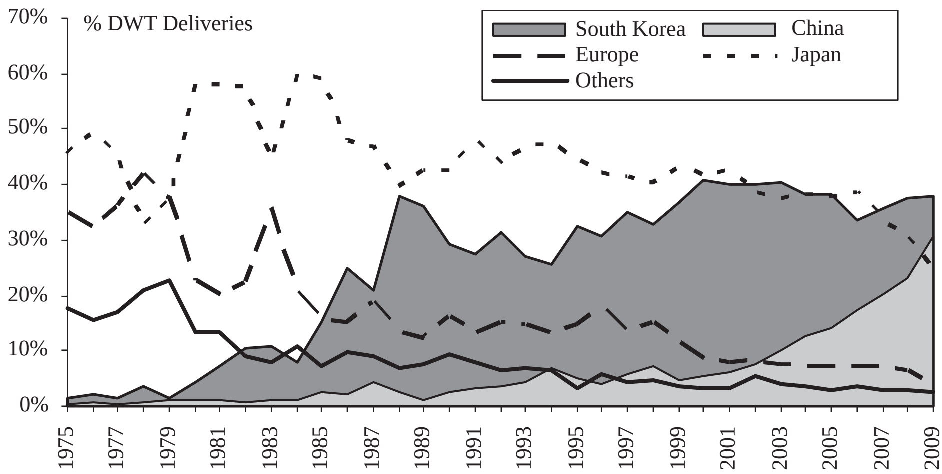
These orders have been placed at 602 different shipyards located in 48 countries across the world, although the full delivery of this global order book is unlikely. The leading countries in terms of vessels on order as of August 1, 2010 are China (3,083 vessels of 52.0 million CGT or 189.8 million DWT), South Korea (1,672 vessels of 47.4 million CGT or 159.3 million DWT) and Japan (1,230 vessels of 24.2 million CGT or 88.7 million DWT).

As mentioned previously, although the size of the order book has declined since October 2008, it is still large in historical terms and delivering it will present a number of challenges, both technical and financial. According to Clarkson Research, a proportion of ships on order have been contracted at shipyards which are either currently under construction ("**Greenfield**") or have delivered their first vessels in the past two years. Some of these projects are reported to be experiencing technical and financial problems. Therefore, construction of some of the shipyards may be delayed and as a result ship delivery delays are also expected. Ship owners with vessels on order are also experiencing financing problems as a result of the reduced charter markets, declines in asset values and lack of bank financing availability. Of the ships scheduled to enter the fleet at the start of 2009, approximately 35% of deliveries have not yet been confirmed as delivered (in terms of deadweight). Analysis of these "non-delivery"(1) rates shows that the most significant delays relate to the delivery of bulk carrier vessels from Chinese shipyards. This is partly due to statistical reporting delays but also because of delays in construction and cancellations of orders at Chinese shipyards. Despite this, there are still a considerable number of vessels expected to be delivered within the next few years.

The volume of deliveries going forward will depend on the various financial, contractual and technical issues discussed above besides the ability of shipyards to resell berths if they become open due to delivery or cancellation.

Geographical Distribution & Capacity

Global Shipbuilding Share (DWT)



Source: Clarkson Research, August 2010.

Note: Non-deliveries are the vessels that were expected to be delivered in 2009 according to the January 2009 order book schedule, but due to delays, cancellations, re-negotiations of contracts and new market information have not yet entered the fleet.

Global shipbuilding output and capacity have increased significantly in recent years. Since 2002, South Korea and China have managed to increase both output and capacity considerably. South Korean output (deliveries) increased from 20.3 million DWT in 2002 to 29.0 million DWT in 2007 and 34.4 million DWT in 2008. Current figures suggest that in 2009, South Korean shipyards delivered 44.2 million DWT. China has also seen a rapid increase in output from just 3.9 million DWT of deliveries in 2002 to 16.4 million DWT in 2007 and 21.1 million DWT in 2008. In 2009, Chinese shipyards delivered an estimated 35.8 million DWT of new tonnage. The following table shows regional output in DWT since 2002.

Regional Shipbuilding Output as of August 1, 2010 (million DWT and Ranked by 2009 Output)

Country/Region	2002	2003	2004	2005	2006	2007	2008	2009	2010 (ytd)	2009 Non-Delivery Rate
South Korea	20.3	22.0	23.5	27.1	25.7	29.0	34.4	44.2	28.0	30%
China	3.9	5.6	7.9	10.0	13.2	16.4	21.1	35.8	33.7	43%
Japan	19.5	20.5	23.5	26.9	29.4	27.4	27.7	29.3	19.4	13%
Europe	4.3	4.1	4.5	5.0	5.6	6.0	5.8	4.7	2.6	53%
Other Asia[(1)]	1.6	1.7	1.7	1.6	2.1	2.2	2.1	2.4	2.1	73%
Others	1.2	0.4	0.5	0.5	0.6	0.2	0.3	0.6	0.1	36%
Total	50.8	54.3	61.5	71.2	76.5	81.1	91.5	116.9	85.9	35%

Source: Clarkson Research, August 2010.

Note: 2009 non-delivery rates are estimates for full year 2009.
"Other Asia" includes Bangladesh, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam.

As discussed previously, the various problems associated with delivery of the order book have resulted in significantly lower deliveries recorded against those scheduled at the start of the year. In 2009, 35% of expected deliveries (in terms of DWT) are yet to be confirmed as delivered. Chinese yards and bulk carriers have experienced the largest shortfall in 2009.

Global shipbuilding capacity has grown very rapidly in recent years with output in 2009 currently estimated to have reached around 116.9 million DWT, an increase of 44% from 2007 output levels of 81.1 million DWT. According to Clarkson Research, at the start of August 2010, thirteen of the top 30 shipbuilding groups were Chinese.

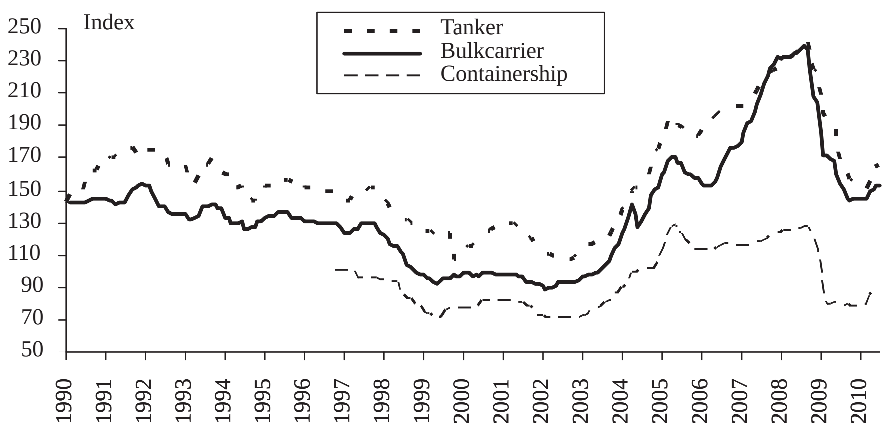
Newbuilding Prices

Shipbuilding is a very open and competitive market. As such, newbuilding prices demonstrate great volatility, and are characterized by the ability to move very quickly over a short period of time. Prices are primarily determined by the balance of the supply of shipbuilding berths to the market and the demand for new ships to fill them. In a market where berths are in short supply and demand is strong, builders are able to increase prices. Conversely, when there is an oversupply of berths to the market and/or demand for new ships is low, the price will come down as builders face more competition in order to fill available capacity. In recent years, there has been a strong increase in shipbuilding capacity.

It is therefore a delicate balance between demand and supply that determines the movements in newbuilding prices. Furthermore, newbuilding prices are influenced by the costs of building ships, as well as by exchange rates, which often tend to reinforce the abovementioned movements.

The development in newbuilding prices has been dramatic in recent years. Until the third quarter of 2008, advantageous global market conditions allowed the shipping industry to prosper, which in turn helped generate an increase in newbuilding activity across all of the sectors. By mid-2008, the estimated benchmark value of a newbuild Panamax bulk carrier(1) peaked at US$55.0 million, up from US$20.5 million at the start of 2002. However, following the onset of the financial crisis, banks' willingness to offer credit to finance shipping deals was curtailed. By the end of 2009, the benchmark Panamax bulk carrier newbuilding price had fallen to a nadir of US$33.8 million, down 40% from its peak. However, since the start of 2010, newbuilding prices have increased with the Clarksons newbuilding index moving from 138 to 142. By the start of August 2010, the benchmark Panamax bulk carrier newbuilding price had risen to US$34.5 million. The following graph illustrates the fluctuations in newbuilding prices according to Clarkson Research's Tanker, Bulk Carrier and Containership Newbuilding Price Indices(2). It is important to note that newbuilding prices for different ship types move, to a large extent, in parallel with one another.

Historical Newbuilding Price Indices



Source: Clarkson Research, August 2010.

Notes:

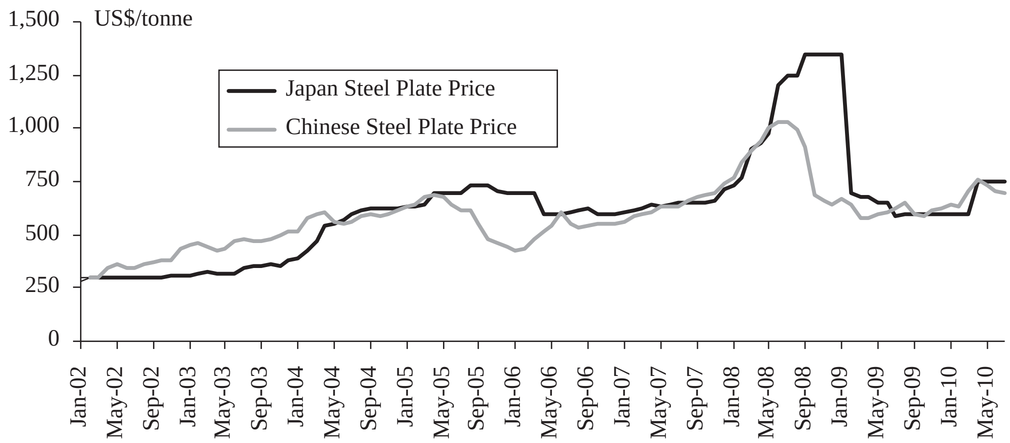
(1) The quoted size of the Panamax bulk carrier newbuild was 65,000 DWT until the end of 1991; 70,000 DWT between January 1992 and September 1999; 75,000 DWT between October 1999 and May 2008; and 75-77,000 DWT thereafter.

(2) The Clarkson Newbuilding Price Indices are calculated by averaging the US$ per DWT values of various ship sizes within each sector. For the tanker and bulker newbuilding price indices the base of 100 is taken as the average value at January 1988. For the containership index the base of 100 is taken as the average value at January 1997. Prices may move up and down significantly.

Shipbuilding Costs

According to Clarkson Research, shipbuilding involves a complex production process and the level of efficiency and costs vary considerably from one shipyard to another. According to Clarkson Research, factors that will influence the competitiveness of a shipyard and its ability to generate profits include material costs, facilities, skilled labour, wages, labour productivity, the availability of local materials and equipment suppliers, exchange rates and, in some cases, government subsidies. One major problem that shipyards face is the risk of escalating costs, including, among others, the increasing cost of labour, increasing material costs, and exchange rate movements. Labour costs are one of the main outlays for a shipyard and costs may increase as it takes on more staff to increase output or as the average hourly wage of a shipbuilding country increases due to improvements in the economy. Exchange rates also have a large bearing on the potential earnings of a shipyard as a shipyard's costs (labour, materials, overheads etc) are often in local currency, but its revenue may be in a different currency. Finally, material costs can change dramatically in a short period of time, particularly the price of steel plate. The graph below illustrates the price of Japanese and Chinese steel plate since the start of 2002 and shows that the price of steel increased dramatically until the start of 2009, when the price underwent a severe correction.

Chinese and Japanese Steel Plate Price

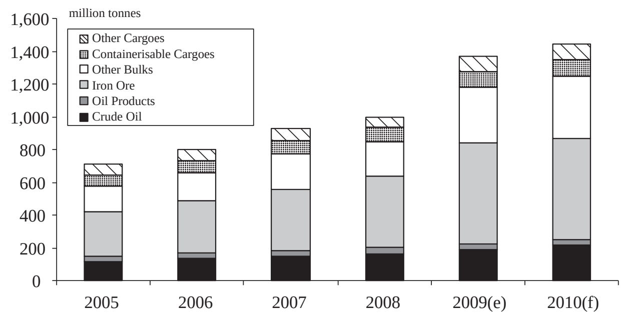


Source: Clarkson Research (based upon industry sources), August 2010.

The Chinese Shipbuilding Industry

The rapid growth of the Chinese economy has been one of the key drivers behind the growth in global seaborne trade in recent years. A great deal of global seaborne trade has been driven by Chinese exports, particularly manufactured exports. However, Chinese imports have also grown significantly and despite the economic downturn, Chinese demand for imports increased in 2009, unlike that of many other nations. These developments are illustrated in the following graph.

Chinese Seaborne Imports



Source: Clarkson Research, August 2010.

It is the Chinese government's stated aim to become the largest shipbuilding nation in the world. The stimulus plan released by the State Council in June 2009 outlined a number of measures to support the Chinese shipbuilding industry, including output targets of 50 million DWT and 35% global market share by 2011. China has already achieved its 2011 goal in relation to global market share, well ahead of schedule.

China's increasingly prominent role in the global shipbuilding industry is clearly evident in the surge in the volume of newbuilding contracts placed at Chinese yards in recent years. Between 1996 and 2008, there were phases of large increases in contracting at Chinese shipyards. In 1996, a total of 156 newbuilding contracts were placed totaling 2.5 million DWT. In 1999, this was surpassed when 143 vessels of 5.7 million DWT were ordered. In 2003 and 2004, a further 17.1 million DWT and 18.1 million DWT were contracted respectively. A total of 21.1 million DWT was contracted in 2005, 58.4 million DWT in 2006 and 111.0 million DWT in 2007. Ordering slowed somewhat in 2008, when 67.3 million DWT was contracted. In 2009, the rate of contracting slowed even further - only 22.8 million DWT was ordered. However, in terms of DWT, this accounted for 48.3% of contracts placed worldwide in the same period. This trend is illustrated in the following table.(1)

Note: Figures may differ from Chinese official shipbuilding statistics due to, for example, lack of reliable data for small, coastal vessels.

Contracting by Country/Region as of August 1, 2010 (million DWT)

Country/Region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (ytd)
China	4.2	5.4	5.5	17.1	18.1	21.1	58.4	111.0	67.3	22.8	26.3
South Korea	32.7	14.4	19.8	43.8	34.4	28.7	60.2	97.1	71.2	17.7	27.0
Japan	22.7	20.4	23.2	45.0	38.7	32.7	51.4	46.0	32.4	3.9	1.8
Other Asia	1.3	0.7	2.9	3.4	3.7	2.9	6.8	13.1	8.3	1.0	5.2
Europe	6.4	4.7	2.1	6.5	8.7	8.6	5.6	9.5	3.7	0.4	0.1
Others	1.3	0.5	0.2	0.2	0.1	0.8	1.7	2.8	0.3	1.3	0.9
Total	68.6	46.1	53.6	116.0	103.7	94.8	184.1	279.6	183.2	47.1	61.4

Source: Clarkson Research, August 2010.

Note: "Other Asia" includes Bangladesh, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam.

This increase in contracting has seen the size of China's order book increase notably in recent years. As of August 2003, China did not have a leading order book position in each of the following selected categories of vessels. The leading positions were taken by either Japan or Korea. At the start of 2007, the South Korean order book was the largest in the world at 113.0 million DWT. In comparison, the Chinese order book totaled 89.4 million DWT. Following the surge of newbuilding contracts placed at Chinese yards in 2007, China's order book expanded rapidly, becoming the largest in the world by the start of 2009. Despite the recent slowdown in ordering, the Chinese order book totaled 189.8 million DWT at the start of August 2010, 19% larger than South Korea's. With 329 Capesize Bulkers and 52 Panamax Containerships in the order book of Chinese shipbuilders, China surpassed both Korea and Japan and has clearly become a leader in standard shipbuilding. China has also made substantial progress in securing orders in VLCC and LNG Carrier. These developments are illustrated in the following table.

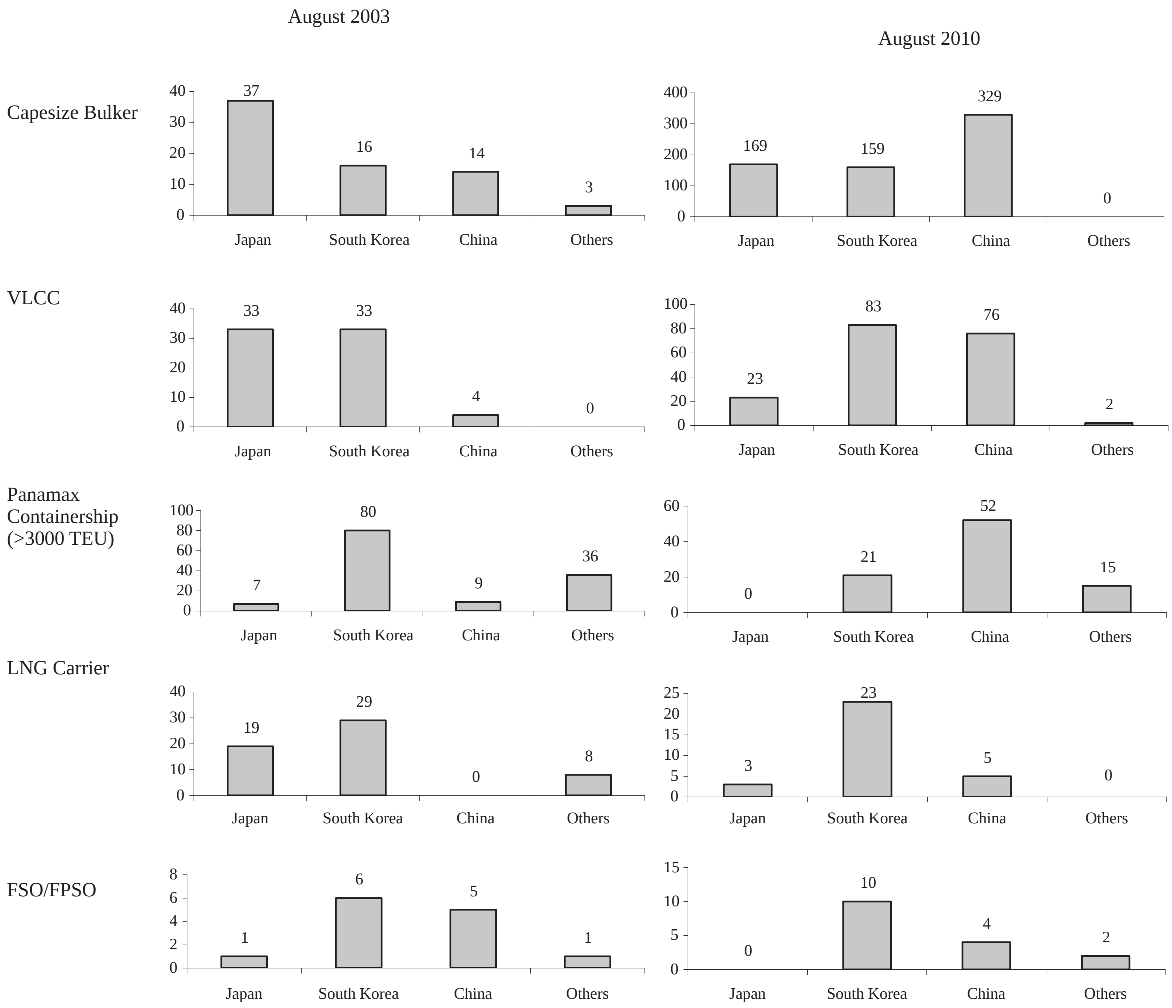
Order book by Country/Region as of August 1, 2010 (million DWT)

start of:	2007	2008	2009	2010	Aug-10
China	89.4	178.9	221.1	202.3	189.8
South Korea	113.0	180.2	212.9	175.3	159.3
Japan	110.0	128.7	132.7	106.7	88.7
Other Asia	12.9	23.8	28.0	25.6	26.8
Europe	19.3	22.7	19.7	11.3	8.3
Others	2.5	5.2	5.2	5.8	6.7
Total	347.1	539.5	619.6	527.0	479.6

Source: Clarkson Research, August 2010.

Note: "Other Asia" includes Bangladesh, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Sri Lanka, Taiwan, Thailand, Vietnam.

Order Book (Number of vessels)



Source: Clarkson Research, August 2010.

Note: 2003 figures are as of August 1, 2003 and take no account of subsequent revisions to orderbook. 2010 figures are as of August 1, 2010.

In broad terms, the Chinese shipbuilding industry is divided into three types of shipyards; large state-owned and controlled shipyards, including state-owned corporations such as CSSC (China State Shipbuilding Corporation) and CSIC (China Shipbuilding Industry Corporation); joint venture (JV) shipyards; and a proliferation of local/provincial shipyards. The following table shows the current top Chinese shipbuilding companies in terms of contracting.

Contracts Placed at Chinese Shipyards, Ranked by 2009 Contracts ('000 DWT)

Builder Group	Yard Type	2007	2008	2009	2010 ytd
Jinhai Heavy Ind.	Local	3,857	3,300	8,184	
Dalian Shipbld. Ind.	CSIC	11,383	4,770	2,280	1,249
Jiangsu Rongsheng	Local	5,775	6,901	2,208	2,948
Shanghai Waigaoqiao	CSSC	6,348	4,378	2,097	3,316
Yangzijiang S.B. Group	Local	4,253	785	1,207	726
Yangfan Group	Local	221	3,078	1,088	360
Hantong Shipyard	Local	1,343	1,350	737	399
Changjiang Nat. Shpg	Local	5,519	1,299	487	440
Xiamen S.B.	Local	98	52	456	285
Shanghai Shpyd.	CSSC	2,561	1,027	420	552
Hudong S/Yard	CSSC	3,421	645	387	985
Chengxi Shipyd.	CSSC	586	678	364	1,296
Sino-Pacific Group	JV	3,547	2,523	291	174
Tsuneishi Holdings	JV	2,349	1,611	258	
Huatai Hvy. Ind.	Local	75		222	
Kouan S.B.	Local	1,918	545	171	162
Guangzhou Longxue	CSSC	2,758	164	164	1,230
Zhejiang Ouhua	Local		95	163	1,720
Jiangnan SY Group	CSSC	5,826	1,988	151	456
Jiangmen Nanyang	Local	130	260	130	
Others		49,079	31,873	1,305	10,008
TOTAL		111,049	67,324	22,769	26,306

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book.

Shipbuilding data is collected by CRSL from a variety of sources on a "best efforts basis" and cannot be considered fully accurate and comprehensive due to the nature of the data involved. In recent years, delays and cancellations (that are not normally reported widely and may be kept confidential by shipyards) have produced additional inaccuracies in the data, as explained in the commentary.

"Builder Group": A collection of individual yards that are owned by the same company.

One of the most notable developments in the Chinese shipbuilding industry in recent years has been an expansion in terms of the type and size of ships that Chinese shipyards can build. In the 1980s, Chinese shipyards largely built a limited number of small ship types such as small bulk carriers and cargo vessels. During the late 1990s, China started to build larger vessels such as Suezmax tankers, Panamax bulk carriers and Ro-Ro vessels. More recently, Chinese shipyards have started to build large, value-added vessels such as Capesize bulk carriers, VLCCs, post-Panamax containerships, FPSOs and LNG carriers. Its first LNG carrier was delivered in 2008 by the Hudong Zhonghua shipyard, marking a technological step-up for the Chinese shipbuilding industry. In February 2010, a further LNG carrier was ordered at the same yard. Although China is now building a greater number of large ship types than in the past, it still has a smaller market share of large vessel orders than South Korea.

Chinese Order Book by Yard of Build as of August 1, 2010 ('000 DWT)

Yard of Build	Yard Type	Tankers	Bulkers	Containerships	Gas Carriers	Others	Total	% of Total
Jiangsu Rongsheng	Local	3,766	12,398	300			16,464	8.7%
Dalian Shipbld. Ind.	CSIC	8,413	6,967	605		126	16,112	8.5%
Shanghai Waigaoqiao	CSSC	5,720	6,866				12,586	6.6%
Jinhai Heavy Ind.	Local	3,200	8,387				11,587	6.1%
New Times S.B.	Local	1,693	5,792				7,485	3.9%
Bohai Shipbld.	CSIC	2,888	4,147		13		7,048	3.7%
Nantong Cosco KHI	JV		5,844	1,140		60	7,044	3.7%
Jiangsu New YZJ	Local		3,420	1,828			5,248	2.8%
Hudong Zhonghua	CSSC	867	2,978	630	73	376	4,924	2.6%
Jiangnan Changxing	CSSC		3,220	1,353			4,573	2.4%
STX Dalian	JV		4,295			224	4,519	2.4%
Guangzhou Longxue	CSSC	619	3,858				4,477	2.4%
Shanghai Jiangnan	CSSC	2,969	943				3,912	2.1%
Beihai Shipyard	CSIC		3,798				3,798	2.0%
Shanghai S.Y.	CSSC		3,143	430			3,573	1.9%
Jinling Shipyard	Local		3,154			339	3,492	1.8%
Tsuneishi Zhoushan	JV		3,255				3,255	1.7%
Dayang S.B.	JV		3,049		45	63	3,157	1.7%
Jiangsu Eastern	Local	255	2,608	12			2,875	1.5%
Hantong Shipyard	Local		2,669			135	2,804	1.5%
Others		4,180	46,098	2,401	161	8,019	60,858	32.1%
TOTAL		34,570	136,889	8,699	292	9,341	189,792	100%

Source: *Clarkson Research, August 2010.*

Note: *Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.*

Chinese Order book by Builder Group as of August 1, 2010 ('000 DWT)

Builder Group	No. Yards	Group Type	Tankers	Bulkers	Containerships	Gas Carriers	Others	Total	% of Total
Shanghai Waigaoqiao	2	CSSC	8,689	7,809				16,498	8.7%
Jiangsu Rongsheng	1	Local	3,766	12,398	300			16,464	8.7%
Dalian Shipbld. Ind.	1	CSIC	8,413	6,967	605			15,986	8.4%
Jinhai Heavy Ind.	1	Local	3,200	8,387				11,587	6.1%
NCS	2	Local	1,920	8,267				10,187	5.4%
COSCO Shipbuilding	2	Local		8,642	1,140			9,782	5.2%
Bohai Shipbld.	1	CSIC	2,888	4,147		13	13	7,061	3.7%
Jiangnan SY Group	2	CSSC		5,343	1,353			6,696	3.5%
COSCO Shipyd. Group	4	Local	333	5,158				5,491	2.9%
Yangzijiang S.B. Group	2	Local		3,556	1,946			5,502	2.9%
Changjiang Nat. Shpg	5	Local	99	4,237	158			4,494	2.4%
Hudong S/Yard	1	CSSC	867	2,978	630	73	73	4,621	2.4%
STX Shipbuild.	1	JV		4,295				4,295	2.3%
Guangzhou Longxue	1	CSSC	619	3,858				4,477	2.4%
Sino-Pacific Group	3	JV		4,043	158	75	75	4,350	2.3%
Beihai Shipyard	1	CSIC		3,798				3,798	2.0%
Shanghai Shpyd.	1	CSSC		3,143	430			3,573	1.9%
Tsuneishi Holdings	1	JV		3,255				3,255	1.7%
Jiangsu Eastern	1	Local	255	2,608	12			2,875	1.5%
Hantong Shipyard	1	Local		2,669				2,669	1.4%
Others	168		3,521	31,331	1,967	132	9,180	46,131	24.3%
TOTAL	202		34,570	136,889	8,699	292	9,341	189,792	100.0%

Source: Clarkson Research, August 2010.

Note: "Builder Group": A collection of individual yards that are owned by the same company.
"No. Yards": Number of yards within group that currently have orders.
Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book.

As well as developing in terms of the type and size of vessels it can build, the amount of tonnage delivered by the Chinese shipbuilding industry has increased notably in recent years. In 1990, China delivered only 11 vessels of 0.5 million DWT. By 2000, output had increased to 110 vessels of 2.6 million DWT and by 2007 had reached 527 vessels of 16.4 million DWT. Initial full year figures for 2009 show that the country's shipyards delivered 35.8 million DWT. In terms of the amount of tonnage delivered, China therefore became the second largest shipbuilding nation in 2009, overtaking Japan. However, deliveries were 35% lower than expected during the period due to problems with yards meeting their delivery schedules and some cancellation of orders. The following table shows historical output from Chinese shipyards.

Top 20 Chinese Shipyards in terms of Output (in terms of ’000 DWT and Ranked by 2009 Totals)

		Deliveries (’000 DWT)					
Yard of Build	**Yard Type**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Shanghai Waigaoqiao	CSSC	1,371	1,821	3,387	3,106	3,341	4,416
Dalian Shipbld. Ind.	CSIC			1,469	3,033	2,535	3,785
Shanghai Jiangnan	CSSC					474	1,844
Hudong Zhonghua	CSSC	965	1,120	1,043	814	1,039	1,743
Bohai Shipbld.	CSIC	479	462	439	713	316	1,640
New Times S.B.	Local					638	1,573
Jiangsu Rongsheng	Local					376	1,486
Jiangsu New YZJ	Local					338	1,291
Nantong Cosco KHI	JV	591	473	1,135	1,300	632	1,270
Tsuneishi Zhoushan	JV				56	819	1,207
Dayang S.B.	JV		159	154	375	484	1,127
New Century S/Y	Local	329	710	1,045	1,251	1,255	848
Zhoushan Jinhaiwan	Local						745
Jiangnan SY Group	CSSC					153	716
Jinling Shipyard	Local	180	226	224	235	400	699
Guangzhou S.Y. Int.	CSSC	305	361	410	534	792	655
Hantong Shipyard	Local					228	627
Chengxi Shipyd.	CSSC				214	557	610
Shanghai S.Y.	CSSC	269	58		125	491	520
CIC (Jiangsu)	Local					161	480
Others		3,366	4,658	3,851	4,613	6,060	8,471
Total		7,856	10,048	13,157	16,370	21,089	35,751

Source: Clarkson Research, August 2010.

The Chinese shipbuilding industry has been well supported by domestic ship owners, some of which have stakes in particular shipyards, or close links with government bodies, incentivizing domestic purchasing. Domestic ship owners have always made up a large proportion of those placing orders with Chinese shipyards, and this proportion increased following the onset of the economic downturn in mid 2008. Currently, Chinese ship owners have placed 29.0% of existing orders in terms of CGT with Chinese shipyards. Although receiving a large number of domestic orders, China has also become increasingly important as an exporter of ships. European ship owners are responsible for 47.6% of the total current Chinese shipyard order book measured by CGT, making them the biggest customer group for Chinese shipyards. Within that grouping, the John Fredriksen group is the largest with 2.0% the total Chinese order book. The two largest individual ship owners with orders at Chinese shipyards are the COSCO Group (9.3 million DWT on order) and the China Shipping Group (7.8 million DWT on order). The table below shows the top ship owners with orders at Chinese shipyards ranked by total DWT on order as of August 1, 2010.

Top Owners at Chinese Shipyards (Order book in ’000 DWT)

		Order book as at August 1, 2010 (’000 DWT)						
Major Group Owner	**Nationality**	**Tankers**	**Bulkers**	**Containerships**	**Gas Carriers**	**Others**	**Total**	**% of Total**
China Ocean (COSCO)	China P.R.	607	5,570	2,306		825	9,307	4.9%
Grand China Logist.	China P.R.	1,920	5,912				7,832	4.1%
China Shipping Group	China P.R.	1,005	5,669	416			7,091	3.7%
Vale	Brazil		4,800				4,800	2.5%
Changjiang Nat. Shpg	China P.R.	3,271	1,083				4,354	2.3%
Fredriksen Group	Norway	2,047	1,419	132			3,598	1.9%
STX Pan Ocean	South Korea		3,261	47			3,308	1.7%
HOSCO	China P.R.	596	2,637				3,233	1.7%
Dynacom Tankers Mngt	Greece	2,319	751				3,070	1.6%
BW Ltd.	Hong Kong	636	1,552				2,188	1.1%
China Merchants	China P.R.	1,001	1,080		7		2,088	1.1%
Centrans Ocean	China P.R.		1,781			140	1,921	1.0%
Ocean Tankers Pte	Singapore	1,896					1,896	1.0%
Conti Reederei	Germany		1,811				1,811	1.0%
Nippon Yusen Kaisha	Japan		1,800				1,800	0.9%
Clipper Group	Denmark	893	545			335	1,773	0.9%
Angelicoussis Group	Greece	640	1,097				1,737	0.9%
Shanghai Citic Shpg.	China P.R.		1,665			25	1,690	0.9%
China SDIC	China P.R.		1,632				1,632	0.9%
Oman Shipping Co.	Oman		1,600				1,600	0.8%
Others		17,739	91,223	5,798	285	8,017	123,062	65.0%
Total		34,570	136,889	8,699	292	9,341	189,792	100.0%

Source: Clarkson Research, August 2010.

Note: In 2009, approximately 43% of deliveries from Chinese yards expected to enter the fleet at the start of the year have not yet been confirmed as delivered. Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

In recent years there have been numerous plans for new shipbuilding sites in China and for the expansion of existing sites. Some of the Greenfield shipyards are owned by finance corporations with little or no shipbuilding experience. It is unlikely that all of these sites will be developed. Some are owned and will be operated by experienced shipbuilding entities and a large number are already marketing berths and some have taken orders.

The Tanker and Product Carrier Market

The tanker market makes up a significant portion of the shipbuilding industry, accounting for 42% of 2009 deliveries from shipyards globally in terms of DWT and 32% in terms of CGT. Over the past twenty years of shipbuilding production, it has accounted for 43% of shipbuilding deliveries.

Oil has been the world’s primary energy source for a number of decades. Daily oil demand increased from approximately 73.8 million barrels per day (“**BPD**”) in 1998 to 86.0 million BPD in 2008, primarily as a result of global economic growth. Proven oil reserves totaled 1,333 billion barrels at the end of 2009, approximately 46 times larger than 2008 production levels, according to the BP Statistical Review of World Energy (June 2010). The proven reserves tend to be located in regions far from major consuming countries.

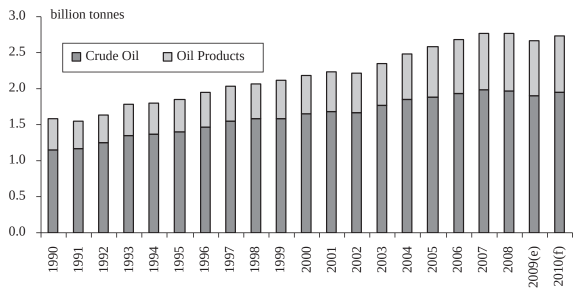
Tanker Demand

Demand for oil tankers is dictated by world oil demand and trade, which is influenced by many factors including international economic activity, geographic changes in oil production and consumption, oil price levels, the availability of transport alternatives (such as pipelines) and the inventory policies of the major oil producers and those of oil trading companies and nations.

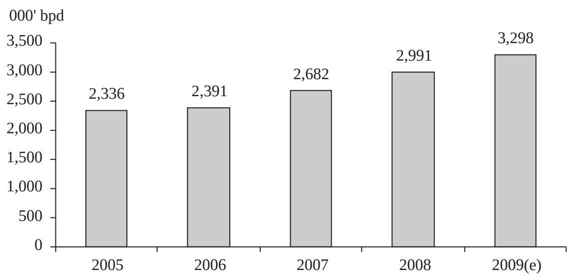
As with other shipping sectors, demand cycles in the oil tanker industry move broadly in line with developments in the global economy. Between 2003 and 2008, global oil demand grew strongly, propelled by a number of factors such as the rapid growth in Chinese and Indian oil demand: overall, US, Chinese and Indian demand accounted for 36% of the total growth in demand between 2003 and 2008. However, since the onset of the global financial downturn, global oil demand has slowed markedly. It is estimated that global demand fell by 0.4 million BPD in 2008 and a further 1.3 million BPD in 2009. However, in recent months, the IEA have been upwardly revising their demand forecasts for 2010 on the back of the improved economic conditions. According to their latest statistics, they project a year-on-year rise in global oil demand of 1.8 million BPD in 2010.

Total seaborne oil trade increased to an estimated 2.7 billion tonnes in 2008. Between 2005 and 2008, seaborne trade in crude oil grew at a CAGR of 1.4%, and seaborne trade in oil products grew at 4.8% per annum over an equivalent period. In 2009, the seaborne trade in crude oil fell 3.7% year-on-year and seaborne trade in oil products fell 3.6%. But, in line with current demand forecasts, the seaborne trade in both crude oil and oil products is currently expected to recover in 2010, although not to the levels seen in 2007 and 2008. The PRC has been one of the key drivers behind the growth in global seaborne trade in recent years. Crude oil shipments to the PRC increased from 2,336 thousand barrels per day to 3,298 thousand barrels per day, with a CAGR of 9.0% from 2005 to 2009.

World Seaborne Crude Oil & Oil Products Trade



Chinese Crude Oil Imports



Source: Clarkson Research, August 2010.

Note: 2009(e) figures are estimates; 2010(f) figures are forecasts.

Tanker Supply & the Newbuilding Market

According to Clarkson Research, the effective supply of oil tanker capacity is determined by the size of the existing fleet, the rate of deliveries of newbuildings, and scrapping, as well as casualties, the number of combined carriers carrying oil, the number used for storage and the amount of tonnage in lay-up. The carrying capacity of the international tanker fleet is a critical determinant in pricing for tanker transportation services.

The world tanker fleet (of 10,000 DWT and above) expanded to 5,278 vessels of 435.1 million DWT at the start of 2010. The global oil tanker fleet is generally divided into five major classes of vessels, based on carrying capacity. The major types of vessels and size of the fleets are shown in the following tables.

Tanker Vessel Types

Class of Tankers	Cargo capacity (DWT)	Typical use
Ultra Large Crude Carriers ("ULCCs")	> 320,000	Long-haul crude oil transportations from the Middle East Gulf to Northern Europe (via the Cape of Good Hope), to the Far East and to the U.S. Gulf.
Very Large Crude Carriers ("VLCCs")	200,000 - 319,999	
Suezmax	120,000 - 199,999	Medium-haul of crude oil from the Middle East and West Africa to the United States and Europe.
Aframax	80,000 - 119,999	Short- to medium-haul of crude oil and refined petroleum products from the North Sea or West Africa to Europe or the East Coast of the United States, from the Middle East Gulf to the Pacific Rim and on regional trade routes in the North Sea, the Caribbean, the Mediterranean and the Indo-Pacific Basin.
Panamax	60,000 - 79,999	Short- to medium-haul of crude oil and refined petroleum products worldwide, mostly on regional trade routes.
Handymax	40,000 - 59,999	Short-haul of mostly refined petroleum products worldwide, usually on local or regional trade routes.
Handysize	10,000 - 39,999	

Source: Clarkson Research, August 2010.

World Crude Oil and Product Tanker Fleet By Vessel Size

		Fleet					Order book		
Class	Size (DWT)	Number	m. DWT	% share of DWT	Average Age (Years)	% Double Hull (by DWT)	No.	m. DWT	% of fleet
ULCC/VLCC	200,000 & above	554	166.9	37.2%	8.2	89.3%	184	57.6	34.5%
Suezmax	120,000-199,999	410	62.8	14.0%	8.5	94.4%	145	22.6	36.1%
Aframax	80,000-119,999	867	91.3	20.3%	8.3	94.9%	143	15.6	17.1%
Panamax	60,000-79,999	392	28.0	6.2%	7.2	92.9%	86	6.3	22.6%
Handymax	40,000-59,999	1,155	54.0	12.0%	7.0	94.2%	289	14.0	25.9%
Handysize	10,000-39,999	2,036	46.2	10.3%	10.3	82.7%	359	7.7	16.6%
Total		5,414	449.1	100.0%	8.7	91.3%	1,206	123.8	27.6%

Source: Clarkson Research, August 2010.

Note: Includes ships above 10,000 DWT only.

As of August 1, 2010, the world tanker order book for vessels above 10,000 DWT was 123.8 million DWT, equivalent to 27.6% of the existing fleet. This is expected to lead to strong fleet growth, which may put downward pressure on charter rates. Fleet growth has been slowed (and will continue to be affected) by the non-delivery of vessels. Although obtaining accurate data is difficult, current estimates suggest that in 2009, approximately 25% of deliveries above 10,000 DWT (in terms of DWT) expected to enter the fleet at the start of the year were not confirmed as delivered.

Suezmax and VLCC Tanker Builders (Order book by DWT)

Yard of Build	Builder Country	Suezmax 120-200,000 dwt	VLCC 200,000+ dwt	Total	Market Share
Daewoo SB	South Korea	2,851,500	10,538,832	13,390,332	16.7%
Hyundai H.I.	South Korea	1,897,090	7,956,302	9,853,392	12.3%
Samsung H.I.	South Korea	6,646,517	1,908,000	8,554,517	10.7%
Dalian Shipbld. Ind.	China P.R.		7,624,066	7,624,066	9.5%
Shanghai Waigaoqiao	China P.R.		5,720,000	5,720,000	7.1%
Hyundai Samho	South Korea	3,122,695	1,916,000	5,038,695	6.3%
STX Shipbuild.	South Korea		4,160,000	4,160,000	5.2%
Jiangsu Rongsheng	China P.R.	3,126,385	640,000	3,766,385	4.7%
Universal S.B.	Japan		3,281,602	3,281,602	4.1%
Jinhai Heavy Ind.	China P.R.		3,200,000	3,200,000	4.0%
Shanghai Jiangnan	China P.R.		2,968,712	2,968,712	3.7%
Bohai Shipbld.	China P.R.	326,000	2,461,760	2,787,760	3.5%
Atlantico Sul	Brazil	1,950,000		1,950,000	2.4%
NCS	China P.R.	1,299,959	320,000	1,619,959	2.0%
Mitsui SB	Japan		1,230,000	1,230,000	1.5%
I.H.I.	Japan		1,203,722	1,203,722	1.5%
Sungdong S.B.	South Korea	948,000		948,000	1.2%
HHIC-Phil. Inc.	Philippines	320,000	600,000	920,000	1.1%
Mitsubishi H.I.	Japan		900,000	900,000	1.1%
Guangzhou Longxue	China P.R.		618,724	618,724	0.8%
Namura Zosensho	Japan		302,303	302,303	0.4%
Sumitomo H.I.	Japan	156,000		156,000	0.2%
Grand Total		22,644,146	57,550,023	80,194,169	100.0%

Source: Clarkson Research, August 2010.

Note: "NCS" includes New Times S.B. and New Century S/Y.

Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

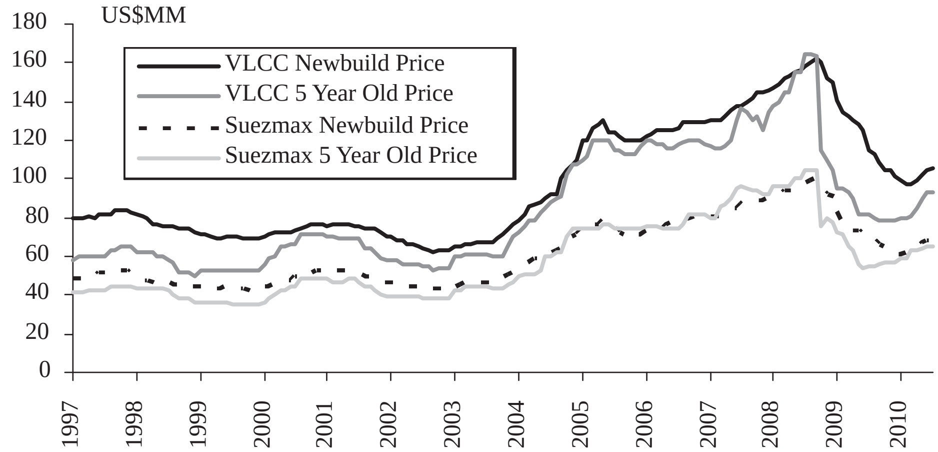
At any point in time, the level of scrapping activity is a function primarily of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs, which are in turn sometimes determined by industry regulations.

Scrapping levels are also affected by industry regulations. National authorities and international conventions have historically regulated the oil and petroleum products transportation industry, and since 1990 the emphasis on environmental protection has increased. Legislation and regulations such as the United States Oil Pollution Act of 1990, or ("**OPA 90**"), United Nations-backed International Maritime Organization ("IMO") protocols and classification society procedures, demand higher-quality vessel construction, maintenance, repair and operations. For example, in 2003 the IMO amended regulations to accelerate the phase-out of certain pre-1982 built single-hull tankers to 2005, with all remaining single-hull tankers removed by 2015 at the latest. Prompted by several high-profile accidents involving 1970s built ships of single-hull construction, the fleet has been swift to respond, and as of August, 2010, 91% of the vessels in the world tanker fleet by deadweight (above 10,000 DWT) were double-hulled (compared to 83% at the start of 2009).

Tanker Charter Rates & Asset Values

Oil tanker charter hire rates are sensitive to changes in demand for and supply of vessel capacity and consequently are volatile. Like vessel earnings, oil tanker asset values have also fluctuated over time. A reduction in charter rates caused by a decrease in demand for and/or an increase in the supply of tanker vessels would also reduce vessel prices. Plus, as a result of strong demand for other types of vessels, shipyard capacity, especially for large vessels, has been booked several years in advance, further contributing to the increased prices of newbuildings. After the tanker order book hit an historical high in September 2008 and the financial crisis struck in 3Q 2008, activity in the tanker newbuilding market slowed markedly. Contracting volumes and newbuild prices declined. Current newbuilding prices are significantly below the peaks reported at the height of the market in the summer of 2008; although the prices for VLCCs and Suezmax have increased since the start of the year (for example Suezmax newbuilding prices have increased from $62.5 million to $68.0 million). The developments in newbuilding and secondhand prices for tankers are shown in the following graph.

Historical Tanker Asset Values



Source: Clarkson Research, August 2010.

Note: Newbuilding prices vary according to country of build, delivery and ship specification. Prices in the above graph are end month and from June 2008, assume a "European specification", 20/20/20/20/20% payments and "first class competitive shipyards" quotations and relate to market contracts where these have taken place and to brokers' best estimates when no contracts have occurred.

There have been periods of uncertainty surrounding second-hand prices and the values provided by Clarksons brokers between October 2008 and December 2009 are subject to wider than usual confidence margins.

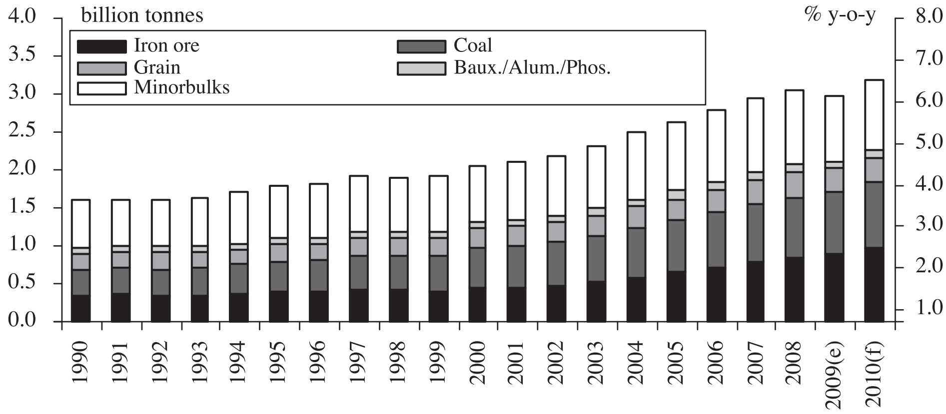
The Bulk Carrier Market

According to Clarkson Research, the bulk carrier market has been a significant sector within the shipbuilding industry historically, and in 2009 bulk carriers accounted for 37% of the DWT delivered from shipyards globally. Over the past twenty years of shipbuilding production, it has accounted for 34% of shipbuilding deliveries in DWT terms.

Bulk Carrier Demand

Demand cycles move broadly in line with developments in the global economy and until 2008, as illustrated in the following graph according to Clarkson Research. It shows how world seaborne trade in dry bulk cargo grew from 1.6 billion tonnes in 1990 to over 3.0 billion tonnes in 2008, at an average CAGR of 3.7%. Between 2000 and 2008, this rate accelerated to a CAGR of 5.1% in a response to strong global GDP growth and, in recent years, to the accelerated development of China's economy, particularly the development of their iron and steel industries. However, given the current global economic difficulties the outlook remains uncertain. In line with the marginal contraction of global industrial output in 2009, current estimates suggest that the seaborne trade in dry bulk cargo also fell an estimated 3.1% in 2009 to just under 3.0 billion tones. A recovery is expected in 2010, and dry bulk trade is currently projected to grow to 3.2 billion tonnes.

World Seaborne Dry Bulk Trade



Source: Clarkson Research, August 2010.

Note: The 2010 world dry bulk trade forecast is basis August 2010 for full year 2010 and subject to change. There is only limited trade and economic data for 2010. Forecasts are subjective and dependent on continued economic recovery; there is no guarantee that trends are sustainable.

According to Clarkson Research, dry bulk cargoes are categorized into either major or minor bulks. Major bulk commodities consist of iron ore, coal, grain, bauxite/alumina and phosphate rock, which together form the majority of the seaborne dry bulk trade and are typically transported in Capesize and Panamax vessels. Certain dry bulk trades exhibit levels of seasonality, depending on seasonal supply or demand factors. Current estimates suggest that despite the global economic slowdown, the seaborne trade of these five major bulks increased by 1% in 2009. The group of minor bulk commodities covers a wide and extremely varied set of commodities and an equally varied set of origins and destinations. Much of this trade takes place in Handymax and Handysize vessels. The seaborne trade in minor bulks declined notably in 2009. Current estimates suggest that it fell by 13% year-on-year in 2009 to approximately 854 million tonnes.

According to Clarkson Research, Chinese total dry bulk seaborne imports in 2002 were 216.8 million tonnes but in 2008 this rose to 648.4 million tonnes. Despite the onset of global economic recession, China has continued to exhibit strong growth in monthly steel production volumes and total steel production in 2009 was up by 13.7% year-on-year. Overall, seaborne iron ore imports in 2009 reached 614.6 million tonnes, up from 442.5 million tonnes in 2008. Turning to other commodities, Chinese seaborne imports of coal also rose dramatically in 2009. In 2009, China imported an estimated 125.9 million tonnes of coal, up from 39.2 million tonnes in 2008.

According to Clarkson Research, the continued future health of seaborne dry bulk market is dependent on the continued positive performance of the Chinese economy, or alternatively, on the emergence of other developing economies as a major source of world demand for raw materials. Developing countries that could prove to be sources of future demand include Brazil, Vietnam and India. On the whole, India's economy has performed well recently. Between 2005 and 2007, India's GDP grew strongly; and although the rate of growth slowed following the onset of the global economic downturn, it still increased throughout 2008 and 2009. This strength is reflected in India's dry bulk market, particularly (coking and steam) coal imports. Indian coal imports grew more than three-fold between 2002 and 2009 to 76.3 million tonnes.

Bulk Carrier Supply & the Newbuilding Market

According to Clarkson Research, the effective supply of bulk carrier capacity is a function of the already existing fleet, the rate of deliveries of newbuildings, scrapping and the operating efficiency of the fleet. The carrying capacity of the international bulk carrier fleet is a critical determinant in pricing for the transportation services it provides.

According to Clarkson Research, the world bulk carrier fleet (of 10,000 DWT and above) expanded from 5,281 vessels of 253.8 million DWT at the beginning of 1997 to 7,301 vessels of 459.0 million DWT at the start of 2010. In terms of deadweight, this constitutes an 80.8% expansion over 13 years. The global bulk carrier fleet is generally divided into four major classes of vessels, based on carrying capacity. The major types of vessels and size of the fleets are shown in the following tables.

Dry Bulk Carrier Vessel Types

Class of Bulker	Cargo Capacity (DWT)	Typical Use
Very Large Ore Carrier ("VLOC")	> 300,000	Strengthened for carriage of iron ore. Extreme size limits the number of ports ships can call into.
Very Large Ore Carrier ("VLOC")	220,000-299,999	
Capesize	> 100,000	Long haul iron ore and coal transportation for use in the steel industry and power stations.
Panamax	60,000 - 99,999	Typically carry coal and grains as well as a number of industrial metals such as alumina/bauxite. Also involved in iron ore and minor bulk trades.
Handymax	40,000 - 59,999	Primarily employed to carry steel and forest products, grain, coal, cement, fertilizer, sugar and minerals.
Handysize	10,000 - 39,999	Carries a variety of bulk cargo. Often employed on short haul trades.

Source: Clarkson Research, August 2010.

Dry Bulk Carrier Fleet and Order book

Class of Bulker	Cargo Capacity (DWT)	No.	Fleet m. DWT	Ave. Age	No.	Order book m. DWT	% of Fleet
VLOC	> 300,000	11	3.5	12.3	72	25.2	713%
VLOC	220,000 - 299,999	87	23.0	12.7	46	11.6	51%
Capesize	> 100,000	1,067	191.0	10.3	718	139.0	73%
Panamax	60,000 - 99,999	1,715	128.2	12.0	875	70.5	55%
Handymax	40,000 - 59,999	2,029	101.2	10.8	780	43.6	43%
Handysize	10,000 - 39,999	2,937	79.1	18.4	881	28.4	36%
Total		7,748	499.6	13.9	3,254	281.6	56%

Source: Clarkson Research, August 2010.

Note: Excludes combination carriers and Great-Lakes-only vessels, and only includes vessels over 10,000 DWT.
VLOC = Very Large Ore Carrier. Over 300,000 DWT and strengthened for ore.
VLOC = Very Large Ore Carrier. Between 220,000 and 299,999 DWT and strengthened for ore.
Includes post-Panamax vessels.

As of August 1, 2010, the world bulk carrier order book stood at 281.6 million DWT, equivalent to 56% of the current fleet. Despite having fallen from a peak of 329.7 million DWT (79% of the fleet) in November 2008, the total bulk carrier order book is still very large in historical terms and delivering it will present a number of challenges, both technical and financial. Although obtaining accurate data is difficult, current estimates suggest that in 2009, approximately 40% of deliveries (in terms of DWT) expected to enter the fleet at the start of the year have not yet been confirmed as delivered in this time period. This is partly due to statistical reporting delays but also because of delays in construction and cancellations of orders.

The bulker order book expanded rapidly at a time when freight rates were firm and the "dry bulk boom" of 2007/2008 was peaking. Levels of contracting rose significantly, before the economic recession hit in late 2008 and contracting slowed. In recent months, there has been an increase in activity, with bulkers the most active sector of the shipbuilding industry in 2010. Bulker contracting during the last eight years is shown in the following table.

Dry Bulk Carrier Contracting

		2002	2003	2004	2005	2006	2007	2008	2009	2010 ytd
Capesize	No. of ships	44	73	79	62	142	495	268	71	80
	m. DWT	7.9	13.1	16.5	12.2	26.5	89.5	52.1	16.1	15.7
Panamax	No. of ships	91	147	101	103	129	455	284	83	196
	m. DWT	7.0	11.5	8.0	8.3	10.4	37.0	22.7	6.9	15.8
Handymax	No. of ships	101	153	107	121	225	555	305	49	99
	m. DWT	5.3	8.3	5.8	6.5	12.4	31.4	17.2	2.7	5.2
Handysize	No. of ships	71	89	95	126	235	528	367	94	126
	m. DWT	2.1	2.7	2.4	3.3	6.9	16.6	11.9	2.9	4.2
Total	No. of ships	307	462	382	412	731	2,033	1,224	297	501
	m. DWT	22.3	35.5	32.6	30.3	56.2	174.5	103.9	28.5	40.9

Source: Clarkson Research, August 2010.

Top Dry Bulk Carrier Building Countries (Order book by DWT)

Builder Country	Handysize 10-40,000 DWT	Handymax 40-60,000 DWT	Panamax 60-100,000 DWT	Capesize 100,000+ DWT	Total
China P.R.	10,763,688	25,075,844	39,090,500	61,959,100	136,889,132
Japan	8,404,944	6,878,334	20,256,166	32,923,050	68,462,494
South Korea	7,256,905	4,857,400	9,170,200	32,945,054	54,229,559
Philippines		2,668,000		9,422,000	12,090,000
India	1,002,800	1,301,000	1,419,000		3,722,800
Vietnam	874,000	2,246,349			3,120,349
Romania				900,000	900,000
Taiwan			373,200	406,000	779,200
Bulgaria	21,211	446,400			467,611
Denmark				182,000	182,000
Brazil			160,000		160,000
Others	85,600	160,000		400,000	645,600
Grand Total	28,409,148	43,633,327	70,469,066	139,137,204	281,648,745

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

Panamax and Capesize Bulkcarrier Builders (Order book by DWT)

Yard of Build	Builder Country	Panamax 60-100,000 DWT	Capesize 100-220,000 DWT	VLOC 220-300,000 DWT	VLOC 300,000+ DWT	Total	Market Share
Jiangsu Rongsheng	China P.R.	2,126,000	3,872,000		6,400,000	12,398,000	5.9%
STX Shipbuild.	South Korea	2,753,000	3,077,000	1,191,920	3,200,000	10,221,920	4.9%
Universal S.B.	Japan	1,026,000	4,159,100	594,000	3,300,000	9,079,100	4.3%
Imabari S.B.	Japan	4,065,266	3,420,400		1,310,000	8,795,666	4.2%
Sungdong S.B.	South Korea	1,614,200	7,116,712			8,730,912	4.2%
Namura Zosensho	Japan	736,000	1,239,000	6,640,000		8,615,000	4.1%
Jinhai Heavy Ind.	China P.R.	2,579,400	5,808,000			8,387,400	4.0%
NCS	China P.R.	1,200,000	6,887,000			8,087,000	3.9%
Dalian Shipbld. Ind.	China P.R.	487,200	3,780,000		2,700,000	6,967,200	3.3%
Hyundai H.I.	South Korea	1,226,000	4,137,472		1,580,000	6,943,472	3.3%
Shanghai Waigaoqiao	China P.R.		6,866,000			6,866,000	3.3%
Oshima S.B. Co.	Japan	4,985,700	1,234,150			6,219,850	3.0%
HHIC-Phil. Inc.	Philippines		5,822,000			5,822,000	2.8%
Nantong Cosco KHI	China P.R.		3,400,000	596,000	1,500,000	5,496,000	2.6%
Daewoo SB	South Korea	328,000	2,339,950		2,800,000	5,467,950	2.6%
Tsuneishi Zosen	Japan	4,714,500				4,714,500	2.2%
Guangzhou Longxue	China P.R.	1,558,000		2,300,000		3,858,000	1.8%
Beihai Shipyard	China P.R.	328,000	3,470,000			3,798,000	1.8%
Tsuneishi Cebu	Philippines		3,600,000			3,600,000	1.7%
Sanoyas	Japan	1,926,000	1,508,000			3,434,000	1.6%
Others		38,815,800	30,538,500	298,000	2,452,000	72,104,300	34.4%
Grand Total		70,469,066	102,275,284	11,619,920	25,242,000	209,606,270	100.0%

Source: Clarkson Research, August 2010.

Note: "NCS" includes New Times S.B. and New Century S/Y.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

As the previous table illustrates, as at August 1, 2010, shipyards in China held approximately 49% of the contracts for new bulk carriers on the order book. Overall, 92% of all vessels current on order are being built at Chinese, Japanese or South Korean shipyards. European shipyards no longer compete to build bulk carriers, preferring to specialize in value-added vessels.

Chinese Dry Bulk Order book by DWT

Year	Handysize 10-40,000 DWT	Handymax 40-60,000 DWT	Panamax 60-100,000 DWT	Capesize 100,000+ DWT	Total
2010	4,354,956	9,154,993	8,859,500	13,312,100	35,681,549
2011	4,157,532	10,977,451	16,183,800	27,228,500	58,547,283
2012	2,067,400	4,364,800	11,889,200	17,814,500	36,135,900
2013	183,800	578,600	2,082,000	3,604,000	6,448,400
Grand Total	10,763,688	25,075,844	39,014,500	61,959,100	136,813,132

Source: Clarkson Research, August 2010.

Note: 2010 figures are for the remainder of the year. Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

According to Clarkson Research, in addition to the vessels on order, there is also the issue of conversions. Due to the high freight rates, there was a dramatic rise in late 2007 and early 2008 in the number of single hull tankers being converted for service in the dry cargo and offshore markets. It is difficult to quantify the number of conversions that have taken place, but since the start of 2008, approximately 18.1 million DWT of known conversions have entered the dry bulk fleet, with another 1.8 million DWT known to currently be under conversion.

According to Clarkson Research, at any point in time, scrapping activity is affected by, among other factors, current and expected charter rate conditions, scrap prices, the levels of second-hand values in relation to scrap values, operating, repair and survey costs, the impact of regulations, and the age profile of the fleet. Older vessels typically require substantial repairs and maintenance to conform to industry standards. According to Clarkson Research, bulk carrier scrapping was at historically low level during 2004, 2005, 2006 and 2007 with 0.3 million DWT, 1.0 million DWT, 1.7 million DWT and 0.6 million DWT scrapped respectively (scrapping averaged 7.4 million DWT per year between 1996 and 2003). Since the onset of the economic downturn however, scrapping has picked up significantly and in 2009 bulk carrier demolition totaled 10.6 million DWT.

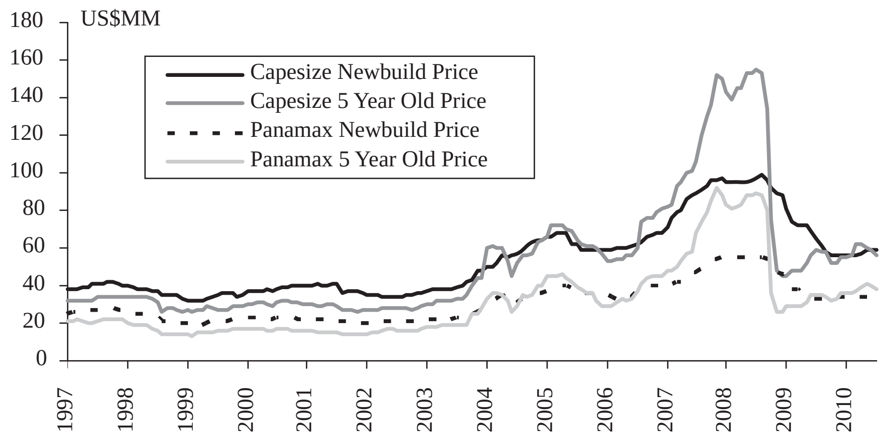
There are a number of other factors that affect fleet supply. These include vessels being laid-up or waiting off ports to load or discharge, slow steaming and port congestion.

Bulk Carrier Charter Rates & Asset Values

Bulk carrier charter rates are strongly influenced by the demand for, and supply of, vessel capacity. Bulk carrier charter rates and vessel values are very sensitive to these changes in demand and supply and consequently are volatile. The degree of charter rate volatility has varied over time and among different sizes of bulk carriers, and vessel values have tended to be highly correlated with the freight market. On the other hand, a rapid fall in demand coupled with excess tonnage saw rates fall to very low levels in the second half of 2008 before recovering marginally throughout 2009.

As in the tanker charter sector, there is a relationship between changes in asset values and the bulk carrier charter market. A reduction in charter rates caused by a fall in demand for or an increase in the supply of bulk carriers vessels would reduce vessel prices, although there can be a lag in the change in vessel prices. Prices in the newbuilding market increased significantly between 2003 and the summer of 2008. Following the onset of the economic downturn towards the end of 2008 however, contracting slowed notably as freight rates fell, the outlook for the market remained relatively depressed and owners faced increasing difficulties in securing financing. This dearth in contracting activity has seen shipyards reduce prices in an attempt to attract fresh business, although they recovered slightly in the first few months of 2010. The second-hand sale and purchase market for bulk carriers is relatively liquid, with vessels changing hands between owners on a regular basis. Bulk carrier second-hand prices are influenced by potential earnings and as a result by trends in the supply of and demand for capacity. Subsequently, since the onset of the economic downturn, they initially underwent a severe correction. However, secondhand bulk carrier values had recovered by about 30% by July 2010 from the lows reported in early 2009. These developments are illustrated in the following graph.

Historical Bulk Carrier Asset Values



Source: Clarkson Research, August 2010.

Note: Newbuilding prices vary according to country of build, delivery and ship specification. Prices in the above graph are end month and from June 2008, assume a "European specification", 20/20/20/20/20% payments and "first class competitive shipyards" quotations and relate to market contracts where these have taken place and to brokers' best estimates when no contracts have occurred.

There have been periods of uncertainty surrounding second-hand prices and the values provided by Clarksons brokers between October 2008 and December 2009 are subject to wider than usual confidence margins.

The Containership Market

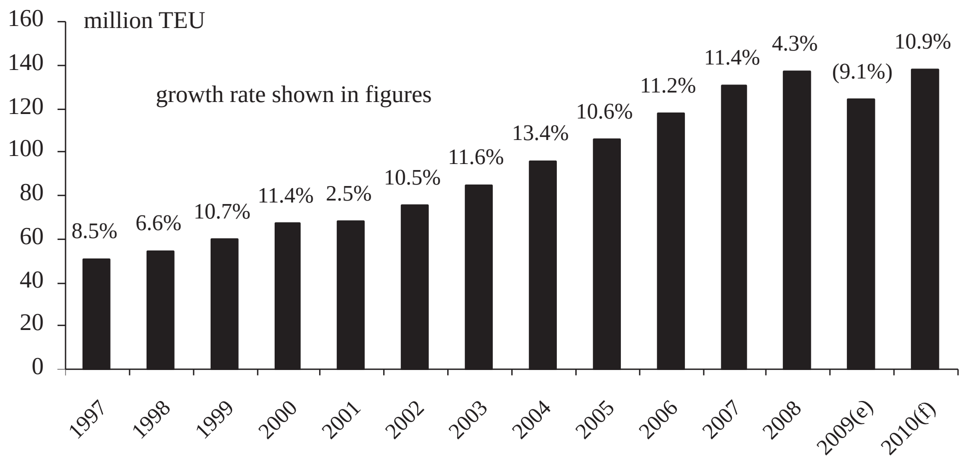
The containership sector has been an increasingly significant sector within the ship building industry in recent years. According to Clarkson Research, 17% of global shipyard output in 2003 was containerships, but by 2006 this had grown to 28% before contracting to 16% in 2009 (in terms of GT).

Container shipping represents an important and increasingly significant part of the global seaborne movement of goods, responsible for the movement of a wide range of goods from one part of the world to another in a unitized form.

Containership Demand

Growth in global container trade has been driven by growth in world merchandise trade, and the growing share in the containerized part thereof, along with the expansion in 'containerization' of new commodities and the trend towards globalization. According to Clarkson Research, in terms of loaded containers moved from origin to destination, estimated global container trade rose from 59.9 million TEU in 1999 to 124.1 million TEU in 2009, a CAGR of 7.6%. During the period from 2002 to 2007, demand for container shipping accelerated, and annual growth in world container trade achieved a high of 13.4% in 2004. Following the onset of the economic downturn however, trade growth in global container trade slowed to just 4.3% in 2008, and then contracted by an estimated 9.1% in 2009.

World Seaborne Container Trade



Source: Clarkson Research, August 2010.

Note: 2009(e) figures are estimates; 2010(f) figures are forecasts.

The 2010 world container trade forecast is basis August 2010 for full year 2010 and subject to change. There is only limited trade and economic data for 2010. Forecasts are subjective and dependent on continued economic recovery. There is no guarantee that trends are sustainable.

The relatively rapid expansion of global container trade between 2002 and 2008 had its primary roots in the pace of growth of global trade in general. Globalization bolstered growth in international trade. Of central importance to this was the continued relocation and outsourcing of manufacturing to China, which resulted in very strong economic growth in China. On the world's two busiest container trades, the Transpacific and the Far East-Europe, the trade out of Asia is dominant and in recent years it has been Chinese trade that has driven most of the increase in volumes out of Asia. Between 2002 and 2008, estimated trade volumes on the eastbound Transpacific trade grew by a CAGR of 6.7% and on the Westbound Far East-Europe trade by 15.3%. In 2008 exports from Asia to other regions accounted for more than 28% of estimated total container trade.

After a slowdown in global containerized trade in 2009, the beginning of 2010 has seen several trends supporting an increase in containership demand, along with an increase in global economic growth. (although downside risks remain) There has been a generally increasing trend in volumes across many trades; by December 2009, volumes on many trade lanes had started to return to positive year-over-year growth (albeit from relatively low levels), which has continued through early 2010. This in turn supports increased containership demand.

Containership Supply & the Newbuilding Market

Global container trade is served by a large fleet of container carrying vessels. The most significant part of this fleet is the fully cellular containership fleet, The remainder of the container capable fleet is made up of a range of non-fully cellular vessel types, including MPPs (vessels capable of carrying container and break bulk cargo), Ro-Ros (roll-on roll-off cargo vessels) and general cargo vessels, which often have container carrying capacity. Liner companies and charter owners responded to the rapid growth in demand for container capacity witnessed in recent years, and between the start of 2000 and 2010, container capable standing slot capacity expanded at a CAGR of 9.0%, driven mainly by growth of the fully cellular containership fleet, which almost tripled in capacity during the same period of time. At the start of August 2010, the overall container capable fleet stood at 12,189 ships of 15.9 million TEU.

According to Clarkson Research, at the start of August 2010, the fully cellular containership fleet totaled 4,914 ships of 13.67 million TEU, equivalent to 86% of world container capacity. The following tables show the major types of fully cellular containerships, the FCC fleet and order book, and FCC contracting levels during the last eight years.

Fully Cellular Containership Types

Class of FCC	Cargo Capacity (TEU)	Typical Use
Post-Panamax	8,000 & above	Deployed largely on the deep sea mainlane east-west trades as well as on other high volume trades.
Post-Panamax	3,000-7,999	
Panamax	3,000 & above	
Sub-Panamax	2,000-2,999	Suitable for deployment on many trades, non-mainlane East-West trades, North-South trades and intra-regional trades in Asia and Europe.
Handy	1,000-1,999	
Feedermax	500-999	On the smaller intra-regional and 'feeder' trades.
Feeder	100-499	

Source: Clarkson Research, August 2010.

FCC Fleet and Order book

Class of FCC	Cargo Capacity (TEU)	No.	Fleet '000 TEU	Ave. Age	Order book No.	Order book '000 TEU	Order book % of Fleet
Post-Panamax	8,000 & above	273	2,517.2	2.8	228	2,564.0	102%
Post-Panamax	3,000-7,999	497	2,993.9	7.2	114	668.2	22%
Panamax	3,000 & above	938	3,737.0	7.7	88	362.3	10%
Sub-Panamax	2,000-2,999	700	1,779.1	9.7	48	124.3	7%
Handy	1,000-1,999	1,265	1,793.7	10.5	115	157.4	9%
Feedermax	500-999	818	606.6	11.0	51	42.6	7%
Feeder	100-499	423	130.8	23.0	5	1.6	1%
Total		4,914	13,558.4	10.2	649	3,920.3	29%

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and do not take into account potential delivery problems.

As in the other shipping markets, containership demand cycles move broadly in line with developments in the global economy. The placement of new orders for containership capacity has slowed dramatically since the onset of the downturn. In 2007 a historical high level of 3.2 million TEU of containership capacity was ordered. In 2008 the volume of ordering slowed to 1.1 million TEU. At 0.1 million TEU, containership contracting activity in 2009 was negligible. Market players ordering containerships in recent years have included both containership operators (liner companies) and shipowners ordering vessels in order to charter them out to operators.

FCC Contracting

		2002	2003	2004	2005	2006	2007	2008	2009	2010 ytd
Post-Panamax	No of ships	31	165	89	93	101	252	102	11	20
	’000 TEU	201	1,271	723	709	889	2,453	815	83	164
Panamax	No of ships	24	103	128	91	116	115	40	2	6
	’000 TEU	116	438	554	380	486	487	161	10	27
Sub-Panamax	No of ships	24	92	67	77	32	45	23		
	’000 TEU	59	243	181	198	85	118	60		
Handy	No of ships	12	47	111	180	164	105	30	2	13
	’000 TEU	19	68	151	261	237	151	42	2	17
Feedermax	No of ships	29	65	58	135	62	28	15		
	’000 TEU	22	53	45	112	51	23	12		
Feeder	No of ships	1	1	2	13	1	1	3		3
	’000 TEU	0	0	1	4	0	0	1		1
Total	No of ships	121	473	455	589	476	546	213	15	42
	’000 TEU	417	2,073	1,655	1,662	1,749	3,233	1,092	95	209

Source: Clarkson Research, August 2010.

Due to the slowdown in ordering, the order book has shrunk since the start of July 2008, when it totaled 1,367 vessels of 6.7 million TEU. By the start of August 2010, it stood at 649 ships of 3.9 million TEU, equivalent to 29% of the fleet in terms of capacity. Nevertheless, the order book remains considerable, and will result in strong capacity growth, maintaining significant supply side pressure on containership markets. Delivering the order book will present a number of challenges, with both technical and financial factors contributing to delays to and cancellations of the scheduled deliveries. Establishing accurate data is difficult, but Clarkson Research estimates that approximately 45% of scheduled deliveries in terms of TEU capacity expected to enter the fleet in 2009 as of the start of last year have been confirmed as non-delivered.

The market downturn has also lead to a significant increase in the “idle” containership fleet with around 12% of the world’s fleet laid up as of the start of 2010. The size of the idle fleet has declined since the start of 2010 to stand at just under 2% of the fleet as of start August estimates.

Top Containership Building Countries (Order book by TEU)

Builder Country	Feeder 100-500 TEU	Feedermax 500-1,000 TEU	Handy 1-2,000 TEU	Sub-Panamax 2-3,000 TEU	Panamax 3,000 TEU+	Post-Panamax 3,000 TEU+	Total
South Korea		1,900	7,350		82,807	2,563,896	2,655,953
China P.R.	1,277	22,607	111,500	68,062	220,636	285,690	709,772
Japan			3,416	17,575		155,530	176,521
Taiwan			11,200		39,534	118,667	169,401
Philippines						75,372	75,372
Germany		7,082	8,932	18,612	6,852		41,478
Romania		4,824				33,000	37,824
Turkey		2,419	11,556				13,975
Brazil				13,500			13,500
Poland					12,424		12,424
Iran				6,564			6,564
Vietnam		2,100	3,460				5,560
Netherlands	365	1,618					1,983
Grand Total	1,642	42,550	157,414	124,313	362,253	3,232,155	3,920,327

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

As the previous table illustrates, the majority of the capacity contracted has been built, or is being built, at Asian shipyards. South Korean shipyards are currently the world's most prolific builders of containership capacity, particularly for the larger Panamax, and Post-Panamax size ranges taking approximately 68% of the world order book (in terms of TEU). A significant amount of tonnage is also on order at Chinese shipyards. China now has the second largest order book for containerships with approximately 18% in terms of TEU, building vessels from Feeder to Post-Panamax size.

Chinese Containership Order book by TEU

Year	Feeder 100-500 TEU	Feedermax 500-1,000 TEU	Handy 1-2,000 TEU	Sub-Panamax 2-3,000 TEU	Panamax 3,000 TEU+	Post-Panamax 3,000 TEU+	Total
2010	368	17,138	57,960	24,880	66,264	19,500	186,110
2011	909	5,469	35,807	24,266	66,422	142,490	275,363
2012			10,773	16,116	87,950	76,700	191,539
2013			6,960	2,800		47,000	56,760
Grand Total	1,277	22,607	111,500	68,062	220,636	285,690	709,772

Source: Clarkson Research, August 2010.

Note: 2010 figures are for the remainder of the year. Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

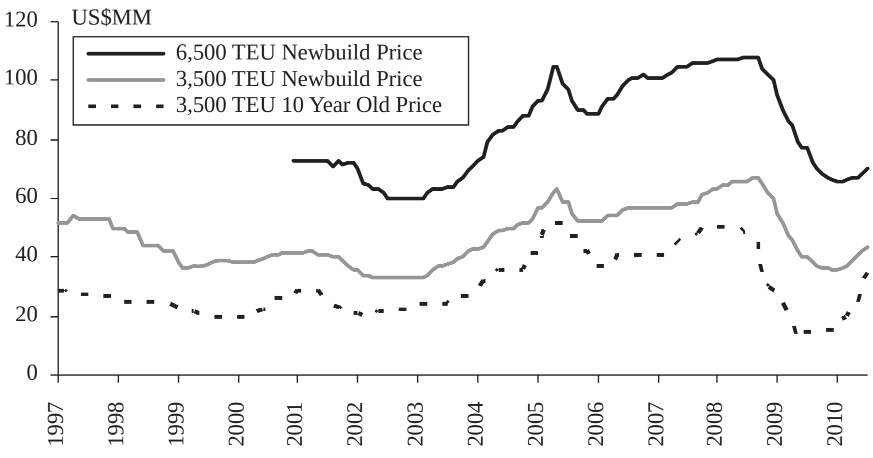
With regard to scrapping of the global containership fleet, a substantial volume of ageing containership capacity was sold for scrap in 2009: 197 containerships of 0.37 million TEU and an average age of 26.9 years. This volume of tonnage is significantly higher than historical levels. In the ten year period from 1999 to 2008 an average of just 29 containerships were scrapped each year with an average age of 27.8 years.

The Containership Market

Containership charter rates depend on the supply of, and demand for, containership capacity, and can vary significantly. The containership charter market experienced significant upward movement in time charter rates in the period between the start of 2002 and the middle of 2005 before falling again mid-way through 2005, stabilizing in the first half of 2006, and then slipping further during the second half of 2006. The first half of 2007 saw the containership charter market recover to levels similar those seen in late 2005 and early 2006, while early 2008 saw rates rise further. However, the onset of the global economic downturn and the resulting slowdown in container trade growth created a relative oversupply of capacity which led to a rapid fall in earnings in the latter half of 2008 and first half of 2009. Earnings then remained at these depressed levels until the start of 2010, when containership charter rates began to register an upward trend, although they still remain well below long-term averages.

As the containership market has expanded, the market for the sale and purchase of secondhand containerships has also expanded in recent years. Movements in secondhand prices for containerships have been highly correlated with changes in containership time charter rates. Since the onset of the economic downturn, they have undergone a severe correction. However, secondhand containership values have moved up since the start of 2010. Prices in the relatively liquid newbuilding market for containerships have followed a similar pattern. Between 2003 and 2007, the market was very active and prices rose accordingly. However, since the onset of the economic downturn, there has been a notable slowdown in the number of orders placed. This dearth in contracting activity has seen shipyards reduce prices in an attempt to attract fresh business. But, as in other sectors, containership newbuilding prices have recovered marginally in the last few months. These developments are illustrated in the following graph.

Historical Containership Asset Values



Source: Clarkson Research, August 2010.

Note: Newbuilding prices vary according to country of build, delivery and ship specification. Prices in the above graph are end month and from June 2008, assume a "European specification", 20/20/20/20/20% payments and "first class competitive shipyards" quotations and relate to market contracts where these have taken place and to brokers' best estimates when no contracts have occurred.

There have been periods of uncertainty surrounding second-hand prices and the values provided by Clarksons brokers between October 2008 and December 2009 are subject to wider than usual confidence margins.

THE OFFSHORE ENGINEERING INDUSTRY

Offshore Engineering Products

An increasingly prominent part of the global fleet is offshore development units (including drilling units), production units and support (service) vessels. These are engaged in performing and supporting the various stages of exploration, development and production of oil and gas from offshore locations.

Demand for Drilling units, Production units, and Offshore service vessels

The supply and demand dynamics of the broader oil and gas industries, and in particular trends in the oil price, are central to the development of the offshore market. The offshore oil and gas industry plays a vital role in meeting the global demand for oil and gas. Oil is the world's most important energy source and approximately one-third of global production was met by offshore activities in 2009. Oil demand is sensitive to economic development and recent growth has been primarily driven by Asian economic growth, particularly Indian and China. On the other hand, in the long-term it is possible that oil demand may be reduced by an increased reliance on alternative sources and/or a drive for increased efficiency in the use of oil as a result of environmental concerns, declining reserves and/or high oil prices. Gas is the third largest global energy source, after oil and coal. According to the BP Statistical Review of World Energy (June 2010), gas accounted for approximately 24% of the world's energy consumption in 2009. Approximately 19% of global natural gas production is met by offshore activities.

Oil and Gas Prices and E&P Expenditure

According to Clarkson Research, the demand for offshore engineering products is fundamentally driven by the Exploration and Production (E&P) expenditure of oil and gas companies. E&P expenditure depends on the cash flow of oil and gas producers, which is primarily determined by oil and gas prices and production volumes: generally, higher (expectations of) oil and gas prices result in greater demand for offshore services. Following the onset of the global economic downturn, oil prices fell from a high of US$145.31 per barrel (based on the price of WTI crude oil as quoted by Energy Information Administration) on July 3, 2008 to a low of US$30.28 per barrel on December 23, 2008. This price fall combined with the wider impact of the financial crisis and resulted in a fall in demand for offshore support and drilling services. In recent months oil prices have stabilized between approximately US$64.00 and US$87.00 per barrel.

Offshore Oil and Gas Production

Most producing regions now possess significant offshore production capacity, with the Gulf of Mexico and the Middle East being the main regions for offshore E&P activities.

Global Oil Production

million BPD	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009(e)	% Offshore
Middle East	21.70	21.05	19.71	21.10	22.23	22.57	22.75	22.25	23.16	21.36	29%
North America (incl. Mexico)	14.18	14.24	14.35	14.43	14.35	13.88	13.93	13.86	13.33	13.62	35%
Former Soviet Union	7.97	8.64	9.49	10.47	11.43	11.83	12.30	12.81	12.83	13.28	11%
Africa	7.04	7.13	7.32	7.84	8.58	9.09	9.20	9.48	9.54	9.00	50%
Latin America	6.46	6.44	6.32	6.14	6.42	6.72	6.68	6.45	6.53	6.50	36%
Europe	7.00	6.87	6.80	6.52	6.28	5.82	5.42	5.13	4.89	4.66	91%
Asia	7.03	7.12	7.16	7.22	7.32	7.40	7.43	7.35	7.51	7.46	44%
Australasia	0.88	0.81	0.78	0.67	0.59	0.60	0.58	0.63	0.65	0.65	83%
Others	5.11	5.25	5.49	5.79	6.30	6.78	7.19	7.55	8.12	8.52	5%
Total	77.37	77.55	77.42	80.18	83.50	84.69	85.48	85.51	86.56	85.05	31%
y-o-y growth	3.8%	0.2%	-0.2%	3.6%	4.1%	1.4%	0.9%	0.0%	1.2%	-1.7%	

Source: Clarkson Research (based upon industry sources), August 2010.
Note: Estimated offshore production figures; percentages based on 2009 totals.
Figures include crude oil, condensates, NGLs and oil from non-conventional sources, processing gains and biofuels.

Of the 5,172 offshore oil and gas fields tracked by Clarkson Research where water depth data is available as of August 2010, 3,511 are in production, 220 are being developed or under construction, and 1,441 have been reported as probable or possible future developments. The depletion of oil reserves in easily accessible and shallow-water locations (less than 500 meters) is restricting opportunities for significant new additions to reserves in these areas. This has compelled participants to develop production capacity in deep-water offshore locations. Out of the offshore oilfields in production, only 7% are in waters depths in excess of 500 meters, while 25% of the oilfields under construction as of August 2010 are in deep water. The following table sets out the total number of offshore oil and gas oilfields currently under production, in development or construction and reported having potential for oil and gas production.

Offshore Oil & Gas Field Developments

	Production		Development/ Construction		Potential		Total	
# Fields	**<500m**	**>500m**	**<500m**	**>500m**	**<500m**	**>500m**	**<500m**	**>500m**
NW Europe	637	1	41	2	336	15	1,014	18
Mediterranean	166	9	12	4	37	23	215	36
Middle East/Indian Sub-Cont.	89	2	27		63	32	179	34
West Africa	301	41	11	13	64	99	376	153
Asia Pacific	580	6	48	9	516	68	1,144	83
North America	1,370	159	10	16	54	80	1,434	255
Latin America	121	29	16	11	28	26	165	66
Total (Known Water Depth)	3,264	247	165	55	1,098	343	4,527	645
Unknown Water Depth	94		24		236		354	
Total (All)	3,605		244		1,677		5,526	

Source: Clarkson Research, August 2010.

Note: Known start-up dates for fields under construction and potential developments extend beyond 2013.

All offshore oil and gas field developments located in the Gulf of Mexico without a known water depth are assumed to be located in shallow water (<500m).

The Offshore Fleet

The following table summarizes the range of services performed by the offshore fleet:

Summary of the Roles of Offshore Engineering Products

	Exploration	Development	Production
Length of Typical Cycle	**3-5 years**	**2-4 years**	**5-55 years**
Description	Collection of survey data; Analysis and interpretation; Identification of oil and gas reserves.	Construction and installation of production platforms, pipelines and equipment; Preparation for production.	Management of oil and gas production; Operations and Maintenance; Retrofit work.
Drivers	Oil price levels, with approximate one year lag; Requirement to replenish proven reserves and secure energy security.	Global oil and gas demand; Requirement to monetize investment in oil and gas fields; Oil price levels.	Global oil and gas demand.
Vessels & Units	Mobile Drilling Units; Seismic Survey & Support; Hydrographic survey (for pipeline routes); ROV Support Vessels; PSV/Supply, Crewboats; Chase boats; AHT and AHTS.	Cable- & Pipe-lay vessels; Heavy Lift Transport; Offshore Dredgers; Accommodation Units; Installation Platforms; Mobile Drilling Units; PSV/Supply, Crewboats; AHT, AHTS, MPV, Tugs.	Fixed & Mobile Production Units; Floating Storage Units; Shuttle Tankers; AHTS, Tugs, PSV/Supply; ERRV, Crewboats; Accommodation Units; MPVs / Production Support Vessels.
Services	Seismic operations, deployment of spreader lines; Drilling of exploration wells; Storage, treatment & pumping of drilling fluids; Accommodation & transportation of crew & supplies; Rig moving; Chase boat activities; Refueling of other vessels.	Diving, site survey & preparation; Drilling Development Wells; Installation of platforms & associated infrastructure; Transport of platform jackets, topside modules and/or MPUs; Accommodation & transportation of crew and supplies; Transportation of bulk and deck cargo; Anchor handling & general towing.	Production, storage & transportation of oil & gas; Off-take tanker handling; Accommodation & transportation of crew & supplies; Transportation of bulk and deck cargo; Anchor handling; Inspection and maintenance support services.
Risk of Reduced Activity due to Crude Oil Price Correction	High	Medium	Low

Source: Clarkson Research, August 2010.

As of August 1, 2010, the global fleet of offshore engineering products serving the offshore energy industry comprised 25,343 units, with an order book of 1,443 units scheduled for delivery through to 2014. The following table gives an overview of this fleet. Please note that it is expected that financial and technical problems could result in a significant number of cancellations and delays, although the extent of this is unclear at present.

Global Offshore Fleet by Status

	Fleet#		Order book#	
Function/Sub Type	**Active**	**Inactive**	**On Order**	**As % of Fleet**
Survey & Construction	3,104	11	192	6%
Survey Vessels	614	6	26	4%
Construction Vessels	277	1	55	20%
Construction Barges	655	1	40	6%
Platforms	284	2	23	8%
Dredgers	1,274	1	48	4%
Mobile Drilling Units	588	320	144	16%
Drill Ship	39	18	35	61%
Semi-Submersible	140	60	33	17%
Jackup	328	151	68	14%
Drill Barge/Tender	81	91	8	5%
Mobile Production Units	260	27	47	16%
Floating Production	144	16	36	23%
Semi-Submersible	38	6	5	11%
Jackup	38	4	4	10%
Semi-Permanent	40	1	2	5%
Fixed Production Units	8,761	132	201	2%
Permanent Platform	7,852	56	158	2%
Subsea	909	76	43	4%
Logistics	630	58	63	9%
Floating Storage	84	4	4	5%
Shuttle Tankers	66	0	21	32%
Single Point Moorings	480	54	38	7%
Offshore Support	11,440	12	796	7%
Offshore Support Vessel	5,731	11	668	12%
Tug	5,709	1	128	2%
Total	24,783	560	1,443	6%

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the renegotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

Development Vessels & Units

At the start of August 2010, the global fleet of mobile drilling units (MDUs) stood at 908 vessels. Of this total, 479 were jackups, 200 were semi-submersibles and 57 were drillships. The remaining 172 were drill barges and tenders. The MDU sector has attracted a large volume of investment in construction of new drilling units over the past 5 years. As of August 2010, there were 144 new units under construction, equivalent to approximately 16% of the current fleet. The drillship order book constituted approximately 61% of the fleet as of August 2010; the jackup order book equaled 14% of the fleet.

Summary of the Roles of Mobile Drilling Units

Vessel Type	Fleet #	Obook #	Water Depth Range - m	Key features
Jackup	479	68	up to 150	A self-elevating drilling platform whose legs rest on the sea bed when drilling. These are limited to shallow waters.
Semi-Submersible	200	33	up to 3,650	Floating platform that maintains its position over a well through the use of an anchoring system or dynamic positioning ("DP") system.
Drillship	57	35	up to 3,650	As semi-sub, but greater capacity and mobility makes drillships well suited to offshore drilling in remote areas.

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

At the start of August 2010, the Clarkson Research database registered 1,806 construction (support) and development vessels, with a further 209 on order. Please note that the supply of vessels in this sector is elastic, with vessels able to switch between adjacent markets depending on market conditions.

Summary of the Roles of Offshore Construction & Development Vessels

Vessel Type	Fleet #	Obook #	Description
Transportation/Heavy Lift	94	28	Heavy lift cargo vessels and heavy lift/transport vessels (including semi-submersible heavy lift/transport units), used to lift and transport offshore platforms and other structures.
Derrick Crane Ships/Barge	148	10	Large vessels or barges with heavy and complex lifting gear designed for offshore work such as subsea construction, hook-up installation etc.
Derrick/Pipe Layer	127	25	Vessels or barges dedicated to subsea pipe laying.
Cable-Layer	99	6	Vessels designed to lay subsea cables and/or flowlines, including fibre-optic cable layers.
Offshore Dredgers & Stone Discharge	235	5	Large suction dredgers capable of operating a significant distance offshore in order to dredge channels for pipelines and other offshore installations. Also vessels with special equipment for depositing gravel onto seabed pipelines.
Lift Boat & Self-Elevating Installation Barge	267	23	Self-propelled, self-elevating work platforms and self-elevating barges used to support offshore construction. Includes wind turbine installation vessels.
Offshore Launch Barge	359	8	Barges and pontoons used in the offshore industry.
Accommodation Units	115	17	Vessels or platforms that provide accommodation services to offshore installations. Can be a vessel, semi-submersible or self-elevating ("jackup").
Construction Support	362	87	Includes multi-purpose support vessels, dive & ROV support vessels, maintenance vessels and well stimulation vessels.

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

Production Units

According to Clarkson Research, the majority of production units are fixed in one location, serving a particular project throughout their life. At the start of August 2010, there were 7,908 fixed permanent offshore platforms, of which 7,852 were classified as active. In recent years however, there has been an increased focus on Mobile Production Units (MPUs). These are able to move around to serve more than one location over the course of their operating lives. In broad terms, there are five main types of MPUs: jackups, tension leg platforms (TLPs), spars, semi-submersibles and floating production, storage and offloading units (FPSOs).

FPSOs account for 56% of all the MPUs that were in the fleet as at the start of August 2010. At the start of August 2010, the FPSO fleet consisted of 160 vessels. Among the active FPSOs in the world, 36% are now deployed in Asia Pacific, with most of the remainder in West Africa (24%), the Americas (23%) and the North Sea region (15%). Brazil in particular remains a major growth area for floating storage and production, with the imminent investment in extraction from the new Tupi fields.

According to Mustang Engineering, Petrobas is the leading FPSO operator with 14 vessels and CNOOC is a close second with 13 vessels. The other operators have no more than 6 vessels in operation.

Ranking of FPSO operators (by number of vessels)

Company	No. of Vessels
Petrobas	14
CNOOC Ltd.	13
Total SA	6
Exxon Mobil Corp	5
Chevron Corp	4
Royal Dutch Shell PLC	4
ConocoPhilips	3
BP	3
Woodside Petroleum Ltd.	2
Vietsovpetro	2
StatoilHydro	2
Coogee Resources	2
Others	18

Source: Mustang Engineering, August 2010.

The longer-term confidence in the offshore oil and gas market is illustrated by the high levels of investment in production unit newbuildings. At the start of August 2010, not only were 158 fixed platforms under development, but 47 MPUs were also on order. In a similar fashion to the fleet, the MPU order book is dominated by FPSOs, which totaled 36 ships.

Summary of the Roles of Offshore Oil & Gas Production Units

Type	Fleet #	Obook #	Water Depth Range - m	Max BPD	Key features
Fixed Production Platform	7,908	158	up to 500	600,000	By far the most common production platform. Anchored directly onto the seabed, designed for long-term use.
Tension Leg Platform/Spar	41	2	up to 2,400	360,000	Floating structures moored vertically and typically used in deepwater. TLPs are moored by means of tethers or tendons. Spar platforms consist of a large-diameter, single vertical cylinder supporting a deck.
Jackup Production	42	4	up to 110	70,000	A self-elevating production platform whose legs rest on the sea bed when drilling. These are limited to shallow waters.
Semi-Submersible	44	5	up to 3,500	250,000	Production facilities and accommodation units are housed on a platform deck supported by columns that pass through the water surface to bouyant pontoons.
Floating Production Storage & Offloading (FPSO)	160	36	up to 3,500	270,000	Large, flexible units capable of operating in complex, deepwater environments. Can be built new or converted from oil or gas carriers.

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

Support Vessels

At the start of August 2010, the global fleet of offshore support vessels (including construction support vessels) stood at 5,742. These vessels are active through all stages of oil and gas field development. The average age of this fleet is approximately 20 years old. Growing demand for larger, modern vessels able to operate efficiently in a range of environments is reflected in the order book. Of the 668 offshore support vessels currently under construction, the order book of anchor handling tugs, anchor handling tug/supply vessels, PSV and supply vessels accounted for 550 of these. As in the offshore engineering sectors, it is anticipated that the industry will face a number of challenges in the delivery of the existing vessel order book. In 2009, approximately 39% of the offshore service vessel order book (which includes offshore support vessels) in terms of DWT did not deliver on schedule. The expected increase in the supply of vessels caused by the new deliveries may put downward pressure on charter rates and vessel prices.

Note: Clarkson Research's definition of "offshore service vessels" includes AHT, AHTS, PSV, Supply, Maintenance, Standby/Rescue, Crew Boat, Utility & Workboat, Multi-Functional Support, Diving Support, ROV/Submersible Support, Well Stimulation, Oilfield Pollution Control, Survey, Heavy Lift/Crane Ship, Heavy Deck Cargo, Cable Lay, Pipelay, Pipebury, Accommodation Vessels & Platforms, Lift Boat.

Summary of the Roles of Offshore Support Vessels

Type	Fleet#	Obook#	Key Features	Typical Role: Exploration	Typical Role: Development	Typical Role: Production
AHTSV	2,528	350	Horsepower, winch size and wire storage capacity; Large aft decks for anchor handling and towing operations as well as deck cargo; Dynamic Positioning.	Towing, positioning and mooring drilling rigs, lifting and setting anchors on the sea bottom.	Towing, positioning and mooring production facilities.	Delivery of cargoes to supply oil and gas platforms.
PSV, Supply	1,753	200	Deadweight, available deck area and below-deck capacity.	Storage and transport of mud and cement used in the drilling process, equipment, water and fuel oil.	Transportation of deck cargo such as pipes, equipment and spares, and tank cargoes such as water and fuel oil.	Transportation of deck cargo such as pipes, equipment and spares, and tank cargoes such as water and fuel oil.

Source: Clarkson Research, August 2010.

Note: Construction support vessels (multi-purpose support vessels, dive & ROV support vessels, maintenance vessels and well stimulation vessels) also operate in the exploration and production stages of oil and gas field development.

Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

The Offshore Fleet Order book

The following tables show the order book for drilling and production units.

Top Offshore MDU Builder Countries (Units Under Construction)

Builder Country	Drill Ship	Semi-Submersible	Jackup	Drill Barge/Tender	Total
China P.R.	2	11	20	1	34
South Korea	29	2		1	32
Singapore	2	9	12	2	25
U.A.E.		3	7	1	11
Russia		5	2		7
Indonesia			4		4
United States			4		4
India			3		3
Iraq			3		3
Brazil			2		2
Others/Unknown	2	3	11	3	19
Total	35	33	68	8	144

Source: Clarkson Research, August 2010.

Note: Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.

Top Offshore MPU Builder Countries (Units Under Construction)

Builder Country	Floating Production	Semi-Submersible	Jackup	Semi-Permanent	Total
South Korea	16	1			17
China P.R.	5	1			6
Japan	3				3
Brazil		2			2
Croatia	1				1
Germany	1				1
Malaysia		1			1
Netherlands			1		1
Portugal	1				1
South Africa			1		1
Others/Unknown	9		2	2	13
Total	36	5	4	2	47

Source: *Clarkson Research, August 2010.*

Note: *Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.*

The following table shows the order book for pipe layer units.

Pipe Layer Order book by Builder

Builder	Total
Zhenhua Jiangyin	3
Keppel Singmarine	2
Daewoo SB.	1
Hyundai H.I.	1
Jiangsu Rongsheng	1
Kodja Bahari	1
Nantong Yahua	1
P.T. Britoil	1
Samsung H.I.	1
Sembawang S/Y	1
Others/Unknown	12
Total	25

Source: *Clarkson Research, August 2010.*

Note: *Going forward, the order book will be influenced by delays, cancellations and the re-negotiation of contracts. Due to these technical and contractual issues, there is currently considerable uncertainty surrounding the order book. The figures quoted above relate to the order book as at August 1, 2010 and take no account for these potential delivery problems.*

The Offshore Market

Charter rates in the offshore fleet reflect the balance between the demand for offshore support services and the supply of vessels capable of performing these functions. Charterers include major integrated oil companies, large independent oil and gas exploration and production companies, emerging independent producers and offshore civil construction companies. Each charter is conducted under its own specific circumstances, depending on the specification of the vessel and its equipment, the availability of similar vessels in the region, the reputation of the operator and the quality and comprehensiveness of the service rendered by the crew. However, with respect to offshore support vessels, one of the most transparent regional charter markets has historically been the North Sea. North Sea AHTS spot rates peaked in the final quarter of 2008, with average levels exceeding £100,000/day. However, they fell sharply to below £10,000/day by the first quarter of 2010. Although they then rose to levels in excess of £50,000/day in June 2010, they rapidly fell again; in July 2010, rates averaged approximately £15,000/day.

Like vessel earnings, the asset values of offshore vessels and rigs have fluctuated over time. As with the charter market, the value of any offshore vessel or rig depends on its specifications and equipment. This can vary largely between different specific vessels. However, on the whole, asset values in this sector declined significantly throughout 2009 from their peak in the third quarter of 2008 following the onset of the global economic downturn. However, since the start of 2010, prices have increased marginally.

In the two year period preceding the onset of the global economic downturn, utilization and day rates for MDUs were at historically high levels. However, these fell notably from the fourth quarter of 2008 onwards. At the start of 2008, the number of active MDUs stood at 78% of the total fleet; towards the end of 2009, this figure had fallen to 64%. Although utilization rates have recovered slightly since the start of 2010, they still remain well below those seen at the start of 2008. Utilization rates and day rates for the global jackup rig fleet declined particularly sharply following the drop in demand arising from the downturn in oil and gas prices. The older, shallow-water jackups experienced the steepest decline in utilization rates and day rates. Following a sharp reduction in levels during 2009, rates leveled off in the first half of 2010.

On April 20, 2010, the semi-submersible rig “Deepwater Horizon” (built in 2001 at HHI and operated by Transocean) was involved in a fire while drilling for oil in the Mississippi Canyon, Gulf of Mexico at a depth of about 1,525 meters. The fire resulted in the total loss of the rig, 11 fatalities and a deepwater blowout of oil. Estimates suggest that between the blowout and July 15, 2010 when BP successful halted the flow of oil with a new cap, the well had leaked 4.9 million barrels of oil.

The economic, environmental, economic and political impact of the spill has been significant and further developments are likely. It is widely recognized as the largest accidental oil spill and the worst environmental disaster in U.S. history . In terms of its economic impact, BP announced at the end of July 2010 that it had set aside $32.2 billion to cover the costs associated with the oil spill. This includes $20 billion set aside in an escrow account for compensation claims.

Towards the end of May 2010, the U.S. Department of the Interior (DOI) ordered a moratorium on the drilling of new wells in U.S. waters by all floating rigs for six months. Permitted wells currently being drilled will be required to cease activities when safe to do so. The DOI have also recommended a series of increased inspection and safety measures pending a full enquiry. The moratorium was blocked by the U.S. federal court towards the end of June 2010. However, the Obama administration quickly issued another moratorium with revised terms. According to Clarkson Research, there were 23 semi-submersible and 8 drillships active in the U.S. Gulf in mid-2010 that would be affected by these measures. Although the reaction elsewhere was not as drastic, several governments, such as those in the UK and China have announced additional inspection requirements.

The long-term impact for the offshore market is also unclear given the uncertainty currently surrounding the decisions that oil companies, regulators and politicians will make. On the whole however, deepwater drilling is likely to become more time consuming and expensive. Although this will be particularly true in the U.S. Gulf, it may not be confined to this region. For example, U.S. authorities now require blow-out preventers to be approved by third-party inspectors. As well as this, other technical and regulatory areas are likely to be scrutinized as a result of this event. For example, under current legislation, single-hull tankers are allowed to discharge at the Louisiana Offshore Oil port (LOOP) until 2015. Following the oil spill, greater pressure is being exerted to introduce stricter regulation of single-hull tankers. Other possible effects of the oil spill include an increased requirement for modern vessels, increased oil imports into the U.S. and the increase of liability limits. However, any conclusions regarding the impact on offshore vessel designs would be speculative at present.

THE GLOBAL MARINE DIESEL ENGINE INDUSTRY

Diesel engines are crucial power equipment that is widely used in many applications. Diesel engines are further classified into different types based on engine speed and power.

Diesel Engine Classification and Applications

		Medium Speed Diesel Engine		
Group	**Low Speed Diesel Engine**	**Large Power**	**Medium and Small Power**	**High Speed Diesel**
Rotation Speed	<300 r/min	300-1,000 r/min		>1,000 r/min
Power Scope (HP)	10,000-100,000	3,000-24,000	500-2,000	50-500
Marine Diesel Engine	Medium to large ocean-going cargo vessels	Small to medium cargo vessels cruise liner, ferries	Small inland waterways ships and their engine, marine gen-sets, offshore working boats	Emergency power station [1], pleasure craft, fishing boat, fast boat
Road Diesel Engine				Pick-up truck Light and heavy Passenger car Medium duty truck Heavy duty truck
Non-Road Diesel Engine	Diesel power plant	Diesel power plant	Emergency gensets	Engineering Machinery, Agricultural Machinery

Source: Frost & Sullivan

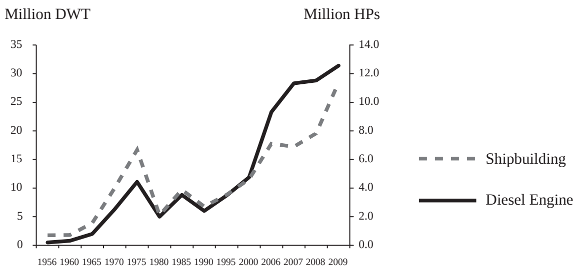
Note: High speed diesel engine as emergency power station in marine has not been considered in this research as the size is very small compared with other applications

Marine diesel engines refer to low speed and medium speed diesel engines which are the main engines for ships of various sizes. The marine diesel engine has largely tracked the shipbuilding market in the past. China's marine diesel engine is still at an early stage of development and is only starting to develop.

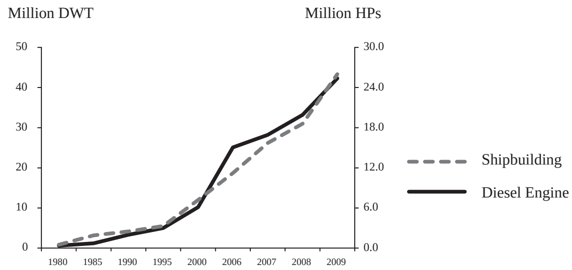
Along with the shift of global shipbuilding industry's center from West Europe to Japan and then South Korea, the marine diesel engine sector followed similar pattern.

Japan and Korea marine diesel engine markets have followed the trends of the shipbuilding industry in the two countries.

Japan Shipbuilding Growth vs. Diesel Engine Market Growth 1956-2009



Korea Shipbuilding Growth vs. Diesel Engine Market Growth 1980-2009



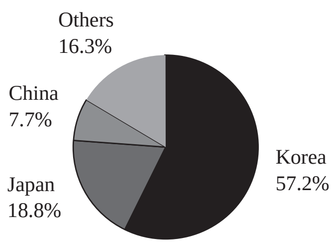
Source: Frost & Sullivan

At present, the marine diesel engine market is highly specialized and requires sophisticated technologies to design and manufacture. Companies in this sector, especially for low speed marine diesel engines, are specializing in designing or manufacturing.

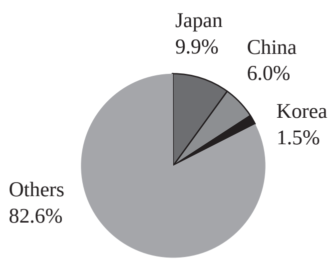
Currently, Europe is the R&D center for marine diesel engines and focuses on new product development and licensing, particularly for low speed diesel engines. The rest of the world, including Asia primarily focuses on licensed manufacturing. With marine engine licenses, manufacturers are generally only allowed to sell their products locally or to regions where no specific licenses have been issued by the design companies.

Global Marine Diesel Engine Market, 2009

Low Speed Diesel Engine Total = US$10.5Bn



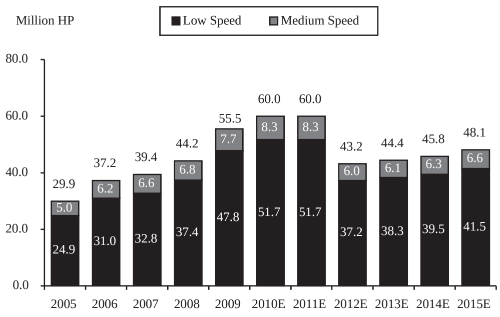
Medium Speed Diesel Engine Total = US$1.5Bn



Source: Frost & Sullivan

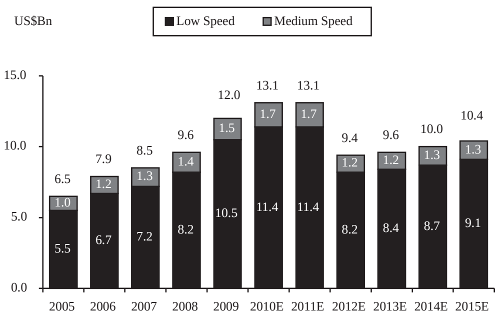
Driven by the fast development of the global shipbuilding industry, the global marine diesel engine industry has experienced fast growth in the past five years, with total sales reaching US$12 billion in 2009. However, the recent downturn in the shipbuilding cycle is expected to lead to a sizeable drop in the marine diesel engine industry.

Global Market Growth by Installed Power, 2005-2015



Source: Frost & Sullivan

Global Market Growth by Revenue, 2005-2015

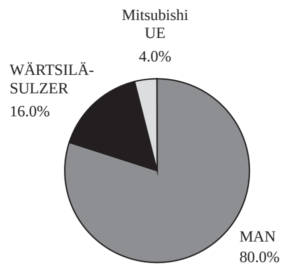


Source: Frost & Sullivan

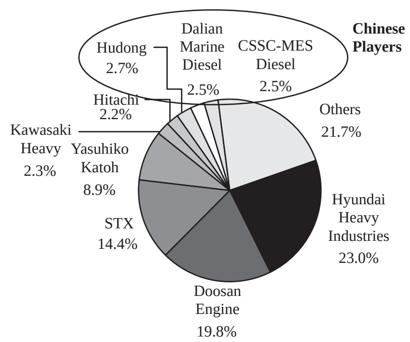
In the low speed diesel engine market, the main brands are MAN and Wärtsilä. The main manufacturers are Hyundai Heavy Industries, Doosan Engine and STX.

Global Low Speed Diesel Engine Market, 2009

Major Brands
Total = US$10.5Bn



Major Manufacturers

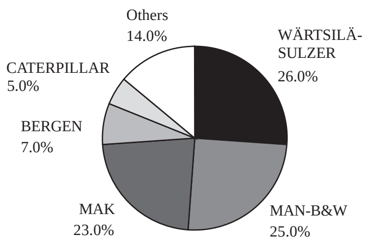


Source: Frost & Sullivan

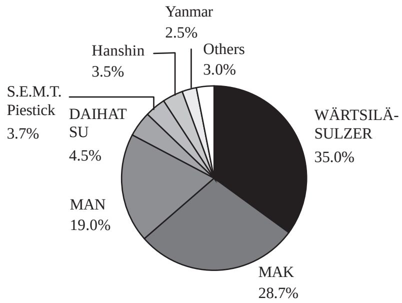
In the medium speed diesel engine market, Wärtsilä, MAN Diesel & Turbo, and MAK are key brand owners as well as important manufacturers.

Global Medium Speed Diesel Engine Market, 2009

Major Brands
Total = US$1.5Bn



Major Manufacturers



Source: Frost & Sullivan

Asian Licensed Countries and Manufacturers, 2009

	MAN Diesel & Turbo		Wärtsilä-Sulzer	
	B&W Two-Stroke License	Diesel & Turbo Four-Stroke License	Two-Stroke License	Four-Stroke License
China				
Zhongji Hitachi Zosen Diesel Engine	√			
Hudong Heavy Machinery	√	√	√	
Dalian Marine Diesel	√		√	
Yichang Marine Diesel	√		√	
STX Dalian	√			
STX Fushun		√		
Wuxi Antai Power Machinery	√			
Zhenjiang CME	√	√		
CSSC-MES Diesel (CMD)	√			
Shanghai Xinzhong		√		
Rongan Power	√	√	√	
Hangzhou Zhonggao		√		
Henan Diesel		√		
Shaanxi Diesel		√		
Qingdao Qiyao Wartsila MHI Linshan Marine Diesel			√	
Japan				
Makita	√			
Mitsui	√			
Kawasaki Heavy Industries	√	√		
Hitachi Zosen	√		√	
Mitsubishi		√	√	
Diesel United		√	√	
Niigata Power		√		
JFE		√		
NKK			√	
Korea				
Hyundai	√	√	√	
Doosan	√	√	√	
STX	√	√		

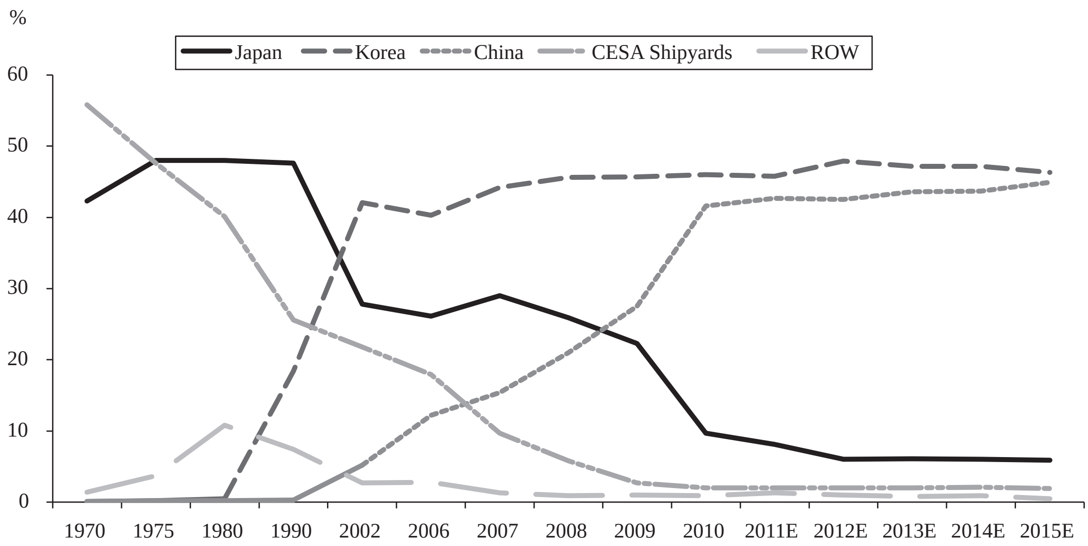
Source: Frost & Sullivan

According to Frost and Sullivan, Rong An Power is the company with the largest production capacity in 2015, and the only private company approved by the NDRC in low speed diesel engine industry.

		Production Capacity (2009)	**Planned Production Capacity (2015)**	**the NDRC Approved Capacity (2015)**
Private Enterprise.	Rongan Power	1.0	5.0	5.0
	Jiangsu Antai Power Machinery	1.0	1.5	None
SOE	Hudong Heavy Machinery	1.7	2.0	2.0
	Dalian Marine Diesel	1.2	2.0	2.0
	Yichang Marine Disel	1.0	1.0	1.0

According to Frost & Sullivan, the center of global marine diesel engine production has shifted from Europe to South Korea. China is expected to continue to gain market share in terms of installed power in the coming years.

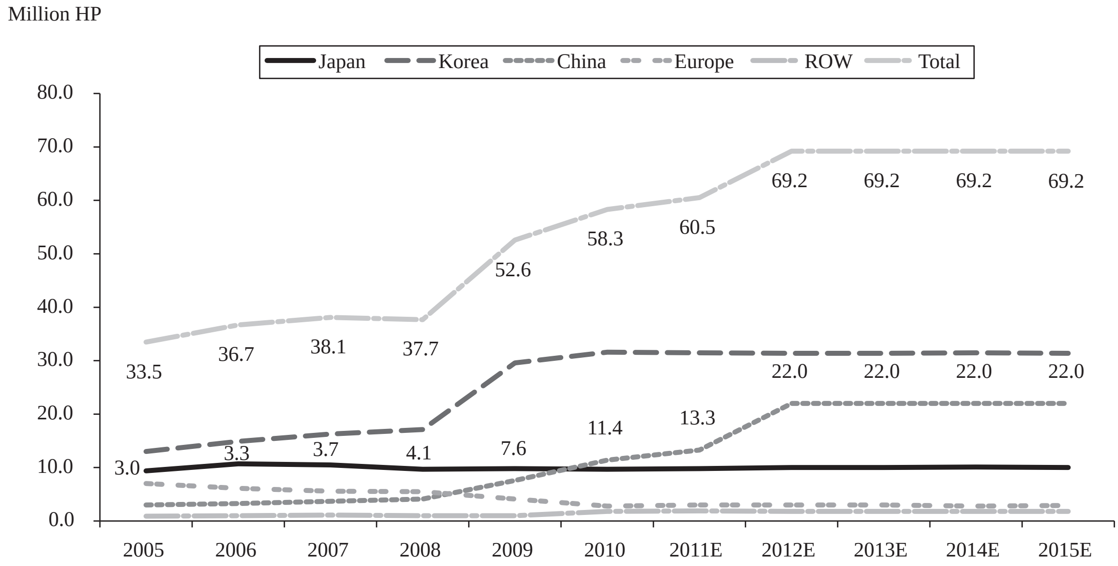
Global Country's Share by Installed Power in Selected Years 1970-2015



Source: Frost and Sullivan.

According to Frost & Sullivan, global diesel engine production capacity is forecasted to increase capacity from 52.6 million horsepower in 2009 to 69.2 million horsepower in 2015, and China is anticipated to more than double its capacity.

Low Speed Diesel Engine Production Capacity Expansion by Country (Global), 2015



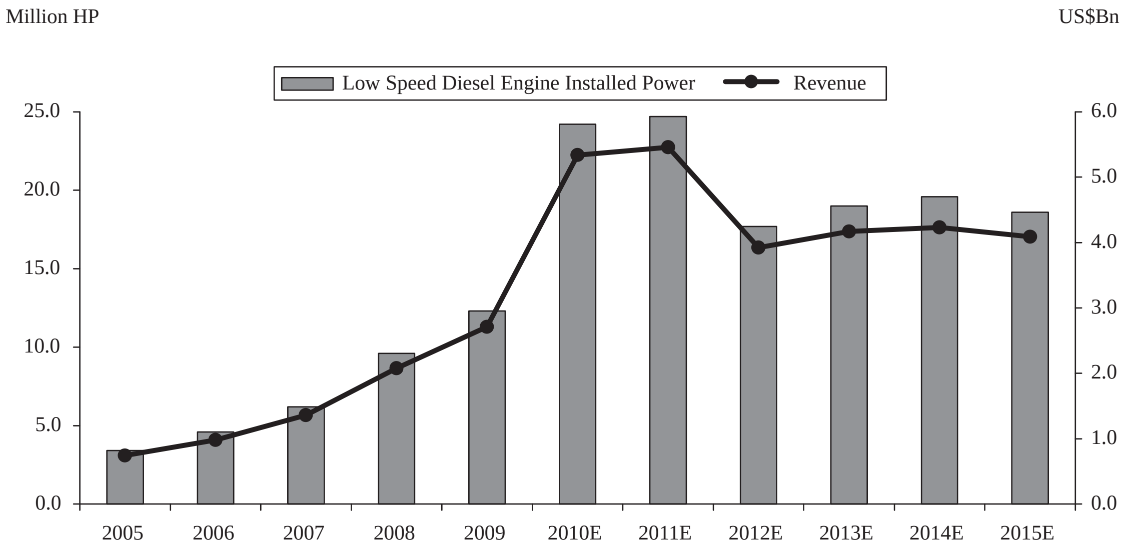
Source: Frost and Sullivan

OVERVIEW OF THE CHINA DIESEL ENGINE MARKET

Low Speed Marine Diesel Engine

By 2009, the Chinese low speed marine diesel engine market has grown rapidly to US$2.7 billion, however the CAGR is expected to slow down to about 7.1% over the next six years. According to Frost & Sullivan, this is a result of the global shipbuilding industry downturn, though it is somewhat mitigated by favorable policies that support shipbuilding and related industries in China.

Chinese Low Speed Diesel Engine Market Growth, 2005-2015



Source: Frost and Sullivan

In 2009, China's low speed diesel engine market was mainly dominated by SOEs, while privately-owned players are expected to seize market share from SOEs as a result of increased production.

Chinese Top Players in Low Speed Diesel Engine Market, 2009-2010

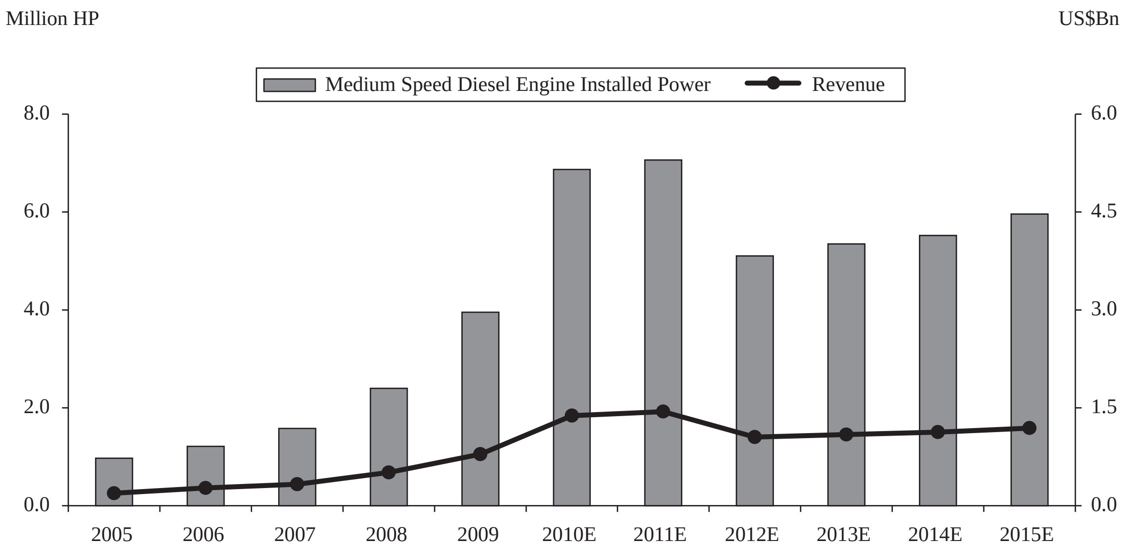
		2009			2010E		
		Number of Sets	Market Share by Installed Power %	Market Share by Revenue %	Number of Sets	Market Share by Installed Power %	Market Share by Revenue %
SOEs	Hudong Heavy Machinery	87	27.9	23.8	98	24.3	22.2
	Dalian Marine Diesel	84	25.4	28.6	90	21.9	22.6
	Yichang Marine Diesel	56	13.1	15.3	66	11.5	11.7
	CSSC-MES Diesel	32	26.0	23.4	42	19.3	20.1
	Qingdao Qiyao Wartsila	16	6.0	7.6	24	10.5	13.2
	Zhenjiang CME	1	0.3	0.2	12	4.8	4.9
Private Enterprises	Jiangsu Antai Power	5	1.0	0.8	16	2.4	2.2
	Rongan Power	1	0.3	0.2	10	4.7	3.6

Source: Rongsheng Interview, company annual report, expert interviews, companies' websites, Frost and Sullivan.

Medium Speed Marine Diesel Engine

In 2009, Chinese medium speed marine diesel engine market generated total sales of US$0.79 billion and is expected to continue to grow due to demands for diesel genset, ocean engineering, and marine engines.

Chinese Medium Speed Diesel Engine Market Growth, 2005-2015



Source: Frost & Sullivan

Notes: Assume price per HP fixes at US$200 in the next six years

China's medium speed diesel engine market is less concentrated. However, as many players plan for capacity expansion, the competition is likely to intensify.

Chinese Top Players in Medium Speed Diesel Engine Market, 2009

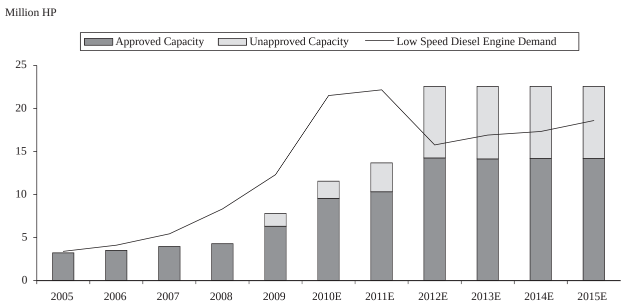
	Number of Sets	Market Share by Installed Power %	Market Share by Revenue %
Weichai Power	450	16.9	17.9
Zhenjiang CME	431	16.2	9.6
Zibo Diesel Engine	420	15.7	10.4
Shangxi Diesel Engine Heavy	331	12.4	16.2
Wartsila Qiyao Diesel	300	11.2	19.9
Anqing Marine Diesel	300	11.2	7.1
Ningbo CSI	200	7.5	7.3
Shanghai Xinzhong Power Machine	200	7.5	7.2
ZGPT MAN	20	0.7	2.4
Yuchai Ziyang Diesel	10	0.4	—
Hudong Heavy Machinery	6	0.2	2.1

Source: Rongan Power, company annual report, China Automotive Industry Yearbook, dealer interviews, expert interviews, companies' websites, Frost and Sullivan.

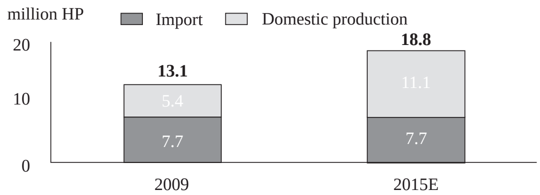
Regulation

According to Catalogue of Government Verified Investment Projects (政府核准的投資項目目錄, 2004), medium and low speed diesel engine manufacturing projects in China need to be approved by the NDRC. According to Frost & Sullivan, approved capacity will be smaller than total demand in 2015.

Chinese Low Speed Diesel Engine Demand V.S. Capacity, 2005-2015



Diesel engine demand growth potential in China



Source: Frost & Sullivan

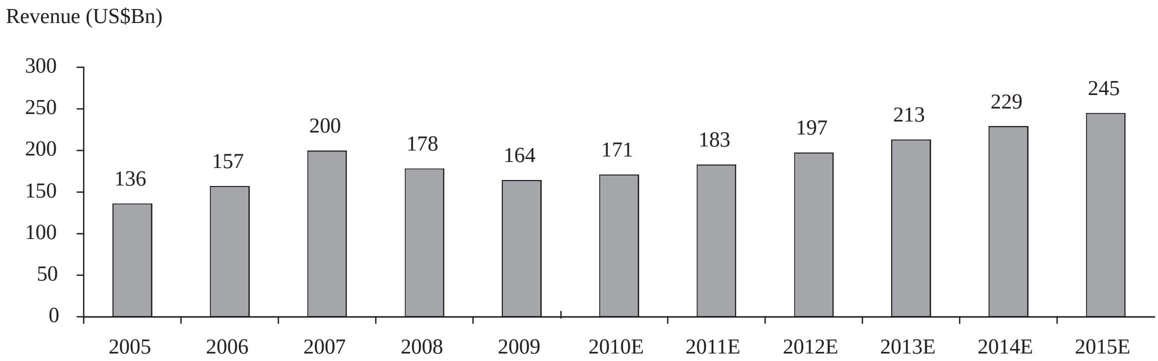
Note: Includes low speed and medium speed marine engines

THE GLOBAL ENGINEERING MACHINERY MARKET

The engineering machinery market is a broad concept that generally consists of machineries used in construction, mining, and other industrial purposes. It is made up of cranes, excavators, earth moving machinery, industrial vehicles, concrete machinery, and road surface machinery.

According to Frost & Sullivan, the global engineering machinery sales reached US$164 billion in 2009 after suffering declines in 2008 and 2009 due to the impact of worldwide financial crisis. The global engineering machinery market is forecasted to grow at a CAGR of 6.9% from 2009 to 2015, driven by expected stable economic recovery.

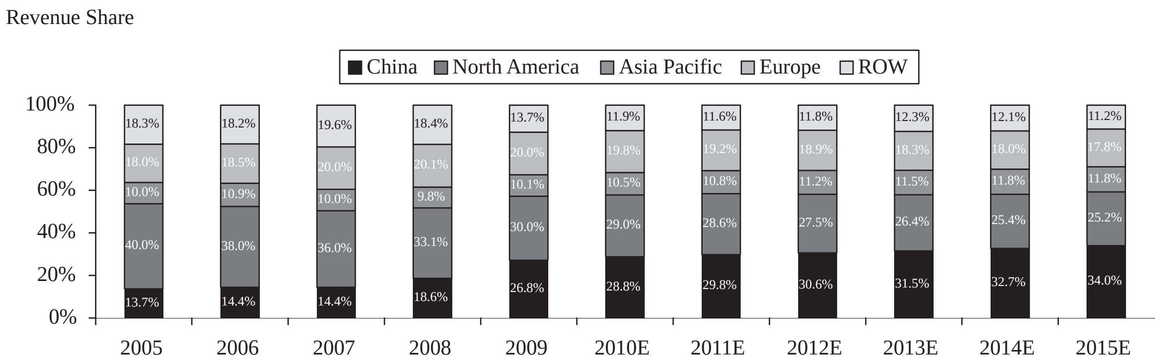
Global Engineering Machinery Market Growth by Revenue, 2005-2015



Source: Frost & Sullivan

China's market share in global engineering machinery market has increased over the years to 26.8% in 2009. As a result, China became second largest market only to North America in 2009, largely propelled by the economic stimulus plan released by the Chinese government which focuses on infrastructure construction. According to Frost & Sullivan, it is estimated that the share of China market will continue to increase and to reach 34.0% of global market in 2015.

Engineering Machinery Market Share by Region (World), 2005-2015



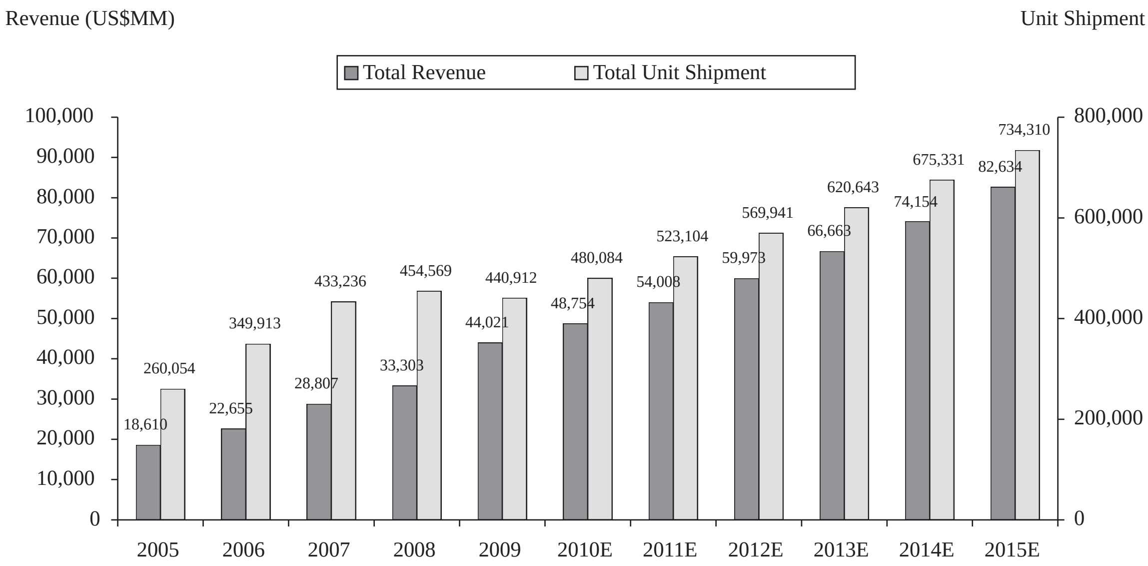
Source: Frost & Sullivan

Note: China is not included in the Asia Pacific part in this chart

THE CHINESE ENGINEERING MACHINERY INDUSTRY

According to Frost & Sullivan, the total sales of engineering machinery in China reached 440,912 units with a total value of US$44.0 billion in 2009. From 2005 to 2009, engineering machinery sales have grown at a CAGR of 20.5% by units and 8.9% by value. Despite a slowdown in 2009, China's engineering machinery market is expected to grow from 2009 to 2015 and to reach US$82.6 billion in 2015.

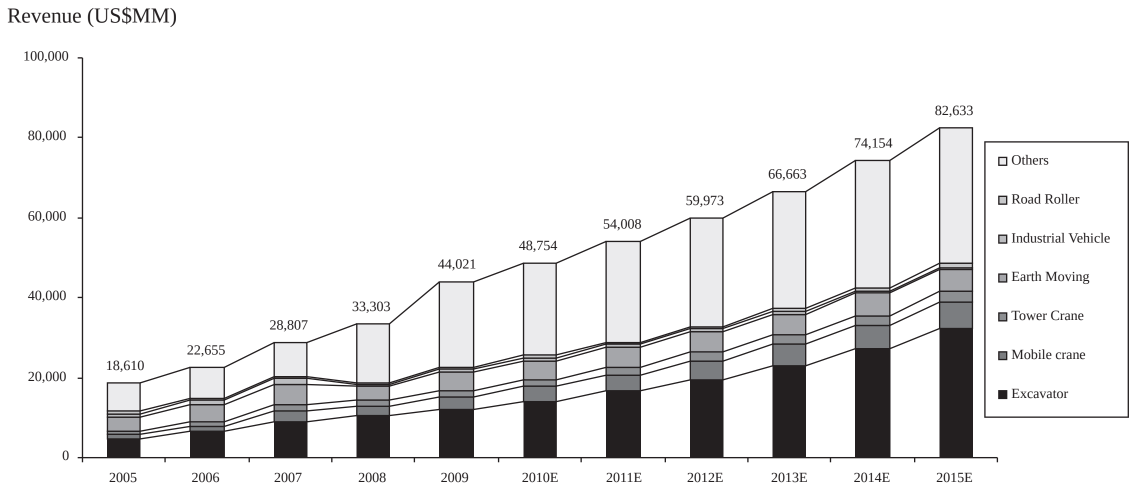
Chinese Engineering Machinery Market Growth by Revenue and by Unit Shipment, 2005-2015



Source: Frost & Sullivan

In terms of product breakdown, excavators segment made up 27% of all engineering machinery equipment sold in China in 2009. Excavator is expected to achieve the fastest growth rate among different product types from 2009 to 2015.

Engineering Machinery Market Growth by Product (China), 2005-2015



Source: Frost & Sullivan

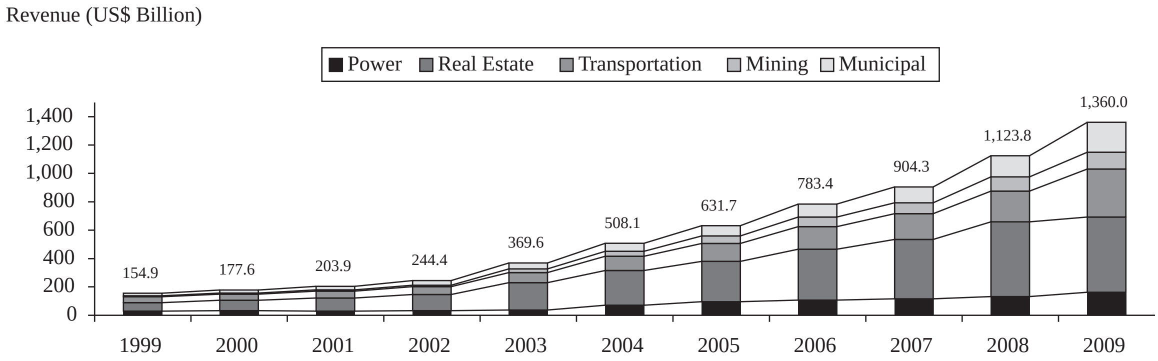
Among sectors that utilize various engineering machinery products, transportation infrastructure is the largest, along with power, real estate, mining, municipal engineering and petro-chemical. According to Frost & Sullivan, those six major sectors collectively accounted for 74% of the total engineering machinery sales in 2009.

Application Industry	Power	Real Estate	Transportation	Mining	Municipal Engineering	Petro-chemical	Others
Excavator	12.0%	8.0%	20.0%	19.0%	12.0%	5.0%	24.0%
Crane	19.0%	11.5%	20.0%	2.0%	12.0%	8.0%	27.5%
Road Roller	—	—	80.0%	—	12.0%	—	8.0%
Engineering Machinery	15.0%	10.0%	25.0%	8.0%	9.0%	7.0%	26.0%

Source: Customs of PRC, Frost & Sullivan

Fixed assets investment, which directly impacts many sectors that utilize engineering machinery products, has increased from US$154.9 billion in 1999 to US$1,360.0 billion in 2009 and is expected to continue to drive the engineering machinery demand as urbanization progresses in China.

Fixed Assets Investments on Five Application Industries, 1999-2009



Source: National Bureau of Statistics of China, Frost & Sullivan

Key Factors Contributing to the Demand of Engineering Machinery

- **Construction of railway projects:** According to Frost & Sullivan, China's total investment on railway construction was US$48.3 billion in 2009 and a total of US$219.7 billion investment is expected on railway construction projects over the next five years, which would be a major driver for the engineering machinery industry.

- **Recover of exports:** As world economy recovers from the financial crisis, the Chinese engineering machinery exports will gradually be restored. The increase of exports would help manufacturers increase their output and accelerate their growth.

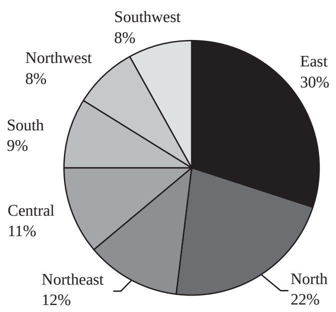
- **Export tax rebates policy:** Since April 2009, the export tax rebates ratio has been raised to 17%, which will encourage further exports.

- **Preferential policies on parts import:** In 2009, the Ministry of Finance of the PRC, NDRC and four other departments issued the "Notice on Adjusting the Tax Policies on the Important Equipment". According to this notice, the import of important parts and components of engineering machinery could be exempted from import duty and import value added tax. This policy could help cut down the cost of parts and components of domestic manufacturers while key parts and components are imported which account for a significant part of total cost of engineering machinery manufacturing.

Chinese Competitive Landscape

There are several major production bases in China for engineering machinery products including Shandong, Yangtze River Delta, Hunan, Anhui, and Sichuan. While East China is the largest market of engineering machinery, the government's development plan for China's central and western regions provides advantages to those manufacturers with production bases there.

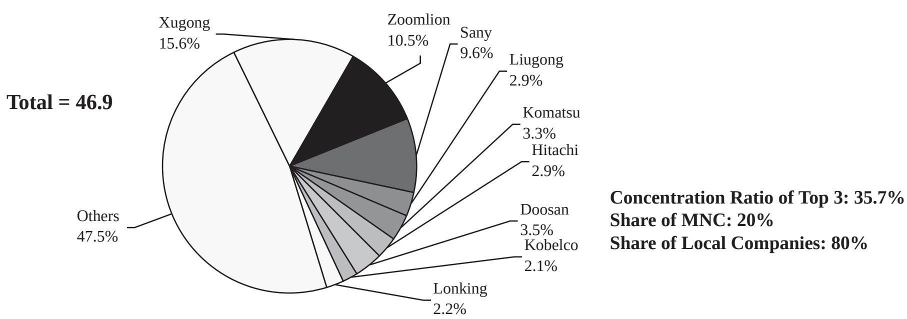
Revenue Share by Region of China



Source: Frost & Sullivan

The concentration ratio of China engineering machinery market is relatively high. Revenue share of the top three manufacturers in China engineering machinery market, Zoomlion, Sany and Xugong, was 35.7% in 2009. Multi-national companies (MNC), such as Komatsu, Doosan, Kobelco are famous for high-quality products. The revenue share of MNC was about 20% in 2009. With the development and expansion of domestic companies, the market share of MNC is estimated to decrease further.

Chinese Engineering Machinery Industry Competitive Landscape, 2009



Source: CCMA, Company Report, Frost & Sullivan

Note: Total revenue (US$ BN)

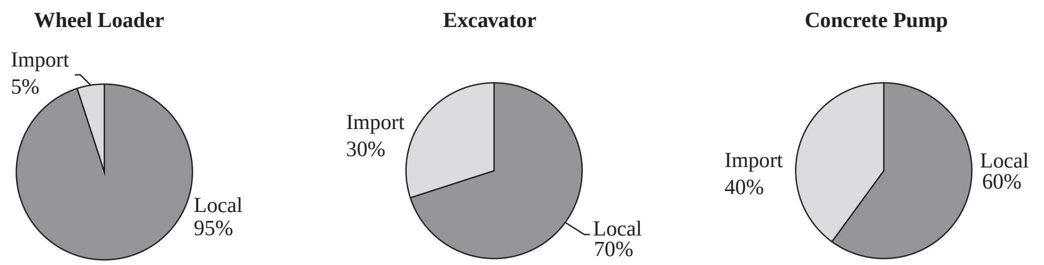
Entry Barriers

- **Capital requirements:** Engineering machinery industry is a capital-intensive industry. A large amount of initial investment would be needed to build the production plant and to invest in R&D. In addition, the payment terms are generally long and would require sizeable working capital requirements on manufacturers.
- **Shortage of experienced personnel:** The lack of sufficient skilled and qualified engineers and technicians in the manufacturing process could restrain the development of engineering machinery industry.
- **Fierce competition:** Many foreign and domestic manufacturers are competing in the Chinese market. Foreign competitors are increasingly focusing more on China and expanding their manufacturing capacities in China. At the same time, local competitors plan to invest more for expansion in light of fast market growth in the last five years.

Localization

In China's engineering machinery industry, some core components, such as motors and hydraulic systems, still need to be imported, while most of the parts and components are manufactured in China. Hefei, Ji'ning, and Xuzhou are the well known parts and components production bases. According to Frost & Sullivan, about 70% of the components were provided by local suppliers for excavators in 2009 while wheel loaders have the highest localization of production ratio of 95%.

Chinese Engineering Machinery Market: Localization Rate Comparison, 2009



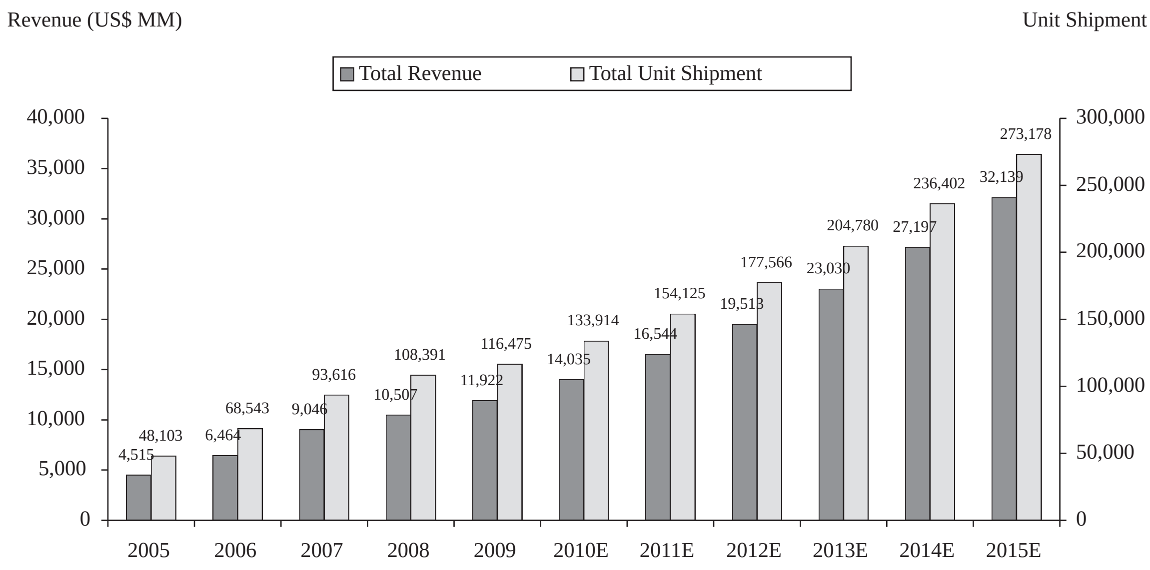
Source: Frost & Sullivan

The Chinese Excavator Market

Introduction

According to Frost & Sullivan, the Chinese excavator market achieved sales of 116,475 units with a total value of US$11.9 billion. With good mobility and outstanding earth moving capacity, excavators are a high-demand product in the Chinese engineering machinery market. In some projects, excavators have been replacing other traditional earth moving equipment. It is estimated that the excavator market would continue to grow, with the CAGR of 15.3% from 2009 to 2015 by sales unit and 18.0% in terms of sales value.

Chinese Excavator Market Growth by Revenue and by Unit Shipment, 2005-2015



Source: Frost & Sullivan

Different Types of Excavators

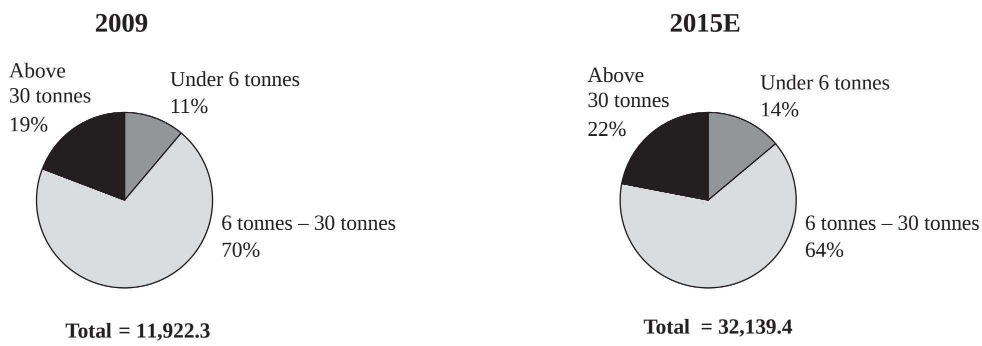
The tonnage of excavators ranges from small-size (6 tonnes or smaller) to large-size (300 tonnes or larger).

- Small-size (under 6 tonnes): With the quick development of municipal engineering, small-size excavators have shown robust growth trends in China. Small-size excavators are particularly useful in small towns and small urban sites.

- Medium-size (6 tonnes ~30 tonnes): Excavators from 6 tonnes to 30 tonnes are the mainstream product and account for majority of total excavator sales in China.

- Large-size (above 30 tonnes): Although sales of excavators above 30 tonnes are relatively small, they command higher prices than small and medium size excavators. According to Frost & Sullivan, the growth rate of large excavators is expected to be higher than that of the average of overall excavator market.

Chinese Excavator Market Growth by Tonnage, 2009, 2015



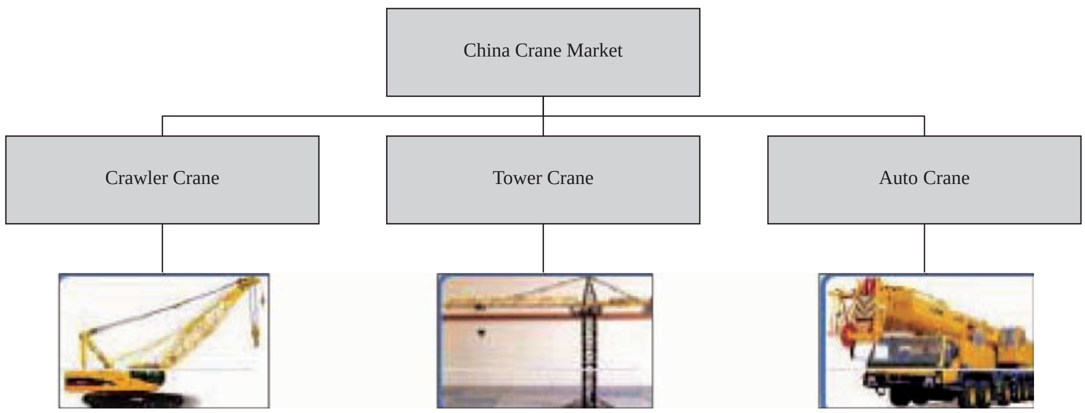
Source: Frost & Sullivan

Note: Total revenue (US$ MM)

The Chinese Crane Market

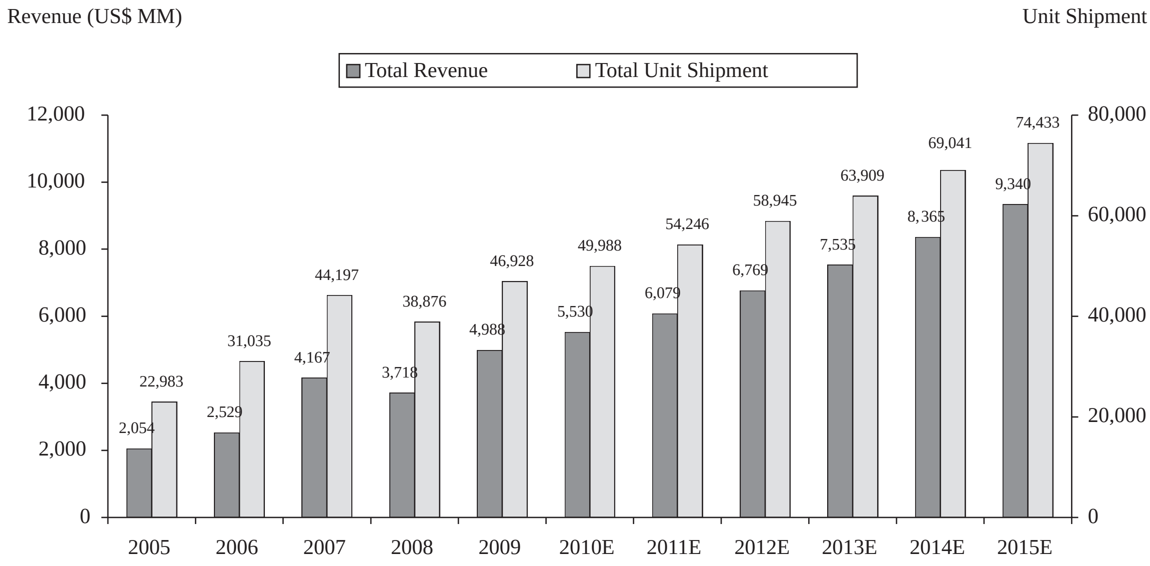
Introduction

The Chinese crane market includes three sub-segments: crawler crane, tower crane, and auto crane markets. Different products have different advantages and application fields. For example, crawler cranes have large lifting capacity over 300 tonne, while tower cranes are more affordable and auto cranes have good mobility. According to Frost & Sullivan, auto cranes accounted for 56.1% of sales by value in 2009 while crawler cranes accounted for 9.7%. Nonetheless, as the demand for large cranes increases, the crawler crane market is forecasted to grow faster than tower crane and auto crane markets.



Despite the negative impact of global economy downturn in 2008, China's crane market recovered swiftly with the support by government to reach sales of 46,928 units in 2009. According to Frost & Sullivan, China's crane market is expected to grow at a CAGR of 11.0% by sales value from 2009 to 2015 and 8.0% by sales amount, because the demand is shifting from smaller to larger cranes and average price would increase correspondingly.

Crane Market Growth by Revenue (China) and by Unit Shipment (China), 2005-2015

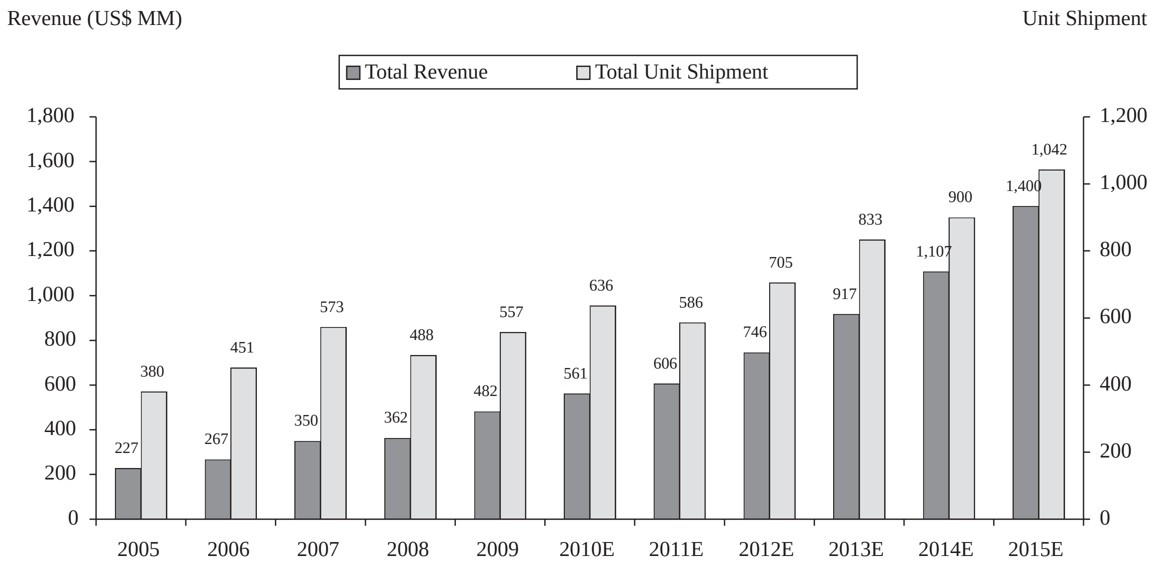


Source: Frost & Sullivan

Crawler Crane

According to Frost & Sullivan, the crawler crane market reached 557 units and US$482 million in 2009, achieving a CAGR of 16.9% by sales value from 2005 to 2009. Compared to the auto crane and tower crane markets, the crawler crane market is expected to grow faster.

Crawler Market Growth by Revenue (China) and by Unit Shipment (China), 2005-2015

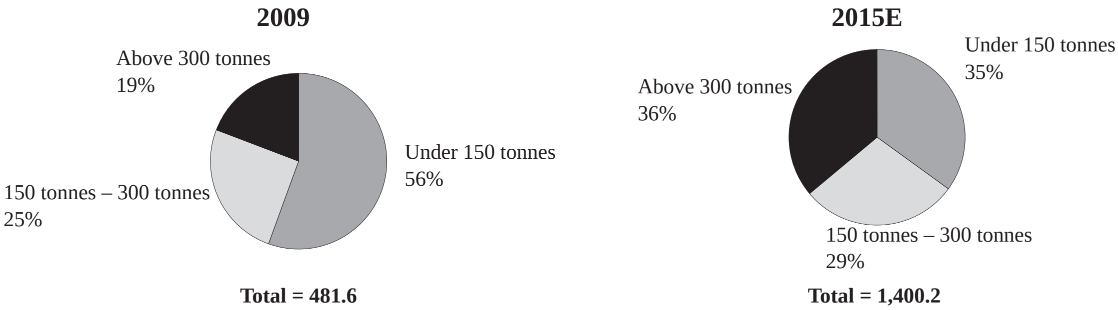


Source: Frost & Sullivan

Different Types of Crawler Cranes

- Small-size (under 150 tonnes): At the beginning of this century, the small-size crawler crane experienced quick development. In 2005 almost all of the crawler cranes in China market were small-size products.
- Medium-size (150~300 tonnes): From 2003 to 2005, driven by factors including the fast development of wind power industry, medium sized products gained popularity with users and resulted in fast growth in the next several years.
- Large-size (above 300 tonnes): Large crawler cranes first appeared in the market in 2006. Since then, large crawler cranes have developed quickly in China. Major manufacturers such as Zoomlion have started the R&D on large tonnage crawler cranes. According to Frost & Sullivan, large-size crawler crane market would grow sharply, with a sales CAGR of 32.8% from 2009 to 2015.

Crawler Market Growth by Tonnage (China), 2009, 2015

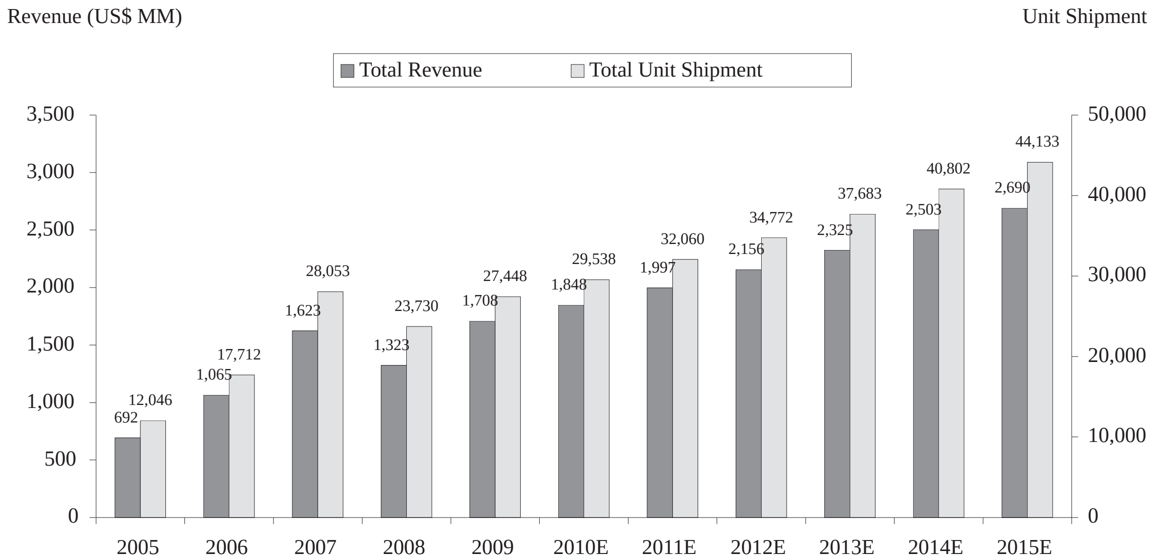


Source Frost & Sullivan
Note: Total revenue (US$ MM)

Tower Crane

Most tower cranes are used in real estate construction projects, so market demand for them is closely related to the development of property market. According to Frost & Sullivan, from 2005 to 2008, China's tower crane market has grown quickly with a CAGR of 24.1%. However, due to the tight control on the real estate sector by the Chinese government, it is estimated that tower crane market growth will slow down going forward as indicated in the chart below.

Tower Crane Market Growth by Revenue (China) and by Unit Shipment (China), 2005-2015

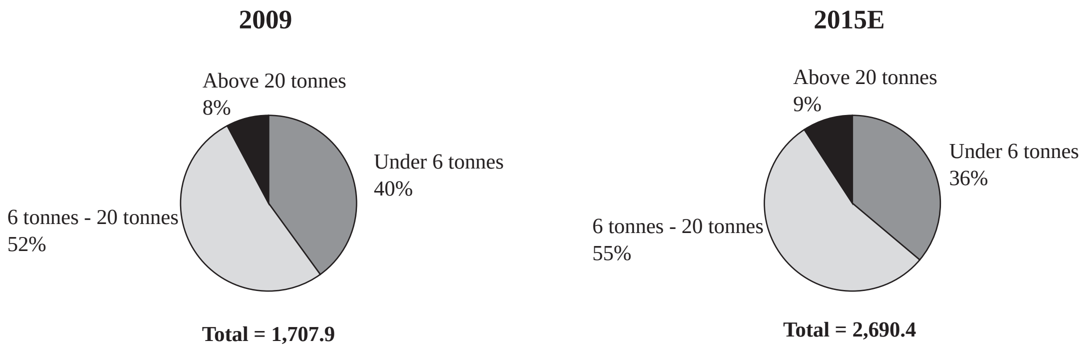


Source: Frost & Sullivan

Different Types of Tower Cranes

- Small-size (under 6 tonnes): In 2009, the size of the of small-size tower crane market was US$684.9 million.
- Medium-size (6 ~20 tonnes): In 2009, the market size of the medium-size tower cranes was US$891.8 million, or 52% of the entire tower crane market.
- Large-size (above 20 tonnes): Large-size tower cranes accounted for less than 10% of the market in 2009, but their market size is expected to grow faster relative to medium-size and small-size tower cranes.

Tower Crane Market Growth by Tonnage (China), 2009, 2015



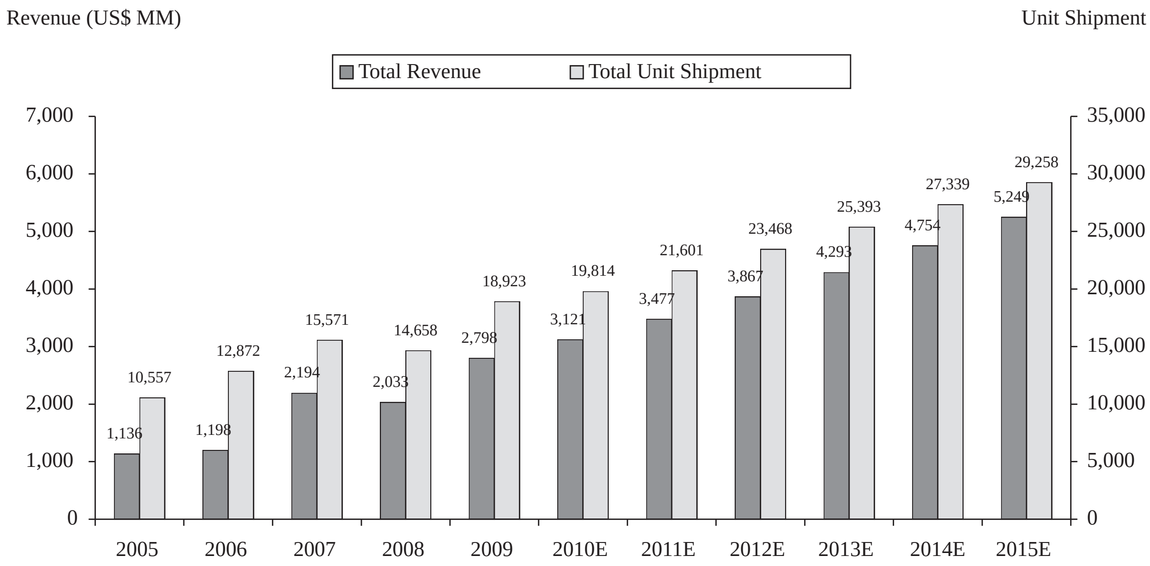
Source: Frost & Sullivan

Note: Total revenue (US$ MM)

Auto Crane

China's auto crane market surpassed US$1 billion in 2005. In 2009, the total sales reached US$2,798.3 million with the CAGR of 21.4% from 2005 to 2009. According to Frost & Sullivan, however, due to the economic slow down, it is estimated that the market growth rate will slow to a CAGR of 11.1% in terms of sales value and a CAGR of 7.5% in terms of units from 2009 to 2015.

Auto Crane Market Growth by Revenue (China) and by Unit Shipment (China), 2005-2015

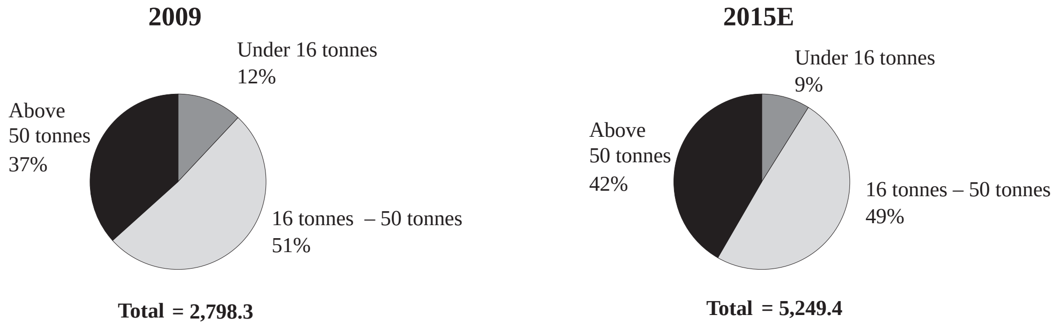


Source Frost & Sullivan

Different Types of Auto Cranes

- Small-size (under 16 tonnes): the market share of small-size auto cranes is expected to shrink relative to medium-size and large-size auto cranes in the coming years as indicated in the pie-chart below.
- Medium-size (16 ~50 tonnes): Medium-size auto cranes currently account for about half of the sales in auto crane market.
- Large-size (above 50 tonnes): The demand for large-size auto cranes is expected to increase from about 37% in 2009 to 42% in 2015, according to Frost & Sullivan.

Auto Crane Market Growth by Tonnage (China), 2009, 2015



Source: Frost & Sullivan

Note: Total revenue (US$ MM)

HISTORY AND REORGANIZATION

History and development

Our Group traces its history to February 2004 when Rongsheng Investment was established as a company ultimately controlled by Mr. Zhang to engage in the shipbuilding business. Mr. Zhang and Mr. Chen were acquainted through their common membership of the Shanghai Young Entrepreneurs' Association. At an event held by the association in 2001, they found that they shared the common goal of contributing to the rejuvenation of the Chinese shipbuilding industry and the development of a shipbuilding company that is expected to rival the best in the world. They had a series of discussion of turning their goal into action. As a result, Rongsheng Investment was established in 2004 with the aim of creating a modern, world-class heavy industries enterprise. In 2007, we underwent a reorganization to transfer the shipbuilding business of Rongsheng Investment to our Group.

The first phase of construction of our shipyard in Nantong, Jiangsu Province, began in October 2005 and we signed our first shipbuilding contract in February 2006. We delivered our first vessel in March 2008. As of September 30, 2010, we had delivered 27 vessels and had an order book of approximately 15.1 million DWT, comprising 84 shipbuilding orders. As of September 30, 2010, we had also established operating subsidiaries in the PRC to carry on the businesses of shipbuilding, offshore engineering, marine engine building and engineering machinery.

Milestones of our Group are as follows:

Year	Key Events, Milestones and Achievements
2005	• commenced the construction of our shipyard in Nantong, Jiangsu province in October;
2006	• signed our first shipbuilding contracts for six Panamax bulk carriers in the first half; • commenced the construction of our first vessel in October;
2007	• signed the first offshore engineering contract to build a DPV for COOEC in July and entered into the offshore engineering segment; • commenced the operation of our second drydock; • became a world top 20 shipbuilder in terms of total CGT of vessels on orders received; • our first vessel keel-laid; • Rong An Power Machinery was established(1);
2008	• delivered the first vessel in March, setting the then record of the shortest time from commencement of shipyard construction to vessel delivery in the PRC; • commenced operation of our third drydock; • signed contracts for 12 VLOCs (400,000 DWT each) with a shipping subsidiary of Vale S.A., as a result of which we were ranked second in the PRC and seventh in the world in terms of total orders received in DWT as of December 31, 2008; • started strategic cooperations with four renowned international classification societies: DNV, ABS, LR and GL; • commenced the construction of the DPV for COOEC, our first offshore engineering project;
2009	• signed contracts for four VLOCs (400,000 DWT each) with Oman Shipping Company; • delivered the first low-speed marine diesel engine in October; • formed strategic cooperation with MSFL and signed a shipbuilding contract with MSFL for eight 76,000 DWT Panamax bulk carriers;

Year	Key Events, Milestones and Achievements
2010	• acquired a majority interest in Zhenyu Machinery and entered into the engineering machinery sector; • commenced the strategic cooperation with CCS; • won a Shipbuilding Award at the 3rd Seatrade Asia Awards 2010; • our DPV for COOEC launched in May; • signed another shipbuilding contract with MSFL for ten 76,000 DWT Panamax bulk carriers; • entered into a five-year strategic cooperation agreement with China Eximbank (Nanjing Branch); and • entered into a strategic cooperation agreement with CNOOC.

Note: Rong An Power Machinery was established on August 15, 2007 as a joint venture. It became part of our Group on June 30, 2010. Please refer to the paragraph headed "Onshore restructuring — Rong An Power Machinery" of this section.

SHAREHOLDING HISTORY OF THE COMPANIES WITHIN THE GROUP

Offshore restructuring

1. ***The Company***

The Company was incorporated in the Cayman Islands on February 3, 2010 to act as the ultimate holding company of our Group. The initial authorized share capital of the Company was HK$380,000.00 divided into 3,800,000 shares of HK$0.10 each. On February 3, 2010, one subscriber share in the Company was transferred to Fine Profit and 99 shares in the Company were issued and allotted to Fine Profit.

As at the date of this prospectus, 730,585 Shares and 19,415 Shares are held by Fine Profit and Wealth Consult respectively, both of which are companies wholly-owned by Mr. Zhang, 35,000 Shares are held by Boom Will, which is wholly-owned by Mr. Chen, and 20,000 Shares, 50,000 Shares, 45,000 Shares, 20,000 Shares, 16,000 Shares, 40,000 Shares, 10,000 Shares, 4,000 Shares and 10,000 Shares are held by Earn Vast, Great Felicity, Jian Zhi, Jingfu, Long Express, Puchang, Spring Pioneer, Trophy Ray and China Accord, respectively. Each of Earn Vast, Great Felicity, Jian Zhi, Jingfu, Long Express, Puchang, Spring Pioneer, Trophy Ray and China Accord are entities wholly-owned by relatives and a friend of Mr. Zhang.

2. ***Establishment of intermediate Cayman Islands holding companies***

Rongsheng Heavy Industries Holdings

Rongsheng Heavy Industries Holdings was incorporated in the Cayman Islands on July 27, 2007. Prior to the Reorganization, it was owned (i) as to 5% by Mr. Chen through his wholly-owned subsidiary, Boom Will, (ii) and as to 95% by Mr. Zhang through his wholly-owned subsidiaries, Fine Profit and Wealth Consult.

Rongsheng Engineering Machinery, Rongsheng Power Machinery, Rongsheng Marine Engineering and Rongsheng Capital

On July 14, 2010, each of Rongsheng Engineering Machinery, Rongsheng Power Machinery, Rongsheng Marine Engineering and Rongsheng Capital were incorporated in the Cayman Islands as wholly-owned subsidiaries of the Company to act as the intermediate holding companies for our engineering machinery, marine engine building, offshore engineering and investment businesses, respectively.

On September 13, 2010, Rongsheng Engineering Machinery acquired 100% of the issued share capital of Host Rich International Enterprises from Mr. Zhang for a consideration of US$1.00.

On September 13, 2010, Rongsheng Power Machinery acquired 100% of the issued share capital of Grace Shine International from Clear Joy International for a consideration of US$50,000.00.

On September 13, 2010, Rongsheng Marine Engineering acquired 100% of the issued share capital of New Sea Enterprises from Clear Joy International for a consideration of US$50,000.00.

3. ***Establishment of intermediate BVI and Hong Kong holding companies***

Clear Joy International

Clear Joy International was incorporated in the British Virgin Islands on April 2, 2007 and was wholly-owned by Fine Profit. It has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

On September 11, 2007, Fine Profit transferred all 50,000 shares of Clear Joy International to Rongsheng Heavy Industries Holdings at a consideration of US$50,000.00.

As at the date of this prospectus, the following BVI companies were wholly-owned by Clear Joy International:

Name of company	Date of incorporation
Mega New International	May 2, 2007
Nice In Holdings	April 13, 2007
Charm Dragon Holdings	April 19, 2007
Grace Shine International	April 19, 2007
Head Park Group	April 25, 2007
New Sea Enterprises	May 2, 2007
Capital Sign International	March 26, 2009
Dragon Courage Investments	April 2, 2009
Host Rich International Enterprises	May 13, 2009
System Advance	January 12, 2010
Power Shine Investments	January 7, 2010
Ocean Sino Holdings	January 18, 2010

Mega New International

Mega New International, a company incorporated in the BVI on May 2, 2007, is wholly-owned by Clear Joy International and has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

Wellbo Holdings is a company incorporated in Hong Kong on May 10, 2007. It has an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On May 18, 2007, Gold Regal Development Limited transferred its one share in Wellbo Holdings to Mega New International at a consideration of HK$1.00.

Nice In Holdings

Nice In Holdings, a company incorporated in the British Virgin Islands on April 13, 2007, is wholly-owned by Clear Joy International and has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

Hinco International is a company incorporated in Hong Kong on May 10, 2007. It has an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On May 18, 2007, Gold Regal Development Limited transferred its one share in Hinco International to Nice In Holdings at a consideration of HK$1.00.

Charm Dragon Holdings

Charm Dragon Holdings, a company incorporated in the British Virgin Islands on April 19, 2007, is wholly-owned by Clear Joy International and has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

Pacific Atlantic is a company incorporated in Hong Kong on April 24, 2007. It has an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On May 18, 2007, Gold Regal Development Limited transferred its one share in Pacific Atlantic to Charm Dragon at a consideration of HK$1.00.

Grace Shine International

Grace Shine International, a company incorporated in the British Virgin Islands on April 19, 2007, is wholly-owned by Clear Joy International and has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

Wenca Development is a company incorporated in Hong Kong on April 25, 2007. It has an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On May 18, 2007, Gold Regal Development Limited transferred its one share in Wenca Development to Grace Shine at a consideration of HK$1.00. On September 13, 2010, Clear Joy International transferred all its shareholding in Grace Shine International to Rongsheng Power Machinery for a consideration of US$50,000.00 which was calculated based on the nominal value of the share capital of Grace Shine International.

Head Park Group

Head Park Group, a company incorporated in the British Virgin Islands on April 25, 2007, is wholly-owned by Clear Joy International and has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

Asiafair International is a company incorporated in Hong Kong on April 25, 2007. It has an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On May 18, 2007, Gold Regal Development Limited transferred its one share in Asiafair International to Head Park Group at a consideration of HK$1.00.

New Sea Enterprises

New Sea Enterprises, a company incorporated in the British Virgin Islands on May 2, 2007, is wholly-owned by Clear Joy International and has an authorized and issued share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

Sinwell (H.K.) is a company incorporated in Hong Kong on May 10, 2007. It has an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On May 18, 2007, Gold Regal Development Limited transferred its one share in Sinwell (H.K.) to New Sea Enterprises at a consideration of HK$1.00. On September 13, 2010, Clear Joy International transferred all its shareholding in New Sea Enterprises to Rongsheng Marine Engineering for a consideration of US$50,000.00 which was calculated based on the nominal value of the share capital of New Sea Enterprises.

Capital Sign International

Capital Sign International, a company incorporated in the British Virgin Islands on March 26, 2009, is wholly-owned by Clear Joy International and has an authorized share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

As at the date of this prospectus,

1. Dragon Courage Investments, a company incorporated in the British Virgin Islands on April 2, 2009, is wholly-owned by Capital Sign International. It has an authorized share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each; and

2. World Profit Corporation, a company incorporated in Hong Kong on February 5, 2010, is wholly-owned by Capital Sign International. It has an authorized share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each.

Host Rich International Enterprises

Host Rich International Enterprises, a company incorporated in the British Virgin Islands on May 13, 2009, was wholly-owned by Mr. Zhang of the time of incorporation. It has an authorized share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each. On September 13, 2010, Mr. Zhang transferred all his shareholding in Host Rich International Enterprises to Rongsheng Engineering Machinery at a consideration of US$1.00 which was calculated based on the nominal value of the share capital of Host Rich International Enterprises.

As at the date of this prospectus, Profit On International Development, a company incorporated in Hong Kong on May 15, 2009, is wholly-owned by Host Rich International Enterprises. It has an authorized share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each.

System Advance

System Advance, a company incorporated in the British Virgin Islands on January 12, 2010, is wholly-owned by Clear Joy International. It has an authorized share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

As at the date of this prospectus, Glory Sources, a company incorporated in Hong Kong on January 25, 2010, is wholly-owned by System Advance. It has an authorized share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each.

Power Shine Investments

Power Shine Investments, a company incorporated in the British Virgin Islands on January 7, 2010, is wholly-owned by Clear Joy International. It has an authorized share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

As at the date of this prospectus, Yes Power Corporation, a company incorporated in Hong Kong on January 28, 2010, is wholly-owned by Power Shine Investments. It has an authorized share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each.

Ocean Sino Holdings

Ocean Sino Holdings, a company incorporated in the British Virgin Islands on January 18, 2010, is wholly-owned by Clear Joy International. It has an authorized share capital of US$50,000.00 divided into 50,000 shares with a par value of US$1.00 each.

As at the date of this prospectus, Ocean Power International Industrial, a company incorporated in Hong Kong on January 28, 2010, is wholly-owned by Ocean Sino Holdings. It has an authorized share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each.

4. ***Allotment and issuance of Shares to Fine Profit, relatives and a friend of Mr. Zhang***

On September 13, 2010, 434,900 shares, 20,000 shares, 50,000 shares, 45,000 shares, 20,000 shares, 16,000 shares, 40,000 shares, 10,000 shares and 4,000 shares and 10,000 shares were issued and allotted by the Company to Fine Profit, Earn Vast, Great Felicity, Jian Zhi, Jingfu, Long Express, Puchang, Spring Pioneer, Trophy Ray and China Accord respectively as a par value of HK$0.10 each. Each of Earn Vast, Great Felicity, Jian Zhi, Jingfu, Long Express, Puchang, Spring Pioneer, Trophy Ray and China Accord are companies wholly-owned by relatives and a friend of Mr. Zhang.

As part of the Reorganization, and prior to the Company becoming the ultimate controlling shareholder of the various companies comprising the Group through its acquisition of 98.5% of the issued share capital of Rongsheng Heavy Industries Holdings, out of friendship, Mr Zhang allocated part of his overall interest in the Company to a close personal friend. As such, shares were issued and allotted to China Accord established on behalf of that person at par value.

5. ***Acquisition of Rongsheng Heavy Industries Holdings by the Company***

On September 13, 2010, two separate sale and purchase agreements were entered into between the Company, on the one hand, and Fine Profit and Wealth Consult, on the other hand, pursuant to which Fine Profit and Wealth Consult agreed to sell their respective 93.0585% and 1.9415% interests in the issued share capital of Rongsheng Heavy Industries Holdings to the Company in consideration of the Company issuing an additional 295,585 new shares to Fine Profit and 19,415 new shares to Wealth Consult, respectively.

On the same date, a sale and purchase agreement was entered into between the Company and Boom Will pursuant to which Boom Will agreed to sell 3.5% of its 5% interest in the issued share capital of Rongsheng Heavy Industries Holdings to the Company in consideration of the Company issuing 35,000 new shares (equivalent to 3.5% of the issued share capital of the Company) to Boom Will.

Following the acquisitions above, the Company was owned as to 75% by Mr. Zhang, through Fine Profit and Wealth Consult, as to 3.5% by Mr. Chen, through Boom Will, and as to 2%, 5%, 4.5%, 2%, 1.6%, 4%, 1%, 0.4% and 1%, respectively, by Earn Vast, Great Felicity, Jian Zhi, Jingfu, Long Express, Puchang, Spring Pioneer, Trophy Ray and China Accord, and Rongsheng Heavy Industries Holdings was owned as to 98.5% by the Company and 1.5% by Mr. Chen, through Boom Will.

A summary of the steps involved in relation to the establishment of our operating subsidiaries are set out below:

Onshore restructuring

Rongsheng Heavy Industries

Rongsheng Heavy Industries, carrying on the business of, among other things, manufacturing steel for vessel and marine engineering and sales of self-manufactured products, was established on June 8, 2006 in the PRC. On June 25, 2007, Wellbo Holdings, our wholly-owned subsidiary, purchased the entire registered capital of Rongsheng Heavy Industries from Fu Hong, a company indirectly wholly-owned by Mr. Zhang, for a consideration of US$29,980,000.00. As part of the Reorganization, Rongsheng Heavy Industries increased its registered capital from US$29,980,000.00 to US$99,000,000.00 on November 7, 2007. The registered capital of Rongsheng Heavy Industries was further increased to US$198,000,000.00 on December 13, 2007 and to US$297,000,000.00 on February 20, 2008. The registered capital further increased to US$312,000,000.00 on January 15, 2010 of which Rongsheng Investment agreed to contribute US$15,000,000.00, following which Rongsheng Heavy Industries became owned by us, through Wellbo Holdings, as to approximately 95.2% and by Rongsheng Investment as to approximately 4.8%.

Shanghai Rongsheng Shipbuilding Trading

Shanghai Rongsheng Shipbuilding Trading, carrying on the business of, among other things, sales of vessel accessories and trading, was established in the PRC on March 27, 2007 as a wholly-owned subsidiary of Rongsheng Investment. The registered capital of Shanghai Rongsheng Shipbuilding Trading was RMB50,000,000.00 as at the date of establishment. On June 6, 2010, Rongsheng Investment transferred its 100% shareholding in Shanghai Rongsheng Shipbuilding Trading to Rongsheng Heavy Industries for a consideration of RMB50,000,000.00, following which Shanghai Rongsheng Shipbuilding Trade was owned as to 100% by Rongsheng Heavy Industries.

Rongsheng Shipbuilding

Rongsheng Shipbuilding was established on June 21, 2007 in the PRC as a joint venture, owned as to 49% by us, through our wholly-owned subsidiary Hinco International, and 51% by Rongsheng Investment, carrying on the business of, among other things, assembling and processing of vessel and steel, offshore engineering business, and sales of self-manufactured products. Please refer to the section headed "Connected Transactions — (C) Other transactions — (i) Shipbuilding Agency Agreement" in this prospectus for further details of the major operation of Rongsheng Shipbuilding. The total registered capital of Rongsheng Shipbuilding was US$29,900,000.00 as at the date of establishment, which was increased to US$99,800,000.00 on October 17, 2007. On April 23, 2008, Rongsheng Shipbuilding was changed from a joint venture to a domestic company and Hinco transferred its 49% shareholding in Rongsheng Shipbuilding to Rongsheng Heavy Industries for a consideration of RMB363,973,713.29, following which Rongsheng Shipbuilding was owned by Rongsheng Investment as to 51% and Rongsheng Heavy Industries as to 49%. On September 7, 2010, the registered share capital of Rongsheng Shipbuilding was further increased to RMB778,784,896.50.

Rongsheng Research and Design

Rongsheng Research and Design, carrying on the business of research, design and consultation of vessels and trading relating to such business, was established on March 4, 2008 as a joint venture, owned by Rongsheng Shipbuilding as to 60% and Rongsheng Heavy Industries as to 40%. The total registered capital of Rongsheng Research and Design was RMB10,000,000.00 as at the date of establishment.

On July 7, 2010, Rongsheng Shipbuilding transferred its 60% shareholding in Rongsheng Research and Design to Rongsheng Heavy Industries at a consideration of RMB6,000,000.00, following which Rongsheng Research and Design was wholly-owned by Rongsheng Heavy Industries.

Rongye Mechanical

Rongye Mechanical, carrying on the business of, among other things, manufacturing equipment and accessories used in vessels, and sales of self-manufactured products, was established on June 21, 2007 in the PRC as a joint venture, owned as to 80% by Rongsheng Heavy Industries Holdings, through our wholly-owned subsidiary Wenca Development, and 20% by Rongsheng Investment. The total registered capital of Rongye Mechanical was US$29,600,000.00 as at the date of establishment. On December 8, 2008, Rongsheng Investment transferred 15% of its shareholding in Rongye Mechanical to Wenca Development for a consideration of US$4,440,000.00, following which Rongye Mechanical was owned by Rongsheng Heavy Industries Holdings, through Wenca Development, as to 95% and by Rongsheng Investment as to 5%.

Rong An Power Machinery

Rong An Power Machinery, carrying on the business of, among other things, design, manufacturing and sales of engine equipment and accessories, was established in the PRC on August 15, 2007 as a joint venture, owned as to 75% by Rongsheng Investment and 25% by Asia Glory International Limited (偉安國際有限公司), a company indirectly owned by Mr. Zhang as to 100%. The total registered capital of Rong An Power Machinery was US$29,900,000.00 as at the date of establishment, which was increased to RMB334,920,000.00 on February 25, 2010, and further increased to RMB494,920,000.00 on April 1, 2010.

On June 30, 2010, Rongye Mechanical purchased 24% of the registered capital of Rong An Power Machinery from Rongsheng Investment for a consideration of RMB118,780,800.00 and 25% of the registered capital of Rong An Power Machinery from Nantong Accessories for a consideration of RMB123,730,000 and Rongsheng Shipbuilding purchased 51% of the registered capital of Rong An Power Machinery from Rongsheng Investment for a consideration of RMB252,409,200.00, following which Rong An Power Machinery was owned as to 49% by Rongye Mechanical and 51% by Rongsheng Shipbuilding.

Rong An Mechanical & Electrical Equipment

Rong An Mechanical & Electrical Equipment, carrying on the business of, among other things, wholesale, sale and providing information consultant services relating to mechanical equipment and accessories and accessories and materials for vessels, was established in the PRC as a wholly-owned subsidiary of Rong An Power Machinery on November 10, 2009 with a registered capital of RMB10,000,000.00.

Rongye Storage

Rongye Storage, carrying on the business of, among other things, storage of vessel materials and trading of accessories, was established on June 21, 2007 in the PRC as a joint venture, owned as to 80% by Rongsheng Heavy Industries Holdings, through its wholly-owned subsidiary Asiafair International and as to 20% by Rongsheng Investment. The total registered capital of Rongye Storage was US$29,700,000.00 as at the date of establishment. On December 3, 2008, Rongsheng Investment transferred 15% of its shareholding in Rongye Storage to Asiafair International for a consideration of US$4,455,000.00, following which Rongye Storage is owned by Rongsheng Heavy Industries Holdings, through Asiafair International, as to 95%.

Rongding Marine Engineering

Rongding Marine Engineering, carrying on the business of, among other things, manufacturing and sales of equipment used in the business of shipbuilding and offshore engineering business, was established in the PRC on June 22, 2007 as a joint venture, owned as to 80% by Rongsheng Heavy Industries Holdings, through its wholly-owned subsidiary Sinwell (H.K.) and as to 20% by Rongsheng Investment. The total registered capital of Rongding Marine Engineering was US$29,900,000.00 as at the date of establishment. On December 8, 2008, Rongsheng Investment transferred 15% of its shareholding in Rongding Marine Engineering to Sinwell (H.K.) for a consideration of US$4,485,000.00, following which Rongding Marine Engineering is owned by Rongsheng Heavy Industries Holdings, through Sinwell (H.K.), as to 95%.

Rongsheng Painting

Rongsheng Painting, carrying on the business of, among other things, painting of steel used in shipbuilding and offshore engineering business, was established on June 21, 2007 in the PRC as a joint venture, owned as to 80% by Rongsheng Heavy Industries Holdings, through its wholly-owned subsidiary Pacific Atlantic, and as to 20% by Rongsheng Investment. The total registered capital of Rongsheng Painting was US$29,500,000.00 as at the date of establishment. On December 8, 2008, Rongsheng Investment transferred 15% of its shareholding in Rongsheng Painting to Pacific Atlantic for a consideration of US$4,425,000.00, following which Rongsheng Painting is owned by Rongsheng Heavy Industries Holdings, through Pacific Altantic, as to 95%.

Rong An Heavy Industries

Rong An Heavy Industries, carrying on the business of, among other things, manufacturing and sales of engineering machineries, was established in the PRC on March 11, 2010 as a wholly-owned subsidiary of Rong An Power Machinery. The total registered capital of Rong An Heavy Industries was

RMB100,000,000.00 as at the date of establishment. On June 22, 2010, Rong An Power Machinery transferred its entire interest in Rong An Heavy Industries to Profit On International Development at a consideration of RMB100,000,000.00, following which Rong An Heavy Industries is owned by Rongsheng Heavy Industries Holdings, through Profit On International Development, as to 100%.

Zhenyu Engineering Machinery

Zhenyu Engineering Machinery, carrying on the business of, among other things, manufacturing and sales of engineering machineries, was established in the PRC on December 10, 1998 by Independent Third Parties. The total registered capital of Zhenyu Engineering Machinery was RMB4,000,000.00 as at the date of establishment, and was subsequently increased to RMB16,000,000.00 on November 15, 2007, to RMB25,000,000.00 on March 4, 2008, to RMB50,000,000.00 on April 11, 2008 and to RMB72,000,000.00 on April 29, 2008 and to RMB100,000,000.00 on September 8, 2010. On April 11, 2008, Zhenyu Engineering Machinery was reorganized into a joint-stock company limited from a limited liability company. On December 23, 2009, Rong An Power Machinery purchased 22,000,000 shares in Zhenyu Engineering Machinery from Independent Third Parties for a total consideration of RMB56,170,000, following which Zhengyu Engineering Machinery was owned by Rong An Power Machinery as to approximately 30.56% and 69.44% by Independent Third Parties. On March 29, 2010, Rong An Power Machinery acquired 33,342,500 shares in Zhenyu Engineering Machinery from an Independent Third Party for a total consideration of RMB85,023,375.00. On March 29, 2010, Rong An Power Machinery acquired an additional 8,057,500 shares in Zhenyu Engineering Machinery from Independent Third Parties for a total consideration of RMB20,546,625.00. On April 8, 2010, Rong An Power Machinery transferred 33,000,000 shares in Zhenyu Engineering Machinery to Rong An Heavy Industries for a total consideration of RMB84,150,000.00. On June 25, 2010, Rong An Power Machinery transferred its 30,400,000 shares in Zhenyu Engineering Machinery to Rong An Heavy Industries for a consideration of RMB77,520,000.00, following which Zhengyu Engineering Machinery was owned by Rongsheng Heavy Industries Holdings, through Rong An Heavy Industries, as to 88.05% and by Independent Third Parties as to 11.95%. On August 20, 2010, Independent Third Parties transferred 5,000,000 shares in Zhenyu Engineering Machinery to Rong An Heavy Industries for a consideration of RMB12,750,000.00, following which Zhengyu Engineering Machinery was owned by Rongsheng Heavy Industries Holdings, through Rong An Heavy Industries, as to 95% and by an Independent Third Party as to 5%.

Zhenyu Yida Engineering Machinery

Zhenyu Yida Engineering Machinery, carrying on the business of, among other things, manufacturing and sales of engineering machineries, was established in the PRC on April 18, 2003. The total registered capital of Zhenyu Yida Engineering Machinery was RMB2,000,000.00 as at the date of establishment and was subsequently increased to RMB5,000,000.00 and to RMB10,000,000.00 on January 16, 2004 and November 3, 2004, respectively. It was previously owned by Independent Third Parties, until July 16, 2009, when Zhengyu Engineering Machinery acquired the 100% equity interest in Zhengyu Yida Engineering Machinery from an Independent Third Party for a consideration of RMB13,000,000.00.

Rongjin Steel Engineering

Rongjin Steel Engineering, carrying on the business of, among other things, steel construction engineering; manufacture, processing and sales of steel and accessories; and sales of building materials, was established in the PRC on March 16, 2005. The total registered capital of Rongjin Steel Engineering was RMB5,000,000.00 as at the date of establishment and was subsequently increased to RMB50,000,000.00 on September 13, 2010. Rongjin Steel Engineering was owned by Rongsheng Investment as to 51% and Nantong Zhuowei as to 49% as at the date of establishment. Nantong Zhuowei transferred its 49% equity interest in Rongjin Steel Engineering to Rongsheng Investment for consideration of RMB2,450,000.00 on June 16, 2007, following which Rongsheng Investment owned Rongjin Steel Engineering as to 100%. Rongsheng Investment in turn transferred its entire interest in Rongjin Steel Engineering to Rongsheng Heavy Industries for consideration of RMB5,000,000.00 on September 13, 2010, following which Rongjin Steel Engineering became a wholly-owned subsidiary of Rongsheng Heavy Industries.

As confirmed by the Company's PRC legal advisors, all the share transfers and increases in registered capital of the PRC companies in the Group as described above have obtained all relevant approvals and permits. Unless otherwise specified, the consideration for each transfer of interests during the onshore restructuring as described above was based on the registered capital of the relevant company.

Potential acquisition of Rongsheng Painting, Rongye Storage, Rongye Mechanical and Rongding Marine Engineering

Our Group holds a 95% equity interest in each of Rongsheng Painting, Rongye Storage, Rongye Mechanical and Rongding Marine Engineering as the Group has not arranged sufficient funds to acquire the remaining 5% equity interest. After Listing, we expect to use part of the proceeds from the Global Offering to acquire the remaining 5% equity interest in these four companies from Rongsheng Investment. We estimate that the amount of funds required is approximately US$5,935,000 in aggregate calculated based on the registered capital of these companies.

Disposals

As part of the Reorganization, on July 29, 2010, Rongsheng Shipbuilding transferred its 100% equity interests in Shanghai Rongxiang Property and Shanghai Jinhao Property to Glorious Wuxi, for a total cash consideration of RMB20,000,000.00 based on arm's length negotiation between Rongsheng Shipbuilding and Glorious Wuxi with regard to the land premium payable to the relevant PRC land bureau for the project sites to be acquired by Shanghai Rongxiang Property and Shanghai Jinhao Property. Shanghai Rongxiang Property and Shanghai Jinhao Property are principally engaged in the business of property holding.

Issuance of Series A Preferred Shares to Investors and Subsequent Redemption

On October 8, 2007, Rongsheng Heavy Industries Holdings entered into a subscription agreement with, among others, D.E. Shaw Composite Investments Asia 1 (Cayman) Limited ("**DESCO**"), Goldman Sachs Strategic Investment Co. Ltd. ("**GSS**"), New Horizon Green Land Investment Limited ("**New Horizon**"), UBC Limited ("**UBC**") and Power Goal Investments Limited ("**PG**") (together, the "**Investors**"), pursuant to which the Investors agreed to subscribe for 161,800 Series A Preferred Shares at an aggregate subscription price of US$250,000,000.00 in the following manner:

Investors	Number of Series A Preferred Shares	Approximate shareholding % in the Series A Preferred Shares
DESCO	77,664	48%
GSS	45,304	28%
New Horizon	29,124	18%
UBC	6,472	4%
PG	3,236	2%
Total	161,800	100%

On October 30, 2007, Rongsheng Heavy Industries Holdings redesignated and reclassified its authorized capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each into 3,638,200 ordinary shares of HK$0.10 each and 161,800 Series A preferred shares ("**Series A Preferred Shares**") of HK$0.10 each. The then 838,200 issued shares of Rongsheng Heavy Industries Holdings were redesignated as ordinary shares of HK$0.10 each.

On October 31, 2007, the Series A Preferred Shares were issued by Rongsheng Heavy Industries Holdings to the Investors. At the time of the subscription of the Series A Preferred Shares, each of the Investors was an Independent Third Party. The subscription price for the Series A Preferred Shares was based on arm's length negotiations between Rongsheng Heavy Industries Holdings and the Investors. In order to complete the reorganization of the Group and to finance the capital injection of various PRC operating subsidiaries, including Rongsheng Heavy Industries and Rongsheng Shipbuilding, we had brought in the Investors to invest in our Group. The proceeds from the issuance of the Series A Preferred Shares by Rongsheng Heavy Industries Holdings were used for the purposes of capital contribution to various PRC subsidiaries in the Group.

On October 13, 2009, Fine Profit acquired a 100% interest in PG from an Independent Third Party for a consideration of US$7,466,152.81, and on January 4, 2010, Fine Profit acquired a 100% interest in New Horizon from an Independent Third Party for a consideration of US$26,131,401.57. On January 15, 2010, Rongsheng Heavy Industries Holdings redeemed all the Series A Preferred Shares at a redemption price of approximately US$2,464.0857 for each Series A Preferred Share, for an aggregate redemption price of US$398,689,066.26, of which US$250,000,000.00 was obtained by way of shareholder's loan, approximately US$53,003,690.19 was obtained by bank borrowings and approximately US$95,685,376.07 was obtained by the issuance of promissory notes by Rongsheng Heavy Industries Holdings to New Horizon, UBC and PG in the amount of US$71,764,032.05, US$15,947,562.68 and US$7,973,781.34, respectively. On the same day, Rongsheng Heavy Industries Holdings redesignated and reclassified its authorized share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each.

The promissory notes issued by Rongsheng Heavy Industries Holdings are interest-free and repayable on demand either in full or by installments as determined by the relevant holders of the notes at 100% of their principal amount. On June 14, 2010, the promissory notes issued by Rongsheng Heavy Industries to UBC were transferred by UBC to Fine Profit. Rongsheng Heavy Industries Holdings shall fully redeem all the promissory notes from New Horizon, PG and Fine Profit, on or before Listing Date. We have obtained an approval in principle from a bank in Hong Kong to grant us a loan facility to redeem these promissory notes on or before the Listing Date.

Exchangeable Notes issued by Fine Profit

On July 14, 2010, Fine Profit and Smart Prove Limited entered into a subscription agreement pursuant to which Fine Profit agreed to issue to Smart Prove Limited exchangeable notes (the "**CCB Notes**") in the principal amount of US$40,000,000. On the same day, exchangeable notes in the principal amount of US$40,000,000 were issued by Fine Profit to Smart Prove Limited and the amount was fully paid to Fine Profit.

As security for the due and punctual performance of the obligations of Fine Profit under the CCB Notes, the Company entered into a share mortgage (the "**CCB Share Mortgage**") in respect of the mortgage of shares in Rongsheng Heavy Industries Holdings held by the Company in favor of Smart Prove Limited as original security agent for the benefit of itself and the noteholders who become holders of the CCB Notes from time to time (the "**CCB Noteholders**").

On October 4, 2010, Fine Profit and Star Team Enterprises Inc. entered into a subscription agreement pursuant to which Fine Profit agreed to issue to Star Team Enterprises Inc. exchangeable notes (the "**BOCGI Notes**", together with the CCB Notes, the "**Exchangeable Notes**") in the principal amount of US$50,000,000. On the same day, exchangeable notes in the principal amount of US$50,000,000 were issued by Fine Profit to Star Team Enterprises Inc. and the amount was fully paid to Fine Profit.

As security for the due and punctual performance of the obligations of Fine Profit under the BOCGI Notes, the Company entered into a share mortgage (the "**BOCGI Share Mortgage**") on October 4, 2010 whereby the Company granted a mortgage over the shares in Rongsheng Heavy Industries Holdings held by the Company by way of a second fixed equitable mortgage in favor of Smart Prove Limited as original security agent for the benefit of itself and the noteholders who become holders of the BOCGI Notes from time to time (the "**BOCGI Noteholders**", together with the CCB Noteholders, the "**Noteholders**"). On the same day, Fine Profit, the Company, Smart Prove Limited as original security agent and original holder of the CCB Notes and Star Team Enterprises Inc. as original holder of the BOCGI Notes entered into a security sharing agreement to regulate the claims of the Noteholders against Fine Profit and the Company, pursuant to which it was agreed by the parties thereto that the security created under the CCB Share Mortgage and the BOCGI Share Mortgage will rank pari passu in all respects and without any preference among them.

As of the date of this Prospectus, the existing Noteholders and the respective principal amount of the Exchangeable Notes held are as follows:

Existing Noteholders	Principal amount of Exchangeable Notes
Smart Prove Limited	US$40,000,000
Star Team Enterprises Inc.	US$50,000,000

The principal amount of the CCB Notes shall be mandatorily exchanged for Shares at the Offer Price on the Listing Date, provided that the maximum number of Shares to be exchanged in respect of the CCB Notes shall not exceed 30% of the entire issued share capital of the Company outstanding on the Listing Date immediately after Listing.

In respect of the BOCGI Notes, the principal amount of the BOCGI Notes and all the accrued interest thereon shall be mandatorily exchanged for Shares at the Offer Price on the Listing Date, provided that the maximum number of Shares to be exchanged in respect of the BOCGI Notes shall not exceed 30% of the entire issued share capital of the Company outstanding on the Listing Date immediately after Listing. To receive the Shares, the Noteholder must complete, execute and deposit at such Noteholder's expense during the office hours between 9:00 a.m. and 3:00 p.m. at least five business days prior to the Listing Date at the office of Fine Profit, a notice of exchange (an "**Exchange Notice**"), together with the relevant note certificate(s) (and any certificates and other documents as may be required by applicable law). Each Noteholder shall be entitled to designate any person as it may direct to hold the Shares. The CCB Share Mortgage and the BOCGI Share Mortgage will be released upon the mandatory exchange of the CCB Notes and the BOCGI Notes, respectively, for Shares on the Listing Date.

Based on the low-end of the proposed Offer Price range of HK$7.30 to HK$10.10, Fine Profit will be required to transfer in aggregate 96,306,820 Shares to the Noteholders immediately after the Capitalization Issue but before the Global Offering. As such, Smart Prove Limited and Star Team Enterprises Inc. will, immediately upon completion of the Capitalization Issue and the Global Offering and the exchange of the Exchangeable Notes, be interested in an amount of 42,561,325 Shares and 53,745,495 Shares, representing approximately 0.6% and 0.8% of the enlarged issue share capital of the Company immediately upon Listing, respectively, (assuming the Over-allocation Option and options granted under the Pre-IPO Share Option Scheme and options which may be granted under the Share Option Scheme have not been exercised).

The CCB Notes bear an interest rate of 8% per annum, payable semi-annually in equal installments in arrears on January 14 and July 14 in each year, commencing on January 14, 2011, provided that the last interest payment date shall fall on July 13, 2012 (or if that date is not a business day, the last interest payment date shall be the business day immediately preceding such date instead) (the "**CCB Notes Final Maturity Date**"), except that the CCB Notes will cease to bear interest (i) if exchanged for Shares on the Listing Date, or (ii) redeemed in accordance with their terms. Subject to any prior redemption or exchange or cancellation of the CCB Notes, all the CCB Notes shall be redeemed by Fine Profit on the CCB Notes Final Maturity Date.

The aggregate redemption price of the CCB Notes upon early redemption of the CCB Notes prior to the Listing Date or the CCB Notes Final Maturity Date pursuant to the terms of the CCB Notes or upon redemption on the CCB Notes Final Maturity Date is the sum of (i) 100% of the principal amount of the CCB Notes then outstanding; (ii) all interest accrued thereon and unpaid as at CCB Notes Final Maturity Date, and (iii) a further sum that would result in a total internal rate of return as of CCB Notes Final Maturity Date of 15% per annum on the principal amount of the CCB Notes then outstanding.

The BOCGI Notes bear an interest rate of 8% per annum, payable in arrears on the earlier of the Listing Date and October 3, 2011 (or if that date is not a business day, the business day immediately preceding such date) (the "**BOCGI Notes Final Maturity Date**"), except that the BOCGI Notes will cease to bear interests (i) if exchanged for Shares on the Listing Date, or (ii) redeemed in accordance with their terms. Subject to any prior redemption or exchange or cancellation of the BOCGI Notes, all the BOCGI Notes shall be redeemed by Fine Profit on BOCGI Notes Final Maturity Date. The aggregate redemption price of the BOCGI Notes upon prior redemption of the BOCGI Notes pursuant to the terms of the BOCGI Notes or upon redemption on the BOCGI Notes Final Maturity Date is the sum of (i) 100% of the principal amount of the BOCGI Notes then outstanding; (ii) all interest accrued thereon and unpaid as at BOCGI Notes Final Maturity Date, and (iii) a further sum that would result in a total internal rate of return as of BOCGI Notes Final Maturity Date of 15% per annum on the principal amount of the BOCGI Notes then outstanding.

Each Noteholder has undertaken to Fine Profit that for a period from (and including) the Listing Date and ending on (but excluding) the date which is six months from the Listing Date, neither the Noteholder nor its, his or her nominee or trustee holding any Shares on its, his or her behalf or any other person acting on behalf of any of the aforesaid persons will (except with the prior written consent of Fine Profit), directly or indirectly transfer or dispose of any of the Shares delivered to the Noteholder or as it may direct pursuant to the terms of the note instrument governing the Exchangeable Notes. The Shares to be transferred to the Noteholders on the Listing Date pursuant to the mandatory exchange of the Exchangeable Notes will rank pari passu in all respects with the fully paid Shares in issue and will count towards the public float of the Company. There are no special rights granted to the Noteholders as a shareholder of the Company upon the exchange of the Notes. None of the Noteholders has any representation on the board of directors of the Company and/or its subsidiaries or will have any representation on the board of directors of the Company and/or its subsidiaries upon exchange of the Exchangeable Notes.

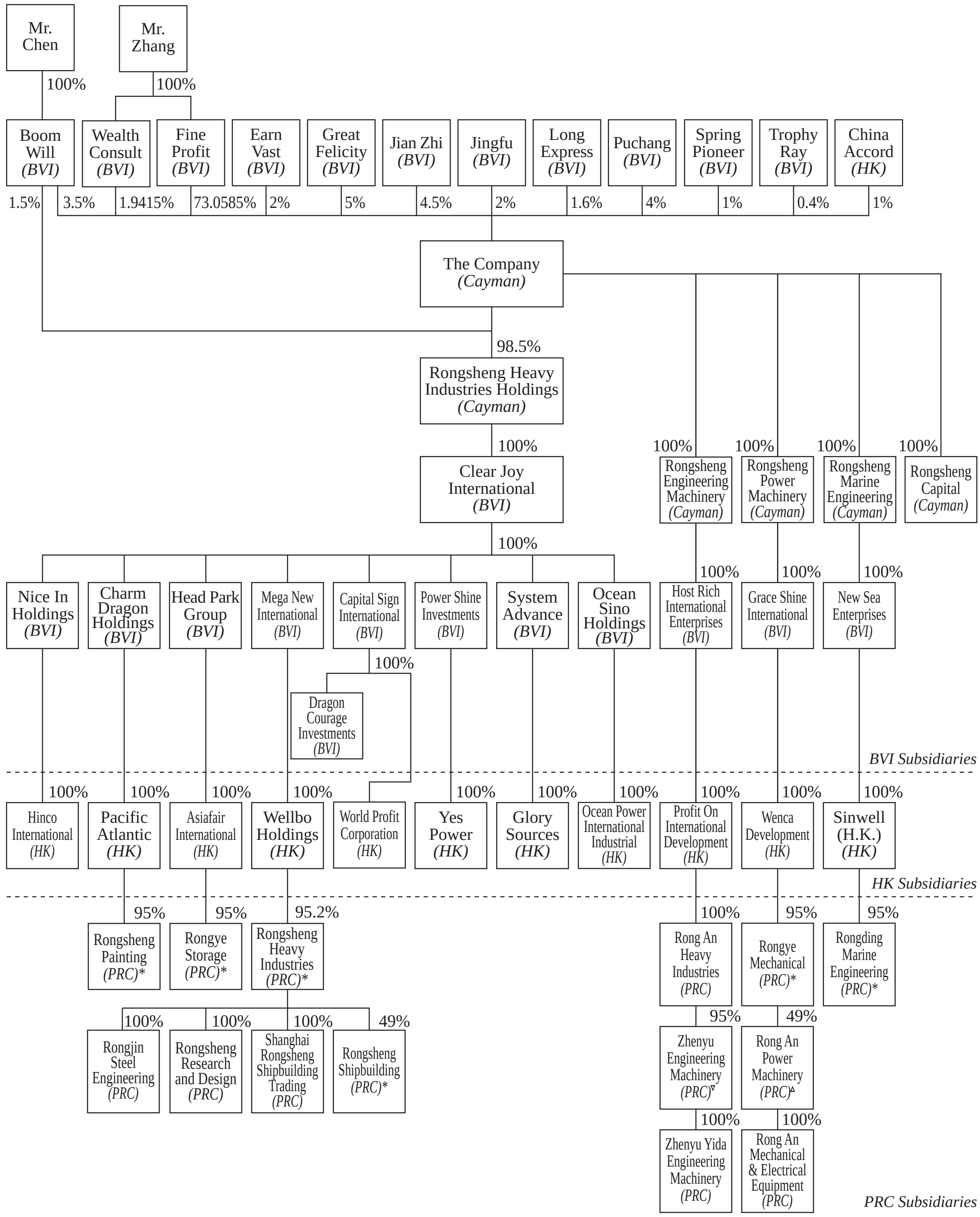
Incorporated in the British Virgin Islands, Smart Prove Limited is a special investment vehicle company directly and wholly-owned by CCB International Asset Management Limited ("**CCBIAM**"). CCBIAM is a company incorporated in Hong Kong and is principally engaged in asset management and investment businesses. The ultimate beneficial owner of CCBIAM is China Construction Bank Corporation, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939).

Star Team Enterprises Inc. is a company incorporated in the British Virgin Islands. It is an indirect wholly-owned subsidiary of Bank of China Group Investment Limited ("**BOCGI**"), which is a wholly-owned subsidiary of Bank of China Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3988) and the Shanghai Stock Exchange (stock code: 601988). BOCGI is principally engaged in investment holding activities and has invested in a large number of large infrastructure and other major projects in Hong Kong, Macau, the PRC and overseas locations, covering such sectors as real estate, industry, energy, transportation, media, hotel and finance.

CORPORATE STRUCTURE

Corporate Structure upon Completion of the Reorganization

The following chart sets out our corporate and shareholding structure immediately after completion of the Reorganization:



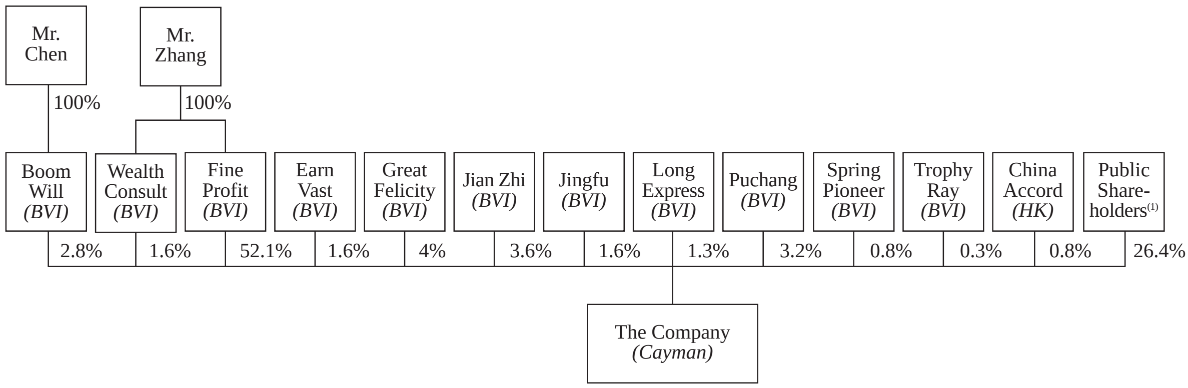
* The remaining equity interests in these companies are owned by Rongsheng Investment.

△ The remaining equity interests in this company is owned by Rongsheng Shipbuilding.

▽ The remaining equity interests in this company are owned by Mr. Hu.

Corporate Structure upon Completion of the Global Offering

The following chart sets out our corporate and shareholding structure immediately upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allocation Option and the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme are not exercised) and the mandatory exchange of the Exchangeable Notes (based on an Offer Price of HK$7.30, being the lowest point of the proposed Offer Price range of HK$7.30 to HK$10.10):



Note:

(1) Includes Smart Prove Limited and Star Team Enterprises Inc., which shall hold in aggregate approximately 1.4% of the enlarged issue share capital of the Company upon the mandatory exchange of the Exchangeable Notes on the Listing Date, assuming an Offer Price of HK$7.30, being the lowest point of the proposed Offer Price range.

OVERVIEW

We are a large PRC heavy industries group with a leading shipbuilding business, rapidly growing marine engine building business, developing offshore engineering business and a focus on oil and gas related customers and markets. According to Clarkson Research, we were ranked second among all shipbuilders in the PRC, first among privately-owned shipbuilders in the PRC and were also a global market leader in manufacture of VLOCs of over 300,000 DWT each in terms of total order book measured by DWT as of August 1, 2010. During the Track Record Period, our shipbuilding segment contributed most of our revenue, accounting for 100.0%, 99.4%, 96.9% and 94.5% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. However, our business model has been undergoing significant changes and now spans four segments, namely, shipbuilding, offshore engineering, marine engine building and engineering machinery. We expect our business to become more diversified in the future. Currently, our products include bulk carriers, crude oil tankers, containerships, offshore engineering products, low-speed marine diesel engines and small to mid-size excavators and cranes for construction and mining uses.

The NDRC has approved the construction of our four drydocks which are capable of construction of vessels of over 100,000 DWT, including our fourth drydock that will be primarily for use by our offshore engineering projects. The NDRC has also granted us approval for the construction of our low-speed marine diesel engine production facilities which are designed to have an annual production capacity of five million horsepower. We have entered into licensing agreements with two of the world's major power solution providers — Wärtsilä and MAN Diesel & Turbo — to build low-speed marine diesel engines.

We commenced the construction of our shipyard in Nantong, Jiangsu Province in October 2005 and signed our first shipbuilding contracts for six Panamax bulk carriers in the first quarter of 2006. We delivered our first vessel in March 2008, setting a record at the time in China for the shortest time period from the commencement of shipyard construction to the delivery of the first vessel according to China Enterprises Community and China Entrepreneur Association (中國企業聯合會及中國企業家協會). As of September 30, 2010, our order book for our shipbuilding segment included 84 vessels totaling approximately 15.1 million DWT from 20 customers, including Vale Shipping Singapore Pte. Ltd (a shipping subsidiary of Vale S.A.), Geden Line, Cardiff Marine Inc., MSFL and Frontline Ltd. In the offshore engineering segment, we secured our first offshore engineering order for a DPV in 2007 and we plan to complete its construction by the end of December 2010. In the marine engine building segment, Rong An Power Machinery delivered its first low-speed diesel marine engine in October 2009 within 16 months after the commencement of the construction of our Hefei plant in June 2008. In the engineering machinery segment, we acquired a majority interest in Zhenyu Machinery in the first half of 2010 and plan to construct new production facilities in anticipation of rising demand for engineering machinery in the PRC.

We are headquartered in Shanghai, where our main sales office and design and R&D center are located. Our production facilities are strategically located in Nantong, Jiangsu Province and Hefei, Anhui Province, which enable us to benefit from the PRC government's economic policies targeting the development of those regions. Our vessels and offshore engineering products are constructed primarily at our shipyard in Nantong in the coastal area of the Yangtze River Delta. We primarily build and manufacture our marine engine and engineering machinery products at our production bases in Hefei, which is in eastern China. We are striving to strengthen our leading position in shipbuilding industry, to develop our offshore engineering and marine engine building segments into the leading players in the PRC heavy industry and to expand our engineering machinery segment to take advantage of the increasing construction activities in central and western China resulting from the PRC government's development policies.

We have benefitted from the rapid growth of the PRC economy and increasing global demand for oil and gas. Leveraging our flexibility as a privately-owned enterprise, we have developed multiple vessel products, acquired capabilities for offering various offshore engineering products, and expanded our business into the marine engine building and engineering machinery segments. We had grown rapidly during the Track Record Period. For the years ended December 31, 2007, 2008 and 2009 and for the eight months ended August 31, 2010, our total revenue was approximately RMB661.7 million, RMB4,724.9 million, RMB9,473.2 million and RMB8,170.4 million, respectively, and our net loss/profit attributable to our equity holders was loss of RMB439.6 million, loss of RMB527.2 million, profit of RMB1,302.2 million and profit of RMB1,118.8 million, respectively. The profit for the eight months ended August 31, 2010 was partly attributable to a government subsidy of RMB520.0 million we received, which contributed RMB426.7 million to our net profit attributable to our equity holders. As a result of the significant development and expansion of our business during the Track Record Period and the expected further expansion and diversification, our historical financial performance may not be indicative of our future performance. Please refer to the section headed “Risk Factors — Risks Relating to Our Business” in this prospectus for more information on the risks associated with our future development.

- **Shipbuilding —** We commenced the construction of our shipyard in October 2005 in Nantong, Jiangsu Province, which is within 200 kilometers of Shanghai. Our shipyard benefits from (i) its strategic location in the Yangtze River Delta, a region with favorable weather and water conditions for shipbuilding; (ii) its close proximity to our major suppliers and subcontractors; and (iii) easy access to the large pool of shipbuilding specialists and skilled workers in the region. Designed to cover an area of approximately seven million sqm, our shipyard currently covers approximately four million sqm and occupies 3,058 meters of Yangtze River shoreline.

  We have obtained NDRC approval for the construction of our four drydocks (including our fourth drydock). We currently have three large drydocks, two material wharves and five outfitting wharves in operation, and one large drydock and three outfitting wharves under construction. The dimensions of drydocks 1, 2 and 3 are 102m x 464m, 102m x 530m and 106m x 530m, respectively. Each drydock is equipped with a mobile goliath gantry crane that has a maximum lifting capacity of 900 tonnes. Currently, our fourth drydock is under construction with designed dimensions of 139.5m x 580m, and it will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes. We believe that the size of our drydocks and the lifting capacity of our gantry cranes will allow for a highly efficient shipbuilding process, which will be further enhanced by the completion of additional facilities which are currently under construction.

  We manufacture a variety of vessels for our international and domestic customers at our shipyard in Nantong. Our principal products are bulk carriers, crude oil tankers and containerships. Currently, our key product offering includes 75,500 DWT ice-strengthened Panamax, 76,000 DWT Panamax and 176,000 DWT Capesize bulk carriers, 400,000 DWT VLOCs, 156,000 DWT and 157,000 DWT Suezmax crude oil tankers, 320,000 DWT VLCCs and 6,500 TEU containerships. We had a customer base spanning 11 countries and regions (including Turkey, Norway, Germany, Brazil, Singapore and the PRC) as of September 30, 2010, which included Vale Shipping Singapore Pte. Ltd (a shipping subsidiary of Vale S.A.), Geden Line, Cardiff Marine Inc., MSFL and Frontline Ltd. Our customer base primarily comprises large shipping companies, natural resource companies and financial leasing companies. We delivered our first vessel in March 2008 and had delivered a total of 27 vessels, with an aggregate of approximately 3.8 million DWT, as of September 30, 2010.

  According to Clarkson Research, we ranked first among privately-owned shipbuilders in the PRC in terms of total order book in DWT as of August 1, 2010. As of September 30, 2010, our order book for the shipbuilding segment included 84 vessels totaling approximately 15.1 million DWT, with an aggregate contract value of approximately US$6.0 billion. All of the vessels in our order book as of September 30, 2010 are contracted to be delivered between 2010 and 2014. We entered into contracts for vessels totaling 2.2 million DWT in 2009, a year in which the shipbuilding industry was severely impacted by the global financial crisis. According to Clarkson Research, global shipbuilding orders totaled approximately 41.7 million DWT in 2009, of which the new orders we secured accounted for approximately 4.7%.

  Our revenue from our shipbuilding segment amounted to RMB661.7 million, RMB4,698.1 million, RMB9,183.9 million and RMB7,712.2 million for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, accounting for 100%, 99.4%, 96.9% and 94.5% of our total revenue for the same periods, respectively. We expect sales in our shipbuilding segment to continue to increase as we are able to construct more vessels and as we further expand our product offerings.

- **Offshore Engineering** — Our offshore engineering segment is a natural extension of our shipbuilding segment. We carry out our offshore engineering projects at our shipyard in Nantong. We branched into the offshore engineering business in 2007 with a contract to construct a DPV for COOEC, which was under construction as of the Latest Practicable Date. We expect to complete the construction of the DPV by the end of December 2010. Currently, we are one of the few privately-owned companies in the PRC which has the capability to build offshore engineering products and has secured an order for the construction of a DPV. We are striving to further expand our business in this segment, including entering into a strategic cooperation agreement with CNOOC in 2010.

  Our offshore engineering segment largely shares space, facilities, workforce and other resources with our shipbuilding segment. Our fourth drydock will primarily be used for our offshore engineering projects, although it can also be used for shipbuilding. Upon completion, which is currently scheduled for March 2011, our fourth drydock will be 139.5 meters wide, 580 meters long, 13.3 meters deep. It will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes.

  We believe that we are capable of offering other offshore engineering products, including jack-ups, SEMIs, drillships, FPSOs /FSOs and LNG carriers which we have not yet produced, based on our personnel, shipyard facilities and know-how. As of September 30, 2010, our offshore engineering order book included one DPV, being the DPV we are constructing for COOEC.

  Revenue from our offshore engineering projects amounted to RMB26.8 million, RMB289.3 million and RMB330.7 million for the years ended December 31, 2008 and 2009 and the eight months ended August 31, 2010, accounting for 0.6%, 3.1% and 4.0% of our total revenue for those periods, respectively.

- **Marine Engine Building** — Seeking to leverage our reputation as a world class shipbuilder and our diverse customer base, we entered into the marine engine building business. We run our marine engine building business through Rong An Power Machinery, which was incorporated in August 2007 by Mr. Zhang and acquired by us in the first half of 2010. Rong An Power Machinery commenced building marine engines in August 2009. We have been granted NDRC approval for the construction of our low-speed marine diesel engine production facilities which have a designed production capacity of five million horsepower per year. As we have not finished the construction of our production facilities, currently our facilities have an annual assembly capacity of approximately three million horsepower. We expect to reach our designed annual production capacity of five million horsepower when the construction of our production facilities is completed.

  Upon completion, our marine engine building facilities will cover an area of approximately 2.5 million sqm, of which approximately 571,000 sqm will be allocated for the building of low-speed marine diesel engines. Our low-speed marine diesel engine plant will be equipped with eight gantry type NC boring and milling machines, which will give us a relatively large production capacity and enable us to produce essential parts for our marine engines. We have entered into licensing agreements with two of the world's major power solution providers — Wärtsilä and MAN Diesel & Turbo. As part of these licensing relationships, we receive comprehensive technological support from them.

  We currently build three models of Wärtsilä and five models of MAN B&W low-speed marine diesel engines. We expect to be able to leverage the orders from our shipbuilding segment to rapidly increase the sales of our marine engines, while planning to increase sales by marketing our marine engines to other privately-owned shipbuilders. We believe that the strong PRC domestic demand for marine engines, particularly from private shipbuilders, is likely to provide good opportunities for the continuous growth of our marine engine building business in the coming years.

  Rong An Power Machinery delivered its first marine engine product, a Wärtsilä 6RT-flex68D low-speed marine diesel engine in October 2009 within a short period of 16 months after the commencement of the construction of its production facilities in June 2008. In June 2010, we delivered our first Wärtsilä 7RT-flex82T, which is to be used to propel a 400,000 DWT VLOC being built at our shipyard. As of September 30, 2010, our marine engine order book included 10 Wärtsilä 7RT-flex82T, 18 Wärtsilä 5RTflex58T-D, two MAN B&W 6S70MC two MAN B&W 6S42MC, one MAN B&W 6S46MC-C and seven MAN B&W 5S60ME-C, which amounted to approximately 849,760 horsepower, with a total contract value of approximately RMB1,511.1 million.

Revenue contributed by our marine engine building segment from sales to external customers amounted to approximately RMB6.2 million for the eight months ended August 31, 2010, accounting for approximately 0.08% of our total revenue for that period.

- **Engineering Machinery** — We commenced our operations in the engineering machinery segment in the first half of 2010 by acquiring a majority interest in Zhenyu Machinery, a manufacturer of excavators and crawler cranes located in Hefei, Anhui Province. For the year ended December 31, 2009, Zhenyu Machinery manufactured approximately 400 excavators. Zhenyu Machinery's eight excavator models have been recognized as "High-Tech Products" by Anhui Science & Technology Department, and five of its excavator models have been issued "Anhui Province Scientific and Technological Research Production" certificates. One crawler crane model has been recognized as a "National Key New Product" by the Ministry of Science and Technology of the PRC. Its production facilities cover an area of approximately 53,300 sqm in Hefei.

  Through Zhenyu Machinery, we currently offer 16 varieties of hydraulic excavators and two varieties of hydraulic crawler cranes. We expect the market demand for engineering machinery to increase substantially as a result of the PRC government's policies targeting the development of the central and western regions of the PRC and an increase in government spending on infrastructure. We are therefore planning on increasing our production capacity and expanding our product offerings by constructing a new manufacturing base in Hefei. To be constructed in three phases, the new base is expected to cover approximately 2.7 million sqm, subject to the outcome and timing of the relevant government approvals. Phase I of the expansion is expected to cover approximately 566,700 sqm and to have a production capacity of 30,000 excavators per year. We plan to start the construction of Phase I in 2010 and partial production in 2011. After the completion of the remaining two phases, our new product offerings are expected to include a wide variety of earth moving, mining, road construction and concrete machinery.

  Revenue from sales of engineering machinery amounted to RMB121.4 million for the eight months ended August 31, 2010, accounting for 1.5% of our total revenue for that period.

OUR COMPETITIVE STRENGTHS

A large PRC heavy industries group with a leading shipbuilding business, rapidly growing marine engine building business, developing offshore engineering business and a focus on oil and gas related customers and markets.

We are a market leader in the PRC shipbuilding industry with a focus on the design and manufacture of vessels and offshore engineering products targeted at customers in oil and gas industries. Contributing 71.9% of our total revenue for 2009, our crude oil tankers have been well accepted by our customers, as evidenced by classification societies' recognition, ship owners' satisfaction and repeat business from our customers. According to Clarkson Research, we are a global leader in the manufacture of Suezmax crude oil tankers. As of August 1, 2010, our orders for Suezmax crude oil tankers accounted for approximately 13.8% of the total global orders measured by DWT and we were ranked first in the PRC and second globally. We constantly strive to improve the design and functionality of our oil and gas transportation vessels, such as the recent upgrade we made to the loading capacity of our Suezmax crude oil tankers raising it from 156,000 DWT to 157,000 DWT, and our development of LNG carriers and 320,000 DWT VLCCs.

According to Clarkson Research, we were ranked second among all PRC shipbuilders, first among privately-owned PRC shipbuilders and had the largest shipyard in the PRC, each in terms of total order book in DWT, as of August 1, 2010. We are among a limited number of PRC shipbuilding enterprises capable of building VLOCs. Although global new shipbuilding orders decreased in 2009 to approximately 25.7% of the 2008 level as measured by DWT, we still managed to obtain new orders in 2009, including an order for a total of 1,600,000 DWT of VLOCs (four VLOCs of 400,000 DWT each) from Oman Shipping Company. In total, we secured new orders for 12 vessels in 2009, totaling approximately 2.2 million DWT, which constituted approximately 4.7% of the global new orders for the year in DWT. According to Clarkson Research, we are the global market leader in the manufacture of VLOCs of over 300,000 DWT. As of August 1, 2010, our orders for VLOCs in DWT accounted for about 25.4% of the total global orders for VLOCs of over 300,000 DWT, the largest in the world. As of September 30, 2010, we had 84 vessels in our order book, with a total contract value of approximately US$6.0 billion. We expect to complete these orders between 2010 and 2014.

According to a confirmation letter issued by the Development and Reform Commission of Rugao City, Jiangsu Province (江蘇省如皋市發展和改革委員會) on June 29, 2010, we are the only privately-owned enterprise group with NDRC approval to construct shipbuilding facilities for vessels over 100,000 DWT. We have secured one offshore engineering order, being the DPV we are constructing for COOEC. We also have the capability of manufacturing jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels and LNG carriers, by leveraging our extensive shipbuilding experience and the substantial engineering similarity between offshore vessels and our crude oil tankers. We have an experienced team led by industry veterans such as Chen Qiang, Chen Kai Guo, Wei Qi Guang, Chen Guo Rong and Jia Shao Jun. Our development in this segment has been supported by the experienced research and development staff working at our Offshore Engineering Design Center. Our modern equipment and facilities, such as the mobile goliath gantry cranes and large-size drydocks, further support our growth in this segment. We plan to complete the construction of the DPV by the end of December 2010.

In our Nantong base, we have three large completed drydocks, three mobile goliath gantry cranes that each has a maximum lifting capacity of 900 tonnes, two material wharves and five outfitting wharves. Our fourth drydock, currently under construction, will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes. Additionally, we have the coastline use rights for 3,058 meters of Yangtze River shoreline for our Nantong base. Our Hefei base will comprise a marine engine building base and an engineering machinery base. We are currently constructing our marine engine building facilities. Our low-speed diesel engine building plant is expected to be approximately one kilometer long and include a large component machining workshop, preassembly workshop, general assembly workshop and testing workshop. Our engineering machinery base is currently under planning.

We applied our shipbuilding experience and scientific planning in designing our shipbuilding base in Nantong. With our efficiency enhancing drydocks and high lifting capacity gantry cranes, we are able to work on two full-length vessels and two half-length vessels of over 100,000 DWT side by side in a single drydock. Our three operating drydocks are 102m x 464m, 102m x 530m and 106m x 530m, respectively. Each drydock is equipped with a mobile goliath gantry crane that has a maximum lifting capacity of 900 tonnes. The designed dimension of our fourth drydock will be 139.5m x 580m and will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes. Each of our drydocks is designed and constructed for a useful life of 50 years and with the ability to withstand earthquakes and other natural disasters.

We are capable of manufacturing different types of vessels due to the configuration of our drydocks, including 400,000 DWT VLOCs and 320,000 DWT VLCCs. According to ABS, we constructed the first 156,000 DWT Suezmax crude oil tanker in the PRC compliant with the CSR standard classed by ABS. According to China Enterprises Association and China Entrepreneurs Association, we were also the first to construct a 75,500 DWT ice-strengthened Panamax bulk carrier in the PRC. We delivered five vessels in 2008 and ten vessels in 2009. As of September 30, 2010, our order book included 84 vessels with a total contract value of approximately US$6.0 billion. We delivered 12 vessels in the nine months ended September 30, 2010 and expect to deliver a total of 22 vessels for the year.

Rapid growth in marine engine building and offshore engineering

We have obtained NDRC approval for our low-speed marine diesel production facilities which have a designed production capacity of five million horsepower per year. According to a confirmation letter issued by Development and Reform Commission of Hefei City, Anhui Province (安徽省合肥發展和改革委員會) on July 2, 2010, we are the only privately-owned company approved by the NDRC for manufacturing low-speed marine diesel engines and will have the largest production capacity in China upon the completion of our facilities. We commenced the construction of our marine engine building base in 2008 and had achieved an assembly capacity of three million horsepower as of September 30, 2010. We have obtained licenses from two of the world's major power solution providers — Wärtsilä and MAN Diesel & Turbo — to build marine diesel engines based on their designs. Our first Wärtsilä 6RT-flex68-D diesel engine was delivered in October 2009. We finished building a Wärtsilä 7RT-flex82T engine in June 2010, which was the first time that model was built in the PRC.

We have ordered advanced equipment for our marine engine building base in Hefei, such as eight gantry type NC boring and milling machines. We are licensed to build low-speed diesel engines of Wärtsilä's and MAN Diesel & Turbo's designs, including Wärtsilä 14RT-flex96C low-speed diesel engines and MAN B&W 14K98MC/MCC low-speed diesel engines. Additionally, we entered into a licensing agreement with MAN Diesel & Turbo for manufacturing certain types of MAN medium-speed four stroke engines in September 2010. Our Hefei base has a planned production capacity of five million horsepower. Our gantry type boring and milling machines will help us build all types of Wärtsilä RTA/RT-flex low-speed two stroke marine diesel engines and MAN B&W two stroke marine and stationery diesel engines. We successfully delivered our first Wärtsilä 6RT-flex68D low-speed marine diesel engine in October 2009. We had also successfully delivered two Wärtsilä 7RT-flex82T engines and had commenced building 10 engines of the same model at our Hefei base as of the Latest Practicable Date, which will be used to propel 400,000 DWT VLOCs being built at our shipyard.

According to a confirmation letter issued by Jiangsu Economic and Information Commission (江蘇省經濟和信息委員會) on June 29, 2010, our fourth drydock, which is under construction, is currently the largest drydock for offshore engineering projects approved by the NDRC in the PRC. It will allow us to build advanced offshore engineering products. Currently, the DPV under construction will have a capability of laying pipes at a water depth of 3,000 meters, a lifting capacity of 4,000 tonnes and be equipped with a Dynamic Positioning Class 3 System. According to CNOOC, it is the first DPV built in the PRC based on a detail design and a production design independently carried out by domestic companies, and upon completion, is expected to be the first deepwater pipe-laying vessel in Asia with a pipe laying depth of 3,000 meters. We are also capable of manufacturing jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels (such as DPVs) and LNG carriers. We plan to complete our first DPV by the end of December 2010.

Industry leadership supported by our strong ability to leverage multiple resources

We strive to maximize the benefit of the governmental policies and measures related to our segments of business. In the backdrop of the PRC's fast growth into the largest shipbuilding country in the world and the government's desire to decrease the industry's reliance on imported low-speed engines, we took proactive measures to respond to the new developments in shipbuilding and offshore engineering segments by obtaining NDRC approval for the construction of our four drydocks which are capable of construction of vessels over 100,000 DWT, including our fourth drydock for offshore engineering projects. We have also been granted NDRC approval for the construction of our low-speed marine diesel engine production facilities which have a designed annual production capacity of five million horsepower. Having obtained the much sought-after approvals and support from governments of various levels in Jiangsu and Anhui Provinces, we have gained industry recognition as well as support from various parties, in the form of, for example, bank facilities and tax reductions.

Cooperation with banks has been critical to our customer development and business growth. We have developed our business through cooperation with banks (such as Bank of China and China Eximbank). Our banks have also provided financing to our clients. With undrawn banking facilities of approximately RMB19.3 billion as of September 30, 2010, we had substantial capital to further expand our business in shipbuilding, offshore engineering and marine engine building segments.

We draw upon the resources of various classification societies, colleges and universities and research institutes by actively working with them to obtain their support for our production process and technology and for quality control to sustain our development in new areas. For example, through our jointly sponsored training center with DNV, we have successfully improved the welding skills of our employees and the quality of our products. Our cooperation with colleges and universities has rewarded us with joint research programs, better technology and improved production processes.

We leverage our supplier and customer resources to achieve better results from our operations. We have established a strong reputation among our strategic partners and large customers. We have entered into a strategic cooperation agreement with Doosan Engine to secure our supply of main engines. In addition, we have entered into strategic cooperation agreements with several steel suppliers, such as Xiangtan Steel and Nanjing Steel, to ensure a timely and sufficient supply of steel for our operations. Since we obtained the order for the DPV in 2007, we continue to explore growth opportunities in offshore engineering products relating to oil and gas exploration and transportation. In 2010, we entered a strategic cooperation agreement with CNOOC. After we started the marine engine building business, our subsidiary, Rong An Power Machinery, formed a strategic cooperation relationship with Hyundai Heavy Industries to secure the supply of engine parts and components for our operations and to obtain technical support.

An experienced and well-recognized management team with proven execution capabilities in building new businesses within a short period of time

We are led by a team of highly experienced executives with an average of approximately 20 years of experience in heavy industries or related fields in leading state-owned or privately-owned enterprises in the PRC, including Jiangnan Shipyard Group Co., Ltd and Shanghai Waigaoqiao Shipbuilding Co., Ltd. Furthermore, some of our senior management team members worked together for a number of years before they joined our Group, which we believe adds to the cohesion of our management team. Our senior management team comprises experts from various fields. Our senior executives, such as Mr. Chen Qiang, Mr. Chen Kai Guo, Mr. Wei Qi Guang and Mr. Deng Hui, have an average of 30 years' experience in heavy industries in both technical and business management areas.

- Mr. Chen Qiang, our president, was ranked 41st among the "100 Most Influential People in Shipping Today" by TradeWinds in June 2010, a Norway-based international shipping publication. Of the four PRC recipients of similar rankings, he is the only one from a privately-owned enterprise. He has been our leader since the establishment of our Group and is internationally renowned in the shipbuilding industry. He became the deputy manager at Jiangnan Shipyard Group Co., Ltd in 1998, the birthplace of the PRC shipbuilding industry, which was established in 1865. He later became a founder of Shanghai Waigaoqiao Shipbuilding Co., Ltd, a top shipbuilding enterprise in the PRC. He holds a doctoral degree in the naval architecture and ocean engineering and has been awarded special allowances by the State Council as a shipbuilding expert. He was named as one of the "one hundred entrepreneurial talents" by the Jiangsu provincial government. He sits on the technical committees of several of the world's largest classification societies including DNV, ABS, GL, LR, BV and CCS, and is a vice-president of the China Association of the National Shipbuilding Industry.

- Mr. Chen Kai Guo, one of the leaders of our shipbuilding segment, is a researcher-level senior engineer. He was the deputy general manager of Jiangnan Shipyard Group Co., Ltd, the general manager of Shanghai Waigaoqiao Shipbuilding Co., Ltd. before he joined our Group. He has extensive shipbuilding and corporate management experience. He was awarded the State Scientific and Technological Progress Outstanding Award (國家科技進步特等獎) granted by the Ministry of Science and Technology of the PRC in 1999. He enjoys special allowances awarded by the State Council as a shipbuilding expert.

- Mr. Wei Qi Guang is a leader of our offshore engineering segment. He is an assistant to the president and the vice-president of Rongsheng Research and Design. Having worked in Qingdao Beihai Shipbuilding Heavy Industries Co., Ltd in China and Jurong Shipyard of SembCorp Marine Group in Singapore, Mr. Wei has extensive shipbuilding and offshore engineering skill and experience. He was in charge of building the PRC's first shallow-water moveable jack-up drilling rig, "Victory II". He is a researcher-level senior engineer and enjoys special allowances awarded by the State Council.

- Mr. Deng Hui, the president and a founder of Rong An Power Machinery, has more than 28 years' experience in the marine power-related fields. He is a member of the Standing Committee of the China National Shipbuilding Industry Association. He was a deputy head of division three of the export department at China Shipbuilding Trading Co., Ltd. and was an assistant president of China Offshore Industrial Corporation, and worked as the chief representative and the regional manager for the PRC region of Caterpillar Marine Power Systems for six years before he joined our Group.

Under their leadership, our Group had grown into the second largest shipbuilding enterprise in the PRC, as measured by order book in DWT as of August 1, 2010 according to Clarkson Research, in less than five years since the commencement of our shipyard construction in October 2005. Our record of delivering the first vessel within 28 months of the commencement of the construction of the shipyard was recognised as the fastest shipyard construction record of the same type and was included in the New Records of PRC Companies of 2008 by China Enterprise Community and China Entrepreneur Association. We received a number of new orders and rapidly established ourselves in market niches, such as that for Suezmax crude oil tankers. We quickly developed a new sales model through strategic arrangements with MSFL. We had entered into shipbuilding contracts for 18 bulk carriers of 76,000 DWT with MSFL as of September 30, 2010. We obtained our first offshore engineering order, namely our DPV for COOEC, in July 2007 and plan to complete its construction by the end of December 2010. In the marine engine building segment, within approximately 16 months of the commencement of the construction of our plant in June 2008, we successfully built and delivered our first 6RT-flex68D low-speed diesel engine. We were the first to build a Wärtsilä 7RT-flex82T engine in the PRC. Leveraging our strengths in technology and management, we identified engineering machinery as our new growth area in the second half of 2009. We subsequently acquired Zhenyu Machinery and rapidly increased its sales. We believe that our rapid growth across various business segments reflects the strong execution capabilities of our management team and recognition by our customers and suppliers.

Advanced technology and information management systems with a focus on in-house research and development to sustain growth

We put great emphasis on research and development. Following the latest PRC policies, we currently focus our R&D efforts on developing energy-saving and emission-reducing vessels, such as low-speed containerships. Our research and development team comprises approximately 400 members, including more than 100 engineers and senior researchers. The members of our research and development team come from the PRC, Canada and Hong Kong. We have further retained more than ten industry experts who have been awarded special allowances by the State Council, which are granted to outstanding experts, scholars and technicians in the PRC. During the Track Record Period, we invested approximately RMB97.7 million in R&D.

We conduct R&D activities in Shanghai, Nantong, Rugao and Hefei. Our Rongsheng Research and Design Institute was designated the "Offshore and Marine Engineering Technology Research Center of Jiangsu Province" in 2009. Our in-house research and development efforts are complemented by our cooperation with well-known colleges and universities (including Shanghai Jiaotong University, Harbin Institute of Technology, Tongji University and Jiangsu University of Science and Technology), as well as leading technology research and development institutions (including KOMAC). We sponsor post-doctoral and academic programs to carry out various shipbuilding and offshore engineering research projects. Our R&D abilities enable us to manufacture various types of vessels and to match the technological requirements of our clients.

Our product research and development is supported by advanced information technology. We employ virtual shipbuilding and precision shipbuilding using our advanced design software. Information management is centralized over the entire shipbuilding process, including design, construction, testing and delivery. Our MARS software developed by Logimatic Denmark facilitates the production design of our vessels as well as data management during the vessel's operation after delivery. Our investment in the Tribon M3 and AVEVA.NET has improved and we believe will continue to improve our R&D capabilities and design efficiency.

We aim to build an internal supply chain between our marine engine building segment and shipbuilding and offshore engineering segments to ensure a balance between the internal supply and demand for marine low-speed diesel engines, reduce our purchase costs of engines and other equipment and increase our profitability at the group level. We expect to gain the capacity to manufacture vessel components after our production base in Hefei is fully operational and provide an internal supply of vessel components. We strived to realize whole-process management of shipbuilding through the MARS shipbuilding management system, which combines the main functions of raw material purchases, logistics, planning and production management. We built a cost control network with managers from our cost budgeting, cost control and production departments, continuously reducing production costs and exercising cost control in every step of construction.

We strive to ensure adequate and stable supplies of raw materials and labor for our operations. We formed a supplier management group comprising members of our raw material procurement, quality control, production management and cost control departments to facilitate review of suppliers and to ensure quality of raw materials, timely supply and good services. We established a labor outsourcing center to train and manage our subcontractors. Through our information management system, we achieved higher efficiency, lower costs and improved profitability.

Capitalizing on the outcome of our R&D efforts, we gained the capability to construct Panamax 75,500 DWT ice-strengthened bulk carriers, Suezmax 156,000 DWT crude oil tankers that meet the common structural standard, 400,000 DWT VLOCs with 30% to 40% less fuel consumption per tonne per nautical mile at their designed speed than standard bulk carriers and the first DPV in Asia with capacity of laying pipes at a water depth of 3,000 meters, 4,000 tonnes of heavy lifting capacity and a DP3 (or Dynamic Positioning System). We have increased the loading capacity of our Panamax bulk carrier from 75,500 DWT to 76,000 DWT and Suezmax crude oil tanker from 156,000 DWT to 157,000 DWT, thus adding two vessel types to our product offering. We also gained the capability to assemble the entire series of Wärtsilä and MAN B&W low-speed diesel engines. Currently, we own 43 patents and are applying for 16 more.

OUR STRATEGIES

Further develop our engine building, shipbuilding and offshore engineering businesses with a focus on oil and gas related customers and markets and energy-saving and emission-reducing technologies

Our growth strategy is to further enhance our capabilities of offering marine engines, vessels and offshore engineering products related to oil and gas transportation and exploration, with a focus on developing energy-saving and emission-reduction technologies and applications. We will leverage our core competency in the shipbuilding segment, seek rapid growth opportunities in the marine engine building and offshore engineering segments, proactively expand our product portfolios and establish ourselves as a diversified heavy industries group with a product offering covering multiple business segments. Closely following PRC development policies, we aim to speed up the development of our key production bases in Nantong and Hefei, expand production capacity to meet demand from industrial development, and complete our value chain.

- ***Continue developing high-efficiency low-speed marine engines and dual-fuel engines*** — We plan to accelerate the construction of our marine engine building base and start large scale production of low-speed marine diesel engines, for which we plan to manufacture all major parts. We also plan to develop dual-fuel low speed engines that can run in both gas and liquid-fuel modes. In addition, we plan to gain the capability of producing essential engine parts such as frames and bedplates. We plan to accelerate the development of high-tech casting methods for key parts such as cylinder outfits and cylinder bodies. We also plan to develop equipment and medium-speed marine diesel engines for offshore engineering projects and small vessels. We signed a licensing agreement with MAN Diesel & Turbo for the manufacture of MAN four-stroke medium-speed marine diesel engines in September 2010. However, we need to obtain NDRC approval before we start the manufacture of such engines. Furthermore, we plan to build a Rongsheng Ocean Power Machinery Supporting Zone, which will be a production base for medium-speed marine diesel engines.

  We plan to build a production base for parts and components. We plan to produce key parts, such as axis and propulsion systems, and, eventually, all engine parts. We also plan to build a research and development center as well as an exhibition center for these products. We aim to secure orders from existing customers, taking advantage of the integrated business segments of our Group, and actively seek new customers.

- ***Strengthen our market leadership by continuously adding upgraded and new vessel models to our offerings and expanding customer services*** — We plan to develop new models of bulk carriers including 180,000 DWT shallow draft models based on our Panamax bulk carrier and VLOC models. Leveraging our experience in building 6,500 TEU containerships, we plan to expand our product offerings to include 7,500 TEU, 8,100 TEU, 8,500 TEU and 10,000 TEU containerships. We plan to further develop quick freeze reefer containerships and low-speed energy-saving and emission-reducing containerships of equivalent sizes if market demand for such vessels develops. We plan to follow the latest domestic and international standards and pursue environmentally-friendly technologies. Meanwhile, we plan to expand our operations to cover the entire life cycle of vessels from shipbuilding to ship repair and scrapping in order to expand our revenue sources.

  We may launch a financial leasing model through Rongsheng Capital or other entities to lease the vessels we manufacture to foreign or domestic shipping companies. We have no definitive timeframe yet as our plan to start this new business depends on a number of factors including the time and qualifications needed for obtaining the necessary permits and approvals for a financial leasing business, the market demand for our vessels and our available financial and other resources. Where such market demand exists and we have the license to conduct a financial leasing business, we may choose to lease or sell our vessels based on the profitability of different business models. Launching a financial leasing marketing model would not violate our strategic arrangement with MSFL, which is non-exclusive.

  We plan to expand our customer services to cover the entire lifecycle of vessels, aiming to differentiate our products and services from those of our competitors and maintain our market leading position in various categories of vessels, such as Suezmax crude oil tankers, Panamax bulk carriers and VLOCs.

  We plan to selectively acquire small or medium shipbuilding companies, such as those in close proximity to our shipyard. With such companies' potential flexibility, low production costs and small business scales, we plan to expand into niche markets, such as 47,000/ 57,000 DWT bulk carriers.

- ***Focus on developing vessels and offshore engineering products servicing oil and gas industry and developing energy-saving and emission-reduction technologies*** — We seek to tender bids for offshore engineering projects globally and increase our strategic cooperation with customers in this area, such as CNOOC. We plan to develop new technologies and high value-added products related to oil and gas transportation and exploration like jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels (such as DPVs) and LNG carriers to increase our market share in the offshore engineering market. Taking advantage of our experience in making offshore engineering products, we plan to increase our R&D effort, speed up the development of offshore engineering products and enhance our technological capabilities through our Offshore Engineering Design Center. Meanwhile, we plan to acquire foreign research and design companies and hire more professionals with experience in the offshore engineering sector. We also plan to set up branch research offices in Houston, Texas and in Norway to better access advanced technology in those offshore engineering markets and provide better and timelier services to our customers. We plan to develop energy-saving and emission-reducing technologies and to apply the latest technologies to our vessels and offshore engineering products. We further plan to explore international markets, such as the Middle East, and further promote our products and services. With our offshore equipment manufacturing capability, we further plan to start offshore engineering services related to offshore oil and gas development and production equipment and technologies, such as seabed devices, supporting vessels, drilling and completion rigs and oil and gas production equipment. Through acquisitions of and mergers with appealing targets by Rongsheng Capital or other investment vehicles, we expect to obtain breakthroughs in essential technologies, expand our business scale, increase our core competitiveness and achieve accelerated growth.

  We plan to also focus on developing high technology and value-added oil tankers. Leveraging our success in building Suezmax crude oil tankers, we plan to focus on developing new ship models, including 320,000 DWT VLCCs, 113,000 DWT Aframax crude oil tankers and 20,000 DWT-50,000 DWT chemical and refined oil tankers.

Continue to leverage our market position and our relationships with banks, customers, suppliers and other business partners to support our growth and improve our competitiveness

We plan to use our leading position in the shipbuilding industry to develop further cooperation with various parties, including banks, suppliers, universities and colleges, technical schools, classification societies, ship design institutes, as well as companies in upstream and downstream industries, and to create a favorable environment for our sustainable development.

We plan to extend our strategic cooperation with well-known financial institutions (including Bank of China and China Eximbank) to secure sufficient credit facilities and explore new ways of cooperation for our future development.

We also intend to continue strategic cooperation with domestic and international research and design institutions and classification societies, such as DNV, on product design, development and production to increase our technological competitiveness. We plan to also strengthen the long-term cooperation with well-known universities, such as Shanghai Jiaotong University and Harbin Engineering University, to jointly provide training, solve problems in research and development, and develop a potential workforce to support our future growth.

We also plan to form strategic partnerships with enterprises in upstream and downstream industries and actively manage pressure created by rising costs of raw materials and labor, including strategic cooperation with suppliers of steel and marine engines.

Further strengthen our management, enhance efficiency, reduce costs and increase profitability and production capacity

We plan to strengthen quality control to reduce waste created during our production processes and, therefore, our production costs. We plan to strengthen management and tighten internal control by means of information technology, shorten our drydock turnover period, improve operational efficiency and improve the production capacity of our shipbuilding segment.

We aim to enhance our production efficiency and improve the turnover and output of our facilities, such as drydocks and gantry cranes. We plan to consolidate our business operations, thoroughly use our internal resources, better utilize our production and storage spaces and reduce our resource related risks.

We also aim to provide more training to our employees, increase our know-how, shorten our production cycles and improve efficiency and profitability. We plan to become an energy-saving and environment-friendly enterprise, research and to develop technologies that consume less energy and raw materials and produce fewer pollutants.

We plan to continue focusing on technological development and product innovation through research. We plan to upgrade our existing products and develop new products with energy-saving and emission-reducing features, such as oil tankers with lower fuel consumption, LNGs and dual-fuel engines.

We plan to increase our investment in technology and allocate approximately 3% of our revenue from each segment for R&D in that segment. We plan to accelerate the development of our Rongsheng Research and Design and establish a new research institute in Hefei to focus on marine engine building and serve the needs of our two production bases. Meanwhile, we plan to establish a national welding testing center and an engineering technology center. We plan to recruit leading experts from the offshore engineering and engineering machinery sectors. We also plan to make good use of our post-doctoral programs and academician workstations, and to establish an incentive scheme for technological innovation. We plan to enhance our research and development capabilities by providing incentives and training in new technologies, hosting promotional events on technological innovations, and applying new technologies to our production.

We plan to enhance our corporate image and the competitiveness of our Group and increase our scale of business and brand recognition. We plan to make our Rongsheng brand a more influential brand in the market, and to extend such influence to new areas that we enter, such as marine engine building and engineering machinery.

We established our brand name and corporate image through our quality products and services in the shipbuilding and offshore engineering industries. We plan to continue to provide value-added services to customers to strengthen our brand. We further aim to provide additional value to customers by developing customized products incorporating advanced technology to increase customer loyalty and strengthen customer relationships. For example, we secured two orders for an aggregate of 16 400,000 DWT VLOCs from a shipping subsidiary of Vale S.A. and Oman Shipping Company by submitting a product design customized to the needs of the customer.

Develop new business through investments, mergers and acquisitions

In line with our strategy, we plan to develop and offer new vessels and offshore engineering products for the oil and gas industry and to continue looking for opportunities for business diversification. We plan to strengthen and enlarge our existing business, develop new products and services and increase the application of advanced technology in our products and services. We also plan to explore new business opportunities to complete our value chain and optimize our business structure. For example, through Rongsheng Capital or other investment vehicles, we aim to enter into the leasing business, and, through the leasing of our vessels, offshore engineering vessels and engineering machineries, to increase our market shares of such products. We expect to achieve increased revenue and sales growth and sustainable cash flow through our expansion into the leasing market. We plan to invest in, acquire or merge with appealing targets in the PRC and other countries and increase our business scale, acquire needed technology and other important resources and expand into new business areas.

OUR CORE BUSINESS SEGMENTS

SHIPBUILDING

Our Vessels

We commenced the construction of our shipyard in October 2005, signed our first shipbuilding contract for six ice-strengthened Panamax bulk carriers in the first quarter of 2006 and commenced the construction of our first vessel in October 2006. We currently build a wide range of vessels, including bulk carriers, oil tankers and containerships.

We delivered five, ten and 12 vessels that were certified by various classification societies for the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2010, respectively. The following table shows information relating to our delivered vessels for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

	Year ended December 31,						Nine months ended September 30,	
	2007		2008		2009		2010	
	DWT ('000)	# of vessels	DWT ('000)	# of vessels	DWT ('000)	# of vessels	DWT ('000)	# of vessels
Bulk Carriers and VLOCs	—	—	377.5	5	75.5	1	352.0	2
Crude Oil Tankers and VLCCs	—	—	—	—	1,405.6	9	1,560.8	10
Containerships	—	—	—	—	—	—	—	—
TOTAL	**—**	**—**	**377.5**	**5**	**1,481.1**	**10**	**1,912.8**	**12**

We evidenced a strong ability to secure new orders by entering into contracts for vessels totaling approximately 2.2 million DWT in 2009, a year in which the shipbuilding industry was severely impacted by the global financial crisis. According to Clarkson Research, total shipbuilding orders placed globally amounted to approximately 47.1 million DWT that year, while our new orders in 2009 accounted for approximately 4.7% of the total global orders in DWT. As of September 30, 2010, our order book consisted of 84 vessels with a total tonnage of approximately 15.1 million DWT and an aggregate contract value of approximately US$6.0 billion. The 84 ordered vessels included two 75,500 DWT ice-strengthened Panamax bulk carriers, 25 76,000 DWT Panamax bulk carriers, nine 176,000 DWT Capesize bulk carriers, 16 400,000 DWT VLOCs, 11 156,000 DWT crude oil tankers, 15 157,000 DWT crude oil tankers, two 320,000 DWT

VLCCs and four 6,500 TEU containerships, and we had commenced construction of 35 of those vessels as of September 30, 2010. All of the vessels in our order book as of September 30, 2010 were contracted to be delivered between 2010 and 2014. Our vessels have been approved by various classification societies including the ABS, CCS, DNV, GL and LR. The following table sets forth information relating to the new orders we received during the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

	Year ended December 31,									Nine months ended September 30,		
	2007			2008			2009			2010		
	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels
Bulk Carriers and VLOCs	—	—	—	4,800.0	1,536.0	12	2,208.0	761.4	12	1,292.0	600.0	17
Crude Oil Tankers and VLCCs	—	—	—	—	—	—	—	—	—	2,994.8	1,124.0	17
Containerships	—	—	—	338.6	411.8	4	—	—	—	—	—	—
TOTAL	**—**	**—**	**—**	**5,138.6**	**1,947.8**	**16**	**2,208.0**	**761.4**	**12**	**4,286.8**	**1,724.0**	**34**

Note: The contract values are translated (where applicable) into US dollars at the rate of US$1.00 = RMB6.68. The figures shown exclude any orders that had been cancelled as of September 30, 2010. Going forward, our order book may be influenced by delays, cancellations and renegotiation of the contracts. Please refer to the section headed "Risk Factors — Risks relating to our business — If our customers terminate or delay shipbuilding contracts, our revenue and profit may be adversely affected" and "Our order book may not be an accurate indicator of our future performance" in this prospectus for more information regarding the risks associated with our order book.

The following table sets forth information relating to our orders on hand as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively.

	As of December 31,									As of September 30,		
	2007			2008			2009			2010		
	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels
Bulk Carriers and VLOCs	2,540.0	1,161.2	19	6,962.5	2,521.2	26	9,095.0	3,247.4	37	10,035.0	3,688.4	52
Crude Oil Tankers and VLCCs	4,682.4	2,075.7	30	4,682.4	2,075.7	30	3,276.8	1,446.6	21	4,710.8	1,892.2	28
Containerships	—	—	—	338.6	411.8	4	338.6	411.8	4	338.6	411.8	4
TOTAL	**7,222.4**	**3,236.9**	**49**	**11,983.5**	**5,008.7**	**60**	**12,710.4**	**5,105.8**	**62**	**15,084.4**	**5,992.4**	**84**

Note: Our order book, as of the dates indicated above, represents the total nominal contract value of orders that had not been completed, including the portion of revenue in respect of those orders that we had recognized as of such dates, all as translated (where applicable) into US dollars on the respective balance sheet dates at the rate of US$1.00 = RMB6.68. For the purpose of calculating our order book as of December 31, 2007, 2008 and 2009, we considered an order to be effective when we signed the shipbuilding contract with the customer and received the first installment payment under the contract. For the purpose of calculating our order book as of September 30, 2010, we consider an order to be effective when we signed the shipbuilding contract with the customer, regardless of what the relevant contract provided, including some contracts that were conditionally signed and subject to customers' confirmation of the orders under certain circumstances. In addition, the figures shown exclude any orders that had been cancelled as of the September 30, 2010. Going forward, our order book may be affected by delays, cancellations and renegotiation of the contracts.

Among the 84 vessels in our order book, the shipbuilding contracts for three 157,000 DWT crude oil tankers had not come into effect as of the Latest Practicable Date. Pursuant to the relevant shipbuilding contracts, the contracts will become effective on the day on which we receive declaration notices from the customers. The customers have the right up to and including November 22, 2010, November 22, 2010 and November 30, 2010, respectively, to send us the declaration notices, and if we have not received the declaration notices on or before the respective date, the contracts will automatically become null and void. The total contract value of these three vessels amounts to approximately US$184.2 million. On October 6, 2010, we secured two additional orders for 157,000 DWT crude oil tankers.

In addition to soliciting orders from our customers, we sometimes sign letters of intent and grant customers options valid for up to three months for them to place orders with us. We agree with the potential customers upon the specifications, quantity, price, payment terms and delivery time of the vessels and other related terms at the time we grant the options. We grant these options when potential customers indicate a desire to place orders with us in the near future but are not able to sign shipbuilding contracts immediately due to factors such as concerns about the market conditions, potential changes in their business needs or lack of financing, and we want to give them assurance about our commitment to meeting their demands within the promised periods. We believe that it is probable that such options may be exercised. By granting these options, we strive to better meet our customers' needs and further grow our business by exploring all possible business opportunities.

The following table sets forth the revenue from our vessel products and their respective percentages by vessel type during the period indicated. For the eight months ended August 31, 2010, the sales to our largest customers, including Vale Shipping Singapore Pte. Ltd, Geden Line, Dr. Peters GmbH & Co. KG, Golden Union Shipping Co. S.A., Oman Shipping Company, Dyancom Tankers Management Ltd. and Interorient Navigation Company Limited, accounted for approximately 77% of our revenue, with each customer accounting for more than 5% of our total revenue for the same period.

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Revenue	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**
Shipbuilding										
Bulk carriers	543,377	82.1%	952,269	20.1%	2,371,612	25.0%	325,426	6.8%	3,138,379	38.4%
VLOCs	—	—	—	—	—	—	—	—	2,382,412	29.2%
Crude oil tankers	118,288	17.9%	3,745,824	79.3%	6,812,272	71.9%	4,307,437	89.4%	2,113,432	25.9%
VLCCs	—	—	—	—	—	—	—	—	—	—
Containerships	—	—	—	—	—	—	—	—	77,938(1)	1.0%
Total	**661,665**	**100.0%**	**4,698,093**	**99.4%**	**9,183,884**	**96.9%**	**4,632,863**	**96.2%**	**7,712,161**	**94.5%**

Note:

(1) The revenue was recognized in connection with the preparatory work we performed prior to the commencement of construction (usually steel cutting), on the basis that certain costs were specifically incurred in connection with the orders of the four containerships. The costs included, primarily, customs duties, design fees and first installment payments of agent commissions.

The following table sets forth the vessel type, the DWT, the contract signing month, the construction commencement month, contracted delivery month, status of construction as of December 31, 2007, 2008 and 2009 and September 30, 2010 and the drydock allocation for each of our orders delivered as of September 30, 2010.

						Status of Construction as of				
						December 31,			September 30,	
Item No.	Vessel Type	DWT	Contract Signing Month	Construction Commencement Month	Contracted Delivery Month	2007	2008	2009	2010	Drydock Allocation
Bulk Carriers and VLOCs										
1	Bulk carrier	75,500	Mar-2006	Oct-2006	Apr-2008	Undocking	Delivered	Delivered	Delivered	No. 1
2	Bulk carrier	75,500	Mar-2006	Dec-2006	Jun-2008	Floating	Delivered	Delivered	Delivered	No. 1
3	Bulk carrier	75,500	Mar-2006	Mar-2007	Aug-2008	Floating	Delivered	Delivered	Delivered	No. 1
4	Bulk carrier	75,500	Mar-2006	Aug-2007	Mar-2009	Erection in drydock	Delivered	Delivered	Delivered	No. 2
5	Bulk carrier	75,500	Mar-2006	Sep-2007	Jul-2008	Erection in drydock	Delivered	Delivered	Delivered	No. 2
6	Bulk carrier	75,500	Mar-2006	Nov-2007	Sep-2008	Preparatory work and steel cutting	Undocking	Delivered	Delivered	No. 2
7	Bulk carrier	176,000	Nov-2006	Jun-2009	Jun-2010	Construction not yet commenced	Construction not yet commenced	Erection in drydock	Delivered	No. 1
8	Bulk carrier	176,000	Nov-2006	Nov-2008	Dec-2009	Construction not yet commenced	Preparatory work and steel cutting	Undocking	Delivered	No. 2
						Major customers in the category		**Golden Ocean Group Ltd., Fortune Ocean Shipping Limited**		
Crude Oil Tankers and VLCCs										
9	Crude oil tanker	156,000	May-2006	May-2007	Sep-2008	Erection in drydock	Undocking	Delivered	Delivered	No. 1
10	Crude oil tanker	156,000	May-2006	May-2007	Nov-2008	Erection in drydock	Undocking	Delivered	Delivered	No. 1
11	Crude oil tanker	156,000	Oct-2006	Oct-2007	Oct-2008	Preparatory work and steel cutting	Floating	Delivered	Delivered	No. 1
12	Crude oil tanker	156,838	Oct-2006	Dec-2007	Dec-2008	Preparatory work and steel cutting	Erection in drydock	Delivered	Delivered	No. 2
13	Crude oil tanker	156,000	Jul-2006	Jan-2008	Jan-2010	Construction not yet commenced	Erection in drydock	Undocking	Delivered	No. 3
14	Crude oil tanker	156,000	Jul-2006	Feb-2008	May-2010	Construction not yet commenced	Erection in drydock	Undocking	Delivered	No. 2
15	Crude oil tanker	156,000	Sep-2006	May-2008	Mar-2010	Construction not yet commenced	Erection in drydock	Undocking	Delivered	No. 3
16	Crude oil tanker	156,000	Sep-2006	May-2008	Apr-2009	Construction not yet commenced	Erection in drydock	Delivered	Delivered	No. 1
17	Crude oil tanker	156,000	Aug-2006	Nov-2007	Jan-2009	Preparatory work and steel cutting	Floating	Delivered	Delivered	No. 1
18	Crude oil tanker	155,970	Sep-2006	Dec-2007	Jul-2008	Preparatory work and steel cutting	Floating	Delivered	Delivered	No. 3
19	Crude oil tanker	156,000	Sep-2006	Sep-2008	Aug-2010	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	Delivered	No. 1
20	Crude oil tanker	156,000	Sep-2006	Dec-2008	Aug-2009	Construction not yet commenced	Preparatory work and steel cutting	Undocking	Delivered	No. 3
21	Crude oil tanker	156,838	Oct-2006	May-2008	Dec-2009	Construction not yet commenced	Preparatory work and steel cutting	Delivered	Delivered	No. 1
22	Crude oil tanker	156,838	Oct-2006	May-2008	Feb-2010	Construction not yet commenced	Preparatory work and steel cutting	Floating	Delivered	No. 1
23	Crude oil tanker	156,000	Sep-2006	Jan-2008	Oct-2009	Construction not yet commenced	Floating	Delivered	Delivered	No. 2
24	Crude oil tanker	156,000	Sep-2006	Mar-2008	Mar-2010	Construction not yet commenced	Erection in drydock	Undocking	Delivered	No. 1
25	Crude oil tanker	156,000	Nov-2006	Feb-2008	Mar-2010	Construction not yet commenced	Erection in drydock	Undocking	Delivered	No. 3
26	Crude oil tanker	156,000	Nov-2006	Nov-2008	Jun-2010	Construction not yet commenced	Preparatory work and steel cutting	Floating	Delivered	No. 3
27	Crude oil tanker	156,000	Dec-2006	May-2009	Jun-2010	Construction not yet commenced	Construction not yet commenced	Erection in drydock	Delivered	No. 1
						Major customers in the category		**Cardiff Marine Inc., Frontline Ltd., Geden Line**		

The following table sets forth the vessel type, the DWT, the contract signing month, the construction commencement month/expected construction commencement month, contracted delivery month, status of construction as of December 31, 2007, 2008 and 2009 and September 30, 2010 and the drydock allocation for each of our orders on hand as of September 30, 2010.

						Status of Construction(1) as of				
						December 31,			September 30,	
Item No.	Vessel type	DWT	Contract signing month	(Expected) Construction commencement month	Contracted delivery month	2007	2008	2009	2010	Drydock Allocation
Bulk Carriers and VLOCs										
1	Bulk carrier	75,500	Mar-2006	Jul-2009	Sep-2010(4)	Construction not yet commenced	Construction not yet commenced	Erection in drydock	Undocking	No. 3
2	Bulk carrier	75,500	Mar-2006	Jul-2009	Nov-2010	Construction not yet commenced	Construction not yet commenced	Erection in drydock	Undocking	No. 3
3	Bulk carrier	176,000	Nov-2006	Jun-2010	Aug-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 2
4	Bulk carrier	176,000	Dec-2006	Aug-2010	Sep-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 2
5	Bulk carrier	176,000	Nov-2006	Sep-2009	Jul-2010(6)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	No. 2
6	Bulk carrier	176,000	Nov-2006	Sep-2009	Sep-2010(7)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 1
7	Bulk carrier	176,000	Nov-2006	Nov-2009	Oct-2010(8)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 2
8	Bulk carrier	176,000	Nov-2006	Nov-2009	Nov-2010	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 2
9	Bulk carrier	176,000	Nov-2006	Jul-2009	Jul-2010(5)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	No. 3
10	Bulk carrier	176,000	Nov-2006	Aug-2009	Sep-2010(6)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 1
11	Bulk carrier	176,000	Nov-2006	Oct-2009	Aug-2010(6)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	No. 1
12	Bulk carrier	400,000	Aug-2008	Sep-2009	Mar-2011	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 3
13	Bulk carrier	400,000	Aug-2008	Sep-2009	Jun-2011	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 4
14	Bulk carrier	400,000	Aug-2008	Dec-2009	Sep-2011	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Preparatory work and steel cutting	No. 4
15	Bulk carrier	400,000	Aug-2008	Jul-2010	Sep-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 4
16	Bulk carrier	400,000	Aug-2008	Dec-2010	Dec-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
17	Bulk carrier	400,000	Aug-2008	Mar-2011	Dec-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
18	Bulk carrier	400,000	Aug-2008	Jun-2011	Apr-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
19	Bulk carrier	400,000	Aug-2008	Jun-2011	Apr-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
20	Bulk carrier	400,000	Aug-2008	May-2011	Jul-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
21	Bulk carrier	400,000	Aug-2008	Aug-2011	Jul-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
22	Bulk carrier	400,000	Aug-2008	Aug-2011	Oct-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
23	Bulk carrier	400,000	Aug-2008	Sep-2011	Oct-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
24	Bulk carrier	400,000	Jul-2009	Jul-2010	Nov-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 4
25	Bulk carrier	400,000	Jul-2009	Jul-2010	Nov-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 4
26	Bulk carrier	400,000	Jul-2009	Aug-2010	Feb-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 4
27	Bulk carrier	400,000	Jul-2009	Aug-2010	Feb-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 3
28	Bulk carrier	76,000	Nov-2009	May-2010	Jun-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 3
29	Bulk carrier	76,000	Nov-2009	May-2010	Jun-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 1
30	Bulk carrier	76,000	Nov-2009	Jun-2010	Sep-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 1

						Status of Construction[1] as of				
						December 31,			September 30,	
Item No.	Vessel type	DWT	Contract signing month	(Expected) Construction commencement month	Contracted delivery month	2007	2008	2009	2010	Drydock Allocation
31	Bulk carrier	76,000	Nov-2009	Jul-2010	Sep-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	No. 3
32	Bulk carrier	76,000	Nov-2009	Oct-2010	Nov-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
33	Bulk carrier	76,000	Nov-2009	Oct-2010	Nov-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
34	Bulk carrier	76,000	Nov-2009	Nov-2010	Dec-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
35	Bulk carrier	76,000	Nov-2009	Oct-2010	Dec-2011	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
36	Bulk carrier	76,000	Apr-2010	Oct-2010	May-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
37	Bulk carrier	76,000	Apr-2010	Nov-2010	Jul-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
38	Bulk carrier	76,000	Apr-2010	Nov-2010	Sep-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
39	Bulk carrier	76,000	Apr-2010	Nov-2010	Sep-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
40	Bulk carrier	76,000	Apr-2010	May-2011	Sep-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
41	Bulk carrier	76,000	Apr-2010	May-2011	Nov-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
42	Bulk carrier	76,000	Apr-2010	Jul-2011	Nov-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
43	Bulk carrier	76,000	Apr-2010	Jul-2011	Nov-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
44	Bulk carrier	76,000	Apr-2010	Oct-2011	Dec-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
45	Bulk carrier	76,000	Apr-2010	Oct-2011	Dec-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
46	Bulk carrier	76,000	Jul-2010	Oct-2012	Oct-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
47	Bulk carrier	76,000	Jun-2010	May-2012	Mar-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
48	Bulk carrier	76,000	Jun-2010	Aug-2012	Jun-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
49	Bulk carrier	76,000	Jun-2010	Oct-2012	Sep-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
50	Bulk carrier	76,000	Jun-2010	Nov-2012	Dec-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
51	Bulk carrier	76,000	Jun-2010	Apr-2013	Mar-2014	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
52	Bulk carrier	76,000	Jun-2010	Jul-2013	Jun-2014	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 3
						Contract value (US$mm)			**$3,688.4**	
						To be recognized Contract value (US$mm)			**$2,756.7**	
						Major customers in the category			**Vale Shipping Singapore Pte. Ltd, Oman Shipping Company, MSFL**	
Crude Oil Tankers and VLCCs										
53	Crude oil tanker	156,000	Aug-2006	May-2008	Sep-2010[4]	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	Floating	No. 2
54	Crude oil tanker	156,000	Sep-2006	Jun-2008	Oct-2010[4]	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	Undocking	No. 1
55	Crude oil tanker	156,000	Sep-2006	Jun-2008	Sep-2010[2]	Construction not yet commenced	Preparatory work and steel cutting	Floating	Undocking	No. 2
56	Crude oil tanker	156,000	Sep-2006	Nov-2008	Sep-2010[3]	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	Undocking	No. 2
57	Crude oil tanker	156,000	Sep-2006	Nov-2008	Oct-2010[4]	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	Undocking	No. 2
58	Crude oil tanker	156,000	Oct-2006	Jun-2009	Nov-2010	Construction not yet commenced	Construction not yet commenced	Erection in drydock	Floating	No. 2
59	Crude oil tanker	156,000	Dec-2006	Apr-2009	Oct-2010[4]	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Floating	No. 1

Item No.	Vessel type	DWT	Contract signing month	(Expected) Construction commencement month	Contracted delivery month	Status of Construction(1) as of December 31, 2007	December 31, 2008	December 31, 2009	September 30, 2010	Drydock Allocation
60	Crude oil tanker	156,000	Nov-2006	Nov-2009	Sep-2010(5)	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	No. 3
61	Crude oil tanker	156,000	Nov-2006	Nov-2009	Dec-2010	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	No. 1
62	Crude oil tanker	156,000	Dec-2006	Sep-2009	Nov-2010	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Floating	No. 1
63	Crude oil tanker	156,000	Dec-2006	Sep-2009	Nov-2010	Construction not yet commenced	Construction not yet commenced	Preparatory work and steel cutting	Erection in drydock	No. 2
64	Crude oil tanker	157,000	Jun-2010	Jul-2011	Aug-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
65	Crude oil tanker	157,000	Jun-2010	Jul-2011	Nov-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
66	Crude oil tanker	157,000	Jun-2010	Nov-2011	Feb-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
67	Crude oil tanker	157,000	Jun-2010	Sep-2011	Dec-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
68	Crude oil tanker	157,000	Jun-2010	Nov-2011	Mar-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
69	Crude oil tanker	156,900	Jun-2010	Sep-2011	Feb-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
70	Crude oil tanker	156,900	Jun-2010	Mar-2012	Mar-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
71	Crude oil tanker	157,000	Jul-2010	Jan-2012	Apr-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
72	Crude oil tanker	157,000	Jul-2010	May-2012	Jul-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
73	Crude oil tanker	320,000	Jul-2010	Nov-2011	May-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
74	Crude oil tanker	320,000	Jul-2010	Jan-2012	Aug-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 4
75	Crude oil tanker	157,000	Jul-2010	May-2012	Jun-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
76	Crude oil tanker	157,000	Jul-2010	Jun-2012	Sep-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
77	Crude oil tanker	157,000	Jul-2010	Aug-2012	Dec-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
78	Crude oil tanker	157,000	Jul-2010	Jun-2012	Oct-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
79	Crude oil tanker	157,000	Jul-2010	Aug-2012	Jan-2014	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
80	Crude oil tanker	157,000	Jul-2010	Oct-2012	Mar-2014	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 1
						Contract value (US$mm)			**$1,892.2**	
						To be recognized Contract value (US$mm)			**$1,221.1**	
						Major customers in the category		**Geden Line, Golden Energy Management S.A., Active Shipping & Management Pte Ltd.**		
Containerships										
81	Containership	84,660	May-2008	Sep-2010	Mar-2012	Preparatory work and steel cutting	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
82	Containership	84,660	May-2008	Nov-2010	Jun-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
83	Containership	84,660	May-2008	Jan-2011	Sep-2012	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
84	Containership	84,660	May-2008	Mar-2011	Jan-2013	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	Construction not yet commenced	No. 2
						Contract value (US$mm)			**$411.8**	
						To be recognized Contract value (US$mm)			**$396.5**	
						Major customers in the category		**Hansa Treuhand Schiftsbeteiligungs GmbH & Co. KG**		

Notes:

(1) We believe that the amount of construction costs incurred generally indicates the construction completion percentage at different stages of the construction process. Based on the construction process of our previously built vessels, we estimate that we generally would have incurred approximately 1%-35% of the construction costs (including raw materials costs, labor costs, processing fees and other related expenses) during the preparatory work and steel-cutting, approximately 35-73% of the construction costs between erection in drydock and floating, approximately 73-88% of the construction costs between floating and undocking and approximately 88-100% of the construction costs between undocking and the delivery. However, the said

estimations are based on historical information and our experience only, which may not accurately reflect the completion percentage of our vessels under construction as construction costs incurred during different construction stages for different vessels may vary due to various factors, including vessel type and size.

(2) the vessel was delivered on October 14, 2010, and a downward adjustment of approximately US$0.6 million was made pursuant to the relevant shipbuilding contract terms.

(3) the vessel was delivered on October 19, 2010, and the contract price of the vessel was adjust downward in the amount of US$0.2million pursuant to the shipbuilding contract terms.

(4) We expect to deliver the vessel in November 2010.

(5) We expect to deliver the vessel in January 2011.

(6) We expect to deliver the vessel in February 2011.

(7) We expect to deliver the vessel in April 2011.

(8) We expect to deliver the vessel in May 2011.

As of August 31, 2010, our contract value to be recognized (the total contract value of orders not yet delivered minus the portion of revenue already recognized in respect thereof using the percentage of completion method) amounted to approximately US$4,374.3 million for vessels to be completed and delivered between 2010 and 2014. During the Track Record Period, among our delivered vessels, we experienced delays in the delivery of 11 vessels (including eight crude oil tankers and three bulk carriers). We made downward adjustments to the contract prices of nine vessels. The aggregate downward adjustment amounted to approximately US$10.2 million. In addition, we had experienced delays in the delivery of two vessels and failed to deliver 12 vessels on time during the period from August 31, 2010 to the Latest Practicable Date. We made downward adjustments to the contract prices of the two vessels in an aggregate amount of approximately US$0.8 million and are negotiating with our customers for additional grace periods with regard to the remaining 12 vessels. Our shipbuilding contracts typically sets forth a specific delivery date and a grace period which allows us to deliver the relevant vessel without paying damages for delays up to the end of the grace period. In the event of any delay beyond the grace period, the contract usually provides for a reduction of the contract price based on the length of delay and the daily rate applicable during the period of delay. Based on our current delivery schedule and the relevant shipbuilding contract terms, we estimate the aggregate damages in relation to these 12 vessels (no. 1, 5, 6, 7, 9, 10, 11, 53, 54, 57, 59 and 60 in the table above) to be approximately US$14.2 million, subject to our further negotiations with the relevant customers and the actual delivery dates of the vessels. In addition, our customers have the right to rescind or cancel their contracts if there is an excessive delay in delivery. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — If we are not able to meet our construction and delivery schedules, our business, financial condition and results of operations may be adversely affected" in this prospectus for risks associated with delays in deliveries.

Due to the worsening global economic situation in late 2008 and early 2009, some of our customers experienced difficulties in obtaining adequate financing for the vessels they ordered and thus notified us of their intention to cancel their orders. Some of our customers asked for our permission to transfer their paid amounts to other vessels they ordered with us, due to the changes in their business needs brought about by the worsening economic situation. We evaluated their requests on a case by case basis and made judgments as to the credit worthiness of such customers, potential future business opportunities with them, the payments already made under the relevant contracts, the construction work we performed and the potential damages we would suffer as a result of such cancellations or changes. We would normally have already received the first installment payment under the relevant contracts and did not expect to suffer significant damages from such cancellations where construction work had not started. We usually allow orders to be cancelled under the condition that we retain a portion or all of the payments already paid by the cancelling customer. Where the transfer of payment are requested, we negotiate with the requesting customer to ensure that we receive compensation for our damages, if any, while the demands of the customer are satisfied at the lowest cost.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010 we had nil, nil, 23 and one order cancellation(s), respectively. The cancellations were not due to default of our Group. Among the 24 cancelled orders, we did not retain any of the payments received as damages compensation in relation to 16 orders. The payments were either returned to the customers or transferred to settle the payment for other existing shipbuilding order(s) from the relevant customers. We considered whether to retain any payment for the cancellation of an order on a case by case basis and took the following factors into consideration: (i) whether such customer had an established business relationship with our Group and whether there were any potential business opportunities with such customer in future; (ii) whether we have incurred any cost in relation to the cancelled order prior to such cancellation; and (iii) whether such customer had any other existing shipbuilding order(s) with our Group and whether the payment paid under the cancelled order could be transferred to settle the payment for other shipbuilding order(s).

The retained payments were recognized as revenue if our Group was not able to redeploy the construction work completed in respect of the cancelled contracts to other projects. We recognized revenue in the amount of approximately RMB532.3 million in 2009 in relation to the 23 orders cancelled during that year, which was approximately 18.2% of all our received prepayments in relation to the 24 cancellations. Payments received as compensation for cancellation were recognized as other income and we recorded approximately RMB5.0 million and RMB3.8 million, respectively, as other income for the year ended December 31, 2009 and the eight months ended August 31, 2010. Given we only recognize the contract value of the shipbuilding contracts as revenue upon commencement of the construction of the relevant vessels and the contract value of the cancelled orders was never recognized as revenue in our financial statements, we recorded no financial loss as a result of such cancellations. We believe such cancellations have not had any material adverse impact on our business, financial condition or results of operations as we had a net increase in order book during the Track Record Period and the operation of our shipyard was not interrupted by such cancellations.

Bulk Carriers

Bulk carriers are classified according to their DWT and are typically used to transport bulk cargo such as iron ore, coal, grain, steel, coil steel and fertilizer. VLOCs are generally strengthened bulk carriers over 220,000 DWT, which are usually used for transporting iron ore.

We started taking orders for bulk carriers of between 75,500 DWT and 176,000 DWT in 2006 and had delivered eight bulk carriers as of the September 30, 2010. The main types of bulk carriers we produce are Panamax and Capesize bulk carriers. As of September 30, 2010, our order book included nine bulk carriers of 176,000 DWT, two bulk carriers of 75,500 DWT, 25 bulk carriers of 76,000 DWT and 16 VLOCs of 400,000 DWT.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, our revenue from the sale of bulk carriers was RMB543.4 million, RMB952.3 million, RMB2,371.6 million and RMB3,138.4 million, which constituted 82.1%, 20.1%, 25.0% and 38.4% of our total revenue for those periods, respectively.

75,500 DWT Ice-strengthened Panamax Bulk Carrier

The first orders we received were for 75,500 DWT ice-strengthened Panamax bulk carriers. We constructed the first 75,500 DWT ice-strengthened Panamax bulk carrier in the PRC. The Panamax bulk carriers we build meet ice-IC requirements and can navigate in icy water where ordinary Panamax bulk carriers cannot. As of September 30, 2010, we had received orders for eight vessels of this type, of which six had been delivered and two were under construction with delivery scheduled for the second half of 2010.

75,500 DWT Bulk Carrier

Principal Particulars:

Overall Length	225.0m
Breadth	32.3m
Depth	19.7m
Deadweight	75,500 DWT
Speed	14.5kn
Design Draught	12.4m
Scantling Draught	14.2m

76,000 DWT Bulk Carrier

We designed and developed 76,000 DWT bulk carriers based on our 75,500 DWT ice-strengthened Panamax bulk carrier. As of September 30, 2010, we had received orders for 25 vessels of this type and had four vessels under construction. These 25 vessels are scheduled to be delivered between 2011 and 2014.

76,000 DWT Bulk Carrier

Principal Particulars:	
Overall Length	224.9m
Breadth	32.3m
Depth	19.7m
Deadweight	76,000 DWT
Speed	14.5kn
Design Draught	12.2m
Scantling Draught	14.3m

176,000 DWT Bulk Carrier

In November 2006, we obtained our first order for a 176,000 DWT bulk carrier. We cooperated with SDARI, a ship design institute with extensive experience in designing bulk carriers, and delivered our first 176,000 DWT Capesize bulk carrier complying with the CSR standard in 2009. As of September 30, 2010, we had delivered two of this type and had nine in our order book, all of which were under construction. The nine vessels are scheduled to be delivered between 2010 and 2011.

176,000 DWT Bulk Carrier

Principal Particulars:	
Overall Length	291.8m
Breadth	45.0m
Depth	24.8m
Deadweight	176,000 DWT
Speed	14.9Kn
Design Draught	16.5m
Scantling Draught	18.3m

VLOCs (400,000 DWT Ore Carrier)

VLOCs are ships designed for carrying ore cargo in very large quantities. Compared to standard Capesize bulk carriers, 400,000 DWT VLOCs consume 30%-40% less fuel per tonne per nautical mile at their designed speed. We signed shipbuilding contracts with a shipping subsidiary of Vale S.A. for 12 400,000 DWT VLOCs in August 2008. Despite the global financial crisis in late 2008 and 2009, we obtained another order of four 400,000 DWT VLOCs in 2009. As of September 30, 2010, we had received orders of 16 vessels of this type, eight of which were under construction. These 16 vessels are scheduled to be delivered between 2011 and 2012.

400,000 DWT Ore Carrier

Principal Particulars:

Overall Length	360.0m
Breadth	65.0m
Depth	30.4m
Deadweight	400,000 DWT
Speed	14.8kn
Design Draught	22.0m
Scantling Draught	23.0m

Oil Tankers

Oil tankers typically transport crude oil and oil products. These vessels are classified according to their DWT. An oil tanker typically has a complex structure requiring a specialized construction process. We believe that demand for oil tankers is likely to increase as the demand for oil increases.

We began accepting orders for oil tankers in 2006 and delivered our first crude oil tanker in March 2009. All of the oil tankers we have built have been double hulled crude oil tankers. We have extensive experience in the building of Suezmax crude oil tankers and have constructed and delivered 19 CSR standard compliant 156,000 DWT Suezmax crude oil tankers. The main types of crude oil tankers we construct are Suezmax crude oil tankers and VLCCs. As of September 30, 2010, our order book included 11 156,000 DWT and 15 157,000 DWT Suezmax crude oil tankers and two 320,000 DWT VLCCs. We expect to deliver the 26 Suezmax crude oil tankers and two 320,000 DWT VLCCs currently in our order book between 2010 and 2014.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, our revenue from the sale of crude oil tankers was RMB118.3 million, RMB3,745.8 million, RMB6,812.3 million and RMB2,113.4 million, which constituted 17.9%, 79.3%, 71.9% and 25.9% of our total revenue for the same periods, respectively.

156,000 DWT Crude Oil Tankers

The 156,000 DWT Suezmax crude oil tankers we build are a new generation of the Suezmax crude oil tanker, which has been widely accepted in the international shipping industry. According to ABS, we built the first Suezmax crude oil tanker classified by ABS with a CSR notation in the PRC. As of September 30, 2010, we had 11 orders of 156,000 DWT crude oil tankers in our orderbook and had all of them under construction. Those 11 vessels are to be delivered before the end of 2010.

156,000 DWT Crude Oil Tanker

Principal Particulars:

Overall Length	274.0m
Breadth	48.0m
Depth	23.7m
Deadweight	156,000 DWT
Speed	15.1kn
Design Draught	16.0m
Scantling Draught	17.0m

157,000 DWT Crude Oil Tankers

Based on our 156,000 DWT Suezmax crude oil tankers, we developed 157,000 DWT Suezmax crude oil tankers, which have a more efficient design and larger cargo capacity. As of September 30, 2010, our order book included 15 157,000 DWT Suezmax crude oil tankers (including three orders which were pending notifications from the customers to become effective). We expect to deliver the 15 crude oil tankers currently in our order book between 2012 and 2014.

157,000 DWT Crude Oil Tankers

Principal Particulars:

Overall Length	274.5m
Breadth	48.0m
Depth	23.2m
Deadweight	157,000 DWT
Speed	14.8kn
Design Draught	16.0m
Scantling Draught	17.0m

320,000 DWT VLCCs

With the increasing global demand for crude oil, the demand for crude oil transportation has increased significantly. We developed the capability to construct VLCCs by leveraging our experience in building VLOCs and Suezmax crude oil tankers. In July 2010, we secured orders for two 320,000 DWT VLCCs. Both vessels are contracted to be delivered in 2013.

320,000 DWT VLCCs

Principal Particulars:

Overall Length	333.0m
Breadth	60.0m
Depth	30.5m
Deadweight	320,000 DWT
Speed	16.0kn
Design Draught	20.5m
Scantling Draught	22.5m

Containerships

Containerships are used to carry cargoes in standard intermodal containers. They are classified by their carrying capacity measured by TEU, or twenty-foot equivalent unit.

We accepted our first order for 6,500 TEU containerships in May 2008. As of September 30, 2010, we had four 6,500 TEU containerships in our order book, of which one was under construction. We expect to deliver the four containerships between 2012 and 2013. We plan to secure more orders for containerships of between 6,500 TEU and 7,000 TEU and expand our product offering to also include containerships of 8,500 TEU.

6,500 TEU Containership

Principal Particulars:

Overall Length	300.0m
Breadth	40.0m
Depth	24.2m
Deadweight	84,800 DWT
Speed	25.6kn
Design Draught	12.0m
Scantling Draught	14.5m

Our Shipbuilding Process and Steps

Our shipbuilding operations are carried out in accordance with customers' orders. We offer a comprehensive range of services to our customers in connection with our shipbuilding operations, including fabrication, test operation and technical support.

We typically prepare a three to five year rolling strategic operation plan based on our operation strategies, current market conditions, our estimation of the market, our manufacturing capacity and our order book. We update our rolling strategic operation plan annually to utilize our resources efficiently and maximize our productivity.

During the shipbuilding process, we use advanced management and design software in each stage of a vessel's life cycle from design to customer service. We apply advanced concepts, such as virtual shipbuilding, and comprehensively employ advanced shipbuilding technologies, such as precision control technology, to achieve efficient construction of our vessels.

We divide our entire construction process into three main steps: obtaining orders, construction preparation and manufacturing.

- ***Obtaining Orders:*** Our construction process starts with the obtaining of a shipbuilding order. We typically sign two contracts with a shipowner, one setting forth the technical specifications of the vessel and the other setting forth the commercial terms such as those relating to payment and delivery.

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

  - ***Design:*** The vessel design process consists primarily of basic design, detail design and production design. The design process typically involves body design, preparation of drawings and specifications, which must be approved by shipowners and comply with the relevant published rules of a particular classification society or international convention and the production guidelines. We usually cooperate with external architects or ship design institutes in making basic and detail designs. The production design is usually prepared by our internal design team. Depending on the vessel type and our construction experience, the basic design process takes approximately seven to eight months for a new type of vessel and three to four months for vessels we have previously constructed, the detail design process takes approximately 12 months and the production design process takes approximately four to five months. For further details on our design capability, see the paragraph headed — "Design and Research" below in this section.

  - ***Procurement:*** In accordance with our production plan, we usually prepare detailed procurement plans. Typically, we implement our procurement plans shortly after we have secured an order. Our procurement efforts include contacting suppliers, entering into technical specification agreements, making price inquiries, negotiating contracts and following up on shipment and delivery. For further details on our procurement process, see the paragraph headed "Raw Materials and Major Suppliers" below in this section.

  - ***Facilities arrangement:*** For each vessel order, we prepare a detailed manufacturing plan, make drydock arrangements, procure equipment and utilities, and arrange for the management and staffing of the project.

- ***Manufacturing:*** The ship manufacturing process involves the coordination and interaction of four different processes: ship hull construction, outfitting, painting and testing. The manufacturing cycle for our vessels is usually 13-27 months from the commencement of construction to delivery, but varies depending on the type and complexity of the vessel being built. The entire process starts with pre-treatment of steel plates and other steel parts and ends with the delivery of the vessel to our customer. After delivery, we summarize the feedback we received and issues we encountered during the construction of the vessel to improve the construction of future vessels. The construction of a vessel includes the process set forth below:

  1. ***Pre-treatment:*** The steel plates and other steel parts to be used in the manufacture of the vessel are cleaned, sand-dusted to remove rust and then coated with protective paint.

  2. ***Preparatory work and steel cutting:*** The pre-treated steel plates are cut into parts with various shapes and sizes according to the required specifications using our steel cutting machines.

  3. ***Manufacture of small sections:*** The parts are then welded or otherwise assembled into small sections according to the designs and drawings. The small sections are outfitted with small pipes, cable-ways, equipment and other parts.

4. ***Manufacture of medium-sized sections:*** Small sections are welded or otherwise assembled into medium-sized sections according to the designs and drawings for the medium-sized sections.

5. ***Pre-outfitting of medium-sized sections:*** The medium-sized sections are then outfitted with pipes, cable-ways, equipment or other additional parts.

6. ***Manufacture of blocks:*** The outfitted medium-sized sections are welded or assembled into blocks.

7. ***Outfitting of blocks:*** The blocks are outfitted with additional pipes, cables, equipment or other parts.

8. ***Painting:*** The blocks are painted to prevent rusting or corrosion.

9. ***Block integration:*** Two or more blocks are integrated into integrated blocks. The hull is then further outfitted with pipes, cables, equipment and other additional parts.

10. ***Erection:*** The manufacturing process is shifted to the drydock, where the blocks and integrated blocks are assembled to form the hull of the vessel.

11. ***Dock outfitting:*** The main equipment inside the machinery space, such as engine rooms, ballast pump rooms, is loaded in compliance with loading schedule.

12. ***Leakage/air impermeability test:*** The various parts of the vessel are tested for water leakage or air permeation to ensure the safety and proper functions of the vessel.

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

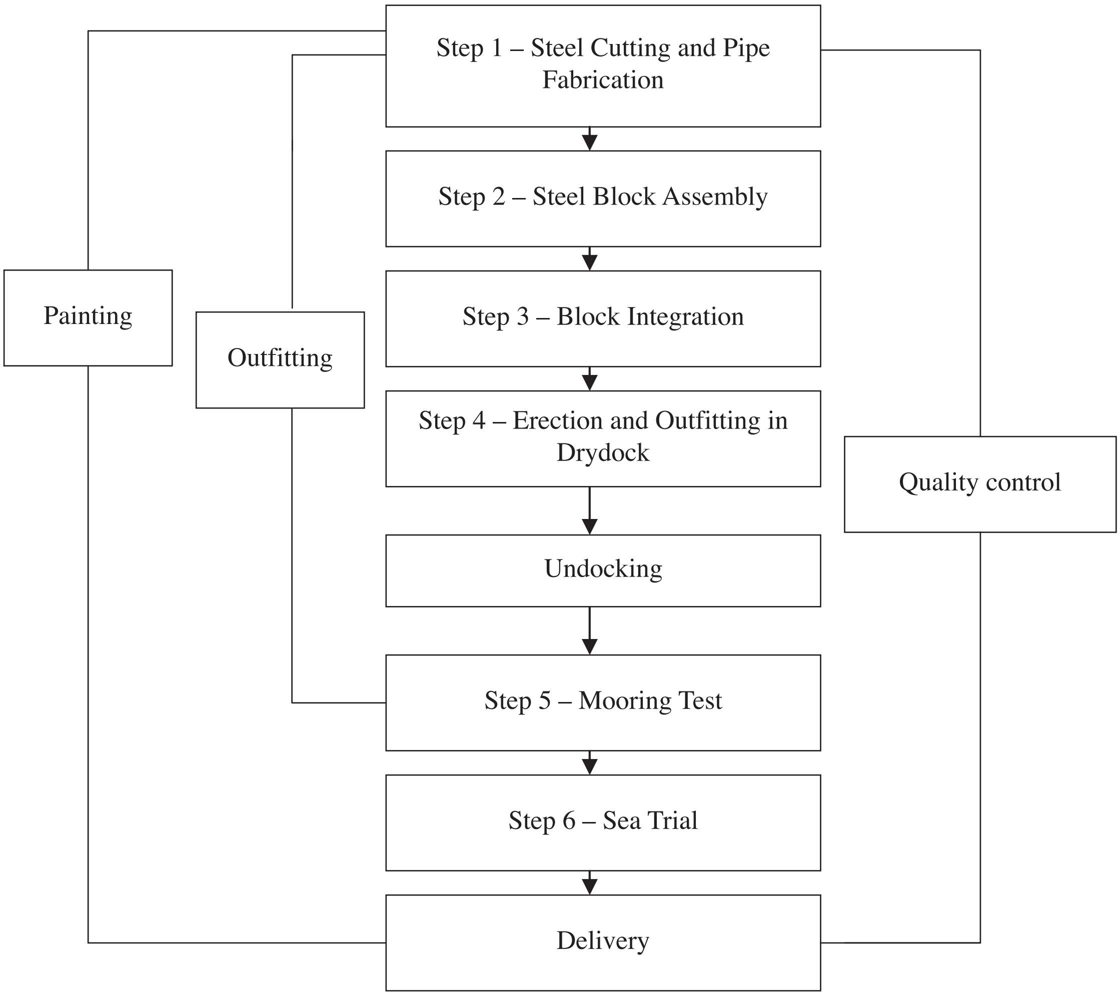
14. ***Mooring test:*** When moored, the vessel is tested and inspected by experts from our shipyard, classification societies and customers for any defects in its structure, parts or systems.

15. ***Tilting test:*** The vessel is then further tested for its compliance with the standards and specifications required by the contract and the classification society.

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

17. ***Delivery:*** After passing the above tests and being approved for delivery, the vessel is then delivered to the customer.

The following diagram illustrates the typical main components of the manufacturing process for our vessels:



Painting is involved at different states of the whole manufacturing process and outfitting (including pipe, electrical equipment and steel installation) is involved in Steps 1-5. We believe drydock turnover days are the key factor in measuring a shipyard's production capacity. The table below sets forth our drydock turnover period for the respective indicated periods.

	2007	2008	2009	September 30, 2010
Drydock turnover period (days)	24(1)	143	127	95

Note:

(1) *In 2007, only one vessel went through the drydock production process. The drydock turnover days for 2007 were calculated based on that vessel.*

Our drydock turnover period commences on the date a vessel is floated and ends on the date it is undocked. During our production process, one drydock generally houses two whole vessels and two half vessels at the same time. When the two whole vessels are undocked and launched, the two half vessels are simultaneously floated and repositioned to continue the construction process. Therefore, we consider the date of undocking (launching) of a vessel as the floating date of the following vessel when calculating drydock turnover period. Due to different sizes of drydocks and different methodology for housing ships in drydock by different shipyards and the method and basis of calculation adopted by different shipbuilding companies may vary, the drydock period turnover periods set out above may not be appropriate for direct comparison with those of other shipbuilding companies. The above listed drydock turnover periods are during our initial operation stage when our facilities are under construction, which can not accurately reflect our future production efficiency.

Our production capacity increased significantly over the Track Record Period. We commenced shipyard construction in 2005. During the start up period of our shipyard, we attended to various aspects of our business with limited financial and human resources, including vessel and shipyard construction, employee training and the formation of corporate policies and management systems. We invested substantial resources in building a fast-growing business and obtaining support from our customers, business partners, government agencies and financial institutions. After over five years of shipyard construction and operation, our systems, especially the production and management systems, have become more efficient and effective. Our management skills and execution capabilities have similarly reached a significantly higher level. Our improved efficiency resulted in an increase in output and decrease in our drydock turnover days in 2009 and the nine months ended September 30, 2010.

To further improve our efficiency and increase our business scale, we are speeding up the construction of the fourth drydock, which is expected to be operational by the end of 2010 and fully completed in March 2011. Our production capacity will be further increased with the operation of the fourth drydock, better trained and more experienced employees, additional new facilities and upgrades (including one more mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes), more production lines in operation, improved designs and technology, more effective management through standardized production processes and newly installed information management system and effective outsourcing of low value-added construction work to selected third-party shipyards. We believe our drydock turnover days will be further shortened and become comparable to the prevailing international standards.

Due to the special design of our drydocks, we are able to launch two vessels from each drydock at each undocking. At a target of 75 drydock turnover days, we are able to launch up to ten vessels from each drydock in 2011, and the total output of our four drydocks can reach up to approximately 6.2 million DWT assuming all these vessels are our staple 156,000 DWT Suezmax crude oil tanker but up to approximately 7.3 million DWT if the drydocks are more efficiently utilized to launch the vessels they are designed to house. We anticipate to further shorten our drydock turnover days and launch more vessels from each drydock.

As of September 30, 2010, we had orders for 84 vessels, or 15.1 million DWT in total. The orders to be fulfilled in 2010, 2011, 2012, 2013 and 2014 are approximately 3.1 million DWT, 4.2 million DWT, 4.7 million DWT, 2.7 million DWT and 0.5 million DWT, respectively. Based on our estimated production capacity, our Directors thus believe that we have sufficient capacity to complete our contracts and deliver the orders after Listing. We further anticipate securing additional orders as our capacity increases with our improved production efficiency and management skills.

Production Capacity and Utilization Rates

From March to September, we generally operate on two eight-hour shifts per day, six days per week with certain departments, such as the painting department, operating three eight-hour shifts per day, seven days a week. From October to February, we generally operate on two eight-hour shifts per day, five days per week. Historically, we have not experienced any material production interruptions due to labor disputes, power interruptions, fire, explosion or other causes.

The table below summarizes the annual output for the periods indicated. For the purpose of this table, the annual output is measured by the total DWT of vessels delivered during the specified period:

	Year ended December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	Output (DWT in '000)			
Our Shipyard	—	377.5	1,481.1	1,912.8

In the shipbuilding industry, the utilization rate is generally not a meaningful indicator of performance. This is primarily because capacity is calculated based on the maximum annual output, in terms of DWT or CGT, of the shipyard. Our annual output for our shipyard fluctuates depending on the type of vessels we produce and as our product mix changes.

Production Facilities

Currently our Nantong base covers an area of approximately four million square meters and occupies 3,058 meters of Yangtze River shoreline upon which we have three drydocks, two material wharves and five outfitting wharves in operation, and one drydock and three outfitting wharves under construction. Our shipyard facilities are laid out in an "M" shape, which is similar to the design of many modern Korean shipyards to maximize production efficiency and process flow. Strategically located in Nantong, Jiangsu province, one of the main bases for shipbuilding in China, we have access to a large, skilled and cost-effective workforce. The dimensions of our three operating drydocks are 102m x 464m, 102m x 530m and 106m x 530m, and each drydock is equipped with a mobile goliath gantry crane that has a maximum lifting capacity of 900 tonnes. The dimension of our fourth drydock under construction is 139.5m x 580m, and it will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 900 tonnes. Based on the scales of our drydocks and the lifting capacity of our gantry cranes, our production can reach six million DWT in 2011, with the completion of our fourth drydock and at a targeted 75 drydock turnover days. We believe we will have the ability to reach a maximum production capacity of eight million DWT per year in 2012 with further improvement of our production efficiency and decrease in drydock turnover days.

The dimensions of our drydocks allow our shipyard the flexibility to build vessels of numerous sizes and types. To improve our efficiency and productivity, we closely monitor the amount of time spent on construction in our drydocks. Our drydocks comply with all relevant rules and procedures as to the protection of the drydock walls and floor to withstand the weight of the vessels and water they contain. Our drydocks have been fortified to resist earthquakes and other natural disasters and have an estimated 50 year lifetime.

Mobile Goliath Gantry Crane

No. 3 Drydock

In order to achieve optimal utilization and allocation of our drydock capacity to focus on construction of vessels over 100,000 DWT and at the same time expanding our capacity to satisfy the increasing demand of our customers, we may choose to have some of the vessels below 100,000 DWT to be constructed at drydocks leased from other drydock owners, such as Jiangsu Haitong Marine Engineering Equipment Company Limited (江蘇海通海洋工程裝備有限公司) ("**Jiangsu Haitong**"), an Independent Third Party. So far as our Directors are aware after making reasonable enquiry, Jiangsu Haitong is a vessel and offshore platform manufacturing company located at Rugao City, Jiangsu Province. Its shipyard covers approximately 400,000 sqm and occupies 660 meters of Yangtze River shoreline. Currently, its drydock is still under construction, which is expected to be completed by the end of 2010. Its drydock is expected to have a dimension of 300m x 50m upon completion and will be equipped with a gantry crane that has a maximum lifting capacity of 400 tonnes. Rongsheng Shipbuilding entered into an agreement with Jiangsu Haitong in the third quarter of 2010, pursuant to which Rongsheng Shipbuilding shall lease from Jiangsu Haitong (i) a drydock, goliath gantry crane, drydock crane and the drydock facilities (collectively the "**Drydock Properties**") and (ii) a pier and the pier crane (collectively the "**Pier Properties**") for the construction of 76,000 DWT bulk carriers. The term of the lease of the Drydock Properties shall be from January 1, 2011 to December 31, 2011, provided that if Rongsheng Shipbuilding requires, it may start using the Drydock Properties from December 2010 without further charge (the term may extend subject to the parties' further negotiation). The parties have agreed that the number of vessels to be constructed using the Drydock Properties shall be up to seven vessels with a maximum fee of RMB42 million (exclusive of utility charges) to be settled by installments. The term of the lease of the Pier Properties shall be from April 1, 2011 to March 30, 2012 provided that the actual commencement date will be the date on which the first vessel constructed by Rongsheng Shipbuilding parking at the pier (the term may extend subject to the parties' further negotiation). The leasing fees for the pier will be approximately RMB2.9 million per year (exclusive of utility charges) and RMB 500 per hour for the pier crane based on the actual usage, respectively.

This agreement may be terminated by either party upon occurrence of certain events as stipulated thereunder, for example, Rongsheng Shipbuilding may terminate the agreement if Jiangsu Haitong provides its drydock, pier or the relating facilities for use to any third party without Rongsheng Shipbuilding's consent, while Jiangsu Haitong may terminate this agreement if Rongsheng Shipbuilding sub-lease or lend such properties or facilities to any third party.

In case of construction of vessels at leased drydocks, we will generally be responsible for the overall management of the construction process and also the key construction stages, including the design of the vessels and procurement of raw materials. Construction in drydock, mooring test, sea trial and delivery will be conducted by our own workers, while part of the construction process, including preparatory work and steel cutting and pipe fabrication, steel block assembly, block integration, is outsourced to Jiangsu Haitong. We will provide management and labor resources for the construction works at the leased drydock according to our construction schedule.

Outsourced Manufacturing

We generally outsource certain manufacturing activities and some custom-made parts and components to third party manufacturers and subcontractors when we lack the special machines or skills for the activities, or when the capacity of our labor force, shipyard or facilities is maximized.

Prior to engaging the third party manufacturers and subcontractors, we evaluate their production capacity, operating history and experience. We maintain a list of qualified manufacturers and subcontractors and only outsource work to them. In order to ensure the quality of the third party manufacturers' work, we send our quality control staff on site to closely supervise each project and conduct quality reviews upon completion. In addition to the monitoring and supervision conducted by our internal quality control staff, the shipowners also send quality control personnel to manufacturing facilities to inspect the outsourced work. Based on the monthly statement submitted by subcontractors, we normally pay for the outsourced work two months after completion and acceptance of one month's work. We typically retain about 1% of the total fees payable to third party manufacturers and subcontractors as a quality assurance fund. We refund the quality assurance funds within 60 days after the expiration of the guarantee period. For the years ended December

31, 2007, 2008 and 2009 and eight months ended August 31, 2010, our outsourcing costs, which included direct labor costs and processing fees for outsourced construction work and manufacture of specialized parts and components for the vessels we construct, were approximately RMB25.7 million, RMB312.1 million, RMB614.1 million and RMB326.8 million, respectively.

To achieve the optimal utilization of our drydocks for construction of vessels over 100,000 DWT, we may outsource the construction of some vessels below 100,000 DWT to other shipbuilding companies when it is feasible and practical. In 2010, we entered into a five-year strategic cooperation agreement with Yangzhou Longhe Shipbuilding Company Limited ("**Yangzhou Longhe**") for vessel construction and repair. We agreed to first consider Yangzhou Longhe as subcontractor under same conditions if we decide to outsource the construction of certain of our 76,000 DWT bulk carriers. We are yet to enter individual subcontract with Yangzhou Longhe for vessel construction.

We believe properly managed and supervised outsourcing arrangements can reduce our resource constraints, ensure quality work and shorten the manufacturing cycle. We have not experienced any difficulties in procuring the services of third party manufacturers and subcontractors, nor have we experienced any material disputes with them during the Track Record Period. See the section headed "Risk Factors — Risks relating to our business — We face risks relating to the quality and timing of the work performed by our contract workers and outsourcing partners" in this prospectus for a description of the risks associated with our outsourcing activities.

Steel Structures

Steel is the principal raw material used by us for construction of vessels. As part of the ship manufacturing process and the construction of shipbuilding facilities (e.g. the factories and the goliath gantry crane), we need to (i) go through the pre-treatment of steel plates and other steel parts and (ii) cut the steel plates into parts of various shapes and sizes according to the specification. We have in the past produced the steel structures for our three mobile goliath gantry cranes for our drydocks 1, 2 and 3, our factories and also the gates for our drydocks. Therefore, we possess the facilities for, and the ability in, the manufacture of customized steel structures, which can be supplied to customers for infrastructural purposes, such as construction of steel tubular piles or towers, hollow structural sections for buildings, bridges and stadiums.

To leverage our experience in steel structure manufacturing, to utilize the benefits of economy of scales in steel procurement from our established relationship with steel suppliers (details of which are set out in the paragraph headed "Shipbuilding — Raw Materials and Major Suppliers — Steel Procurement" below in this section), and to optimize the utilization of our production capacity for manufacture of steel structures, we plan to manufacture and sell customized steel structures to third parties for applications such as civil constructions, manufacturing facilities and infrastructures such as bridges. In September 2010, we acquired Rongjin Steel Engineering from Rongsheng Investment, a company with business license to engaging in the sale of construction materials and as at the Latest Practicable Date, we were in discussion with potential customers for the sale of steel structures. Leveraging our experience in the shipbuilding business, especially our experience and network in raw material procurement, our Directors consider that our shipbuilding business can compliment and enhance the development of our sale of customized steel structures. The Directors expect that the business of sale of customized steel structures may provide another source of revenue for our Group.

Design and Research

Design

The vessel design process consists primarily of making first a basic design, then a detail design and finally a production design. The basic design provides the basic technical specifications, overall arrangement, equipment particulars, ship dimensions and other general requirements and forms the basis of the shipbuilding contract. After the shipbuilding contract is signed, the detail design is prepared to incorporate the detailed plans and drawings in accordance with the basic design and requirement from the shipowner and the relevant classification society. The production design includes guidelines on building the ship adding upon the details in the detail design and takes into account of our manufacturing capability and resources. Our production designs involve the preparation of construction drawings, workmanship, and the plans and drawings for electric, piping, outfitting and equipment installation. They also involve making decisions on material purchases and equipment testing. We have established technology cooperation relationships with a number of domestic and foreign design institutes and companies, such as SDARI, KOMAC, Shanghai Botian Ship Technology Co., Ltd, Korea Marine Transport Company Ltd and China Ship Scientific Research Center Shanghai Branch.

We have entered a basic agreement for technical cooperation with KOMAC on October 28, 2005 and the agreement remains effective until both parties agree to terminate the agreement. Among other things, we agree to nominate KOMAC as our design supplier and technical service provider for the performance improvement of our shipyard whenever a new shipbuilding contract is materialized under the technical support of KOMAC, while KOMAC agrees to provide us with technical services for our new shipbuilding project. KOMAC's technical service includes ship design, technical services for performance improvement, supply of technical information and other services. Both parties agree that if new shipbuilding projects are identified and require KOMAC's technical assistance for the implementation of the project, subsequent separate contract will be entered into, in which the role of each party, compensation, payment mode, responsibilities and other related matter shall be defined through mutual discussion.

Our total research and development costs, including salaries for our design and research department personnel, were approximately RMB6.1 million, RMB23.3 million, RMB32.7 million and RMB35.6 million, constituting 0.92%, 0.49%, 0.35% and 0.44% of our total revenue in 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively.

Basic Design and Detail Design

Our basic and detail designs are largely contracted to reputable domestic and foreign design institutes and companies, such as SDARI and KOMAC. To ensure the design blueprints and drawings meet the requirements specified by our shipbuilding contracts, our design staff actively participates in the basic and detail design process and work closely with the ship design companies, the classification societies and the shipowners.

The basic design and detail design of our 75,500 DWT ice-strengthened Panamax bulk carriers, 156,000 DWT crude oil tankers and 6,500 TEU containership were primarily carried out by our cooperation with KOMAC. Pursuant to our design contracts with KOMAC, we pay design fees for the design of the first vessel and share the ownership of the designs. We contracted SDARI to provide basic design and detail design for our 176,000 DWT bulk carriers and our 400,000 DWT VLOCs pursuant to our design contracts with SDARI. We pay design fees for the design of the first vessel, and we have the right to build and market the relevant vessel model by paying certain royalty fees as stipulated in the contracts. We have independently completed the basic design, detail design and production design for our 76,000 DWT Panamax bulk carriers based on the 75,500 DWT ice-strengthened Panamax bulk carriers, and own the design thereof. We have also finished the basic design for our 157,000 DWT crude oil tankers and are currently drawing up the detail design based on our 156,000 DWT crude oil tankers.

Production Design

We are one of the few privately-owned shipbuilders in the PRC that have independent production design capability, which enables us to shorten the manufacturing time of our vessels as we are able to prepare plans and drawings for steel cutting, piping, outfitting and equipment installation. This has facilitated our production process by allowing us to accurately schedule and plan our production according to our manufacturing capacities and internal resources. It also frees us from relying on external expertise, which can cause delays and lead to additional costs.

As most of the production costs have been fixed in the design stage, applying modern design means and improving design level is the key to reducing production costs. We have set up a substantial R&D database and we apply concurrent design, virtual construction and other advanced design techniques in the production design process to shorten the design cycle and reduce production costs. We have introduced Tribon M3 software, a program designed to produce a precise 3D model for the entire ship, as the ship design aided tool. The use of Tribon M3 has led to significant cost savings in our products design through the reduction of raw material waste and improvements in design efficiency. It can identify potential construction problems in advance, allowing us to avoid problems and thereby effectively reducing our construction costs.

Our production design is primarily carried out by Rongsheng Research and Design, which had a team of 106 engineers as of September 30, 2010, four of whom enjoy special allowances from the State Council and 82 of whom have undergraduate or graduate degrees. We have had the capability to carry out production design independently since 2006, although we continue to engage outside design institutes in the production design process for certain of our vessels, such as our 156,000 DWT crude oil tankers. We have entered into strategic cooperation agreements with academic institutes in Shanghai and Harbin to further develop our in-house design capability. Our strong design and manufacturing capability is evident from the fact that we are the first PRC shipyard to construct Suezmax crude oil tankers compliant with the CSR and the first to develop ice-strengthened Suezmax vessels in China.

Research

We have three R&D centers located in Shanghai, Nantong and Rugao, respectively. Our research and design institute, Rongsheng Research and Design, has been awarded the provincial design institute status in 2009, and was the only provincial ship research and design institute in Jiangsu Province as of the Latest Practicable Date.

Rongsheng Research and Design was set up on March 4, 2008 to engage in project and management technology research for vessels, offshore engineering products, large-scale steel structures and vessel and machinery support. It consists of three design centers, namely, Product Research and Development Center, Ship Design Center and Offshore Engineering Design Center. We plan to develop Rongsheng Research and Design into an international first-class technology platform with sustainable innovative abilities in shipbuilding and offshore engineering technologies. We have also established a post-doctoral program in March 2009 and an academician workstation in July 2009, aiming to promote technological innovations.

We have maintained cooperative relationships with a few universities such as Shanghai Jiaotong University and Harbin Engineering University. Pursuant to the cooperation agreements, we form joint strategic cooperation teams with these universities and cooperate in the areas of: (i) research and development, including but not limited to design and development of new vessel types and application of new technologies to the shipbuilding process, (ii) training professionals, and (iii) educational and informational exchanges, including but not limited to the holding of seminars and sharing of libraries and databases. We appoint our own members to these teams and share the results of the joint research and development with the respective universities. Some of our senior management members have served as adjunct professors at these universities. We also provide internships and permanent positions to qualified students and graduates.

Quality Control

We impose stringent quality control standards on our construction process and our quality control department monitors the entire vessel construction process from the purchase of raw materials to the delivery of the vessels. We have built a quality control network, and designed and implemented various quality management standards and rules. Product quality has significantly improved through intense self-inspections, cross inspections, and quality checks. In addition, representatives of the relevant classification society carry out inspections at each stage of the construction process to ensure that the vessel meets their requirements. We believe our quality control efforts are critical to ensuring the quality of our products, reducing production costs and shortening the vessel construction cycle. We obtained the quality system certification of Lloyd's Register Quality Assurance in as early as 2008. Rongsheng Heavy Industries' quality management system was acknowledged on June 27, 2008 by Lloyd's Register Quality Assurance following Quality Management System Standards: ISO 9001:2008 for the design, manufacture and service of bulk carriers and crude oil tankers below 400,000 DWT, containerships below 8,500 TEU and DPVs. Our Rongsheng Research and Design was acknowledged on September 1, 2009 by Lloyd's Register Quality Assurance following Quality Management System Standards: ISO 9001:2008 for ship design.

Our quality control department is primarily responsible for overseeing the quality management of our shipbuilding and offshore engineering segments. We also engage special quality inspection teams based on the nature of the task. As of September 30, 2010, our quality control department had over 210 employees. Throughout the manufacturing and construction process, our quality control department conducts daily inspections, rectifies errors, provides feedback, analyzes data and closely monitors the work carried out by contract workers. Our quality control department is also responsible for formulating and implementing the rules and procedures for quality inspection and testing, and the continuous compliance with the quality assurance process in accordance with the requirements of the ISO 9001:2008 standard and technical specifications of vessels. Our major quality control procedures are as follows:

- ***Raw materials:*** To ensure that raw materials such as steel comply with our quality standard, our quality control personnel visit our suppliers constantly to supervise the manufacturing process of our raw materials on-site. Our quality control department performs routine inspections and sample testing on such raw materials upon delivery.

- ***Construction process:*** At each stage of our construction process, our quality control staff members conduct daily on-site inspections of the semi-finished components at our production facilities.

- ***Pre-delivery testing:*** Prior to the delivery of a vessel to our customers, we conduct testing and sea trials to ensure that the vessel meets all of the requirements of the contract and standards of the relevant classification society.

- ***After-sales services:*** Our quality control department is also responsible for providing after-sales services to our customers during the warranty period which, in line with industry practice, generally lasts one year following delivery of the vessels. Such after-sales services include responding to queries raised by customers and sending representatives to the site of the customers for the repair and maintenance of the vessels. After-sales services for each vessel are assigned to a specific member of our quality control department. As of September 30, 2010, we had 12 members in our after-sales services team and the number of staff is expected to increase in order to meet the demand of after-sales services when more vessels are to be delivered by us in the future.

We also closely manage our subcontractors and contract workers to ensure they comply with our quality assurance standards. See paragraphs headed "Outsourced Manufacturing" and "Employees, Contract Workers and Recruitment — Employees and Contract Workers" in this section for further detail.

Every vessel we build is registered with a qualified shipping classification society, which also approves the relevant ship design. Representatives of the relevant classification society carry out inspections at each stage of the construction process to ensure that the vessel meets the requirements set by it. Our cooperation with classification societies helps improve our quality control. For example, DNV has set up a joint welding testing & training center in our shipyard to train, test and qualify the inspectors of our quality assurance control department regularly.

External quality control checks are also conducted by our customers throughout the construction process, which include on-site inspections at various stages of construction. We also regularly send inspection reports to our customers for their review and confirmation. The above external quality control checks helps to ensure that our customers are satisfied with the quality of our products.

Moreover, we have established specialized quality assurance units including the welding lab, metering and physical/chemical center, and non-destructive inspection lab. Most of the personnel in these units used to work at large domestic shipyards and have a wealth of knowledge on quality management. We possess advanced welding techniques and previously won the first prize in a ship welding contest. We are currently promoting automated welding techniques. Some of our employees have passed the National Level 3 capacity certification (the highest level). We have plans to establish a non-destructive detection company with independent capacity in the near future. The physical/chemical and metering center is now capable of verifying metering instruments and carrying out physical/chemical experiments independently. It is now preparing for national lab certification for its testing capacity. Our quality standards and various testing manuals and standards have won the certification of a number of classification societies including DNV and ABS. We have signed strategic cooperation agreements with some renowned classification societies such as DNV, ABS, LR, GL and CCS, which allow us to receive technical training from these classification societies and participate in discussions of a number of relevant topics.

Raw Materials and Major Suppliers

We have a well-established process for selecting our major suppliers. Only candidates who meet our required standards can become our qualified suppliers. Our procurement department personnel evaluate the operational history, service, skills, production capability, quality, certifications and other criteria of potential suppliers and conduct site visits. We had a pool of over 400 qualified suppliers as of September 30, 2010, around 70% of which are based in the PRC, and we had made purchases from approximately 270 of those suppliers as of the same date. Our most significant purchases include steel plates and engines required for the construction of our vessels.

Steel Procurement

The principal raw material used by us is steel, in the form of plates, pipes and beams. Our expenses relating to steel plates amounted to RMB193.4 million, RMB2,057.7 million, RMB2,862.8 million and RMB2,606.1 million, respectively, in the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, accounting for approximately 28%, 43%, 38% and 41% of our total cost of sales in these periods, respectively. We purchase most of the steel products from domestic sources, and purchase from overseas sources when necessary, mainly from Japan and Korea.

In order to ensure a steady supply of steel plates, we have entered into strategic cooperation agreements for the supply of steel with certain suppliers, such as Xiangtan Steel and Nanjing Steel. We entered into a one year strategic cooperation agreement with Xiangtan Steel which came into effect on January 1, 2010. Among other things, Xiangtan Steel agrees to give us priority in its resource allocation, contract entering, manufacture and delivery of steel plates to shorten the delivery time. Xiangtan Steel also agrees to timely update us market information regarding the steel plates we purchase and provide us the latest prices of steel plates and its pricing policy. Xiangtan Steel further agrees to give us the same preferential treatment as it grants to its strategic cooperation partners. We promise to give priority to Xiangtan Steel in our procurement of steel products under the same conditions and recommend Xiangtan Steel's products to our customers. Both parties also agree to enter into individual purchase contracts on the 10th of each month based on the general principles of the strategic cooperation agreement and the purchase price will be determined at the beginning of each month of order placement. On January 26, 2010, we entered into a one-year strategic cooperation agreement with Nanjing Steel. Pursuant to the agreement, we agree to, inter alia, purchase about 180,000-240,000 tonnes of steel plates from Nanjing Steel from March 2010 to March 2011 (15,000-20,000 tonnes per month). We submit our purchase plan to Nanjing Steel for next month's supply and monthly supply contract have to be entered into. We enjoy preferential contract prices which is determined with reference to Nanjing Steel's monthly price at the month we submit our purchase plan. We have to meet the monthly purchase quantity requirement and if we fail to do so, we will have to pay damages. If we fail to meet the quantity requirement in three consecutive months, Nanjing Steel has the right to terminate the strategic cooperation agreement and cancel our preferential treatment.

We typically place purchase orders for steel about 20 days to one month in advance of the delivery time in accordance with our production schedule and the purchase price is normally determined with reference to the prevailing market price at the time the purchase order is placed. We are typically required to make full payments at the time of placing the order.

Engine Procurement

Marine equipment and components such as marine engines, diesel generators and boilers generally constitute the second largest component of our cost of sales for our shipbuilding and offshore engineering segments, accounting for 16.3%, 27.8%, 32.5% and 33.0% for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively. Our expenses relating to engine procurement amount to about 10% of our total cost of sales. We purchase engines directly from suppliers. Historically, substantially all our engines were purchased from overseas engine suppliers, including Hyundai Heavy Industry Co., Ltd. and Doosan Engine. We have entered into a strategic agreement with Doosan Engine to ensure stable and timely supply of marine engines for our production needs. Pursuant to our strategic cooperation agreement with Doosan Engine entered into on May 25, 2006, inter alia, Doosan Engine agrees to provide us with marine diesel engines at competitive prices, while we agree to give priority to Doosan Engine in purchasing our marine diesel engines with bore sizes of 500mm or above. If there are large deviations between our budget price and price offered by Doosan Engine, both parties shall make all possible efforts to reduce the price gap and reach a fair solution. Both parties agree to hold technology exchange meetings and send representatives to visit each other for training purposes, with each party responsible for its own expenses. Upon our written request, Doosan Engine shall provide us with instruction for the manufacture, testing, operation and service of the engine. Both parties agree to enter into individual contracts for each project based on the conception of the agreement. Since we commenced the construction of our Hefei manufacturing base in 2008 and started to assemble low-speed marine diesel engines at our Hefei manufacturing base in August 2009, we expect that an increasing number of the ships we construct will use engines we build. During the Track Record Period, our shipbuilding segment procured 50 engines from external suppliers and 32 engines from Rong An Power Machinery. The unit cost of engines varies, depending on the vessel type. During the Track Record Period, the purchases of engines by Rongsheng Heavy Industries from Rong An Power Machinery were conducted on an arms-length basis after Rongsheng Heavy Industries had undertaken a price comparison for comparable products from one or more independent third party producers. The average approximate unit cost of self-built engines and purchased engines for different types of vessels during the Track Record Period is set forth as follows:

	75,500 DWT Bulk Carriers (US$ '000)	76,000 DWT Bulk Carriers (US$ '000)	176,000 DWT Bulk Carriers (US$ '000)	400,000 DWT VLOCs (US$ '000)	156,000 DWT Crude Oil Tankers (US$ '000)	6,500 TEU Container-ships (US$ '000)
Self-built engines	N/A	4,737.3	5,532.8	8,572.7	N/A	N/A
Purchased engines	3,746.6	N/A	5,748.2	N/A	5,774.2	12,530.0

After we receive a shipbuilding order, we usually enter into negotiations with our engine suppliers one to three years in advance of the expected date of delivery of the engines to ensure that we can fulfill our contractual obligations. We usually make payments in installments by T/T remittance or by way of letters of credit. We typically pay 15-40% of the contract price upon order placement, and we are required to make full payments at the delivery of the engine.

Procurement of Other Materials and Equipment

We typically place orders with our suppliers in advance to ensure the timely delivery of other raw materials in accordance with our production schedule. We typically retain three or more suppliers for one kind of raw material, to ensure timely supply. Price is normally determined with reference to the prevailing market price at the time of order or delivery. Pursuant to the relevant supply contract, payments are generally due within two or three months of delivery or acceptance of other raw materials. For imported equipment, such as propellers, we typically pay off the whole amount before delivery by way of letters of credit or T/T remittance.

Major Suppliers

For each of the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, purchases from our five largest raw materials suppliers in the shipbuilding and offshore engineering segments in aggregate accounted for approximately 56.7%, 50.3%, 44.6% and 48.6%, respectively, of our total amount of purchases. Purchases from the single largest raw materials supplier for the same periods accounted for approximately 24.5%, 18.2%, 12.5% and 15.3%, respectively, of our total amount of purchases. Currently, we are involved in two material litigation disputes with our suppliers. Please refer to the paragraph headed "Legal Proceedings" below in this section for more details. None of the Directors, their respective associates or shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, held any interest in any of our five largest raw materials suppliers during the Track Record Period.

Sales and Marketing

We market and sell our products primarily through shipbrokers and direct sales. For the years ended December 31, 2007, 2008 and 2009 and for the eight months ended August 31, 2010, we secured 0%, approximately 21%, 0% and 0% of our orders (in terms of contract value) through shipbrokers, respectively, and 100%, approximately 79%, 100% and 100% of our orders through direct sales, respectively. We had engaged various shipbrokers, such as H Clarkson and Company Limited and Winmar A/S Norway for sales and marketing. All the shipbrokers engaged were Independent Third Parties and we had not entered into any long-term cooperation agreement with any shipbrokers as of the Latest Practicable Date. Shipbrokers bring us customers from different countries, provide us with insights into the latest industry developments and give us prompt feedback on our vessels. Shipbrokers usually approach us for price quotes and recommend us to potential customers if they believe that we are capable of building quality vessels at reasonable prices. On some occasions, they also help mediate the disputes between us and our customers. Generally, the commission for a shipbroker is about 1-2% of the contract price.

We have formed a strategic cooperation alliance with MSFL, which is a subsidiary of China Minsheng Banking Corporation Ltd., the seventh-largest bank in the PRC, for the sales and marketing of our vessels. In November 2009, we entered into a framework agreement with MSFL for a term of ten years, which set the foundation for our strategic alliance. Among other things, MSFL agreed to assist us in developing markets, including giving priority to us in making its purchases, referring customers to us and helping us to expand in the other sectors we enter into, and designing and marketing financial products pursuant to our needs, while we agreed to refer our customers to MSFL as a major financing option and use MSFL as our preferred company for lease financing. We further agreed to attend meetings with MSFL to exchange business information on regular basis. In November 2009, MSFL ordered eight 76,000 DWT Panamax bulk carriers from us for approximately RMB1.85 billion. In May 2010, we signed another contract with MSFL to construct an additional ten bulk carriers of the same type, with total order amount of approximately RMB 2.5 billion. We expect to expand our cooperation with MSFL into other segments and we believe our strategic alliance with MSFL will help us increase our market share.

We also market our products through direct sales. We focus on retaining existing customers and strive to gain additional orders from them by providing proactive post-delivery services and actively responding to their requests. We believe that our focus on quality, service and integrity leads to closer customer relationships, which further provide us with on-going business opportunities. We are often approached by potential customers directly which we believe demonstrates our reputation for quality. We also contact some potential customers to introduce our products and shipyard. As of September 30, 2010, our sales and marketing department consisted of 25 employees who are located in the PRC.

To further increase our business and market share, we intend to build a sales network consisting of sales offices in the major shipping centers of the world. We expect to hire high-caliber salespersons to promote our products in countries such as the United States and Singapore.

We price our vessels after taking into account the prices of comparable products in the global market, the features requested by customers and the profit margin we anticipate. We strive to maintain our competitiveness by offering quality products at reasonable prices while achieving a profit margin that allows for the sustainable growth of our business.

Customers and Shipbuilding Contracts

Customers

Our products have been sold to customers in 11 countries and regions. Our major customers include leading shipping companies such as Cardiff Marine Inc., Frontline Ltd. and Geden Line, shipping subsidiaries of major commodity suppliers such as Vale S.A. and fast-growing leasing companies such as MSFL. Overseas sales accounted for the majority part of our total revenue during the Track Record Period. In 2009, new orders from our overseas customers accounted for approximately 72.5% of our new orders received in 2009 measured by DWT.

Our new orders from domestic customers started to increase since 2009, as evidenced by the orders for 18 Panamax bulk carriers of 76,000 DWT each from MSFL. With its increasing business in vessel leasing and its focus on building strategic relationships with privately-owned shipyards, MSFL has provided us with opportunities to increase our sales in the PRC market within a short period of time. We expect to increase the sales of our vessels to more domestic customers in the future.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, sales to our five largest customers accounted for approximately 97.8%, 86.3%, 74.1% and 65.3% of our total revenue from our shipbuilding segment, respectively. Sales to our single largest customer for the same period accounted for approximately 82.1%, 29.2%, 21.6% and 23.8% of our total revenue, respectively. None of our Directors or their respective associates or any of our existing shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest customers.

As business from our existing customers often does not recur within a short period of time, our five largest customers may not be the same from period to period. Our sales to the following customers accounted for 5.0% or more of our total revenue for the periods indicated below:

Customers	Types of Vessels Manufactured	Location	Year ended December 31, 2007	Year ended December 31, 2008	Year ended December 31, 2009	Eight months ended August 31, 2010
			Percentage of Total Revenue (%)			
Geden Line	Oil Tankers	Turkey	—	12%	21%	15%
Frontline Ltd.	Oil Tankers	Norway	—	14%	18%	—
Thenamaris Ships Management Ltd.	Oil Tankers	Greece	—	12%	—	—
Cardiff Marine Inc.	Oil Tankers	Greece	7%	29%	15%	—
Novoship (Intrigue Shipping Inc.)[1]	Oil Tankers	Russia	—	11%	11%	—
Fortune Ocean Shipping Limited	Bulk Carriers	China	—	—	9%	—
Golden Ocean Group Ltd.	Bulk Carriers	Norway	82%	19%	—	—
Vale (Vale Shipping Singapore Pte. Ltd)[2]	VLOCs	Brazil (Singapore)	—	—	—	24%
Oman Shipping Company	VLOCs	Oman	—	—	—	6%
Dr. Peters GmbH & Co. KG	Bulk Carriers	Germany	—	—	—	13%
Dyancom Tankers Management Ltd.	Oil Tankers	Greece	—	—	—	6%
Golden Union Shipping Co. S.A.	Bulk Carriers	Greece	—	—	—	7%
Interorient Navigation Company Limited.	Oil Tankers	Cyprus	—	—	7%	6%
Total			**89%**	**97%**	**81%**	**77%**

Notes:

(1) Intrigue Shipping Inc., a subsidiary of Novorossiysk Shipping Company (Novoship), is the entity that entered into shipbuilding contracts with us, but for the purpose of this prospectus, we regard its parent company "Novorossiysk Shipping Company" as our customer.

(2) Vale Shipping Singapore Pte. Ltd, a shipping subsidiary of Vale S.A., is the current buyer of the vessels. The vessels were originally sold to another subsidiary of Vales S.A. For purpose of this prospectus, we consider both Vale S.A. and Vale Shipping Singapore Pte. Ltd as our clients.

Our shipbuilding activities are carried out in China, but we receive revenue from different geographical locations based on the country in which our customers are located. The following sets out our revenue from the shipbuilding segment by country for the respective periods indicated:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue
Turkey	4,882	0.7%	587,355	12.5%	2,494,557	27.1%	785,528	16.9%	1,628,511	21.1%
Norway	552,436	83.5%	1,547,618	32.9%	1,769,824	19.3%	1,323,952	28.6%	175,438	2.3%
Greece	58,850	8.9%	1,965,780	41.9%	1,792,561	19.5%	830,630	17.9%	1,098,459	14.3%
Russia	27,448	4.2%	538,043	11.5%	1,000,052	10.9%	967,805	20.9%	166,642	2.2%
PRC	—	—	8,542	0.2%	987,990	10.8%	263,695	5.7%	477,858	6.2%
Cyprus	18,049	2.7%	9,107	0.2%	709,650	7.7%	461,253	10.0%	483,381	6.3%
Germany	—	—	6,960	0.1%	271,917	3.0%	—	—	1,299,459	16.8%
Singapore	—	—	34,688	0.7%	157,333	1.7%	—	—	—	—
Brazil	—	—	—	—	—	—	—	—	1,914,678	24.8%
Oman	—	—	—	—	—	—	—	—	467,735	6.0%
TOTAL	**661,665**	**100.0%**	**4,698,093**	**100.0%**	**9,183,884**	**100.0%**	**4,632,863**	**100.0%**	**7,712,161**	**100.0%**

Shipbuilding Contract Terms

Our major contracts are obtained through submission of bids to our customers. Substantially all of our contracts are fixed-price contracts under which we retain all cost savings but are liable for all cost overruns. The shipbuilding contracts we enter into with our customers are generally subject to the following terms:

- ***Specifications and certification society:*** We set forth in the contract the agreed specifications of the vessel, such as its principal particulars, voyage speed, deadweight, cargo capacity, engine type, fuel consumption, and the classification society with which the vessel is intended to be certified.

- ***Subcontracting:*** Typically, we are permitted to subcontract a portion of the construction work of the vessel as specified in the contract to subcontractors with the prior consent of the customer.

- ***Payment terms:*** The contract price is typically payable in five or six installments upon the construction process reaching certain agreed milestones, normally one or two installments within a certain period after the signing of the contract, one at the commencement of construction, one at keel laying, one at launch and one at delivery. Prior to the payment of the first installment, our customers are typically required to issue us a payment guarantee securing their obligations for the first installment and/or the remaining payment obligations as specified under the contract, and we are also required to issue a refund guarantee for the first installment payment to our customer.

- ***Delivery term:*** We are required to deliver the vessels on a specified date, but the contracts typically provide a grace period of 30 days to allow us to deliver the vessels without any additional financial consequences. In the event of any delay in delivery beyond the grace period, the contracts usually provide for a reduction of the contract price calculated in accordance with the delayed period of time.

- ***Insurance:*** We are typically required to insure the vessel against risk of loss and delay in delivery due to Acts of God, typically from the time of keel-laying of the vessel to the date the vessel is completed, delivered to and accepted by the customer.

- ***Warranty:*** We typically provide a warranty period of 12 months following the delivery of a vessel, which covers all parts of the vessel and equipment manufactured, furnished or supplied by us, which we believe is in line with industry practice. If a problem with the equipment or installation arises during the warranty period, we either provide spare parts or reimburse our customers the repair costs incurred.

- ***Refund guarantees:*** We are generally required to provide refund guarantees as security for the refund of the pre-delivery installment payments made by our customer should we fail to fulfill our contractual obligations. See the paragraph headed "Refund Guarantees" below in this section for further information.

- ***Effectiveness:*** Our shipbuilding contracts typically become effective upon signing by the parties, right after which (i) the customer shall receive our refund guarantee securing the repayment of the first installment, and (ii) for certain of our contracts, we shall receive an irrevocable and unconditional letter of guarantee issued by the customer or a bank on behalf of the customer guaranteeing the customer's obligation to pay subsequent installments under the terms of the respective contracts.

- ***Adjustment of contract price:*** Our customers typically can adjust the contract price of the vessel based on a pre-determined formula if any one of the following events occurs: (1) the delivery of the vessel is delayed by more than 30 days after the contractual delivery date, (2) the actual speed of the vessel is more than three-tenths (3/10) of one knot below the guaranteed speed, (3) the actual fuel consumption of the vessel is greater than 5.0% over the guaranteed fuel consumption, and (4) the deficiency in the actual deadweight tonnage of the vessel is more than 1,000 metric tonnes below the guaranteed deadweight.

- ***Customer's right to cancel, reject and rescind the contract:*** Our customers have the right to rescind or cancel their contracts if there is an excessive delay in delivery or an excessive deficiency in speed, fuel consumption and deadweight in respect of the delivered vessels. Upon receipt of the cancellation notice from the customer, we are typically required to refund all of the payments that have been made by the customer plus the interest as specified in the contracts.
- ***Our right to cancel or rescind the contract:*** If a customer fails to pay an installment when due, or fails to provide us with a letter of guarantee when required by the terms of the contract, or fails to take delivery of the vessel in accordance with the contract, the customer is required to pay interest on the amount due to us at a rate specified in the contract from the due date to the date of actual payment. If the customer continues to be in default for a specified period of days, we may elect to cancel or rescind the contract, provided that we give timely notice to the customer. When so affected, we have the right to sell the vessel (including the equipment, machinery or parts supplied by the customer) on such terms as we see fit. We are generally entitled to set off from the sale price, our expenses, any unpaid installments and interest on such installments, with the excess, if any, to be remitted to the customer, but in no event will the amount to be remitted to the customer in excess of the total amount of installments already paid by the customer and the customer's supplies, if any. We have not cancelled or rescinded any contracts in the past.

Refund Guarantees

We are generally required to provide refund guarantees as security for the refund of the pre-delivery payments made by our customer should we fail to fulfill our contractual obligations. Our customers expect our vessels to be supported by a refund guarantee letter from an internationally reputable bank. The banks typically require a cash deposit of between 5% and 10% of the contract value of the vessel in an account opened with the relevant bank as securities for our obligations. After keel laying, the work-in-progress vessel is also pledged as collateral in favor of the relevant bank. The refund guarantee granted by our banks generally expires upon the delivery of the vessel. Our refund guarantees are supported by a revolving credit facility, which amounted to RMB10.8 billion as of August 31, 2010. The fee charged by our banks for the issuance of the refund guarantee is 1‰ of the guaranteed amount, payable quarterly.

We cooperate with different banks, such as the Bank of China and the China Eximbank, and have gained their support for our sales model and issuance of refund guarantees. We have entered into a ten-year strategic cooperation agreement with the Bank of China (Nantong branch) which became effective on June 1, 2009. The scope of services under this agreement includes provision of loans, guarantees, trade financing and consulting services. Pursuant to this agreement, the Bank of China (Nantong branch) agreed that priority will be given to us for the provision of various banking services, while we agreed, among other things, to use their services, including the opening of bank accounts with and settlement of our RMB and foreign exchange transactions at its Gangzha sub-branch, and give priority to them when obtaining refund guarantees and for other financing needs. It was also provided that the amount of our RMB and foreign exchange transactions to be settled at the Gangzha sub-branch of Bank of China (Nangtong branch) will affect the amount of banking facilities to be granted to us by them. The annual amount of bank facilities Nantong branch Gangzha office can grant to us is subject to the annual internal review and approval.

We have also entered into a five-year strategic cooperation agreement with the China Eximbank, which came into effect on March 25, 2009. Pursuant to this agreement, inter alia, the China Eximbank agrees to provide us with banking facilities for our export business and offer us various risk management and financing information and consultation services. We will be treated as an important customer and our requests for approvals and funds will be prioritized and facilitated. For example, in relation to our demand for various financing needs regarding the export of vessels, the China Eximbank has agreed to expedite its approval process, decision making provide efficient and swift banking services, prioritize its arrangement of funding under its annual banking facilities plan for those specific services agreed to be provided to us and provide us with the funding on time in accordance with the terms of the relevant individual agreement. The agreement sets a foundation for our cooperation in specific services to be provided by the China Eximbank, and we both need to negotiate and agree on terms before entering into individual contracts setting forth each party's rights and obligations with regard to such specific services.

On August 17, 2010, we also entered into another five-year strategic cooperation agreement with the China Eximbank (Nanjing branch). Among other things, the bank has agreed to (i) provide credit facilities for our foreign investment projects, export of vessels, marine equipment and offshore structures, import of resources, key technologies and equipment, infrastructure development, as well as financings to the purchasers of our vessels; (ii) provide consultation on country risks and foreign exchange risks, advise on risk and financial management, international settlement, letters of guarantees and project evaluation and financing; and (iii) provide financial services, related to letters of credit, foreign currency transactions or derivative transactions. We agree to accept the bank as our major bank, keep the bank informed about our projects and financial needs, choose the bank as the favored provider of loans, open accounts with the bank, use the bank for services related to letters of guarantees and foreign currency settlement, pay our loans in time, not to change the use of the loans and provide the bank with material information in relation to our operation. Pursuant to the agreement, the bank can grant us a facility of up to RMB50 billion during the cooperation period. We will need to negotiate and agree on terms before entering into individual contracts for specific services. The bank will conduct individual evaluations and determine the conditions for each specific service, and the rights and obligations of each party will be set forth in the contract for the specific service. The China Eximbank had lent us RMB900 million loans during the period ended August 31, 2010, of which RMB700 million remained outstanding as of the same date.

We believe that our abovementioned relationships with the Bank of China and the China Eximbank will assist us in obtaining the refund guarantees required for our business, especially when the demand for refund guarantees by other PRC shipbuilding companies increases.

We leverage the credit facilities of trading companies to secure adequate credit facilities for the issuance of the refund guarantees. We had engaged five trading companies for the issuance of refund guarantees to the customers on our behalf during the Track Record Period, and all the trading companies we engaged are Independent Third Parties. Pursuant to the agreements entered into between the trading companies and us, the trading companies act as our agents in our selling of vessels. We are responsible for all the obligations and risks under the shipbuilding contracts and bear the costs in connection with the refund guarantees, while the trading companies facilitate the issuance of the refund guarantees for allowing us to use their bank facilities. Such refund guarantees are secured by guarantees from us to the relevant trading company or its bank. The trading companies are responsible for the management of the foreign exchange account opened by us for the receipt of installments under the shipbuilding contracts. They also arrange for the transfer of the payment to us (after deduction of all requisite fees and payments) according to our instructions. We are responsible for the fees charged by the bank for the issuance of the refund guarantees, which is typically 1‰ of the guaranteed amount, payable quarterly. In general, we pay these trading companies a commission of 1.5% of the contract value of the vessels for these services. The aggregate commissions accrued to the trading companies were approximately RMB353.6 million during the Track Record Period.

We enter into such arrangements with trading companies solely because we are not able to arrange additional banking facilities to match our growing pace in obtaining new shipbuilding contracts. Banks and financial institutions need to review our orders and historical results before increasing the amounts of our banking facilities. We anticipate the frequency of using such arrangement in the future would be lower because we have already arranged new facilities with banks. We believe requesting trading companies to arrange for refund guarantees is in compliance with the industry practice under the circumstances when facilities provided by banks and financial institutions are insufficient to meet our need.

Competition

The shipbuilding industry is highly competitive. Our competitors include PRC domestic shipbuilders, which include large state-owned shipbuilding enterprises, privately-owned shipyards, joint venture shipyards, as well as shipbuilding enterprises from South Korea and Japan. Some of our competitors are more experienced or have greater financial resources, more accumulated know-how and larger economies of scale than us, and they may invest more aggressively in product development and capacity expansion. We compete on the basis of our ability to fulfill our contractual obligations, our yard capacity and capabilities, our relationship with reputable banks, our creditability, shipbuilding technique design, price, after-sale service and quality of the vessels we construct.

Although we believe customers consider various factors including the availability and technical capabilities of equipment and personnel, efficiency and time of delivery, condition of equipment, safety record, after-sales service, reputation and ability to engage banks to provide financing to customers, when selecting a shipbuilder, price is a primary factor in determining which shipbuilder is awarded a contract. We believe we benefit from lower labor costs in comparison to shipbuilders in Japan, South Korea and Europe. There can be no assurance, however, that our labor costs will not rise going forward. In addition, we may face significant price competition from new market entrants with access to low-cost skilled labor which could lead to declining profit margins and reductions in revenue. The timing of delivery is also critical in competitions. We plan to reduce our manufacturing time by improving the turnover and output rates of our core facilities such as drydocks and gantry cranes.

We believe that we will be able to enhance our competitiveness in the long term by focusing on high value-added products and continuing to reduce costs through process innovation. We will further achieve competitiveness through cooperating with banks and having their support for providing financing to our clients. The size of our shipyard, our operating capacity, our building capacity, our after-sales service, the experience of our personnel and our general reliability all play a role in a customer's decision to engage us.

We are rapidly developing a good reputation in the market. While, according to Clarkson Research, we are already considered a leader in the shipbuilding industry, we expect our market position to further improve in the medium term.

We consider the following shipbuilders as our major competitors in this segment: (i) from the PRC, China Shipbuilding Industry Corporation, China State Shipbuilding Corporation, Nantong Cosco KHI Ship Engineering Co., Ltd., New Century Shipbuilding Limited and Jiangsu New Yangzijiang Shipbuilding Co., Ltd, and (ii) from South Korea, Hyundai Heavy Industries Co., Ltd., Samsung Shipbuilding Co., Daewoo Shipbuilding and Marine Engineering Co., Ltd. and STX Shipbuilding Co., Ltd.

OFFSHORE ENGINEERING

Offshore Engineering Products

Our growing offshore engineering segment is a natural extension of our established shipbuilding segment. We are currently among the few privately-owned enterprises in China capable of undertaking offshore engineering projects and to have actually secured an offshore engineering order, being the DPV we are constructing for CNOOC. We are capable of building jack-ups, SEMIs, drillships, FPSOs/FSOs, LNG carriers and offshore engineering vessels (such as DPVs). We have entered into a strategic cooperation agreement with CNOOC in 2010 to further strengthen our existing relationship with CNOOC. Pursuant to the agreement, CNOOC agreed to give priority to us in selection of suppliers for vessels, offshore engineering equipment and marine diesel engines if our offers match those of our competitors. Leveraging on our manufacturing capabilities, we will prioritize any projects from CNOOC and provide competitively-priced products and best efforts in respect of delivery schedule, product quality and functionalities. In particular, we agreed to prioritize the manufacture of offshore engineering products including LNGs and deep-sea drilling platforms for CNOOC and its subsidiaries using our fourth drydock. We will further develop our relationship and share market opportunities with COOEC, an affiliate company of CNOOC, which focuses on offshore engineering, and agreed to transfer or subcontract certain offshore engineering work to COOEC under appropriate circumstances.

3,000 Meter DPV

We are able to build vessels for special purposes such as extracting or storing gas or oil or laying pipes or cables in deepwater. Our first order in the offshore engineering segment was a DPV "Hai Yang Shi You 201" (海洋石油201) for COOEC. According to CNOOC, "Hai Yang Shi You 201" is the first DPV built in China based on detail design and a production design independently carried out by domestic companies, namely a detail design by SDARI and a production design by us with certain portions outsourced to Shanghai Haiming Ship Engineering Technology Consulting Co., Ltd. The basic design of the DPV was made by a Dutch company. The vessel is currently under construction and we plan to complete the construction of the DPV by the end of December 2010. According to CNOOC, this DPV is expected to be the first deepwater pipe-laying vessel in Asia capable of laying pipes at a water depth of 3,000 meters upon completion.

The DPV we are constructing is designed to lay pipes with diameters of between six and 60 inches up to 3,000 meters underwater, self propelled and positioned by means of a dynamic positioning class 3 system. It is to be equipped with a heavy duty crane, which is installed on a tub at centerline, at the aft extremity of the vessel. The lifting capacity of the crane under the tied-back mode is 4,000 tonnes, and is 3,500 tonnes under the full circle swinging mode. Its maximum designed pipe-laying speed of double joint 48-inch pipes is 5km/day. It will be equipped with seven azimuth thrusters. The power of the two main propulsion thrusters installed under the stern is 4,500kW each and that of the five retractable azimuth thrusters below keel level is 3,200kW each.

Our DPV's pipe laying system includes pipe loading, storage, internal pipe transport, double joint preparation facilities, automatic welding equipment, nondestructive testing and repair equipment, line-up tools, tensioners, A&R winch (a system to abandon or recover pipes on the seabed), mastic infill stations and a fixed stinger. The pipe is welded on the main deck. A 90-meter fixed stinger is connected at the stern for launching the pipe into the water at a suitable curvature. The pipe storage can store up to 9,000 tonnes of pipes.

The cabin of the DPV can accommodate 380 persons. There is a helideck on the top deck of the cabin. With an ability to operate in any navigable area world-wide except for the South and North Poles, the vessel's primary operation areas are the East and South China Seas and Southeast Asian waters and the secondary work areas are the Gulf of Mexico, the West Coast of Africa, the India Ocean, the Middle East, the North Sea and the Brazilian Coast.

DPV (Under Construction)

Principal Particulars:	
Overall Length	204.65m
Breadth	39.20m
Depth	14.00m
Operating Depth	3000m
Speed	12.00kn
Design Draught	7m
Scantling Draught	11m
Power gen.	40,000kW
Accommodation	380 Persons

Other Offshore Engineering Products

We have gained the ability to manufacture various offshore engineering products including jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels (such as DPVs) and LNG carriers based on our extensive shipbuilding expertise, our research and development over the recent years, as well as offshore engineering knowledge and experience of our senior employees.

A SEMI or semi-submersible drilling rig is used for oil and gas well drilling, and a production platform at the primary stage of oil well production. We have been placing bids with international customers and expect to secure orders in the future.

We include FPSOs/FSOs in our product offerings. An FPSO, or floating production storage and offloading vessel, is a vessel built primarily for the processing and storage of oil and gas produced from the nearby platforms or subsea production systems. An FSO, or floating storage and offloading vessel, is a vessel used to store oil or gas but without processing capabilities. As a "petroleum production facility at sea", an FPSO processes the mix of oil, gas and water from the oil well into crude oil and natural gas. Petroleum products are first stored in an oil tank of an FPSO or FSO and later offloaded onto a shuttle tanker. We have been placing bids with international customers and expect to secure orders in the future for FPSOs/FSOs.

An LNG carrier is a tank ship designed for transporting liquefied natural gas. LNG carriers are classified by their cargo containment designs. We plan to develop NO96 membrane type LNG carriers which will have a cargo capacity of 175,000m^3. Our Offshore Engineering Center of Rongsheng Research and Design is currently conducting research on LNG carriers.

Our Offshore Engineering Order Book Summary

We are striving to further expand our business in this segment, which typically has a higher profit margin than conventional shipbuilding as well as rapid growth as more countries are turning to offshore exploration to locate crude oil, natural gas and other natural resources. We expect to include in our product offerings jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels (such as DPVs) and LNG carriers in the future.

We had secured an order for one DPV, being the one we are constructing for COOEC, as of the Latest Practicable Date. We plan to complete the construction of DPV by the end of December 2010. We are now bidding for new projects both domestically and internationally. After the commissioning of our fourth drydock in the near future, we believe our extensive expertise combined with our first-class production facilities will help us obtain a larger market share in this segment in the future.

Production Steps and Process

The production process of our offshore engineering projects is similar to our shipbuilding process in many aspects including hull structure and marine system of FPSOs/FSOs. For example, in the hull structure and steel outfitting construction of the DPV currently in our order book, the entire process began with the pre-treatment of steel plates and other steel parts, where the steel plates and other steel parts were cleaned, sand-dusted to remove rust and coated with protective paint. The steel plates were then cut into components and parts. The components and parts were then sub-assembled and welded into blocks. Outfitting components and parts were then installed in each block. After the painting of each block was completed and the blocks were assembled and welded into bigger blocks, the manufacturing process was shifted to the drydock, where we assembled all of the blocks into the hull and installed all of the machinery and outfitted the vessel. We then painted the whole vessel. Thereafter, we launched and carried out a series of tests on the equipment and the vessel in the water. Prior to the delivery of the product to our customer, we will conduct sea trials to ascertain the product's seaworthiness and performance, so as to ensure it conforms to the specifications set forth in the DPV construction agreement. Please refer to the paragraph headed "Shipbuilding — Our Shipbuilding Process and Steps" above in this section for the construction steps and process in detail. However, offshore engineering products have a great diversity of types, and are equipped with a lot of special equipment and systems with a great differences from merchant ships, such as Topsides, SPM and Offloading system for FPSOs/FSOs, Drilling System and DP System for SEMIs. Procedure for special equipment installation and its foundation fabrication shall be formulated. Equipment installation and commissioning shall be conducted by qualified subcontractors. As for DPV, installation and commissioning of the heavy duty crane, retractable thrusters and DP3 system are conducted by qualified subcontractors under our control.

Production Facilities and Capacity

Largely sharing space, facilities, workforce and other resources with the shipbuilding segment, our fourth drydock will be primarily used for offshore engineering projects, although we have started building offshore engineering products using other facilities and other drydocks. The drydock is being constructed with NDRC approval. The drydock is expected to be completed by March 2011. Upon completion, it will be 580 meters long, 139.5 meters wide and 13.3 meters deep and equipped with a mobile gantry crane that has a designed lifting capacity of 900 tonnes. We can load in parallel two 2,000k bbl and upper new building very large FPSOs with breadth less than 60m at the same time in width direction of our fourth drydock. We will be able to construct high value-added offshore engineering products, such as jack-ups, SEMIs, drillships, FPSOs/FSOs, offshore engineering vessels and LNG carriers inside the drydock.

Striving to expand in the offshore engineering segment, we plan to complete the DPV by the end of December 2010, make efficient use of our resources including our drydocks and wharves, reduce energy consumption and emissions, increase training of our personnel to eliminate errors, enhance our design capability and increase the usable portion of our raw materials.

Outsourced Manufacturing

According to prevailing market practice, customized equipment and systems of offshore engineering projects are usually provided by qualified subcontractors. Such customized equipment and systems, for example, include the jack lifting system for jack-ups, drilling systems for SEMIs, topsides for FPSOs and single point mooring systems for FPSOs/FSOs. Subcontractors usually implement the design of the equipment, manufacture the whole set of the equipment and provide guidance for installation and commissioning of the equipment. With regard to our DPV, most of the equipment is furnished by the owner and the installation of the heavy duty crane, retractable thrusters and pipe-laying equipment was completed by professional subcontractors in our shipyard. For the years ended December 31, 2007, 2008 and 2009 and eight months ended August 31, 2010, our outsourcing costs, which included direct labor costs and processing fees for outsourced construction work and manufacture of specialized parts and components for the DPV we are constructing, were nil, nil, RMB12.6 million and RMB38.9 million, respectively.

Prior to engaging the third party manufacturers and subcontractors, we assess their production capacity, operating history and experience. We retain well-known third parties to undertake the outsourced work to ensure quality. In addition, we send our quality control staff on site to closely supervise each project throughout the process and conduct a quality review upon completion of each project. We normally pay for the outsourced work after completion and acceptance of a project or order.

We believe properly managed and supervised outsourcing arrangements can reduce our capacity constraints, ensure work quality and shorten our development and manufacturing cycle. We did not experience any difficulties in procuring the services of third party manufacturers or subcontractors, nor did we experience any material disputes with our subcontractors during the Track Record Period. See the section headed “Risk Factors — Risks relating to our business — We face risks relating to the quality and timing of the work performed by our contract workers and outsourcing partners” in this prospectus for a description of risks associated with our outsourcing activities.

Design and Research

We established our Offshore Engineering Design Center in our Rongsheng Research and Design in April 2009. The main tasks of the center include gathering intelligence about the trends in the market for offshore engineering products, assisting the marketing department in its marketing efforts, participating in our bidding for projects, making preparations for the early stages of our projects, conducting the detail designs and production designs for our projects and gaining the capability to produce conceptual and basic designs through cooperation with the reputable domestic and international design companies. Currently, the Offshore Engineering Design Center’s roles generally include conducting research relating to our offshore engineering projects, providing assistance in bidding for projects and securing orders, conducting production designs and providing on-site technical assistance.

Our Offshore Engineering Design Center is expected to include an administrative section, a general section, a structural section, an outfitting section, a mechanical section, a piping section, a heating ventilation and air conditioning section, an electrical and instrument section and a project management section. Some of the sections are still being set up as of the Latest Practicable Date and we expect to hire more research staff. Staffed with 105 technicians currently, our Offshore Engineering Design Center is capable of producing production designs and providing on-site technical assistance for common offshore engineering products. Our design and research efforts will focus on the mainstream offshore engineering products, such as jack-ups, SEMIs, drillships, FPSOs / FSOs, and offshore engineering vessels (such as DPVs) and LNG carriers.

Our Offshore Engineering Design Center has developed close cooperation relationships with various universities and set up a post-doctoral program in 2009. We expect to improve our designs, develop technical know-how and gain access to engineering talent through such cooperation. We are currently cooperating with Wärtsilä Ship Design Company in an LNG carrier project. We expect to establish an offshore engineering center in Houston, Texas, through the acquisition of a company specialized in offshore products.

Quality Control

We maintain strict quality control over the production of our offshore engineering products. Our subsidiary, Rongsheng Heavy Industries, has obtained the ISO 9001:2008 quality management system certificate from Lloyd's Register Quality Assurance for the design, manufacture and service of offshore engineering products.

Our quality control department is responsible for overseeing the quality management of both the offshore engineering segment and the shipbuilding segment. The quality control process for the offshore engineering segment is similar to that for the shipbuilding segment. Please refer to the paragraph headed "Shipbuilding — Quality Control" above in this section for further details.

Raw Materials and Major Suppliers

The procurement of raw materials for the steel structure of the offshore engineering segment is similar to that for the shipbuilding segment, though high tension and large thick steel plates occupy more proportion. Our major steel suppliers in this segment are also similar to those of the shipbuilding segment. Please refer to the paragraph headed "Shipbuilding — Raw Materials and Major Suppliers" above in this section for further details. At present, the DPV is our first offshore engineering product and most of equipment is furnished by the owner. The equipment procurement process and suppliers for offshore engineering are often different from those for the shipbuilding segment, such as the single point mooring system and offloading system for FPSOs/FSOs, topsides for FPSOs, drilling system for SEMIs. With the development of our offshore engineering segment, we expect to establish a new supply system for our offshore engineering segment.

Customers, Sales and Marketing

Our targeted clients are primarily oil and gas companies, offshore oil field services companies, offshore engineering general contractors and maritime transport companies. We generally try to obtain our sales contract in this segment by participating in the bidding processes held by shipowners. We also use well-known ship brokers at times. The ship brokers are responsible for the exchange of information between the shipbuilders and shipowners. Pricing and delivery are determined through arms-length negotiations between the shipbuilders and the shipowners. Ship brokers typically would charge a commission of around 1% of the contract price for their services.

Our marketing activities include attending international ocean engineering summits or exhibitions, such as the Offshore Technology Conference in the USA and Stavanger maritime exhibition in Norway, and sending our sales teams to visit offshore engineering clients both inside and outside of PRC, inviting shipowners and related parties to visit our shipyard, as well as taking part in the biddings held by shipowners. Currently, we are actively participating in various bidding activities worldwide, in areas such as the Middle East, Europe and Africa.

For the years ended December 31, 2008 and 2009 and for the eight months ended August 31, 2010, sales to our client, COOEC, accounted for approximately 0.6%, 3.1% and 4.0% of our total revenue, respectively. None of our Directors or their respective associates or any of our existing shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in COOEC.

Competition

We face competition from domestic and international offshore engineering products manufacturers. Domestic manufacturers are mainly state-owned shipbuilding enterprises, while foreign manufacturers are mainly from Singapore and South Korea. We consider the following companies to be our major competitors in this segment: (i) from the PRC, Dalian Shipbuilding Industry Co., Ltd., Shanghai Waigaoqiao Shipbuilding Co., Ltd. and Nantong Cosco Ship Engineering Co., Ltd.; (ii) from South Korea, Daewoo Shipbuilding and Marine Engineering Co., Ltd., Samsung Shipbuilding Co. and Hyundai Heavy Industries Co., Ltd.; and (iii) from Singapore, Keppel Corporation Limited and SembCorp Marine Ltd.

We believe that the principal factors affecting competition in the offshore engineering products market are research and development, product quality, pricing, reputation, delivery schedules, responsiveness to design specification of customers and customer service. To further improve our competitiveness, we plan to strengthen our research and development capabilities, expand our production capacity, diversify and upgrade our products, increase quality and cost control measures and further increase our sales force.

MARINE ENGINE BUILDING

Our Marine Engine Products

We conduct our marine engine building business through our subsidiary, Rong An Power Machinery, which was incorporated in August 2007 by Mr. Zhang and which we acquired in the first half of 2010. Pursuant to our licensing agreements with the two major global power solution providers, Wärtsilä and MAN Diesel & Turbo, we are licensed to build and sell in the PRC all types of Wärtsilä's RTA/RT-flex low-speed two stroke marine diesel engines and MAN B&W two stroke marine and stationery diesel engines. We currently build three models of Wärtsilä RT-flex diesel engines, namely, 6RT-flex68D, 7RT-flex82T and 5RT-flex58T-D, and five models of MAN B&W diesel engines, namely 6S70MC, 6S42MC, 6S46MC-C, 5S50MC-C and 5S60ME-C. Our engines are suitable for the propulsion of various bulk carriers up to 400,000 DWT, crude oil tankers up to 300,000 DWT, and containerships up to 10,000 TEU. As of August 31, 2010, we procured all our engine parts from our PRC and international suppliers to build our engines during the construction of our production facilities, including our very first engine, a Wärtsilä 6RT-flex68-D engine, as we had not completed the construction of all our production facilities. With more of our production facilities being commissioned, we expect to gradually commence producing some of the essential parts for our low speed marine diesel engines, such as frames, bedplates, cylinder blocks, connecting rods, crossheads, cylinder liners and cylinder covers. As of September 30, 2010, our products included the following engine models:

a. ***Wärtsilä: 6RT-flex68-D/7RT-flex82T/5RT-flex58T-D***

We have been licensed to build the most advanced Wärtsilä diesel engines with electronically controlled common-rail injection technology. Wärtsilä's RT-flex common-rail engine was the first in the market to incorporate common-rail injection system in a large, heavy-fuel engine. The RT-flex engine uses an electronically-controlled common-rail system instead of the usual mechanical camshaft, gear drive, fuel injection pump units and the related mechanical control gear. The common-rail system allows for fully-integrated electronic control over the whole engine. The combined flexibility of common rail and electronic control gives complete flexibility in the setting of fuel injection timing, rate, pressure and volume, as well as in exhaust valve operation to give benefits in engine operation which cannot be obtained through mechanically-controlled systems. This common-rail system provides improved low-speed operation, engine acceleration, balance between cylinders, load control, and longer times between overhauls. Compared with conventional engines, common-rail engines have greater flexibility in different engine settings allowing for lower fuel consumption, lower minimum running speeds, smokeless operation at all running speeds, and better control of exhaust emissions. RT-flex common-rail engines meet the reduced NOx emissions requirements of the International Maritime Organization ("**IMO**") Tier II standard, which is the most stringent emissions control standard at present.

6RT-flex68-D

Our first engine was a 6-cylinder low-speed Wärtsilä RT-flex68-D engine with a maximum continuous power of 18,780kW at 95 rpm. It is a two-stroke, crosshead type, direct reversible, constant pressure turbocharged and uniflow scavenge air cooled common-rail marine diesel engine. The engine is used to power a 2,700 TEU containership being built at a Brazilian shipyard. Rong An Power Machinery successfully completed the engine within a short period of 16 months from the commencement of construction of the plant to the delivery of the engine.

6RT-flex68-D

Technical Specifications:

Cylinder bore	680.0mm
Number of cylinder	6
Stroke	2,720.0mm
Power (MCR)	18,780.0kW
Speed (MCR)	95.0 rpm
Weight (dry without flywheel and TV damper)	463.0T
Mean piston speed	8.6m/s

7RT-flex82T

Our Wärtsilä 7RT-flex82T engines are 7-cylinder Wärtsilä RT-flex82T low-speed engines with a maximum continuous power of 31,640kW at 80 rpm. They are low-speed two-stroke engines of the crosshead type with uniflow scavenging. As of September 30, 2010, we had received 12 orders for 7RT-flex82T engines. These engines will be used for the propulsion of 12 400,000 DWT VLOCs which are being built at our shipyard for a Brazilian customer. These engines are expected to be the first ones ever built in the PRC. The first and second of these engines were delivered in June 2010 and August 2010, respectively, with the remaining engines to be delivered before the second half of 2012.

7RT-flex82T

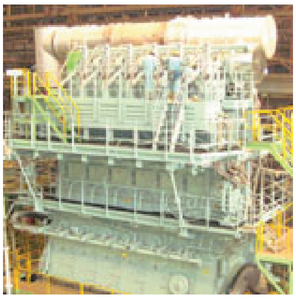
Technical Specifications:

Cylinder bore	820.0mm
Number of cylinder	7
Stroke	3,375.0mm
Power (MCR)	31,640.0kW
Speed (MCR)	80.0 rpm
Weight (dry without flywheel and TV damper)	880.0T
Mean piston speed	8.6m/s

5RT-flex58T-D

Our Wärtsilä 5RT-flex58T-D engines are 5-cylinder Wärtsilä RT-flex58T low-speed engines with a maximum continuous power of 11,300kW at 105 rpm. These Wärtsilä engines are two-stroke, direct reversible, crosshead type diesel engines with constant pressure turbo-charging. As of September 30, 2010, we had 18 orders for 5RT-flex58T-D engines in our order book. These engines will be used for the propulsion of 18 76,000 DWT Panamax bulk carriers, which are being built at our shipyard for MSFL. The first of these engines is due for delivery in November 2010, with the remaining engines to be delivered before October 2012.

5RT-flex58T-D:



Technical Specifications:

Cylinder bore	580.0mm
Number of cylinder	5
Stroke	2,416.0mm
Power (MCR)	11,300.0kW
Speed (MCR)	105.0 rpm
Weight (dry without flywheel and TV damper)	281.0T
Mean piston speed	8.5m/s

b. ***MAN B&W: 6S70MC/6S42MC/6S46MC-C/5S50MC-C/5S60ME-C***

We have been licensed to build MAN B&W two-stroke MC/MC-C and ME/ME-C engines. MAN B&W MC/MC-C engines feature a chain-driven camshaft, camshaft-controlled fuel injection timing and exhaust valve opening as well as conventional fuel oil pumps. The MAN B&W ME/ME-C engines are electronically controlled, and their fuel injection and exhaust gas valve activation are fully programmable. The MAN B&W engines we are licensed to build will be built to comply with the NOx emissions requirements of the International Maritime Organization ("**IMO**") Tier II standard.

6S70MC

Our MAN B&W 6S70MC engines are 6-cylinder low-speed diesel engines with a maximum continuous power of 16,860kW at 91 rpm. They are low-speed, two-stroke, direct reversible, crosshead type diesel engines with constant pressure turbo-charging. As of September 30, 2010, we had two orders for 6S70MC engines in our order book. These engines will be used for the propulsion of two Capesize 176,000 DWT bulk carriers being built at our shipyard for a German customer. The delivery dates of the two engines are yet to be set.

6S70MC

Technical Specifications:

Cylinder bore	700.0mm
Number of cylinder	6
Stroke	2,674.0mm
Power (MCR)	16,860.0kW
Speed (MCR)	91.0 rpm
Weight (dry without flywheel and TV damper)	562.0T
Mean piston speed	8.1m/s

6S42MC

Our MAN B&W 6S42MC engines are 6-cylinder diesel engines with a maximum continuous power of 6,480kW at 136 rpm. They are low-speed, two-stroke, simple-action, direct reversible and crosshead type diesel engines that include scavenge air coolers and isobaric exhaust turbo-chargers. As of September 30, 2010, we had two orders for 6S42MC engines in our order book. These engines will be used for the propulsion of one 36,500 DWT and one 47,000 DWT bulk carriers for two domestic customers. We are expected to deliver the two engines in December 2010.

6S42MC

Technical Specifications:	
Cylinder bore	420.0mm
Number of cylinder	6
Stroke	1,764.0mm
Power (MCR)	6,480.0kW
Speed (MCR)	136.0 rpm
Weight (dry without flywheel and TV damper)	141.0T
Mean piston speed	8.0m/s

6S46MC-C

Our MAN B&W 6S46MC-C engine is a 6-cylinder diesel engine with a maximum continuous power of 8,280kW at 129 rpm. It is a low-speed, two-stroke, simple-action, direct reversible and crosshead type diesel engine that includes scavenge air coolers and constant pressure turbo-chargers. As of September 30, 2010, we had one order for an 6S46MC-C engine in our order book. The engine will be used for the propulsion of a 47,000 DWT bulk carrier for a domestic customer. This engine is due for delivery in January 2011.

6S46MC-C

Technical Specifications:	
Cylinder bore	460.0mm
Number of cylinder	6
Stroke	1,932.0mm
Power (MCR)	8,280.0kW
Speed (MCR)	129.0 rpm
Weight (dry without flywheel and TV damper)	171.0T
Mean piston speed	8.5m/s

5S50MC-C

Our MAN B&W 5S50MC-C engines are 5-cylinder MAN B&W engines with a maximum continuous power of 8,300kW at 127 rpm. They are low-speed, two stroke, direct reversible, crosshead type diesel engines with constant pressure turbo-charging. We had repaired two 5S50MC-C engines built by a Russian builder for a shipyard in Nantong. The two engines were delivered in August 2010.

5S50MC-C

Technical Specifications:

Cylinder bore	500.0mm
Number of cylinder	5
Stroke	2,000.0mm
Power (MCR)	8,300.0kW
Speed (MCR)	127.0rpm
Weight (dry without flywheel and TV damper)	181.0T
Mean piston speed	8.5m/s

5S60ME-C

Our MAN B&W 5S60ME-C engines are 5-cylinder diesel engines with a maximum continuous power of 11,900kW at 105.0rpm. They are low-speed, two-stroke, simple-action, direct reversible and crosshead type marine diesel engines. As of September 30, 2010, we had seven orders for 5S60ME-C engines in our order book. The seven engines will be used for the propulsion of seven 82,000 DWT bulk carriers built by a shipbuilding company in Wuhu, Anhui Province. These engines are contracted to be delivered before July 2012.

5S60ME-C

Technical Specifications:

Cylinder bore	600.0mm
Number of cylinder	5
Stroke	2,400.0mm
Power (MCR)	11,900.0kW
Speed (MCR)	105.0rpm
Weight (dry without flywheel and TV damper)	321.07T
Mean piston speed	8.4m/s

Our Marine Engine Order book Summary

Supported with the strong order book of our shipbuilding segment, as of September 30, 2010, our marine engine order book included 40 new engines, namely, 10 Wärtsilä 7RT-flex82T, 18 Wärtsilä 5RT-flex58T-D, two MAN B&W 6S70MC, two MAN B&W 6S42MC, one MAN B&W 6S46MC-C and seven MAN B&W 5S60ME-C engines. Among the 40 orders, 30 were from our shipbuilding segment. Together, the engines in our order book amounted to 849,760 horsepower and had a total contract value of approximately RMB1,511.1 million as of the same date.

We believe that strong internal demand from our shipbuilding segment and the increasing external demand for marine engines in the PRC, particularly in the private sector of the shipbuilding industry, will provide good opportunities for the continuous growth of our marine engine building segment in the coming years. We expect that more and more ships built at our shipyard and other privately-owned shipyards in the Yangtze River Delta will use main engines built by Rong An Power Machinery.

Our Marine Engine Production Steps and Process

We believe that some of our imported equipment represents the most advanced technology in the world. The building steps and process of a marine engine are set forth below:

Step 1 ***Obtaining the engine ID and applying for drawings:*** After the contract for a marine diesel engine is signed, we file an application for the engine identity with Wärtsilä or MAN Diesel & Turbo, depending on the engine type specified in the contract. In the meantime, we file the application for the drawings and manuals required for the building and testing of the engine.

Step 2 ***Preparing, translating and examining drawings and other technical documents***: After we receive the engine drawings and other technical documents from Wärtsilä or MAN Diesel & Turbo, we prepare Chinese versions of the drawings, manuals and other technical documents for our employees. The translated documents are examined for accuracy.

Step 3 ***Purchasing parts:*** We then place orders for engine parts with our suppliers factoring in the timing requirements for the building of the engine. Currently, we purchase substantially all of the essential engine parts we require from overseas manufacturers.

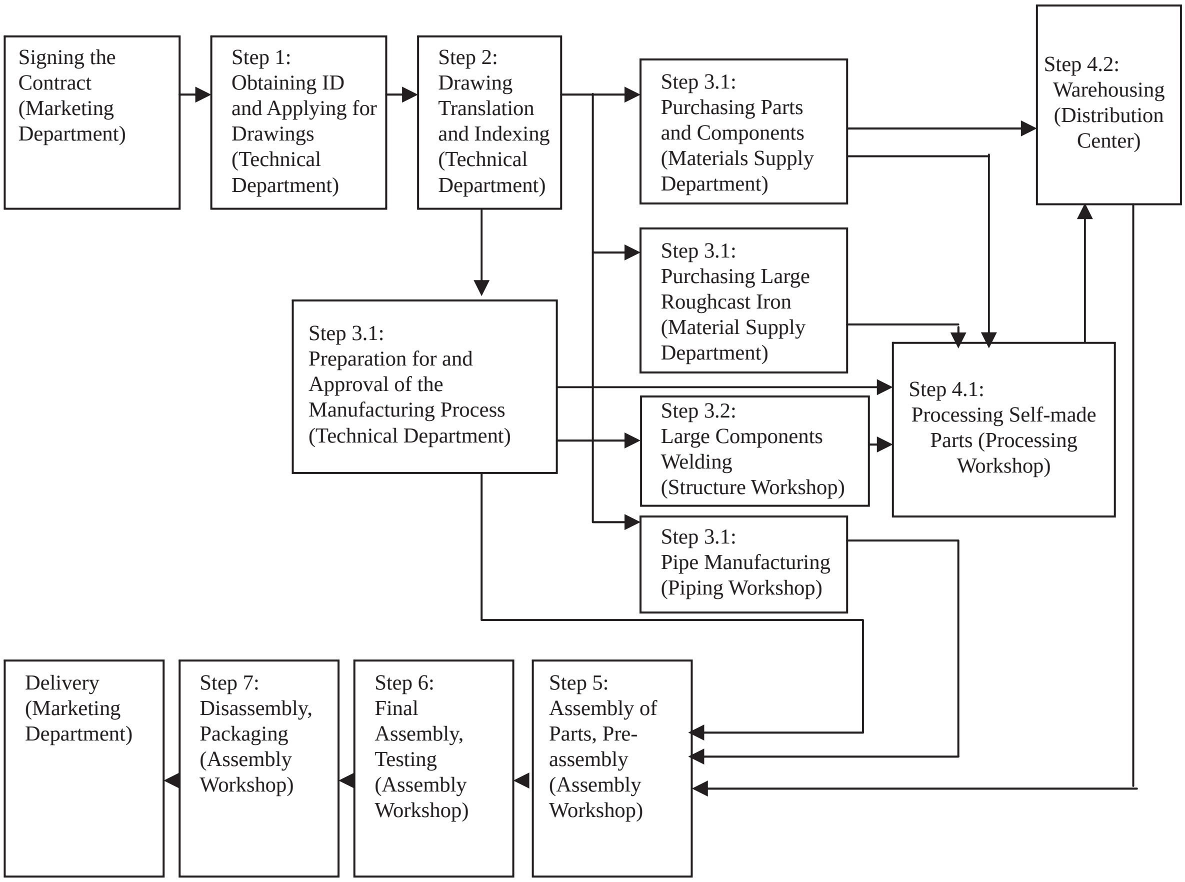
Step 4 ***Manufacturing parts***: We will manufacture more engine parts after more of our production facilities become operational. Our workshops for the manufacture of engine parts were under construction during the Track Record Period and therefore we purchased all our parts from our suppliers during that time. After completion of the construction of our workshops and when our equipment is ready, we will manufacture at our plant such essential engine parts as frames, bedplates, cylinder blocks, connecting rods, crossheads, cylinder liners and cylinder covers.

Step 5 ***Receiving parts and commencing assembly***: We typically purchase engine parts that require special skills, knowledge or equipment to manufacture or that are readily available from local markets at reasonable prices. We place orders for parts taking into account the estimated delivery time and how long the parts require for assembly. We start to assemble engine sections after we receive the parts needed for the sections.

Step 6 ***Conducting final assembly***: After the assembly of engine sections is completed, we proceed to the final assembly of all sections.

Step 7 ***Operation testing, delivery and inspection:*** After the final assembly, engines are tested on one of our testbeds. The final test of an engine is often witnessed by representatives of the classification society and customers. After the engine passes the test and is approved for delivery, it is then thoroughly cleaned and packaged. Generally, our engines are delivered in one shipment, with large engines disassembled into two or more sections for easier shipping and reassembled at the destination.

The following diagram illustrates the main steps of a typical engine building process and the relevant department involved:



We estimate the building time of different types of engines generally ranges from 11 to 14 months. As our production facilities are still under construction, we currently focus on the final assembly of engines and rely on our local network of suppliers for the supply of parts used in assembling our engines. The assembly of our first Wärtsilä 6RT-flex68D engine took us approximately three months from the commencement of assembly of the engine on the testbed to the delivery.

Production Facilities and Capacity

When completed, our low-speed marine diesel engine building base will cover an area of approximately 571,000 sqm. Our production plant will be comprised of a structure workshop, large and medium component machining workshops, a piping workshop, a distribution center, an assembly workshop and a testing and maintenance workshop. Currently, as our plant is still under construction, our assembly capacity is three million horsepower per annum. We expect our low-speed marine diesel engine building base will have a production capacity of five million horsepower per annum once completed.

Our low-speed marine diesel engine building base is 1,300 meters in length and 600 meters in width, and will consist primarily of the large and medium component machining workshops, the pre-assembly workshop and the final assembly workshop, which are situated from east to west in linear shape. The west end of the plant is connected to the Pai River through the plant's dock basin, which facilitates the delivery of raw materials and components to us and the delivery of marine diesel engines and thereby reduces the cost of transportation. The Anhui provincial government has earmarked RMB1.2 billion to build a waterway network to connect the Pai River, Chao Lake, Yuxi River and Yangtze River. Through the new waterway network, motor barges of 1,000 tonnes will be able to reach our dock basin. Rong An Power Machinery has entered into a long-term co-operation agreement with a shipping company to transport the diesel engines it builds to shipyards along the Yangtze River as well as to customers worldwide through the Port of Shanghai.

The pre-assembly workshop is 240 meters in length and 136 meters in width. The final assembly workshop is 312 meters in length and 117 meters in width. It is connected to a dock basin that is 90 meters in length, 26 meters in width and 11 meters in depth. The final assembly workshop has been equipped with lifting equipment, suspension cranes and test auxiliary machine systems for the assembly and testing of marine diesel engines.

The large-components machining workshop is 324 meters in length, 136 meters in width and will be equipped with 200-tonne lifting equipment and large CNC machining equipment for the production of large engine parts, such as bedplates, frames and cylinder blocks.

The medium-components machining workshop is 348 meters in length, 81 meters in width and will be equipped with 20-tonne hoisting equipment and NC machine tools for the production of connecting rods, crossheads, cylinder covers and cylinder liners.

The structure workshop is 300 meters in length, 162 meters in width and will be equipped with 200-tonne hoisting equipment and large NC steel cutting machines for the welding of bedplates and frames.

We have ordered advanced machinery and tools from well-known manufacturers, such as Waldrich Coburg GmbH. We have placed orders for eight gantry type NC boring and milling machines including two 7m×28m CNC Portal-type Milling Machine Powertec, with which we will be able to manufacture essential engine parts such as frames, bedplates, cylinder blocks, connecting rods, crossheads, cylinder liners and cylinder covers. We believe these machines will help increase our competitiveness through the improved quality of our products and shortened production time. We expect to complete the installation of our first such machine in October 2010. We expect the remaining machines to be gradually delivered, installed and become operational between 2012 and 2013.

The following table sets forth the selected data relating to the planned production facilities of Rong An Power Machinery, which we have purchased or for which we have placed orders with suppliers.

Production Facilities	Equipment	Number of Units	Status
Structure Workshop	• 200t Hydraulic Flatbed	1	Arrived
	• NC Plasma Cutting Mac	1	
	• NC Flame Cutting Machine	1	
	• 1000t Frame Hydraulic Press	1	To arrive in November 2010
Medium-components Machining Workshop	• ø 1250mm NC Cylindrical Grinder	1	Arrived
	• ø 130mm Floor Boring Machine	1	Arrived
	• ø 2500mm Vertical Turning and Milling Center	1	To arrive in February 2011
	• Gantry Type NC Machining Center HF-5M-APC	2	To arrive in April 2011
	• Gantry Type NC Machining Center HF-5M	1	
Large-components Machining Workshop	• CNC Floor Type Boring and Milling Machine	4	To arrive before August 2011
	• Gantry Type NC Boring and Milling Machine HF-12m 6mx17mx8m	2	One installed, one to arrive in June 2012

Production Facilities	Equipment	Number of Units	Status
	• Gantry Type NC Boring and Milling Machine TMS-40V	2	Installed
	• Gantry Type NC Boring and Milling Machine HF-10m 5mx16mx6.25m	2	To arrive before April 2012
	• NC Portal-type Milling Machine Powertec 8000AG	2	To arrive before July 2012
	• NC Portal-type Milling Machine Powertec 7000AG	2	To arrive before March 2013
Final-assembly Workshop	• Water Dynamometer Model: CFSR-32.0	1	Arrived
	• Water Dynamometer Model: CFSR-26.0	1	
	• 700t Hydraulic flatbed	1	To arrive in November 2010
	• Water Dynamometer Model: CFSR-24.0	2	One arrived, one to arrive in April 2011

Outsourced Manufacturing

We outsource the production of some engine parts to Independent Third Parties to ensure timely delivery of finished products and to control our production costs. Our outsourced work typically includes installation of the pipe system and pedestal, manufacturing and installation of closure tubes and exhaust pipes, polishing, painting, storage, shipping and transportation of parts and components. We typically choose to outsource the production of parts that either require special skill, knowledge or equipment or that are labor intensive or ones with low profit margins. Outsourcing work that requires special skill, knowledge or equipment can help reduce our production costs, shorten production time and ensure the quality of our finished products. Outsourcing production of the parts that are labor intensive or ones with low profit margins can help lower our costs and allow us to direct our resources to more productive uses. For the eight months ended August 31, 2010, our outsourcing costs were RMB 2.7 million, which included direct labor costs and processing fees for outsourced construction work and manufacture of specialized parts and components for the engines we build.

We apply the same standards for selecting outsourcing partners as for selecting our suppliers. We adopt the ISO9001: 2008 standards for monitoring the production process and examining the quality of outsourced parts.

Design and Research

We place strong emphasis on research and development and focus on enhancing our production efficiency. As of September 30, 2010, we had around 55 research and development personnel in our technical department, of which 32 held undergraduate degrees and 13 held graduate degrees. In addition, we had six experts who enjoy special allowances from the State Council.

We have formed cooperation relationships with Shanghai Jiaotong University and Wuhan University of Technology. We have engaged Hefei University of Technology for developing the UG 3-D model (三維模型建模). The UG 3-D model digitalizes the engine production process, helping identify design problems quickly. It also shortens the time required for us to utilize the advanced technology we receive from our strategic partners, such as Wärtsilä, in our production process. We currently have around ten employees who are conducting the UG 3-D model development and analysis.

Moreover, we are cooperating with a steel company to research the manufacturing of casted cylinder caps instead of forged cylinder caps. We are trying to develop casted steel that can satisfy the requirements for the building of marine diesel engines.

Quality Control

We maintain strict quality control over the building and production of our engines and parts. In order to ensure that we meet the quality standards of Wärtsilä and MAN, we have developed a production quality management system. It includes automatic and manual quality inspection and spot checks at various points during the production process, commencing with raw materials and outsourced parts and components. We select and control the sources of the raw material and parts and components we do not produce ourselves. We also maintain a list of preferred suppliers for our raw materials and outsourced parts. Rong An Power Machinery's quality management system was acknowledged on December 15, 2009 by Lloyd's Register Quality Assurance complying with Quality Management System Standards: ISO 9001:2008 for the design and building of low speed diesel engines.

Raw Materials and Major Suppliers

We purchase raw materials and components and parts in accordance with our production plan. The principal raw materials and equipment we use include cast and forged iron, crankshafts, bed plates, engine racks and cylinder blocks.

We procure our raw materials and equipment from a list of qualified suppliers. We have a well-established process for selecting external suppliers. As of September 30, 2010, we had about 53 qualified suppliers.

For major engine parts, we typically make a first installment payment of approximately 15-30% of the contract price after entering into the contract. 70%-85% of the purchase price is paid after the raw materials pass our inspections or upon delivery. Sometimes, we keep 5% of the purchase price as a reserve for quality guarantee and it is not paid to the supplier until one year after the supply contract went into effect.

For the eight months ended August 31, 2010, purchases from our five largest raw materials suppliers in this segment in aggregate accounted for approximately 78.8% of our total purchases. Purchases from our single largest raw materials supplier for the same period accounted for approximately 64.3% of the total purchases. None of the Directors, their respective associates or shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, held any interest in any of our five largest raw materials suppliers during the Track Record Period.

Customers, Sales and Marketing

Most of the engines we are currently building will be provided to our shipyard and installed in the vessels we build. Sales to other shipyards represented approximately 4.7% of our sales in this segment for the eight months ended August 31, 2010. With the enhancement of our production capacity, we expect to supply more engines not only to our shipyard but also to more external purchasers. Our targeted customers are shipyards that build vessels of 20,000 DWT or above and use low-speed diesel engines with bore sizes of 350mm or above, mainly medium and large-sized shipyards in Anhui, Jiangsu, Zhejiang, Shandong and Fujian Provinces.

For the eight months ended August 31, 2010, sales to our external largest five customers in this segment accounted for approximately 4.7% of our total revenue. None of our Directors or their respective associates or any of our existing shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our five external largest customers.

Our engines are built to order. Generally, the shipowner chooses the main engine to be used in a vessel with the shipyard and design institutes help the shipowner make the decision. Currently, we get the demand information through three methods: information from shipyards collected by our sales representatives, information provided by the shipowners and information provided by Wärtsilä and MAN Diesel & Turbo. Our sales team has 11 members. With the expected expansion of our marine engine building business in the future, we anticipate that we will need to expand our sales team quickly. We market our engines by holding product introduction meetings and participating in trade shows and exhibitions. We plan to promote our products through commercials and by continuing to invite shipowners, design institutes and staff from shipyards to visit our manufacturing base so that we can introduce our products and facilities to potential customers.

Currently, we determine and adjust our product selling prices on a transaction by transaction basis. In determining prices, we take into account the production costs, pricing of comparable products in the market, prevailing market conditions for our products and the positioning of our products in the relevant market. We strive to maintain our competitiveness by offering quality products at reasonable prices while achieving a profit margin for the sustainable growth of our business.

Generally, we require customers to pay the entire contract price upon our delivery of the engines to them. The sales contract becomes effective when we receive the first payment from the customer, which is usually 30%-40% of the contract price. Another 40-50% is due when we start to build the engine and the remaining 20% is due when the engine is ready to be delivered and it is certified by the ship classification society selected by the shipowner.

As part of our after-sales services, we provide standard warranties to our customers. The warranty is free of charge for 18 months starting from the delivery of the engine or 12 months starting from the delivery of the vessel, whichever is shorter, which we believe is in line with current industry practice. After the warranty is expired, customers are responsible for paying for all parts and labor for the repairing of the engine. We also have an after-sales service team to provide our customers on site service on such occasions as the installation of the engine to the vessel at the shipyard, testing of the engine at the port, and the sea trials of the vessel.

Competition

The rapid growth of the PRC shipbuilding industry has created strong demand for low-speed marine diesel engines and auxiliary systems. PRC shipbuilding capacity is expected to reach 50 million DWT per year and demand for marine diesel engines is expected to reach 12 million horsepower per year by 2011.

Due to an insufficient supply of domestically made marine diesel engines, more than 50% of the demand in the PRC has to be met with imported engines from countries such as Korea and Japan. In 2009, engines from Korea accounted for approximately 85% of those imported into the PRC in terms of horsepower. Among the major Korean builders are Doosan Heavy Industry and Construction Co., Ltd., Hyundai Heavy Industries Co., Ltd. and STX Engine Co., Ltd., which together claimed 75% of the imported engine in terms of horsepower in 2009. Most of the low-speed marine diesel engines sold in the world are licensed by Wärtsilä and MAN Diesel & Turbo.

We face competition from domestic and international marine engine builders. Domestic manufacturers consist mainly of state-owned shipbuilding enterprises, while the foreign manufacturers are mainly from South Korea. We consider the following companies to be our major competitors in this segment based on the engine types we build and the production facilities we are constructing: (i) from the PRC, Hudong Heavy Machinery Co., Ltd., CSSC-MES Diesel Co., Ltd., Dalian Marine Diesel Co., Ltd. and Yichang Marine Diesel Co., Ltd; and (ii) from South Korea, Hyundai Heavy Industries Co., Ltd., Doosan Heavy Industries and Construction Co., Ltd and STX Engine Co., Ltd.

The principal factors affecting competition in the PRC marine engine market are pricing, distribution channels and capabilities, product quality, research and development, delivery schedules, responsiveness to design specifications of customers and customer service. To further improve our competitiveness, in addition to expanding our production facilities and capacities, we plan to offer presale services to our potential customers by providing free training and technical services to shipyards regardless of whether a sale results. We also plan to strengthen our research and development capabilities, diversify and upgrade our product lines, increase quality and cost control and further integrate our sales network with our service network.

ENGINEERING MACHINERY

Our Engineering Machinery Products

We operate our engineering machinery segment through our subsidiary, Rong An Heavy Industries, which was incorporated on March 11, 2010. We acquired a majority interest in Zhenyu Machinery, a manufacturer of excavators and crawler cranes in Hefei, Anhui Province, in the first half of 2010, and entered the engineering machinery manufacturing market. For the year ended December 31, 2009, Zhenyu Machinery manufactured a total of approximately 400 excavators. Through Zhenyu Machinery, we offer 16 varieties of hydraulic excavators and two varieties of hydraulic crawler cranes.

Excavators

We offer three types of excavators, namely wheeled, crawler and amphibious excavators, of various sizes ranging from 1.6-tonne mini-excavators to 33-tonne crawler excavators. Excavators are self-propelled heavy construction machines for digging or moving large objects. An excavator consists of a boom, bucket and cab on a rotating platform (the "**house**") and an undercarriage. The house sits atop the undercarriage that has wheels or tracks for the provision of mobility. The house is able to rotate a full 360 degrees to allow for the moving of materials without actually moving the machine. Hydraulic pumps provide oil at a high pressure to the slew motor and several accessories and drive all of the movements and functions of the excavator. Our smallest mini-excavator weighs 1.6 tonnes and has a bucket volume of $0.06m^3$. Our largest crawler excavator weighs 33 tonnes and has a bucket volume of $1.4m^3$. Our excavators generally use high quality imported engines and hydraulic components from Japan. They have been used in municipal projects, mining, construction and agriculture.

Eight of our excavator models have been recognized as "High-Tech Products" by the Anhui Science & Technology Department and five models have been issued the "Anhui Province Scientific and Technological Research Production Certificate". Our ZYL160 wheeled hydraulic excavator was awarded the "First Class of Science and Technology Prize of Hefei City" in June 2008. Our hydraulic excavators development project was awarded the "Third Class of Science and Technology Progress Prize of Anhui Province" by the Anhui Province government in November 2009.

Some of the technical specifications of our excavators are as follows:

Type	Model	Flywheel Horsepower (kW)	Operating Weight (kg)	Bucket Capacity (m^3)
Mini-excavators	ZY16-7	12.2kW/2800rpm	1,800	0.06
	ZY16	16.5kW/2200rpm	1,680	0.06
	ZY28	20.3kW/2200rpm	2,900	0.08
	ZY35	20.3kW/2200rpm	4,040	0.12
	ZY55	37.9kW/2200rpm	5,580	0.2
	ZY65	37.9kW/2200rpm	6,310	0.25
Crawler excavators	ZY80	56.5kW/2000rpm	7,960	0.4
	ZY150	86.5kW/2200rpm	13,600	0.6
	ZY210	114kW/2050rpm	20,500	0.8
	ZY260	129kW/2150rpm	24,800	1.0
	ZY330	192kW/2150rpm	31,200	1.4
Wheeled excavators	ZYL80	63.9kW/2200rpm	8,000	0.4
	ZYL160	86.5kW/2200rpm	15,075	0.6
	ZYL210	114kW/2050rpm	21,050	0.8
Amphibious excavators	ZY80SD	56.6kW/2200rpm	15,000	0.2
	ZY150SD	86.5kW/2200rpm	21,000	0.4
	ZY210SD	114kW/2050rpm	26,000	0.8

ZY65

ZY210

ZYL160

ZY210SD

The PRC excavator market is currently dominated by foreign or joint-venture brands such as Doosan, Komatsu, Hitachi, Hyundai, Caterpillar and Kobelco. We plan to focus on both the high-end market and low-end market for excavators. We plan to develop advanced, high quality excavators for the high end market to make higher profits through quality, while for the low end market, we plan to focus on low price, low cost products to make profit by large scale production.

Hydraulic Crawler Cranes

Our current engineering machinery product offering includes QUY20A and QUY50A hydraulic crawler cranes. According to the Science and Technology Information Research Institute of Anhui Province, Zhenyu Machinery was the first in the PRC to install the telescopic boom in the undercarriage of a hydraulic crawler crane. The basic telescopic boom of each model consists of five retractable sections and is supported with removable secondary booms. Each model is further equipped with a system of horizontally retractable racks, which extend to the ground to provide additional support when the machine performs a lift but are retracted in other conditions. Our crawler cranes can move around and perform each lift with little setup and are capable of travelling with a load. Our QUY50A crawler crane was recognized as "National Key New Product" by the Ministry of Science and Technology of the PRC in May 2010.

The maximum lifting capacity of our QUY20A crane is 20 tonnes, and its maximum hoisting height is 31.6 meters. The maximum lifting capacity of our QUY50A crane is 50 tonnes, and its maximum hoisting height is 55 meters. The platforms of both models can rotate 360 degrees, and both can carry a lifted object while travelling. Our cranes are equipped with high-quality engines and hydraulic components from Europe, Japan and Korea. Both models are characterized with flexibility under different working conditions, a balanced distribution of power, reliable braking systems and a high degree of reliability.

Some of the technical specifications of QUY20A and QUY50A Hydraulic Crawler Cranes are as follows:

Type	**Model**	**Engine (kW)**	**Maximum Lifting Capacity (kg)**	**Basic Boom Length (m)**	**Maximum Hoisting Height of Basic Boom (m)**
Hydraulic Crawler Cranes	QUY20A	114kW/2050rpm	20,000	8.5	31.6
	QUY50A	114kW/2050rpm	50,000	10.7	40.5

QUY20A

QUY50A

Four major crane manufacturers, namely Sany, Zoomlion, XCMG (徐工集團) and Liaoning Fuwa Heavy Industry Machinery Co., Ltd, dominate the PRC market for crawler cranes, while we currently focus on the hydraulic crawler cranes, which is a sub-segment of the crawler cranes market. We also plan to manufacture 25-70 tonnes truck cranes, which are currently the mainstream products in the market.

Our Engineering Machinery Production Steps and Process

The production process of an excavator or crawler crane generally includes the following main steps:

Step 1 ***Treatment of steel plates:*** Steel plates are cut into required shapes and sizes using plasma and flame cutting machines, rectified to reduce any distortion and then beveled for welding. The treated plates are then put in storage or transited to the structural workshop for use in the next step of production.

Step 2 ***Manufacture of the upper structure ("house"):*** The middle platforms, rotating platforms, left and right platforms are welded, assembled, rectified and then processed with our machines. After testing, they are sent to the painting area.

Step 3 ***Manufacture of the lower structure ("undercarriage"):*** The crawler tracks, boom and middle racks are welded, assembled, rectified and treated with our machines. After testing, they are sent to the painting area.

Step 4 ***Manufacture of the working devices:*** The boom, dipper or arm and bucket are welded and tested. After testing, they are sent to the painting area.

Step 5 ***Painting:*** The parts are sand-dusted, cleaned and painted in the painting area. After the paint is dry, the parts are removed from the painting area.

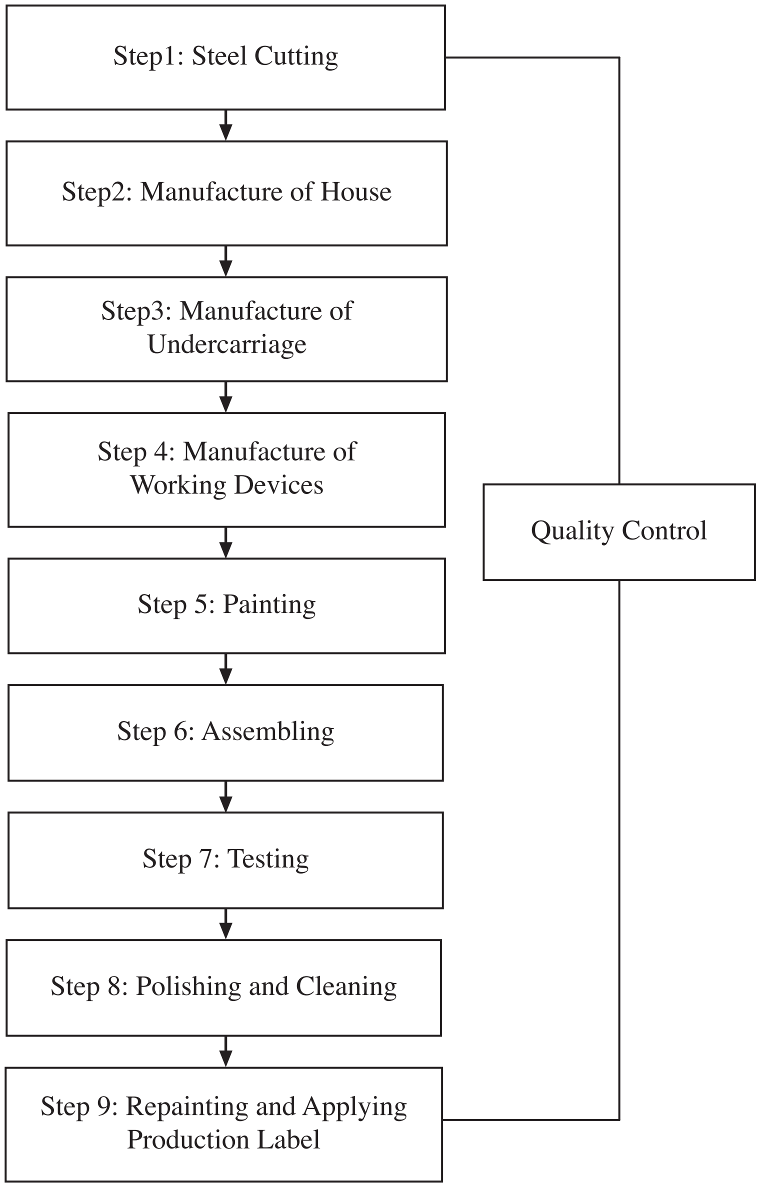
Step 6 ***General Assembly:*** For excavators with a weight of between 23 tonnes and 36 tonnes, the undercarriage, house, boom and arm are assembled in their respective assembly lines after painting. For excavators with weight of 15 tonnes or less, the tracks, main valves, main pumps and engines, boom, arm and undercarriage are assembled in their respective assembly lines after painting.

Step 7 ***Testing:*** after general assembly, machines have to pass functional testing to verify that their mechanical and dimensional properties and strength meet quality standards and specifications.

Step 8 ***Polishing and cleaning:*** once testing has been completed, machines are then polished, cleaned and dried. Uneven places are treated with filler and sanded. The machines are then polished and cleaned again.

Step 9 ***Repainting and applying production label:*** The machines are then repainted. After the paint is dry, the production labels are applied.

The following diagram illustrates the typical main steps of the building process of our excavators and crawler cranes:



Production Facilities and Capacity

Our current engineering machinery production area (which we acquired with Zhenyu Machinery) covers approximately 53,300 sqm. We are planning on setting up a new, large-scale manufacturing base to be constructed in three phases. Our new manufacturing base is expected to cover approximately 2.7 million sqm. Phase I is expected to cover approximately 566,700 sqm with a designed production capacity of 30,000 excavators per year. We expect to start the construction of Phase I excavator project in 2010 and partial production in 2011. After the completion of the remaining two phases, our new product offerings are expected to include a wide variety of earth-moving, mining, road construction and concrete machineries.

Outsourced Manufacturing

Zhenyu Machinery outsources the production of some parts to Independent Third Parties. The outsourced work typically includes the driver cabs, pipes, counterweights and the tanks of the machines. Zhenyu Machinery typically chooses to outsource the production of the parts that require special skills, knowledge or equipment, or those which are labor intensive, or have low profit margins. Outsourcing the work that requires special skill, knowledge or equipment helps to reduce the production costs and to ensure the product quality and the timely delivery of products. For the eight months ended August 31, 2010, our outsourcing costs were RMB43,000, which included direct labor costs and processing fees for outsourced construction work and manufacture of specialized parts and components for the engineering machinery we manufacture.

As for outsourced parts, all suppliers have to meet the qualification standards set by the Zhenyu Machinery. Suppliers are normally required to submit samples of the relevant outsourced parts for testing. Zhenyu Machinery also undertakes sampling inspections upon the delivery of outsourced parts.

Design and Research

Zhenyu Machinery has its own R&D center and its research and development efforts focus on developing new products and enhancing the functionalities of the various parts and components of an excavator. As of September 30, 2010, it had developed three types of hydraulic excavators in 16 varieties and one type of crane in two varieties, including:

- Crawler hydraulic excavator models: ZY16, ZY28, ZY35, ZY55, ZY65, ZY80, ZY150, ZY210, ZY260 and ZY330;
- Wheeled hydraulic excavator models: ZYL80, ZYL160 and ZYL210;
- Amphibious hydraulic excavator models: ZY80SD, ZY150SD and ZY210SD; and
- Hydraulic crawler crane models: QUY20A and QUY50A.

Zhenyu Machinery's R&D center has been recognized as an accredited hydraulic excavators research and development institute by the Hefei city government. As a result of its research and development efforts, Zhenyu Machinery has received various awards and recognitions for its products from the provincial government and the Hefei city government. As of September 30, 2010, Zhenyu Machinery owned 39 registered patents issued by the State Intellectual Property Office of the PRC in relation to engineering machinery products, and had filed 15 applications for patent registration. In addition, its R&D personnel have also received various rewards from the provincial government and the Heifei city government for their outstanding research achievements.

As of September 30, 2010, the R&D team consisted of 62 people. Some of Zhenyu Machinery's R&D engineers possess more than 20 years of experience in developing engineering machinery and related products. We intend to recruit talented engineers to meet the needs of our expansion. We also emphasize the personal development of our R&D personnel, and provide them a better career development environment.

As we acquired Zhenyu Machinery fairly recently we had not made any significant expenditures in R&D as of August 31, 2010.

Quality Control

Currently, we use the quality control measures adopted by Zhenyu Machinery. As of September 30, 2010, Zhenyu Machinery had 26 personnel in its quality control department. Zhenyu Machinery has adopted a comprehensive and stringent quality control system. It administers preventive and corrective measures to ensure final product quality, by conducting a wide range of quality control tests at different stages of the production process.

The quality control system is divided into three stages:

(a) ***Raw materials quality control***

All incoming raw materials used in the production processes are subject to inspection at the point of receipt, before being warehoused. Zhenyu Machinery conducts sample inspections and tests on raw materials and parts and components upon arrival to ensure that they are in compliance with the quality standards. Zhenyu Machinery selects and controls the sources of raw materials and conducts regular reviews of the quality of the materials provided by the suppliers. Raw materials that fail to meet quality standards are returned to suppliers for corrective measures or replacement.

(b) ***Production quality control***

The quality control personnel continuously monitor the production processes to ensure consistency in the quality of the products. Work-in-progress products are checked by the quality control personnel before being passed on to subsequent stage of production. The quality control personnel at the subsequent stage of production re-examine the work-in-progress products received to ensure that there are no defects before the products are further processed.

(c) ***Product quality assurance***

At the end of the production process, each machine is subject to comprehensive functional testing, including but not limited to safety testing, to verify that it is in compliance with quality standards and specifications before delivery to a customer.

Zhenyu Machinery employs the ISO 9001 quality system to ensure its products meet high quality standards. In 2004, Zhenyu Machinery obtained the ISO 9001:2000 certification for its quality management system, and in 2009 it obtained the ISO 9001:2008 certification.

Raw Materials and Major Suppliers

The principal raw materials used to produce our engineering machinery include steel and certain key parts and components, such as engines, pumps, valves and rotary motors, which are purchased from third-party suppliers. We attempt to limit supplier risk by purchasing raw materials, parts and components from more than one supplier. We are able to do so for a majority of the principal raw materials. Like other excavator manufacturers in China, we generally use engines and hydraulic components imported from Japan for our excavators. It generally takes three to six months for us to get these raw materials, components and parts after ordering for them. We are trying to form strategic long-term supply relationships with suppliers for engines and hydraulic components to ensure timely and sufficient supply.

To ensure the quality of the raw materials, we generally select key suppliers with qualification certificates issued by the relevant government authorities or industry associations for our engineering machinery. The selection criteria include the candidates' product quality, pricing, services, technical qualifications, manufacturing facilities and production capacity.

For the eight months ended August 31, 2010, our purchases from the five largest raw materials suppliers in this segment in aggregate accounted for approximately 34.5% of our total purchases. Purchases from our single largest raw materials supplier in this segment for the same period accounted for approximately 7.9% of our total purchases. None of the Directors, their respective associates or shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, held any interest in any of the five largest raw materials suppliers during the Track Record Period.

We generally pay the suppliers of our principal raw materials 20-40% of the contract value upon the placement of the order and pay the remainder according to the purchase agreement, generally paying off the total amount within three months of our receipt of deliveries.

Customers, Sales and Marketing

Zhenyu Machinery's customers include third-party dealers and end-users. Zhenyu Machinery sells most of its products directly to purchasers in Anhui Province. A limited amount of machines are exported to other countries and regions, which are generally made to order machines that are sold through export agents and dealers. End-users of the products include infrastructure developers, construction companies and mining companies.

For the eight months ended August 31, 2010, sales to our largest five customers in this segment amounted to approximately RMB63.9 million, accounting for approximately 52.7% of our total revenue from this segment for the same period. None of our Directors or their respective associates or any of our existing shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest customers.

Zhenyu Machinery maintains an extensive sales network in Anhui Province. As of September 30, 2010, it had a sales team of 34 members. The team members are spread all over the province and sell machines to the customers directly. They coordinate sales and after-sales services, collect information on industry developments, conduct market surveys and analysis and serve as communication channels between the customers and Zhenyu Machinery. We plan to expand the sales network to various provinces in China and plan to form exclusive or general dealership with third-party dealers for the sale of engineering machinery in China.

Zhenyu Machinery promotes and markets its products through the sales network throughout Anhui Province. In addition, to introduce its products to a broader group of customers and to further expand its customer base, it also participates in trade shows and exhibitions, including major engineering machinery related exhibitions and other related exhibitions in major cities in China.

Zhenyu Machinery determines and adjusts its product selling prices from time to time on the basis of market supply and demand. In determining prices, it takes into account the production costs, pricing of comparable products in the market, prevailing market conditions for its products and the positioning of its products in the relevant market.

The sales of products are settled in three principal methods: (a) by cash; (b) by bank mortgages of end-users; or (c) by installments. Purchase by bank mortgages is the most common settlement method, where the purchaser generally makes a down payment of 20-30% and submits applications for a mortgage to a bank; upon the approval of the mortgage, the bank pays us the rest of the purchase price. The purchaser then repays the loan to the bank by installments. The title of the machine rests with the bank until the purchaser fully repays the loan. We arrange for banks to provide mortgage services to the purchasers of our products, which we believe, is in accordance with market practice. Domestic banks require us to provide guarantees in respect of these mortgage loans, and we generally provide guarantees until the purchasers fully pay off the loan. In the event of default on the part of the purchaser, the bank will require us to purchase back the machine. For the eight months ended August 31, 2010, our outstanding guarantees over mortgage loans amounted to approximately RMB24.1 million.

As part of its after-sales services, Zhenyu Machinery provides standard warranties to its customers. In line with the current industry practice, the warranty is free of charge and covers the first 1,500 or 2,000 hours of the operation or the 12 months after delivery, whichever is shorter. Following the expiration of the warranty, customers are responsible to pay for all parts and labor costs related to repairing the machines. It also utilizes a service hotline in China to respond to customer inquiries and complaints.

We place great emphasis on after-sales services and plan to use various methods to provide timely and quality after-sales services to our customers. For example, we plan to extend our warranty period, and open a 24-hour toll-free telephone service hotline. We also plan to set up a sales agent IT network to manage our sales agents, gather customer information, track product defect occurrences and patterns and collect market information to further improve our products.

Competition

We expect the market demand for engineering machinery to increase substantially as the PRC government implements its policy to revitalize the central and western regions of the country and increases in government spending on the country's urbanization and infrastructure construction. However, the PRC engineering machinery industry is highly-concentrated and competitive. In 2009, approximately 43% of engineering machinery was produced by the five largest manufacturers. We face increasing competition from major PRC and non-PRC engineering machinery manufacturers who may have more advanced technology and higher production efficiency. We also believe that competition will intensify due to new entrants into the engineering machinery sector. For further information on the PRC engineering machinery industry, see the section headed "Industry Overview" in this prospectus.

Competition for key components and parts, such as engine and hydraulic components, which have to be imported from certain manufacturers in Europe, the U.S., Japan and Korea is intensive in the PRC engineering machinery market. Zhenyu Machinery procured these key components from third-party dealers in the past. We are actively negotiating with those manufacturers in trying to form strategic, long-term supply relationships with them. Other principal factors affecting competition in the PRC engineering machinery market are pricing, distribution channels and capabilities, product quality, research and development, delivery schedules, responsiveness to design specifications of customers and customer service. To further improve our competitiveness, we plan to expand our production facilities and capacities and to strengthen our research and development capabilities, diversify and upgrade our product lines, increase quality and cost controls and further integrate our sales network with our service network.

EMPLOYEES, CONTRACT WORKERS AND RECRUITMENT

We enjoy significant cost advantages compared to our competitors operating in overseas markets in terms of management and labor costs, as well as in terms of the cost of some of our raw materials, by operating in the PRC. In addition to these cost advantages, we actively manage all aspects of our cost structure through specific cost management initiatives. For example, we have been able to achieve flexibility in managing the total size of our labor force by retaining a core group of permanent specialists and production employees who are complemented with contract labor, depending on production needs. By having properly managed and supervised subcontracting arrangements, we are able to maintain a flexible manufacturing structure and reduce our fixed manufacturing costs.

We enter into individual employment contracts with our employees to cover matters such as position, terms of employment, wages, employee benefits. We determine staff remuneration based on work contribution, position and market practice. We also consider factors like years of working experience and credentials. We review and decide salary and compensation terms annually in accordance with applicable PRC laws and regulations. We believe that our relationships with our employees are good and we have not experienced any significant disputes with our employees.

In accordance with applicable PRC laws and regulations, as well as compulsory requirements of the local authorities, we contribute to various social insurance plans such as pension contribution plans, medical insurance plans, unemployment insurance plans, maternity insurance plans, work injury insurance plans and housing provident funds for employees. We also provide our employees reimbursement for their meals and phone bills. Depending on different work types and workloads, we provide our employees different kinds of allowance such as high-temperature allowance, health allowance and credential allowance. Our PRC legal advisor, Commerce & Finance Law Offices, based on the confirmations issued by the relevant labor and social security authorities and due inquiry conducted, has advised us that (i) we have complied with all applicable PRC laws and regulations relating to social welfare, paid all social insurance premiums and contributions payable by us pursuant to the laws and regulations of the PRC in accordance with the time frame stipulated by the PRC laws and regulations; (ii) we have not been subject to any punishment for non-compliance; and (iii) we have complied with applicable labor laws and regulations in the PRC. As of the Latest Practicable Date, we had not encountered any material difficulties in recruiting employees or any material labor disputes with a material adverse effect on our operations.

Employees and Contract Workers

Shipbuilding and Offshore Engineering

As of September 30, 2010, we had in aggregate 4,601 full-time employees and 16,115 contract workers in shipbuilding and offshore engineering segments. The following table shows a breakdown of those full-time employees and contract workers by function as of December 31, 2007, 2008, and 2009 and September 30, 2010:

Function	As of December 31, 2007		As of December 31, 2008		As of December 31, 2009		As of September 30, 2010	
	Number of employees	Number of contract workers	Number of employees	Number of contract workers	Number of employees	Number of contract workers	Number of employees	Number of contract workers
Management	605	0	887	240	1,071	873	1,107	1,604
Production	1,757	1,852	3,465	7,021	2,044	9,351	1,818	12,108
Technical	144	0	407	25	586	90	613	142
Supporting	132	130	357	180	1,103	1,190	1,038	2,261
Sales	12	0	14	0	21	0	25	0
Total	2,650	1,982	5,130	7,466	4,825	11,504	4,601	16,115

As part of our measures to reduce operating costs and maintain a level of flexibility in the management of our labor requirements, we utilize contract workers provided by labor agencies on a regular basis for these two business segments. The jobs undertaken by contract workers include those that require special skills or ancillary jobs. We sourced our contract workers from a diverse pool of seven qualified labor agencies as of September 30, 2010.

We do not enter into separate contracts with our contract workers but instead we enter into contracts with the labor agencies for the engagement of contract workers. We generally enter a two-year renewable service contract with the labor agencies. These contracts typically set forth that when we need contract workers for certain manufacturing activity, we shall inform the labor agency certain days prior to the commencement of the work regarding the nature of the task, number of the contract workers, required qualifications and working hours. These contracts typically require the labor agencies to provide workers with the requisite skills and experience for the job. The labor agencies are also required to enter into the employment contracts with the workers, to pay salaries to the workers and to obtain social insurance for the workers. We pay to the labor agencies the salaries, social insurance fees and housing funds for the contract workers as well as management fees monthly, and are obligated to provide necessary working conditions, tools and facilities. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that if the labor agencies fail to pay remuneration to the contract workers, we may be held jointly responsible for the contract workers' losses, though we are entitled to ask the relevant labor agency to compensate all of our losses pursuant to the contract. In case of any occupational injury happened to a contract worker, we have the obligation to inform the labor agency timely and assist the labor agency to collect evidences and deal with the accident. The relevant labor agency is responsible for handling the accidents leading to occupational injuries, diseases or deaths of the contract worker, while the labor agency and we bear the relevant fees and compositions pursuant to the relevant PRC laws and regulations. In order to make sure that our contract workers receive their salaries on time, we supervise the salary distribution process of the labor agencies. We also require the labor agencies to purchase social and commercial insurance for the contract workers we use.

The contract workers receive regular trainings. They are examined and tested on their familiarity with protocols and safety requirements before they are allowed to commence manufacturing activities in our shipyard. Our contract workers are trained to use complex equipment, and they are not permitted to operate complex equipment or conduct certain activities, such as welding, until they have completed the relevant training and got relevant certificates. In addition, the contract workers must comply with our operating rules and quality assurance requirements and undertake appropriate safety measures. To ensure their work quality and compliance with our quality assurance requirements, we closely monitor and review their work.

We consider the services of our contract workers to be critical to our operations. We have not experienced any material dispute with our contract workers or the labor agencies we use during the period from 2007 to the Latest Practicable Date. Although our contract workers have generally satisfied our requirements on product quality, production safety and environmental protection, we may not always be able to ensure compliance by the contract workers with these standards, which may increase our production costs and damage our relationship with our customers.

Marine Engine Building

As of September 30, 2010, we had a total of 579 full-time employees in our marine engine building segment. The following table shows a breakdown of those full-time employees by their functions as of September 30, 2010:

Function of the employees	Number of employees
Management	106
Production	321
Technical	96
Sales	12
Others	44
Total	579

Engineering Machinery

We entered the engineering machinery business in the first quarter of 2010. As of September 30, 2010, we had 525 full-time employees in this segment. The following table shows a breakdown of those full-time employees by their functions as of September 30, 2010:

Function of the employees	Number of employees
Management	167
Production	189
Technical	62
Supporting	62
Sales	34
Others	11
Total	525

In order to fully equip ourselves with the requisite talent and skills to capture market opportunities, we plan to increase the number of our employees with the expansion of our business in this segment.

Staff Training and Recruitment

We recognize that our employees are one of our most important resources. We have therefore adopted strict training procedures for our employees and provided them with the training necessary to acquire required skills. For example, our welding employees and special technicians are required to undergo training and obtain the relevant certificates from the respective classification societies or the relevant government agencies. In addition, all new employees are required to attend an orientation program to familiarize themselves with our working environment, safety requirements and regulations, our products and services and various areas of responsibility.

For employees who have performed well, we provide advanced training and continuing education opportunities to help them improve their skills. We have regular seminars and workshops for our technicians that introduce the most up-to-dated materials, designs and technologies.

We have arrangements with several universities or colleges which recommend excellent students to join us after graduation. We also recruit graduate students and experienced managers or technicians through on-campus interviews, job fairs and internet advertising. For our marine engine building segment, we have training arrangements with Wärtsilä and MAN Diesel & Turbo as part of our licensing agreements. As part of our technician training program, we also select qualified high school and college graduates and send them to professional training centers to receive training ranging from six months to two years.

MANAGEMENT INFORMATION SYSTEM

We have implemented a comprehensive information system that covers our design, production and basic corporate functions (human resources and accounting) and built a RS-ECP information integration and sharing platform in our shipbuilding segment. We have adopted AVEVA.NET to manage data and the vessel design process and have employed the MARS system to monitor our production process. Such system has enabled our management to more accurately assess our inventory, production capacity, procurement requirements and the performance of each of our operating subsidiaries in the segment, which in turn assists them in allocating resources throughout the segment, improving operational efficiency and enhancing our supply and distribution management. We have also implemented an Oracle resource planning system to monitor our human resources (including human recourses and payroll management) and accounting records (including general ledgers and records of receivables, payables and assets). The oracle system has provided us with a centralized personnel information sharing platform and financial information management platform. We have realized information sharing and uniform planning based on our RS-ECP system, an independently developed internal information integration and sharing platform. We have also started to adopt an electronic approval process for the better control and transparency of the approval process. We plan to employ a uniform information management system in our other business segments.

PROPERTIES

Owned Properties

Land

As of September 30, 2010, we owned 14 parcels of land with a total site area of approximately 4,616,661 sqm for industrial use. We have obtained all of the land use right certificates for the land.

Buildings

As of September 30, 2010, we owned 92 buildings with a total gross floor area of approximately 798,645 sqm for use as production facilities, warehouses, offices and ancillary facilities. We have obtained the building ownership certificates for 91 buildings and not obtained proper title certificate for the remaining one building. The building is used for office with a gross floor area of approximately 580 sqm. We are not able to obtain the building ownership certificate for the building because it was constructed without the relevant construction planning permits. The building is not related to the major operating businesses of our Group and such defective title will not have any material adverse effect on our Group. As a result, we have not adopted any contingency plans for the building. We estimate that in case we are required to lease the building, the relocation time will be less than a year and the cost will be up to RMB800,000. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that as we have not obtained the relevant construction planning permits, (i) we may be ordered to correct this violation within a certain time limit and be imposed a fine of 5% to 10% of the construction cost, if the relevant government authority concludes that it is possible for us to take measures to eliminate the impact on the implementation of urban and rural planning and (ii) in case the government authority concludes that it is impossible for us to take measures to eliminate the impact, we may be ordered to dismantle the buildings within a certain time limit, or face the confiscation of the entire structure or the gain from the buildings if dismantlement is infeasible, and we may also be assessed a fine of not more than 10% of the construction cost. The book value of the building is approximately RMB661,143. We believe our construction cost of the building is the same as the book value. As a result, we estimate the potential maximum fine to be approximately RMB66,114. However, the relevant government authority may not agree with our estimation and the actual fine could be less or more than this amount.

Docks and wharves

As of September 30, 2010, we owned five wharves with a total length of approximately 1,392 meters along the Yangtze River and three docks with lengths ranging from 464 meters to 530 meters, widths ranging from 102 meters to 106 meters and a depth of 11.3 meters.

Leased Properties

As of September 30, 2010, we leased 11 properties with a total gross area of approximately 104,434 sqm in the PRC and Hong Kong for office, residential, car parking and production purposes. According to our PRC legal advisor, Commerce & Finance Law Offices, all of our leases in the PRC are valid, binding and in compliance with applicable laws and regulations of the PRC.

Properties under Construction

As of September 30, 2010, we had a dock, a wharf and 23 buildings under construction for use as production facilities and offices. Upon completion, the buildings will have a total gross floor area of approximately 326,482 sqm.

Coastline Use Rights

The coastline laws and regulations of the PRC require businesses utilizing the coastline to obtain coastline use rights evidenced by an Occupation of Riverway for Construction Projects Certificate. We have secured the use of an aggregate of 3,058 meters of Yangtze River shoreline which provides us the site for our dry docks, wharves and other key operational facilities. We have obtained four certificates for this stretch of Yangtze River shoreline, among which one is valid from September 6, 2007 to September 6, 2012, one is valid from July 11, 2008 to July 11, 2013 and the other two are valid from August 6, 2010 to August 6, 2015. We will apply for renewal with the relevant authorities when these certificates expire. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that there will be no substantial legal impediment for us to renew our coastline certificates.

Please refer to the property valuation report set out in Appendix IV to this prospectus for details of our properties.

INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we owned 43 patents and had filed applications for additional 16 patents with the State Intellectual Property Office of the PRC.

We entered into a ten-year licensing agreement with Wärtsilä in August 2007. We also entered into a ten-year licensing agreement with MAN Diesel & Turbo in September 2008. Under the licensing agreement with Wärtsilä, we obtained the non-exclusive license to manufacture and sell in the PRC all types of Wärtsilä RTA/RT-flex low-speed two stroke marine diesel engines. The term of the contract with Wärtsilä is from August 2007 to August 2017. We are required to pay Wärtsilä licensing fees per Brake Horse Power as soon as the licensed engine is completed, in addition to certain engine drawing fees. The above fees are subject to adjustments under certain circumstances according to the licensing agreement. We cannot develop and/or design and/or manufacture and/or sell and/or install in the PRC or elsewhere products which are equivalent to or competing with licensed engines without written consent of Wärtsilä. Under the licensing agreement with MAN Diesel & Turbo, we have the non-exclusive license to produce, supply and sell in the PRC all types of MAN B&W two-stroke marine and stationery diesel engines. The term of the contract with MAN Diesel & Turbo is from September 2008 to December 2018. We are required to pay MAN Diesel & Turbo an initial payment and licensing fees per kW when the licensed engine is delivered, in addition to certain engine drawing fees. The above fees are subject to adjustments under certain circumstances according to the licensing agreement. As of August 31, 2010, we had not yet paid any licensing fees to Wärtsilä and we had paid fees totaling RMB1,726,000 to MAN Diesel & Turbo.

We also signed the licensing agreement with MAN Diesel & Turbo for the manufacture of certain types of MAN four-stroke diesel engines in September 2010. However, we need to obtain NDRC approval before we start the manufacture of such engines.

As of the Latest Practicable Date, we had not licensed any other key intellectual property rights from any third parties, nor had we licensed any of our key intellectual property rights to any third parties. We had not involved in any proceedings in respect of, and are not aware of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as claimant or respondent.

Details of our intellectual property rights are more particularly set out under the section headed "Statutory and General Information — B. Further information about the business — 2. Intellectual property rights of the Group" in Appendix VII to this prospectus.

INSURANCE

Shipbuilding

Our shipbuilding contracts require us to fully insure our vessels under construction (including all machinery, materials, equipment, appurtenances and outfit that are to be delivered to our shipyard for the vessels or built onto, or installed in or upon the vessels) at our own cost and expense against the risks associated with the construction process with Chinese prime insurance companies under coverage corresponding to "Institute of London Underwriters Clause for Builder's Risks". The insured period is typically from the time of keel-laying until a vessel is delivered to our customer. The insurance shall cover at least the aggregate of the payments made by our customer including the value of the supplies provided by the customer. We insure our vessels in accordance with our shipbuilding contracts and we believe that they are adequate for our shipbuilding business. The insurance premium is typically about 0.14%-0.20% of the insured value. There is generally a deductible of US$10,000 per incident in these contracts. For the three years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, we incurred insurance premiums of approximately RMB528,000, RMB10,708,000, RMB24,892,000 and RMB14,235,000, respectively, for our vessels under construction. We also obtain export credit insurance against non-payment risks arising from commercial and political incidents. The insurance premium is typically about 0.2%-0.7% of the insured amount, which is generally equal to the contract price of the relevant vessel. If there is damage resulted from commercial or political incidents, 90% of our actual losses will be covered by the insurance policy, subject to caps in the respective policy.

We insure our vessels using major PRC insurance companies, such as China Pacific Insurance (Group) Co., Ltd., Bank of China Insurance Co., Ltd. and PICC. We have entered a strategic cooperation agreement with PICC for a term of two years commencing from July 27, 2010, which will automatically extend for one year thereafter if neither party requests for termination. Pursuant to this agreement, PICC and our Group agree to corporate in the insurance and other related business areas. Among other things, we agree to give PICC priority in obtaining insurance policies, while PICC agrees to actively participate in the our debt financing or equity financing, provide us with assets management service such as bonds underwriting and enterprise annuity management and support our expansion in the offshore engineering sector. The parties agree to have meetings at least once a year to summarize cooperation related matters and decide the key areas for cooperation. The terms and conditions for the specific cooperation projects under this strategic cooperation agreement are subject to further negotiation and the parties will enter into separate agreements for such specific cooperation projects in accordance with the applicable laws and regulations.

As of the Latest Practicable Date, we had filed one insurance claim in relation to our vessels under construction. On May 9, 2008, damages in the amount of approximately RMB17.8 million were caused to two vessels under construction by the water seeped into our second drydock. The amount assessed by the insurer was approximately RMB6.5 million, which is substantially lower than the amount of the damages we suffered. We objected to the assessed amount of the claim and after several rounds of negotiations between us and the insurer, we settled the dispute on September 30, 2010 with the insurer paying us an amount of RMB8.5 million. We booked the additional cost to fix the damages as part of the cost of sales in 2008 and delivered the two vessels to our customers in December 2008.

We have also obtained insurance policies for our properties including slipways, production plants, outfitting wharves and machinery and equipment, such as cranes and heavy lift-vehicles and motor vehicles, subject to certain deductibles. As of September 30, 2010, our properties and fixed assets were insured up to a value of approximately RMB5,017.1 million. We had paid insurance premium of approximately RMB2.3 million as of the same date. Our machinery and equipment are integral to our shipbuilding operations. They are usually costly, and any loss to them not covered by insurance may result in a significant financial loss to us. We also maintain on a voluntary basis personal accident insurance for our employees working at the vessel construction sites. We do not maintain product liability insurance for claims of personal injury or property damage arising from accidents relating to our vessel products, nor do we maintain business interruption insurance.

We consider the types and extent of our insurance coverage for our shipbuilding segment to be consistent with the coverage procured by other PRC companies in the shipbuilding industry.

Offshore Engineering

Pursuant to our agreement with COOEC, COOEC is responsible for obtaining the builder's risks insurance policy for the DPV under construction, and we are liable for the losses within the deductible amount under the policy and any losses and damages caused by us. On October 10, 2008, COOEC obtained a policy from PICC Property and Casualty Company Limited for a period of 21 months from September 13, 2008 to June 30, 2010. The insured amount equals to the full contract value of the DPV, subject to deductible of US$250,000 per accident except US$1 million per accident in respect of sea transit from our shipyard to COOEC and nil for total loss of entire vessel. COOEC is responsible for payment of the insurance premium. Based on a confirmation from COOEC, COOEC has extended the insurance policy to December 31, 2010. We expect to complete the construction of the DPV by the end of December 2010.

Marine Engine Building

Rong An Power Machinery has taken out construction/erection all risks insurance policies against all construction risks and third party liabilities for the factory premises under construction for the marine engine building segment. The policy is in effect from November 12, 2008 until the factory premises pass inspection upon completion or are put into use, whichever is earlier. The total insurance premium is approximately RMB2.1 million, and Rong An Power Machinery had paid the full amount as of the Latest Practicable Date. In addition, we have obtained employers liability insurance policies against major diseases caused by casualty for our employees, and the general contractor for the construction of our production facilities has also obtained insurance policies against casualty at the construction premises for our employees. The Directors are of the view that our insurance coverage over our assets and our business in the marine engine building segment is adequate.

We do not carry any insurance for product liabilities relating to our diesel engines, which we believe is not a mandatory insurance policy for marine engine builders according to the general practice of the industry. We also do not maintain business interruption insurance.

Engineering Machinery

Currently, we do not carry any insurance against risks relating to our production premises, equipment and inventory in the engineering machinery segment. We also do not maintain product liability insurance or third party liability insurance for claims of personal injury or property damage arising from accidents on our property or relating to our operations or products, nor do we maintain business interruption insurance. Any loss or damage to our assets that are integral to our engineering machinery business may result in a significant financial loss. Although no material third party liability claims or accident compensation claims have been filed against us in the past, there can be no assurance that such claims will not be brought against us in the future.

Save as disclosed above, we have not made or been the subject of any material insurance claims. For information on the mandatory insurance coverage for our employees, please refer to paragraph headed "Employees, Contract Workers and Recruitment" above in this section. See section headed "Risk Factors — Risks relating to our business — Our insurance policies may not fully cover inherent risks associated with our shipbuilding, offshore engineering, marine engine building, engineering machinery business or our other production activities" in this prospectus for risks associated with our insurance coverage.

HEALTH AND SAFETY

Occupational health and safety is one of the key measures of our production. We are subject to various PRC laws and regulations with respect to the prevention and treatment of occupational diseases, the prevention of worksite accidents and the handling of industrial injuries. We believe we are in material compliance with the requirements imposed by such laws and regulations. According to our PRC legal advisor, Commerce & Finance Law Offices, we have obtained all the safety permits or approvals for our production facilities and we are in compliance with the relevant PRC laws and regulations in relation to safe production. We have adopted procedures to prevent and control occupational diseases in order to provide a healthy work environment for our employees. We have also adopted measures such as fire prevention and work safety measures at our production facilities to minimize the risk of accidents and injuries. We strive to minimize work-related accidents and injuries and impact on the business. Our workshops are inspected regularly, safety training is provided frequently, and employees are required to follow the safety measures adopted by the production safety commissions. In addition, we have made contingency plans for emergencies such as fires, which have been approved by our work safety committee. We believe that appropriate precautions and measures have been taken to protect our employees from workplace injuries and harmful exposure to the materials handled and managed at our facilities.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, we spent approximately RMB731,341, RMB9,926,230, RMB6,478,867 and RMB7,633,090, respectively, on occupational safety and health, and we have set aside a budget of RMB3.2 million as a safety and health allowance for 2010. We believe that appropriate precautions and measures have been taken to protect our employees from workplace injuries and harmful exposure to the materials handled and managed at our facilities. As of the Latest Practicable Date, we had not experienced any major fire or material industrial accident and had not received any claim of material significance for damages due to occupational hazards or injuries with our employees or contract workers regarding occupational injuries.

Shipbuilding and Offshore Engineering

As at September 30, 2010, we had a team of 45 employees responsible for occupational health and safety management in our shipbuilding and offshore engineering segments, reviewing our internal occupational health and safety procedures, including work safety education, and continuously monitoring the implementation of our occupational health and safety policies. We have formulated management policies and adopted rules in accordance with applicable PRC laws and regulations such as our fire safety measures, guidelines on high-risk operations, vessel engine and vehicle operation guidelines and occupational diseases prevention measures. We have prepared a health, safety and environmental plan for our DPV project, along with health, safety and environmental instructions during the production process and conducted job safety analysis for high-risk projects. We work closely with COOEC to conduct on-site training. Our subsidiary, Rongsheng Heavy Industries' occupational health and safety management system was acknowledged on September 6, 2009 by Lloyd's Register Quality Assurance to follow Occupational Health and Safety Management System Standards: OHSAS 18001:2007 for design, manufacture and service of bulk carriers and oil tankers below 400,000 DWT, containerships below 8,500 TEU and offshore engineering products. Our Rongsheng Research and Design's occupational health and safety management system was acknowledged on September 6, 2009 by Lloyd's Register Quality Assurance for following Occupational Health and Safety Management System Standards: OHSAS 18001:2007 for ship design.

The total numbers of occupational injuries incurred were 19, 39, 65 and 38, respectively, in the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, which involved totally nine deaths, 55 serious injuries and 97 light injuries evaluated by the relevant labor and social securities authority. According to our PRC legal advisor, we have obtained the mandatory industrial accident insurance pursuant to the relevant PRC laws and regulations for all of our employees. In addition, we maintain group accident insurance for our employees working at the construction sites. Pursuant to the relevant PRC laws and regulations, our employees get compensated based on evaluation by the relevant labor and social securities authority. The labor agencies are responsible for obtaining the work injury insurance for our contract workers. We have established a contract worker management department to supervise the labor agencies, ensure fair compensations to the contract workers and deal with our contract worker related matters. Our PRC legal counsel has advised us that we will be jointly liable for a contract worker's loss if the relevant labor agent fails to obtain the work injury insurance for the contract worker, while we have the right to require the relevant labor agent to compensate our losses pursuant to our agreement with the labor agent. As of the Latest Practicable Date, we had not been held jointly liable for any of the labor agents' conduct, and we had not experienced any material disputes with our employees or contract workers regarding occupational injuries. We have adopted measures and procedures including establishment of an overall system to minimize and eliminate occupational injuries. We investigate the causes of the injuries, keep investigation records, provide safety training and education to our employees and contract workers, reorganize and restructure non-compliant facilities and working conditions and impose penalties on those who are accountable for the injuries.

Marine Engine Building

The production safety and environmental protection department of Rong An Power Machinery is in charge of the daily administration of safety production and environmental protection and monitors the strict compliance with various safety measures prescribed by the production safety commission. Two out of six employees of this department have undergraduate degrees or higher.

Engineering Machinery

The occupational health and safety management system of Zhenyu Machinery was certified by Beijing Zhongzi Quality Certification Co., Ltd. complying with the GB/T28001-2001 Standard for the design, production and service of crawler excavators, wheel excavators and crawler cranes in December 2009.

ENVIRONMENTAL MATTERS

We are subject to various PRC laws and regulations, including laws and regulations related to air and water quality, limitations on the discharge of pollutants into the environment and standards for the treatment, storage and disposal of toxic and hazardous wastes, such as the Law of the People's Republic of China on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法) and the Law of the People's Republic of China on the Prevention of Environmental Pollution Caused by Solid Waste (中華人民共和國固體廢物污染環境防治法).

Based on the confirmation issued by the relevant environmental protection authorities, our Group had complied with the PRC environmental regulatory requirements during the Track Record Period.

According to the opinion of our PRC legal advisor, Commerce & Finance Law Offices, we have fully complied with the relevant environmental rules and regulations, which is evident in the following facts:

- We have obtained all the required environmental permits and approvals for our existing production facilities.
- There was no environmental pollution incident discovered during the Track Record Period.
- There was no penalty imposed on us as a result of violation of environmental rules and regulations during the Track Record Period.

We believe our operations produce minimal negative effects on the environment. We take all necessary internal measures to prevent pollution of the environment. Our existing facilities have been built (or remodeled) to minimize the effect of their discharge of waste materials (including water, air, and other materials) upon the environment. For our production facilities currently under construction, the local environmental regulatory authorities have approved our designs of the facilities. We are required to pass the environmental inspection when the construction is completed and we are required to obtain pollution discharge permits in order to discharge the waste arising in the course of production. According to our PRC legal advisor, if the construction of our facilities is in compliance with the relevant environmental laws and regulations and we apply for the discharge permits in compliance with the procedures set forth in the relevant laws and regulations, there would be no substantial legal impediment to our passing the relevant inspection and obtaining the relevant permits. Each of our enterprises typically has a specially-designated department that is responsible for dealing with all the environmental issues that arise from the daily production activities of the respective facility. Our subsidiary, Rongsheng Heavy Industries' environment management system was acknowledged on August 14, 2009 by Lloyd's Register Quality Assurance following Environment Management System Standards: ISO 14001:2004 for design, manufacture and service of bulk carriers and oil tankers below 400,000 DWT, containerships below 8,500 TEU and offshore engineering products. Our Rongsheng Research and Design's environment management system was acknowledged on August 14, 2009 by Lloyd's Register Quality Assurance following Environment Management System Standards: ISO 14001:2004 for ship design. Zhenyu Machinery's environmental management system has been certified on December 16, 2009 being in compliance with the requirement of GB/T 24001-2004 idt ISO 14001:2004 for the design, production and service of wheel excavators.

We devote substantial financial resources on this internal management system and our compliance with environmental laws and regulations. For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, we spent approximately RMB200,000, RMB1,356,762, RMB2,016,034 and RMB494,266, respectively, in relation to compliance with applicable environmental rules and regulations. We expect that the total environmental compliance cost for the year ending December 31, 2010 to be approximately RMB1,340,000 and have set aside a budget of such amount as environmental compliance allowance for 2010.

AWARDS, HONORS AND RECOGNITIONS

The PRC government, the Jiangsu Province government and the Nantong city government have supported our businesses and have provided us with a favorable business environment in which to operate. Our shipyard is the key constructive engineering project in the provincial Eleventh Five-year Plan of Jiangsu Province.

We have received various awards, honors and recognitions for our products and operations, including:

Segments	Time	Awarding Authority	Award/Honor/Recognition/Certificate
Shipbuilding	April 2010	Seatrade	Shipbuilding Award sponsored by ClassNK (Nippon Kaiji Kyokai) at the 3rd Seatrade Asia Awards 2010
	November 2009	China Enterprise Community and China Entrepreneur Association (中國企業聯合會及中國企業家協會)	Our contract for the twelve 400,000 DWT VLOC with Brazilian CVRD in 2008 was recognized as the biggest single vessel order so far in the world and was included in the New Records of PRC Companies of 2008
	November 2009	China Enterprise Community and China Entrepreneur Association (中國企業聯合會及中國企業家協會)	Our construction time of 28 months from the commencement of construction to the delivery of our first vessel was recognized as the fastest shipyard construction record of the same type and was included in the New Records of PRC Companies of 2008
	August 2009	Jiangsu Science and Technology Department (江蘇省科學技術廳)	Our 75,500 DWT ice-strengthened Panamax Bulk Carrier was recognized as the Second Batch of New High Technology Products in Jiangsu Province of 2009
	December 2008	China Enterprise Community and China Entrepreneur Association (中國企業聯合會及中國企業家協會)	Our 75,500 DWT ice-strengthened Panamax Bulk Carrier was recognized as China's First and was included in the New Records of PRC Companies of 2008
Marine Engine Building	May 2010	China Association of the National Shipbuilding Industry (中國船舶工業行業協會)	Rong An Power Machinery was re-elected as a standing council member at the Fourth Session of the China Association of the National Shipbuilding Industry
	April 2010	Shipbuilding Technology Alliance Committee (造船技術聯盟理事會)	Rong An Power Machinery is a committee member
	March 2010	People's Government of Hefei (合肥市人民政府)	The Best New Foreign Investment Enterprise of 2009 (《2009年度新引進優秀外來投資企業》)
	January 2010	Hefei Economic and Technology Development Zone Management Committee (合肥經濟技術開發區管理委員會)	2009 Investment and Construction Award of the Hefei Economic and Technology Development Zone (《2009年度合肥經濟技術開發區投資建設獎》)
	October 2009	China Association of the National Shipbuilding Industry (中國船舶工業行業協會)	Rong An Power Machinery was elected as a standing council member at the Third Session of the China Association of the National Shipbuilding Industry
	October 2009	Anhui Province Port Association (安徽省港口協會)	Rong An Power Machinery is a standing council member

Segments	Time	Awarding Authority	Award/Honor/Recognition/Certificate
Engineering Machinery	November 2009	People's Government of Anhui (安徽省人民政府)	Anhui Province Technology Development Award Third Price (《安徽省科技進步三等獎》)
	December 2008	Anhui Economic and Information Technology Commission (安徽省經委)	Key Enterprise of the Engineering Machinery Production Base of Hefei, Anhui Province (安徽省工程機械製造合肥基地《重點企業》)
	June 2008	People's Government of Hefei (合肥市人民政府)	Hefei Science & Technology Development Award First Prize (《合肥市科學技術進步一等獎》)
	December 2007	Anhui Science and Technology Department (安徽省科學技術廳)	Certificate of Achievement of Science & Technology Research of Anhui Province(《安徽省科學技術研究成果證書》)

LEGAL PROCEEDINGS

As at the Latest Practicable Date, we were involved in the following legal proceedings, each with a claim value of over RMB500,000:

(i) Shanghai Yuanquan Investment Management Company Limited ("**Shanghai Yuanquan**") was a long-term supplier of our Group. From August 2007 through the end of 2008, it entered into 89 steel plate supply contracts with us. The steel plates were delivered to us on a rolling basis and we paid Shanghai Yuanquan on a rolling basis as well. On July 10, 2009, Shanghai Yuanquan filed a claim with Nantong Intermediate People's Court, Jiangsu Province (the "**Nantong Intermediate Court**") against Rongsheng Heavy Industries, Rongsheng Investment and Rongye Storage (together the "**Defendants**") for (i) approximately RMB66.8 million being the outstanding amount payable by the Defendants for certain steel plates ordered by the Defendants from Shanghai Yuanquan; (ii) approximately RMB30.5 million, as the compensation for the breach of contract, together with any additional compensation for damages accruing up to the date of judgment; (iii) interest of approximately RMB1.6 million; (iv) storage fees of approximately RMB0.9 million and any additional storage fees prior to the Defendants taking the delivery of the steel plates; and (v) the legal fees incurred in relation to the litigation.

On August 24, 2009, Rongye Storage filed a counterclaim with the Nantong Intermediate Court against Shanghai Yuanquan for (i) termination of certain steel plate purchase contracts entered into between Rongye Storage and Shanghai Yuanquan on August 14, 2008; (ii) an aggregate amount of approximately RMB87.8 million, representing, inter alia, payments made by Rongye Storage under the relevant contracts, the interest, compensation for breach of contract, and excess amounts received by Shanghai Yuanquan as a result of delay in the delivery of the steel plates and (iii) the legal fees incurred in relation to the counterclaim. On the same date, Rongsheng Heavy Industries filed a counterclaim against Shanghai Yuanquan for (i) delivery of approximately 7,800 tonnes of steel plates, and (ii) an aggregate amount of approximately RMB50.7 million for breach of contract.

As of the Latest Practicable Date, all the trial procedures had been completed and the judgment was yet to be rendered by the Nantong Intermediate Court. Shanghai Yuanquan and the Defendants agreed during the trail that (i) Rongye Storage does not owe any amount to Shanghai Yuanquan; and (ii) Shanghai Yuanquan owes Rongsheng Heavy Industries about 7,800 tonnes of steel plates in the aggregate, which should have been delivered to Rongsheng Heavy Industries before December 31, 2008 pursuant to the contracts and Rongsheng Heavy Industries' outstanding payment obligation under the contracts is approximately RMB60 million.

If the Nantong Intermediate Court rules against us or a settlement cannot be reached, we may have to pay the outstanding amount, the compensation and the fees as claimed by Shanghai Yuanquan. Based on the circumstances of the trial, our independent legal advisor for the litigation is of the view that the judgment is likely to be made in two months in our favor because of the following reasons: (a) the parties have reached a stipulation as to the volume of steel plates undelivered and the price unpaid; (b) because Shanghai Yuanquan has no steel plates in stock and Rongsheng Heavy Industries has demanded the termination of the relevant contracts as suggested by the trial judge, termination of the relevant contracts is likely to be granted by the judge; (c) it is difficult to ascertain which party first defaulted in performing its obligation as the delivery and payment were made on a rolling basis; so neither party's claims for damages will be supported; and (d) as the price of the steel plates has dropped significantly since the contracts were formed, termination of the contracts would be favorable to Rongsheng Heavy Industries. We had not made any provision for the legal proceeding during the Track Record Period because in our judgment, which was based on our experience, our legal advisor's advice, progress of the proceeding and totality of the circumstances, we do not believe it is likely for Shanghai Yuanquan to receive a favorable judgment or for us to be liable for the payment of the claimed amount to Shanghai Yuanquan.

(ii) In August 2008, Rongsheng Heavy Industries entered into five supply contracts for hatch covers with Nantong Mingxing Steel Structure Co., Ltd. (the "**Mingxing Steel Structure**") for the construction of five bulk carriers. In November 2008, Rongsheng Heavy Industries made pre-payments totaling RMB10 million under two supply contracts. In February 2009, the shipowner cancelled the shipbuilding contracts due to the impact of the global financial crisis, so Rongsheng Heavy Industries requested Mingxing Steel Structure to return the pre-payments but Mingxing Steel Structure refused to do so. Rongsheng Heavy Industries initiated an action against Mingxing Steel Structure in Nantong Intermediate Court on June 7, 2010. Rongsheng Heavy Industries requested that the two supply contracts in question be rescinded, and that Mingxing Steel Structure return the pre-payments made under the two contracts and bear litigation costs. On June 7, 2010, the Nantong Intermediate Court, upon Rongsheng Heavy Industries' request, ordered that RMB10 million in Mingxing Steel Structure's bank account be frozen, or that other of its property, rights or interests of equal value be seized. On July 20, 2010, Mingxing Steel Structure filed a counterclaim against us for losses of approximately RMB4 million (actual amount of losses to be determined through appraisal) caused by rescission of the contracts.

According to our independent legal advisor for the matter, (a) we cannot terminate the supply contracts without Mingxing Steel Structure's consent because the conditions for the termination of the contracts have not been met; (b) subject to the discretion of the Nantong Intermediate Court, the court may allow us to terminate the contracts based on the changed circumstances; (c) if the supply contracts are terminated, we are entitled to a refund of our pre-payments, but we may need to compensate Mingxing Steel Structure for its losses (including actual losses and loss of expected profits) and we can take possession of the raw materials Mingxing Steel Structure purchased for the manufacture of hatch covers. According to our internal assessment, based on the evidence submitted by Mingxing Steel Structure, we estimate the maximum liability of our Group is likely to be approximately RMB14.5 million which includes, inter alia, the price difference in the steel, loan interest and loss of profit. We had not made any provision for the legal proceeding during the Track Record Period because our Directors consider that the pre-payment amounts is recoverable through cash settlement or accepting the raw materials from Mingxing Steel Structure. We had not recorded other payable to Mingxing Steel Structure during the Track Record Period.

On September 26, 2010, the Nantong Intermediate Court ruled that Mingxing Steel Structure's counterclaim was considered withdrawn because it failed to pay the filing fees on time. On October 22, 2010, the Nantong Intermediate Court ruled in our favor and ordered Mingxing Steel Structure to refund us the RMB10 million pre-payments within one month of the judgment becoming effective and bear the litigation costs. Mingxing Steel Structure has 15 days starting from its receipt of the judgment to appeal the decision.

Save as disclosed above, as at the Latest Practicable Date, there was no litigation or claim pending or threatened against us which could be expected to have a material adverse effect on our business, financial condition and results of operations.

REGULATORY

PRC Laws and Regulations

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

In view of the abovementioned foreign ownership restrictions, Rongsheng Heavy Industries only owns a 49% equity interest in Rongsheng Shipbuilding and Rongsheng Investment owns the remaining 51% equity interest. Similarly, Rong An Power Machinery is owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Our Controlling Shareholder, Mr. Zhang ultimately controls Rongsheng Investment. Please refer to the section headed "History, Reorganization and Corporate Structure" in this prospectus for more details of our Group's shareholding structure.

Our PRC legal advisor has advised us that pursuant to the "Provisions on Mergers and Acquisitions of a Domestic Enterprise by Foreign Investors" promulgated by MOFCOM on September 8, 2006, the change in citizenship of a natural person who is a shareholder of a domestic enterprise does not affect the domestic enterprise's status as a domestic enterprise. Investors from Hong Kong, Macau and Taiwan are treated as non-PRC citizens in this regard. Rongsheng Investment was incorporated on February 12, 2004 as a PRC domestic enterprise. At that time, Mr. Zhang, who was then (as he is now) the controlling shareholder of Rongsheng Investment was, a PRC citizen. Mr. Zhang canceled his PRC household registration and became a Hong Kong resident on October 4, 2004. Our PRC legal advisor is of the opinion that (i) Rongsheng Investment remains a PRC domestic enterprise regardless of Mr. Zhang having cancelled his PRC household registration and becoming a Hong Kong resident; (ii) the ownership of Rongsheng Shipbuilding by Rongsheng Investment, which is ultimately controlled by Mr. Zhang, does not violate the requirements of the Foreign Investment Industries Catalogue; and (iii) similarly, as Rongsheng Shipbuilding, which is a PRC domestic company, owns a 51% equity interest in Rong An Machinery and foreign funded Rongye Mechanical only owns the remaining 49%, the shareholding structure of Rong An Power Machinery does not violate the related requirements of the Foreign Investment Industries Catalogue. According to a confirmation in relation to the identity of the de facto controlling shareholder of Rongsheng Shipbuilding dated September 2, 2010, issued by the Rugao Municipal Bureau of Commerce (the "**Bureau**"), the Bureau was informed that the de facto controlling shareholder of Rongsheng Shipbuilding, Mr. Zhang, became a Hong Kong resident in October 2004. The Bureau also confirmed in the same confirmation letter that the incorporation and standing of Rongsheng Shipbuilding in relation to non-foreign ownership complies with the applicable laws, rules and regulations and the foreign investment industry policies of the PRC.

Our PRC legal advisor has advised us that the 51% shareholding held by Rongsheng Investment in Rongsheng Shipbuilding may not be transferred to or held by another subsidiary of our Company.

Contractual Arrangements

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) a shareholders' agreement through Rongsheng Heavy Industries with Rongsheng Investment dated January 8, 2009 but effective as of May 21, 2008 (the "**Shareholders' Agreement**"), and a supplemental agreement in relation thereto through Rongsheng Heavy Industries with Rongsheng Investment dated October 18, 2010 but effective as of May 21, 2008 (the "**Supplemental Shareholders' Agreement**", together with the Shareholders' Agreement, the "**Shareholders' Agreements**"); and

(b) an exclusive consulting and services agreement through Rongsheng Heavy Industries with Rongsheng Shipbuilding and Rongsheng Investment dated October 20, 2010 (the "**Services Agreement**" and, together with the Shareholders' Agreements, the "**Structure Agreements**").

In order to carry out all necessary engineering processes arising from the construction of vessels at Rongsheng Shipbuilding's drydocks in compliance with PRC law, we have entered into a shipbuilding agency agreement through Rongsheng Heavy Industries with Rongsheng Shipbuilding dated January 1, 2008 (the "**Shipbuilding Agency Agreement**"). Please refer to the section headed "Risk Factors — Risks Relating to Our Business" in this prospectus for risks in connection with our contractual arrangements.

Prior to the transfer of equity interests from Hinco International to Rongsheng Heavy Industries (the "**Share Transfer**") and the Shareholders' Agreement taking effect, our Group owned a 49% interest in Rongsheng Shipbuilding through Hinco International. We were able to govern and control the financial and operating policies of Rongsheng Shipbuilding pursuant to the following undertakings, each dated September 7, 2007:

(a) an undertaking signed by Zhang De Huang and Gao Qiang (in their capacity as directors of Rongsheng Shipbuilding as appointed by Rongsheng Investment) pursuant to which they undertook to exercise their rights as Rongsheng Shipbuilding's directors according to the instructions of Rongsheng Investment and Mr. Zhang;

(b) an undertaking signed by Zhang De Huang and Gao Qiang (in their capacity as directors of Rongsheng Investment) pursuant to which they undertook to exercise their rights as Rongsheng Investment's directors according to the instructions of Mr. Zhang;

(c) an undertaking signed by Zhang De Huang (in his capacity as the legal representative of Rongsheng Investment) and Mr. Zhang pursuant to which Rongsheng Investment agreed that Mr. Zhang has the absolute right to remove and appoint the members of the board of directors of Rongsheng Shipbuilding; and

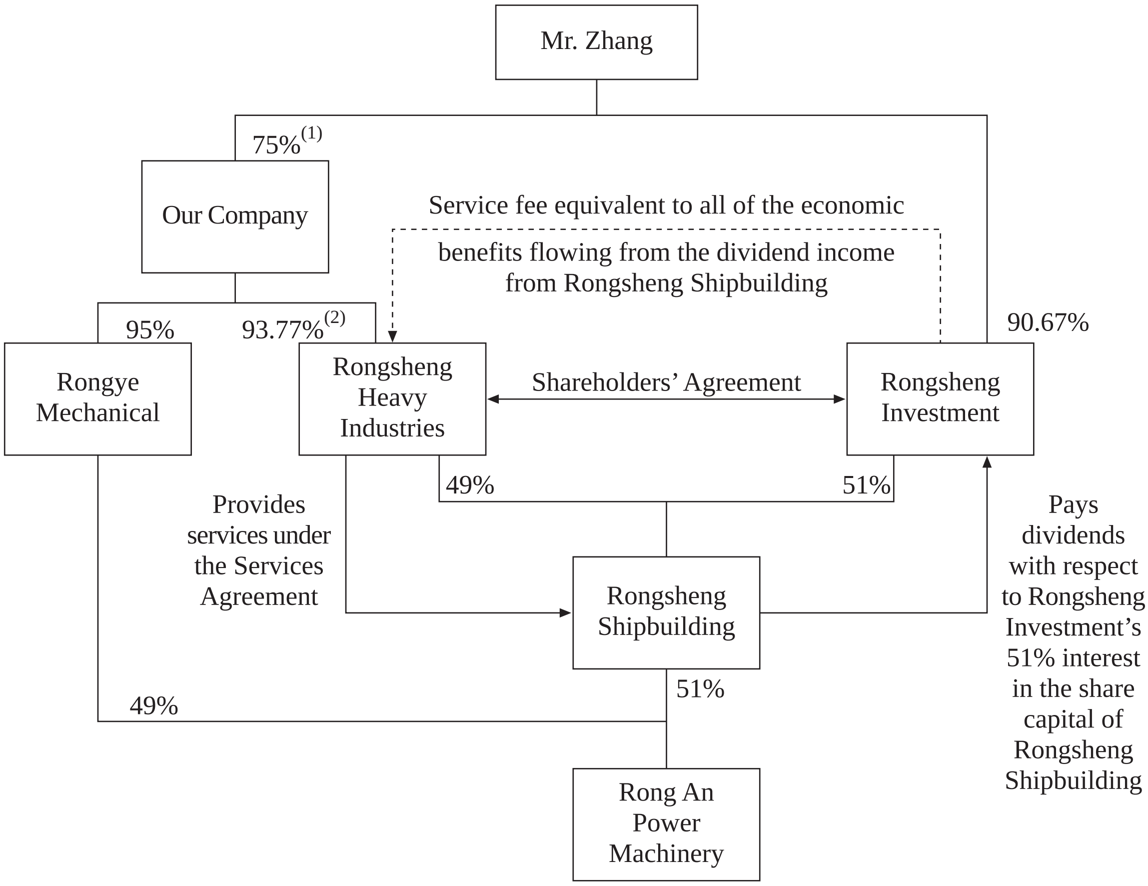
(d) an undertaking signed by Mr. Zhang pursuant to which he agreed that the directors appointed by Rongsheng Investment will vote the same way as those of Hinco International.

Accordingly, before the Share Transfer, we were able to consolidate the results of Rongsheng Shipbuilding as a 49% owned subsidiary of Hinco International.

Since the Share Transfer, we have still been able to consolidate the results of Rongsheng Shipbuilding into those of the Group as a 49% owned subsidiary of Rongsheng Heavy Industries pursuant to the Shareholders' Agreement which entitles our Group to govern and control the financial and operating policies of Rongsheng Shipbuilding.

Commencing on the effective date of the Services Agreement (which is the Listing Date), Rongsheng Heavy Industries will enjoy 100% of the economic benefit of Rongsheng Shipbuilding and our Group will receive approximately 93.8% of the economic benefit from Rongsheng Shipbuilding (as we own Rongsheng Heavy Industries Holdings as to 98.5%, which in turn owns Rongsheng Heavy Industries as to 95.2%).

A brief diagram illustrating the Structure Agreements is set out below:



Notes:

(1) Mr. Zhang's effective interest over our Company is calculated without taking into account completion of the Global Offering and the exchange of the Exchangeable Notes and assuming that the Over-allocation Option and the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme are not exercised.

(2) Effective economic interest, based on our Company's 98.5% interest in Rongsheng Heavy Industries Holdings, which in turn indirectly holds a 95.2% interest in Rongsheng Heavy Industries.

The details of the Structure Agreements are outlined below.

The Shareholders' Agreements

The Shareholders' Agreement was entered into between Rongsheng Heavy Industries and Rongsheng Investment on January 8, 2009 but effective as of May 21, 2008, as supplemented by the Supplemental Shareholders' Agreement entered into by the same parties dated October 18, 2010 but effective as of May 21, 2008. Pursuant to the terms of the Shareholders' Agreements, the parties have agreed:

- that Rongsheng Investment will not transfer any of its interest in Rongsheng Shipbuilding to any third party without our prior consent;
- that Rongsheng Heavy Industries shall have the right to nominate the general manager and chief financial officer of Rongsheng Shipbuilding;
- that all principal decisions with respect to Rongsheng Shipbuilding — for example, with respect to changes in registered capital, investments and the granting of any mortgages or charges over the assets of Rongsheng Shipbuilding — will only be made upon unanimous shareholders' approval;

- that Rongsheng Investment will vote in accordance with the vote of Rongsheng Heavy Industries at any shareholders' meetings of Rongsheng Shipbuilding;
- that upon the occurrence of any change to PRC regulation or policy that allows majority foreign-ownership of companies engaged in the shipbuilding industry in China, Rongsheng Investment shall transfer its interest in Rongsheng Shipbuilding to us at a price determined based on an independent valuation to be determined by an accredited international appraiser; and
- that (i) Rongsheng Investment shall procure that the directors of Rongsheng Shipbuilding appointed by it will resolve in favor of dividend distribution proposals recommended by the directors of Rongsheng Shipbuilding appointed by Rongsheng Heavy Industries; (ii) Rongsheng Shipbuilding's board of directors shall implement its dividend distribution policy accordingly; and (iii) Rongsheng Investment shall vote the same way as Rongsheng Heavy Industries in accordance with the proposal of Rongsheng Heavy Industries with respect to the distribution of dividends.

The Services Agreement

The Services Agreement was entered into on October 20, 2010 among Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment. The Services Agreement is effective on the Listing Date and may only be terminated with the approval of our independent non-executive Directors. The key provisions of the Services Agreement are as follows:

- Rongsheng Heavy Industries agrees to provide shipbuilding technology guidance, support and improvements, engineering supervision, acceptance testing and other support work related consulting and services to Rongsheng Shipbuilding (the "**Services**");
- Rongsheng Investment agrees 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 on which Rongsheng Shipbuilding pays dividend to its shareholders);
- 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; and
- In case of the breach of the Services Agreement by Rongsheng Investment in relation to its obligation to pay thereunder, Rongsheng Heavy Industries has the right to appoint any then Director of our Company to commence arbitration proceedings pursuant to the arbitration clause thereunder to claim the payment of the services fee and related interests and all other damages. In addition, with a view to protect its interests Rongsheng Heavy Industries has the right to take all available legal measures including applying to competent courts for interim injunctive reliefs before an award is made by an arbitral tribunal.

The Services Agreement is for a period of twenty years, which shall be automatically renewed for subsequent periods of ten years upon request of Rongsheng Heavy Industries. The term of the Services Agreement is to mirror that of the Shipbuilding Agency Agreement. The Services Agreement does not provide for early termination and termination is subject to approval by the independent non-executive Directors. Although Rongsheng Shipbuilding is the direct recipient/beneficiary of the services provided under the Services Agreement, Rongsheng Investment is an indirect beneficiary of the services in light of its holding of the 51% equity interest in Rongsheng Shipbuilding. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that under PRC law, it is not necessary that fees or consideration be paid for services or that, if paid, they be paid by the direct recipient/beneficiary of those services. It is therefore open for parties to agree upon commercial arrangements such as those contemplated by the Services Agreement.

Neither Rongsheng Investment nor Mr. Zhang will obtain or receive any financial or economic benefit from their interest in Rongsheng Shipbuilding under the arrangements contemplated by the Structure Agreements (other than, in the case of Mr. Zhang, through his indirect controlling interest in our Company) despite holding direct and indirect equity interests in Rongsheng Shipbuilding, respectively. As described above, the Structure Agreements ensure that:

- we are able to exercise effective control over Rongsheng Shipbuilding;
- we are able to receive approximately 93.8% of the economic benefits from Rongsheng Shipbuilding;
- we are able to consolidate the accounts of Rongsheng Shipbuilding into the accounts of our Group as if it were a wholly-owned subsidiary of Rongsheng Heavy Industries;
- we have a contractual right to acquire the equity interest in Rongsheng Shipbuilding not currently owned by our Group upon a change of relevant PRC laws; and
- Mr. Zhang does not take advantage of his position as controlling shareholder of our Company.

Our PRC legal advisor has advised us that: (i) the Structure Agreements are valid, binding and enforceable; (ii) the Structure Agreements do not contravene existing PRC laws or regulations; (iii) the Structure Agreements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; (iv) the Structure Agreements are in full compliance with the provisions of the articles of association of Rongsheng Investment, Rongsheng Heavy Industries and Rongsheng Shipbuilding; (v) as our Group has enquired with the Rugao Ministry of Commerce, the authority responsible for foreign trade, which considered that the execution of the Structure Agreements does not require any approval from the relevant governmental authorities, thus, based on the foregoing and their understanding of the relevant PRC laws and regulations, they are of the opinion that Rongsheng Heavy Industries, Rongsheng Investment and Rongsheng Shipbuilding are not required to obtain any approval from PRC authorities in relation to the signing and implementation of the Structure Agreements; and (vi) Mr. Zhang's investment in Rongsheng Shipbuilding through Rongsheng Investment and Rongsheng Heavy Industries and the business operation of Rongsheng Investment since its establishment have complied with all relevant PRC laws and regulations in relation to shipbuilding business.

Pursuant to the Shareholders' Agreement, Rongsheng Heavy Industries has the power to govern the financial and operating policies of Rongsheng Shipbuilding so as to obtain all benefits from its activities. Pursuant to the Services Agreement, Rongsheng Investment has agreed to pay Rongsheng Heavy Industries a service fee (in consideration for the services stipulated in the Services Agreement) equivalent to the dividend income received as a result of its 51% equity interest in Rongsheng Shipbuilding.

As Rongsheng Investment will pay all of its dividend income received from Rongsheng Shipbuilding to Rongsheng Heavy Industries, Rongsheng Heavy Industries would enjoy 100% of the economic benefit from Rongsheng Shipbuilding. Since Rongsheng Heavy Industries is a 95.2% subsidiary of Rongsheng Heavy Industries Holdings, which is owned by our Company as to 98.5%, our Group will receive approximately 93.8% of the economic benefit from Rongsheng Shipbuilding when the Services Agreement becomes effective on the Listing Date (prior to which our Group only consolidated approximately 45.9% of the financial results of Rongsheng Shipbuilding). Entering into the Structure Agreements does not affect the business operation of our Group, which will continue to be conducted in the same manner as it was during the Track Record Period.

Based upon and relying on the professional advice given to the Joint Sponsors' PRC legal advisor, Jun He Law Offices, and with the support of the legal opinion from Jun He Law Offices and the Company's PRC legal advisor, Commerce & Finance Law Offices, the Joint Sponsors are of the view that the Structure Agreements are: (i) valid, binding and enforceable; (ii) do not contravene existing PRC laws or regulations; (iii) narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; and (iv) in full compliance with the provisions of the articles of association of Rongsheng Investment, Rongsheng Heavy Industries and Rongsheng Shipbuilding.

We and our Directors, including the independent non-executive Directors, are of the view that (i) the Structure Agreements are fundamental to our Group's legal and operating structure and (ii) the Services Agreement was entered into in our ordinary and usual course of business, on normal commercial terms (or better to our Company) and is fair and reasonable and in the interests of our shareholders as a whole. We and our Directors, including the independent non-executive Directors, also believe that the nature of the arrangement whereby the financial results of Rongsheng Shipbuilding are consolidated into our Company's consolidated financial results as if it was a wholly-owned subsidiary of Rongsheng Heavy Industries and the financial and economic benefits of its business flow to our Group, places the Services Agreement in a special position in relation to the connected transaction rules under the Listing Rules. The Hong Kong Stock Exchange has agreed to grant a conditional waiver from strict compliance with the announcement and shareholders' approval requirements, the annual cap requirement, and the requirement that the term of the agreements be of a duration not exceeding three years under Chapter 14A of the Listing Rules. In addition to the current Structure Agreements, there may be other agreements entered into between our Group and Rongsheng Shipbuilding and its subsidiaries. Given that the financial results of Rongsheng Shipbuilding are consolidated into our Group's financial results as if it were a wholly-owned subsidiary of Rongsheng Heavy Industries, and given the relationship between our Group and Rongsheng Shipbuilding created by the Structure Agreements, transactions between our Group and Rongsheng Shipbuilding and its subsidiaries will be exempted from the "continuing connected transactions" provisions set out in Chapter 14A of the Listing Rules.

The waiver from the Stock Exchange is based on our Company and other relevant parties undertaking to comply with the following proposed conditions:

a) There will be no change to the terms of the Structure Agreements without our independent Shareholders and independent non-executive Directors' approval;

b) We will disclose details relating to the Services Agreement on an ongoing basis as follows:

   a. The Services Agreement will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules;

   b. Our independent non-executive Directors will review the Services Agreement annually and confirm in our annual report and accounts for the relevant year that:

      i. the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Services Agreement and have been operated so that any profits generated by Rongsheng Shipbuilding have been retained by our Group;

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

      iii. Rongsheng Heavy Industries has obtained its entitlement under the Services Agreement.

c) Our auditors will carry out review procedures annually on the transactions carried out pursuant to the Services Agreement and will provide a letter to the board of directors, with a copy to the Listing Division of the Hong Kong Stock Exchange, at least ten business days before we bulk print our annual report, confirming that the transactions have received the approval of the board of directors, have been entered into in accordance with the Services Agreement and that all dividends and other distributions have been paid solely to our Group;

d) Rongsheng Investment will undertake that, for so long as our Company's Shares are listed on the Hong Kong Stock Exchange, it will provide our Group and our auditors with access to relevant accounting records for the purpose of our auditors' review of all relevant transactions; and

e) Mr. Zhang will undertake to procure that, for so long as he remains controlling shareholder of our Company, he will provide us and our auditors with access to relevant accounting records of Rongsheng Investment (if so required) for the purpose of our auditors' review of all relevant transactions and will procure Rongsheng Investment's compliance with its obligations set out in the Structure Agreements.

For the purposes of Chapter 14A of the Listing Rules, the directors, chief executive or substantial shareholders (other than Rongsheng Heavy Industries) of Rongsheng Shipbuilding and their respective associates will continue to be treated as connected persons and transactions between these connected persons and our Group shall comply with Chapter 14A of the Listing Rules.

We consider that the main purposes of the Structure Agreements are to allow our Group to exercise effective control over Rongsheng Shipbuilding and to receive substantially all the economic benefits from Rongsheng Shipbuilding, as a result of which potential conflicts of interest between the Controlling Shareholders and the public shareholders of our Company arising from the shareholding structure of Rongsheng Shipbuilding can be minimized. Our PRC legal advisor, Commerce & Finance Law Offices and the Joint Sponsors' PRC legal advisor have advised that the Structure Agreements are valid, binding and enforceable and do not contravene existing PRC laws and regulations. On the basis of the foregoing and the Directors' view in relation to the Structure Agreements set out above, the Joint Sponsors are of the view that the Structure Agreements are fundamental to our Group in relation to (i) minimizing potential conflicts of interest between the Controlling Shareholders and other public shareholders of the Company arising from the shareholding structure of Rongsheng Shipbuilding and (ii) the continuing operation of our shipbuilding business through Rongsheng Shipbuilding while enabling our Group to receive substantially all of the economic benefits of Rongsheng Shipbuilding.

Our legal advisor, Commerce & Finance Law Offices, advised that according to the relevant PRC laws and regulations, (i) if Rongsheng Heavy Industries commences arbitration proceedings against Rongsheng Investment in case of breach by Rongsheng Investment of the Services Agreement, and (ii) if Rongsheng Heavy Industries believes that the conduct of Rongsheng Investment may result in a future arbitral award becoming unable to be carried out or difficult to be carried out, then it has the right to apply to equal competent court to preserve the assets of Rongsheng Investment. The court, at its sole discretion, may then preserve the assets of Rongsheng Investment by sealing up, the assets. In such case the courts may request Rongsheng Heavy Industries to provide assets of a value as guarantee.

Share Pledge

Rongsheng Investment entered into a share pledge of its 51% equity interest in Rongsheng Shipbuilding in favor of Rongsheng Heavy Industries dated October 20, 2010 as a security for guaranteeing the performance of its obligations under the Structure Agreements.

The Shipbuilding Agency Agreement

Rongsheng Heavy Industries was established on June 8, 2006 as a wholly foreign-owned enterprise, and its controlling shareholder, Mr. Zhang, had already become a Hong Kong resident by that time. In view of the restrictions over foreign ownership in a ship repair, design and manufacture company in the PRC, Rongsheng Heavy Industries has engaged Rongsheng Shipbuilding to complete the production process carried out in the drydocks by entering into a twenty-year Shipbuilding Agency Agreement effective from January 1, 2008. The agreement is subject to extension upon mutual agreement between the parties. Pursuant to the Shipbuilding Agency Agreement, the parties agreed, among other things, that:

- Rongsheng Shipbuilding will carry out all necessary shipbuilding engineering processes arising from pre-erection and erection of vessels at its drydocks;

- Rongsheng Shipbuilding will use all of its drydocks at Nantong, Jiangsu Province, as well as its manpower, equipment and other facilities, to carry out all necessary shipbuilding engineering processes arising from erection and pre-erection of vessels at its drydocks on behalf of Rongsheng Heavy Industries;
- Rongsheng Shipbuilding will provide Rongsheng Heavy Industries with all necessary paperwork and support to enable Rongsheng Heavy Industries to raise financing for the purpose of funding the construction of ships, including by means of granting security over such ships;
- Rongsheng Heavy Industries will provide independent technical support and engineering supervision in respect of the ship construction process;
- Rongsheng Shipbuilding will be responsible for all maintenance, running and other ongoing costs of the drydocks; and
- Rongsheng Shipbuilding will not sell or provide the drydocks or any related assets to any third party, and will not create any mortgages or pledges over the drydocks.

In practice, Rongsheng Heavy Industries contracts directly with customers and commissions Rongsheng Shipbuilding to carry out all necessary engineering processes arising from the construction and pre-construction of vessels at its drydocks pursuant to the Shipbuilding Agency Agreement, whilst Rongsheng Heavy Industries, Rongsheng Painting, Rongye Mechanical and Rongye Storage undertake other work for the construction of such vessels. Undertaking such other work does not fall within the restricted business of shipbuilding.

According to the Interim Measures for the Registration of Mortgages over Ships under Construction (the "**Interim Measures**") (《建造中船舶抵押權登記暫行辦法》) by the Maritime Safety Administration of the People's Republic of China, the mortgagor should be a shipbuilding enterprise with required qualifications and independent ownership of the vessels under construction. Due to the restrictions described above, Rongsheng Heavy Industries does not have the required qualifications to manufacture or possess vessels under construction independently. To obtain refund guarantees and continue the construction of the vessels, Rongsheng Heavy Industries and Rongsheng Shipbuilding made arrangements where Rongsheng Heavy Industries is a party to a shipbuilding contract. Rongsheng Heavy Industries transfers the right of disposition of the relevant vessel under construction to Rongsheng Shipbuilding for the purpose of registering the relevant collateral documents. After the registration, the right of disposition is transferred back to Rongsheng Heavy Industries and Rongsheng Heavy Industries continues to fulfill its obligations under the shipbuilding contract. Our PRC legal advisor has advised us that: (i) the Structure Agreements and the arrangements thereunder will not have any impact on the arrangements currently adopted by our Group to obtain refund guarantees and continue the construction of the vessels in view of the restrictions under the Interim Measures; and (ii) after the Structure Agreements becoming effective, our Group can continue such refund guarantees arrangements.

Therefore, Rongsheng Investment, a PRC domestic company, holds 51% of the shares of Rongsheng Shipbuilding which carries out the shipbuilding business, while the foreign-funded Rongsheng Heavy Industries holds the remaining 49% of Rongsheng Shipbuilding and undertakes work which does not fall within the restricted business of shipbuilding. Our PRC legal advisor is of the opinion that Rongsheng Heavy Industries' shareholding structure and scope of business are in compliance with the relevant laws and regulations of the PRC. The amounts paid to Rongsheng Shipbuilding during each of the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010 were nil, approximately RMB17.2 million, approximately RMB179.4 million and RMB89.3 million, respectively, representing nil, approximately 0.4%, approximately 2.4% and 1.4% of our cost of sales for the above periods.

Future Expansion

According to the "Plan on Adjusting and Revitalizing the Shipbuilding Industry" and the "Notice of Several Opinions on Curbing Overcapacities and Redundant Constructions in Certain Industries and Guiding the Healthy Development of Industries" promulgated on June 9, 2009 and September 26, 2009, respectively (the "**Notice**"), during the three years starting from the date of the Notice, the relevant governmental departments will no longer accept applications for new drydock or slipway construction projects, will suspend the examination and approval of projects expanding existing shipyards or berths of ship-building enterprises, and will guide shipbuilding enterprises to utilize their existing shipbuilding facilities to manufacture offshore and marine equipment.

On March 11, 2008, the NDRC approved the reconstruction of our four drydocks with dimensions of 102m x 464m, 102m x 530m, 106m x 530m and 139.5m x 380m, respectively. On June 11, 2010, the Development and Reform Commission of Rugao City, Jiangsu Province put on record the reconfiguration of our fourth drydock revising its dimensions to 139.5m x 580m upon the completion of the reconstruction. On June 29, 2010, the Jiangsu Economic and Information Technology Commission issued a letter, which confirmed that the change in the dimension of our fourth drydock from 139.5m x 380m to 139.5m x 580m is in compliance with PRC industry policies. Our PRC legal advisor, Commerce & Finance Law Offices, is of the view that we have obtained all of the necessary approvals from the relevant PRC governmental authorities for the reconstruction and technical reconfiguration of our four drydocks. Given that we have no intention to construct additional drydocks or to further expand of our existing drydocks beyond what has already been authorised, we and our PRC legal advisor are of the view that the Notice has no impact on our businesses or operational activities.

Based on discussions with Commerce & Finance Law Offices and due diligence conducted, the Joint Sponsors are of the view that the Notice is not expected to have an impact on the Group's ability to perform or complete its existing contracts with its customers, nor is it expected to have an impact on the Group's ability to take up or enter into any additional new orders after the Listing, as such orders are being fulfilled utilizing the Group's existing production capabilities. With regard to the expansion plan in the Group's shipbuilding and offshore engineering segments disclosed in this prospectus, such plan had already been approved by the relevant authorities before the issuance of the Notice, therefore the Joint Sponsors are of the view that the Notice will not have any impact on the implementation of such expansion plan, as disclosed in this prospectus.

Please refer to "Appendix V — Summary of the Relevant PRC Laws and Regulations" to this prospectus for a description of the PRC laws and regulations applicable to our Group.

Important PRC Approvals

We require various approvals, licenses and permits in order to operate our business and are required to comply with applicable regulatory and legal requirements including in relation to health and safety standards and environmental requirements in respect of our production processes. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that we are in compliance with relevant laws and regulations of the PRC in relation to the incorporation and standing of each of our PRC subsidiaries and their respective business and had obtained all necessary approvals, permits and licenses required for our operations as of the Latest Practicable Date.

Non-compliance with the Companies Ordinance

Pursuant to section 111 of the Companies Ordinance, a Hong Kong company shall in each year (except for the first eighteen months from its incorporation) hold an annual general meeting in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it, while pursuant to Section 122 of the Companies Ordinance, the directors of a Hong Kong company must cause the profit and loss account and balance sheet of the company to be made up and laid before the company and its shareholders at each of its annual general meetings.

For the years 2007 and 2008, no valid annual general meeting was convened for six of our Hong Kong incorporated subsidiaries, namely, Wellbo Holdings, Hinco International, Pacific Atlantic, Wenca Development, Sinwell (H.K.) and Asiafair International. These Hong Kong incorporated subsidiaries also failed to lay their audited accounts before the annual general meetings for the same periods.

In relation to the abovementioned non-compliance with Sections 111 and 122 of the Companies Ordinance, 12 applications have been made to the Court of First Instance of the High Court of the Hong Kong Special Administrative Region for orders for: (i) annual general meetings of our six subject subsidiaries for the years 2007 and 2008 be held within 14 days after the making of the relevant court orders; and (ii) an extension of time for laying accounts before the six subject subsidiaries and their respective shareholders in general meetings. The Court of First Instance of the High Court of the Hong Kong Special Administrative Region has granted the orders and all relevant general meetings have been held and all relevant audited accounts have been subsequently laid before general meetings of these companies in compliance with the time specified in the court orders.

Other Laws and Regulations

Shipbuilding

The vessels we construct are required to meet the standards defined by the classification society designated in our shipbuilding contracts with our customers as well as the requirements of a number of national and international organizations that license the vessel's operation following delivery:

Requirements of the designated classification societies

Classification societies are organizations that establish and apply technical standards in relation to the design, construction and survey of marine related facilities including vessels and offshore structures. A classification survey is a visual examination which normally consists of:

- an overall examination of the items for survey;
- detailed checks of selected parts; and
- witnessing tests, measurements and trials where applicable.

Vessels that we have constructed have been approved by various classification societies, including the following:

Classification Society		Country
DNV	Det Norske Veritas	Norway
ABS	American Bureau of Shipping	United States of America
LR	Lloyd's Register Society	United Kingdom
GL	Germanisher Lloyd	Germany
CCS	China Classification Society	PRC

Two types of classification certificates can be issued by classification societies. One is a classification certificate issued to a vessel that has been designed and built to the relevant published rules of a particular society, while the other is a statutory certificate issued on behalf of the flag state administration for registration of a vessel under a particular flag state. A vessel that has been designed and built according to the appropriate rules of a society or the flag state administration may apply for a certificate of classification from that society. The society issues this certificate upon completion of relevant classification surveys.

A classification certificate is necessary to certify that the vessel is in compliance with the applicable rules and regulations of the country of registry and the international conventions of which that country is a member. The flag state refers to that authority under which a country exercises regulatory control over the vessel that is registered under its flag. Through international conventions, a flag state has the duty to exercise its jurisdiction and control in administrative, technical and social matters over vessels carrying its flag. It also has the authority to implement measures for vessels carrying its flag as are necessary to ensure safety at sea.

International conventions have been agreed, setting out uniform standards to facilitate the acceptance of a vessel registered in one country in the waters and ports of another and in the general furtherance of safety at sea and protection of the environment. These standards are commonly referred to as "statutory" requirements. Broadly, they cover three distinct areas:

- aspects of the vessel's design and its structural integrity — load line and stability in an intact and damaged condition, essential propulsion, steering equipment, etc;
- accident prevention, including navigational aids and pollution and fire prevention; and
- the situation after an accident (fire, flooding) including containment and escape.

International conventions, such as the International Convention for the Safety of Life at Sea, or SOLAS, permit the flag state to delegate the inspection and survey of vessels to classification societies.

A classification society so delegated is responsible and accountable to the flag state for the work that it carries out on its behalf. The principles of the inspection and survey works are the same as in classification surveys, that is the verification by the classification society that a vessel is in compliance with the applicable requirements at the time of the survey. The scope of these inspections and surveys regarding safety and pollution prevention is established by the flag state in compliance with the relevant international conventions to which it is a signatory.

Our shipbuilding contracts with our customers specify the appropriate classification society that will define the detailed framework concerning, among other things, the technical specifications and requirements and the structure of the vessel. In addition, our shipbuilding contracts will also stipulate that the designated classification society's rules and requirements shall be observed throughout the course of the vessel's construction.

To this end, the classification society designated by our customer typically undertakes day-to-day supervision of the construction process via its classification surveyor who works closely with our customer's representative as well as our management and project team at our shipyard as well as at the premises of our subcontractors and suppliers, where necessary. We are required to undertake or permit inspections and tests of the contract work to ensure compliance with the society's standards. The testing and commissioning as well as the sea trials for the vessels we construct are also undertaken with the attendance of the relevant classification surveyor. We have established strategic cooperation with four well-recognized international classification societies: DNV, ABS, GL and CCS. We entered into a strategic cooperation agreement with DNV with an effective term of five years from March 1, 2008. Pursuant to the agreement, inter alia, we agree to use our commercial efforts to persuade the ship/offshore unit owners applying DNV class in the projects and assist DNV in inspecting the ships and offshore units with in-site services to customers. Among other things, DNV agrees to: (i) support us in new-building of merchant vessels and offshore projects and provide consulting, design review services in developing new projects; and (ii) give us priority in the design approval and ensure punctuality, on best effort basis, of return of approved documents. We also agree to do collaborative market promotion by marketing campaigns, catalogues, trade shows among the maritime and offshore customers. DNV has set up a joint training center with us in our shipyard as the training base for its global management and ship surveyors.

Upon completion of the sea trial and for the purposes of delivery, we are required to furnish our customers with certificates issued by the designated classification society including, among other things, the classification certificate.

Requirements of the regulatory authorities

Vessels we construct must also comply with the rules for vessels of their type and size promulgated by a number of relevant regulatory authorities that may comprise of maritime authorities of the country of registration and of nations to which it is likely to trade or transit, such as the Panama and Suez canals. In such cases, our shipbuilding contract will stipulate that the classification surveyor shall issue us the necessary certificates, including Panama tonnage certificates and Suez tonnage certificates as part of the delivery documents.

In addition, vessels must also meet the requirements of various conventions adopted by the IMO. The IMO has developed a body of international conventions, codes and recommendations for implementation by its signatory countries. These requirements vary depending on the type of vessel involved as well as the expected nature and range of its trading activities.

Offshore Engineering

We are subject to industry standards that govern our offshore engineering business, both domestically and internationally, such as CCS, LR rules, DNV Rules, ABS Rules, BV Rules, GL Rules, IMO, API and AWS.

Marine Engine Building

Approval from the NDRC is required for engaging in the building of marine diesel engines. On March 6, 2009, Rong An Power Machinery obtained the approval of the NDRC in relation to the building of marine diesel engines (Fa Gai Chan Ye [2009] No.636).

Engineering Machinery

Hydraulic excavators and crawler cranes, being our two major products in the engineering machinery segment, are products listed in the directory of special equipment regulated by the PRC government, the production of which requires special equipment manufacture licenses. We have obtained such licenses for the production of our engineering machinery.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Immediately after completion of the Capitalization Issue, the Global Offering and exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the indicative Offer Price range and the Over-allocation Option is not exercised, and excluding any Shares which may be issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme), Fine Profit will be entitled to exercise voting rights of approximately 52.1% of the Shares and Mr. Zhang through his control of the entire issued share capital of Fine Profit and Wealth Consult will control the exercise of approximately 53.7% of the Shares eligible to vote in the general meeting of our Company.

Apart from our Company, Mr. Zhang owns a number of other companies which are engaged in, among other things, property development and other businesses in the PRC, including Glorious Property Holdings. Mr. Zhang is also the ultimate controlling shareholder of Rongsheng Investment. Under the Foreign Investment Industries Catalogue, a Chinese party is required to have an interest of no less than 51% of the equity interest in a company engaged in the repairing, designing or manufacturing of shipping vessels. The repair, design and manufacture of marine engineering equipment and the design and manufacture of the low-speed and medium-speed marine diesel engines are encouraged but the foreign ownership in such companies is allowed also only up to 49% as well. As such, Rongsheng Investment is currently required to maintain ownership of no less than 51% of Rongsheng Shipbuilding, through which our shipbuilding operations are conducted and Rong An Power Machinery was owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Our PRC legal advisor has advised that the 51% shareholding held by Rongsheng Investment in Rongsheng Shipbuilding could not be transferred to and held by another subsidiary of the Company under the Foreign Investment Industries Catalogue. However, notwithstanding the fact that Rongsheng Shipbuilding is majority owned by Rongsheng Investment, it is treated as a subsidiary of our Group by virtue of the fact that we have signed:

(a) a shareholders' agreement entered into between Rongsheng Heavy Industries and Rongsheng Investment dated January 8, 2009 but effective as of May 21, 2008 (the "**Shareholders' Agreement**") and as supplemented by a supplemental agreement entered into between Rongsheng Heavy Industries and Rongsheng Investment dated October 18, 2010 but effective as of May 21, 2008 (the "**Supplemental Shareholders' Agreement**", together with the Shareholders' Agreement, the "**Shareholders' Agreements**");

(b) an exclusive consulting and services agreement entered into among Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment dated October 20, 2010 (the "**Services Agreement**" and, together with the Shareholders' Agreements, the "**Structure Agreements**").

Prior to the transfer of equity interests from Hinco International to Rongsheng Heavy Industries (the "**Share Transfer**") and the Shareholders' Agreement taking effect, the Group owned its 49% interest in Rongsheng Shipbuilding through Hinco International. The Group was able to govern and control the financial and operating policies of Rongsheng Shipbuilding pursuant to the following undertakings all dated September 7, 2007:

(a) an undertaking signed by Zhang De Huang and Gao Qiang (in their capacity as directors of Rongsheng Shipbuilding appointed by Rongsheng Investment) pursuant to which they undertook to exercise their rights as Rongsheng Shipbuilding's directors according to the instructions of Rongsheng Investment and Mr. Zhang;

(b) an undertaking signed by Zhang De Huang and Gao Qiang (in their capacity as directors of Rongsheng Investment) pursuant to which they undertook to exercise their rights as Rongsheng Investment's directors according to the instructions of Mr. Zhang;

(c) an undertaking signed by Zhang De Huang (in his capacity as the legal representative of Rongsheng Investment) and Mr. Zhang pursuant to which Rongsheng Investment agreed that Mr. Zhang has the absolute right to remove and appoint the representatives to sit in the board of directors of Rongsheng Shipbuilding; and

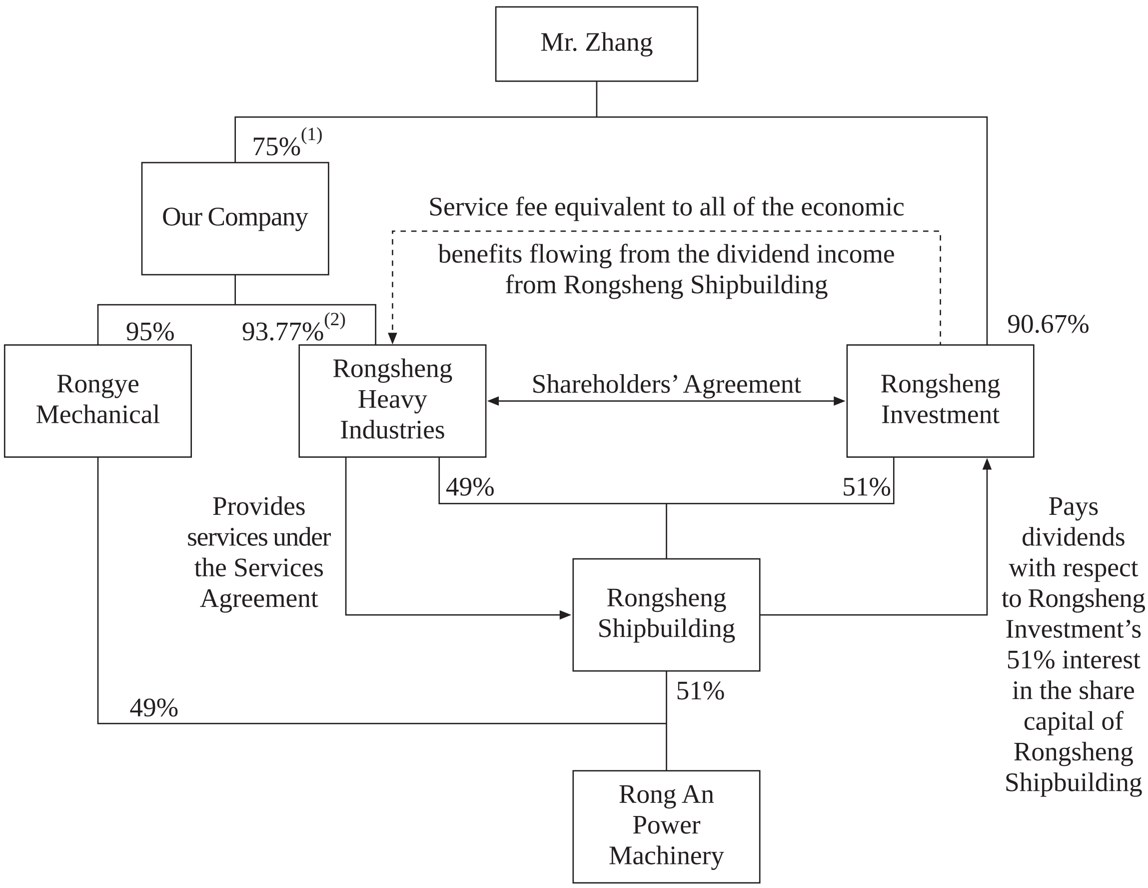
(d) an undertaking signed by Mr. Zhang who agreed that the directors appointed by Rongsheng Investment must vote the same way as those of Hinco International.

Accordingly, before the Share Transfer, the Group was able to consolidate the results of Rongsheng Shipbuilding as a 49% owned subsidiary of Hinco International.

After the Share Transfer, our Group was still able to consolidate the results of Rongsheng Shipbuilding as a 49% owned subsidiary of Rongsheng Heavy Industries as the Shareholders' Agreement entitles our Group to govern and control the financial and operating policies of Rongsheng Shipbuilding.

Commencing on the effective date of the Services Agreement (which is the Listing Date), Rongsheng Heavy Industries will enjoy 100% of the economic benefit from Rongsheng Shipbuilding and our Group will receive approximately 93.8% of the economic benefit from Rongsheng Shipbuilding (as we own Rongsheng Heavy Industries Holdings as to 98.5% which in turn owns Rongsheng Heavy Industries as to 95.2%).

A brief diagram illustrating the Structure Agreements is set out below:



Notes:

(1) *Mr. Zhang's effective interest over the Company is calculated without taking into account completion of the Global Offering and the exchange of the Exchangeable Notes and assuming that the Over-allocation Option and the option granted under the Pre-IPO Share Option Scheme and the option which may be granted under the Share Option Scheme are not exercised.*

(2) *Effective economic interest, based on the Company's 98.5% interest in Rongsheng Heavy Industries Holdings, which in turn indirectly holds a 95.2% interest in Rongsheng Heavy Industries.*

The details of the Structure Agreements are outlined below:

The Shareholders' Agreements

The Shareholders' Agreement was entered into between Rongsheng Heavy Industries and Rongsheng Investment on January 8, 2009 but effective as of May 21, 2008 as supplemented by the Supplemental Shareholders' Agreement entered into by the same parties dated October 18, 2010 but effective as of May 21, 2008. Pursuant to the terms of the Shareholders' Agreements, the parties have agreed:

- that Rongsheng Investment will not transfer any of its interest in Rongsheng Shipbuilding to any third party without our prior consent;
- that Rongsheng Heavy Industries shall have the right to nominate the general manager and chief financial officer of Rongsheng Shipbuilding;
- that all principal decisions with respect to Rongsheng Shipbuilding — for example, with respect to changes in registered capital, investments and the granting of any mortgages or charges over the assets of Rongsheng Shipbuilding — will only be made upon unanimous shareholders' approval;
- that Rongsheng Investment will vote in accordance with the vote of Rongsheng Heavy Industries at any shareholders' meetings of Rongsheng Shipbuilding;
- that upon the occurrence of any change to PRC regulation or policy that allows majority foreign-ownership of companies engaged in the shipbuilding industry in China, Rongsheng Investment shall transfer its interest in Rongsheng Shipbuilding to us at a price determined based on an independent valuation to be determined by an accredited international appraiser; and
- that (i) Rongsheng Investment shall procure that the directors of Rongsheng Shipbuilding appointed by it will resolve in favor of dividend distribution proposals recommended by the directors of Rongsheng Shipbuilding appointed by Rongsheng Heavy Industries; (ii) Rongsheng Shipbuilding's board of directors shall implement dividend distribution policy accordingly; and (iii) Rongsheng Investment shall vote the same way as Rongsheng Heavy Industries in accordance with the proposal of Rongsheng Heavy Industries with respect to the distribution of dividends.

The Services Agreement

The Services Agreement was entered into on October 20, 2010 among Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment. The Services Agreement is effective on the date of Listing Date and may only be terminated with the approval of our independent non-executive Directors. The key provisions of the Services Agreement are as follows:

- Rongsheng Heavy Industries agrees to provide shipbuilding technology guidance, support and improvements, engineering supervision, acceptance testing and other support work related consulting and services to Rongsheng Shipbuilding (the "**Services**");
- Rongsheng Investment agrees 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);
- 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; and
- In case of breach of the Services Agreement by Rongsheng Investment in relation to its obligation to pay thereunder, Rongsheng Heavy Industries has the right to appoint any then Director of our Company to commence arbitration proceedings pursuant to the arbitration clause thereunder to

claim the payment of the services fee and related interests and all other damages. In addition, with a view to protect its interests, Rongsheng Heavy Industries has the right to take all available legal measures including applying to competent courts for interim injunctive reliefs before an award is made by the arbitral tribunal.

The Services Agreement is for a period of twenty years, which shall be automatically renewed for subsequent periods of ten years upon request of Rongsheng Heavy Industries. The term of the Services Agreement is to mirror that of the Shipbuilding Agency Agreement. The Services Agreement does not provide for early termination and termination is subject to approval by the independent non-executive Directors. Although Rongsheng Shipbuilding is the direct recipient/beneficiary of the services provided under the Services Agreement, Rongsheng Investment is an indirect beneficiary of the services in light of its holding of the 51% equity interest in Rongsheng Shipbuilding. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that under PRC law, it is not necessary that fees or consideration be paid for services or that, if paid, they be paid by the direct recipient/beneficiary of those services. It is therefore open for parties to agree upon commercial arrangements such as those contemplated by the Services Agreement.

Neither Rongsheng Investment nor Mr. Zhang will obtain or receive any financial or economic benefit from their interest in Rongsheng Shipbuilding under the arrangements contemplated by the Structure Agreements (other than, in the case of Mr. Zhang, through his indirect controlling interest in our Company) despite holding direct and indirect equity interests in Rongsheng Shipbuilding, respectively. As described above, the Structure Agreements ensure that:

- we are able to exercise effective control over Rongsheng Shipbuilding;
- we are able to receive approximately 93.8% of the economic benefits from Rongsheng Shipbuilding;
- we are able to consolidate the accounts of Rongsheng Shipbuilding into the accounts of the Group as if it were a wholly-owned subsidiary of Rongsheng Heavy Industries;
- we have a contractual right to acquire the equity interest in Rongsheng Shipbuilding not currently owned by the Group upon a change of relevant PRC laws; and
- Mr. Zhang does not take advantage of his position as controlling shareholder of the Company.

Our PRC legal advisor has advised us that: (i) the Structure Agreements are valid, binding and enforceable; (ii) the Structure Agreements do not contravene existing PRC laws or regulations; (iii) the Structure Agreements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; (iv) the Structure Agreements are in full compliance with the provisions of the articles of association of Rongsheng Investment, Rongsheng Heavy Industries and Rongsheng Shipbuilding; (v) Rongsheng Heavy Industries, Rongsheng Investment and Rongsheng Shipbuilding are not required to obtain any approval from the PRC authorities in relation to the signing and implementation of the Structure Agreements; and (vi) Mr. Zhang's investment in Rongsheng Shipbuilding through Rongsheng Investment and Rongsheng Heavy Industries and the business operation of Rongsheng Investment since its establishment have complied with all relevant PRC laws and regulations in relation to shipbuilding business.

Pursuant to the Shareholders' Agreement, Rongsheng Heavy Industries has the power to govern the financial and operating policies of Rongsheng Shipbuilding so as to obtain benefits from its activities. Pursuant to the Services Agreement, Rongsheng Investment has agreed to pay Rongsheng Heavy Industries a service fee (in consideration for the services stipulated in the Services Agreement) equivalent to the dividend income received as a result of its 51% equity interest in Rongsheng Shipbuilding.

As Rongsheng Investment will pay all its dividend income received from Rongsheng Shipbuilding to Rongsheng Heavy Industries, Rongsheng Heavy Industries would enjoy 100% of the economic benefit from Rongsheng Shipbuilding. Since Rongsheng Heavy Industries is a 95.2% subsidiary of Rongsheng Heavy Industries Holdings, which is owned by our Company as to 98.5%, our Group will receive approximately 93.8% of the economic benefit from Rongsheng Shipbuilding when the Services Agreement becomes effective on the Listing Date (prior to which our Group only consolidated approximately 45.9% of the financial results of Rongsheng Shipbuilding). Entering into the Structure Agreements does not affect the business operation of our Group, which will continue to be conducted in the same manner as it was during the Track Record Period.

Based upon and relying on the professional advice given by the Joint Sponsors' PRC legal advisor, Jun He Law Offices, and with the support of the legal opinions from Jun He Law Offices and the Company's PRC legal advisor, Commerce & Finance Law Offices, the Joint Sponsors are of the view that the Structure Agreements are: (i) valid, binding and enforceable; (ii) do not contravene existing PRC laws or regulations; (iii) narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations; and (iv) in full compliance with the provisions of the articles of association of Rongsheng Investment, Rongsheng Heavy Industries and Rongsheng Shipbuilding.

Our Company and our Directors, including our independent non-executive Directors, are of the view that (i) the Structure Agreements are fundamental to the Company's legal and operating structure and (ii) the Services Agreement was entered into in the Company's ordinary and usual course of business, on normal commercial terms (or better to the Company) and is fair and reasonable and in the interests of the Company's shareholders as a whole. The Company and its Directors, including the independent non-executive Directors, also believe that the nature of the arrangement whereby the financial results of Rongsheng Shipbuilding are consolidated into our Company's consolidated financial results as if it was a wholly-owned subsidiary of Rongsheng Heavy Industries and the financial and economic benefits of its business flow to our Group, places the Services Agreement in a special position in relation to the connected transaction rules under the Listing Rules. The Hong Kong Stock Exchange has agreed to grant a conditional waiver from strict compliance with the announcement and shareholders' approval requirements, the annual cap requirement, and the requirement that the term of the agreements be of a duration not exceeding three years under Chapter 14A of the Listing Rules. In addition to the current Structure Agreements, there may be other agreements entered into between our Group and Rongsheng Shipbuilding and its subsidiaries. Given that the financial results of Rongsheng Shipbuilding are consolidated into our Group's financial results as if it were a wholly-owned subsidiary of Rongsheng Heavy Industries, and given the relationship between our Group and Rongsheng Shipbuilding created by the Structure Agreements, transactions between our Group and Rongsheng Shipbuilding and its subsidiaries will be exempted from the "continuing connected transactions" provisions set out in Chapter 14A of the Listing Rules.

The waiver from the Stock Exchange is based on our Company and other relevant parties undertaking to comply with the following conditions:

a) There will be no change to the terms of Structure Agreements without our independent Shareholders, and independent non-executive Directors' approval;

b) We will disclose details relating to the Services Agreement on an ongoing basis as follows:

    a. The Services Agreement will be disclosed in our annual report and accounts in accordance with the relevant provisions of the Listing Rules;

    b. Our independent non-executive Directors will review the Services Agreement annually and confirm in our annual report and accounts for the relevant year that:

        i. the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Services Agreement and have been operated so that any profits generated by Rongsheng Shipbuilding have been retained by our Group;

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

        iii. Rongsheng Heavy Industries has obtained its entitlement under the Services Agreement.

c) Our auditors will carry out review procedures annually on the transactions carried out pursuant to the Services Agreement and will provide a letter to the board of directors, with a copy to the Listing Division of the Hong Kong Stock Exchange, at least ten business days before we bulk print our annual report, confirming that the transactions have received the approval of the board of directors, have been entered into in accordance with the Services Agreement and that all dividends and other distributions have been paid solely to the Group;

d) Rongsheng Investment will undertake that, for so long as our Company's Shares are listed on the Hong Kong Stock Exchange, it will provide our Group and its auditors with access to relevant accounting records for the purpose of our Group's auditors' review of all relevant transactions; and

e) Mr. Zhang will undertake to procure that, for so long as he remains controlling shareholder of our Company, he will provide us and our auditors with access to relevant accounting records of Rongsheng Investment (if so required) for the purpose of the Group's auditors' review of all relevant transactions and will procure Rongsheng Investment's compliance with its obligations set out in the Structure Agreements.

For the purposes of Chapter 14A of the Listing Rules, the directors, chief executive or substantial shareholders (other than Rongsheng Heavy Industries) of Rongsheng Shipbuilding and their respective associates will continue to be treated as connected persons and transactions between these connected persons and our Group shall comply with Chapter 14A of the Listing Rules.

We consider that the main purposes of the Structure Agreements are to allow our Group to exercise effective control over Rongsheng Shipbuilding and to receive substantially all the economic benefits from Rongsheng Shipbuilding, as a result of which potential conflicts of interest between the Controlling Shareholders and the public shareholders of our Company arising from the shareholding structure of Rongsheng Shipbuilding can be minimized. Our PRC legal advisor, Commerce & Finance Law Offices and the Joint Sponsors' PRC legal advisor have advised that the Structure Agreements are valid, binding and enforceable and do not contravene existing PRC laws and regulations. On the basis of the foregoing and the Directors' view in relation to the Structure Agreements set out above, the Joint Sponsors are of the view that the Structure Agreements are fundamental to our Group in relation to (i) minimizing potential conflicts of interest between the Controlling Shareholders and other public shareholders of the Company arising from the shareholding structure of Rongsheng Shipbuilding and (ii) the continuing operation of our shipbuilding business through Rongsheng Shipbuilding while enabling our Group to receive substantially all of the economic benefits of Rongsheng Shipbuilding.

Our legal advisor, Commerce & Finance Law Offices, advised that according to the relevant PRC laws and regulations, (i) if Rongsheng Heavy Industries commences arbitration proceedings against Rongsheng Investment in case of breach by Rongsheng Investment of the Services Agreement, and (ii) if Rongsheng Heavy Industries believes that the conduct of Rongsheng Investment may result in a future arbitral award becoming unable to be carried out or difficult to be carried out, then it has the right to apply to equal competent court to preserve the assets of Rongsheng Investment. The court, at its sole discretion, may then preserve the assets of Rongsheng Investment by sealing up, the assets. In such case the courts may request Rongsheng Heavy Industries to provide assets of a value as guarantee.

Share Pledge

Rongsheng Investment entered into a share pledge of its 51% equity interest in Rongsheng Shipbuilding in favor of Rongsheng Heavy Industries dated October 20, 2010 as a security for guaranteeing the performance of its obligations under the Structure Agreements.

Based on the opinion of the Company's PRC legal advisor, Mr. Zhang was a PRC citizen at the time of the establishment of Rongsheng Investment as a RMB-funded domestic enterprise in February 2004, and pursuant to the "Provisions on Mergers and Acquisitions of a Domestic Enterprise by Foreign Investors" promulgated by MOFCOM on September 8, 2006, the change in citizenship of a natural person shareholder of a domestic enterprise does not affect the nature of the domestic enterprise. Therefore, the Company's PRC legal advisor is of the opinion that Rongsheng Investment remains a domestic enterprise after Mr. Zhang changed his citizenship. As such, the majority ownership of Rongsheng Shipbuilding by Rongsheng Investment, which is ultimately controlled by Mr. Zhang, who became a Hong Kong resident on October 4, 2004, would not violate the requirements of the Foreign Investment Industries Catalogue.

Rongsheng Investment is a holding company and does not directly conduct any operations of its own. Other than its 51% interest in Rongsheng Shipbuilding, as at the Latest Practicable Date, Rongsheng Investment owns interests in a number of other companies as set out below:

	Company Name	Interest	Business
1.	Jiangsu Rong Da Chu Yun Company Limited ("Jiangsu Rong Da") (江蘇熔達儲運有限公司)	100%	Storage of fuel
2.	Nantong Rong Tong Haigong Jidian Company Limited ("Nantong Rong Tong") (南通熔通海工機電有限公司)	100%	Design, manufacture and sale of engineering equipment
3.	Nantong Sheng Shi Building Materials Company Limited ("Nantong Building Materials") (南通晟昰建材有限公司)	80%	Wholesale and retail sale of building materials
4.	Nantong Accessories	100%	Infrastructure construction
5.	Rugao Ru Gang Xin Cheng Development Investment Company Limited ("Rugao Development") (如皋市如港新城開發投資有限公司)	80%	Infrastructure investment
6.	Feng Hui Leasing Company Limited ("Feng Hui Leasing") (豐匯租賃有限公司)	100%	Equipment leasing
7.	Jiangsu Rong De Zhi Education Investment Company Limited ("Jiangsu Education") (江蘇熔德智教育投資有限公司)	100%	Education investment

Jiangsu Rong Da does not engage in any business that competes, either directly or indirectly, with the business of our Group. None of Jiangsu Rong Da, Nantong Rong Tong or Rugao Development have commenced operations since their respective dates of incorporation.

We do not expect to purchase any materials or accessories from these companies after our Listing.

Feng Hui Leasing was acquired by Rongsheng Investment in June 2010 to engage in the business of equipment leasing.

To the extent that the businesses of any of the above companies compete or are likely to compete with that of our Group, they are expected to be acquired by us.

As Rongsheng Investment is ultimately controlled by Mr. Zhang, who is also a substantial shareholder of Rongsheng Shipbuilding, one of our subsidiaries, it is a connected person of our Company pursuant to the Listing Rules. As such, any transactions between our Group, on the one hand, and Rongsheng Investment and any of its subsidiaries and associates (other than Rongsheng Shipbuilding and its subsidiaries), on the other hand, will constitute connected transactions for our Company under the Listing Rules. For a description of our connected transactions, please refer to the section headed "Connected Transactions" in this prospectus.

In addition to the abovementioned agreement with Rongsheng Investment that provides for the transfer of its interest in Rongsheng Shipbuilding to us in the event of a change to relevant PRC laws allowing majority foreign-ownership in companies engaging in the shipbuilding industry in China, to ensure that competition will not exist in the future, Mr. Zhang and Fine Profit entered into the Deed of Non-compete Undertaking with our Company on October 24, 2010 pursuant to which each of Mr. Zhang and Fine Profit undertook that save for their interests in our Group, including Rongsheng Shipbuilding, they will not, and will procure that their associates (other than members of our Group) will not, directly or indirectly participate in, or hold any right or interest in, or otherwise be involved in any business engaged in the design, manufacture, marketing and sale of ships, offshore engineering, marine engines and engineering machinery in the PRC.

The Deed of Non-compete Undertaking will lapse automatically upon the earlier of: (i) Mr. Zhang and Fine Profit ceasing to be a Controlling Shareholder of our Company or (ii) the Shares ceasing to be listed and traded on the Stock Exchange.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-compete Undertaking includes the following provisions:

- the independent non-executive Directors will review, at least on an annual basis, compliance with the Deed of Non-compete Undertaking by the Controlling Shareholders;
- each of the Controlling Shareholders has undertaken to us that it/he will provide all information necessary for the annual review by the independent non-executive Directors for enforcement of the Deed of Non-compete Undertaking;
- we will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-compete Undertaking in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and
- Mr. Zhang and Fine Profit will make an annual declaration in our annual report on the compliance with the Deed of Non-compete Undertaking in accordance with the principle of voluntary disclosure in the corporate governance report.

The Deed of Non-Compete Undertaking does not apply to ownership of shares in any company whose shares are listed on the Stock Exchange or on any other stock exchange and which competes with our Group provided that such shares do not exceed 5% of such listed company's issued share capital and provided further that at no time shall Mr. Zhang and/or his associates participate in the management of such company.

MANAGEMENT INDEPENDENCE

Our Board is currently comprised of seven executive Directors, one non-executive Director and three independent non-executive Directors. Except for Mr. Zhang, no other directors of our Controlling Shareholders hold any directorship in our Company.

Notwithstanding the interests of our Controlling Shareholders in other companies outside of our Group, we consider that our Board will function independently from the Controlling Shareholders because:

(a) each Director is aware of his fiduciary duties as a Director of our Company, which require, among other things, that he act for the benefit and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interest;

(b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum; and

(c) our Board comprises 11 Directors, three of which are independent non-executive Directors, which satisfies the requirements under the Listing Rules to have at least three independent non-executive directors on the board.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Global Offering.

FINANCIAL INDEPENDENCE

We have our own accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and we make financial decision according to our own business needs. All outstanding loans or guarantees provided by our Controlling Shareholders will be repaid or released (as applicable) prior to the Listing Date. Out of the shareholder's loans of RMB1.7 billion (equivalent to approximately US$250 million) used to redeem the Series A Preferred Shares, the Company has already repaid approximately US$210 million and the outstanding amount was approximately US$40 million, which is expected to be settled by using part of the net proceeds from the Global Offering. All non-trade and financing balances with related parties (as at December 31, 2009) are expected to be fully settled before Listing. Corporate guarantees given by Mr. Zhang's associates have been released and/or replaced by that of the Company effective on the Listing Date.

On the basis of the information provided in this section, we believe that we are capable of carrying on our business independently of the Controlling Shareholders and their respective associates. Our Company, the Controlling Shareholders and their respective associates, did not have any common or shared facilities or resources during the Track Record Period and up to the Latest Practicable Date.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, each of our substantial shareholders, Directors and chief executive officers or those of our subsidiaries and any person who was our Director or a director of our subsidiaries within 12 months preceding the Listing Date and any of their associates will constitute a connected person of our Company. Upon the listing of our Shares on the Hong Kong Stock Exchange, our transactions with such connected persons will constitute connected transactions for our Company under Chapter 14A of the Listing Rules.

Our Directors confirm that the following transactions, which will continue after the listing of our Shares on the Hong Kong Stock Exchange, will constitute continuing connected transactions for us in accordance with Chapter 14A of the Listing Rules.

(A) Continuing connected transactions which are exempt from the reporting, announcement and independent shareholders' approval requirements

(i) ***Leasing of cranes***

During the year ended December 31, 2009 the Group, through its subsidiary, Rongsheng Heavy Industries, leased certain cranes from Shanghai Di Tong Construction (Group) Company Limited (上海地通建設(集團)有限公司) ("**Di Tong**"). The aggregate amount paid by Rongsheng Heavy Industries to Di Tong for the crane leases during the year was RMB977,000 (approximately HK$1,136,000).

Di Tong is ultimately controlled by Mr. Zhang's father, Mr. Zhang De Huang. It is therefore considered a connected person of our Company and transactions between our Group and Di Tong will constitute connected transactions for our Group under the Listing Rules. Since the amount expected to be paid by Rongsheng Heavy Industries to Di Tong will be less than HK$1 million and each of the applicable percentage ratios (other than the profit ratio) for the crane leases is expected to be less than 1% on an annual basis, the transactions under the crane leases will constitute continuing connected transactions for our Company that are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

(ii) ***Shareholder's loan to Zhenyu Engineering Machinery by Mr. Hu***

Mr. Hu owns Zhenyu Engineering Machinery as to 5% and is a director of Zhenyu Engineering Machinery.

According to a loan agreement dated April 23, 2010 entered into between Mr. Hu and Zhenyu Engineering Machinery, Mr. Hu agreed to lend to Zhenyu Engineering Machinery a shareholder's loan in the principal amount of RMB20,000,000.00 as general working capital. The loan is repayable by us one year after the date of signing of the agreement. Interest on the loan is payable quarterly and is charged according to the prevailing rate charged by banks for the same period. As the loan is for our benefit and on normal commercial terms, and does not involve the granting of any security over our assets, it is exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules pursuant to Rule 14A.65(4) of the Listing Rules.

(B) Continuing connected transactions which are subject to the reporting, announcement and independent shareholders' approval requirements

During the Track Record Period, the Group, through its subsidiaries, namely Rongsheng Heavy Industries, Rongsheng Shipbuilding, Rong An Power Machinery and Rongye Storage, entered into several contracts with Di Tong pursuant to which Di Tong provided certain construction and installation services to the Group with respect to the development of the Group's manufacturing facilities (the "**Construction Contracts**"). The work under the contracts is not expected to be completed until 2012, and the Group will therefore continue to pay Di Tong certain amounts for construction and installation services after the Listing Date.

The pricing policy of the Construction Contracts is set out as follows:

(i) Construction projects - approximately 5% below the index price of construction projects announced by the government of the Jiangsu province;

(ii) Major building materials - approximately 3% below the index price announced by the government of Nantong; and

(iii) Installation materials - approximately 3% below the index price announced by the government of Nantong.

During the three years ended December 31, 2007, 2008 and 2009, the aggregate amounts paid by the Group to Di Tong for construction and installation related services amounted to approximately RMB555 million (approximately HK$645 million), RMB1,267 million (approximately HK$1,473 million) and RMB507 million (approximately HK$590 million), respectively.

We incurred substantially more construction costs for the year ended December 31, 2008 as compared to the other periods as a higher proportion of our construction projects were completed during 2008, including with respect to our drydocks, wharves and other supporting facilities. The costs of construction represent a higher proportion of the overall contract price than pre-construction expenses (e.g. design fees).

The Directors of the Company estimate that the annual caps payable to Di Tong for the construction and installation works for the three years ending December 31, 2010, 2011 and 2012 will not exceed RMB1,491 million (equivalent to HK$1,734 million), RMB1,566 million (equivalent to HK$1,821 million) and RMB796 million (equivalent to HK$926 million), respectively. These annual caps are estimated based on the amounts and works that remain to be paid and incurred by the Group under the contracts already signed.

While the aggregate amount payable under the Construction Contracts will not change, since the payment schedules under the Construction Contracts are linked to the construction completion schedules, which may be subject to adjustments or delays, the amounts payable to Di Tong for construction installation works may be more or less than these estimates in any particular year. When calculating the annual caps, we have taken into account an approximate 10% allowance for adjustments to the payment schedule to reflect the possibility of adjustments to the payment schedule under the Construction Contracts. Our Directors (including the independent non-executive Directors) are of the view that a 10% allowance for adjustments to the payment schedule is reasonable.

Below sets out the annual caps payable to Di Tong by the relevant subsidiaries under the Construction Contracts for the three years ending December 31, 2012:

	Annual Caps		
Name of subsidiary with which the Construction Contracts were entered into	**For the year ending December 31, 2010**	**For the year ending December 31, 2011**	**For the year ending December 31, 2012**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**
Rongsheng Heavy Industries	617,920	1,104,959	550,332
Rongsheng Shipbuilding	583,359	—	—
Rong An Power Machinery	199,465	284,987	245,668
Rongye Storage	90,256	176,054	—
Total	1,491,000	1,566,000	796,000

The above figures have been calculated based on the estimated stage of construction for our wharves, the fourth drydock, painting workshops and other ancillary facilities (including staff dormitories and electricity rooms). We pay the majority of the costs according to the stage of completion of each construction item.

The Group does not award all its construction contracts to Di Tong. Di Tong is primarily engaged for projects involving building of plants and civil engineering projects. Projects involving equipment installation and facility constructions are generally awarded to other contractors.

The Company's PRC legal advisor, Commerce & Finance Law Offices, advised that no public bidding is required under PRC law save for construction projects involving (i) major infrastructure constructions and constructions concerning public interests and public safety; (ii) constructions funded or partly funded by national fund; and (iii) constructions funded by international organizations or foreign governments. The Group confirmed that their construction contracts do not involve projects which require public bidding under PRC law.

The Company will continue to disclose the amounts paid to Di Tong for the remaining work under the contracts in its interim and annual reports and, to the extent that the Group enters into any new contracts with Di Tong for the provision of construction and installation services, the Company will comply with all applicable requirements under the Listing Rules.

(C) Other transactions

(i) *Shipbuilding Agency Agreement*

Under the current PRC law, shipbuilding engineering functions carried out in the drydocks are restricted businesses and only domestic entities are allowed to hold a majority interest in a company carrying on such business. In order to carry out all necessary engineering processes arising from the erection and pre-erection of vessels at the drydocks in compliance with PRC law, Rongsheng Heavy Industries entered into the Shipbuilding Agency Agreement.

On January 1, 2008, Rongsheng Heavy Industries entered into the Shipbuilding Agency Agreement with Rongsheng Shipbuilding pursuant to which the parties agreed, among other things, that:

- Rongsheng Shipbuilding agreed to carry out all necessary shipbuilding engineering processes arising from pre-erection and erection of vessels at its drydocks;
- Rongsheng Shipbuilding agreed to use all of its drydocks at Nantong, Jiangsu Province, as well as its manpower, equipment and other facilities, to carry out all necessary shipbuilding engineering processes arising from erection and pre-erection of vessels at its drydocks on behalf of Rongsheng Heavy Industries;
- Rongsheng Shipbuilding agreed, upon request, to provide Rongsheng Heavy Industries with all necessary paperwork and support to enable Rongsheng Heavy Industries to raise financing for the purpose of funding the construction of ships, including by means of granting security over the ships;
- Rongsheng Heavy Industries agreed to provide independent technical support and engineering supervision in respect of the ship construction process;
- Rongsheng Shipbuilding agreed to be responsible for all maintenance, running and other ongoing costs of the drydocks; and
- Rongsheng Shipbuilding agreed not to sell or provide the drydocks or any related assets to any third party, and not to create any mortgages or pledges over the drydocks;

for a 20-year period commencing on January 1, 2008 and ending on December 31, 2027, subject to extension upon mutual agreement between the parties.

The initial fee payable by Rongsheng Heavy Industries to Rongsheng Shipbuilding under the Shipbuilding Agency Agreement was RMB341 (approximately HK$397) (not including VAT) per DWT, subject to mutual adjustment upon agreement between the parties based on actual requirements of the parties and market conditions. The fee is calculated based on the depreciation and manpower costs of operating the drydocks owned by Rongsheng Shipbuilding plus a margin of 10%. The fee is adjusted from time to time based on the relevant costs associated with the different ships produced, and any amendments are subject to approval by the board of Rongsheng Heavy Industries. A supplemental agreement was signed on January 1, 2010 pursuant to which the fee per DWT was agreed to be amended to between RMB351.90 and RMB546.72 per DWT depending on the type of ship constructed.

During the three years ended December 31, 2007, 2008 and 2009 and eight months ended August 31, 2010, the amounts paid by the Group to Rongsheng Shipbuilding for shipbuilding agency services amounted to nil, approximately RMB17.2 million (approximately HK$20.0 million), RMB179.4 million (approximately HK$208.6 million) and RMB89.3 million (approximately HK$103.8 million), respectively, representing 0%, approximately 0.36% and approximately 2.35% and approximately 1.41% of our costs of sales for the above periods. Pursuant to the principles set out in the Shipbuilding Agency Agreement, during the Track Record Period, Rongsheng Shipbuilding also provided guarantees in respect of several bank loans made to Rongsheng Heavy Industries in order to secure the repayment of loans by Rongsheng Heavy Industries.

As set out in the section headed "Relationship with Controlling Shareholders" in this prospectus, Rongsheng Shipbuilding is treated as a wholly-owned subsidiary of Rongsheng Heavy Industries by virtue of the control exercised over Rongsheng Shipbuilding by Rongsheng Heavy Industries and the fact that Rongsheng Heavy Industries is able to receive all of the economic benefits of Rongsheng Shipbuilding. As such, transactions between the Group and Rongsheng Shipbuilding do not constitute connected transactions for our Group.

(ii) ***Marine Engine Purchase Agreements***

Several of the Group's vessels, including, in particular, the VLOCs produced by the Group, are powered by engines manufactured by Rong An Power Machinery. Rongsheng Heavy Industries therefore enters into contracts with Rong An Power Machinery pursuant to which Rongsheng Heavy Industry purchases engines for installation in the vessels it sells to its customers (each an "**Engine Purchase Agreement**" and together the "**Engine Purchase Agreements**"). The purchases of engines by Rongsheng Heavy Industries from Rong An Power Machinery are conducted on an arms-length basis after Rongsheng Heavy Industries has undertaken a price comparison for comparable products from one or more independent third party manufactures. Rongsheng Heavy Industries will only select Rong An Power Machinery to provide engines under the circumstances where the Group believes that the price, quality and related services offered by Rong An Power Machinery are competitive.

Pursuant to each Engine Purchase Agreement, the purchase price of the engine is inclusive of installation and delivery costs, examination fees, patent fees and insurance cost. Within 30 days of the signing of the Engine Purchase Agreement, Rongsheng Heavy Industries is required to pay an installment equivalent to 40% of the purchase price to Rong An Power Machinery and a further installment equivalent to 40% of the purchase price is payable within 30 days of the commencement of the manufacture of the engine. The remaining 20% of the purchase price is payable within 10 days of the successful testing of the engine. Upon full payment of the purchase price, the engine will be delivered by Rong An Power Machinery to Rongsheng Heavy Industries.

Similar restrictions on majority-foreign ownership apply to marine engine building as they are to companies owning dockyards or engaged in the shipbuilding industry in China. As such, Rongsheng Shipbuilding (which is 51% owned by Rongsheng Investment) holds 51% of the equity interest in Rong An Power Machinery, while the Group holds the remaining 49% interest. However, as set out in the section headed "Relationship with Controlling Shareholders" in this prospectus, Rongsheng Shipbuilding will be treated as a wholly-owned subsidiary of Rongsheng Heavy Industries from the Listing Date by virtue of the control that will be exercised over Rongsheng Shipbuilding by Rongsheng Heavy Industries and the fact that Rongsheng Heavy Industries will be able to receive all of the economic benefits of Rongsheng Shipbuilding.

As Rong An Power Machinery is 49% directly owned by Rongye Mechanical and 51% owned by Rongsheng Shipbuilding, it will therefore be treated as a wholly-owned subsidiary of the Rongsheng Heavy Industries and, as such, transactions between the Group and Rong An Power Machinery will not constitute connected transactions for our Group.

As the first engine from Rong An Power Machinery was not delivered until the first half of 2010, Rongsheng Heavy Industries did not pay Rong An Power Machinery for any marine engine purchases during the three years ended December 31, 2007, 2008 and 2009.

The duration of the Marine Engine Purchase Agreements does not exceed three years.

(iii) ***Shipbuilding contract***

Prior to the reorganization of the Group in 2007 whereby we acquired Rongsheng Heavy Industries through Wellbo Holdings, the shipbuilding business was carried out by Rongsheng Investment. All shipbuilding contracts entered into by Rongsheng Investment were subsequently assigned by way of novation to Rongsheng Heavy Industries following completion of the reorganization. On September 9, 2006, Rongsheng Investment (as the original builder) entered into a shipbuilding contract to construct one 156,000 DWT crude oil tanker for consideration of US$71,400,000, which assigned by way of novation to us (as the builder) on January 8, 2008. In addition, this contract was assigned by way of novation to Roxen Star Maritime Inc. ("**Roxen**") (as the buyer), a company beneficially owned by Mr. Zhang on July 8, 2009 from the original buyer. The original buyer was a Liberian customer which is an Independent Third Party. As far as the Directors are aware, Roxen was in need of a vessel for its business development and has therefore entered into negotiation with the original buyer (which appeared to be in financial difficulty as a result of the tightened credit environment in Greece in 2009) for the novation of the shipbuilding contract. The principal activity of Roxen is shipping oil and, as far as the Directors are aware, the vessel is used for shipping oil. The contract price of the vessel was US$71,400,000 and the vessel has been delivered. The last installment of the contract price (being US$39,270,000) is required to be paid by Roxen before December 31, 2010. The vessel was delivered to Roxen on July 8, 2009. As the shipbuilding contract was entered into prior to the Listing Date, it does not constitute a connected transaction for us.

Waivers

The transactions described in paragraph (B) above constitute non-exempted continuing connected transactions for our Company under Rule 14A.35 of the Listing Rules. The applicable percentage ratios (other than the profit ratio) as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the estimated amounts to be paid each year for each of the transactions shown above are more than 5%. As such, the non-exempted continuing connected transactions in paragraph (B) above would normally require full reporting, announcement and independent shareholders' approval.

Our Directors (including our independent non-executive Directors), confirm that the terms of the transactions set out in paragraph (B) have been entered into in our ordinary and usual course of business, are on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole; and the proposed annual caps for the continuing connected transactions set out in paragraph (B) are fair and reasonable and in the interest of the Shareholders as a whole.

As the set out in paragraph (B) were entered into during the Track Record Period, will only continue for a limited and defined period of time after the Listing Date and have been fully disclosed in this prospectus, we and our Directors believe that strict compliance with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules would add unnecessary administrative costs. Furthermore, as the construction and installation services under those contracts is already well underway, to subject those contracts to independent Shareholders' approval would potentially put the timely completion of the relevant construction and installation projects in jeopardy, and may also lead to our Group breaching the terms of those contracts.

Based on the above, we, have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has agreed to grant, a waiver pursuant to Rule 14A.42(3) of the Listing Rules from strict compliance with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions subject to the condition that the transaction values shall not exceed the relevant estimated annual amounts as stated above. We will comply with all other applicable requirements under the Listing Rules, and will immediately inform the Hong Kong Stock Exchange if there are any changes to these transactions.

Joint Sponsors' view

The Joint Sponsors are of the view that the continuing connected transactions described in paragraph (B) for which waivers were sought have been entered into and will be entered into in our ordinary and usual course of business, are on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole; and the proposed annual caps for the continuing connected transactions set out in paragraph (B) are fair and reasonable and in the interest of the Shareholders as a whole.

Board of Directors

The Board, which oversees its operations through several governing bodies, has ultimate responsibility for the administration of the affairs of the Company. The Board consists of eleven Directors, seven of whom are executive Directors, one of whom is non-executive Director and three of whom are independent non-executive Directors.

Executive Directors

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

Mr. Chen, aged 49, is our chief executive officer and an executive Director. Mr. Chen joined us in 2004 and was appointed as an executive Director on October 24, 2010. He is currently the president of Rongsheng Heavy Industries. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries and Rongsheng Research and Design. Mr. Chen is primarily responsible for overseeing the overall operations of the Group. Mr. Chen obtained his doctorate degree in naval architecture and ocean engineering from Harbin Engineering University (哈爾濱工程大學) and an MBA degree from China Europe International Business School (中歐國際工商學院) in 2002. Mr. Chen obtained a master's degree in professional accounting (EMPAcc) (專業會計碩士) from the Chinese University of Hong Kong and was awarded the CFO Qualifying Certificate from the Shanghai National Accounting Institute (上海國家會計學院) in August 2010. He also obtained a bachelor's degree in marine power engineering from Shanghai Jiao Tong University (上海交通大學) in 1982. Mr. Chen was 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) from 1996 to 1999. Mr. Chen was a deputy general manager and subsequently the vice-chairman to the board of directors and general manager of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司) from 1999 to 2004. 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 2010, the prestigious Norwegian shipping magazine "TradeWinds" ranked him the 41st among the "100 Most Influential People in Shipping Today". He was an original founder of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司), and had led that company to become the top shipbuilding enterprise in the PRC. Mr. Chen enjoys special government allowances granted by the State Council and has won many domestic awards and has been granted many honorary titles, for example, the State Scientific and Technological Progress Second Class Award (國家科學技術進步二等獎) in 1990. Mr. Chen is the vice-president of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), an executive member of the Council of the Shanghai Society of Naval Architects & Marine Engineers (上海造船工程學會), a committee member of the Jiangsu Shipbuilding and Offshore Engineering Assessment Panel of Professional Qualification (江蘇省船舶與海洋工程高級專業技術資格評審會) and a professor of Shanghai Jiao Tong University (上海交通大學), Harbin Engineering University (哈爾濱工程大學) and Jiangsu University of Science and Technology (江蘇科技大學). He is currently a member of the council of CCS (中國船級社) and a member of the technology committee of the five biggest ship classification societies, namely, DNV, ABS, GL, LR, and BV.

Mr. WU Zhen Guo (鄔振國), Executive Director

Mr. Wu, aged 60, is our vice-chairman and an executive Director. Mr. Wu joined us in 2008 and was appointed as an executive Director on October 24, 2010. He is also the chairman of Rongsheng Heavy Industries, a subsidiary of the Company. Mr. Wu is primarily responsible for the executive 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 (上海市政府經濟體改革委員會). From 2001 to 2010, Mr. Wu was the president of Shanghai Sun Glow Investment Group Co., Ltd. (上海陽光投資集團) and was responsible for overseeing the management of its day-to-day operations.

Mr. DENG Hui (鄧輝), Executive Director

Mr. Deng, aged 53, is the chief executive officer of Rong An Power Machinery, our vice-president and an executive Director. Mr. Deng joined us in September 2007 and was appointed as an executive Director on October 24, 2010. He is also the chairman of Rong An Heavy Industries and an executive director of Rong An Mechanical & Electrical Equipment. Mr. Deng is primarily responsible for overseeing the overall operations of Rong An Power Machinery. Mr. Deng obtained his bachelor's degree in marine power engineering (船舶動力工程學士) from Shanghai Jiao Tong University (上海交通大學) in 1982 and his MBA degree from China Europe International Business School (中歐國際工商管理學院) in 2002. Mr. Deng is a member of the Standing Committee of the China Shipbuilding Industry Association (中國船舶工業行業協會). From 1982 to 1990, he was an assistant engineer and subsequently an engineer of China State Shipbuilding Corporation (中國船舶工業總公司), from 1991 to 1996, the deputy head of division three of the export department of China Shipbuilding Trading Co., Ltd. (中國船舶工業貿易公司), from 1996 to 1998, an assistant president of China Offshore Industrial Corporation (中國國際海洋石油工程公司), from 1998 to 2000, a vice-president of China Great Wall Industry Shanghai Corporation (中國長城工業上海公司), from 1998 to 2000, president of China National Precision Machinery Shanghai Pudong Co. Ltd. (中國精密機械上海浦東公司), from 2000 to 2001, a special assistant to the chairman of the board of Bailian Company Limited (百麗安公司), and from 2001 to 2007, the chief representative and regional manager of the China region of Caterpillar Marine Power Systems (卡特彼勒船舶動力).

Mr. HONG Liang (洪樑), Executive Director

Mr. Hong, aged 39, is our vice-president and an executive Director. Mr. Hong joined us in 2006 and was appointed as an executive Director on October 24, 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongsheng Painting and Rongye Storage. Mr. Hong is primarily responsible for the formulation and implementation of investment strategies and financial management of the Group. Mr. Hong obtained his bachelor's degree in accounting from Shanghai University (上海大學) in 1994. Mr. Hong 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 August 2010. Mr. Hong has 16 years of experience in corporate finance and strategic investment gained from working in investment banks. Mr. Hong worked at Shenyin and Wanguo Securities (申銀萬國證券公司) as an assistant manager of division two of the Shanghai investment banking department from 1994 to 1997, the deputy general manager of the Shanghai investment banking division of CITIC Securities Limited (中信證券有限責任公司), the general manager of the investment banking division of United Securities Company Limited (聯合證券股份公司) from 1998 to 1999, the deputy manager of the investment banking division of CITIC Securities Limited (中信證券股份公司) from 1999 to 2002, the general manager of the investment and development division of Shanghai Sun Glow Investment Co. Ltd. (上海陽光投資集團有限公司) from 2002 to 2004, and the deputy general manager of the strategic investment division of Shanghai Daisheng Holdings Limited (上海大盛資產公司) from 2004 to 2005.

Mr. LUAN Xiao Ming (欒曉明), Executive Director

Mr. Luan, aged 39, is our vice-president and an executive Director. Mr. Luan joined us in 2006 and was appointed as an executive Director on October 24, 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongye Storage and Rongding Marine Engineering. Mr. Luan is primarily responsible for formulating and implementing marketing strategies and supervising the sales team of Rongsheng Heavy Industries. He obtained his bachelor's degree in economics from Shanghai Institute of Foreign Trade (上海對外貿易學院) in 1993. Mr. Luan has 17 years of experience in marketing. Mr. Luan was the director of the purchasing department and sales department of Nantong COSCO KHI Ship Engineering Co. Ltd. (南通中遠川崎船舶工程有限公司) from 1998 to 2006. Mr. Luan is a member of the Lloyd's Register Asia China Technical Committee.

Mr. WANG Tao (王濤), Executive Director

Mr. Wang, aged 37, is an executive Director. Mr. Wang joined us in 2008 and was appointed as an executive Director on October 24, 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries and Rongding Marine Engineering. Mr. Wang is the legal director of Rongsheng Heavy Industries and is primarily responsible for providing guidance on 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. From 1999 to 2008, Mr. Wang had held various positions in Shanghai Sun Glow Investment Group Co. Ltd. (上海陽光投資集團), namely, legal consultant, assistant to the president, vice-president and assistant to the chairman of the board. Mr. Wang qualified as a lawyer in the PRC in 1999.

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

Mr. Wang, aged 46, is our chief financial officer and an executive Director. Mr. Wang joined us in June 2010. He was appointed as an executive Director on October 24, 2010. He is responsible for financial planning, operations and risk 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 a non-executive director of China Advanced Construction Materials Group, Inc., a company listed on NASDAQ. He was awarded "CFO of the Year in China" in 2009. 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.

Non-executive Director

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

Mr. Zhang, aged 41, is a non-executive Director, our chairman, founder and Controlling Shareholder. He was appointed as a Director on February 3, 2010. He is the chairman of our remuneration committee. He is not involved in the day-to-day operations of the Group as a non-executive Director, but participates in formulating our Group's overall strategies. Mr. Zhang has more than 14 years of experience in corporate management, real estate development and investment and about four years of experience in corporate management in the heavy industry. In 2006, Mr. Zhang entered the heavy industry business by establishing our Group. He received his MBA degree from Asia Macau International Open University in 2002. Mr. Zhang is the chairman and executive director of Glorious Property Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 845). Mr. Zhang holds a 100% beneficial interest in Fine Profit, the direct controlling shareholder of the Company.

Independent Non-executive Directors

Mr. CHEN Gang (陳剛), Independent non-executive Director

Mr. Chen, aged 48, is an independent non-executive Director. He was appointed as an independent non-executive Director on October 24, 2010. Mr. Chen is also a member of our audit committee and remuneration committee. In 1984, Mr. Chen received a bachelor's degree in naval architecture and ocean engineering from Shanghai Jiao Tong University (上海交通大學), and in 1990 and 1993, he obtained a master's and a Ph.D degree in naval architecture and ocean engineering from Yokohama National University in Japan, respectively. In 2002, Mr. Chen obtained an MBA degree from China Europe International Business School (中歐國際工商學院). Mr. Chen has many years of experience in engineering. As a deputy chief engineer and chief engineer, he worked at the construction supervisory department of Shanghai Pudong International Airport, Shanghai International Airport Co., Ltd. and the construction supervisory department of Shanghai Deep Sea Port. From 2003 to 2009, Mr. Chen was the Dean of the School of Naval Architecture and Civil Engineering at Shanghai Jiao Tong University (上海交通大學). Since 2004, Mr. Chen has been the vice-president of Shanghai Jiao Tong University (上海交通大學). Mr. Chen is the vice-chairman of the China Association of the National Shipbuilding Industry (中國船舨工業行業協會), advisory committee member of the 25th International Towing Tank Conference, member of the Council of the Chinese Society of Naval Architects and Marine Engineers, member of the Expert Committee of China Classification Society and a member of the China Expert Committee of Lloyd's Register of Shipping. Mr. Chen is a professor of Shanghai Jiao Tong University (上海交通大學).

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

Mr. Tsang, aged 61, is an independent non-executive Director. He was appointed as an independent non-executive Director on October 24, 2010. Mr. Tsang is also the chairman of our audit committee. In addition, he is the chief executive officer of Influential Consultants Ltd. and a fellow of the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. The principal activity of Influential Consultants Ltd. is the provision of financial planning and related advisory services in Hong Kong. Mr. Tsang graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration (First Class Hons) in 1973. Mr. Tsang has served in a senior management capacity in several publicly listed companies operating in Hong Kong and Singapore. Mr. Tsang joined Hang Seng Bank in 1973 and served for 17 years. He acted as an assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its first vice-president. After working in the UOB Group, Mr. Tsang acted as an executive director of China Champ Group in 1994 and as an alternate chief executive and a deputy general manager of the China Construction Bank, Hong Kong Branch from 1995 to 1998. Mr. Tsang currently acts as an independent non-executive director of Sinotrans Shipping Limited, Beijing Media Corporation Limited, Sino-Ocean Land Holdings Limited and First China Financial Network Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. ZHANG Xu Sheng (張緒生）, Independent non-executive Director

Mr. Zhang, aged 54, is an independent non-executive Director. He was appointed as an independent non-executive Director on October 24, 2010. Mr. Zhang is also a member of our audit committee and remuneration committee. Mr. Zhang is a solicitor and holds the qualification from the Ministry of Justice to practice law. He has been responsible for different regional and international listed projects. Mr. Zhang is the specialist of enterprise, bank and securities law. He is currently a partner of Beijing Jingtian & Gongcheng (北京市競天公誠律師事務所) and has been a partner of Jingtian Associates (北京市競天律師事務所) since 1992.

Except as described above and their respective interest (if any) as set out in the section headed "Statutory and General Information — C. Further Information About Directors And Substantial Shareholders" of Appendix VII of this prospectus, each of the Directors has confirmed that (i) he has no interests in the Shares within the meaning of Part XV of the SFO, (ii) he is independent from and not related to any other Directors, members of senior management, substantial shareholders or Controlling Shareholders of the Company and (iii) he has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years. Save as disclosed above, each of the Directors has confirmed that there is no other information in relation to his appointment which is required to be disclosed pursuant to any of the requirements under Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders.

Senior Management Team

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

Mr. CHEN Wen Jun (陳文軍), aged 41, is our vice-president. Mr. Chen joined Rongsheng Heavy Industries on May 4, 2008 and served as vice-president and chief economist of Rongsheng Heavy Industries. Mr. Chen was previously the president of Rongsheng Research and Design. Mr. Chen is primarily responsible for corporate development and integration management of our Group. Prior to joining us, Mr. Chen was a project manager, department head and chief information officer of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen obtained his bachelor's degree from Dalian University of Technology (大連理工大學) in 1993 and his MBA degree from the China Europe International Business School (中歐工商管理學院) in 2004.

Mr. CHEN Kai Guo (陳開國), aged 67, is executive vice-president of Rongsheng Heavy Industries and president of Rongsheng Research and Design. Mr. Chen is primarily responsible for monitoring the shipbuilding segment of our Group. Mr. Chen joined us as executive vice-president on November 1, 2009. He also took up the post of president of Rongsheng Research and Design in March 2010. Prior to joining us, he successively held the positions of head of the construction group and deputy chief of the production section of Zhonghua Shipyard (中華造船廠), workshop deputy director, deputy section chief, assistant to the factory manager, deputy factory manager and deputy general manager of Jiangnan Shipyard Group Co., Ltd (江南造船廠) and general manager and senior expert of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen is a researcher-level senior engineer and enjoys special government allowances granted by the State Council. Mr. Chen was awarded the State Scientific and Technological Progress Outstanding Award (國家科技進步特等獎) granted by the Ministry of Science and Technology of the PRC in 1999.

Mr. CHEN Guo Rong (陳國榮), aged 49, is vice-president of Rongsheng Heavy Industries and is also general director of plant construction, general manager of our DPV projects and head of our safety and environmental protection department. Mr. Chen joined us as vice-president on March 1, 2006. Mr. Chen is primarily responsible for overseeing production and plant construction and monitoring plant safety and environmental protection of our Group. Mr. Chen also became the general director of plant construction in June 2008 and the head of the production management department in August 2008. Prior to joining us, Mr. Chen served as deputy section chief and party branch secretary of Jiangnan Shipyard Group Co., Ltd (江南造船廠) and head of general assembly department and party branch secretary, head of manufacturing department and head of marine engineering department of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen graduated from Shanghai Shipbuilding School (上海船舶工業專業學校) in 1991, majoring in shipbuilding.

Mr. ZHAO Zhong Wu (趙仲武), aged 39, is vice-president of Rongsheng Heavy Industries, head of our production planning department and head of our economic operation department. Mr. Zhao is primarily responsible for production planning and economic operation of our Group. After joining us on May 15, 2008, Mr. Zhao served as assistant to the president and head of the production management department. Prior to joining us, Mr. Zhao was deputy director and deputy department head of Jiangnan Shipyard Group Co., Ltd (江南造船廠). Mr. Zhao received his bachelor's degree in ship engineering from Dalian University of Technology (大連理工大學) in 1993.

Mr. ZHANG Hong Yu (張虹宇), aged 32, is vice-president of Rongsheng Heavy Industries. Since December 2007, Mr. Zhang had successively served as deputy head of our shipbuilding business division, head of our second business division, deputy chief economist and general manager of our shipbuilding business division and assistant to the president of Rongsheng Heavy Industries. Mr. Zhang is primarily responsible for production management. In June 2010, he took up the post of vice-president of Rongsheng Heavy Industries. Prior to joining us, 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 from Nanjing Hohai University (南京河海大學) in 2001.

Mr. WEI Qi Guang (魏啟光), aged 66, is assistant to the president of Rongsheng Heavy Industries and a vice-president of Rongsheng Research and Design. He is primarily responsible for monitoring the marine and offshore engineering segment of our Group. Mr. Wei joined us in August 2008 and served as marine engineering director and assistant to the chief executive officer of Rongsheng Heavy Industries. He also took up the posts of vice-president of Rongsheng Research and Design and director of the marine design institute of Rongsheng Research and Design in July 2009. Prior to joining us, Mr. Wei was deputy chief engineer and factory manager of Qingdao Beihai Shipbuilding Heavy Industries Co., Ltd (北海船廠) and engineering project manager of Singapore Jurong Shipyard (新加坡裕廊船廠). Mr. Wei received a bachelor's degree from the department of shipbuilding of Shanghai Jiao Tong University (上海交通大學) in 1968.

Mr. ZOU Zhi Ming (鄒志明), aged 66, is chief consultant and executive vice-president of Rong An Power Machinery. Mr. Zou is primarily responsible for monitoring plant operation and overall management of Rong An Power Machinery. Mr. Zou is a researcher-level senior engineer and enjoys special government allowances granted by the State Council. Prior to joining Rong An Power Machinery in September 2009, Mr. Zou worked for Dalian Marine Diesel Engine Factory (大連船用柴油機廠) for a long time, serving as machinery manufacturing technician, workshop director, deputy factory manager and factory manager.

Mr. WANG Zhi Liang (王志良), aged 61, is vice-president and chief production officer of Rong An Power Machinery. 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 also served as assistant to the general manager of Hudong Heavy Machinery Company (滬東重機公司) and general manager of Shanghai Eastern Boat Company (上海東舟公司).

Mr. XU Bao An (徐寶安), aged 62, is vice-president of Rong An Power Machinery. Mr. Xu is primarily responsible for marketing and technology services. Mr. Xu is a researcher-level senior engineer and enjoys special government allowances granted by the State Council. He was awarded various prizes such as Liaoning Province New Product Prize (遼寧省新產品獎) and National Defence Project Prize from the Commission of Science, Technology and Industry (國防科工委專案獎). Prior to joining Rong An Power Machinery in June 2010, Mr. Xu worked for Dalian Shipyard (大連造船廠) for 20 years, successively serving as technician, office director and assistant engineer. Mr. Xu also served as chief designer and chief engineer of Dalian Marine Diesel Co., Ltd. (大連船用柴油機有限公司).

Mr. CHEN Guang Qing (陳廣慶), aged 65, is chief engineer of Rong An Power Machinery. Mr. Chen is primarily responsible for process engineering, quality assurance and information technology. Mr. Chen is a researcher-level senior engineer and enjoys special government allowances granted by the State Council. Mr. Chen became a member of Ship Engine Academic Committee of the China Society of Naval Architects and Marine Engineers (中國造船工程學會船舶輪機學術委員會) in July 1994 and a member of the ship machine repair group of Ship Repair Academic Committee of the China Society of Naval Architects and Marine Engineers (中國造船工程學會修船學術委員會船機修理組) in October 1997. Prior to joining Rong An Power Machinery in January 2010, Mr. Chen had been the deputy chief engineer, chief engineer and head of science and technology committee of the CSIC-403 plant of Yichang Marine Diesel Engine Co., Ltd. (宜昌船舶柴油機有限公司). Mr. Chen graduated from the department of aerocraft manufacturing engineering of Beijing University of Aeronautics and Astronautics (北京航空航天大學) in 1970.

Mr. JIA Shao Jun (賈少軍), aged 40, is a member of the development and planning supervisory group and head of the development and planning working group of Rong An Heavy Industries and chairman of Zhenyu Engineering Machinery. Mr. Jia is primarily responsible for the development of Rongan Heavy Industries. From November 2005 to February 2010, Mr. Jia successively served as assistant to the president and vice-president of Rongsheng Heavy Industries. Prior to joining us, Mr. Jia was a designer of the hull office of the design institute of Jiangnan Shipyard Group Co., Ltd (江南造船廠), deputy director of the production centre and deputy director of the production operation department of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司), and successively served as deputy manager of 150,000 DWT FPSO project, module project manager of 170,000 DWT FPSO project and project planning manager of Bohai phase II development 300,000 DWT FPSO project. Mr. Jia graduated from Dalian University of Technology (大連理工大學) in 1992 and obtained a bachelor's degree in ship engineering. While working with us, Mr. Jia obtained his master of business administration graduation certificate from Renmin University of China (中國人民大學) in 2010. Mr. Jia obtained a master's degree in professional accountancy (EMPAcc) 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 August 2010.

Mr. LI Peng (李鵬), aged 40, is a member of the development and planning supervisory group and the development and planning working group of Rong An Heavy Industries and general manager of Zhenyu Engineering Machinery. Mr. Li is primarily responsible for the formulation and implementation of corporate strategies. Prior to joining Rong An Heavy Industries in April 2010, Mr. Li served as senior procurement director of Asia Pacific of Doosan International (Jiangsu) Co., Ltd. (U.S. Bobcat) (斗山國際（江蘇）有限公司（美國山貓）) from February 2008 to February 2010, procurement director of Shanghai New Holland Agricultural Machinery Co., Ltd. (上海紐荷蘭農用機械有限公司) from November 2006 to January 2008, procurement director for Asia of Key Safety System Inc.（formerly known as Breed Technologies, Inc.）from January 2005 to October 2006, manager of procurement, supplier technical assistance (STA) and local vehicle team (LVT) of Ford Motor (China) Ltd. (福特汽車（中國）有限公司) from August 1998 to December 2004, procurement manager of the Beijing Office of Fiat Group — Marelli (菲亞特集團—瑪瑞利) of Italy from October 1996 to July 1998 and product development engineer of Beijing Jeep Corporation Co., Ltd. (北京吉普汽車有限公司) from August 1993 to September 1996. Mr. Li graduated from Yanshan University（燕山大學）(formerly known as Northeast Heavy Machinery Institute (東北重型機械學院)) in 1993 with a bachelor's degree in mechanical manufacture technology and equipment and later received an MBA degree from the China Europe International Business School (中歐工商管理學院) in 2009.

Company Secretary

Ms. LEE Man Yee (**李敏兒**), ACIS ACS, aged 39, is our company secretary and is responsible for company secretarial and compliance matters of the Company. Prior to joining us in August 2010, Ms. Lee had worked as the compliance manager of the respective asset managers of two Hong Kong listed real estate investment trusts namely, Champion Real Estate Investment Trust and GZI Real Estate Investment Trust where she has been responsible for formulating and implementing internal control policies and handling legal, company secretarial, regulatory and compliance matters. Ms. Lee also has more than 10 years' experience performing legal and company secretarial duties in different listed groups. Ms. Lee graduated with a bachelor's degree in accounting and finance from South Bank University, London, and subsequently obtained a postgraduate diploma in corporate administration from the Hong Kong Polytechnic University. She is an associate of both the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries in Hong Kong.

BOARD COMMITTEES

Audit Committee

Our Company established the audit committee on October 24, 2010 with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control systems of our Group.

The audit committee consists of Mr. Zhang Xu Sheng, Mr. Tsang Hing Lun and Mr. Chen Gang. Mr. Tsang Hing Lun is the chairman of the audit committee.

Remuneration Committee

Our Company established the remuneration committee on October 24, 2010 with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to evaluate and make recommendations to our Board regarding the compensation of the chief executive officer and other executive Directors. In addition, the remuneration committee conducts reviews of the performance, and determines the compensation structure of our senior management.

The remuneration committee comprises Mr. Zhang, Mr. Zhang Xu Sheng and Mr. Chen Gang. Mr. Zhang is the chairman of the remuneration committee.

DIRECTORS' REMUNERATION

We reimburse our Directors for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. The executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and other allowances and benefits in kind.

For each of the three financial years ended December 31, 2009, the aggregate amount of remuneration (including salaries, other allowances and benefits in kind, contribution to pension plans, discretionary bonuses and share-based payments) paid by us to our Directors was RMB237,520,000, RMB1,073,000 and RMB9,024,000, respectively.

Our five highest paid individuals for the three years ended December 31, 2009 included two Directors.

Except as disclosed above, no other payments have been paid or are payable, in respect of the three years ended December 31, 2009 by us or any of our subsidiaries to our Directors or our five highest paid individuals.

Further details of the terms of the above service agreements are set out in "Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 1. Directors — (b) Particulars of service contracts" in Appendix VII to this prospectus.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor (the "**Compliance Advisor**") upon the listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules.

We have entered into a compliance advisor agreement with the Compliance Advisor, the material terms of which are as follows:

(1) we have appointed the Compliance Advisor as our compliance advisor for the purpose of Rule 3A.10 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(2) the Compliance Advisor shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and other applicable laws, regulations and codes;

(3) upon request of our Company, the Compliance Advisor shall advise us on the following matters:

    a. where any regulatory announcement, circular or financial report is to be published;

    b. where a transaction, which might be a notifiable or connected transaction, is contemplated;

   c. where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and

   d. where the Stock Exchange makes an inquiry of us of unusual movements in the price or trading volume of the Shares;

(4) we have agreed to indemnify the Compliance Advisor for certain actions against and losses incurred by the Compliance Advisor of its duties under the agreement; and

(5) we may terminate the appointment of the Compliance Advisor if the Compliance Advisor's work is of an unacceptable standard as permitted by Rule 3A.26 of the Listing Rules. The Compliance Advisor may resign or terminate its appointment by service of written notice to us.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors and the chief executive of the Company are aware, immediately following completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes, but without taking into account the exercise of the Over-allocation Option, the exercise of any options granted pursuant to the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme, the following persons will have an interest or short position in the shares or underlying shares of the Company which must be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company:

Name	Nature of interest	Number of Shares held	Approximate percentage of shareholding(3)
Fine Profit(1)	Beneficial interest	3,644,969,180	52.1%
Mr. Zhang(2)	Interest of a controlled corporation	3,753,693,180	53.7%

Notes:

(1) Fine Profit is wholly-owned and controlled by Mr. Zhang.

(2) Mr. Zhang owns the entire issued share capital of Fine Profit and Wealth Consult and is deemed to be interested in 3,644,969,180 Shares and 108,724,000 Shares held by Fine Profit and Wealth Consult, respectively.

(3) Assuming (i) an Offer Price at the lowest point of the proposed Offer Price range; (ii) no Shares are issued pursuant to the options granted under the Pre-IPO Share Option Scheme and options which may be granted under the Share Option Scheme; and (iii) the Over-allocation Option is not exercised.

SELLING SHAREHOLDER

The Selling Shareholder is offering 350,000,000 Shares, representing 5% of the total issued share capital of the Company immediately following the completion of the Global Offering, the Capitalization Issue and exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the proposed Offer Price range without taking into account the exercise of the Over-allocation Option, the exercise of any options granted pursuant to the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme), for sale under the International Offering. The shareholding of the Selling Shareholder immediately prior to and following the completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (assuming an Offer Price at the lowest point of the proposed Offer Price range and the Over-allocation Option is not exercised, and excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme) are set out in the table below:

Name of Selling Shareholder	Number of Shares held by Selling Shareholder prior to the Global Offering and the exchange of the Exchangeable Notes, and assuming the Capitalization Issue has been completed	Number of Shares to be sold by Selling Shareholder(1)	Number of Shares (approximate percentage of total issued share capital of the Company) to be held by the Selling Shareholder immediately following the completion of the Global Offering, the Capitalization Issue, the exchange of the Exchangeable Notes (before the exercise of the Over-allocation Option)
Fine Profit	4,091,276,000	350,000,000	3,644,969,180 (52.1%)

Notes:

(1) Subject to increase in the event the Over-allocation Option is exercised.

UNDERTAKINGS

Restriction on further issue of Shares by us

Pursuant to Rule 10.08 of the Listing Rules, we will not issue any further shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our securities first commence dealing on the Hong Kong Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including the exercise of the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme) or for the circumstances provided under Rule 10.08 of the Listing Rules.

Restriction on disposal of Shares by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholders have undertaken to the Company and the Hong Kong Stock Exchange that, except pursuant to the Global Offering, the mandatory exchange of the Exchangeable Notes, the Capitalization Issue or the Over-allocation Option and except as permitted under the Stock Borrowing Agreement:

(1) in the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this prospectus and ending on the date which is six months from the Listing Date, they shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of the them is shown by this prospectus to be the beneficial owner; and

(2) in the period of six months commencing on the date on which the period referred in (1) above expires, they shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which each of them is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that they would cease to be a controlling shareholder (as defined under the Listing Rules) of the Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have undertaken to the Company and the Hong Kong Stock Exchange that, within the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they shall:

(a) when any of them pledges or charges any securities in our Company beneficially owned by any of them in favor of any authorized institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge/charge together with the number of Shares so pledged/charged; and

(b) when any of them receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company in writing of such indications.

The restrictions above shall not apply to any Shares acquired by the Controlling Shareholders by way of on-market transaction after the Listing Date.

The Company has undertaken to the Hong Kong Stock Exchange that as soon as it has been informed of matters referred to in paragraphs (a) and (b) above by the Controlling Shareholders, it shall disclose such matters by way of an announcement which is published in accordance with the Listing Rules as soon as possible.

BEFORE THE GLOBAL OFFERING

As at the date of this prospectus, our authorized share capital is HK$3,800,000,000 divided into 38,000,000,000 Shares of nominal value of HK$0.10 each.

UPON COMPLETION OF THE GLOBAL OFFERING

The share capital of our Company immediately following the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (assuming the Over-allocation Option and the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme are not exercised) will be as follows:

		HK$
1,000,000	Shares in issue at the date of this prospectus	100,000
5,599,000,000	Shares to be issued pursuant to the Capitalization Issue	559,900,000
1,400,000,000	Shares to be issued pursuant to the Global Offering	140,000,000
7,000,000,000	Total	700,000,000

ASSUMPTION

The above table assumes that the Global Offering becomes unconditional and does not take into account any exercise of any options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme referred to in the paragraph headed "The Pre-IPO Share Option Scheme and Share Option Scheme" below or which may be issued or repurchased pursuant to the general mandate referred to in the paragraph headed "General mandate to issue Shares" below or the repurchase mandate referred to in the paragraph headed "General mandate to repurchase Shares" below, as the case may be.

RANKING

The Offer Shares rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus except for any entitlement to the Capitalization Issue.

THE PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

We have adopted the Pre-IPO Share Option Scheme and Share Option Scheme. The principal terms of these schemes are summarized in Appendix VII to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Assuming the Global Offering becomes unconditional, the Directors have been granted a general mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering, the Capitalization Issue (excluding the Shares which may be allotted and issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme); and

(b) the aggregate nominal value of share capital of our Company repurchased by our Company (if any).

Such mandate will expire:

1. at the conclusion of the next annual general meeting of our Company;
2. at the end of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association, or applicable laws of the Cayman Islands; or
3. when revoked or varied by ordinary resolution of the Shareholders at a general meeting of our Company;

whichever occurs first.

For further details about this general mandate, please refer to the section headed "Statutory and General Information — A. Further Information About the Company and Its Subsidiaries — 3. Resolution in writing of all the Shareholders of the Company passed on October 24, 2010" in Appendix VII to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Assuming the Global Offering becomes unconditional, the Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering, the Capitalization Issue (excluding the Shares which may be allotted and issued upon the exercise of options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Hong Kong Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the HKSFC and the Hong Kong Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will expire:

- at the conclusion of the next annual general meeting of our Company;
- at the end of the period within which the next annual general meeting of our Company is required to be held by the Articles of Association, or applicable laws of the Cayman Islands; or
- when revoked or varied by ordinary resolution of the Shareholders at a general meeting of our Company.

For further details about this general mandate, please refer to the section headed "Statutory and General Information — A. Further Information About the Company and Its Subsidiaries — 3. Resolution in writing of all the Shareholders of the Company passed on October 24, 2010" in Appendix VII to this prospectus.

THE CORPORATE PLACING

As part of the International Offering, we and the Joint Global Coordinators have entered into cornerstone investment agreements with each of the investors described below (the "**Corporate Investors**", each a "**Corporate Investor**"), pursuant to which the Corporate Investors have agreed to acquire/purchase, at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 500 Shares) that may be purchased for an aggregate amount of approximately US$285 million (the "**Corporate Placing**"). Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares to be purchased by the Corporate Investors would be approximately 254,177,000, representing (i) approximately 3.63% of the Shares in issue and outstanding upon the completion of the Global Offering and (ii) approximately 14.52% of the total number of Offer Shares (in each case assuming the Over-allocation Option and the options under the Pre-IPO Share Option Scheme and Share Option Scheme are not exercised).

The Corporate Investors are Independent Third Parties and each of them is not related to each other. Details of the actual number of Offer Shares to be allocated to the Corporate Investors will be disclosed in the allotment results announcement to be issued by the Company on or before Thursday, November 18, 2010.

The Corporate Placing forms part of the International Offering. None of the Corporate Investors, nor their associates will purchase any Offer Shares under the International Offering other than pursuant to the respective cornerstone investment agreement entered into with each of them or where the Corporate Investor or its associate is acting as a nominee for its customers. The Offer Shares to be acquired/purchased by the Corporate Investors will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of the Company. Immediately following the completion of the Global Offering, none of the Corporate Investors will have any representation on the Board, nor will any of the Corporate Investors become our substantial shareholder.

The Offer Shares to be purchased by the Corporate Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus.

CORPORATE INVESTORS

We and the Joint Global Coordinators have entered into cornerstone investment agreements with the following Corporate Investors in respect of the Corporate Placing. The information about our Corporate Investors has been provided by each of the relevant Corporate Investors in connection with the Corporate Placing.

China Investment Corporation

Best Investment Corporation ("**Best Investment**") has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$30 million at the Offer Price. Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that Best Investment would purchase would be 26,793,000, representing (i) approximately 0.38% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 1.53% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

Best Investment is a wholly owned subsidiary of China Investment Corporation ("**CIC**"). CIC is an investment company incorporated under the PRC Company Law and headquartered in Beijing. CIC is operated on a commercial basis, seeking long-term, risk-adjusted financial returns.

China National Offshore Oil Corporation

Shining East Investments Limited ("**Shining East**") has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$40 million at the Offer Price (inclusive of Hong Kong Stock Exchange trading fee, transaction levy imposed by the HKSFC and brokerage fee). Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that Shining East would purchase would be 35,367,500, representing (i) approximately 0.51% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 2.02% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

Shining East is a wholly owned subsidiary of China National Offshore Oil Corporation. China National Offshore Oil Corporation is one of the largest state-owned oil companies, and the largest offshore oil and gas producer in China.

China Life Insurance (Group) Company

China Life Insurance (Group) Company ("**China Life**") has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$50 million at the Offer Price. Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that China Life would purchase would be 44,655,000, representing (i) approximately 0.64% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 2.55% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

China Life is the controlling shareholder of China Life Insurance Company Limited ("**CLICL**"). CLICL is a life insurance company established in Beijing, according to the PRC Company Law. CLICL was listed on the New York Stock Exchange and the Hong Kong Stock Exchange in December 2003 and the Shanghai Stock Exchange in January 2007, respectively. CLICL is one of the largest life insurance companies in China's life insurance market. It is one of the largest institutional investors in China. CLICL also has a controlling shareholding in China Life Pension Company Limited. CLICL is a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance in China.

China Southern International Select Allocation Fund

China Southern International Select Allocation Fund ("**China Southern Fund**"), through its manager China Southern Fund Management Co., Ltd., has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$35 million at the Offer Price. Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that China Southern Fund would purchase would be 31,258,500, representing (i) approximately 0.45% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 1.79% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

China Southern Fund is an open-end fund incorporated in China. It is a Qualified Domestic Institutional Investor Fund ("**QDII Fund**") managed by China Southern Fund Management Co Ltd., which is a fund management company incorporated in China and one of the largest asset management companies in China. China Southern Fund was officially launched on 19 September 2007 and is the first QDII Fund in China. It seeks to achieve stable investment returns through globalized asset allocation and management. It invests in Hong Kong equities as well as global ETFs and other stock oriented funds. It currently manages assets in the aggregate amount of about RMB15.5 billion.

Atlantis Fund Management (Guernsey) Limited

Atlantis Fund Management (Guernsey) Limited ("**Atlantis**"), through Atlantis Investment Management Limited ("**Atlantis Investment Management**"), has agreed to subscribe for such number of Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$30 million at the Offer Price. Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that Atlantis Investment Management would purchase would be 26,793,000, representing (i) approximately 0.38% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 1.53% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

Atlantis is an independent investment boutique with 15 years experience managing Asian equity strategies for global institutional clients. Atlantis Investment Management manages US$4 billion across three independent business areas: Asia ex-Japan, China and Japan equities.

Bondic International Holdings Limited

Bondic International Holdings Limited ("**Bondic**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$50 million at the Offer Price. Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that Bondic would purchase would be 44,655,000, representing (i) approximately 0.64% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 2.55% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

Bondic is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Cheung Chung Kiu ("**Mr. Cheung**"). Mr. Cheung is the founder and Chairman of Yugang International Limited and Chairman of C C Land Holdings Limited, Y.T. Realty Group Limited and The Cross-Harbour (Holdings) Limited. All of these companies are publicly listed on the Hong Kong Stock Exchange. Bondic is an investment holding company.

Chow Tai Fok Nominee Limited

Chow Tai Fok Nominee Limited ("**CTF**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot) which may be purchased for up to approximately US$50 million at the Offer Price. Assuming an Offer Price of HK$8.70 (being the mid-point of the Offer Price range stated in this prospectus), the total number of Offer Shares that CTF would purchase would be 44,655,000, representing (i) approximately 0.64% of the Shares in issue and outstanding immediately following the completion of the Global Offering and (ii) approximately 2.55% of the total number of Offer Shares (in each case assuming the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme are not exercised).

CTF is a company incorporated in Hong Kong and is principally engaged in the investment holding business. It is wholly and beneficially owned by Dato' Dr. Cheng Yu-Tung.

CONDITIONS PRECEDENT

The obligation of the Corporate Investors to purchase/acquire the Offer Shares under the cornerstone investment agreements is subject to, among other things, the following conditions precedent:

(a) the Hong Kong Underwriting Agreement for the Hong Kong Public Offering and the International Underwriting Agreement for the International Offering being entered into and having become unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than 8:00 a.m. on November 19, 2010;

(b) no laws having been enacted or promulgated which prohibit the consummation of the transactions contemplated in the relevant cornerstone investment agreement and there being no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;

(c) that the respective representations, warranties, undertakings and acknowledgments of the relevant Corporate Investor and the Company under the relevant cornerstone investment agreement and accurate and true in all material respects and not misleading and that there is no material breach of the relevant cornerstone investment agreement on the part of the relevant Corporate Investor; and

(d) the Listing Committee of the Hong Kong Stock Exchange having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked.

RESTRICTIONS ON DISPOSALS BY THE CORPORATE INVESTORS

Each of the Corporate Investors (for itself and on behalf of its wholly-owned subsidiary in the event Shares placed under the relevant Corporate Placing are held by such subsidiary) has agreed that, without the prior written consent of the Company and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the "**Lock-up Period**"), dispose of any of the Shares or any interest in any company or entity holding any of the Shares acquired by it pursuant to the Corporate Placing (the "**Relevant Shares**"), and in the event of a disposal of any Relevant Shares at any time after the Lock-up Period, will use best endeavours to ensure that any such disposal will not create a disorderly or false market for the Shares and is otherwise in compliance with the Companies Ordinance and the SFO.

You should read the following discussion and analysis together with our combined financial statements and the notes thereto for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2009 and 2010 and as of December 31, 2007, 2008 and 2009 and August 31, 2010, included in the Accountant's Report set out in Appendix I to this prospectus. The combined financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a large PRC heavy industries group with a leading shipbuilding business, rapidly growing marine engine building business, developing offshore engineering business and a focus on oil and gas related customers and markets. According to Clarkson Research, we were ranked second among all PRC shipbuilders in the PRC, first among privately-owned shipbuilders in the PRC and were also a global market leader in the manufacture of VLOCs of over 300,000 DWT each in terms of total order book measured by DWT as of August 1, 2010.

The NDRC has approved the construction of our four drydocks which are capable of construction of vessels of over 100,000 DWT, including our fourth drydock that will be primarily for use by our offshore engineering projects. The NDRC has also granted us approval for the construction of our low-speed marine diesel engine production facilities which are designed to have an annual production capacity of five million horsepower. Our production facilities are strategically located in Nantong, Jiangsu Province and Hefei, Anhui Province, which enable us to benefit from PRC government's economic development policies targeting those regions. Currently, our products include bulk carriers, crude oil tankers, containerships, offshore engineering vessels, low-speed marine diesel engines and small to mid-size excavators and cranes for construction and mining use.

We commenced the construction of our shipyard in Nantong, Jiangsu Province in October 2005 and signed our first shipbuilding contracts for six Panamax bulk carriers in the first quarter of 2006. We delivered our first vessel in March 2008, setting a record at the time in the PRC for the shortest time period from the commencement of shipyard construction to the delivery of the first vessel according to China Enterprises Community and China Entrepreneur Association (中國企業聯合會及中國企業家協會). In the offshore engineering segment, we secured our first offshore engineering order for a DPV in 2007 which we expect to complete construction by the end of December 2010. In the marine engine building segment, Rong An Power delivered its first low-speed diesel engine in October 2009 within 16 months after the commencement of the construction of our Hefei plant in June 2008. In the engineering machinery segment, we acquired a majority interest in Zhenyu Machinery in the first half of 2010 and plan to construct new production facilities in anticipation of rising demand for engineering machinery in the PRC.

We grew rapidly during the Track Record Period. We delivered five Panamax bulk carriers in 2008, nine Suezmax tankers and one Panamax bulk carrier in 2009 and two bulk carriers and 10 crude oil tankers in the nine months ended September 30, 2010. As of September 30, 2010, we had six Panamax bulk carriers, nine Capesize bulk carriers, 11 Suezmax crude oil tankers, eight VLOCs, one containership and one DPV under construction.

Our total revenue grew from RMB661.7 million in 2007 to RMB4,724.9 million in 2008 and to RMB9,473.2 million in 2009, representing a CAGR of 278.4%. Our total revenue grew from RMB4,816.3 million for the eight months ended August 31, 2009 to RMB8,170.4 million for the eight months ended

August 31, 2010. Our profit for the year ended December 31, 2009 and the eight months ended August 31, 2009 and 2010 was RMB1,304.7 million, RMB629.7 million and RMB1,147.1 million, respectively. For further information about our business and operations, please refer to the section headed "Business" in this prospectus.

Our past performance, however, may not be indicative of our future results. During the Track Record Period, we derived most of our revenue from 75,500 DWT Panamax and 176,000 DWT Capesize bulk carriers, 156,000 DWT Suezmax crude oil tankers, 400,000 DWT VLOCs and our offshore engineering segment. The rapid growth of our business poses various risks. There can be no assurance that our experience in constructing one type of vessel will be applied successfully to the construction of other vessels, or that our experience operating a shipbuilding business will be applied successfully to any of other businesses we are conducting or plan to enter into in the near future. Please refer to the section headed "Risk Factors" for details about specific risks related to our business and expansion plans.

BASIS OF PRESENTATION

The Company and companies now comprising our Group are under the common control of Mr. Zhang. The financial statements of our Group have been prepared on a basis in accordance with the principles of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. The combined statements of comprehensive income, combined cash flow statements and combined statements of changes in the equity of our Group for the Track Record Period have been prepared using the financial statements of the companies now comprising our Group for the Track Record Period as if the current group structure was in existence throughout the Track Record Period, except that the financial statements of those companies newly set up or acquired by our Group during the Track Record Period have been included in the financial information from their respective dates of incorporation or acquisition. The combined balance sheets of our Group as of December 31, 2007, 2008 and 2009 and August 31, 2010 have been prepared to present the assets and liabilities of the companies now comprising our Group as of these dates, as if the current group structure was in existence as of these dates, except that the assets and liabilities of those companies newly set up or acquired by our Group have been included in the combined balance sheets of our Group from their respective dates of incorporation or acquisition.

In addition to the business transferred to our Group by Rongsheng Investment pursuant to the Reorganization ("**Transferred Business**"), the financial statements also include the results of Rongsheng Investment which are not related to our shipbuilding business (the "**Non-Operating Assets**"). Although the Non-Operating Assets were not transferred to our Group, the profits and losses in relation to the Non-Operating Assets have been combined with the Transferred Business up to the completion date of the Reorganization. Upon the completion of the Reorganization, the assets and liabilities of the Non-Operating Assets are derecognized and presented as deemed distribution to Rongsheng Investment. For the details about the "Transferred Business" and "Non-Operating Assets," please refer to Note 1.2 and Note 19 of Appendix I Accountant's Report of this prospectus.

All significant intra-group transactions and balances, if any, were eliminated on consolidation.

FACTORS AFFECTING THE RESULTS OF OUR OPERATIONS

A number of important factors have affected and will continue to affect our business, financial condition and results of operations.

Global Demand for Vessels

The commercial shipbuilding industry is highly cyclical in nature and sensitive to the cyclical nature of the industries it serves. The demand for our vessels is influenced by factors such as global economic conditions, seaborne trade, demand for oil and gas, prevailing commercial freight rates, the age and condition of existing fleets, the rate of scrapping, the cost of building new vessels and changes in standards, rules, laws or regulations pertaining to the types of vessels we manufacture. The availability and cost of financing plays a crucial role in demand for new vessels. Purchasers of our vessels generally rely on external financing sources, including banks, to finance their purchases and thus the availability and cost of financing has a significant impact on demand for new vessels.

Order Book and New Orders

Our order book and the new orders that we receive for the construction of vessels have a significant effect on our future revenue. We generally accept orders from our customers up to four years in advance of the scheduled delivery date. The construction time for our products is approximately 13 to 27 months from commencement of construction to delivery. We accept orders for different types of vessels based on a number of factors such as the margin we expect to achieve, the reputation of the ship-owner or other end-customer placing the order and our projected capacity during the period in which the vessel would need to be constructed.

Order backlog. As of September 30, 2010, our aggregate order book amounted to approximately US$6.0 billion and included orders for 84 vessels, which we expect to deliver between 2010 and 2014.

The following table sets forth information relating to our shipbuilding segment's orders on hand as of December 31, 2007, 2008 and 2009 and September 30, 2010, respectively.

	As of December 31,									As of September 30,		
	2007			2008			2009			2010		
	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels
Bulk Carriers and VLOCs	2,540.0	1,161.2	19	6,962.5	2,521.2	26	9,095.0	3,247.4	37	10,035.0	3,688.4	52
Crude Oil Tankers and VLCCs	4,682.4	2,075.7	30	4,682.4	2,075.7	30	3,276.8	1,446.6	21	4,710.8	1,892.2	28
Containerships	—	—	—	338.6	411.8	4	338.6	411.8	4	338.6	411.8	4
TOTAL	**7,222.4**	**3,236.9**	**49**	**11,983.5**	**5,008.7**	**60**	**12,710.4**	**5,105.8**	**62**	**15,084.4**	**5,992.4**	**84**

Note: Our order book, as of the dates indicated above, represents the total nominal contract value of orders that had not been completed, including the portion of revenue in respect of those orders that we had recognized as of such dates, all as translated (where applicable) into US dollars on the respective balance sheet dates at the rate of US$1.00 = RMB6.68. For the purpose of calculating our order book as of December 31, 2007, 2008 and 2009, we considered an order to be effective when we signed the shipbuilding contract with the customer and received the first installment payment under the contract. For the purpose of calculating our order book as of September 30, 2010, we considered an order to be effective when we signed the shipbuilding contract with the customer, regardless of what the relevant contract provided, including some contracts that were conditionally signed and subject to customers' confirmation of the orders under certain circumstances. In addition, the figures shown exclude any orders that had been canceled as of September 30, 2010. Going forward, our order book may be affected by delays, cancellations and renegotiation of the contracts.

As we recognize revenue in relation to the construction of our vessels on the percentage-of-completion basis, our order book at any particular time is not necessarily indicative of the revenue we will recognize in any particular future period. In particular, construction delays, order cancellations and contract renegotiations may have a material adverse impact on our performance and future financial results.

New orders. New orders for any period represent the shipbuilding contracts we sign with our customers during the period, regardless of whether such contracts are subject to preconditions in the contracts or discretion of customers, all translated into US dollars at the relevant RMB to US dollar exchange rate on the respective balance sheet dates. As a result of the effect of foreign translations on the calculation of new orders, the amount of new orders for any period does not necessarily reflect the stated contract value of those new orders in the US dollar. We consider new orders to be effective when the relevant shipbuilding contract is signed by all parties.

The following table sets forth information relating to the new shipbuilding orders we received during the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

	Year ended December 31,									Nine months ended September 30,		
	2007			2008			2009			2010		
	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels	DWT ('000)	Contract value (US$ mm)	# of vessels
Bulk Carriers and VLOCs	—	—	—	4,800.0	1,536.0	12	2,208.0	761.4	12	1,292.0	600.0	17
Crude Oil Tankers and VLCCs	—	—	—	—	—	—	—	—	—	2,994.8	1,124.0	17
Containerships	—	—	—	338.6	411.8	4	—	—	—	—	—	—
TOTAL	**—**	**—**	**—**	**5,138.6**	**1,947.8**	**16**	**2,208.0**	**761.4**	**12**	**4,286.8**	**1,724.0**	**34**

Note: The contract values are translated (where applicable) into US dollars at the rate of US$1.00 = RMB6.68. The figures shown exclude any orders that had been cancelled as of September 30, 2010. Going forward, our order book may be influenced by delays, cancellations and renegotiations of the contracts. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — If our customers terminate or delay shipbuilding contracts, our revenue and profit may be adversely affected" and "Our order book may not be an accurate indicator of our future performance" in this prospectus for more information regarding the risks associated with our order book.

Due to the worsening global economic condition in late 2008 and early 2009, some of our customers experienced difficulties in obtaining affordable financing for the vessels they had ordered from us, which resulted in some cancellations and changes of orders. Depending on our relationships with these customers (i.e their payment history, the potential for future business opportunities with them and our costs incurred), we may renegotiate with these customers about their requests for cancellations or changes of orders. Such cancellations or changes may not have a significant impact on our short term financial results as we normally collect the first installment payments under the relevant shipbuilding contracts prior to commencing substantive construction activities. However, such cancellations and requests may have a long-term impact on the number and type of vessels we will construct and ultimately our revenues and profits.

Pricing of Vessels

Our performance is directly linked to the price we are able to charge for our vessels under the relevant shipbuilding contracts. Factors that can influence vessel pricing include:

- *Specifications of Vessels.* Vessel prices vary according to the particular specifications of new vessels. Vessels customized to a customer's specifications typically cost more than those ordered in accordance with our standard specifications.

- *Size of a Particular Order*. Order size can also affect vessel price. When customers order multiple vessels of the same type and design, shipbuilders can achieve economies of scale allowing for reductions in vessel prices.

- *Cost of Labor and Raw Materials*. The cost of labor and raw materials also affect vessel price. Certain shipbuilders have a competitive advantage due to their lower labor and material costs and therefore being able to offer lower prices. PRC shipyards usually benefit from low-cost labor and the availability of steel (from numerous steel suppliers in the PRC).
- *Competition*. The level of competition in the PRC and international markets has a significant impact on our contract prices and the costs for raw materials, equipment and components. Strong competition comes from both established competitors in and new entrants to our industries. Korean shipbuilders and PRC joint-venture machinery manufacturers currently have strong competitive advantages, and the state-owned enterprises are strong competitors in the engine sector.

Fluctuations in Foreign Currency Exchange Rates

Currently, a substantial number of our shipbuilding contracts are denominated in the US dollar while a substantial portion of our construction costs, particularly steel and labor costs, are denominated in RMB. Any increase in the value of the RMB relative to the US dollar will reduce the value of our US dollar denominated revenue and cause an increase in our cost of sales as a percentage of revenue. We are also exposed to foreign exchange fluctuations to the extent that we have assets and liabilities denominated in currencies other than the RMB. To control our exposure to this risk, we usually convert the first installment payments we receive under each shipbuilding contract into RMB as soon as practicable. We also seek to manage our foreign exchange risks by borrowing US dollar denominated loans from banks in the PRC to finance the purchase of imported raw materials and equipment and repay these loans from the installment payments that we receive in the US dollar. We may enter into derivative contracts in an effort to minimize our exposure to foreign exchange risks. Also, we plan to increase the proportion of our contracts that are denominated in currencies other than the US dollar. Our performance will partly depend on the effectiveness of these measures and extent of the fluctuations in currency exchange rates. We may incur substantial foreign exchange losses in the near future due to the recent appreciation of the RMB against the US dollar and HK dollar, further appreciation of the RMB in the near future and increase in the amount of assets denominated in US dollar or HK dollar.

Raw Materials and Marine Equipment

The major components of our contract costs include raw materials and marine equipment, such as steel plates, main engines and diesel generators. Steel prices have been volatile in recent years. The average purchase price (VAT excluded) for steel we purchased increased from approximately RMB5,500 per tonne in 2007 to approximately RMB6,600 per tonne in 2008, and then decreased to approximately RMB5,000 per tonne in 2009. For the first eight months of 2010, our average steel purchase price (VAT excluded) was approximately RMB5,200 per tonne. In order to secure adequate supplies of steel plates, we have entered into cooperative agreements with several major suppliers. However, we pay the market price of steel at the time we place a purchase order and are subject to market fluctuations despite our cooperative relationships with these suppliers. We ordered most of our main engines and diesel generators from overseas during the Track Record Period pursuant to relevant contracts due to the limited number of qualified suppliers in the PRC. Costs of imported main engines and other equipment as a percentage of our cost of sales may increase due to increases in global demand. We usually ascertain our needs for imported marine equipment in advance and place our orders up to three years in advance of the expected date of delivery of the vessels in order to mitigate supply and price pressures.

Cost and Supply of Skilled Labor

Competition for skilled shipyard labor and engineers in the PRC is intense. As PRC shipyards expand operations, this competition will become more intense. During the Track Record Period, we significantly increased the number of our employees and contract workers and we experienced significant increases in the labor rates and salaries we paid. Labor shortages may increase our labor costs, reduce our productivity and hamper our ability to meet our delivery schedules. We seek to actively manage all aspects of our labor cost structure through specific cost management initiatives. For example, we have implemented policies aimed at retaining a core group of managers, senior technicians, engineers and production employees, a pool of carefully selected shipbuilding subcontractors for use in cases of work overflow, and at utilizing contract workers in our shipyard on a regular basis from a diverse pool of labor agencies, which we believe allows us to achieve flexibility in managing the total size of our labor force and our costs.

Production Capacity

Our production capacity is affected by factors such as the size and number of our drydocks in use, the utilization rate of our drydocks, the availability of our other shipyard facilities and the type of vessels we are constructing. We may need to acquire or lease additional shipyard facilities if our production needs outstrip the capacity of our shipyard. We are currently constructing additional shipyard facilities to expand our production capacity. After all of our shipyard facilities are in operation, each of our drydocks will be able to hold two full-length and two half-length vessels (156,000 DWT Suezmax or equivalent vessels) under construction and we expect to have the capacity to launch vessels with an aggregate of eight million DWT per year from these drydocks. If our shipyard facilities do not commence operation as planned or any important equipment fails to operate, our production capacity will decrease and our performance may be adversely affected.

Changes in Product Mix

Our product mix for each year depends on the orders we receive from customers, the scheduled delivery dates of vessels and the contract prices that we are able to secure for the different types of vessels. During the Track Record Period, we mainly derived revenue from six types of vessels — Panamax and Capesize bulk carriers, Suezmax crude oil tankers, VLOCs, containerships and DPV. Our shipyard facilities can also be used to build other types of vessels and we plan to increase our product lines to build larger, more complex vessels with higher profit margins and more advanced technology. We derived 82.1%, 20.1%, 25.0% and 38.4% of our revenue from bulk carriers, 17.9%, 79.3%, 71.9% and 25.9% of our revenue from crude oil tankers and nil, 0.6%, 3.1% and 4.0% of our revenue from DPV in 2007, 2008 and 2009 and for the eight months ended August 31, 2010, respectively. We further derived revenue from VLOCs in the eight months ended August 31, 2010, which accounted for 29.2% of our total revenue for the period. Results of our performance may change as the mix of our vessels changes and our past performance may not be indicative of our future results.

Taxation

Our consolidated PRC operating entities and subsidiaries are subject to PRC income tax. Under the new PRC Income Tax Law promulgated in March 2007, a unified enterprise income tax rate of 25% and a unified tax deduction standard have been applicable equally to domestic-invested enterprises and foreign-invested enterprises since the law went into effect on January 1, 2008. On December 29, 2007, the State Council promulgated implementation regulations under which enterprises established prior to March 16, 2007 and eligible for preferential tax treatment in accordance with previous tax laws and administrative regulations are transitioned to the new unified tax rate over a five-year period which began on January 1, 2008. Enterprises eligible for preferential tax treatment but which were established after March 16, 2007 were only eligible for preferential tax treatment until the end of 2007.

Rongsheng Heavy Industries was eligible for preferential tax treatment in accordance with previous tax laws due to its FIE status. Under the new Income Tax Law and the State Council implementation regulations, Rongsheng Heavy Industries' has been entitled to preferential tax treatment since January 1, 2008, being entitled to full exemptions from income tax for 2008 and 2009 and 50% reductions to the applicable income tax rates for 2010, 2011 and 2012. Thereafter, its statutory income tax rate will be 25%. When the tax benefits which are currently available for our operating subsidiaries expire, those subsidiaries will be subject to the higher income tax rate of 25%. Any increase in the income tax rate applicable to our consolidated PRC operating entities may adversely affect our business, financial condition and results of operations. Moreover, our historical operating results may not be indicative of our operating results for future periods as a result of the expiration of the tax benefits currently available to us.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates that are important for an understanding of our financial condition and results of operations, which are set forth in detail in Notes 3 and 5 of Section II in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgment relating to accounting items such as revenue recognition, cost or expense allocation and liability provisioning. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. By nature, such judgment is subject to an inherent degree of uncertainty and based on our historical experience, the terms of existing contracts, management's view on trends in our industry and information from outside sources. We believe the following critical accounting policies involve the most significant estimates and judgment used in the preparation of our financial statements.

Construction Contracts — Shipbuilding

We recognize construction contract costs as expenses in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, we recognize contract revenue only to the extent that contract costs incurred 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, we recognize the contract revenue over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, we recognize the expected loss as an expense immediately. We include the variations in contract works, claims and incentive payments (if any) in contract revenue to the extent that they have been agreed upon with the customer and can be reliably measured. We use the "percentage of completion" method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion equals the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Prior to entering into a shipbuilding contract, we usually estimate the cost of the entire contract based on our experience in building similar vessels, taking into account other factors such as any increases in the prices of raw materials, labor costs and other costs and expenses directly related to construction of the relevant vessel. After construction has commenced, we re-evaluate our estimates at each balance sheet date and make necessary adjustments. Where we have had no experience in building a certain type of vessel, we make our estimates on the basis of industry information gathered from reliable sources. With respect to the following main categories of costs, our estimates are made as follows:

- Raw materials and components: We re-estimate the cost of raw materials such as steel plates and pipes on the basis of the basic design of the vessel and market price of such materials at the time construction begins. We estimate the cost of equipment according to the specifications listed in the shipbuilding contract and the market price of such equipment. These estimates are adjusted periodically.
- Labor costs: We estimate labor costs based on our past experience in constructing similar types of vessels. Where we have had no experience in constructing a similar type of vessel, we make estimates on the basis of information from other shipyards.
- Other direct costs: We estimate other direct costs, such as insurance premiums, shipbroker's commissions, inspection fees, design fees and warranty expenses on the basis of the relevant contract clauses and the quotes from relevant parties where applicable.

Prior to the construction of the vessel, a report on its estimated cost is usually prepared by our Finance and Operation Department based on information provided by other relevant departments, such as the production, sales and marketing departments. Subsequently, the report is circulated to our executive officers and department heads for their view and approvals. Once a report is approved, it is used as a guideline by various departments of our Company to manage the construction cost of the respective vessel. The report is revised periodically according to the above procedures to reflect necessary adjustments and changes.

Significant judgment is required in estimating total contract costs. In making these judgments, our management has relied on its past experience and industry knowledge. It monitors the progress of construction and periodically reviews the estimated total cost for each contract as construction progresses. If the actual costs differ from our management's estimates, the revenue, cost of sales and provision for foreseeable losses are adjusted.

We commence recognition of profit from a shipbuilding construction contract when the vessel's percentage of completion exceeds 20%, assuming that the outcome of the contract can be reasonably ascertained. Our management considers that after a vessel reaches 20% of completion, its total cost can be measured reliably.

Provisions for Warranty

We recognize a provision when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that the amount of the obligation can be estimated reliably. We provide for the estimated cost of warranties granted on shipbuilding products and undertakings to repair or replace items that do not perform satisfactorily at the time revenues for the related items are recognized. Our shipbuilding products are covered by warranty for one year from the date of delivery. While we have put in place product quality programs and processes, warranty obligations are affected by actual product failure rates and by material usage and service delivery costs incurred in connection with a product failure. Our warranty provision is established based upon the best estimates of the amounts necessary to settle existing and future claims on products sold as of the balance sheet date. While management believes that our warranty provisions are adequate and that the judgment we apply is appropriate, the ultimate cost of a product warranty may differ materially from our estimates. When the actual cost of a product warranty is lower than management originally anticipated, we release an appropriate proportion of the provision after the relevant warranty period has expired, and if the cost of a product warranty is higher than anticipated, we increase the provision accordingly.

Useful lives and Residual Values of Items of Property, Plant and Equipment

We calculate depreciation of property, plant and equipment using the straight-line basis to allocate costs to their residual values over their estimated useful lives. The estimated useful lives used for this purpose are as follows:

Buildings	40 years
Plant and machinery	5 to 15 years
Computer equipment	3 to 5 years
Office equipment	5 years
Motor vehicles	10 years

We review residual values and useful lives and make adjustment, if appropriate, at each balance sheet date.

Fair Value of Financial Instruments

We determine the initial fair value of certain financial instruments, such as our preferred shares, by using discounted cash flow analysis. We use our judgment in selecting methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Current Income Tax and Deferred Tax

We are subject to income taxes in multiple jurisdictions and significant judgment is required in determining our provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during our ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of a matter is different from the amount initially recorded, the difference impacts the income tax and deferred tax provisions in the period in which such determination was made.

Impairment of Trade and Other Receivables and Amounts due from Customers for Contract Work

We determined the provision for impairment of trade and other receivables and amounts due from customers for contract work based on our evaluation of the collectability of these receivables. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, and in making this judgment, we evaluate, among other factors, the current creditworthiness and the past collection history for each debtor/customer and the current market conditions.

Share-based Compensation

Our employees may receive some of our Shares as consideration for their services rendered to our Group. The fair value of the employee services received in exchange for the grant of the Shares is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the Shares granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and status 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 recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, we revise our estimate of the number of shares that are expected to vest based on the non-market vesting conditions. We recognize the impact of the revision of original estimates, if any, in our combined profit or loss with a corresponding adjustment to equity.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenue

Revenue represents contract revenue, net of business taxes and surcharges, allowance for goods returns and trade discounts.

Revenue Recognition — Shipbuilding Contracts

We recognize shipbuilding contract costs as they are incurred and use the "percentage of completion method" to determine the appropriate amount of revenue to recognize in a given period. We recognize contract revenue only to the extent that costs incurred are likely to be recoverable and recognize profit when the percentage of completion exceeds 20% of the relevant vessel as management believes that after this stage the outcome of a construction contract can be estimated reliably. In recognizing our revenue, significant judgment is required to estimate the total contract costs. If the actual costs differ from our estimates, we make adjustment to our revenue and cost of sales and we make provision for foreseeable losses to the extent estimated total contract costs exceed total contact revenue. For 2007, 2008 and 2009, our provision for foreseeable losses amounted to RMB17.3 million, RMB66.1 million and nil and was recorded in cost of sales, respectively. For the eight months ended August 31, 2009 and 2010, our provision for foreseeable losses was nil.

Government Subsidy

On August 17, 2010, the Rugao Harbor Management Committee (如皋港區管理委員會) of the Rugao Municipal Government granted Rongsheng Heavy Industries, one of our wholly-owned subsidiaries, a subsidy of RMB830.0 million, of which RMB520.0 million was received and credited to Rongsheng Heavy Industries' account in August 2010. This amount was granted to subsidize Rongsheng Heavy Industries for its expenditures in research and construction of high value-added vessels and offshore engineering equipment. The remaining amount of RMB310.0 million is to be granted to the Rongsheng Heavy Industries based on the actual costs it incurs by the end of 2010. The subsidy was based on a number of factors including our position as an industry leader, the essential role we play in the local economy, the multiple lines of vessels we build, our offshore engineering capability, our substantial investment in high-technology research, vessel designs and production processes, training of technicians, introduction of new technology and managers and our achievements in obtaining new patents and projects. No condition was imposed upon us in relation to the grant of this subsidy.

We accounted for this subsidy in accordance with International Accounting Standards No. 20 ("IAS 20"). Pursuant to paragraph 7 of IAS20, we used the subsidy to offset expenses in our profit and loss for the eight months ended August 31, 2010, including cost of sales of RMB317.6 million, selling and marketing expenses of RMB2.6 million, general and administrative expenses of RMB117.6 million and finance costs of RMB82.2 million. The cost of sales offset comprised our production costs. The amounts allocated to offset the employee benefit expenses, outsourcing and processing costs and office expenses and utilities expenses were RMB125.3 million, RMB173.8 million and RMB88.1 million, respectively. Our offset was in line with the purposes for this subsidy and we believe it is appropriate to recognize the subsidy in this manner.

Our cost of sales and other operating expenses would have been higher than the amounts recorded in our financial statements for the eight months ended August 31, 2010, if we had not received such subsidy. We cannot assure you that we will be able to receive similar government subsidies in the future. If we do not receive subsidies similar to the one we received in August 2010, our net profit and net profit margin may be adversely affected.

Vessels under Construction and Vessels Delivered

During the three years ended December 31, 2009 and the eight months ended August 31, 2009 and 2010, our revenue was derived primarily from our shipbuilding business. Our products gained wider acceptance during the Track Record Period, especially after we delivered our first vessel successfully in 2008. We increased our production capacity after more of our production facilities were brought into operation and our workforce received better training and gained more experience. Our increased experience and knowhow in shipbuilding and enlarged production capacity enabled us to construct an increasing number of vessels in 2008 and 2009 and the eight months ended August 31, 2010. During the Track Record Period, both our number of vessels under construction and delivered increased significantly. The following table sets forth our vessels under construction and delivered during the indicated periods:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
	No. of vessels under construction	No. of vessels delivered	No. of vessels under construction	No. of vessels delivered	No. of vessels under construction	No. of vessels delivered	No. of vessels under construction	No. of vessels delivered	No. of vessels under construction	No. of vessels delivered
Shipbuilding construction contracts										
Bulk carriers	6	—	2	5	11	1	6	1	15	2
VLOCs(1)	—	—	—	—	3	—	—	—	8	—
Crude oil tankers (2)	6	—	23	—	21	9	21	5	11	10
VLCCs	—	—	—	—	—	—	—	—	—	—
Containerships	—	—	—	—	—	—	—	—	—	—
Offshore engineering (DPV)	—	—	1	—	1	—	1	—	1	—
TOTAL	**12**	**—**	**26**	**5**	**36**	**10**	**28**	**6**	**35**	**12**

Notes:

(1) We commenced construction of three VLOCs in late 2009 but none reached 20% completion within that year, and recognized no revenue in respect of these vessels because the cost incurred in that year was very minimal.

(2) We commenced construction of six crude oil tankers in 2007 but none reached 20% completion within that year, and recognized revenue, however, to the extent of the actual costs we incurred in respect of these vessels.

The following table sets forth the vessels with the percentage of completion over 20% for the periods indicated:

	Year ended December 31,			Eight months ended August 31,	
	2007	2008	2009	2009	2010
Shipbuilding construction contracts					
Bulk carriers	4	6	8	1	14
VLOCs(1)	—	—	—	—	6
Crude oil tankers (2)	—	13	21	18	11
VLCCs	—	—	—	—	—
Containerships	—	—	—	—	—
Offshore engineering (DPV)	—	—	1	1	1
TOTAL	**4**	**19**	**30**	**20**	**32**

Notes:

(1) We commenced construction of three VLOCs in late 2009 but none reached 20% completion within that year and recognized no revenue in respect of these vessels because the cost incurred in that year was very minimal.

(2) We commenced construction of six crude oil tankers in 2007 but none reached 20% completion within that year and recognized revenue, however, to the extent of the actual costs we incurred in respect of these vessels.

Revenue by segment and product type

The following table sets forth, after elimination of inter-segment results, the sales from our principal products and their respective percentages by product type during the periods indicated:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Revenue	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**	**RMB'000**	**% of Total Revenue**
Shipbuilding										
Bulk carriers	543,377	82.1%	952,269	20.1%	2,371,612	25.0%	325,426	6.8%	3,138,379	38.4%
VLOCs [(1)]	—	—	—	—	—	—	—	—	2,382,412	29.2%
Crude oil tankers [(2)]	118,288	17.9%	3,745,824	79.3%	6,812,272	71.9%	4,307,437	89.4%	2,113,432	25.9%
VLCCs	—	—	—	—	—	—	—	—	—	—
Containerships[(3)]	—	—	—	—	—	—	—	—	77,938	1.0%
Subtotal	**661,665**	**100.0%**	**4,698,093**	**99.4%**	**9,183,884**	**96.9%**	**4,632,863**	**96.2%**	**7,712,161**	**94.5%**
Offshore engineering (DPV) .	**—**	**—**	**26,818**	**0.6%**	**289,322**	**3.1%**	**183,409**	**3.8%**	**330,682**	**4.0%**
Marine engine building	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,179**	**0.0%**
Engineering machinery										
Excavator	—	—	—	—	—	—	—	—	118,376	1.5%
Crane	—	—	—	—	—	—	—	—	940	0.0%
Others	—	—	—	—	—	—	—	—	2,045	0.0%
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**121,361**	**1.5%**
TOTAL	**661,665**	**100.0%**	**4,724,911**	**100.0%**	**9,473,206**	**100.0%**	**4,816,272**	**100.0%**	**8,170,383**	**100.0%**

Notes:

(1) We commenced construction of three VLOCs in late 2009 but none reached 20% completion within that year. We recognized no revenue in respect of these vessels because the cost incurred in that year was very minimal.

(2) We commenced construction of six crude oil tankers in 2007 but none reached 20% completion within that year. We recognized revenue, however, to the extent of the actual costs we incurred in respect of these vessels.

(3) The revenue was recognized in connection with the preparatory work we performed prior to steel cutting, on the basis that certain costs were specifically incurred in connection with the orders of the four containerships. The costs included primarily customs duties, design fees and first installment payments of agent commissions.

- Shipbuilding

Our shipbuilding segment contributed most of our revenue during the Track Record Period. The contribution by different types of vessels varied significantly during the Track Record Period. In 2007, 82.1% of our revenue was contributed by our 75,500 DWT ice-strengthened Panamax bulk carriers. In 2008 and 2009, 79.3% and 71.9% of our total revenue was contributed by Suezmax crude oil tankers, respectively. Our Capesize bulk carriers started to contribute to our revenue in 2008. Bulk carriers contributed 25.0% of our revenue in 2009. During the eight months ended August 31, 2009, 89.4% of our revenue was contributed by Suezmax crude oil tankers. During the eight months ended August 31, 2010, 38.4%, 25.9% and 29.2% of our revenue was contributed by bulk carriers, Suezmax crude oil tankers and VLOCs, respectively. The changes in contribution by vessel type during the Track Record Period were due to the following reasons:

- the first orders we received were for six Panamax ice-strengthened bulk carriers. We commenced and continued construction of six vessels in 2007 and one vessel in 2008, respectively. We completed a significant percentage of these vessels in 2007 and an even higher percentage in 2008 and delivered five vessels in 2008;

- we started the construction of six Suezmax crude oil tankers in 2007. Our construction activities increased in 2008 and 2009, with 23 and 21 vessels under construction, respectively, and nine vessels delivered in 2009; and

- we started the construction of our first Capesize bulk carrier in 2008 and had nine vessels under construction in 2009.
- During the eight months ended August 31, 2010, we had 15 bulk carriers, 11 crude oil tankers and eight VLOCs under construction. The average percentage of completion was 58.9% during that period. During the eight months ended August 31, 2009, we had six bulk carriers and 21 crude oil tankers under construction. The average percentage of completion of those vessels was 34.3% during that period.

The following table sets forth the breakdown of our shipbuilding segment revenue by geographic region and percentage of our revenue for the periods indicated:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue	RMB'000	% of Total Revenue
Turkey	4,882	0.7%	587,355	12.5%	2,494,557	27.1%	785,528	16.9%	1,628,511	21.1%
Norway	552,436	83.5%	1,547,618	32.9%	1,769,824	19.3%	1,323,952	28.6%	175,438	2.3%
Greece	58,850	8.9%	1,965,780	41.9%	1,792,561	19.5%	830,630	17.9%	1,098,459	14.3%
Russia	27,448	4.2%	538,043	11.5%	1,000,052	10.9%	967,805	20.9%	166,642	2.2%
PRC	—	—	8,542	0.2%	987,990	10.8%	263,695	5.7%	477,858	6.2%
Cyprus	18,049	2.7%	9,107	0.2%	709,650	7.7%	461,253	10.0%	483,381	6.3%
Germany	—	—	6,960	0.1%	271,917	3.0%	—	—	1,299,459	16.8%
Singapore	—	—	34,688	0.7%	157,333	1.7%	—	—	—	—
Brazil	—	—	—	—	—	—	—	—	1,914,678	24.8%
Oman	—	—	—	—	—	—	—	—	467,735	6.0%
TOTAL	**661,665**	**100.0%**	**4,698,093**	**100.0%**	**9,183,884**	**100.0%**	**4,632,863**	**100.0%**	**7,712,161**	**100.0%**

During the Track Record Period, we derived our revenue mainly from sales to customers located in Turkey, Norway and Greece, with increasing amounts derived from customers in other parts of the world such as the PRC. We started to expand in the PRC market in 2009, leveraging our reputation, and received ten orders for Panamax bulk carriers from MSFL.

As we became more widely recognized and our products gained wider acceptance during the Track Record Period, we secured more orders for and constructed more large vessels. As a result, revenue from construction of larger vessels, such as Suezmax crude oil tankers and Capesize bulk carriers, made up an increased proportion of our revenue and that from construction of Panamax bulk carriers made up a decreased proportion over the Track Record Period. In the eight months ended August 31, 2010, we commenced construction of five VLOCs.

- Offshore Engineering

We started to recognize revenue from our offshore engineering segment in 2008 and our revenue from this segment increased in 2009. While we received the DPV order in 2007, we recognized no offshore engineering revenue in 2007 and only a small amount in 2008 as our work in those two years was primarily preparatory in nature due to the complexity of the project and the amount of time needed for the completion of designs and other preparatory work for the vessel. We commenced construction in 2008 and completed 33.2% of the DPV at the end of 2009. We completed an even larger portion of the vessel in the eight months ended August 31, 2010 than in the eight months ended August 31, 2009.

- Marine Engine Building

We acquired Rong An Power Machinery in June 2010 and its financial results have been combined into our Group's financial results since January 2010. Due to the elimination of intra-group transactions, our financial results as shown in our financial statements only reflect sales to external customers. Our total revenue from our marine engine building segment before the inter-segment elimination for the eight months ended August 31, 2010 was RMB132.4 million, representing revenue of RMB6.2 million that we recognized from the fulfillment of two repair orders from external customers and revenue of RMB126.2 million from the fulfillment of two repair orders and orders for four marine diesel engines from our shipbuilding segment.

- Engineering Machinery

We acquired a majority interest in Zhenyu Machinery in the first half of 2010 and its financial results have been combined into our Group's financial results since its date of acquisition. We had total revenue of RMB121.4 million from our engineering segment for the period from the date of acquisition to August 31, 2010, mainly representing the revenue we recognized from the sales of 324 excavators and one crane.

Cost of Sales

Our cost of sales typically comprises the cost of steel, equipment and other raw materials, labor cost, consumables, commissions and miscellaneous costs associated with shipbuilding and related production activities.

By segment

The cost of sales of the shipbuilding segment accounted for all or most of the cost of sales of our Group for 2007, 2008 and 2009 as well as for the eight months ended August 31, 2009 and 2010, while that of the offshore engineering segment increased rapidly in 2009 as the construction of the DPV progressed rapidly after construction was started in 2008.

The following table sets forth our cost of sales for our principal products and their respective contributions by percentage to our total cost of sales during the indicated periods:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Cost of sales	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**
Shipbuilding										
Bulk carriers	576,560	83.1%	1,087,619	22.5%	1,256,631	16.5%	201,281	5.2%	2,291,551	36.2%
VLOCs	—	—	—	—	—	—	—	—	1,833,214	28.9%
Crude oil tankers	116,983	16.9%	3,701,120	76.9%	6,179,610	81.0%	3,520,512	91.4%	1,830,591	28.9%
VLCCs	—	—	—	—	—	—	—	—	—	—
Containerships	—	—	—	—	—	—	—	—	77,938*	1.2%
Subtotal	**693,543**	**100.0%**	**4,788,739**	**99.4%**	**7,436,241**	**97.5%**	**3,721,793**	**96.6%**	**6,033,294**	**95.2%**
Offshore engineering (DPV)	**—**	**—**	**26,818**	**0.6%**	**188,674**	**2.5%**	**129,310**	**3.4%**	**204,828**	**3.2%**
Marine engine building	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,024**	**0.1%**
Engineering machinery										
Excavator	—	—	—	—	—	—	—	—	88,969	1.5%
Crane	—	—	—	—	—	—	—	—	729	0%
Others	—	—	—	—	—	—	—	—	1,128	0%
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**90,826**	**1.5%**
TOTAL	**693,543**	**100.0%**	**4,815,557**	**100.0%**	**7,624,915**	**100.0%**	**3,851,103**	**100.0%**	**6,334,972**	**100.0%**

Note: This revenue was recognized in connection with the preparatory work we performed prior to the commencement of construction on the basis that certain costs were specifically incurred in connection with the orders of the four containerships. The costs primarily included customs duties, design fees and first installment payments of agent commissions.

- Shipbuilding

Our costs from our Panamax bulk carriers as a percentage of our total cost of sales decreased substantially during the Track Record Period, while the costs we incurred in connection with our Suezmax crude oil tankers and Capsize bulk carriers started increasing rapidly during the same period. In 2007, most of our shipbuilding costs were incurred in connection with the construction of our 75,500 DWT ice-strengthened Panamax bulk carriers. In 2008 and 2009, most of our total cost of sales was incurred in connection with the construction of Suezmax crude oil tankers. During the eight months ended August 31, 2009, we incurred 91.4% of our total cost of sales in connection with the construction of our crude oil tankers. During the eight months ended August 31, 2010, we incurred 36.2%, 28.9% and 28.9% of our total cost of sales in connection with the construction of 15 bulk carriers, 11 crude oil tankers and eight VLOCs, respectively. The changes in our costs incurred during the Track Record Period were due to the following reasons:

- the first orders we received were for six Panamax ice-strengthened vessels. We completed a significant percentage of those vessels in 2007 and an even higher percentage in 2008 and delivered five vessels in 2008; we had only two additional bulk carriers under construction in 2009 and only delivered one vessel in 2009;
- we started the construction of six Suezmax tankers in late 2007. Our construction activities increased in 2008 and 2009, with 23 and 21 vessels under construction, respectively, and nine Suezmax vessels delivered in 2009; and
- we started the construction of our first Capesize bulk carrier in 2008 and had nine vessels under construction in 2009.
- We started the construction of five VLOCs and six bulk carriers, continued the construction of three VLOCs and nine bulk carriers and 11 crude oil tankers in the eight months ended August 31, 2010. We completed an average of 58.9% of those vessels during that period.

- Offshore Engineering

While we received the DPV order in 2007, our work in 2007 and 2008 was primarily preparatory in nature. We completed significantly more construction work in 2009 and the eight months ended August 31, 2010 after the preparatory work was substantially completed in 2008.

We recognized no cost of sales related to the DPV in 2007. Costs related to the DPV in 2007 were deferred and recognized as cost of sales after the construction of the vessel commenced in 2008. We completed a higher percentage of the construction of the vessel in 2009 and thus incurred more cost in connection with its construction in that year than in 2008.

- Marine Engine Building

Our cost of sales from this segment during the Track Record Period primarily included costs of raw materials and parts and costs from the hiring of production line employees for the manufacture and repair of the engines and engine parts delivered to our customers (both external and internal). Our revenue recognized from inter-segment transactions was eliminated upon combination of the segment financial results into those of our Group. The cost of sales of this segment, however, was not eliminated upon combination. As a result, our cost of sales for this segment included the cost of the engines delivered to our shipbuilding segment.

- Engineering Machinery

Our cost of sales from this segment during the Track Record Period primarily included costs of raw materials and parts and costs from the hiring of production line employees. Our cost of sales for this segment were incurred primarily in connection with the manufacture of excavators.

By type

The following table sets forth our cost of sales by type and as a percentage of our total cost of sales during the indicated periods:

	Year ended December 31,						Eight months ended August 31,			
	2007		2008		2009		2009		2010	
Cost of Sales	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**	**RMB'000**	**% of Total Cost of Sales**
Raw Materials										
— Steel plates and pipes	193,448	27.9%	2,057,742	42.7%	2,862,802	37.5%	1,569,469	40.8%	2,606,068	41.1%
— Equipment	113,134	16.3%	1,336,893	27.8%	2,475,384	32.5%	950,693	24.7%	2,059,130	32.5%
— Others	42,545	6.1%	225,117	4.7%	399,063	5.2%	339,715	8.8%	378,010	6.0%
Labor cost	84,570	12.2%	491,313	10.2%	835,028	11.0%	397,578	10.3%	474,966	7.5%
Consumables	59,845	8.6%	156,518	3.3%	336,936	4.4%	157,161	4.1%	336,351	5.3%
Commissions	34,396	5.0%	102,013	2.1%	89,209	1.2%	73,499	1.9%	128,004	2.0%
Others	165,605	23.9%	445,961	9.2%	626,493	8.2%	362,988	9.4%	352,443	5.6%
TOTAL	**693,543**	**100.0%**	**4,815,557**	**100.0%**	**7,624,915**	**100.0%**	**3,851,103**	**100.0%**	**6,334,972**	**100.0%**

Cost of steel plates and pipes constituted the largest component of our cost of sales during the Track Record Period. Our cost of steel may be affected by factors such as the volume of steel we use, the purchase prices we pay and the volume of steel we purchase at a specific price during a period. As we had 12, 26 and 36 vessels under construction in 2007, 2008 and 2009, the volume of steel we used in construction was approximately 42,000 tonnes, 350,000 tonnes and 640,000 tonnes during those periods, respectively. Due to the large volume of steel used in the construction of our vessels, the price we paid for steel often had a significant impact on our cost of sales. Our average weighted purchase price (VAT excluded) for the steel we used in production was approximately RMB5,500, RMB6,600 and RMB5,000 per tonne in 2007, 2008 and 2009, respectively. Our cost of steel plates and pipes as a percentage of our total cost of sales was 27.9%, 42.7% and 37.5% for 2007, 2008 and 2009, respectively. We used approximately 330,000 tonnes and 530,000 tonnes of steel plates and pipes during the eight months ended August 31, 2009 and 2010 and the weighted average purchase price (VAT excluded) was RMB4,900 per tonne and RMB5,200 per tonne, respectively. Our cost of steel plates and pipes as a percentage of our total cost of sales was 40.8% and 41.1% for the above periods, respectively.

Our cost of equipment constituted the second largest component of our cost of sales during the Track Record Period. Our imported equipment primarily comprised marine diesel engines and diesel generators used in constructing our vessels and purchased from foreign manufacturers, such as Hyundai Heavy Industries. We usually purchase main diesel engines and other important equipment from overseas suppliers due to the limited supply from domestic sources and the strict technical requirements in relation to these types of equipment. We normally secure supplies of important equipment and components from overseas suppliers soon after entering into ship-building contracts with our customers. We build anticipated cost increases into the contract price of a vessel if the cost increase may occur before we will be able to lock in the equipment price. Our equipment cost as a percentage of our total cost of sales increased from 16.3% in 2007 to 27.8% in 2008 and to 32.5% in 2009. Our cost of equipment, as a percentage of cost of sales, increased from 24.7% for the eight months ended August 31, 2009 to 32.5% for the eight months ended August 31, 2010. We incurred more equipment costs in the eight months ended August 31, 2010 than in the eight months ended August 31, 2009 because we purchased and installed more equipment during that period due to an increased number of vessels approaching the end of construction.

Other raw materials costs included those for paint, welding materials, cables, profile steel, lubricants and miscellaneous materials and components used in building our vessels. Other raw materials accounted for 6.1%, 4.7% and 5.2% of our total cost of sales for 2007, 2008 and 2009 and 8.8% and 6.0% of our total cost of sales for the eight months ended August 31, 2009 and 2010, respectively.

Our labor costs during the Track Record Period included employee cost and outsourcing and processing fees. Our employee cost included the wages we paid to our production-line workers, managers and other employees engaging in construction activities and other related costs. Outsourcing and processing fees included direct labor costs and processing fees relating to outsourced construction work and the manufacturing of specialized parts and components for the vessels we constructed. During the Track Record Period, we outsourced an increasing proportion of vessel construction work to shipbuilding companies outside of our Group due to the increase in our construction activities. The work we typically outsourced included the construction and painting of vessel sections. Our labor cost as a percentage of our total cost of sales was 12.2%, 10.2% and 11.0% in 2007, 2008 and 2009 and 10.3% and 7.5% for the eight months ended August 31, 2009 and 2010, respectively. The decrease in our employee cost in the eight months ended August 31, 2010 was partly due to the amount of government subsidy allocated to offset the portion of the costs we incurred in connection with designing and manufacturing new types of vessels, which amount was approximately RMB77.2 million.

Our consumables included various materials used in production, such as steel grits for sandblasting, gloves for production line employees and brushes for painting vessels. Our consumables accounted for 8.6%, 3.3% and 4.4% of our total cost of sales for 2007, 2008 and 2009 and 4.1% and 5.3% for the eight months ended August 31, 2009 and 2010, respectively.

Our commissions were fees we paid to ship brokers during the Track Record Period for procuring new shipbuilding orders for us after we had entered into binding contracts with customers. Commissions were paid to our brokers in installments each time we received an installment payment for the relevant order. Commissions as a percentage of our total cost of sales decreased from 5.0% in 2007 to 2.1% in 2008 and to 1.2% in 2009 as the amount we paid to ship brokers declined as a result of our obtaining more recurring orders and referrals from our existing customers. Commissions as a percentage of our total cost of sales was 1.9% and 2.0% for the eight months ended August 31, 2009 and 2010, respectively. The increase in commissions as a percentage of our total cost of sales in the eight months ended August 31, 2009 and 2010 was partly due to increases in the number of installment payments we received during those periods in which we were required to pay corresponding commission payments to shipbuilding agents.

Our other costs included design fees, warranty costs, utilities costs, machinery rental fees, inspection fees, insurance premiums, depreciation and other miscellaneous expenses incurred during the Track Record Period. These components as a percentage of our total cost of sales may vary from period to period as our level of business activity or future business plans change. The sum of other costs as a percentage of our total cost of sales was 23.9%, 9.2% and 8.2% in 2007, 2008 and 2009 and 9.4% and 5.6% for the eight months ended August 31, 2009 and 2010, respectively. Furthermore, our depreciation and amortization expenses increased significantly in 2009 and the eight months ended August 31, 2010 due to a significant number of the production facilities for our various business segments becoming operational following their construction or renovation, including those that were transferred to our Group when we acquired Rong An Power Machinery and Zhenyu Machinery.

Gross Profit/Loss and Gross Profit Margin/Gross Loss Margin

Before the outcome of a contract can be estimated reliably, we recognize contract revenue only to the extent that costs incurred are likely to be recoverable. We recognize profit for a shipbuilding construction contract only when the percentage of vessel completion exceeds 20%, as our management believes that after this stage the outcome of a construction contract can be estimated reliably. As a result, the revenue recognized before vessel completion reaches 20%, does not include any profit. Therefore, our gross profit and gross profit margin are affected by factors, including the percentage of completion, the revenue and costs recognized and subsequent adjustments, which are subject, to a large extent, to our management's estimates and judgment.

We had gross losses for the years ended December 31, 2007 and 2008 of RMB31.9 million and RMB90.6 million but had gross profit for the year ended December 31, 2009 and the eight months ended August 31, 2010 of RMB1,848.3 million and RMB1,835.4 million, respectively, primarily due to the following reasons:

- In 2007 and 2008, a significant portion of our current shipyard facilities was under construction, as most of our current shipyard facilities did not become operational until 2009. Our management team and shipbuilding workforce were still being assembled and trained in 2007 and 2008. Due to our limited operating history and our lack of shipbuilding experience as a new shipyard, we experienced cost overruns in 2007 and 2008. We incurred substantial costs, such as those incurred due to training a large number of employees, purchasing various machinery and systems and paying design fees, before we recognized any significant shipbuilding revenue or profit. In 2009, we were able to focus on vessel construction and the generation of shipbuilding revenue and profit after more of our shipyard facilities became operational and after our employees had the requisite training and experience.

- The percentage of completion of the vessels we were constructing was generally low in 2007 and 2008. According to our accounting policies, we do not recognize any profit from vessels until they have reached 20% of completion and thus our revenue recognized in connection with these vessels during these years was only equal to the aggregate costs we incurred; whereas the percentage of completion of our vessels under construction in 2009 and the eight months ended August 31, 2010 was mostly higher than 20% and we were able to recognize a gross profit to the extent that the revenue recognized based on the percentage of completion exceeded the actual costs incurred.

- Compared to that for the eight months ended August 31, 2009, our gross profit increased significantly in the eight months ended August 31, 2010 as we had an increased number of vessels under construction, including six VLOCs whose percentage of completion exceeded 20%, and the average percentage of completion was also higher after more shipyard facilities were commissioned.

- Our profit for the eight months ended August 31, 2010 was partly attributable to a government subsidy of RMB520.0 million we received, which contributed RMB426.7 million to our net profit attributable to our equity holders.

Our gross profit/loss and gross profit margin/gross loss margin may fluctuate significantly between financial periods, depending on factors such as the price of steel, equipment and labor, as well as the mix of our vessels under construction and percentage of completion of such vessels.

Selling and Marketing Expenses

Our selling and marketing expenses during the Track Record Period were comprised mainly of employee benefit expenses for our selling and marketing staff and advertising, promotion and marketing expenses. Our selling and marketing expenses accounted for 0.16%, 0.07% and 0.05% of our total revenue for 2007, 2008 and 2009 and 0.04% and 0.45% for the eight months ended August 31, 2009 and 2010, respectively. These expenses as a percentage of our total revenue have been small as we rely primarily on word of mouth and our reputation in the shipbuilding industry to market our products and secure new orders. The decrease in our selling and marketing expenses as a percentage of our total revenue in 2008 and 2009 was due to a wider acceptance of our products in the industry, which substantially reduced our need for advertising. Our selling and advertising expenses as a percentage of our total revenue increased in the eight months ended August 31, 2010 due to more spending on advertising in the media to promote our products and brand in order to expand our lines of business.

General and Administrative Expenses

Our general and administrative expenses during the Track Record Period comprised mainly raw materials and consumables, depreciation of property, plant and equipment, employee benefit expenses, operating lease payments, outsourcing and processing costs, agency fees, other tax-related expenses and customs duties, bank charges, office expenses and utilities costs and other miscellaneous expenses. Our general and administrative expenses accounted for 54.9%, 8.3% and 5.9% of our total revenue for 2007, 2008 and 2009 and 6.5% and 6.0% for the eight months ended August 31, 2009 and 2010, respectively. The decreases in our general and administrative expenses as a percentage of revenue over the Track Record Period were primarily due to the substantial increase in the revenue that we recognized in 2008 and 2009 as well as relatively high employee benefit expenses in 2007, which included a one-time equity-based compensation to a senior executive. The general and administrative as a percentage of the revenue decreased was attributable to the rapid increase in our revenue during that period.

Our employee benefit expenses included salaries and other benefits paid to our administrative staff during the Track Record Period. Our employee benefit expenses accounted for 71.1%, 13.5% and 14.6% of our general and administrative expenses for 2007, 2008 and 2009 and 15.6% and 18.0% for the eight months ended August 31, 2009 and 2010, respectively. The substantial amount of employee benefit expenses we incurred in 2007 was primarily due to the shares granted to a senior management member which amounted to RMB236.6 million. These expenses as a percentage of our total revenue decreased in 2009 as compared to 2008, as the revenue we recognized increased more significantly during that time. We had an average of 605, 887, 1,071 and 1,107 administrative staff members for 2007, 2008 and 2009 and the eight months ended August 31, 2010, respectively.

Depreciation of our property, plant and equipment accounted for 1.0%, 7.8% and 18.2% of our general and administrative expenses for 2007, 2008 and 2009 and 19.2% and 24.4% for the eight months ended August 31, 2009 and 2010, respectively. Our fixed assets increased significantly over the Track Record Period due to the completion of numerous buildings and other facilities used for general and administrative purposes, which resulted in increased depreciation during that time.

Agency fees were the amounts we paid during the Track Record Period to several PRC trading companies for the refund guarantees they provided on our behalf. During the early stage of our growth, we leveraged the credit facilities of several state-owned enterprises as we did not have a sufficient track record to allow us to secure adequate credit facilities for the issuance of all of the refund guarantees we required. Under our agreements with the trading companies which provided refund guarantees on our behalf during the Track Record Period, we typically paid approximately 1.5% of the amount of the refund guarantees to such companies. Our agency fees accounted for approximately 6.2%, 19.2% and 6.8% of our general and administrative expenses for 2007, 2008 and 2009 and 4.5% and 9.0% for the eight months ended August 31, 2009 and 2010, respectively. We used these trading companies less and less over the Track Record Period due to our obtaining increasing bank facilities as a result of the further establishment of our track record.

Our office expenses and utilities costs included costs incurred during the Track Record Period for the office equipment and the use of electricity, water, as well as expenses for operating our canteens during the course of business. Our office expenses and utilities accounted for approximately 7.2%, 14.4% and 16.1% of our general and administrative expenses for 2007, 2008 and 2009 and 12.7% and 6.3% for the eight months ended August 31, 2009 and 2010, respectively. The increases in these expenses during 2008 and 2009 were a result of increased expenses incurred in the operation of our canteens due to increases in the number of our employees and expenses for office equipment and furniture, as we furnished our new office space in Shanghai and Nantong during that time. Our office expenses and utilities costs decreased in the eight months ended August 31, 2010 as we purchased sufficient new office equipment in 2009 and did not need to make additional purchases during that period in 2010.

Our bank charges (including refund guarantee charges) were primarily the expenses charged by our banks and banks used by our trading companies during the Track Record Period for the issuance of refund guarantees. We typically paid 0.1% of the guaranteed amount per quarter to those banks. Our bank charges accounted for approximately 2.4%, 9.5% and 10.7% of our general and administrative expenses for 2007, 2008 and 2009 and 11.4% and 20.2% for the eight months ended August 31, 2009 and 2010, respectively. The increases were primarily attributed to increases in the refund guarantees we required as a result of the expansion of our business.

Our other tax related expenses and custom duties during the Track Record Period primarily included taxes paid on the transfers of assets to our Group pursuant to the Reorganization and real estate taxes on fixed assets. Our tax related expenses accounted for 4.7%, 16.8% and 8.5% of our total general and administrative expenses for 2007, 2008 and 2009 and 8.1% and 4.2% for the eight months ended August 31, 2009 and 2010, respectively. We incurred taxes and customs duties on the transfer of the raw materials and vessels held by Rongsheng Investment to our Group in connection with the Reorganization.

Our raw materials and consumables during the Track Record Period included materials and consumables, such as cranes and other production equipment used for warehousing or transporting steel and other raw materials. Our raw materials and consumables accounted for 0.4%, 7.9% and 4.6% of our total general and administrative expenses for 2007, 2008 and 2009 and 4.3% and 3.0% for the eight months ended August 31, 2009 and 2010, respectively. The increase in our raw materials and consumables in 2008 was due to increased volume of steel transported. We reduced our use of truck cranes in 2009 as our overhead cranes in the warehouse area had become operational by that time, resulting in a decrease in the expense.

Most of the other components of our administrative expenses increased as our business rapidly expanded during the Track Record Period. Some of these expenses increased faster than our revenue for the same financial periods due to the commencement of operations at our shipyard facilities, our construction of new facilities, our integration of acquired subsidiaries and our training of new employees.

Other Operating Expenses

Our other operating expenses during the Track Record Period comprised the taxes paid in connection with the transfer of operational assets from Rongsheng Investment to, and transfers between, several of our subsidiaries. Our other operating expenses accounted for 1.6%, 0.7% and nil of our total revenue for 2007, 2008 and 2009 and nil and 0.003% for the eight months ended August 31, 2009 and 2010, respectively.

Other Income

Our other income during the Track Record Period comprised primarily proceeds from sales of scrap metal, government grants, rental income and compensation from a cancelled shipbuilding contract. Other income accounted for nil, 1.0% and 1.3% of our total revenue for 2007, 2008 and 2009 and 1.4% and 1.6% for the eight months ended August 31, 2009 and 2010, respectively. As our shipbuilding activities increased in 2008 and 2009 and more steel was used, the amount of scrap metal increased as well. In 2008 and 2009, we used some of the scrap metal in our shipyard construction and sold the remainder. We received government grants as shipbuilding incentives in 2008 and 2009 from the Jiangsu government as well as compensation of RMB5.0 million from the cancellation of a shipbuilding order consisting of one vessel in 2009.

Other (Losses)/Gain

Our other losses during the Track Record Period comprised net foreign exchange losses and fair value losses on derivative instruments. Other losses accounted for 5.3%, 0.4% and 0.4% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and 0.8% for the eight months ended August 31, 2009, respectively. We incurred net foreign exchange losses during the Track Record Period primarily due to the appreciation of the RMB relative to the US dollar. We had other gain for the eight months ended August 31, 2010, which accounted for 0.04% of our total revenue. We may incur substantial foreign exchange losses in the near future due to the recent appreciation of the RMB against the US dollar and HK dollar, further appreciation of the RMB in the near future and increase in the amount of assets denominated in US dollar or HK dollar.

Finance Income

Our finance income during the Track Record Period primarily comprised interest income from bank deposits and net foreign exchange gains on financing activities. Finance income accounted for 0.5%, 0.5% and 0.4% of our total revenue for the years ended December 31, 2007, 2008 and 2009 and 0.4% and 1.0% for the eight months ended August 31, 2009 and 2010, respectively. Our interest income increased during the Track Record Period due to significant increases in our average bank deposits during the same period.

Finance Costs

Our finance costs during the Track Record Period comprised mainly interest we incurred on bank borrowings, finance lease liabilities and preferred shares, less the borrowing costs we capitalized. Our finance costs accounted for nil, 1.5% and 1.0% of the total revenue for 2007, 2008 and 2009 and 1.4% and 2.1% for the eight months ended August 31, 2009 and 2010, respectively. Our interest on bank borrowings and finance lease liabilities increased substantially during the Track Record Period as we substantially increased our bank borrowings and finance lease liabilities and issued preferred shares to satisfy the capital needs of our rapidly growing business. We acquired large amounts of assets and constructed new shipyard facilities, which we financed primarily with bank borrowings and finance lease liabilities and the issue of preferred shares. We capitalized the interest expenses we incurred for borrowings used to finance the construction of our fixed assets. Our capitalized interest amounted to RMB42.8 million, RMB344.3 million and RMB617.0 million for 2007, 2008 and 2009 and RMB366.9 million and RMB207.0 million for the eight months ended August 31, 2009 and 2010, respectively. We may incur substantial interest expenses in the near future due to the recent increase in interest rates as a result of PRC tightening policy, the substantial borrowings we currently have and possible increase in our borrowings for our business expansion.

Finance Income/Costs — net

Finance income/costs — net is the net amount of the finance income in excess of the finance costs or vice versa.

Income Tax (Expense)/Credit

Our income tax expense during the Track Record Period comprised the PRC income taxes our subsidiaries were required to pay on our taxable income in the PRC and adjustment for any deferred income taxes. Our income tax expenses accounted for 0.2% and 0.1% of our (loss)/profit before income tax expense for 2007 and 2009, respectively. We had an income tax credit in 2008. Our income tax expenses accounted for 0.2% and 14.9% of our profit before income tax expense for the eight months ended August 31, 2009 and 2010.

We had a loss before income tax of RMB438.7 million and RMB540.3 million in 2007 and 2008, respectively. We paid a small amount of taxes in 2007 due to the fact that certain of our PRC operating subsidiaries had taxable profit. We had not recognized any deferred tax assets for tax losses in 2007 and 2008 as such losses were attributable to Rengsheng Heavy Industries, which was expected to fully utilizes these tax losses after its tax exemption expired. Although we had profit before income tax of RMB1,306.6 million in 2009, most of that was attributable to Rongsheng Heavy Industries, which was exempt from income tax. We may incur more income tax expenses in the near future due to the increases in our applicable tax rates and income subject to taxation.

RESULTS OF OPERATIONS

Selected combined statements of comprehensive income information

The following information should be read in conjunction with the full text of this prospectus, including the combined financial statements and the notes thereto included in the Accountant's Report set out in Appendix I to this prospectus. Our financial statements in this prospectus have been prepared and are presented in accordance with the IFRS.

	Year ended December 31,			Eight months ended August 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	**661,665**	**4,724,911**	**9,473,206**	**4,816,272**	**8,170,383**
Cost of sales	(693,543)	(4,815,557)	(7,624,915)	(3,851,103)	(6,334,972)
Gross (loss)/profit	**(31,878)**	**(90,646)**	**1,848,291**	**965,169**	**1,835,411**
Selling and marketing expenses	(1,030)	(3,404)	(4,605)	(2,060)	(36,468)
General and administrative expenses	(363,058)	(393,345)	(561,253)	(311,643)	(489,878)
Other operating expenses	(10,879)	(30,906)	—	—	(272)
Other income	—	46,598	123,317	65,264	127,868
Other (losses)/gains	(35,094)	(19,326)	(37,981)	(39,061)	3,642
Operating (loss)/profit	**(441,939)**	**(491,029)**	**1,367,769**	**677,669**	**1,440,303**
Finance income	3,216	22,862	33,385	19,988	78,678
Finance costs	—	(72,142)	(94,604)	(66,687)	(170,405)
Finance income/(costs)—net	3,216	(49,280)	(61,219)	(46,699)	(91,727)
(Loss)/profit before income tax	**(438,723)**	**(540,309)**	**1,306,550**	**630,970**	**1,348,576**
Income tax (expense)/credit	(842)	24	(1,889)	(1,237)	(201,474)
(Loss)/profit for the year/period	**(439,565)**	**(540,285)**	**1,304,661**	**629,733**	**1,147,102**

Eight Months Ended August 31, 2010 Compared to Eight Months Ended August 31, 2009

Revenue

Our revenue increased by RMB3,354.1 million, or 69.6%, from RMB4,816.3 million in the eight months ended August 31, 2009 to RMB8,170.4 million in the eight months ended August 31, 2010. The increase was primarily attributable to the following reasons:

Shipbuilding: We had increased in revenue of RMB2,813.0 million from the construction of bulk carriers, RMB2,382.4 million from the construction of VLOCs and RMB77.9 million from preparatory work related to containership orders. We had 15 bulk carriers under construction in the eight months ended August 31, 2010, of which with an average of 52.4% completion, as compared to only 6 bulk carriers in the eight months ended August 31, 2009, with an average completion of 8%. We commenced the construction of five VLOCs in the eight months ended August 31, 2010. We derived less revenue from the construction of oil tankers as we had 11 crude oil tankers under construction with an average of 87.7% completion in the eight months ended August 31, 2010, as opposed to 21 crude oil tankers under construction with an average of 41.8% completion in the eight months ended August 31, 2009.

We derived the majority of our shipbuilding revenue from customers located in Turkey, Brazil and Germany in the eight months ended August 31, 2010. Revenue from these customers increased by RMB4,057.1 million, or 516.5%, from RMB785.5 million in the eight months ended August 31, 2009 to RMB4,842.6 million in the eight months ended August 31, 2010. Further, revenue recognized from vessels constructed for customers located in the PRC grew by RMB214.2 million in the eight months ended August 31, 2010.

Offshore Engineering: We had an increase in revenue recognized of RMB147.3 million, or 80.3%, from our construction of a DPV, from RMB183.4 million in the eight months ended August 31, 2009 to RMB330.7 million in the eight months ended August 31, 2010. We had completed approximately 46.3% of the DPV in the eight months ended August 31, 2010, as compared to approximately 19.9% in the eight months ended August 31, 2009.

Marine Engine Building: We recognized revenue of RMB6.2 million from the repair of two low-speed marine diesel engines and the sale of two crankshafts for external customers in the eight months ended August 31, 2010. Rong An Power Machinery further recognized revenue from construction of four marine diesel engines during the eight months ended August 31, 2010 for use by our shipbuilding segment but no revenue at the Group level was recognized due to the elimination of inter-segment results upon combination.

Engineering Machinery: We recognized revenue of RMB121.4 million, primarily from the sale of excavators manufactured by Zhenyu Machinery between March and August 2010.

Cost of sales

Our cost of sales increased by RMB2,483.9 million, or 64.5%, from RMB3,851.1 million in the eight months ended August 31, 2009 to RMB6,335.0 million in the eight months ended August 31, 2010, due to the following reasons:

By segment

- our cost of sales incurred in our shipbuilding segment increased by RMB2,311.5 million, or 62.1%, from RMB3,721.8 million in the eight months ended August 31, 2009 to RMB6,033.3 million in the eight months ended August 31, 2010. This was the result of our completing a higher percentage of the construction of the bulk carriers, commenced construction of VLOCs and preparatory work with respect to the orders of containerships in the eight months ended August 31, 2010 versus those ended August 31, 2009.

- our cost of sales incurred in our offshore engineering segment increased by RMB75.5 million, or 58.4%, from RMB129.3 million in the eight months ended August 31, 2009 to RMB204.8 million in the eight months ended August 31, 2010. The increase was attributable to a higher percentage of the DPV being completed in the eight months ended August 31, 2010. The DPV reached 46.3% of completion in the eight months ended August 31, 2010 as compared to 19.9% in the eight months ended August 31, 2009.

- we incurred costs in our marine engine building segment of RMB6.0 million in connection with sales to external customers in the eight months ended August 31, 2010 as we combined the results of this segment into our Group's financial results for the eight months ended August 31, 2010. Our cost of sales in connection with sales to our shipbuilding segment was RMB86.7 million.

- we incurred costs in our engineering machinery segment of RMB90.8 million in the eight months ended August 31, 2010 as we combined the results of this segment into our Group's financial results for the eight months ended August 31, 2010.

By type

In particular, the increase in our cost of sales was primarily due to the following reasons:

- Our cost of steel plates and pipes increased by RMB1,036.6 million, or 66.0% from the eight months ended August 31, 2009 to those ended August 31, 2010, roughly in line with our revenue growth during that period.
- Our cost of equipment increased by RMB1,108.4 million, or 116.6%, from the eight months ended August 31, 2009 to those ended August 31, 2010 primarily due to the increased number of vessels close to completion in the eight months ended August 31, 2010. The significant increase in our equipment cost as a percentage of our total revenue was also due to the fact that more engines were purchased and installed during the period.
- Our consumables increased by RMB179.2 million, or 114.0% from the eight months ended August 31, 2009 to those ended August 31, 2010 due to our increased consumption of consumables during the early stages of our newly-commissioned processing facilities.
- Our outsourcing and processing fees increased by RMB54.4 million, or 20.0%, from the eight months ended August 31, 2009 to those ended August 31, 2010 due to an increase in the demand for shipbuilding labor which was attributable to our intensified shipbuilding activities. Our outsourcing and processing fees in the eight months ended August 31, 2010 were partly offset with the portion of government grant that we allocated to offset a portion of the fees we incurred in connection with designing and manufacturing new types of vessels, which amount was approximately RMB173.8 million.
- Our design fees decreased by RMB43.3 million, or 76.7%, from the eight months ended August 31, 2009 to those ended August 31, 2010 as we relied more on past vessel designs. Our lower design fees in the eight months ended August 31, 2010 as compared to the eight months ended August 31, 2009 were partly due to the portion of government grant that we allocated to offset a portion of the fees incurred in connection with designing and manufacturing new types of vessels, which amount was approximately RMB10.0 million.

In addition to the above amounts allocated to offset our outsourcing and processing fees and design fees, we further allocated RMB77.2 million and RMB56.6 million of the government subsidy to partly offset our employee costs and utilities costs, respectively, in the eight months ended August 31, 2010. The total amount of the government subsidy offsetting our cost of sales was RMB317.6 million.

Gross profit and gross profit margin

As a result of the foregoing factors, our gross profit increased by RMB870.2 million, or 90.2%, from RMB965.2 million to RMB1,835.4 million in the eight months ended August 31, 2010 from those ended August 31, 2009. In particular, we had

- an increase in gross profit of RMB767.8 million from our shipbuilding segment,
- an increase in gross profit of RMB71.8 million from our offshore engineering segment, and
- gross profit of RMB30.5 million from our engineering machinery segment due to combination of the results of this segment into our Group's financial results.

Our gross profit margin for the eight months ended August 31, 2010 was 22.5%, as compared to 20.0% for the eight months ended August 31, 2009. The increase was primarily due to the fact that the percentage of completion of the six VLOCs we were constructing exceeded 20% and a higher percentage of the DPV was completed in the eight months ended August 31, 2010.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB34.4 million, or 1,638.1%, from RMB2.1 million in the eight months ended August 31, 2009 to RMB36.5 million in the eight months ended August 31, 2010. The increase was primarily attributable to increases in our advertising, promotional and marketing activities.

General and administrative expenses

Our general and administrative expenses increased by RMB178.3 million, or 57.2%, from RMB311.6 million in the eight months ended August 31, 2009 to RMB489.9 million in the eight months ended August 31, 2010, primarily due to the following reasons:

- Depreciation of property, plant and equipment increased by RMB59.6 million, or 99.6%, during that time primarily due to the substantial increase in our fixed assets after a large number of our buildings and facilities to be used for general and administrative purposes were completed in the eight months ended August 31, 2010. The depreciation of property, plant and equipment in the eight months ended August 31, 2010 was partly offset by a portion of the government grant that we allocated to offset a portion of our depreciation costs incurred in connection with designing and manufacturing new types of vessels, which amount was approximately RMB1.3 million.

- Our employee benefit expenses increased by RMB39.3 million as the number of our administrative staff members increased due to our hiring additional administrative staff in connection with our business expansion and due to our acquisition of Rong An Power Machinery and Zhenyu Machinery. Our employee benefit expense in the eight months ended August 31, 2010 was partly offset by the portion of the government subsidy that we allocated to offset the employee benefit expense we incurred in connection with designing and manufacturing new types of vessels, which amount was approximately RMB78.4 million.

- Our bank charges increased by RMB90.7 million, or 1,130.5% and our utilities costs decreased by RMB8.8 million, or 22.1%.

- Our agency fees increased by RMB30.1 million, or 217.1%. This was the result of our paying more to trading companies for the issuance of refund guarantees in the eight months ended August 31, 2010 as we received more installment payments from our customers during that time, and were required to make corresponding commission installment payments.

- Our raw materials and consumables costs increased by RMB1.5 million, or 11%.

The above increases were partially offset due to the following reasons:

- Our other tax related expenses and customs duties decreased by RMB4.5 million, or 18.0%. Our lower other tax-related expenses and customs duties for the eight months ended August 31, 2010 was partly due to the portion of the government subsidy we allocated to offset tax-related expenses and customs duties that we incurred in connections with designing and manufacturing new types of vessels, which amount was approximately RMB29,400.

- Our operating lease payments decreased by RMB18.5 million, or 76.4%.

- A RMB117.6 million portion of the government subsidy was allocated to offset various components of our general and administrative expenses, including the above mentioned amounts allocated to offset depreciation of property, plant and equipment and employee benefit expenses.

The other components of our general and administrative expenses fluctuated during the Track Record Period. Some of these expenses increased faster than our revenue for the same financial periods due to the commencement of operations at our facilities, construction of new facilities, integration of acquired subsidiaries and training of new employees.

Other operating expenses

We had other operating expenses of RMB0.3 million in the eight months ended August 31, 2010 as opposed to nil in the eight months ended August 31, 2009.

Other income

Our other income increased by RMB62.6 million, or 95.9%, from RMB65.3 million in the eight months ended August 31, 2009 to RMB127.9 million in the eight months ended August 31, 2010.

The increase was primarily attributable to (i) an increase of RMB41.8 million in our sale of scrap metal during the period; (ii) an increase in government grant of RMB13.3 million; and (iii) compensation we received for a cancelled shipbuilding contract of RMB3.8 million. After our construction of shipyard facilities was substantially completed in the eight months ended August 31, 2010, we used less scrap metal but sold more. We received a government grant of RMB14.9 million from the Jiangsu government as a shipbuilding incentive.

Other gains

We had other gains of RMB3.6 million in the eight months ended August 31, 2010 as opposed to other losses of RMB39.1 million in the eight months ended August 31, 2009.

The increase was primarily attributable to our foreign exchange gains from the appreciation of the RMB relative to the US dollar.

Operating profit

As a result of the foregoing factors, our operating profit increased by RMB762.6 million, or 112.5%, from RMB677.7 million in the eight months ended August 31, 2009 to RMB1,440.3 million in the eight months ended August 31, 2010.

Finance income

Our finance income increased by RMB58.7 million, or 293.5%, from RMB20.0 million in the eight months ended August 31, 2009 to RMB78.7 million in the eight months ended August 31, 2010.

The increase was primarily attributable to an aggregated principal amount of USD-denominated loans of RMB2,368.7 million and the increase in the interest income of RMB15.6 million from bank deposits and a foreign exchange gain of RMB43.1 million. We borrowed the USD-denominated loans primarily for the purpose of (i) paying off the shareholders loans we previously borrowed to redeem the preferred shares and (ii) purchasing imported equipment using the USD dollar amounts to minimize the impact of the appreciation of the RMB. Our average pledged deposit and cash and cash equivalents increased from RMB5,088.0 million in the eight months ended August 31, 2009 to RMB6,480.1 million in the eight months ended August 31, 2010.

Finance costs

Our total finance costs increased by RMB103.7 million, or 155.5%, from RMB66.7 million in the eight months ended August 31, 2009 to RMB170.4 million in the eight months ended August 31, 2010.

The increase was primarily attributed to an increase in interest expense on bank borrowings and finance lease liability of RMB232.4 million and a decrease in borrowing costs capitalized of RMB159.9 million, which were partially offset by a decrease in deemed interest on preferred shares of RMB288.6 million and RMB82.2 million of the government subsidy allocated to offset our finance costs. Our average outstanding total borrowings increased from RMB5,921.7 million in the eight months ended August 31, 2009 to RMB13,325.3 million in the eight months ended August 31, 2010 due to our need to finance our expanded operations. The deemed interest on preferred shares ceased to accrue as we redeemed the preferred shares in January 2010 and no more interest accrued after the redemption. The amount of capitalized borrowing costs decreased as less expenditure was incurred in connection with the construction of shipyard facilities and acquiring other long-term assets.

Finance costs — net

After netting the finance costs against the finance income, our net finance costs increased by RMB45.0 million, or 96.4%, from RMB46.7 million in the eight months ended August 31, 2009 to RMB91.7 million in the eight months ended August 31, 2010.

Profit before income tax

As a result of the foregoing factors, our profit before income tax increased by RMB717.6 million, or 113.7%, from RMB631.0 million in the eight months ended August 31, 2009 to RMB1,348.6 million in the eight months ended August 31, 2010.

Income tax expenses

Our income tax expense increased by RMB200.3 million, or 166.9 times, from RMB1.2 million in the eight months ended August 31, 2009 to RMB201.5 million in the eight months ended August 31, 2010. Our effective income tax rate in the eight months ended August 31, 2010 was 14.9%, as opposed to 0.2% in the eight months ended August 31, 2009, primarily due to the tax exemption enjoyed by Rongsheng Heavy Industries in the eight months ended August 31, 2009 expired by the end of 2009.

Profit for the period and net profit margin

As a result of the foregoing factors, our profit for the eight months ended August 31, 2010 increased by RMB517.4 million, or 82.2%, from RMB629.7 million in the eight months ended August 31, 2009 to RMB1,147.1 million in the eight months ended August 31, 2010. Our net profit margin for the eight months ended August 31, 2010 was 14.0%, as compared to 13.1% in the eight months ended August 31, 2009.

2009 Compared to 2008

Revenue

Our revenue increased by 100.5% or RMB4,748.3 million, from RMB4,724.9 million in 2008 to RMB9,473.2 million in 2009. The increase was primarily attributable to our commencing construction on an increased number of Capesize bulk carriers and Suezmax tankers and a higher completion percentage of the Suezmax tankers under construction in 2009 as compared to 2008. In 2009, more of our shipyard facilities became operational and we hired a larger workforce to engage in shipbuilding activities. We completed substantially more construction work in 2009 as compared to 2008, which resulted in our recognizing a substantially higher amount of revenue in 2009.

We continued to derive the majority of our revenue from customers located in Turkey, Norway, Greece and Russia in 2009. Revenue from those customers increased by RMB2,418.2 million, or 52.1%, from RMB4,638.8 million in 2008 to RMB7,057.0 million in 2009 as we continued to receive orders from customers in those countries and we increased our production capacity to meet the growing demand from these markets. Further, our revenue recognized from vessels constructed for customers located in the PRC and Cyprus grew substantially in 2009. Revenue from these customers increased by RMB1,942.5 million, or 4,368.4%, in 2009.

Cost of sales

Our cost of sales increased by RMB2,809.3 million, or 58.3%, from RMB4,815.6 million in 2008 to RMB7,624.9 million in 2009, due to the following reasons:

By segment

- our cost of sales incurred in our shipbuilding segment increased by RMB2,647.5 million, or 55.3%, from RMB4,788.7 million in 2008 to RMB7,436.2 million in 2009. We commenced the construction of 12 additional bulk carriers during that time and completed a higher percentage of the Panamax and Capesize bulk carriers and 28 crude oil tankers that were already under construction.
- our cost of sales incurred in our offshore engineering segment increased by RMB161.9 million, or 604.1%, from RMB26.8 million in 2008 to RMB188.7 million in 2009. The increase was attributable to our completing a higher percentage of the DPV in 2009. Our percentage of completion in respect of the DPV in 2009 was 29.0%, as compared to 4.2% in 2008.

By type

In particular, the increase in our cost of sales was primarily due to the following reasons:

- Our cost of steel plates and pipes increased by RMB805.1 million, or 39.1%, primarily due to the larger volume of steel we used in 2009 due to the construction of more and larger vessels.
- Our cost of equipment increased by RMB1,138.5 million, or 85.2%, primarily due to the increased number of vessels we had under construction in 2009. The increase in our cost of equipment was partly due to the relatively small amount we spent on equipment in 2008 when we had fewer vessels under construction.
- Our consumables increased by RMB180.4 million, or 115.3% in line with the increase in our shipbuilding activities.
- Our outsourcing and processing fees increased by RMB280.6 million, or 90.8%, due to the substantial increase in demand for shipbuilding labor attributable to our intensified shipbuilding activities.
- Our other costs increased by RMB404.7 million, or 42.4%.

Gross profit and gross profit margin

As a result of the above, we had gross profit of RMB1,848.3 million in 2009, as compared to gross loss of RMB90.6 million in 2008. In particular, this resulted from:

- an increase of RMB1,838.3 million in gross profit from our shipbuilding segment in 2009, and
- a gross profit of RMB100.6 million from our offshore engineering segment in 2009, as opposed to nil in 2008.

Our gross profit margin in 2009 was 19.5%, as opposed to our gross loss as a percentage of total revenue of 1.9 % in 2008. A number of our shipyard facilities became operational in 2009 and our workforce had more experienced than in 2008. As the percentage of completion exceeded 20% for a number of vessels under construction in 2009, we were able to recognize gross profit to the extent that the revenue recognize based on the percentage of completion exceeded the actual costs incurred.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB1.2 million, or 35.3 %, from RMB3.4 million in 2008 to RMB4.6 million in 2009. The increase was primarily attributable to increases in advertising, promotion and marketing expenses due to our increased advertising activities during that time.

General and administrative expenses

Our general and administrative expenses increased by RMB168.0 million, or 42.7%, from RMB393.3 million in 2008 to RMB561.3 million in 2009, primarily due to the following reasons:

- Depreciation of property, plant and equipment increased by RMB71.3 million, or 232.4%, primarily due to the substantial increase in our fixed assets as a result of our completing the construction of a large number of our buildings and facilities to be used for general and administrative purposes in 2009.
- Our employee benefit expenses increased by RMB28.6 million, or 53.8% as we hired more administrative staff members in line with our business expansion.
- Our operating lease payments increased by RMB22.8 million, or 278.7%, primarily due to the increased expenses we incurred in relation to living quarters and to warehouse our surplus steel and for the services to transport steel to our shipyard.
- Our bank charges (including refund guarantee charges) increased by RMB23.1 million, or 62.1% and utilities costs increased by RMB33.4 million, or 58.9%, in line with the increase in our business activities.
- Our outsourcing and processing costs increased by RMB21.4 million, or 728.8%. We continued to outsource a large portion of our administrative work as our business continued to expand rapidly and we did not have a sufficient number of employees for the increased workload.

The above increases were partially offset by:

- Our agency fees decreased by RMB36.9 million, or 49.0%. We paid less to trading companies for the issuance of refund guarantees in 2009 as we obtained additional credit facilities during the year.
- Our other tax related expenses and customs duties decreased by RMB18.3 million, or 27.7%.
- The raw materials and consumables we used decreased by RMB5.4 million, or 17.3%, primarily due to our reduced use of truck cranes in 2009 as our overhead cranes in the warehouse area became operational.

The other components of our administrative expenses increased as our business rapidly expanded from 2008 to 2009. Some of these expenses increased faster than our revenue for the same period due to the commencement of operations at our shipyard facilities, construction of new facilities, integration of acquired subsidiaries and training of new employees.

Other operating expenses

Our other operating expenses decreased by RMB30.9 million, or 100.0%, from RMB30.9 million in 2008 to nil in 2009. The transfer of the assets in connection with the Reorganization from Rongsheng Investment was completed in 2008 and no further taxes on such transfers were paid in this respect in 2009.

Other income

Our other income increased by RMB76.7 million, or 164.6%, from RMB46.6 million in 2008 to RMB123.3 million in 2009. The increase was primarily attributable to (i) an increase of RMB67.9 million in the sale of scrap metal during the year; (ii) rental income of RMB5.7 million; and (iii) compensation we received from the cancellation of a shipbuilding contract of RMB5.0 million. After our construction of shipyard facilities was substantially completed in 2009, we used less scrap metal but sold more.

Other losses

Our other losses increased by RMB18.7 million, or 96.9%, from RMB19.3 million in 2008 to RMB38.0 million in 2009. The increase was primarily attributable to our foreign exchange losses which we incurred due to the appreciation of the RMB relative to the US dollar.

Operating profit

As a result of the foregoing factors, we had operating profit of RMB1,367.8 million in 2009, as compared to operating loss of RMB491.0 million in 2008.

Finance income

Our finance income increased by RMB10.5 million, or 45.9%, from RMB22.9 million in 2008 to RMB33.4 million in 2009. The increase was primarily attributable to an increase in our interest income of RMB11.4 million from cash and cash equivalents, which was partially offset by a foreign exchange loss of RMB0.8 million. Our average pledged deposits and cash and cash equivalents increased from RMB2,008.1 million in 2008 to RMB4,211.9 million in 2009.

Finance costs

Our total finance costs increased by RMB22.5 million, or 31.2%, from RMB72.1 million in 2008 to RMB94.6 million in 2009. The increase was primarily attributed to (i) an increase in interest expense on bank borrowings and finance lease liabilities of RMB217.0 million; and (ii) deemed interest on preferred shares of RMB78.1 million, which were partially offset by an increase in our capitalized borrowing costs of RMB272.7 million. Our average outstanding total borrowings increased from RMB2,746.1 million in 2008 to RMB5,409.7 million in 2009 due to the increase in our financing needs in relation to the expansion of our operations. The value of our preferred shares increased due to the dividend/interest we were contractually obligated to pay to the holders of the preferred shares. Our capitalized borrowing costs increased as we incurred expenses in connection with our shipyard facilities and in acquiring other long-term assets.

Finance costs — net

As a result of the foregoing, our net finance costs increased by RMB11.9 million, or 24.1%, from RMB49.3 million in 2008 to RMB61.2 million in 2009.

Profit before income tax

As a result of the foregoing factors, we had profit before income tax of RMB1,306.6 million, as compared to a loss before income tax of RMB540.3 million in 2008.

Income tax expenses

We had income tax expense of RMB1.9 million, as compared to income tax credit of RMB24,000 in 2008. Our effective income tax rate in 2009 was 0.14%, primarily due to the tax exemption enjoyed by Rongsheng Heavy Industries in 2009.

Profit for the year and net profit margin

As a result of the foregoing factors, our profit for the year was RMB1,304.7 million, as compared to loss for the year of RMB540.3 million in 2008. Our net profit margin in 2009 was 13.8%.

2008 Compared to 2007

Revenue

Our revenue increased by RMB4,063.2 million, or 614.1%, from RMB661.7 million in 2007 to RMB4,724.9 million in 2008. The increase was primarily attributable to an increase number of vessels under construction and a higher percentage of vessel completion. In 2008, a large number of our shipyard facilities became operational and our workforce was enlarged in accordance with our increased shipbuilding activities, we completed a substantially higher percentage of construction work, which resulted in our recognizing substantially more revenue in that year as compared to 2007.

We derived substantially more revenue from our customers located in Turkey, Norway, Greece and Russia in 2008 than in 2007. Revenue from those customers increased by RMB3,995.2 million, or 620.8%, from RMB643.6 million in 2007 to RMB4,638.8 million in 2008 due to a substantial increase in demand for new ships for the growing shipping industry of those countries. We increased our production capacity to meet the growing demand from those countries. We started to recognize revenue from vessels constructed for customers located in the PRC, Germany and Singapore in 2008, which were our first orders from those markets. Our revenue recognized from those countries amounted to RMB77.0 million, or 1.6% of our total revenue. The growing economies of those countries, especially those of the Asian countries, generated demand for new vessels, which in turn facilitated our growth in the shipbuilding industry in 2008.

Cost of sales

Our cost of sales increased by RMB4,122.1 million, or 594.4%, from RMB693.5 million in 2007 to RMB4,815.6 million in 2008, due to the following reasons:

By segment

- Our cost of sales incurred in our shipbuilding segment increased by RMB4,095.2 million, or 590.5%, from RMB693.5 million in 2007 to RMB4,788.7 million in 2008.

  We commenced the construction of one bulk carrier and 17 crude oil tankers in 2008.

- Our cost of sales incurred in our offshore engineering segment was RMB26.8 million in 2008. We commenced the construction of our DPV in 2008. The DPV reached 4.2% completion in 2008.

By type

In particular, the increase in our cost of sales was primarily due to the following reasons:

- Our cost of steel plates and pipes increased by RMB1,864.3 million or 963.7% from 2007 to 2008. In line with our increased construction activities and business expansion plans, we used 308,000 tonnes more steel in 2008 as compared with 2007. The average steel price per tonne we paid increased by approximately RMB1,100 in 2008. Primarily due to the increase in the steel price, we paid approximately RMB400.4 million more in 2008 than in 2007 for the purchase of our raw materials.

- Our cost of imported equipment increased by RMB1,223.8 million or 1,081.7% from 2007 to 2008. We placed more orders for main engines and other important equipment for our increased number of vessels. The price we paid for equipment also increased in 2008.

- Our outsourcing and processing fees increased by RMB283.5 million or 1,102.0%, primarily due to our increased shipbuilding activities, commencement of the operation of new shipyard facilities, increases in the wages of our shipbuilding workers and employment of an increased number of management personnel and experienced technicians in 2008 in line with our business expansion. We outsourced vessel sections and other construction work to shipbuilding companies outside of our Group during the period when our new shipyards were being constructed and tested in 2008, which also added to our costs.

- The commissions we paid increased by RMB67.6 million, or 196.6% in 2008 as compared to 2007.
- Our other costs increased by RMB682.9 million, or 208.9% in 2008 as compared to 2007. Other related costs, such as fuel cost, vessel certification fees, depreciation and amortization, also increased considerably in line with our increased shipbuilding activities.

Gross loss

As a result of the foregoing factors, our gross loss increased by RMB58.7 million, or 184.0%, from RMB31.9 million in 2007 to RMB90.6 million in 2008. Our loss margin, however, decreased from 4.8% for 2007 to 1.9% for 2008.

Selling and marketing expenses

Our selling and marketing expenses increased by RMB2.4 million, or 230.5%, from RMB1.0 million in 2007 to RMB3.4 million in 2008. This increase was in line with the expansion of our business.

General and administrative expenses

Our general and administrative expenses increased by RMB30.2 million, or 8.3%, from RMB363.1 million in 2007 to RMB393.3 million in 2008, primarily due to the following reasons:

- The raw materials and consumables we used increased by RMB29.7 million, or 2,143.2%, primarily due to the increased volume of steel transported.
- Our depreciation of property, plant and equipment increased by RMB26.9 million, or 718.5%, primarily due to the substantial increase in our fixed assets after the construction of a large number of our shipyard facilities was completed.
- Our operating lease payments increased by RMB7.4 million, or 880.7%, primarily due to the expenses we incurred in relation to providing housing for an increased number of employees, to warehouse our surplus steel and transport steel to our shipyard.
- Our outsourcing and processing costs increased by RMB2.9 million. We started to outsource our administrative work in 2008 as our business expanded rapidly and we did not have a sufficient number of employees to complete our administrative work.
- Our agency fees increased by RMB52.8 million, or 233.7%. We paid more to trading companies for the issuance of refund guarantees in 2008 as we reached a large number of contractual milestones and our available credit facilities were insufficient to meet our refund guarantee needs.
- Our other tax related expenses and customs duties increased by RMB48.9 million, or 284.5%; bank charges increased by RMB28.4 million, or 324.6%; utilities increased by RMB30.6 million, or 116.8%, roughly in line with the expansion of our business.

The above increases were offset by

- a decrease of RMB205.0 million in employee benefit expenses in 2008 as employee benefit expenses in 2007 included a one-time equity-based compensation to Mr. Chen.

The other components of our administrative expenses increased at various rates during the Track Record Period. Some of these expenses increased faster than our revenue for 2007 and 2008 due to the commencement of operations at our shipyard facilities, construction of new facilities, integration of new businesses and training of new employees.

Other operating expenses

Our other expenses increased by RMB20.0 million, or 184.1%, from RMB10.9 million in 2007 to RMB30.9 million in 2008. We started to transfer assets for our operation from Rongsheng Investment to our Group in 2007 in connection with the Reorganization. As a substantial number of the transfers made in connection with the Reorganization were made in 2008, we paid substantially more taxes in connection with such transfers in that year as compared to 2007.

Other income

We had other income of RMB46.6 million in 2008, as opposed to nil in 2007. Our other income in 2008 was primarily attributable to (i) proceeds from sales of scrap metal of RMB34.4 million; and (ii) government grant of RMB12.2 million. Scrap metal is usually generated during our shipbuilding activities. We used some scrap metal in our construction of shipyard facilities and sold the remaining portion in 2008. We further received government grants from the Jiangsu governmental in 2008 as shipbuilding incentives.

Other losses

Our other losses decreased by RMB15.8 million, or 44.9%, from RMB35.1 million in 2007 to RMB19.3 million in 2008, due to a decrease of the same amount in our net foreign exchange losses in 2008. We incurred less foreign exchange losses because the currency exchange rate between the RMB and the US dollar fluctuated less than 2007.

Operating loss

As a result of the foregoing factors, our operating loss increased by RMB49.1 million, or 11.1%, from RMB441.9 million in 2007 to RMB491.0 million in 2008.

Finance income

Our finance income increased by RMB19.7 million, or 610.9%, from RMB3.2 million in 2007 to RMB22.9 million in 2008, primarily due to an increase in our interest income from bank deposits of RMB21.1 million, which was partially offset by a decrease in foreign exchange gains on financing activities of RMB1.5 million. Our average pledged deposits and cash equivalents increased from RMB248.7 million in 2007 to RMB2,008.1 million in 2008.

Finance costs

We had finance costs of RMB72.1 million in 2008, as opposed to nil in 2007. Our finance costs in 2008 were due to (i) increase in interest expense on bank borrowings and finance lease liabilities of RMB20.9 million; and (ii) an increase in the interest expense on preferred shares of RMB352.8 million; which were partially offset by an increase in our capitalized borrowing costs of RMB301.5 million. Our average outstanding borrowings increased from RMB928.1 million in 2007 to RMB2,746.1 million in 2008 due to increases in our financing needs as a result of the expansion of our operations. The balance of our preferred shares increased due to the amount of principal we received from the issue of the preferred shares and the deemed interest accrued during the year. Our capitalized borrowing costs increased as we incurred expenses in connection with the construction of shipyard facilities.

Finance income/(costs) — net

As a result of the foregoing, we had net finance costs of RMB49.3 million in 2008, as opposed to net finance income of RMB3.2 million in 2007.

Loss before income tax

As a result of the foregoing factors, our loss before tax increased by RMB101.6 million, or 23.2%, from RMB438.7 million in 2007 to RMB540.3 million in 2008.

Income tax credit

The tax credit in 2008 of RMB24,000, as compared to an income tax expense of RMB842,000 in 2007, was primarily due to the reversal of the overprovision for income tax liabilities of Rongsheng Shipbuilding in the prior year.

Loss for the year

As a result of the foregoing factors, our loss for the year increased by RMB100.7 million, or 22.9%, from RMB439.6 million in 2007 to RMB540.3 million in 2008. Our loss for the year, as a percentage of our total revenue, decreased from 66.4% in 2007 to 11.4 % in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our business requires a significant amount of working capital to finance the construction, improvement and maintenance of our drydocks, gantry cranes and other shipyard facilities. Significant working capital is also required to finance the expansion and diversification of our business. We have met our working capital and other capital requirements primarily from net cash generated by operating activities (including installment payments from shipbuilding activities), borrowings from financial institutions and capital contributions from shareholders of common and preferred shares.

To better manage our cash flow, we plan to:

- expand our production capacity and improve productivity to increase our cash flow generated from operating activities;
- optimize our capital structure and liability duration management to reduce financing costs;
- obtain support from the government and banks to secure financing;
- prioritize capital investments based on our production needs, purchase equipment based on our production plan and avoid excessive spending;
- strengthen financial control at the group level and coordinate funding needs amongst our business segments;
- control budget to balance funding needs and supply;
- speed up shipbuilding and process payments promptly to ensure our timely receipt of cash;
- obtain credit lines for qualified suppliers and diversify payment methods to delay cash outlay;
- increase inventory turnover; and
- provide credit to preferred customers to increase sales and make prompt payments to banks and financial institutions.

The following table presents cash flow data from our combined cash flow statements for the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010:

	Year ended December 31,			Eight months ended August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	140,732	4,032,439	(495,832)	(4,137,120)
Net cash used in investing activities	(2,757,811)	(3,824,245)	(1,473,953)	(5,081,929)
Net cash generated from financing activities	2,875,954	1,615,496	2,747,228	9,805,146
Net increase in cash and cash equivalents	258,875	1,823,690	777,443	586,097
Cash and cash equivalents at the beginning of the year/period	**49,081**	**297,567**	**2,086,712**	**2,862,810**
Exchange losses on cash and cash equivalent	(10,389)	(34,545)	(1,345)	(3,915)
Cash and cash equivalents at end of the year/period	**297,567**	**2,086,712**	**2,862,810**	**3,444,992**

We recognize revenue from vessel construction on the basis of the percentage of completion. However, we receive payments at specified milestones according to the relevant shipbuilding contracts. Before a milestone is reached, we may have finished a significant amount of construction work and correspondingly recognized significant revenue but we may not be able to demand payments from our customers. The revenue we recognized during any given period of time thus may not be matched with the cash flow we have received during the same period. The temporal difference between the revenue recognition and receipt of cash flow thus may cause our cash flow to be significantly higher or lower than the cash flow we could have received absent such milestones.

Net cash (used in)/generated from operating activities

In the eight months ended August 31, 2010, our net cash used in operating activities was RMB4,137.1 million, reflecting primarily cash flows before movements in working capital of RMB1,787.2 million, net working capital outflow of RMB5,498.1 million, interest paid of RMB357.8 million and income tax paid of RMB68.4 million. Our net working capital outflow was due to (i) a decrease in amounts due to customers for contract work of RMB2,027.3 million; (ii) a decrease in trade and other payables of RMB1,670.8 million; (iii) increases in trade and other receivables, prepayments and deposits of RMB1,231.5 million; (iv) a decrease in advances received from customers for contract work of RMB491.0 million; and (v) an increase in inventories of RMB435.6 million, and (vi) increase in long-term deposits of RMB13.1 million; which were partially offset by a decrease in amounts due from customers for contract work of RMB371.6 million. Amounts due to customers for contract work decreased as we completed a significant amount of work relative to the installment payments we received from customers. Trade and other payable decreased because we paid our suppliers faster to ensure the timely delivery of raw materials and equipment for our rapidly increased construction activities. Trade and other receivables, prepayments and deposits increased in line with our increased construction activities. Advances received from customers for contract work decreased as we started construction of several vessels and the amounts paid by customers in advance were classed as amounts due to customers for contract work. Amounts due from customers decreased as we reached milestones for installment payments and issued bills to customers for payments.

In 2009, our net cash used in operating activities was RMB495.8 million, reflecting primarily cash flows before movements in working capital of RMB1,602.2 million, net working capital outflow of RMB1,848.7 million and interest paid of RMB249.4 million. Our net working capital outflow was due to (i) an increase in amounts due from customers for contract work of RMB3,004.6 million; (ii) a decrease in amounts due to customers for contract work of RMB839.3 million; (iii) an increase in inventories of RMB86.9 million; and (iv) an increase in long-term deposits of RMB55.6 million, which were partially offset by (i) a decrease in trade and other receivables, prepayments and deposits of RMB1,565.1 million; (ii) an increase in advances received from customers for contract work of RMB505.3 million; (iii) an increase in trade and other payables of RMB67.4 million. Our amounts due from customers for contract work increased because we had more vessels under construction. We completed a substantial amount of construction work, resulting in an increase in our amount due from customers and a decrease in our amount due to customers for contract work. We also made a smaller amount of prepayments for steel purchases.

In 2008, our net cash generated from operating activities was RMB4,032.4 million, reflecting cash out flows before movements in working capital of RMB202.6 million, net working capital inflow of RMB4,268.2 million, interest paid of RMB32.3 million and income tax paid of RMB0.8 million. The net working capital inflow was due to increases in our (i) amounts due to customers for contract work of RMB7,130.3 million; and (ii) trade and other payables of RMB1,791.3 million, which were partially offset by (i) an increase in trade and other receivables, prepayments and deposits of RMB2,383.8 million; (ii) an increase in amounts due from customers for contract work of RMB1,587.5 million; (iii) an increase in inventories of RMB583.4 million; (iv) a decrease in advance received from customers for contract work of RMB 95.1 million; and (v) an increase in derivative financial instruments of RMB3.6 million. We purchased a large amount of raw materials in line with our business expansion. Our amounts due to customers for contract work increased significantly primarily because we received first installment payments related to the VLOCs ordered in the year and more installment payments as our vessel construction reached more milestones. Our trade and other payables increased as our business growth created more demand for financial resources and it took us longer to make payments. Our amounts due from customers for contract work increased as we had more vessels under construction. We made a substantial amount of prepayments due to a substantial increase in our demand for steel and sharp increase in steel price in the year.

In 2007, our net cash generated from operating activities was RMB140.7 million, reflecting cash out flows before movements in working capital of RMB138.7 million, net working capital inflow of RMB291.0 million, interest paid of RMB11.4 million and income tax paid of RMB0.1 million. Our net working capital inflow was primarily due to increases in (i) trade and other payables of RMB2,662.5 million; (ii) amounts due to customers for contract work of RMB1,562.9 million; and (iii) advances received from customers for contract work of RMB95.1 million which were partially offset by increases in (i) trade and other receivables, prepayments and deposits of RMB3,668.0 million; (ii) inventories of RMB318.8 million; and (iii) amounts due from customers for contract work of RMB42.7 million. We purchased more inventory in line with our rapid business expansion. Our trade and other receivables, prepayments and deposits increased significantly due to our making a substantial amount of prepayments for steel purchases and repayments made in connection with the construction of our shipyard facilities. Our amounts due to/from customers for contract work and trade and other payables increased significantly because we commenced commercial operation, secured orders for a number of vessels and commenced construction of several vessels. Amounts due to/from customers for contract work may vary widely from period to period depending on the different stages of construction of our various vessels.

Net cash used in investing activities

In the eight months ended August 31, 2010, our net cash used in investing activities was RMB5,081.9 million, primarily reflecting (i) purchases of property, plant and equipment of RMB2,479.2 million; (ii) an increase in pledged deposits of RMB2,910.4 million; (iii) net cash used in the acquisition of Zhenyu of RMB151.0 million; and (iv) net cash used in the merger of Shanghai Rongsheng Shipbuilding Trading of RMB45.5 million, which were partially offset by (i) net cash generated from the merger of Rong An Power Machinery of RMB471.2 million and (ii) interest received of RMB35.6 million.

In 2009, our net cash used in investing activities was RMB1,474.0 million, primarily reflecting (i) purchases of property, plant and equipment of RMB1,079.7 million; (ii) investment in non-current assets held for sale of RMB220.0 million; (iii) an increase in pledged deposits of RMB259.4 million; and (iv) purchases of intangible assets of RMB9.8 million, which were partially offset by interest received of RMB33.4 million. Our investment in non-current assets held for sale was the amount that two of our subsidiaries spent to purchase certain land use rights in the Xuhui District in connection with an agreement to transfer such land use rights to a related company for a total consideration of RMB2.0 billion. The other amounts increased in line with our business expansion.

In 2008, our net cash used in investing activities was RMB3,824.2 million, primarily reflecting (i) purchases of property, plant and equipment of RMB2,574.4 million; an increase in pledged deposits of RMB1,582.9 million; and (iii) purchases of intangible assets of RMB0.5 million, which were partially offset by (i) advances repaid by related parties of RMB310.8 million and (ii) interest received of RMB22.9 million.

In 2007, our net cash used in investing activities was RMB2,757.8 million, primarily reflecting (i) purchases of property, plant and equipment of RMB1,770.1 million; (ii) payments for land use rights of RMB58.2 million; (iii) purchases of intangible assets of RMB34.1 million; (iv) an increase in pledged deposits of RMB360.7 million; and (v) advances provided to related parties of RMB563.7 million, which were partially offset by (i) advances repaid by related parties of RMB27.3 million; and (ii) interest received of RMB1.7 million. We paid for the land use rights for the shipyard land of approximately two million sqm and shoreline of approximately 3,000 meters. The advances provided to and repaid by related parties were amounts we paid to and received from our related parties during the early stages of our Group's growth to finance our business expansion and maximize the use of financial resources controlled by our related parties. The advances provided to the related parties further included an amount of RMB563.7 million in cash or cash equivalents in Rongsheng Investment's accounts, which should have been transferred to our Group to complete the Reorganization. As the amount was not transferred to us, it was thus classed as our advances to Rongsheng Investment.

Net cash generated from financing activities

In the eight months ended August 31, 2010, our net cash generated from financing activities was RMB9,805.1 million, primarily reflecting (i) proceeds from bank borrowings of RMB17,691.0 million; (ii) proceeds from shareholder loans of RMB1,783.5 million; and (iii) proceeds from finance lease of RMB200.0 million, which were partially offset by (i) repayment of bank borrowings of RMB5,258.5 million; (ii) redemption of preferred shares of RMB2,121.5 million; (iii) repayment of shareholder loans of RMB1,450.8 million; (iv) repayment of advances of RMB860.8 million to related parties; and (v) repayment of finance lease of RMB177.9 million. We entered into a new finance lease arrangement with MSFL in the eight months ended August 31, 2010 pursuant to which we sold certain of our assets to MSFL for an aggregate sales price of RMB200.0 million and leased back such assets for a term of three years, which commenced on March 18, 2010, at an annual rent of RMB71.7 million. The annual rent payable under the lease is due in quarterly installments of RMB17.9 million each during the term of the contract.

In 2009, our net cash generated from financing activities was RMB2,747.2 million, primarily reflecting (i) proceeds from bank borrowings of RMB6,854.4 million; and (ii) proceeds from finance lease of RMB600.0 million, which were partially offset by (i) repayment of bank borrowings of RMB4,269.0 million; (ii) repayment of finance lease of RMB100.2 million; and (iii) repayment of advances of RMB342.6 million to Mr. Zhang. We entered into a finance lease arrangement with MSFL in 2009 pursuant to which we sold certain of our assets to MSFL for a sales price of RMB600.0 million and leased back such assets for a term of three years, which commenced on June 26, 2009, at an annual rent of RMB215.8 million. The annual rent payable under the lease is due in quarterly installments of RMB54.0 million each. We repaid in full the advances from Mr. Zhang in 2009.

In 2008, our net cash generated from financing activities was RMB1,615.5 million, primarily reflecting (i) proceeds from bank borrowings of RMB1,395.6 million; (ii) advances received from Mr. Zhang of RMB342.6 million and (iii) advances received from other related parties of RMB122.7 million.

In 2007, our net cash generated from financing activities was RMB2,876.0 million, primarily reflecting (i) proceeds from preferred shares of RMB1,877.5 million; (ii) capital contribution to Rongsheng Investment by its equity holders of RMB1,320.0 million; and (iii) proceeds from bank borrowings of RMB994.6 million, which were partially offset by (i) cash outflow from deemed distribution to Rongsheng Investment of RMB642.2 million; (ii) repayment of bank borrowings of RMB339.1 million; (iii) repayment of advances to related parties of RMB330.1 million and (iv) distribution to non-controlling interests on disposal of a subsidiary of RMB4.9 million. We received proceeds from the issue of preferred shares to several investors to increase our working capital. Rongsheng Investment transferred certain of its assets to our Group pursuant to the Reorganization. Certain cash and cash equivalents, however, were not transferred to our Group in accordance with the Reorganization requirements and thus were deemed a distribution by the Company to Rongsheng Investment.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. The bulk of our raw material purchases primarily consist of steel plates and pipes and equipment. Work in progress is comprised primarily of our excavators and cranes being built and our finished goods is comprised primarily of such units completed. The following table sets forth our inventory position as of the dates indicated:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Inventories				
Raw materials	329,200	912,559	999,479	1,460,215
Work in progress	—	—	—	28,644
Finished goods	—	—	—	45,041
TOTAL	**329,200**	**912,559**	**999,479**	**1,533,900**

In the eight months ended August 31, 2010, our inventories increased substantially by RMB534.4 million from RMB999.5 million as of December 31, 2009 to RMB1,533.9 million as of August 31, 2010. We started construction work on larger vessels such as VLOCs and had 35 vessels under construction in the eight months ended August 31, 2010. As a result, we purchased more steel and other raw materials and imported more equipment for our increased vessel construction activities. Our inventory increased partially as a result of our acquisition of Zhenyu Machinery in March, 2010. Our inventory related to Zhenyu Machinery included RMB38.4 million of raw materials, RMB28.6 million of work in progress and RMB45.0 million of finished products.

In 2009, our inventories increased slightly by RMB86.9 million from RMB912.6 million as of December 31, 2008 to RMB999.5 million as of December 31, 2009. Our construction work on Suezmax crude oil tankers and Panamax bulk carriers increased in 2009. In anticipation of increased construction activities in 2010, we purchased more steel and other raw materials and imported equipment in 2009.

In 2008, our inventories increased substantially by RMB583.4 million from RMB329.2 million as of December 31, 2007 to RMB912.6 million as of December 31, 2008. We started construction work on larger vessels than those on which we started construction in 2007, such as Capesize bulk carriers and Suezmax tankers, and had 26 vessels under construction in 2008. We also made preparations for the construction of the vessels to be constructed in 2009, by purchasing more steel and other raw materials and importing more equipment. More and larger vessels under construction and more ship-related products being manufactured during the year resulted in a larger amount of work in progress as compared to 2007.

As of September 30, 2010, approximately 36.4% of our inventories were used in our shipbuilding and other corporate activities in respect of our inventories as of August 31, 2010.

The following table sets forth our average inventory turnover days during the periods indicated:

	Year ended December 31,			Eight months ended August 31,
	2007	2008	2009	2010
Average inventory turnover days*	151	60	57	57

Note: Our average inventory turnover days were calculated on the basis of the average inventory of the year/period, which equals the inventory at the beginning of the year/period, plus the inventory at the end of the year/period divided by two. Our average inventory turnover days are equal to our average inventory divided by our cost of raw material and consumables and multiplied by 365 days for a year or 243 days for an eight-month period, respectively.

Our average inventory turnover days decreased by 91 days from 151 days in 2007 to 60 days in 2008. Our having a high number of turnover days in 2007 was primarily due to the fact that our shipyard was under construction and our production had not yet reached its capacity or its designed efficiency in 2007. After more of our shipyard facilities became operational and our workforce was better trained, we sped up the construction of our vessels, which resulted in much lower inventory turnover days in 2008.

Our average inventory turnover days decreased by three days in 2009 due to our using a larger amount of raw materials near the end of the year as more and larger vessels came under construction. Our average inventory turnover days remain unchanged during the eight months ended August 31, 2010 as compared to 2009. To reduce our working capital tied up in inventory, our policy is to purchase two month's worth of steel in advance.

We expect to maintain an average of approximately 60 inventory turnover days to match the demands of our production.

Amounts due from Customers for Contract Work

Our amounts due from customers for contract work for all contracts in progress represents our costs incurred plus recognized profits with our recognized losses in excess of the amounts we billed our customers subtracted. The gross amounts due to us from customers for contract work amounted to RMB53.6 million, RMB1,641.1 million, RMB4,645.7 million and RMB4,274.1 million, accounting for 1.3%, 13.8%, 31.7% and 19.3% of our total current assets as of December 31, 2007, 2008 and 2009 and August 31, 2010, respectively. The increases in 2008 and 2009 were in line with our increased shipbuilding activities, as more vessels were under construction in those years. The decrease in the eight months ended August 31, 2010 was due to more of our contract milestones being reached in that period as compared to 2009, entitling us to send more invoices to our debtors. There were no retention monies held by customers for contract work during the above periods.

In general, we may collect up to 30% of the contract price upon issuing the refund guarantee to our customer and up to 80% of the contract price prior to or upon the delivery of the vessel. Our shipbuilding contracts typically provide for the contract price to be paid by the customer in five installments based on construction milestones, such as commencement of work, keel-laying, launching and delivery of the vessel, which are normally set out in a payment schedule. A sample payment schedule is set forth in the following table:

Installment	Percentage of Contract Price	Milestone
1st Installment	5% to 30%	Upon, among other things, the delivery of the refund guarantee to our customer issued by our bank to secure the fulfillment of our contractual obligations.
2nd Installment	5% to 20%	Within approximately five banking days after the cutting of the first steel plate of the vessel at our shipyard.
3rd Installment.	10% to 20%	Within approximately five banking days after the laying of the first section of the vessel's keel at our shipyard.
4th Installment.	10% to 20%	Within approximately five banking days after the launching of the vessel.
Final Installment*	20% to 60% (plus or minus any adjustment[1] of the contract price pursuant to the agreement)	Upon the delivery of the vessel to our customer.

Note: Adjustments of the contract price are made when we agree with our customers to vary the equipment to be installed or work to be carried out, or, depending on the terms of the shipbuilding contract, when our vessels do not meet the specified technical specifications. The payment schedule of individual contracts may vary depending on the terms negotiated with shipowners.

Our gross amount due from customers for contract work as of December 31, 2008 increased from December 31, 2007 primarily due to our starting the construction of an increased number of vessels, including two bulk carriers and 23 Suezmax crude oil tankers, and completing a higher percentage of the vessels under construction during that year.

Our gross amount due from customers for contract work as of December 31, 2009 increased from December 31, 2008 primarily due to our starting the construction of a number of vessels, including 13 bulk carriers and 19 Suezmax tankers, and having an even higher percentage of completed vessel construction during the year.

Our gross amount due from customers for contract work as of August 31, 2010 decreased from RMB4,645.7 million as of December 31, 2009 to RMB4,274.1 million as of August 31, 2010 primarily due to our reaching a number of milestones for shipbuilding contracts, which allowed us to issue invoices to our customers.

Trade and Bill Receivables

Our trade and bill receivables represent primarily the balances due from our customers to whom certain credit terms have been offered, net of allowance for doubtful debts. The following table sets forth our trade and bill receivables as of the indicated balance sheet dates:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
Trade Receivables	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	—	268,143	391,266
Bill receivables	—	1,794	—	5,603
Less: provision for doubtful receivables	—	—	—	(13,907)
TOTAL	**—**	**1,794**	**268,143**	**382,962**

We had no trade receivables as of December 31, 2007 or 2008. Our trade receivables of RMB268.1 million as of December 31, 2009 were due to the amount owed to us from a related party, Roxen Star Maritime Inc. ("Roxen") for the construction work we completed on a vessel for it. We agreed to accept the payment from Roxen one year after the vessel was completed after considering Roxen's credit quality and financial condition, its status as a related party, the fact that it was a new entrant in to the shipping business and our funding requirements. To the best of the Directors' knowledge, Roxen was not experiencing financial difficulties at that time. We made no provision for impairment of trade receivables as our management, in its judgment based on historical experience and its evaluation of the relevant debtors' credit quality, decided that no impairment was necessary.

The amount owed to us by Roxen is not due until December 31, 2010. As of September 30, 2010, we had received nil in connection with our trade receivables outstanding as of December 31, 2009. We expect to settle this amount with Roxen prior to the Listing.

Our trade receivables as of August 31, 2010 primarily consisted of the trade receivables owed us by Roxen and trade receivables related to the sale of engineering machinery products by Zhenyu Machinery. We had bill receivables of RMB0.3 million related to our sales of engineering machineries.

The following table sets forth our average net trade receivable and bill turnover days during the periods indicated:

	Year ended December 31,			Eight months ended August 31,
	2007	**2008**	**2009**	**2010**
Average trade receivable and bill turnover days[1]	—	—	5	10

Note: Our average trade and bill receivable turnover days have been calculated on the basis of the average trade and bill receivables of the year/period, which equals trade and bill receivables at the beginning of the year/period plus trade and bill receivables at the end of the year/period divided in half. Our average trade and bill receivable turnover days are equal to the average trade and bill receivables divided by revenue and multiplied by 365 days for a year or 243 days for an eight-month period, respectively.

The following table sets forth a summary of the age of our net trade receivables as of the balance sheet dates indicated:

	As of December 31,			Eight months ended August 31,
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade and Bill Receivables				
Undue	—	1,794	268,143	367,984
Past 0-180 days	—	—	—	9,417
181-360 days	—	—	—	5,561
Over 360 days	—	—	—	—
TOTAL	**—**	**1,794**	**268,143**	**382,962**

We are normally receive payments from our customers shortly after we issue invoices to our customers. We do not set fixed credit terms for our customers, as we expect to receive payments from them soon after our invoices are issued.

Except for the above-described credit term granted to Roxen and credit terms of up to 30 days granted to the customers of our engineering machinery products in some situations, we normally do not set fixed credit terms for our customers. Payments from our customers are thus generally due upon issuance of invoices and balances are past due if not settled within one month.

We made a reversal of provision for doubtful receivables of RMB0.1 million due to the recovery of doubtful receivables from several customers. Those impaired trade receivables had been past due for between four and twelve months as of August 31, 2010. We further had trade receivables of RMB15.0 million that were past due but not impaired. These trade receivables related to a number of independent customers for whom there was no recent history of default.

Other Receivables, Prepayments and Deposits

The following table sets forth our other receivables, prepayments and deposits as of the balance sheet dates indicated:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
Other Receivables, Prepayments and Deposits	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Receivables from agents	433,136	1,447,621	1,776,152	1,947,839
Other receivables				
— From third parties	90,098	14,762	16,372	27,246
— Related parties	750,481	355,683	294,645	680,035
VAT receivable	67,334	469,555	356,873	741,660
Deposits	2,069	4,464	100,966	602,576
Prepayments for property, plant and equipment and intangible assets				
— Third parties	582,797	538,068	221,588	1,247,030
— Related parties	256,015	8,094	—	233,950
Prepayment for raw materials				
— Third parties	902,411	1,971,397	765,725	2,023,605
— Related parties	481,180	854,982	216,026	98,460
Prepayment — others	2,191	8,823	89,026	184,179
TOTAL	**3,567,712**	**5,673,449**	**3,837,373**	**7,786,580**

Receivables from agents were the amounts collected from our customers by several PRC trading companies as our agents. During the early stage of our growth, we lacked sufficient credit facilities to issue all refund guarantees and had several PRC state-owned enterprises act as our agent in issuing bank guarantees and had them receive installment payments on our behalf. During the Track Record Period, we retained the services of five trading companies and refund guarantees in connection with some of our vessels were issued through those trading companies. The trading companies hold the payments received on our behalf pursuant to the relevant shipbuilding contracts, make requested disbursements related to construction of the relevant vessels and release the balance to us upon our delivery of the relevant vessels. Pursuant to our contracts with them, the payments they receive on our behalf may not be used for any other purposes if we duly performed our obligations under the relevant shipbuilding contracts. We believe the funds they hold for us will not be adversely affected by the bankruptcy, liquidation or payment obligations of these trading companies. These trading companies are affiliated with large state-owned enterprises that are in stable financial condition and have never defaulted in making payments to us. Our management believes that we have unrestricted access to these amounts and the credit risk related to these receivables is very minimal. As both our business scale and credit facilities have increased, we have relied less on these trading companies. Our receivables from agents increased by approximately RMB171.7 million due to the receipt of installment contract payments from shipowner customers by the trading companies on our behalf. As of September 30, 2010, approximately 88.3% of such receivables were received in connection with our receivables from trading companies as of August 31, 2010.

Our other receivables due from third parties included advances to our employees and other contingent advances. In 2006, Rongsheng Investment made a cash advance of RMB65.0 million to Rugao Yangtze River Development & Investment Co. Ltd. (如皋沿江開發投資有限公司), which was seeking investment opportunities in Rugao, where our shipyard is located. It was believed that a cooperative relationship with this company would be beneficial to our business growth and shipyard construction. The amount was first transferred to our Group due to the Reorganization as part of the shipbuilding-related assets. In 2008, because the intended cooperation did not continue as planned, this amount was no longer considered as part of our shipbuilding-related assets. As a result, this amount was deemed to have been transferred back to Rongsheng Investment. Our payables due to Rongsheng Investment were thus reduced by an equal amount. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that the above mentioned cash advance, from a legal point of view, is not a loan and that our making the cash advance did not contravene any PRC laws, rules or regulations. As our Group did not provide a loan and the above amount is deemed to have been transferred back to Rongsheng Investment, we do not believe our business, financial condition or results of operations have been or will be affected in any material way. As of September 30, 2010, approximately 11.1% of our other receivables due from third parties as of August 31, 2010 had been received.

Our other receivables due from related parties were funds lent to related parties. Our other receivables due from related parties increased by RMB385.4 million in the eight months ended August 31, 2010. The increase was primarily attributable to (i) the purchase price totaling RMB220.0 million due from our related parties due to the transfer of the shares of Shanghai Rongxiang and Shanghai Jinhao Property and their land interests to such related parties; and (ii) receivables in the aggregate amount of RMB128.8 million transferred to our Group as a result of incorporating Shanghai Rongsheng Shipbuilding Trading into our group. As of September 30, 2010, approximately 9.9% of such receivables due as of August 31, 2010 had been received.

Our VAT receivables were tax refunds to be paid to us in connection with our exported vessels. Our VAT receivables increased in the eight months ended August 31, 2010, primarily due to our increased purchases of raw materials and equipment in anticipation of increased construction activities in 2010. We normally receive payments within one or two months after we file claims for refunds. As of the Latest Practicable Date, no VAT receivables outstanding as of August 31, 2010 had been paid to us.

Our deposits include the amounts we deposited with banks as collateral for letters of credit issued by our agents' banks for our purchases of imported equipment. Our deposits increased significantly in 2009 primarily due to the deposit we pledged as collateral pursuant to our finance lease arrangements with MSFL. The deposit was approximately RMB55.6 million, or about 10% of the amount we financed. Our deposits increased significantly in 2010 due to a cash deposit of RMB500.0 million for steel plates that we paid to our suppliers Jiangsu Xiangwei Trading Company and Jiangsu Kaimao Trading Company after Rongsheng Heavy Industries entered into strategic cooperation agreements with them, respectively.

Our prepayments for property, plant and equipment and intangible assets due to third parties increased in the eight months ended August 31, 2010 as a result of (i) prepayments related to the construction of our fourth drydock and advance payments for land use rights associated with our expansion plans for our production facilities; and (ii) prepayments of approximately RMB455.2 million that were transferred to our Group as a result of the acquisition of Rong An Power Machinery in early 2010.

The increase in our prepayments for property, plant and equipment and intangible assets due to related parties was primarily attributable to the prepayments we made to Shanghai Ditong Construction (Group) Co. and Nantong Shengshi Building Materials Co. for the construction of our fourth drydock and ancillary facilities.

Our prepayment for raw materials increased significantly in 2008 due to increases in the unit prices we paid for steel, the volume of steel we used in vessel construction and the volume of steel we purchased. The increase in our prepayment for raw materials to third parties as of August 31, 2010 as compared to that as of December 31, 2009 was primarily attributable to (i) prepayment of approximately RMB500.0 million for steel plates and (ii) a prepayment due to the acquisition and business incorporation into our Group of Hefei Rong An Power Machinery Co. Ltd., Shanghai Rongsheng Shipbuilding Trading and Hefei Zhenyu Engineering Machinery Company Limited for RMB438 million. As of September 30, 2010, we had received approximately 13.8% and nil of our total prepayment for raw materials to third parties and related parties that were due as of August 31, 2010, from third parties and related parties, respectively.

The decrease in our prepayment for raw materials to related parties was primarily attributable to the elimination of our prepayment of RMB117.6 million to Shanghai Rongsheng Shipbuilding Trading as a result of the incorporation of the company into our Group.

The increase in our other prepayments in the eight months ended August 31, 2010 was primarily attributable to various expenses in relation to the Global Offering.

Pledged Deposits

Our pledged deposits was the amount of cash we pledged as collateral to banks for issuing refund guarantees or providing additional financing. Before issuing a refund guarantee, a bank often requires a fixed percentage of the guaranteed amount as collateral. Restrictions are typically removed upon delivery of the relevant vessels. Our pledged deposit further included funds that were not accessible for an extended period of time, such as our long-term bank deposits, deposits for commercial bills and letters of credit. We sometimes pledged bank deposits to obtain financing for working capital purposes. Our PRC legal advisor, Commerce & Finance Law Offices, has advised us that our pledges of bank deposits to obtain financing did not contravene any PRC laws, rules and regulations effective as of the respective dates of the pledges and as of the Latest Practicable Date. Our pledged deposits fluctuate with the aggregate amount of the refund guarantees issued by our banks, which in turn vary from period to period depending on the number of milestones reached with respect to the relevant construction contracts. The amount of our pledged deposits also depend on our short term financing needs and the amount of our deposits. The following table sets forth our pledged deposit as of the balance sheet dates indicated:

	As of December 31,			As of August 31,
	2007	**2008**	**2009**	**2010**
Pledged deposit	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Refund guarantee	—	1,274,051	925,900	895,453
Deposits for bills payable, letters of credit, borrowings and forward contracts	24,476	333,349	940,889	3,890,189
TOTAL	**24,476**	**1,607,400**	**1,866,789**	**4,785,642**

Our pledged deposits increased by RMB1,582.9 million in 2008 due to more refund guarantees being issued on our behalf in 2008 when a large number of vessels were under construction. Our pledged deposits increased by RMB259.4 million in 2009 primarily due to an increase in our bank deposits and deposits for commercial bills and letters of credit in line with our business growth.

As of August 31, 2010, the balance of our pledged deposits increased to RMB4,785.6 million primarily due to the collateral we pledged to secure (i) RMB1,600.0 million of bank loans we borrowed to pay off the shareholder loans that we previously borrowed to redeem the preferred shares held by DESCO and GSS; (ii) RMB364.2 million of bank loans that we borrowed in Hong Kong to redeem the preferred shares held by DESCO and GSS; (iii) RMB548.3 million of bank loans that we borrowed to finance the construction of our infrastructures; (iv) RMB475.5 million of bank loans used for working capital and (v) letters of credit in the total amount of RMB63.0 million.

Trade and Bill Payables

Our trade and bill payables consist of payables generated from purchases of raw materials and equipment from our suppliers and outsourcing construction work to shipbuilding companies outside of our Group. The following table sets forth our trade and bill payables as of the balance sheet dates indicated:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
Trade and Bill Payables	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade payable	328,005	1,459,393	998,530	681,921
Bill payables	33,145	472,903	591,387	230,000
TOTAL	**361,150**	**1,932,296**	**1,589,917**	**911,921**

Our trade payables increased by RMB1,131.4 million from RMB328.0 million as of December 31, 2007 to RMB1,459.4 million as of December 31, 2008. The increase was primarily due to the increase in our business and our sharply rising demand for the raw materials used in our production. Our trade payables decreased by RMB460.9 million from RMB1,459.4 million as of December 31, 2008 to RMB998.5 million as of December 31, 2009, due to our making faster payments to our suppliers. Our trade payables decreased from RMB998.5 million as of December 31, 2009 to RMB681.9 million as of August 31, 2010 due to our making faster payments to our suppliers to ensure faster deliveries of raw materials and equipment.

Our bill payables increased by RMB439.8 million from RMB33.1 million as of December 31, 2007 to RMB472.9 million as of December 31, 2008. Our bill payables increased by RMB118.5 million from RMB472.9 million as of December 31, 2008 to RMB591.4 million as of December 31, 2009. The increase was primarily attributable to an increase in purchases and longer credit terms from our suppliers.

Our bill payables decreased substantially in the eight months ended August 31, 2010. The decrease was attributable to our decreased use of bills in our business as some of our creditors wanted other methods of payment. The subsidiaries in our Group usually use bills to settle payments among themselves. The subsidiaries receiving bills as payments may choose to discount some or all of the bills for cash. When these bills are discounted, the face amount of such bills are treated as borrowings in our Group's combined balance sheets. As the amount of the bills thus discounted increased during the period due to these subsidiaries' increasing working capital needs, our bill payables decreased in this period.

As of September 30, 2010, approximately 35.3% of our trade payables and 78.3% of our bill payables were paid, in respect of such payables outstanding as of August 31, 2010, respectively.

The following table sets forth our average trade and bill payable turnover days during the periods indicated.

	Year ended December 31,			Eight months ended August 31,
	2007	2008	2009	2010
Average trade and bill payable turnover days	106	87	84	48

Note: Average trade and bill payable turnover days have been calculated on the basis of the average balance of the period, which equals trade and bill payables at the beginning of the year/period plus trade and bill payables at the end of the year/period divided by in half. Our average trade payable and bill turnover days are equal to our average trade and bill payables divided by cost of purchases for the year/period and multiplied by 365 days for a year or 243 days for an eight-month period, respectively.

Our relatively high number of average trade payable and bill turnover days in 2007 was primarily due to the fact that our shipyard was under construction in 2007 and a substantial amount of our financial resources being used in construction instead of vessel manufacturing. We thus needed additional time to make payments. After more of our shipyard facilities became operational in 2008 and 2009 and more vessels were under construction, our cash and cash equivalents increased significantly in 2008 and we thus made our payments faster.

The following table sets forth an ageing analysis of trade and bill payables as of the balance sheet dates indicated:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and Bill payables				
0-30 days	266,279	1,643,642	995,218	481,466
31-60 days	50,946	102,675	248,314	203,533
61-90 days	13,479	105,897	153,529	107,259
Over 90 days	30,446	80,082	192,856	119,663
TOTAL	**361,150**	**1,932,296**	**1,589,917**	**911,921**

Our trade and bill payables are non-interest-bearing and are normally settled on terms between 60 and 90 days and 90 and 180 days, respectively, except for amounts related to steel plates and imported equipment. We also use commercial bills upon agreement with our suppliers, which are usually due within three to six months. However, due to the high market demand for steel and marine diesel engines during the Track Record Period, we were not granted credit periods from our suppliers of steel and imported equipment. We are frequently required to make prepayments for portion of the price when we place an order for steel and pay the balance of the price upon delivery. We make deposits for imported equipment upon placing orders and pay the balance using letters of credit after shipment.

We currently purchase most of our steel from domestic suppliers who, in line with market practice, typically require us to make partial advance payment, with the remaining payments to be made at delivery.

Other Payables

The following table sets forth other payables as of the balance sheet dates indicated:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
Other Payables	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Other payables for purchase of property, plant and equipment				
—Third parties	484,152	563,596	540,124	229,401
—Related parties	346,420	409,832	280,905	148,790
Other payables				
—Third parties	13,258	38,867	72,652	290,843
—Related parties	1,618,434	1,838,319	1,500,306	874,718
Receipt in advance	—	—	—	18,124
Payables to agents	—	—	294,488	52,440
Accrued expenses				
—Payroll and welfare	34,218	35,967	23,213	46,728
—Design fees	—	118,935	121,152	63,920
—Utilities	—	—	46,646	39,954
—Outsourcing and processing fees	—	—	151,620	80,566
—Others	10,263	7,766	39,872	62,895
VAT payable	7,170	7,254	8,107	29,760
Other tax-related payments	62,433	134,380	147,622	152,711
TOTAL	**2,576,348**	**3,154,916**	**3,226,707**	**2,090,850**

Our other payables for purchase of property, plant and equipment increased in 2008 but decreased in 2009 as a large number of our shipyard facilities were under construction in 2008 but completed in 2009. The decrease in other payables for purchase of property, plant and equipment to related parties in the eight months ended August 31, 2010 was primarily attributable to our payments to Shanghai Ditong Construction (Group) Co. in relation to the construction of our fourth drydock, partially offset by an increase in our other payables as a result of our acquisition of Shanghai Rongsheng Shipbuilding Trading and Rong An Power Machinery. Our other payables to third parties include commissions payable to our agents, interest payable to our banks and fees, dues and reimbursements. The increase in our other payables to third parties in the eight months ended August 31, 2010 was primarily attributable to increased interest expense of RMB77.0 million which resulted from the substantial increase in the principal amount of our Group's loans in 2010 and a RMB121.8 million government grant that must be repaid to the government if Rong An Power Machinery fails to meet the conditions of the grant. Our other payables to related parties were primarily the amounts due to Rongsheng Investment for assets transferred to our Group in connection with the Reorganization. With respect to our RMB1,500.3 million due to related parties of as of December 31, 2009, approximately RMB860.8 million has since been repaid to Rongsheng Investment using the proceeds of loans made to us by the Bank of China, approximately RMB80.0 million has been repaid to Rongsheng Investment using cash generated from our operations and approximately RMB166.1 million due to the consolidation of Shanghai Rongsheng Shipbuilding Trading into our Group. We are procuring more bank loans to repay our outstanding amounts due to related parties and expect to pay off the remaining RMB393.4 million on or before the Listing Date. The decreases in our other payables to related parties were partially offset by an increase of RMB494.9 million of other payables to related parties due to our acquisition of the entire interest of Rong An Power Machinery in June 2010 from related parties. The increase in our other payables to related parties in 2008 was primarily due to the completion of the Reorganization and we paid some portion of such payables in 2009. Payable to an agent was the amount due to an agent who purchased some raw materials and equipment on our behalf. Our payables to an agent decreased after we made several payments. Our accrued expenses increased primarily due to various expenses incurred as a result of the incorporation of Rong An Power Machinery into our Group. VAT payables increased primarily due to an increase of RMB10.0 million of VATs due to the incorporation of Shanghai Rongsheng Shipbuilding Trading into our Group. Our other tax-related payments were the taxes and other expenses due to governmental agencies primarily related to the transfer of vessels and raw materials from Rongsheng Investment to our Group in connection with the Reorganization. As of September 30, 2010, we had paid approximately 30.0% and 0.03% in connection with our other payables to third parties and related parties, respectively, as of August 31, 2010.

Amounts due to Customers for Contract Work

Amounts due to customers for contract work represents the amounts we billed our customers for contract work in excess of the costs incurred, plus recognized profits and less recognized losses. Our gross amount due to customers for contract work was RMB1,710.0 million, RMB8,857.6 million, RMB8,084.3 million and RMB6,057.0 million, accounting for 35.8%, 49.8%, 39.6% and 32.1% of our total current liabilities as of December 31, 2007 and 2008 and 2009 and August 31, 2010, respectively.

Our gross amount due to customers for contract work as of December 31, 2008 had increased by RMB7,147.6 million as compared to that of December 31, 2007, primarily due to our receiving more installment payments and our construction of more large vessels, which generally had higher contract values. Our gross amount due to customers for contract work as of December 31, 2009 had decreased by RMB773.3 million as compared to that of December 31, 2008, primarily due to a higher percentage of completion of the vessels we were constructing in 2009. Our gross amount due to customers for contract work as of August 31, 2010 had decreased as compared to December 31, 2009 as we had completed a substantial portion of the construction work related to the VLOCs. We believe our gross amount due to customers for contract work as of September 30, 2010 had continued to decrease as we completed more construction work.

WORKING CAPITAL

Taking into account the net proceeds available to us from the Global Offering, our available credit facilities and our operating cash flow, our directors are of the opinion that we have sufficient working capital for our present requirements and for at least 12 months from the date of this prospectus.

NET CURRENT LIABILITIES/ASSETS

We had net current liabilities of RMB507.4 million, RMB5,849.5 million and RMB5,766.6 million as of December 31, 2007, 2008 and 2009, respectively. Details of our current assets and liabilities at each of the indicated balance sheet dates are as follows:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Current Assets				
Non-current assets held for sale	—	—	220,000	—
Inventories	329,200	912,559	999,479	1,533,900
Amounts due from customers for contract work	53,578	1,641,095	4,645,737	4,274,106
Trade and bill receivables	—	1,794	268,143	382,962
Other receivables, prepayments and deposits	3,567,712	5,673,449	3,781,779	7,717,917
Pledged deposit	24,476	1,607,400	1,866,789	4,785,642
Cash and cash equivalents	297,567	2,086,712	2,862,810	3,444,992
Total Current Assets	**4,272,533**	**11,923,009**	**14,644,737**	**22,139,519**
Current Liabilities				
Amounts due to customers for contract work	1,710,034	8,857,570	8,084,311	6,057,021
Advances received from customers for contract work	95,100	—	505,287	184,590
Trade and other payables	2,937,498	5,087,212	4,816,624	3,002,771
Provision for foreseeable losses	17,259	66,089	—	—
Current income tax liabilities	842	2	1,889	145,167
Bank borrowings	—	1,395,610	3,976,033	9,043,255
Preferred shares	—	2,240,344	2,702,600	—
Derivative financial instruments	3,640	—	383	—
Provision for warranty	15,515	125,731	132,640	196,969
Finance lease liability—current	—	—	191,528	265,525
Total Current Liabilities	**4,779,888**	**17,772,558**	**20,411,295**	**18,895,298**
Net Current Assets (Liabilities)	**(507,355)**	**(5,849,549)**	**(5,766,558)**	**3,244,221**

Our having net current liabilities as of December 31, 2007, 2008 and 2009 was primarily due to (i) substantial amounts due to our customers for contract work, which accounted for 35.8%, 49.8% and 39.6% of our total current liabilities and (ii) bank borrowings and preferred shares, which accounted for nil, 20.5 % and 32.7% of our total current liabilities as of December 31, 2007, 2008 and 2009, respectively.

For the years ended December 31, 2007, 2008 and 2009 and the eight months ended August 31, 2010, we signed nil, 16, 12 and 34 new shipbuilding contracts and had 12, 26, 36, 35 vessels under construction, respectively. We received large sums of milestone payments before the proportional percentage of construction work had been completed, which resulted in our having high amounts due to customers during the Track Record Period. Our gross amount due to customers for contract work will be reduced in proportion to the work we complete on the relevant vessels.

During the Track Record Period, we incurred substantial borrowings for our business expansion, construction of new shipyard facilities, improvement and reconfiguration of existing shipyard facilities and purchase of raw materials and equipment through bank borrowings, issuances of preferred shares and finance leases. Historically, we have repaid a significant portion of our short-term borrowings by rolling over our loans on an annual basis. During the Track Record Period, we did not experience any difficulties in rolling over our short-term loans with our principal banks. As of August 31, 2010, we had undrawn banking facilities of RMB19,725.3 million. Based upon our experience and relationship with our principal lending banks, we believe that we will be able to roll over our existing short-term borrowings upon maturity in the coming year or to issue corporate bonds or preferred shares to pay off our existing borrowings. In order to reduce our net current liabilities, we plan to replace our existing short-term loans with long-term loans and thereby match our long-term liabilities with related long-term assets.

As of September 30, 2010, being the latest practicable date for ascertaining our net current assets/liabilities position before the Listing, we had net current assets of RMB3,138.6 million.

Capital risk management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, provide returns for our shareholders and to maintain an optimal capital structure to reduce our cost of capital. In order to maintain or adjust our capital structure, we may adjust the amount of dividends we pay to shareholders, return capital to shareholders or issue new shares. Our capital structure consists of bank borrowings, preferred shares and shareholders' equity. We manage our capital with the purpose of maximizing our return to shareholders while maintaining a capital base that allows us to operate effectively in the marketplace and sustain the future development of our business. We monitor capital on the basis of our debt-asset ratio, which we try to keep below 1.00. This ratio is calculated by dividing our total liabilities by our total assets.

INDEBTEDNESS

Borrowings

We financed a significant portion of our business operations and capital expenditures with proceeds from issuances of preferred shares to investors, borrowings from commercial banks in the PRC and finance lease back arrangements with MSFL. Most of our indebtedness during the Track Record Period was denominated in RMB. The following table sets forth our outstanding indebtedness as of December 31, 2007, 2008 and 2009, August 31, 2010 and September 30, 2010, being the latest practicable date such information is available to us:

	As of December 31,			As of August 31,	As of September 30,
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings					
Unsecured	1,856,201	2,240,344	2,707,600	1,294,746	1,214,917
Secured	—	1,395,610	4,475,852	18,172,414	18,344,510
TOTAL	**1,856,201**	**3,635,954**	**7,183,452**	**19,467,160**	**19,559,427**
Non-current					
— Bank borrowings	—	—	5,000	9,648,723	9,617,490
— Shareholder's loan	—	—	—	253,243	252,937
— Preferred shares	1,856,201	—	—	—	—
— Finance lease liability	—	—	308,291	256,414	256,414
Current					
— Bank borrowings	—	1,395,610	3,976,033	8,311,248	8,512,616
— Shareholder's loan	—	—	—	78,687	—
— Promissory note	—	—	—	653,320	652,530
— Preferred shares	—	2,240,344	2,702,600	—	—
— Finance lease liability	—	—	191,528	265,525	267,440
TOTAL	**1,856,201**	**3,635,954**	**7,183,452**	**19,467,160**	**19,559,427**

Our bank borrowings increased by RMB13,979.0 million from RMB3,981.0 million as of December 31, 2009 to RMB17,960.0 million as August 31, 2010, primarily due to the following reasons:

- RMB1,634.2 million as a result of discounting certain bills, which were previously used as a form of payment to some of our suppliers. The amount was treated as our bank borrowings after discounting;
- RMB2,538.7 million for the construction of our fourth dry dock and other shipyard facilities;
- RMB1,497.2 million of long-term and short-term borrowings from Rong An Power Machinery as a result of combination, which amount was used for Rong An Power Machinery's construction of production facilities and working capital;
- RMB5,570.7 million for our working capital purpose, which amount was used primarily for the prepayments for steel plates and equipment, various payments in the regular course of business and pledged deposits for the purpose of obtaining additional financings;
- RMB1,827.4 million for the redemption of preferred shares during the eight months ended August 31, 2010;
- RMB860.8 million for the repayment of the amount due to Rongsheng Investment; and
- RMB50.0 million for the acquisition of Shanghai Rongsheng Shipbuilding Trading from Rongsheng Investment.

Our bank borrowings increased by RMB170.1 million to RMB18,130.1 million as of September 30, 2010, primarily due to our additional borrowings for repayment of shareholder's loan and working capital purposes.

The maturity profile of our interest-bearing borrowings as of each of the balance sheet dates during the Track Record Period was as follows:

	As of December 31,			As of August 31,	As of September 30,
	2007	2008	2009	2010	2010
Borrowings	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Within 1 year	—	3,635,954	6,870,161	8,576,773	8,780,056
More than 1 year	1,856,201	—	313,291	9,905,137	9,873,904
TOTAL	**1,856,201**	**3,635,954**	**7,183,452**	**18,481,910**	**18,653,960**

Our weighted average effective interest rates at the balance sheet dates were as follows:

	As of December 31,			As of August 31,	As of September 30,
	2007	2008	2009	2010	2010
Finance lease liability	—	—	5.67%	5.67%	5.67%
Borrowings	—	6.96%	5.11%	5.19%	5.19%
Preferred shares	20%	20%	20%	—	—

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

	As of December 31,			As of August 31,	As of September 30,
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings					
6 months or less	—	931,770	5,696,339	10,962,068	13,970,662
6-12 months	—	2,704,184	982,295	2,352,000	1,237,000
1-5 years	1,856,201	—	504,818	5,150,182	3,348,855
Over 5 years	—	—	—	1,002,910	1,002,910
TOTAL	**1,856,201**	**3,635,954**	**7,183,452**	**19,467,160**	**19,559,427**

As of September 30, 2010, we had undrawn banking facilities of approximately RMB19,340.0 million which were for the issuance of refund guarantees, general working capital and specific project purposes.

Gearing Ratio

Our gearing ratio (total borrowings divided by the sum of total equity and total borrowings) increased from 75.0% as of December 31, 2007 to 101.6% as of December 31, 2008 because (i) we had a net loss in 2008, which caused a decrease in our equity of RMB540.3 million and (ii) we issued preferred shares in 2007 and amount we financed was treated as our borrowings. The total value of the preferred shares increased due to the interest accrued on the principal amount of these shares in 2008. Our gearing ratio then decreased to 85.2% as of December 31, 2009 because (i) we had a net profit in 2009, which increased our equity by RMB1,304.6 million and (ii) our borrowings increased by RMB3,547.5 million primarily for more working capital as our production activities increased. Our gearing ratio further decreased to 80.2% as of August 31, 2010 because (i) we had a net profit for the eight months ended August 31, 2010, which increased our equity by RMB1,147.1 million; (ii) Rongsheng Investment made a capital injection of RMB2,551.4 million; and (iii) our total borrowings increased by RMB12,283.7 million, primarily due to the reasons set forth in the paragraph headed "Indebtedness — Borrowings" in this section.

Preferred shares

We issued on October 31, 2007 and December 11, 2007 a total of 161,800 mandatorily redeemable convertible preferred shares at RMB11,603.83 ("Notional Amount") per share to Investors, for a total consideration of RMB1,877.5 million. The preferred shares were to mature on October 31, 2009 unless extended at the option of the holders of the preferred shares. The principal terms of the mandatorily redeemable convertible preferred shares are as follow:

- The preferred shares can be converted into ordinary shares at the option of the holders from the issue date up to the maturity date and all outstanding convertible preferred shares will be mandatorily converted to ordinary shares upon the Listing, at a conversion price of RMB11,603.83 per share.

- In October 2009, the holders of the preferred shares extended the maturity date of the preferred shares from October 31, 2009 to January 15, 2010.

- The holders submitted a redemption notice on October 31, 2009 to the Company to request for redemption of the preferred shares at the Notional Amount plus an incremental amount calculated at a compounded rate of return of 18% per annum. The redemption was completed on January 15, 2010.

The net proceeds of RMB1,877.5 million received from the issuance of the preferred shares have been allocated to a liability portion and an equity portion on our balance sheet determined at the date of the issuance of the preferred shares as follow:

- The liability component, which has been included in borrowings, was initially recognized at its fair value, which was calculated using the market interest rate for an equivalent nonconvertible redeemable preferred share. This amount is recorded as a liability on an amortized cost basis until extinguished on the conversion or maturity of the preferred shares. The interest expense charged for the Relevant Periods has been calculated using an effective interest rate of 20%.

- The residual amount of the proceeds after deducting the fair value of the liability component, representing the value of the equity conversion option, amounting to RMB52.7 million has been included in equity in other reserves on our balance sheet.

For further details, please refer to the section headed "History, Reorganization and Corporate Structure — Issuance of Series A Preferred Shares to Investors and Subsequent Redemption" in this prospectus.

Finance Lease Liability

During 2009 and the eight months ended August 31, 2010, we entered into sale and leaseback arrangements with MSFL in respect to certain plants and machineries used in our shipbuilding segment and marine engine building segment under non-cancellable leases. These leases have terms of three years where substantial risks and rewards of ownership of the assets retained with us. The leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

	As of December 31,			As of August 31,	As of September 30,
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance Lease Liability					
Gross finance lease liability — minimum lease liability no later than 1 year	—	—	215,843	287,536	287,536
Later than 1 year	—	—	323,765	269,421	269,421
Future finance charges on finance lease	—	—	(39,789)	(35,018)	(33,103)
TOTAL	**—**	**—**	**499,819**	**521,939**	**523,854**
Present value of finance lease liability					
No later than 1 year	—	—	191,528	265,525	267,440
Later than 1 year	—	—	308,291	256,414	256,414
TOTAL	**—**	**—**	**499,819**	**521,939**	**523,854**

Save as disclosed above, our Directors confirm that as of the Latest Practicable Date there had been no material change in our Group's indebtedness position since August 31, 2010. Save as disclosed above, as of the Latest Practicable Date, we had no other borrowings or indebtedness, including bank overdrafts and liabilities under acceptances (other than normal trading credits), or acceptances credits, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities, or capital expenditure commitments.

CAPITAL EXPENDITURES

Our capital expenditures were primarily for the purchase of property, plant and equipment and intangible assets, such as computer software in connection with the operation of our shipyard and construction of shipyard facilities. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,			Eight months ended August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Capital Expenditures				
Construction in progress	1,461,418	2,229,398	1,039,384	853,979
Plant and machinery	316,229	381,746	425,788	101,111
Buildings	30,003	277,984	219,751	15,156
Office equipment	2,199	12,146	5,710	1,654
Computer equipment	1,735	7,130	3,869	2,957
Motor vehicles	1,335	10,371	2,178	9,064
TOTAL	**1,812,919**	**2,918,775**	**1,696,680**	**983,921**

We had substantial capital expenditure during the Track Record Period as our business grew rapidly and we commenced the operation of our new shipyard facilities, constructed additional shipyard facilities and acquired shipbuilding assets to handle increased orders for our products. Our capital expenditures were funded mainly through capital contributions from shareholders, bank borrowings and internally generated funds.

CAPITAL AND OPERATING LEASE COMMITMENTS

Capital Commitments

Our capital expenditure at the indicated balance sheet dates but not yet incurred was as follows:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Capital Commitments				
Contracted, but not provided for: Property, plant and equipment	1,507,930	1,872,328	1,901,097	2,958,635
Other capital commitment — contracted but not provided for	—	—	1,780,000	—
TOTAL	**1,507,930**	**1,872,328**	**3,681,097**	**2,958,635**

Our capital commitments as of August 31, 2010 were primarily for the purchase of property, plant and equipment, construction of our shipyard facilities and engine and machinery manufacturing sites and improving or maintaining our existing drydocks, other shipyard facilities and engine and machinery manufacturing equipment and tools. We expect to finance the above capital expenditures primarily with cash generated from our operating activities, bank borrowings and a portion of the net proceeds from the Global Offering.

Our other capital commitment as of December 31, 2009 represented our commitment to purchase certain land use rights in Xinhui District, Nantong, Jiangsu Province. Two of our then subsidiaries, Shanghai Rongxiang Real Estate Development Limited (上海熔祥房地產開發有限公司) and Shanghai Jinhao Real Estate Development Limited (上海錦豪房地產開發有限公司), had land use rights with a total carrying value of RMB220.0 million and were obligated to purchase additional land use rights at the price of RMB1,780.0 million. We entered into an agreement to transfer our interests in these two subsidiaries to a related company for a total consideration of RMB2.0 billion, of which RMB220.0 million was for the carrying value of the assets of these two companies as of December 31, 2009 and RMB1,780.0 million was for the outstanding payments to complete the purchase of the land use rights in Xinhui District, Nantong, Jiangsu Province. The transfer of the shares of these two companies and the relevant land use rights occurred on July 29, 2010. We transferred our entire shareholding interests in these companies to the related party for consideration of RMB10.0 million each. As a result, we are no longer subject to such commitment.

Operating Lease Commitments

We lease certain buildings in Shanghai under operating lease arrangements for our office use.

We had the following operating lease commitments at each of the balance sheet dates:

	As of December 31,			As of August 31,
	2007	**2008**	**2009**	**2010**
Operating Lease Commitments	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
No later than 1 year	98	8,014	26,799	56,004
Later than 1 year and no later than 5 years	—	—	32,517	95,749
TOTAL	**98**	**8,014**	**59,316**	**151,753**

In line with the substantial increase in our business in 2008 and 2009, we experienced rapidly growing needs for rental housing and transportation services for our expanding workforce. Accordingly, we rented more apartments and chartered more buses. We also rented additional office space in Shanghai for our R&D and administrative purposes. As a result of our entering into these additional lease agreements, our operating lease commitments increased substantially. During the eight months ended August 31, 2010, we decided to move our offices in Shanghai and Hong Kong to new locations. As a result, our operating lease commitment increased during that period.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

Our off-balance sheet arrangements are (i) transactions, agreements or other contractual arrangements involving an unconsolidated entity under which we have made guarantees, or (ii) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to our Company, or that engages in leasing, hedging, or R&D arrangements with our Company. In addition to those commitments, we have contractual obligations such as guarantees and letters of credit that are not required to be recorded in our combined financial statements.

	Year ended 31 December,			Eight months ended 31 August,
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contingencies:				
Refund guarantees	936,224	5,333,448	9,121,757	8,313,565
Litigation	—	—	117,064	103,730
Financial guarantees	—	—	—	53,010
TOTAL	**936,224**	**5,333,448**	**9,238,821**	**8,470,305**

Refund Guarantees

Refund guarantees relate to the guarantees provided by the banks to our customers in respect of advances we have received from customers. In the event of our non-performance, customers may call upon the refund guarantees and we would be liable to the banks in respect of any refunds paid out pursuant to such guarantees. Our refund guarantees are secured by land and buildings, pledged deposits, personal guarantees from close family members of Mr. Zhang and corporate guarantees from entities owned by close family members of Mr. Zhang and vessels under construction. The said guarantees given by Mr. Zhang's associates are to be released and/or replaced by guarantees of the Company effective on the Listing Date.

As of August 31, 2010, we had entered into agreements with more than eleven PRC banks pursuant to which we obtained credit facilities to be drawn down from time to time in relation to issuances of our refund guarantees. We are contingently liable to these banks in respect of the refund guarantees provided to our customers. Please refer to the section headed "Business — Shipbuilding — Customers and Shipbuilding Contracts — Refund Guarantee" for further details.

The following table sets forth the amounts and maturities of the refund guarantees for the periods indicated:

	As of December 31,			As of August 31,
	2007	2008	2009	2010
Refund Guarantees	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	460,105	821,467	1,532,607
1 to 2 years	741,709	700,991	2,017,494	3,899,892
2 to 3 years	194,515	1,548,686	4,748,090	2,741,528
Over 3 years	—	2,623,666	1,534,706	139,538
TOTAL	**936,224**	**5,333,448**	**9,121,757**	**8,313,565**

As of September 30, 2010, being the latest practicable date for which we had such information, the total amount of our refund guarantees was RMB8,688.4 million.

Litigation

As of December 31, 2009, we were in dispute with two suppliers in relation to the procurement of inventory. The alleged claims against us amounted to approximately RMB117.1 million. No provision had been made in respect of these claims as of December 31, 2009 as our management determined, on the basis of legal advice from our external counsel, that it was not probable that these claims would result in our payment of any compensation or damages. On June 30, 2010, we reached an agreement to settle with one of the suppliers. The settlement did not result in any gains or losses for the eight months ended August 31, 2010. On June 7, 2010, Rongsheng Heavy Industries initiated an action against another supplier. As of August 31, 2010, we were in dispute with two suppliers in relation to the procurement of inventory. The alleged claims against us amounted to approximately RMB103.7 million. Our management has determined, based on legal advice from our external counsel, that it is not probable that these claims will result in our payment of any compensation or damages. Accordingly, no provision had been made in respect of these claims as of August 31, 2010. We have contingent liabilities in respect of legal claims arising in the ordinary course of business.

Financial Guarantees

We have provided guarantees to certain banks in the PRC in respect of mortgage loans drawn by certain customers from our engineering machinery segment. The loans were undertaken by these customers to finance the purchase of excavators from us. Under the relevant financial guarantee contracts, we are required to make payments to the banks should the customers default on the mortgage loans. As of August 31, 2010, the total value of the mortgage loans outstanding which we have guaranteed was RMB56.5 million, for which we have made a provision of RMB3.5 million for mortgage loans with delinquent payments. Our management has determined that no further provision for the remaining contingency of RMB53.0 million is necessary as the relevant customers have no history of default and it is not likely that the customer will default or we will have to make payments to the banks for the guarantees.

On July 14 and October 4, 2010, Fine Profit entered into subscription agreements with Smart Prove Limited (“**Smart Prove**”) and Star Team Enterprise Inc. (“**Star Team**”) whereby Fine Profit agreed to issue exchangeable notes in the amount of US$40,000,000 and US$50,000,000 to Smart Prove and Star Team, respectively. In connection with the exchangeable notes, our Company has granted a mortgage over the shares of Rongsheng Heavy Industries Holdings in favor of Smart Prove and Star Team. Smart Prove is a company wholly owned by CCB International Asset Management Limited and Star Team is a company wholly owned by Bank of China Group Investment Limited.

Letters of Credit

We usually make payments for raw materials and equipment to our suppliers outside the PRC using letters of credit provided by banks. The total outstanding amount under these letters of credit was US$24.1 million, EUR0.1 million and SFr0.8 million as of August 31, 2010.

DISCLAIMER

Other than the capital and operating lease commitments and off-balance sheet arrangements set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our own shares and classified as shareholder’s equity, or that are not reflected in our combined financial statements. We do not have any retained or contingent interests in assets transferred to an unconsolidated entity that serve as credit, liquidity or market risk support to such entity. Moreover, we do not have any interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us. Save as aforesaid or as otherwise disclosed herein, our Directors confirm that there has been no material adverse change in our indebtedness, commitments and contingent liabilities since the date of the latest practicable date where such information is available to us.

MARKET RISK

Our activities may expose us to a variety of financial risks, including market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. Our risk management focuses on the unpredictability of the financial markets such as fluctuations of foreign exchange rates and interest rates and seeks to minimize potential adverse effects on our financial performance. We use derivative financial instruments to mitigate certain risk exposure.

Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities which are denominated in a currency that is not the entity's functional currency. We are exposed to foreign exchange risk arising primarily from transactions in our shipbuilding business with contract prices denominated in US dollars.

Our shipbuilding business generates a major portion of its revenue from contracts with prices denominated in US dollars but incurs the majority of its manufacturing costs in RMB. The unmatched currency cash flows are the source of our exposure to foreign exchange risk. Our management continually assesses our exposure to foreign exchange rate risk and takes measures to mitigate the impact of currency exchange rate fluctuations on our business. Our management has adopted measures to manage our foreign exchange risk exposure against our functional currency. These forward derivatives are not designated or do not qualify for hedge accounting and the fair value changes are recognized in our combined profit or loss when such changes arise.

Certain of our trade and other receivables, prepayments and deposits, pledged deposits, bank balances and cash, trade and other payables and borrowings are denominated in US$, Euro and HK$ and hence expose us to foreign exchange risk.

As of December 31, 2007, 2008 and 2009 and August 31, 2010, if the RMB had weakened/strengthened by 2% against the US dollar, Euro, and HKD, respectively, with all other variables held constant, pre-tax results for the year/period would have been approximately RMB9.4 million, RMB79.7 million, RMB104.3 million and RMB59.4 million higher/lower, respectively, mainly as a result of foreign exchange differences on the translation of US$, Euro, and HK$ denominated trade and other receivables, pledged deposits, bank balances and cash, trade and other payables and borrowings.

Our net foreign exchange loss/gains are set forth below for the years indicated.

	Year ended December 31,			Eight months ended August 31,	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net foreign exchange (losses)/gains taken to:					
Other losses - net	(31,454)	(19,326)	(37,598)	(39,061)	3,642
Finance income/(losses) - net	1,481	—	(845)	—	43,070
TOTAL	**(29,973)**	**(19,326)**	**(38,443)**	**(39,061)**	**46,712**

Our foreign exchange gain/loss in 2009 was primarily due to the effect of the appreciation of RMB relative to the US dollar on our foreign currency dominated income, assets and liabilities. As of December 31, 2007, 2008 and 2009 and August 31, 2010, our borrowings denominated in the US dollar were RMB1,856.2 million, RMB2,240.3 million, RMB3,745.3 million and RMB2,368.7 million, respectively.

Cash flow and fair value interest rate risk

We have no significant interest-bearing assets except for pledged deposit and cash and cash equivalents held at fixed rates and with short maturities. Our interest rate risk arises mainly from preferred shares and short-term borrowings which are at fixed rates and expose us to fair value interest-rate risk. Certain of our short term borrowings have variable interest rates and expose us to cash flow interest risk. We do not currently hedge our exposure to cash flow and fair value interest rate risk. We analyze our interest rate exposure on a dynamic basis and consider our interest rate exposure when we enter into any financing, renewal or extension of terms of existing borrowings or depositary products or alternative financing transaction. As of December 31, 2007, 2008 and 2009 and August 31, 2010, if interest rates had increased or decreased by 100 basis points, respectively, with all other variables held constant, our pre-tax results for the year/period would have been approximately nil, RMB1.5 million, RMB7.2 million and RMB26.9 million lower or higher, respectively.

Credit risk

We manage our credit risk on a group basis. Our credit risk arises from our cash and cash equivalents, pledged deposits, as well as our credit exposure to outstanding trade and other receivables and amounts due from customers for contract works. As of December 31, 2007, 2008, and 2009 and August 31, 2010, all of our bank deposits were placed in reputable banks located in the PRC which our management believed to be of high credit quality and without significant credit risk. Cash and bank and short term bank deposits are placed with high credit quality financial institutions.

We have no significant concentration of credit risk on trade and other receivables and amounts due from customers for contract work. We carry out customer credit checks prior to entering into shipbuilding contracts and request progress payments from customers in accordance with the milestones of our shipbuilding contracts. We receive the majority of our payments from customers prior to the delivery of vessels. Our trade receivables are due from parties of appropriate credit history and there is no recent history of default in relation to these receivables.

For credit exposure to the other receivables, our management assesses the credit quality of the debtors, taking into account their financial position, our past experience and other factors.

We actively monitor the financial situation of our customers who have been significantly affected by the credit crisis and renegotiated certain shipbuilding contract terms as necessary. During the year ended December 31, 2009 and the eight months ended August 31, 2010, renegotiation of our shipbuilding contracts resulted in the cancellation of 23 and one shipbuilding contract(s), respectively. No shipbuilding contracts were cancelled during the years ended December 31, 2007 and 2008. As a result of the cancellations, we recognized other income of RMB5.0 million and RMB3.8 million, representing the cancellation compensation received, and recorded such gains under “Other Income” in our combined statements of comprehensive income for the year ended December 31, 2009 and the eight months ended August 31, 2010, respectively, net of the costs incurred for the respective shipbuilding contracts.

Liquidity risk

We strive to maintain sufficient cash and sources of funding through committed credit facilities. We maintain flexibility in funding by maintaining committed credit lines. To manage our liquidity risk, our management monitors rolling forecasts of our Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flow. We expect to fund our future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing from our shareholders. The table below sets forth our financial liabilities and net-settled derivative financial liabilities by maturity groupings based on their remaining contractual periods as of August 31, 2010.

	Less than 1 year	Between 1 and 2 years	More than 2 years
	RMB'000	RMB'000	RMB'000
Bank borrowings	9,304,828	6,685,445	3,785,267
Finance lease liability	287,536	233,575	35,846
Trade and other payables	2,773,572	—	—
TOTAL	**12,365,936**	**6,919,020**	**3,821,113**

Effects of Inflation

According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by changes in the general consumer price index, was approximately 4.8% and 5.9% for the years ended December 31, 2007 and 2008, respectively. The inflation rate in China has been trending upward since 2008. Although there can be no assurance as to the impact in future periods, inflation did not have a significant effect on our business during the Track Record Period.

DIVIDEND POLICY

We currently do not have a formal dividend policy. The declaration and payment of future dividends will depend upon our operating results, financial condition, other cash requirements including capital expenditure, the terms of borrowing arrangements (if any) and other factors deemed relevant by our Directors. Final dividends paid by us must be approved by an ordinary resolution of our Shareholders at a general meeting and must not exceed the amount recommended by our Directors. Our Directors may, without the approval of our Shareholders, also declare an interim dividend. We must pay all dividends out of profits. We did not declare or pay any dividends during the Track Record Period. There is no assurance that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future.

Future dividend payments will also depend upon the availability to us of dividends from our operating subsidiaries in the PRC. PRC law requires that dividends be paid only out of a company's net profit calculated according to PRC accounting principles, which differ in certain aspects from IFRS. Under the Company Law of the PRC and other relevant PRC laws, a foreign-invested enterprise is also required to transfer at least 10% of its net profit (after offsetting any prior years' losses) to a statutory reserve until the balance of that reserve reaches 50% of the registered capital of the enterprise. The transfer by the entity to its reserve must be made before the distribution of dividends to its equity holders. Distributions from our PRC operating subsidiaries may also be restricted (i) if they incur losses or (ii) in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our PRC operating subsidiaries may enter into in the future.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

On the bases and assumptions set out in Appendix III to this prospectus, and including the assumption that the current group structure will have been in existence throughout the year ending December 31, 2010, and in the absence of any unforeseen circumstances, we forecast that the consolidated profit attributable to the Shareholders of the Company for the year ending December 31, 2010 will be as follows:

Forecast consolidated profit attributable to shareholders of the Company	Not less than RMB1,610.5 million (equivalent to approximately HK$1,872.7 million)
Unaudited pro forma forecast basic earnings per share	Not less than RMB0.230 (equivalent to approximately HK$0.268)

Notes:

(1) The forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 is extracted from the section headed "Financial Information — Profit forecast for the year ending December 31, 2010" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 based on the audited combined results of the Group for the eight months ended August 31, 2010 and a forecast of the consolidated results of the Group for the remaining four months ending December 31, 2010 on the basis that the current Group structure had been in existence throughout the whole financial year ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section II of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

(2) The unaudited pro forma forecast basic earnings per Share is calculated by dividing the forecast consolidated profit attributable to the equity holders of the Company for the for the year ending December 31, 2010, assuming that the Company had been listed since January 1, 2010 and a total of 7,000,000,000 Shares to be in issue immediately upon completion of the Global Offering were issued and outstanding during the entire period. The calculation assumes that the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme will not be exercised.

DISTRIBUTABLE RESERVES

The aggregate amount of distributable reserves of our Company as of August 31, 2010 was nil.

UNAUDITED PRO FORMA ADJUSTED NET TANGBILE ASSETS

The following statement of our unaudited pro forma adjusted net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules and is for illustration purposes only and may not give a true picture of the net tangible assets of our Group following the Global Offering. The following unaudited pro forma adjusted net tangible assets statement is set out below to illustrate the effect of the Global Offering on the net tangible assets of our Group assuming that the Global Offering was completed on August 31, 2010. The unaudited pro forma adjusted net tangible assets statement does not form part of the accountant's report.

	Unadjusted audited combined net tangible assets of our Group attributable to the equity holders of our Company as of August 31, 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK$ (Note 6)
Based on an Offer Price of HK$7.30 per share	3,981,144	8,348,637	12,329,781	1.76	2.05
Based on an Offer Price of HK$10.10 per share	3,981,144	11,595,254	15,576,398	2.23	2.59

Notes:

(1) The unadjusted audited combined net tangible assets attributable to the equity holders of our Company as of August 31, 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to the equity holders of our Company of RMB4,091,722,000 with adjustments for intangible assets of RMB110,578,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$7.30 per Share and HK$10.10 per Share after deduction of the underwriting commission and other related expenses payable by our Company.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 7,000,000,000 Shares to be in issue immediately upon the completion of the Global Offering but takes no account of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme.

(4) As of September 30, 2010, our Group's property interests were valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation to this prospectus. The net revaluation surplus, representing the excess of market value of the property interests over their book value, is approximately RMB258.6 million. Such revaluation surplus has not been included in our Group's combined financial information as of August 31, 2010 and will not be included in our Group's financial statements for the year ending December 31, 2010. The above adjustment does not take into account the above revaluation surplus. Had the property interests been stated at such valuation, an additional depreciation of RMB6.47 million per annum would be charged against the consolidated profit and loss for the year ending December 31, 2010.

(5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to August 31, 2010.

(6) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.86.

PROPERTY VALUE RECONCILIATION

Jones Lang LaSalle Sallmanns Limited valued the property interests of our Group as of September 30, 2010. Particulars of our Group's property interests and a summary of values and valuation certificates issued by Jones Lang LaSalle Sallmanns Limited are included in Appendix IV to this prospectus. The table below sets forth the reconciliation of aggregate amounts of buildings from our Group's audited combined financial statements as of August 31, 2010 to the unaudited net book value of our Group's property interests as of September 30, 2010:

	RMB in millions
Net book value of property interests as of August 31, 2010	8,740.7
Additions	8.2
Depreciation	(16.5)
Disposals	—
Net book value as of September 30, 2010	8,732.4
Valuation surplus as of September 30, 2010	258.6
Valuation as of September 30, 2010	8,991.0

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in the Accountant's Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or terms not less favorable than terms available from independent third-parties, which are considered fair, reasonable and in the interest of the shareholders of our Company as a whole.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as of the date of this prospectus, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since August 31, 2010, which is the date at which our latest audited financial statements were prepared.

FUTURE PLANS AND PROSPECTS

Please refer to the section headed "Business — Our Strategies" in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering and assuming an Offer Price of HK$8.70 per Share, being the mid-point of the indicative range of the Offer Price of HK$7.30 to HK$10.10 per Share) will be approximately HK$11,595.3 million. The Directors intend to apply the net proceeds from the Global Offering as follows:

(i) Shipbuilding and Offshore Engineering segment - approximately 12.5% for the continuing construction of our fourth drydock, the outfitting quays, the material wharves and some work-shops, utilities stations, a mobile goliath gantry crane and other facilities in order to facilitate the development of our offshore engineering segment; and approximately 12.5% for further capital expenditure to increase productivity in our shipbuilding segment;

(ii) Marine engine building segment - approximately 20% for the continuing construction of our low-speed marine engine plant;

(iii) Engineering machinery segment - approximately 10% for the construction of a new manufacturing plant in the western part of Hefei for the manufacture of excavators in addition to the existing production facilities of our Group, which is expected to increase our Group's annual production capacity to 30,000 units of excavators;

(iv) approximately 10% for potential investments and acquisitions in relation business, including the acquisition of non-controlling interests in the Group's non-wholly owned subsidiaries including Rongsheng Painting, Rongye Storage, Rongye Mechanical and Rongding Marine Engineering;

(v) approximately 25% of the net proceeds for repayment of borrowing; and

(vi) approximately 10% is expected to be used for working capital.

Investment into the above category will take place up to 2013.

We have not identified targets for potential investments and acquisitions.

In relation to (v) above, part of the allocated portion of the net proceeds may be used to repay the borrowing in the amount of US$210 million from China Construction Bank Corporation, Hong Kong Branch which interest rate is Libor + 1.70% per annum. The maturity date is July 12, 2012, but we have the option to prepay such borrowing in full or in part together with accrued interest. The use of such borrowing was for repayment of part of the RMB1.7 billion shareholder's loan which was used to redeem the preferred shares on January 15, 2010.

If capital raised from the Global Offering does not cover our capital needs, we will consider using bank loans and debt issuance to meet our needs.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range, we will receive additional net proceeds of approximately HK$1,887.6 million which will be allocated to the above uses on a pro-rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range, the net proceeds of the Global Offering will decrease by approximately HK$1,887.6 million. Under such circumstances, the amount of proceeds for each use set out above will be reduced on a pro-rata basis.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes, the Directors may place part or all of the proceeds in short-term interest-bearing deposits with authorized financial institutions and/or licensed banks in Hong Kong and/or China.

We will issue an announcement in Hong Kong if there is any material change in the use of proceeds.

We will not receive any of the proceeds from the sale of the Sale Shares, nor will we receive any of the proceeds from the exercise of the Over-allocation Option.

HONG KONG UNDERWRITERS

Joint Lead Managers

Morgan Stanley Asia Limited

CCB International Capital Limited

J.P. Morgan Securities (Asia Pacific) Limited

BOCI Asia Limited

Deutsche Bank AG, Hong Kong Branch

Co-Managers

China Merchants Securities (HK) Co., Ltd.

Cinda International Capital Limited

Wintech Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering we are offering the Hong Kong Offer Shares for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Shares to be offered pursuant to the Global Offering as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come effect:

(i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the Cayman Islands, the British Virgin Islands, the European Union (or any member thereof) or in any other relevant jurisdiction (each a "**Relevant Jurisdiction**"); or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in or represent any change or development involving a prospective change or development, in the local, national, regional or international financial, political, military, industrial, economic, currency market, legal, fiscal, exchange control or regulatory conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States, or a devaluation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

(iii) any change or development in the conditions of local, national or international equity securities or other financial markets; or

(iv) a disruption or any general moratorium on commercial banking activities or securities settlement, payment or clearance services or procedures in or affecting Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at Federal or New York State level or otherwise), the Cayman Islands, London, the PRC, the British Virgin Islands, the European Union (or any member thereof) or any other Relevant Jurisdictions; or

(v) the imposition of any moratorium, suspension or restriction on trading in securities generally on or by the Hong Kong Stock Exchange, the New York Stock Exchange, the NASDAQ National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or the Tokyo Stock Exchange or minimum or maximum prices for trading having been fixed, or a disruption has occurred in securities settlement or clearance services or procedures, or maximum ranges for prices having been required, by any of the said exchange or by such system or by order of any regulatory or governmental authority; or

(vi) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control or currency exchange rates) in any Relevant Jurisdiction; or

(vii) any adverse change or prospective adverse change in the earnings, results of operations business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of any member of our Group; or

(viii) any event or series of events in the nature of force majeure, including, without limitation, acts of government, labor disputes, strikes, lock-outs, riots, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of diseases or epidemics including, but not limited to, SARS, H5N1, H1N1 and such related/mutated forms or accident or interruption or delay in transportation, economic sanction and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

(ix) any change or prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus, or

(x) any litigation or claim being threatened or instigated against any member of our Group; or

(xi) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; the chairman or chief executive officer of the Company vacating his or her office in circumstances where the operations of the Group may be adversely affected; the commencement by any regulatory or political body or organization of any action against a director of the Company or member of our Group or an announcement by any regulatory or political body or organization that it intends to take any such action,

which, in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

(A) is or may be or is likely to be materially adverse to the business, financial or other condition or prospects of our Company or our Group as a whole or, in the case of paragraph (vi) above, to any present or prospective shareholder of our Company in his/its capacity as such; or

(B) has or might have or is likely to have a material adverse effect on the success of the Hong Kong Public Offering or the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares and/or make it impracticable or inadvisable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or

(C) makes it inadvisable, impracticable or inexpedient to proceed with the Hong Kong Public Offering or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(b) there comes to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:

(i) any matter or event showing any of the representations, warranties and undertakings given in the Hong Kong Underwriting Agreement or the International Underwriting Agreement to be untrue, incorrect, inaccurate when given or repeated; or

(ii) any breach on the part of our Company or any of the Controlling Shareholders of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(iii) any matter which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission herefrom; or

(iv) any statement contained in this prospectus, the Application Forms, the WPIP, the formal notice and any announcements issued by our Company in connection with the Hong Kong Public Offering and Global Offering (including any supplement or amendment thereto) was or has become or is discovered to be untrue, incorrect, inaccurate or misleading in any material respect; or

(v) that there shall have occurred any event, act or omission which gives rise or is likely to give rise to any liability of the parties to the Hong Kong Underwriting Agreement (other than the Joint Global Coordinators or the Hong Kong Underwriters) pursuant to the indemnity provisions under the Hong Kong Underwriting Agreement; or

(vi) a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity; or

(vii) that a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group; or

(viii) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be sold pursuant to the exercise of the Over-allocation Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld.

Undertakings to the Hong Kong Stock Exchange under the Hong Kong Listing Rules

By us

We have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing) without the prior consent of the Hong Kong Stock Exchange, except:

(a) in the circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules; or

(b) pursuant to the Global Offering and the grant or exercise of the options granted under the Pre-IPO Share Option Scheme and the options to be granted under the Share Option Scheme.

By Controlling Shareholders

Each of the Controlling Shareholders has undertaken to the Hong Kong Stock Exchange that, except pursuant to the Global Offering, the mandatory exchange of the Exchangeable Notes, the Over-allocation Option or the Stock Borrowing Agreement, it shall not and shall procure that the relevant registered holder(s) shall not, without the prior written consent of the Hong Kong Stock Exchange:

(a) at any time during the period commencing from the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owner; or

(b) at any time during the six months commencing on the date on which the First Six-month Period expires (the "**Second Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our controlling shareholder (as defined in the Hong Kong Listing Rules).

Each of the Controlling Shareholders has also undertaken to the Hong Kong Stock Exchange that, he/it will, within the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and up to the end of the Second Six-Month Period, immediately inform us of:

(a) any pledges or charges of any of the Shares or securities of our Company beneficially owned by he/it in favor of any authorized institution (as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong)), and the number of such Shares or securities of our Company so pledged or charged; and

(b) any indication received by he/it, either verbal or written, from any pledgee or chargee of any of the Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of.

The restrictions above shall not apply to any Shares acquired by the Controlling Shareholders by way of on-market transaction after the Listing Date.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement as soon as possible after being so informed by any of the Controlling Shareholders.

Undertakings to the Underwriters pursuant to the Hong Kong Underwriting Agreement

By us

We have undertaken to each of the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that, except pursuant to the Global Offering and the grant or exercise of the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme, we will not, without the prior written consent of the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date:

(i) offer, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, conditionally or unconditionally, any of its share capital, debt capital or any securities or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or any securities or any interest therein); or

(ii) enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of such share capital, debt capital or securities or interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that our Company will or may enter into any transaction described in paragraph (i) above and this paragraph (ii); or

(iii) effect any purchase of Shares, or agree to do so, which may reduce the holdings of Shares of persons who count as members of the "public" for the purposes of the Hong Kong Listing Rules below 25 per cent. of our Company's issued share capital.

By the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Hong Kong Underwriters and our Company that, except pursuant to the Global Offering (including pursuant to the mandatory exchange of the Exchangeable Notes and the Over-allocation Option) and the Stock Borrowing Agreement, it will not, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Joint Global Coordinators and unless in compliance with the requirements of the Listing Rules:

(i) at any time commencing from the date of the Hong Kong Underwriting Agreement up to the end of six months from the Listing Date (the "**First Six-month Period**"), offer, pledge, charge, sell, lend, mortgage, assign, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him or it (including, but not limited to any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital, debt capital or other securities of our Company or any interest therein) or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that he or it will or may enter into any of the foregoing or announce any intention to do so;

(ii) at any time during the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), offer, pledge, charge, sell, lend, mortgage, assign, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him or it (including but not limited to any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive, any such share capital, debt capital or other securities of our Company or any interest therein) or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital, debt capital or such other securities, in cash or otherwise, or offer to or agree to do, or publicly disclose that it will or may enter into any of the foregoing transactions or announce any intention to do so if, immediately following such transaction, he or it would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of our Company;

(iii) in the event of a disposal by him or it of any share capital, debt capital or other securities of our Company or any interest therein during the Second Six-Month Period, he or it will take all steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of our Company;

(iv) within the period commencing on the date of this prospectus and up to the end of the Second Six-Month Period, he or it will immediately inform our Company, the Joint Global Coordinators and the Joint Sponsors of:

(a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him or it, together with the number of such Shares or other securities of our Company so pledged or charged and the purpose for which such pledge or charge is to be created; and

(b) any indication received by him or it, either verbal or written, from the pledgee or chargee of any Shares or other securities of our Company pledged or charged that such Shares or other securities of our Company so pledged or charged will be disposed of.

The restrictions above shall not apply to any Shares acquired by the Controlling Shareholders by way of on-market transaction after the Listing Date.

Commission and expenses

We will pay to the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) an underwriting commission at the rate of 2.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which the Hong Kong Underwriters will pay all (if any) sub-underwriting commissions. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

Indemnity

The Company and the Controlling Shareholder have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' interest in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement, and the rights under the Exchangeable Notes, details of which are set out in the section headed "History, Reorganization and Corporate Structure — Shareholding history of the companies within the Group — Exchangeable Notes issued by Fine Profit" in this prospectus, none of the Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that we and the Selling Shareholder will, on or about November 12, 2010 shortly after determination of the Offer Price, enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. Potential investors shall be reminded that in the event that the International Underwriting agreement is not entered into, the Global Offering will not proceed.

Under the International Underwriting Agreement, the Selling Shareholder intends to grant to the International Underwriters the Over-allocation Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at the sole and absolute discretion of the Joint Global Coordinators for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require the Selling Shareholder to sell up to an aggregate of 262,500,000 additional Shares representing, in aggregate, 15% of the maximum number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Offering, if any.

Sponsors' Independence

Each of Morgan Stanley, CCBI and J.P. Morgan has declared its independence from us pursuant to Rule 3A.08 of the Listing Rules that they are independent pursuant to Rule 3A.07 of the Listing Rules.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, November 19, 2010, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, November 19, 2010. The Shares will be traded on the Main Board in board lots size of 500 Shares each.

TOTAL COMMISSION AND EXPENSES

Assuming an Offer Price of HK$8.70 per Share (being the midpoint of the stated offer price range of HK$7.30 to HK$10.10 per Share), the aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, HKSFC transaction levy of 0.003%, Hong Kong Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK$584.7 million in total. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Morgan Stanley, CCBI and J.P. Morgan are Joint Sponsors of the Global Offering, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank are the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers in respect of the Hong Kong Public Offering, Morgan Stanley, CCBI, J.P. Morgan Securities Ltd., BOCI and Deutsche Bank are the Joint Global Coordinators, the Joint Bookrunners and Joint Lead Managers in respect of the International Offering.

The Global Offering consists of (subject to adjustment and the Over-allocation Option):

- the Hong Kong Public Offering of 87,500,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below in this section under the paragraph headed "The Hong Kong Public Offering"; and
- the International Offering of 1,662,500,000 Shares, of which 1,312,500,000 new Shares are to be issued by our Company and 350,000,000 existing Shares are to be offered for sale by the Selling Shareholder (subject to adjustment and the Over-allocation Option as mentioned below), in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act from registration under the U.S. Securities Act, and outside the United States in reliance on Regulation S.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A or another exemption under the U.S. Securities Act, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the paragraph headed "Pricing and allocation" below in this section.

PRICING AND ALLOCATION

The International Underwriters are soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing of the Offer Shares for the purposes of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, November 12, 2010 but in any event not later than Wednesday, November 17, 2010, and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us.

The Offer Price will be not more than HK$10.10 per Offer Share and is currently expected to be not less than HK$7.30 per Offer Share unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which currently is HK$7.30 to HK$10.10 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction of the number of Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/ or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds disclosure and the profit forecast for the year ending December 31, 2010, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of any such reduction.

If, for any reason, the Joint Global Coordinators (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price, the Global Offering will not proceed and will lapse.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares, after the listing of the Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The net proceeds from the Global Offering accruing to our Company are estimated to be approximately HK$11,595.3 million. The estimated net proceeds are calculated after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Global Offering, and an Offer Price of HK$8.70 per Offer Share, being the mid-point of the proposed Offer Price range of HK$7.30 to HK$10.10 per Offer Share.

The final Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the results of applications and basis of allocations of the Hong Kong Offer Shares are expected to be announced on Thursday, November 18, 2010 in the manner set out in the section headed "How to Apply for Hong Kong Offer Shares — X. Results of allocations" in this prospectus.

OVER-ALLOCATION AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, J.P. Morgan or its affiliates, as the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. Covered short sales are short sales made in an amount not greater than the Over-allocation Option and a covered short position is any short position, including any such position created as a result of any covered short sales or other sales, in an amount not greater than the Over-allocation Option.

The Stabilizing Manager may close out any covered short position by exercising the Over-allocation Option to purchase additional Shares in consultation with the Joint Global Coordinators, purchasing Shares in the open market or through stock borrowing arrangements or a combination of these means.

In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allocation Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over the counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which, if commenced, will be done at the absolute discretion of the Stabilizing Manager in consultation with the Joint Global Coordinators and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be sold under the Over-allocation Option, namely 262,500,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allocation Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v). Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Specifically, prospective applicants for and investors in the Shares should note that:

- the Stabilizing Manager or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilizing Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by the Stabilizing Manager which may also take place during the stabilization period, may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period, which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on December 11, 2010, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price (or, in case after the initial stabilizing action, there has been a deal done or transaction effected at a price above the stabilizing price on the relevant market, the price at which that deal was done or at which that transaction was effected if such price is lower than the Offer Price), which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

For the purpose of covering any covered short position, including any covered short position created by over-allocations, the Stabilizing Manager or its affiliates may borrow from Fine Profit up to 262,500,000 Shares, equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allocation Option, under the Stock Borrowing Agreement expected to be entered into between the Stabilizing Manager and Fine Profit on or about November 12, 2010. The loan of Shares by Fine Profit pursuant to the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Hong Kong Listing Rules which restricts the disposal of Shares by the Controlling Shareholder subsequent to the date of this prospectus, subject to compliance with the following requirements in accordance with the provisions of Rule 10.07(3) of the Hong Kong Listing Rules:

(i) the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allocation Option in connection with the International Offering;

(ii) the maximum number of Shares which may be borrowed from Fine Profit must not exceed the maximum number of Shares which may be sold upon the full exercise of the Over-allocation Option;

(iii) the same number of Shares so borrowed must be returned to Fine Profit or its nominees, as the case may be, on or before the third business day following the earlier of the last day for exercising the Over-allocation Option, and (b) the date on which the Over-allocation Option is exercised in full;

(iv) the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and

(v) no payments will be made to Fine Profit by the Stabilizing Manager in relation to the Stock Borrowing Agreement.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(a) the granting by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Hong Kong Offer Shares (including any Shares which may be sold pursuant to the exercise of the Over-allocation Option and any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(b) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

(c) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 8:00 a.m. on November 19, 2010.

If for any reason, the Offer Price is not agreed by Wednesday, November 17, 2010 between the Joint Global Coordinators (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

We expect to issue Share certificates for the Hong Kong Offer Shares on Thursday, November 18, 2010. However, these Share certificates will only become valid certificates of title if (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for Termination" in this prospectus has not been exercised, which is expected to be around 8:00 a.m. (Hong Kong time) on the Listing Date.

THE HONG KONG PUBLIC OFFERING

We are initially offering 87,500,000 Hong Kong Offer Shares at the Offer Price, representing 5% of the total number of Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of the Hong Kong Offer Shares will represent approximately 1.25% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allocation Option is not exercised.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application for Offer Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK$10.10 per Offer Share and is expected to be not less than HK$7.30 per Offer Share. Applicants for the Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum offer price of HK$10.10 per Share plus 1.0% brokerage fee, 0.003% HKSFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee. This means that, for one board lot of 500 Offer Shares, you must pay HK$5,100.90 at the time of your application. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK$10.10, being the maximum Offer Price, appropriate refund payments (including the brokerage fee, the HKSFC transaction levy, and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

For allocation purposes only, the 87,500,000 Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools: Pool A comprising 43,750,000 Hong Kong Offer Shares and Pool B comprising 43,750,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, HKSFC transaction levy, and the Hong Kong Stock Exchange trading fee) of HK$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, HKSFC transaction levy, and Hong Kong Stock Exchange trading fee) of over HK$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 87,500,000 Shares initially comprised in the Hong Kong Public Offering (that is, 43,750,000 Hong Kong Offer Shares) are liable to be rejected.

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment under the Listing Rules. We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the clawback requirements set out in paragraph 4.2 of Practice Note 18 to the Listing Rules on the following basis.

The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 10 times or more but less than 50 times, (ii) 50 times or more but less than 65 times, and (iii) 65 times or more, of the number of Shares initially available under the Hong Kong Public Offering, the total number of Shares available under the Hong Kong Public Offering will be increased to 131,250,000, 175,000,000 and 350,000,000 Shares, respectively, representing 7.5% (in the case of (i)), 10% (in the case of (ii)) and 20% (in the case of (iii)), respectively, of the total number of Shares initially available under the Global Offering (before any exercise of the Over-allocation Option). In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Shares will be allocated to Pool A and Pool B. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Subject to reallocation as described in this section and the exercise of the Over-allocation Option, the International Offering will consist of 1,662,500,000 International Offer Shares, of which 1,312,500,000 new Shares are to be issued by our Company and 350,000,000 existing Shares are to be offered for sale by the Selling Shareholder, representing 95% of the total number of Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as with institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

We expect the Selling Shareholder to grant the Over-allocation Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allocation Option is exercised. Pursuant to the Over-allocation Option, the Joint Global Coordinators will have the right to require the Selling Shareholder to sell up to an aggregate of 262,500,000 additional Shares representing in aggregate 15% of the initial number of Offer Shares to among other things, cover over-allocations in the International Offering, if any. The Joint Global Coordinators may also cover such over allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of the Over-allocation Option or by a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. See the section headed "Information about this Prospectus and the Global Offering — Over-allocation Option and stabilization" in this prospectus.

THE OVER-ALLOCATION OPTION

In connection with the Global Offering, the Selling Shareholder is expected to grant the Over-allocation Option to the Joint Global Coordinators on behalf of the International Underwriters. The Over-allocation Option gives the Joint Global Coordinators the right exercisable at any time from the date of the International Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offer to require the Selling Shareholder to sell up to an aggregate of 262,500,000 Shares, representing 15% of the initial number of Offer Shares at the Offer Price solely to cover over-allocations in the International Offering, if any. The Joint Global Coordinators may also cover such over-allocations by purchasing Shares in the secondary market or by a combination of purchase in the secondary market and a partial exercise of the Over-allocation Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations. In the event that the Over-allocation Option is exercised, a press announcement will be made.

In order to facilitate the settlement of over-allocations in connection with the International Offering, the Joint Global Coordinators may choose to borrow Shares from Fine Profit under the Stock Borrowing Agreement, or acquire Shares from other sources. Neither the sale of Shares pursuant to the Over-allocation Option or the loan of Shares by Fine Profit pursuant to the Stock Borrowing Agreement shall be subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, on the basis that such arrangement will be on the terms that (i) they will only be used for settlement of over-allocations in the International Offering; (ii) the maximum number of Shares to be borrowed from Fine Profit will be limited to the maximum number of Shares which may be issued and allotted by us upon exercise of the Over-allocation Option, which is limited to 262,500,000 Shares or 15% of the Shares initially available under the Global Offering; (iii) the same number of Shares so borrowed must be returned to Fine Profit no later than three business days following the earlier of (a) the last date on which the additional Shares may be sold by Fine Profit pursuant to the Over-allocation Option, and (b) the day on which the Over-allocation Option is exercised in full; (iv) borrowing of stock pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements; and (v) no payment will be made to Fine Profit in relation to the Stock Borrowing Agreement.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about November 12, 2010, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting" in this prospectus.

I. CHANNELS OF APPLICATION

There are three channels to make an application for Hong Kong Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the White Form eIPO service provider, referred to herein as the "**White Form eIPO**" service; or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

II. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **white** or **yellow** Application Form, or if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**. If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, we and the Joint Global Coordinators (or their respective agents or nominees) as our agent may accept it at our or the Joint Global Coordinators' discretion, and subject to any conditions we or the Joint Global Coordinators think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Joint Global Coordinators or the designated White Form eIPO Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, our Directors or chief executive or their respective associates or any other connected persons of our Company or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

III. APPLYING BY USING AN APPLICATION FORM

Which Application Form to use

Use a **white** Application Form if you want the Hong Kong Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Where to Collect the Application Forms

You can collect a **white** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, November 8, 2010 till 12:00 noon on Thursday, November 11, 2010 from:

- any of the following offices of the Hong Kong Underwriters:

Morgan Stanley Asia Limited
46/F, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

CCB International Capital Limited
34/F, Two Pacific Place
88 Queensway
Admiralty, Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central
Hong Kong

BOCI Asia Limited
26/F, Bank of China Tower
1 Garden Road
Hong Kong

Deutsche Bank AG, Hong Kong Branch
48/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

China Merchants Securities (HK) Co., Ltd.
48/F, One Exchange Square
8 Connaught Place, Central
Hong Kong

Cinda International Capital Limited
45/F, COSCO Tower
183 Queen's Road Central
Hong Kong

Wintech Securities Limited
1603 COSCO Tower
183 Queen's Road Central
Hong Kong

or any one of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

	Branch Name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Central District Sub-Branch	G/F., Far East Consortium Bldg, 125A Des Voeux Road C., Central
	Quarry Bay Sub-Branch	G/F., 981 C, King's Road
Kowloon	Kwun Tong Sub-Branch	Shop A, G/F., Hong Ning Court, 55 Hong Ning Road
	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
New Territories	Market Street Sub-Branch	G/F., 53 Market Street, Tsuen Wan

or any one of the following branches of China Construction Bank (Asia) Corporation Limited:

	Branch Name	Address
Hong Kong Island	Central Branch	6 Des Voeux Road Central, Central
	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1, Causeway Bay
	North Point Branch	382 King's Road, North Point
Kowloon	Mongkok Nathan Road Branch	788 Nathan Road, Mongkok
	Yaumati Branch	556 Nathan Road, Yaumati
	Mei Foo Branch	Shop N46, G/F, Mei Foo Sun Chuen, Stage 6

or any one of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F, Lee Wing Building, No. 156-162 Hennessy Road, Wanchai
Kowloon	Kwun Tong Hoi Yuen Road Branch	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong, Kowloon
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong

New Territories	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
	Yuen Long Fung Nin Road Branch	Shop B at G/F and 1/F, Man Cheong Building, 247 Castle Peak Road, Yuen Long

You can collect a **yellow** Application Form and this prospectus during normal business hours from 9:00 a.m. on Monday, November 8, 2010 till 12:00 noon on Thursday, November 11, 2010 from:

(1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things:

(a) you **instruct** and **authorize** us and/or the Joint Global Coordinators (or their respective agents or nominees) as agents for us to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Memorandum and Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Form;

(b) you **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Memorandum and Articles of Association;

(c) you **warrant** the truth and accuracy of the information contained in your application;

(d) you **agree** that neither HKSCC nor HKSCC Nominees shall be liable to you in any way;

(e) you **authorize** us to enter into a contract on your behalf with each of our Directors and officers whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders as stipulated in the Articles of Association;

(f) if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters and the other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents, officers or advisors will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(g) you **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus and you agree that neither the Company, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, other parties involved in the Global Offering nor any of their respective directors, officers, employees, partners, agents or advisors will have any liability for any such other information or representations;

(h) you **agree** that we, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;

(i) you **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(j) (if the application is made for your own benefit) you **warrant** that the application is the only application which has been or will be made for your benefit whether on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**);

(k) (if the application is made by an agent on your behalf) you **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

(l) (if you are an agent for another person) you **warrant** that you have made reasonable enquiries of that other person that the application is the only application which has been or will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**), and that you are duly authorized to sign the Application Form or to give electronic application instructions as that other person's agent;

(m) you **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering or otherwise participated in the International Offering;

(n) you **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(o) you **represent**, **warrant** and **undertake** that you understand that you are not or none of the persons for whose benefit you are applying is restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted or taking up any Hong Kong Offer Shares; and that the Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are applying for the Hong Kong Offer Shares are non-U.S. persons outside the United States (as defined in Regulation S) and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);

(p) you **agree** to disclose to us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Joint Lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving bankers and/or their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(q) you **agree** with us, and each Shareholder of our Company, and we agree with each Shareholder, to observe and comply with the Cayman Islands Companies Law and the Memorandum and Articles of Association;

(r) you **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(s) you **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and (subject to the terms and conditions set forth in this prospectus) our Company and/or our Company's agents to send any Share certificate(s) (where applicable) and/or any refund cheque(s) (if any) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your **white** and **yellow** Application Form (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your **white** or **yellow** Application Form your wish to collect your Share certificate(s) (where applicable) and/or refund cheque(s) (if any) in person and have provided all information required by your Application Form);

(t) you **agree** with our Company and each Shareholder of our Company that the Shares are freely transferable by the holders thereof; and

(u) you **confirm** that you have read the conditions and application procedures set out in this prospectus and the Application Form and agree to bound by them.

In order for the **yellow** Application Forms to be valid:

You, as the applicant(s), must complete the yellow Application Forms as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

(a) If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

(i) The designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(b) If you are applying as an individual CCASS Investor Participant:

(i) The form must contain your NAME and Hong Kong I.D. Card number;

(ii) Your participant I.D. must be inserted in the appropriate box in the Application Form.

(c) If you are applying as a joint individual CCASS Investor Participant:

(i) The Application Form must contain all joint investor participants' NAMES and the Hong Kong I.D. Card Number of all joint CCASS Investor Participants;

(ii) Your participant I.D. must be inserted in the appropriate box in the Application Form.

(d) If you are applying as a corporate CCASS Investor Participant:

(i) The Application Form must contain your company NAME and Hong Kong business registration number;

(ii) Your participant I.D. and your company chop (bearing your company name) must be inserted in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render your application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators (or their respective agents and nominees) as our agent may accept it at our or the Joint Global Coordinators' discretion, and subject to any conditions we or the Joint Global Coordinators think fit, including production of evidence of the authority of your attorney. We and the Joint Global Coordinators, in the capacity as our agent, (and their respective agents or nominees) will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

IV. APPLYING BY USING WHITE FORM eIPO

General

(i) If you are an individual and meet the criteria set out in paragraph headed "II. Who can apply for the Hong Kong Offer Shares" above, you may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO** the Shares will be issued in your own name.

(ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.

(iii) If you give **electronic application instructions** through the designated website at **www.eipo.com.hk**, you will have authorised the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

(iv) In addition to the terms and conditions set out in this prospectus, the **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(v) By submitting an application to the **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the **White From eIPO** Service Provider to transfer the details of your application to our Company and our Hong Kong Share Registrar.

(vi) You may submit an application through the **White Form eIPO** service in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

(vii) You should give electronic application instructions through **White Form eIPO** at the times set out in paragraph headed "VI. When may applications be made" in this section below.

(viii) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, November 11, 2010, or such later time as described under the paragraph headed "VI. When may applications be made — Effect of bad weather on the opening of the application lists" in this section below, the **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

(ix) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m. on Thursday, November 11, 2010, you will be permitted to continue the application process (by completing full payment of application monies) until 12:00 noon on the last day for submitting applications (i.e. Thursday, November 11, 2010), when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, November 11, 2010, or such later time as described in the paragraph headed "VI. When may applications be made — Effect of bad weather on the opening of the application lists" in this section below, the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

(x) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, our Directors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of White Form eIPO is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 for each "China Rongsheng Heavy Industries Group Holdings Limited" White Form eIPO application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang — Hong Kong Forest" project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for lodging applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **white** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a white Application Form. See the paragraph headed "VII. — How many applications you may make'' below.

Conditions of the White Form eIPO Service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

(i) applies for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and the **White Form eIPO** designated website at **www.eipo.com.hk** subject to the Articles of Association;

(ii) **undertakes** and **agrees** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to the applicant under such application;

(iii) **warrants** that the application is the only application which has been or will be made whether on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;

(iv) **undertakes** and **confirms** that the applicant and the person for whose benefit the applicant is applying have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering or otherwise participated in the International Offering;

(v) **understands** that the declaration and representation will be relied upon by our Company and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;

(vi) **authorizes** our Company to place the applicant's name on our Company's register of members as the holder of any Hong Kong Offer Shares to be allocated to the applicant, and (subject to the terms and conditions set forth in this prospectus) our Company and/or our Company's agents to send any Share certificates (where applicable) by ordinary post at the applicant's own risk to the address given on the **White Form eIPO** application (except where the applicant has applied for 1,000,000 Hong Kong Offer Shares or more and that applicant collects any Share certificate(s) in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at **www.eipo.com.hk** and this prospectus);

(vii) **requests** that any refund cheque(s) be made payable to the applicant who had used multiple bank accounts to pay the application monies; and (subject to the terms and conditions set forth in this prospectus) to send any refund cheques by ordinary post and at the applicant's own risk to the address given on the **White Form eIPO** application (except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and collects any refund cheque(s) in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at **www.eipo.com.hk** and this prospectus);

(viii) **requests** that any e-Refund payment instructions be despatched to the application payment account where the applicant had paid the application monies from a single bank account;

(ix) has read the terms and conditions and application procedures set forth on the **White Form eIPO** designated website at **www.eipo.com.hk** and this prospectus and agrees to be bound by them;

(x) **represents**, **warrants** and **undertakes** that the applicant, and any persons for whose benefit the applicant is applying are non-U.S. person(s) outside the U.S. (as defined in Regulation S under the Securities Act) when completing and submitting the Application Form or is a person described in paragraph (h)(3) of Rule 902 of Regulation S under the Securities Act or the allotment of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and

(xi) **agrees** that such application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted electronic application instructions through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

(a) **instruct** and **authorize** us and/or the Joint Global Coordinators (or their respective agents or nominees) as agents for us to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name as required by the Memorandum and Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the White Form eIPO designator website at **www.eipo.com.hk**;

(b) you **undertake** to sign all documents and to do all things necessary to enable you to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Memorandum and Articles of Association;

(c) **warrant** the truth and accuracy of the information contained in your application;

(d) **authorize** us to enter into a contract on your behalf with each of the Directors and officers whereby each such Director and officer undertakes to observe and comply with his obligations to the Shareholders as stipulated in the Articles of Association;

(e) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters and the other parties involved in the Global Offering nor any of their respective directors, employees, partners, agents, officers or advisors will infringe any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(f) **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus and you agree that neither the Company, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, other parties involved in the Global Offering nor any of their respective directors, officers, employees, partners, agents or advisors will have any liability for any such other information or representations;

(g) **agree** that we, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;

(h) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(i) (if the application is made for your own benefit) **warrant** that the application is the only application which has been or will be made for your benefit whether on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**);

(j) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

(k) (if you are an agent for another person) **warrant** that you have made reasonable enquiries of that other person that the application is the only application which has been or will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving electronic application instructions to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**), and that you are duly authorized to sign the Application Form or to give electronic application instructions as that other person's agent;

(l) **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and have not received or been placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering or otherwise participated in the International Offering;

(m) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(n) **represent**, **warrant** and **undertake** that you understand that you are not or none of the persons for whose benefit you are applying is restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted or taking up any Hong Kong Offer Shares; and that the Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are applying for the Hong Kong Offer Shares are non-U.S. persons outside the United States (as defined in Regulation S) and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);

(o) **agree** to disclose to us, the Selling Shareholder, the Joint Global Coordinators, the Joint Sponsors, the Joint Lead Managers, the Underwriters, the Hong Kong Share Registrar, the receiving bankers and/or their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(p) **agree** with us, and each Shareholder of our Company, and we agree with each Shareholder, to observe and comply with the Cayman Islands Companies Law and the Memorandum and Articles of Association;

(q) **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(r) **authorize** our Company to place your name(s), on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and (subject to the terms and conditions set forth in this prospectus) our Company and/or our Company's agents to send any Share certificate(s) (where applicable) to you by ordinary post at your own risk to the address given on the **White Form eIPO** application (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and collect your Share certificate(s) in person in accordance with the procedures prescribed in the **While Form eIPO** designated website at **www.eipo.com.hk** and this prospectus;

(s) **agree** with our Company and each Shareholder of our Company that the Shares are freely transferable by the holders thereof; and

(t) **confirm** that you have read the conditions and application procedures set out in this prospectus and the White Form eIPO designator website at **www.eipo.com.hk** and agree to bound by them.

Our Company, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents, advisors are entitled to rely on any warranty, representation or declaration made by you in such application.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the **White Form elPO** Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the White Form eIPO Service Provider, the **White Form elPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the **White Form eIPO** Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out below in the paragraph headed "XI. Refund of application monies" below.

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://*ip.ccass.com*) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Hong Kong Share Registrar.

Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(b) HKSCC Nominees does the following things on behalf of each such person:

  (i) **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

  (ii) **undertakes** and **agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

  (iii) **undertakes** and **confirms** that that person has not indicated an interest for, applied for or taken up any International Offer Shares under the International Offering;

  (iv) (if the electronic **application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;

  (v) (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;

(vi) **understands** that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

(vii) **authorizes** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;

(viii) **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

(ix) **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus, and that person agrees that none of our Company, the Directors, the Selling Shareholder, the Joint Global Coordinators, the Underwriters and any of the parties involved in the Global Offering will have any liability for any such other information or representation;

(x) **agrees** that our Company, the Selling Shareholder, the Joint Global Coordinators, the Underwriters and any of their respective directors, officers, employees, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;

(xi) **agrees** to disclose that person's personal data to our Company, the Selling Shareholder, our Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents and any information which they may require about that person for whose benefit the application is made;

(xii) **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

(xiii) **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to electronic application instructions given by that person is irrevocable before December 7, 2010, such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before December 7, 2010 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

(xiv) **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;

(xv) **agrees** with our Company (for our Company itself and for the benefit of each of our Shareholders) that Shares in our Company are freely transferable by the holders hereof;

(xvi) **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares; and

(xvii) **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- **instructed** and **authorized** HKSCC to arrange payment of the maximum offer price, and the related brokerage, the HKSFC transaction levy, and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies (in each case including brokerage, the HKSFC transaction levy, and the Hong Kong Stock Exchange trading fee) by crediting your designated bank account;
- **instructed** and **authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum application amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 500 Hong Kong Offer Shares. Such instructions in respect of more than 500 Hong Kong Offer Shares must be in one of the number of shares in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our Hong Kong Share Registrar, the Selling Shareholder, receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Selling Shareholder, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions,** they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, November 11, 2010.

VI. WHEN MAY APPLICATIONS BE MADE

Applications on WHITE or YELLOW Application Forms

Completed **white** or **yellow** Application Forms, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — China Rongsheng Public Offer" for the payment, must be lodged by 12:00 noon on Thursday, November 11, 2010, or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — China Rongsheng Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of Bank of Communications Co., Ltd. Hong Kong Branch, China Construction Bank (Asia) Corporation Limited or Standard Chartered Bank (Hong Kong) Limited listed under the paragraph headed "III — Applying By Using An Application Form — Where to Collect The Application Forms" above at the following times:

Monday, November 8, 2010 — 9:00 a.m. to 5:00 p.m.
Tuesday, November 9, 2010 — 9:00 a.m. to 5:00 p.m.
Wednesday, November 10, 2010 — 9:00 a.m. to 5:00 p.m.
Thursday, November 11, 2010 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, November 11, 2010.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists.

White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Monday, November 8, 2010 until 11:30 a.m. on Thursday, November 11, 2010 or such later time as described under the paragraph headed "Effect of bad weather on the opening of the application lists" under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, November 11, 2010, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed "Effect of bad weather on the opening of the application lists" below in this section.

You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, November 8, 2010 — 9:00 a.m. to 8:30 p.m. (1)
Tuesday, November 9, 2010 — 8:00 a.m. to 8:30 p.m. (1)
Wednesday, November 10, 2010 — 8:00 a.m. to 8:30 p.m. (1)
Thursday, November 11, 2010 — 8:00 a.m. (1) to 12:00 noon

Note:

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on November 8, 2010 until 12:00 noon on November 11, 2010 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on November 11, 2010, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed "Effect of bad weather on the opening of the application lists" below in this section.

Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, November 11, 2010. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Public Offering do not open and close on Thursday, November 11, 2010 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed "Expected Timetable" in this prospectus, such dates mentioned in the section headed "Expected Timetable" in this prospectus may be affected. An announcement will be made in such event.

VII. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares only if:

You are a **nominee**, in which case you may both give **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for **each** beneficial owner (or, in the case of joint beneficial owners, for each such beneficial owner). If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction,** you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service; and that you are duly authorized to sign the Application Form or give **electronic application instruction** as that other person's agent.

Save as referred to in the above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the **White Form eIPO** Service Provider through the **White Form eIPO** service; or
- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service; or
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service for more than 50% of the Hong Kong Offer Shares initially being offered for public subscription under the Hong Kong Public Offering as more particularly described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus; or

- have applied for or taken up, have indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) International Offer Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions** or to the **White Form eIPO** Service Provider through the **White Form eIPO** service (**www.eipo.com.hk**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being made for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company; or
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

VIII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** to HKSCC or the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider on your behalf cannot be revoked on or before Tuesday, December 7, 2010. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your application or submit your electronic application instructions to HKSCC or to the White Form eIPO Service Provider. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before Tuesday, December 7, 2010 except by means of one of the procedures referred to in this prospectus.

You may only revoke your application or the application made on your behalf by HKSCC Nominees or the **White Form eIPO** Service Provider before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Hong Kong Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made on your behalf by HKSCC Nominees or the **White Form eIPO** Service Provider has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of our Company, the Joint Global Coordinators or the White Form eIPO Service Provider (where applicable) or our or their respective agents to reject or accept:

We, the Joint Global Coordinators or the **White Form eIPO** Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instruction** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Hong Kong Offer Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering. By filling in any of the Application Forms or submitting **electronic application instructions,** you agree not to apply for or indicate an interest for International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your electronic application instructions through the White Form eIPO service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.eipo.com.hk**;
- we believe that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed;
- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offering for subscription (i.e. 43,750,000 Shares);

- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

IX. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK$10.10 per Hong Kong Offer Share. You must also pay brokerage of 1%, HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 500 Hong Kong Offer Shares, you will pay HK$5,100.90. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Offer Shares that may be applied for.

You must pay the maximum offer price and related brokerage, HKSFC transaction levy and the Stock Exchange trading fee in full when you apply for the Hong Kong Offer Shares. You must pay the amount payable upon application for Hong Kong Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form or this prospectus.

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange, the HKSFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the HKSFC transaction levy collected by the Hong Kong Stock Exchange on behalf of the HKSFC).

X. RESULTS OF ALLOCATIONS

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- results of allocations for the Hong Kong Public Offering can be found in our announcement to be posted on our Company's website **www.rshi.cn** and the website of the Stock Exchange at **www.hkexnews.hk** by no later than 9:00 a.m. on Thursday, November 18, 2010;
- results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Thursday, November 18, 2010 to 12:00 midnight on Wednesday, November 24, 2010. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;
- results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, November 18, 2010 to Sunday, November 21, 2010; and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, November 18, 2010 to Saturday, November 20, 2010 at all the receiving bank branches and sub-branches at the addresses set out in the paragraph headed "III. Applying by using an Application Form — Where to Collect the Application Forms" in this section above.

Announcement of the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allotment of the Hong Kong Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the website of the Stock Exchange (**www.hkexnews.hk**) and on the Company's website at **www.rshi.cn** on Thursday, November 18, 2010.

Dispatch/Collection of Share certificates/e-Refund payment instructions/refund cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price of HK$10.10 per Offer Share (excluding brokerage, HKSFC transaction levy and the Hong Kong Stock Exchange trading fee thereon) paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, HKSFC transaction levy and the Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms whose Share certificates will be deposited into CCASS as described below); and/or

(b) refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage at the rate of 1%, HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **white** and **yellow** Application Forms and Share certificates for successful applicants under **white** Application Forms and **White Form eIPO** service are expected to be posted on or before Thursday, November 18, 2010. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheque(s).

If you apply using a white Application Form:

If you have applied for 1,000,000 Hong Kong Offer Shares or more and you have indicated on your **white** Application Form to collect your refund cheque(s) (if any) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, November 18, 2010 or any other date as notified by us in the newspapers as the date of dispatch/collection of e-Refund payment instructions/refund cheques/Share certificates. If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Forms that you will collect your Share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee, and HKSFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, November 18, 2010 by ordinary post and at your own risk.

If you apply using a yellow Application Form:

If you apply for Hong Kong Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, November 18, 2010, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — X. Results of allocations" on Thursday, November 18, 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, November 18, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee, and HKSFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, November 18, 2010 by ordinary post and at your own risk.

If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the White Form elPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, November 18, 2010, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** on Thursday, November 18, 2010 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be despatched to the application payment account in the form of e-Refund payment instructions. If you apply through **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be despatched to the address as specified on your **White Form eIPO** application in the form of refund cheque(s), by ordinary post at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the **White Form eIPO** Service Provider set out above in "IV. Applying by using White Form eIPO — Additional information."

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Deposit of Share certificates into CCASS and refund of application monies (if you apply by giving electronic instructions to HKSCC via CCASS)

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, November 18, 2010 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the section headed "How to Apply for Hong Kong Offer Shares — X. Results of allocations" on Thursday, November 18, 2010. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, November 18, 2010 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, November 18, 2010. Immediately following the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Hong Kong Offer Share paid on application, in each case including the related brokerage of 1%, HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, November 18, 2010. No interest will be paid thereon.

XI. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Hong Kong Offer Share (excluding brokerage, HKSFC transaction levy and the Hong Kong Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, HKSFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of despatch of refund cheques will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Joint Global Coordinators, cheques for applications made on Application Forms for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Thursday, November 18, 2010 in accordance with the various arrangements as described above.

XII. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, November 19, 2010.

The Shares will be traded in board lots of 500 each. The stock code of the Shares is 01101.

XIII. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

8 November 2010

The Directors
China Rongsheng Heavy Industries Group Holdings Limited

Morgan Stanley Asia Limited
CCB International Capital Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We report on the financial information of China Rongsheng Heavy Industries Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at 31 December 2007, 2008, 2009 and 31 August 2010, the balance sheet of the Company as at 31 August 2010, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for each of the years ended 31 December 2007, 2008, 2009 and the eight months ended 31 August 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes (the "Financial Information"). The Financial Information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 8 November 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 3 February 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to group reorganisations as described in Note 1 of Section II headed "Reorganisation" below, which was completed on 13 September 2010, the Company became the holding company of the subsidiaries now comprising the Group (the "2010 Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 41 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation other than the 2010 Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 41 of Section II.

The directors of the Company have prepared combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "ISA") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 2 of Section II below.

Directors' responsibility for the financial information

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with the basis of preparation set out in Note 2 and the accounting policies set out in Note 3 of Section II below which are in conformity with IFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Opinion

In our opinion, the financial information gives, for the purposes of this report and presented on the basis set out in Note 2 of Section II below, a true and fair view of the state of affairs of the Company as at 31 August 2010 and of the combined state of affairs of the Group as at 31 December 2007, 2008, 2009 and 31 August 2010 and of the Group's combined results and cash flows for each of the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to III below which comprises the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements for the eight months ended 31 August 2009 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 2 of Section II below and the accounting policies set out in Note 3 of Section II below which are in conformity with IFRS.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report and presented on the basis set out in Note 2 of Section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below which are in conformity with IFRS.

I. COMBINED FINANCIAL INFORMATION OF THE GROUP

COMBINED BALANCE SHEETS

	Note	As at 31 December 2007	As at 31 December 2008	As at 31 December 2009	As at 31 August 2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	*7*	75,082	73,518	71,954	643,824
Property, plant and equipment	*8*	2,876,621	5,688,272	7,163,511	10,901,558
Intangible assets	*9*	31,812	28,930	34,622	110,578
Long-term deposits	*14*	—	—	55,594	68,663
Deferred tax assets	*22*	—	—	—	12,931
		2,983,515	5,790,720	7,325,681	11,737,554
Current assets					
Non-current assets held for sale	*17*	—	—	220,000	—
Inventories	*12*	329,200	912,559	999,479	1,533,900
Amounts due from customers for contract works	*13*	53,578	1,641,095	4,645,737	4,274,106
Trade and bills receivables	*14*	—	1,794	268,143	382,962
Other receivables, prepayments and deposits	*14*	3,567,712	5,673,449	3,781,779	7,717,917
Pledged deposits	*15*	24,476	1,607,400	1,866,789	4,785,642
Cash and cash equivalents	*16*	297,567	2,086,712	2,862,810	3,444,992
		4,272,533	11,923,009	14,644,737	22,139,519
Total assets		7,256,048	17,713,729	21,970,418	33,877,073
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*18*	—	—	—	95
Other reserves	*19*	559,201	559,201	683,189	2,910,088
(Accumulated losses)/retained earnings		(501,652)	(1,028,825)	149,370	1,181,539
		57,549	(469,624)	832,559	4,091,722
Non-controlling interests		562,410	410,795	413,273	725,021
Total equity/(deficit)		619,959	(58,829)	1,245,832	4,816,743

	Note	As at 31 December 2007	2008	2009	As at 31 August 2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES					
Non-current liabilities					
Preferred shares	*21*	1,856,201	—	—	—
Borrowings	*21*	—	—	5,000	9,901,966
Finance lease liability - non-current	*21*	—	—	308,291	256,414
Deferred tax liabilities	*22*	—	—	—	6,652
		1,856,201	—	313,291	10,165,032
Current liabilities					
Amounts due to customers for contract works	*13*	1,710,034	8,857,570	8,084,311	6,057,021
Advances received from customers for contract works	*13*	95,100	—	505,287	184,590
Trade and other payables	*20*	2,937,498	5,087,212	4,816,624	3,002,771
Provision for foreseeable losses	*13*	17,259	66,089	—	—
Current income tax liabilities		842	2	1,889	145,167
Borrowings	*21*	—	1,395,610	3,976,033	9,043,255
Preferred shares	*21*	—	2,240,344	2,702,600	—
Derivative financial instruments	*23*	3,640	—	383	—
Provision for warranty	*24*	15,515	125,731	132,640	196,969
Finance lease liability - current	*21*	—	—	191,528	265,525
		4,779,888	17,772,558	20,411,295	18,895,298
Total liabilities		6,636,089	17,772,558	20,724,586	29,060,330
Total equity and liabilities		7,256,048	17,713,729	21,970,418	33,877,073
Net current (liabilities)/assets		(507,355)	(5,849,549)	(5,766,558)	3,244,221
Total assets less current liabilities		2,476,160	(58,829)	1,559,123	14,981,775

BALANCE SHEET

	Note	As at 31 August 2010
		RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	*10*	33
Current assets		
Cash and cash equivalents	*16*	4
Other receivables	*14*	62
		66
Total assets		99
EQUITY		
Share capital	*18*	95
Accumulated losses	*25*	(116)
Total deficit		(21)
LIABILITIES		
Current liabilities		
Amounts due to subsidiaries	*20*	91
Other payables	*20*	29
		120
Total equity and liabilities		99
Net current liabilities		(54)
Total assets less current liabilities		(21)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December			Eight months ended 31 August	
		2007	2008	2009	2009	2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	6	661,665	4,724,911	9,473,206	4,816,272	8,170,383
Cost of sales	26	(693,543)	(4,815,557)	(7,624,915)	(3,851,103)	(6,334,972)
Gross (loss)/profit		(31,878)	(90,646)	1,848,291	965,169	1,835,411
Selling and marketing expenses	26	(1,030)	(3,404)	(4,605)	(2,060)	(36,468)
General and administrative expenses	26	(363,058)	(393,345)	(561,253)	(311,643)	(489,878)
Other operating expenses	26	(10,879)	(30,906)	—	—	(272)
Other income	28	—	46,598	123,317	65,264	127,868
Other (losses)/gains - net	29	(35,094)	(19,326)	(37,981)	(39,061)	3,642
Operating (loss)/profit		(441,939)	(491,029)	1,367,769	677,669	1,440,303
Finance income	30	3,216	22,862	33,385	19,988	78,678
Finance costs	30	—	(72,142)	(94,604)	(66,687)	(170,405)
Finance income/(costs) - net	30	3,216	(49,280)	(61,219)	(46,699)	(91,727)
(Loss)/profit before income tax		(438,723)	(540,309)	1,306,550	630,970	1,348,576
Income tax (expense)/credit	31	(842)	24	(1,889)	(1,237)	(201,474)
(Loss)/profit for the year/period		(439,565)	(540,285)	1,304,661	629,733	1,147,102
Other comprehensive income for the year/period		—	—	—	—	—
Total comprehensive (loss)/income for the year/period		(439,565)	(540,285)	1,304,661	629,733	1,147,102
Attributable to:						
Equity holders of the Company		(439,565)	(527,173)	1,302,183	652,721	1,118,763
Non-controlling interests		—	(13,112)	2,478	(22,988)	28,339
		(439,565)	(540,285)	1,304,661	629,733	1,147,102
(Loss)/earnings per share for (loss)/earnings attributable to the equity holders of the Company during the year/period (expressed in RMB per share)						
- Basic/diluted	34	(440)	(527)	1,302	653	1,119

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company					
		Share capital	Other reserves	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2007		—	833,040	(62,087)	770,953	9,900	780,853
Deemed distribution to non-controlling interests on increase in interest in a subsidiary of Rongsheng Investment		—	—	—	—	(4,900)	(4,900)
Capital contribution to Rongsheng Investment by the Group's equity holders	*19*	—	1,320,000	—	1,320,000	—	1,320,000
Deemed distribution to the then equity holder of Rongsheng Heavy Industries	*19*	—	(103,040)	—	(103,040)	—	(103,040)
Contribution from the equity holders of the Group	*19*	—	81	—	81	—	81
Preferred shares - equity component	*19*	—	52,688	—	52,688	—	52,688
Deemed distribution to Rongsheng Investment	*19*	—	(1,780,177)	—	(1,780,177)	(5,000)	(1,785,177)
Non-controlling interests in the Group retained by Rongsheng Investment following the deemed distribution		—	—	—	—	562,410	562,410
Share-based payment	*19*	—	236,609	—	236,609	—	236,609
Total comprehensive loss for the year		—	—	(439,565)	(439,565)	—	(439,565)
Balance at 31 December 2007		—	559,201	(501,652)	57,549	562,410	619,959
Acquisition of additional interest in subsidiaries from non-controlling interests		—	—	—	—	(138,503)	(138,503)
Total comprehensive loss for the year		—	—	(527,173)	(527,173)	(13,112)	(540,285)
Balance at 31 December 2008		—	559,201	(1,028,825)	(469,624)	410,795	(58,829)
Total comprehensive income for the year		—	—	1,302,183	1,302,183	2,478	1,304,661
Transfer to statutory reserve	*19*	—	123,988	(123,988)	—	—	—
Balance at 31 December 2009		—	683,189	149,370	832,559	413,273	1,245,832
Total comprehensive income for the period		—	—	1,118,763	1,118,763	28,339	1,147,102
Capital injection from a minority shareholder of a subsidiary	*19*	—	2,277,199	—	2,277,199	274,229	2,551,428
Merger of Shanghai Rongsheng Shipbuilding Trading	*19*	—	234	—	234	—	234
Merger of Rong An Power Machinery	*19*	—	(84,419)	—	(84,419)	—	(84,419)
Acquisition of Hefei Zhenyu Engineering Machinery Company Limited		—	—	—	—	21,930	21,930
Increase in shareholding of Hefei Zhenyu Engineering Machinery Company Limited		—	—	—	—	(12,750)	(12,750)
Redemption of preferred shares	*19*	—	(52,688)	—	(52,688)	—	(52,688)
Issuance of ordinary shares		62	—	—	62	—	62

		Attributable to equity holders of the Company					
	Note	**Share capital**	**Other reserves**	**(Accumulated losses)/ retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issuance of ordinary shares in exchange for interest in Rongsheng Heavy Industries Holdings	*19*	33	60	—	93	—	93
Redemption of shares from share swap	*19*	—	(81)	—	(81)	—	(81)
Transfer to statutory reserve	*19*	—	86,594	(86,594)	—	—	—
Balance at 31 August 2010		95	2,910,088	1,181,539	4,091,722	725,021	4,816,743
Unaudited:							
Balance at 1 January 2009		—	559,201	(1,028,825)	(469,624)	410,795	(58,829)
Total comprehensive income/(loss) for the period		—	—	652,721	652,721	(22,988)	629,733
Balance at 31 August 2009		—	559,201	(376,104)	183,097	387,807	570,904

COMBINED CASH FLOW STATEMENTS

	Note	Year ended 31 December 2007	2008	2009	Eight months ended 31 August 2009	2010
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Cash flows from operating activities						
Cash generated from /(used in) operations	*35(a)*	152,289	4,065,593	(246,472)	(718,499)	(3,710,848)
Interest paid	*35(b)*	(11,434)	(32,338)	(249,358)	(125,455)	(357,831)
Income tax paid		(123)	(816)	(2)	(2)	(68,441)
Net cash generated from /(used in) operating activities		140,732	4,032,439	(495,832)	(843,956)	(4,137,120)
Cash flows from investing activities						
Purchases of property, plant and equipment		(1,770,096)	(2,574,436)	(1,079,670)	(646,934)	(2,479,156)
Investment in non-current assets held for sale		—	—	(220,000)	—	—
Payments for land use rights		(58,205)	—	—	—	—
Purchases of intangible assets		(34,083)	(547)	(9,847)	(2,782)	(2,781)
Net cash flow used in acquisition of Zhenyu Engineering Machinery	*38*	—	—	—	—	(150,967)
Net cash flow used in merger of Shanghai Rongsheng Shipbuilding Trading	*38*	—	—	—	—	(45,468)
Net cash flow from merger of Rong An Power Machinery	*38*	—	—	—	—	471,235
Interest received		1,735	22,862	33,385	19,988	35,608
Proceeds from sales of property, plant and equipment		—	—	—	—	25
Advances repaid by related parties		27,269	310,800	61,568	—	—
Advances provided to related parties		(563,709)	—	—	—	—
Pledged deposits		(360,722)	(1,582,924)	(259,389)	(1,235,012)	(2,910,425)
Net cash used in investing activities		(2,757,811)	(3,824,245)	(1,473,953)	(1,864,740)	(5,081,929)
Cash flows from financing activities						
Proceeds from preferred shares	*35(b)*	1,877,500	—	—	—	—
Proceeds from bank borrowings	*35(b)*	994,636	1,395,610	6,854,424	4,808,847	17,690,992
Proceeds from shareholder's loans	*35(b)*	—	—	—	—	1,783,488
Repayment of bank borrowings	*35(b)*	(339,074)	—	(4,269,001)	(1,091,614)	(5,258,454)
Repayment of shareholder's loans	*35(b)*	—	—	—	—	(1,451,558)
Proceeds from finance lease	*35(b)*	—	—	600,000	600,000	200,000
Repayments of finance lease	*35(b)*	—	—	(100,181)	(53,961)	(177,880)
Capital contribution to Rongsheng Investment by the Group's equity holders		1,320,000	—	—	—	—
Contribution to Rongsheng Heavy Industries Holdings from the Group's equity holders		81	—	—	—	—
Deemed distribution to non-controlling interests on increase in interest in a subsidiary of Rongsheng Investment		(4,900)	—	—	—	—
Contribution from equity holders to the Company		—	—	—	—	95
Redemption of preferred shares		—	—	—	—	(2,121,537)
Cash outflow from deemed distribution to Rongsheng Investment	*19(a)(v)*	(642,234)	—	—	—	—

		Year ended 31 December			Eight months ended 31 August	
	Note	**2007**	**2008**	**2009**	**2009**	**2010**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Advances received from/(repayment of advances to) Mr. Zhang.		—	342,573	(342,573)	—	—
(Repayment of advances to)/advances received from related parties		(330,055)	(122,687)	4,559	—	(860,000)
Net cash generated from financing activities. . .		2,875,954	1,615,496	2,747,228	4,263,272	9,805,146
Net increase in cash and cash equivalents . . .		258,875	1,823,690	777,443	1,554,576	586,097
Cash and cash equivalents at beginning of the year/period		49,081	297,567	2,086,712	2,086,712	2,862,810
Exchange losses on cash and cash equivalents .		(10,389)	(34,545)	(1,345)	(1,895)	(3,915)
Cash and cash equivalents at end of the year/period	*16*	297,567	2,086,712	2,862,810	3,639,393	3,444,992

II NOTES TO THE FINANCIAL INFORMATION

1 General information, formation of the Group and reorganisations

1.1 *General information*

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

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 41 to the Financial Information. The Company and its subsidiaries collectively form the Group.

The Financial Information is presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. The Financial Information has been approved for issue by the Board of Directors on 8 November 2010.

1.2 *Formation of the Group and reorganisations*

(a) *Structure of the Group prior to the group reorganisations*

Prior to the group reorganisation as disclosed in (b), the business of the Group was owned and operated by 江蘇熔盛投資集團有限公司 (Jiangsu Rongsheng Investment Group Co. Ltd., "Rongsheng Investment"), formerly known as 江蘇熔盛工程機械集團有限公司/江蘇熔盛投資集團有限公司/江蘇熔盛重工集團有限公司/南通熔盛造船有限公司. Rongsheng Investment is a limited liability company established in the People's Republic of China ("PRC") on 12 February 2004 and is beneficially owned by Mr. Zhang ("Mr. Zhang" or the "Principal Shareholder"). Through a reorganisation completed on 11 September 2007 ("2007 Reorganisation"), the shipbuilding business of Rongsheng Investment (the "Transferred Business") as detailed in note (b) below was transferred to the Group. Since 11 September 2007 and prior to the group reorganisation as disclosed in (c) for the preparation of the initial public offering of the Company's shares on The Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"), the Transferred Business had been owned and operated by Rongsheng Heavy Industries Holdings Limited ("Rongsheng Heavy Industries Holdings"), an exempted company with limited liability under the Companies Law of the Cayman Islands.

(b) *2007 Reorganisation*

The 2007 Reorganisation involved the following:

(i) On 2 April 2007, Clear Joy International Limited ("Clear Joy International") was incorporated and issued and allotted 50,000 shares of US$1 each to Fine Profit Enterprises Limited ("Fine Profit"), a company wholly owned by Mr. Zhang.

(ii) On 17 May 2007, each of the Mega New International Limited ("Mega New International"), Nice In Holdings Limited ("Nice In Holdings"), Charm Dragon Holdings Limited ("Charm Dragon Holdings"), Grace Shine International Limited ("Grace Shine International"), Head Park Group Limited ("Head Park Group") and New Sea Enterprises Limited ("New Sea Enterprises") (together referred to as the "BVI Holding Companies") issued and allotted 50,000 shares of US$1 each to Clear Joy International. The BVI Holding Companies became the wholly owned subsidiaries of Clear Joy International.

(iii) On 18 May 2007, each of the Mega New International, Nice In Holdings, Charm Dragon Holdings, Grace Shine International, Head Park Group and New Sea Enterprises acquired the subscriber share in Wellbo Holdings Limited ("Wellbo Holdings"), Hinco International Limited

("Hinco International"), Pacific Atlantic Limited ("Pacific Atlantic"), Wenca Development Limited ("Wenca Development"), Asiafair International Limited ("Asiafair International") and Sinwell (H.K.) Limited ("Sinwell (H.K.)") (together referred to as the "HK Holding Companies") from the respective subscribers.

(iv) On 21 June 2007, each of the Sinwell (H.K.), Asiafair International, Wenca Development and Pacific Atlantic entered into joint venture agreement with Rongsheng Investment respectively to establish 南通熔鼎海洋工程有限公司 (Nantong Rongding Marine Engineering Co. Ltd., formerly known as 南通熔鼎管道工程有限公司(Nantong Rongding Pipe Engineering Co. Ltd., "Rongding Marine Engineering")), 南通熔燁倉儲有限公司 (Nantong Rongye Storage Co. Ltd., "Rongye Storage"), 南通熔燁船舶機電安裝有限公司 (Nantong Rongye Ship Mechanical and Equipment Installation Co. Ltd., "Rongye Mechanical") and 南通熔盛塗裝有限公司 (Nantong Rongsheng Painting Co. Ltd., "Rongsheng Painting") respectively. Sinwell (H.K.), Asiafair International, Wenca Development and Pacific Atlantic agreed to contribute US$94,960,000 in the form of cash and Rongsheng Investment agreed to contribute US$23,740,000 in the form of shipbuilding facilities to these joint venture companies. Each of Sinwell (H.K.), Asiafair International, Wenca Development and Pacific Atlantic has 80% interests and the ability to control the respective joint venture companies.

(v) On 21 June 2007, Hinco International entered into a joint venture agreement with Rongsheng Investment to establish 江蘇熔盛造船有限公司 (Jiangsu Rongsheng Shipbuilding Co. Ltd., formerly known as Nantong Rongding Shipbuilding Co. Ltd., "Rongsheng Shipbuilding"). Hinco International contributed cash of US$14,651,000 while Rongsheng Investment contributed assets valued at US$15,249,000 as registered capital of Rongsheng Shipbuilding. Rongsheng Shipbuilding was 49% owned by Hinco International. Pursuant to confirmations and undertakings given by the directors of Rongsheng Shipbuilding and Rongsheng Investment, the Group was able to govern and control the financial and operating policies of Rongsheng Shipbuilding. Accordingly, the Group was able to consolidate the result of Rongsheng Shipbuilding as a 49% owned subsidiary of Hinco International.

(vi) On 25 June 2007, Wellbo Holdings acquired the entire interest in 江蘇熔盛重工有限公司 (Jiangsu Rongsheng Heavy Industries Co. Ltd, "Rongsheng Heavy Industries") from Fu Hong Wei Ye Petrochemical Holdings Limited ("Fu Hong"), a company indirectly wholly owned by Mr. Zhang at cash consideration of RMB103,040,000.

(vii) On 11 September 2007, Rongsheng Heavy Industries Holdings acquired the entire equity interests of Clear Joy International by share swap and Rongsheng Heavy Industries Holdings became the holding company of the companies comprising the Group.

(c) *2010 Reorganisation*

In preparation for the Listing, the Group underwent another reorganisation in 2010 (the "2010 Reorganisation") which involved the following:

(i) On 23 December 2009, Rongsheng Investment (company controlled by Mr. Zhang) through 合肥熔安動力機械有限公司 (Hefei Rong An Power Machinery Co. Ltd., "Rong An Power Machinery") acquired 22,000,000 shares representing 30.56% interest in 合肥振宇工程機械有限公司 (Hefei Zhenyu Engineering Machinery Company Limited, "Zhenyu Engineering Machinery") from independent third parties, for a total consideration of RMB56,170,000. On 29 March 2010, Rongsheng Investment through Rong An Power Machinery acquired 41,400,000 shares representing 57.49% interest in Zhenyu Engineering Machinery from independent third parties for consideration of RMB105,570,000. On 8 April 2010, Rong An Power Machinery transferred 33,000,000 shares in Zhenyu Engineering Machinery to 安徽熔安重工機械有限公司 (Anhui Rongan Heavy Industries Machinery Company Limited, "Rong An Heavy Industries" — a wholly owned subsidiary by Rongsheng Heavy Industries Holdings) for a total consideration of RMB84,150,000. On 25 June 2010, Rong An Power Machinery transferred its 30,400,000 shares in Zhenyu Engineering Machinery to Rong An Heavy Industries for a consideration of RMB77,520,000. On 20 August 2010, Rong An Heavy Industries acquired 6.94% interest in Zhenyu Engineering Machinery from independent third parties for a consideration of RMB12,750,000. Zhengyu Engineering Machinery was 95% owned by Rong An Heavy Industries and 5% owned by independent third parties as at 31 August 2010.

(ii) On 3 February 2010, the Company was incorporated in the Cayman Islands issued and allotted 100 shares of HK$0.1 each to Fine Profit.

On 13 September 2010, Fine Profit and Wealth Consult Limited ("Wealth Consult") agreed to sell their respective 93.0585% and 1.9415% interests in the issued share capital of Rongsheng Heavy Industries Holdings to the Company in consideration of the Company issuing 295,585 new shares to Fine Profit and 19,415 new shares to Wealth Consult, respectively. On the same date, Boom Will agreed to sell 3.5% interest in the issued share capital of Rongsheng Heavy Industries Holdings to the Company in consideration of the Company issuing 35,000 new shares of the Company (equivalent to 3.5% of the issued share capital of the Company) to Boom Will. Following the completion fo these transfers, Rongsheng Heavy Industries Holdings is owned as to 98.5% by the Company and the Company become the holding company of the Group.

(iii) On 6 June 2010, Rongsheng Investment transferred its 100% shareholding in Shanghai Rongsheng Shipbuilding Trading Company Limited ("Shanghai Rongsheng Shipbuilding Trading") to Rongsheng Heavy Industries for a consideration of RMB50,000,000 following which Shanghai Rongsheng Shipbuilding Trading was owned as to 100% and controlled by Rongsheng Heavy Industries.

(iv) On 30 June 2010, Rongye Mechanical acquired 24% and 25% of the registered capital of Rong An Power Machinery from Rongsheng Investment and Nantong Rongsheng Infrastructure Accessories Company Limited ("Nantong Accessories"), for considerations of RMB118,780,800 and RMB123,730,000, respectively. On the same date, Rongsheng Shipbuilding acquired 51% of the registered capital of Rong An Power Machinery from Rongsheng Investment for a consideration of RMB252,409,200. Upon completion of the transfer, Rongsheng Shipbuilding and the Group together own 100% interest in Rong An Power Machinery and has the ability to control the Rong An Power Machinery.

2 Presentation of the Financial Information

The Company and companies now comprising the Group are under common control of Mr. Zhang. For the purpose of this report, the financial information of the Group have been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. The combined statements of comprehensive income, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods have been prepared using the financial information of the companies now comprising the Group for the Relevant Periods as if the current group structure had been in existence throughout the Relevant Periods, except that the financial information of those companies newly set up or acquired by the Group during the Relevant Periods or the companies which were not under common control over the whole Relevant Periods is included in the financial information from their respective dates of incorporation, acquisition and date from which the common control exists respectively. The combined balance sheets of the Group as at 31 December 2007, 2008, 2009 and 31 August 2010 have been prepared to present the assets and liabilities of the companies now comprising the Group at these dates, as if the current group structure had been in existence as at these dates, except that the assets and liabilities of those companies newly set up, acquired by the Group or where the common control did not exist as at these dates, are included in the combined balance sheets of the Group from their respective dates of incorporation, acquisition and, the date from which the common control exists, respectively.

In addition to the Transferred Business, the financial information also includes the assets, liabilities and results of Rongsheng Investment which are not related to the shipbuilding business (the "Non-Operating

Assets"). Although the Non-Operating Assets were not transferred to the Group, a loss of approximately RMB6,443,000 which was made up of interest income of RMB235,000 and borrowings costs of RMB6,677,000 with respect to cash deposits and borrowings of the Non-Operating Assets have been combined with the Transferred Business from 1 January 2007 to 11 September 2007, the completion date of the 2007 Reorganisation. Upon the completion of the 2007 Reorganisation, the assets and liabilities of the Non-Operating Assets are derecognised and presented as deemed distribution to Rongsheng Investment in 2007.

All significant intra-group transactions and balances, if any, have been eliminated on consolidation.

3 Principal accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods presented, unless otherwise stated.

3.1 *Basis of preparation*

The Financial Information has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IFRS"). The Financial Information has been prepared under the historical cost convention, except as modified by the accounting policies stated below. The Underlying Financial Statements is the Group's first IFRS financial statements. IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied. However, the Company has not issued any consolidated financial statements prior to this report since the Company was newly incorporated on 3 February 2010. Accordingly, no reconciliation of the Group's equity and total comprehensive income reported under previous accounting standards to its equity and total comprehensive income under IFRS was prepared.

The preparation of the Financial Information in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

Notwithstanding that the Group has net operating cash outflow of RMB495,832,000 and RMB4,137,120,000, respectively, for the year ended 31 December 2009 and the eight months ended 31 August 2010, the directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements from its operating cash flows and available bank financing. Accordingly, the directors consider that it is appropriate that the Financial Information is prepared on a going concern basis.

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

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- IFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption.
- IAS 24 (Revised) 'Related party disclosures' supersedes IAS 24 'Related party disclosures' issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted.
- Under 'Classification of rights issues' (Amendment to IAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the

entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.

- Amendments to IFRIC Int-14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of IFRIC Int-14, 'IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when IFRIC Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.
- IFRIC — Int 19 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.
- 'Limited exemption from comparative IFRS 7 disclosures for first-time adopters' (Amendment to IFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to IFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted.
- Third improvements to International Financial Reporting Standards (2010) were issued in May 2010, by IASB. All improvements are effective in the financial year of 2011.

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

3.2 *Business combinations under common control*

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

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

The combined statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the financial information are presented as if the entities or businesses had been combined at the earliest balance sheet date presented or when they first came under common control, whichever is the later.

Inter-company transactions, balances and unrealised gains on transactions between the combining entities or businesses are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.3 ***Consolidation***

(a) *Subsidiaries*

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

Except for business combination under common control, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the combined statements of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) *Transactions with non-controlling interests*

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

3.4 ***Segment reporting***

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

3.5 ***Foreign currency translation***

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

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

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

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

3.6 ***Property, plant and equipment***

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

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

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

Buildings	40 years
Plant and machinery	5 - 15 years
Computer equipment	3 - 5 years
Office equipment	5 years
Motor vehicles	10 years

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

Buildings comprise mainly factories, shipyards and offices.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains - net', in the combined profit or loss.

3.7 *Land use rights*

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

3.8 *Intangible assets*

(a) *Goodwill*

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

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

(b) *Patents*

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

(c) *Computer software*

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

(d) *Research and development costs*

Research costs are recognised in the combined profit or loss as incurred. Development expenditures are capitalised as assets if a newly developed process or project can be clearly defined, is technically feasible, is intended to be used by the Group itself, and it is probable that costs incurred will be covered by future earnings. Development expenditures include direct wages, salaries, materials and other direct and indirect costs attributable to the development projects. Amortisation and write-down of such capitalised development projects are started at the date of completion and are included in Research and Development costs. Other development costs are recognised in the combined profit or loss as incurred.

3.9 *Impairment of non-financial assets*

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

3.10 ***Derivative financial instruments***

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

3.11 ***Inventories***

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

3.12 ***Trade and other receivables***

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

3.13 ***Pledged deposits and cash and cash equivalents***

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

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

3.14 ***Share capital***

Ordinary shares are classified as equity.

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

3.15 ***Trade and other payables***

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

3.16 ***Borrowings***

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined profit or loss over the period of the borrowings using the effective interest method.

Rongsheng Heavy Industries Holdings issued mandatory redeemable convertible preferred shares which can be converted to ordinary shares of the company and are mandatorily redeemable on a specific date. Upon issuance, the total proceeds received are allocated to the liability portion and the equity portion, which are separately presented on the balance sheet.

The fair value of the liability portion of mandatory redeemable convertible preferred shares is determined using a market interest rate for an equivalent non-convertible redeemable preferred shares. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the redeemable convertible preferred shares. Interest expense is calculated using the effective interest method by applying the effective interest rate to the liability component up to the maturity date.

The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects. The carrying amount of the conversion option is not adjusted in subsequent periods. When the conversion option lapses, its carrying amount will be transferred to accumulated profit/loss.

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

3.17 ***Provisions***

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

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

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

3.18 ***Current and deferred income tax***

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

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

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

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

3.19 ***Construction contracts***

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

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

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

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

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

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

3.20 ***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.

(b) *Share-based compensation*

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

3.21 ***Revenue recognition***

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

(i) *Revenue from construction contracts*

Please refer to the paragraph "Construction Contracts" (Note 3.19) for the accounting policy on revenue from construction contracts.

(ii) *Sale of marine engines and engineering machineries*

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

(iii) *Interest income*

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

3.22 ***Borrowing costs***

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

3.23 ***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/period's expenses are recognised in the combined profit or loss in the same year/period to match them with the costs that they are intended to compensate.

3.24 ***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 combined profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group 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 so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the combined 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.

3.25 *Non-current assets held for sale*

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

3.26 *Financial guarantees*

The Group provides guarantees to certain bank in respect of mortgage loans drawn by customers to finance their purchase of equipment from the Group's Engineering & Machinery business. 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 determined under IAS37. Any increase in the liability relating to guarantees is recognised as general and administrative expenses in the combined profit and loss.

4 Financial risk management

4.1 *Financial risk factors*

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

(a) *Market risk*

(i) Foreign exchange risk

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

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

Certain trade and other receivables, prepayments and deposits, pledged deposits, bank balances and cash, trade and other payables and borrowings are denominated in USD and Hong Kong dollar ("HKD") and are hence exposed to foreign exchange risk. Details of the Group's trade and other receivables, prepayments and deposits, pledged deposits, bank balances and cash, trade and other payables and borrowings denominated in foreign currencies are disclosed in Notes 14, 15, 16, 20 and 21 respectively.

At 31 December 2007, 2008, 2009 and 31 August 2010, if RMB had weakened/ strengthened by 2% against the USD and HKD respectively with all other variables held constant, pre-tax results for the year/period would have been approximately RMB9,399,000, RMB79,673,000, RMB104,257,000 and RMB59,367,000 higher/lower respectively, mainly as a result of foreign exchange differences on translation of USD and HKD denominated trade and other receivables, amounts due from customers for contract works, pledged deposits, bank balances and cash, trade and other payables and borrowings.

(ii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets except for pledged deposits and cash and cash equivalents held at fixed rates and with short maturities. The Group's interest rate risk arises mainly from preferred shares and borrowings which are at fixed rates and 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 currently does not hedge its exposure to cash flow and fair value interest rate 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 2007, 2008, 2009 and 31 August 2010, if interest rate had increased/ decreased by 100 basis points, respectively, with all other variables held constant, pre-tax results for the year/period would have been approximately nil, RMB1,474,000, RMB7,159,000 and RMB26,879,000 lower/higher respectively.

(b) *Credit risk*

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade and other receivables and amounts due from customers for contract works. As at 31 December 2007, 2008, 2009 and 31 August 2010, all the Group's cash and bank, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC which management believes are of high credit quality and without significant credit risk.

The Group has no significant concentration of credit risk on trade and other receivables and amounts due from customers for contract works. 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. Significant amount of the payments are received from the customers prior to the delivery of vessels to reduce credit risk. For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial position, past experience and other factors, before granting credit limits. The Group's trade receivables are due from parties of appropriate credit history.

For credit exposures to other receivables, management assesses the credit quality of the debtors, taking into account its financial position, past experience and other factors. No significant impairment in relation to these receivables has occurred during the years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2010.

The Group actively monitors the financial situation of its customers who are affected by the credit crisis and procedures are taken to renegotiate the shipbuilding contract terms as necessary. During the year ended 31 December 2009, the renegotiation of shipbuilding contracts resulted in cancellation of 24 shipbuilding contracts. No shipbuilding contracts were cancelled during the years ended 31 December 2007 and 2008 and for the eight months ended 31 August 2010. As a result of the cancellations, the Group recognised other income of RMB5,038,000 and RMB3,778,000 representing the cancellation penalty received and recorded such net gain under "Other income" in the combined profit or loss for the year ended 31 December 2009 and eight months ended 31 August 2010, respectively.

(c) *Liquidity risk*

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. Management believes that there is no significant liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements. The committed lines of funding available as at 31 August 2010 are summarised in note 21.

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

	Less than 1 year	**Between 1 and 2 years**	**More than 2 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group				
At 31 December 2007				
Preferred shares	—	2,599,594	—	2,599,594
Derivative financial instruments	3,640	—	—	3,640
Trade and other payables	2,833,677	—	—	2,833,677
At 31 December 2008				
Borrowings	1,444,456	—	—	1,444,456
Preferred shares	2,599,594	—	—	2,599,594
Trade and other payables	4,909,611	—	—	4,909,611
At 31 December 2009				
Borrowings	4,075,434	5,375	—	4,080,809
Preferred shares	2,722,169	—	—	2,722,169
Finance lease liability	215,843	215,843	107,922	539,608
Derivative financial instruments	383	—	—	383
Trade and other payables	4,637,682	—	—	4,637,682
At 31 August 2010				
Borrowings	9,304,828	6,685,445	3,785,267	19,775,540
Finance lease liability	287,536	233,575	35,846	556,957
Trade and other payables	2,773,572	—	—	2,773,572

4.2 ***Capital risk management***

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

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

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

The Group's total liabilities and total assets positions at 31 December 2007, 2008, 2009 and 31 August 2010 were as follows:

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total liabilities	6,636,089	17,772,558	20,724,586	29,060,330
Total assets	7,256,048	17,713,729	21,970,418	33,877,073
Debt-asset ratio	0.91	1.00	0.94	0.86

4.3 ***Fair value estimation***

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The initial fair value of the liability component of preferred shares was calculated using a market interest rate for an equivalent non-convertible redeemable preferred share. The valuation of the share-based payment (Note 27) was determined using the Income Approach based on Free Cash Flow valuation method. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

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

As at 31 December 2007 and 31 December 2009, the Group was holding certain Level 2 trading derivative liabilities fair valued at RMB3,640,000 and RMB383,000 respectively, for which inputs that are observable in active market (for example, over-the-counter derivatives) were used in determining the fair value.

No other financial instruments that are carried on the balance sheet at fair value are held by the Group as at 31 December 2008 and 31 August 2010.

5 Critical accounting estimates and judgements

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

5.1 ***Critical accounting estimates and assumptions***

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

(a) *Current income tax and deferred tax*

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

(b) *Fair value of other financial instruments*

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

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

Year ended 31 December			Eight months ended 31 August	
2007	**2008**	**2009**	**2009**	**2010**
RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
1,494	20,374	28,868	17,867	1,300

(c) *Construction contracts*

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

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

(d) *Provision for warranty*

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

5.2 ***Critical judgements in applying the Group's accounting policies***

(a) *Profit recognition for construction contracts*

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

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

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

(c) *Consolidation of Rongsheng Shipbuilding*

Relevant PRC laws and regulations requires PRC domestic entities to have not less than 51% of the equity interest in a company of repairing, designing and manufacturing of vessels. The Group acquired, through Rongsheng Heavy Industries, 49% of the equity interest in Rongsheng Shipbuilding and the remaining 51% equity interest in Rongsheng Shipbuilding is owned by Rongsheng Investment. The Group has obtained confirmations from Rongsheng Investment where Rongsheng Investment has undertaken to vote in accordance with Rongsheng Heavy Industries in any shareholders' meetings of Rongsheng Shipbuilding and Rongsheng Investment will not transfer any of its interest in Rongsheng Shipbuilding to any third party without Rongsheng Heavy Industries' consent. Pursuant to confirmations and undertakings, the Group is able to govern and control the finance and operating policies of Rongsheng Shipbuilding. Accordingly, Rongsheng Shipbuilding has been combined as a subsidiary of the Company during the Relevant Periods.

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

Certain constructions in progress and buildings of the Group are located on leased land in the PRC in which the Group has not been granted construction planning permits or obtained building ownership certificates or real estate title certificates. However, based on the Group's past experiences, available information and consultation with the Group's PRC legal advisers, the directors of the Company are of the view that this is unlikely to cause any significant interruption or termination of these constructions or to have a material effect on the carrying values of the related assets as at 31 December 2007, 2008, 2009 and 31 August 2010, respectively; and it is remote to incur additional costs in this regard. Accordingly, no impairment provision for such assets is considered necessary to be made according to the Group's accounting policies. Should there be any change in circumstance, it would adversely affect the result of operations.

(e) *Fair value of identifiable assets acquired in a business combination*

On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins, cashflows, useful life and discount rate used.

6 Segmental information

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. These reports are prepared on the same basis as these combined 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 merchant vessels, the Offshore Engineering segment derives its revenue from the construction of development units, production units and offshore support vessels for the offshore oil and gas industry. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while Marine Engine Building segment derives its revenue from building marine engines. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. The segment information provided to the Executive Directors for the reportable segments for the three years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 31 August 2010 is as follows:

	Shipbuilding					Offshore Engineering					Engineering Machinery				
	Year ended 31 December			Eight months ended 31 August		Year ended 31 December			Eight months ended 31 August		Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Segment revenue	661,665	4,698,093	9,183,884	4,632,863	7,712,161	—	26,818	289,322	183,409	330,682	—	—	—	—	121,361
Inter-segment revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Revenue from external customers	661,665	4,698,093	9,183,884	4,632,863	7,712,161	—	26,818	289,322	183,409	330,682	—	—	—	—	121,361
Segment results	(31,878)	(90,646)	1,747,643	911,070	1,678,867	—	—	100,648	54,099	125,854	—	—	—	—	30,535
Selling and marketing expenses															
General and administrative expenses															
Other operating expenses															
Other income															
Other (losses)/gains - net															
Finance income/(costs) - net															
(Loss)/profit before income tax															

	Marine Engine Building					Total				
	Year ended 31 December			Eight months ended 31 August		Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Segment revenue	—	—	—	—	132,382	661,665	4,724,911	9,473,206	4,816,272	8,296,586
Inter-segment revenue	—	—	—	—	(126,203)	—	—	—	—	(126,203)
Revenue from external customers	—	—	—	—	6,179	661,665	4,724,911	9,473,206	4,816,272	8,170,383
Segment results	—	—	—	—	155	(31,878)	(90,646)	1,848,291	965,169	1,835,411
Selling and marketing expenses						(1,030)	(3,404)	(4,605)	(2,060)	(36,468)
General and administrative expenses						(363,058)	(393,345)	(561,253)	(311,643)	(489,878)
Other operating expenses						(10,879)	(30,906)	—	—	(272)
Other income						—	46,598	123,317	65,264	127,868
Other (losses)/gains - net						(35,094)	(19,326)	(37,981)	(39,061)	3,642
Finance income/(costs) - net						3,216	(49,280)	(61,219)	(46,699)	(91,727)
(Loss)/profit before income tax						(438,723)	(540,309)	1,306,550	630,970	1,348,576

	Shipbuilding				Offshore Engineering				Engineering Machinery			
	As at 31 December			As at 31 August	As at 31 December			As at 31 August	As at 31 December			As at 31 August
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	53,578	1,641,095	4,645,737	4,541,555	—	—	—	—	—	—	—	226,130
Unallocated												
Total assets												

	Marine Engine Building				Total			
	As at 31 December			As at 31 August	As at 31 December			As at 31 August
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	—	—	—	2,445,152	53,578	1,641,095	4,645,737	7,212,837
Unallocated					7,202,470	16,072,634	17,324,681	26,664,236
Total assets					7,256,048	17,713,729	21,970,418	33,877,073

	Shipbuilding				Offshore Engineering				Engineering Machinery			
	As at 31 December			As at 31 August	As at 31 December			As at 31 August	As at 31 December			As at 31 August
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment liabilities	1,710,034	8,599,085	8,335,133	6,175,177	95,100	258,485	254,465	66,434	—	—	—	107,349
Unallocated												
Total liabilities												

	Marine Engine Building				Total			
	As at 31 December			As at 31 August	As at 31 December			As at 31 August
	2007	2008	2009	2010	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment liabilities	—	—	—	2,049,241	1,805,134	8,857,570	8,589,598	8,398,201
Unallocated					4,830,955	8,914,988	12,134,988	20,662,129
Total liabilities					6,636,089	17,772,558	20,724,586	29,060,330

All the revenue of the Offshore Engineering segment for the years ended 31 December 2008, 2009 and eight months ended 31 August 2010 was derived from one customer.

No customers of the Engineering Machinery and Marine Engine Building segments individually accounted for ten percent or more of the Group's combined revenue for the eight months ended 31 August 2010.

During the three years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 2010, revenues from one, six, four, four and three customers of the Shipbuilding segment, respectively, individually amounted to ten per cent or more of the Group's total combined revenue for the respective year/period. The revenues of these customers of the Shipbuilding segment during the relevant year/period are summarised below:

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Shipbuilding customer 1	543,377	879,674	N/A	N/A	N/A
Shipbuilding customer 2	N/A	1,382,531	1,414,807	898,301	N/A
Shipbuilding customer 3	N/A	667,944	1,747,722	1,326,850	N/A
Shipbuilding customer 4	N/A	577,730	2,032,444	746,108	1,216,000
Shipbuilding customer 5	N/A	570,970	N/A	N/A	N/A
Shipbuilding customer 6	N/A	538,043	1,000,052	967,805	N/A
Shipbuilding customer 7	N/A	N/A	N/A	N/A	1,914,677
Shipbuilding customer 8	N/A	N/A	N/A	N/A	1,055,143

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

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

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turkey	4,882	587,355	2,494,557	785,528	1,628,511
Norway	552,436	1,547,618	1,769,824	1,323,952	176,519
Greece	58,850	1,965,780	1,792,561	830,630	1,098,663
Russia	27,448	538,043	1,000,052	967,805	166,642
PRC	—	35,360	1,277,312	447,104	934,021
Cyprus	18,049	9,107	709,650	461,253	483,381
Germany	—	6,960	271,917	—	1,300,234
Singapore	—	34,688	157,333	—	—
Brazil	—	—	—	—	1,914,677
Oman	—	—	—	—	467,735
	661,665	4,724,911	9,473,206	4,816,272	8,170,383

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

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:

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening net book amount	18,102	75,082	73,518	71,954
Merger of Rong An Power Machinery (Note 38)	—	—	—	133,867
Acquisition of ZhenYu Engineering Machinery (Note 38)	—	—	—	20,051
Additions	58,205	—	—	—
Capital contribution by a minority shareholder of a subsidiary (Note 19(a)(vii))	—	—	—	427,428
Amortisation	(1,225)	(1,564)	(1,564)	(9,476)
Closing net book amount	75,082	73,518	71,954	643,824
In the PRC, held on:				
Leases between 10 to 50 years	75,082	73,518	71,954	643,824

Borrowings and refund guarantees are secured by certain land use rights with an aggregate carrying value of RMB46,157,000, RMB33,379,000, RMB43,546,000 and RMB462,954,000 as at 31 December 2007, 2008, 2009 and 31 August 2010, respectively (Notes 21 and 36 (a)).

Amortisation of the Group's land use rights has been charged to the combined profit and loss as general and administrative expenses.

8 Property, plant and equipment — Group

	Construction in progress	Buildings	Plant and machinery	Computer equipment	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2007							
Opening net book amount	992,268	66,766	28,427	1,316	430	2,926	1,092,133
Additions	1,461,418	30,003	316,229	1,735	2,199	1,335	1,812,919
Transfer	(1,320,381)	1,320,381	—	—	—	—	—
Depreciation	—	(12,183)	(11,598)	(835)	(270)	(334)	(25,220)
Deemed distribution (Note 19(a)(v))	(2,570)	—	—	—	(13)	(628)	(3,211)
Closing net book amount	1,130,735	1,404,967	333,058	2,216	2,346	3,299	2,876,621
At 31 December 2007							
Cost	1,130,735	1,417,150	345,050	3,820	2,882	3,863	2,903,500
Accumulated depreciation	—	(12,183)	(11,992)	(1,604)	(536)	(564)	(26,879)
Net book amount	1,130,735	1,404,967	333,058	2,216	2,346	3,299	2,876,621
Year ended 31 December 2008							
Opening net book amount	1,130,735	1,404,967	333,058	2,216	2,346	3,299	2,876,621
Additions	2,229,398	277,984	381,746	7,130	12,146	10,371	2,918,775
Transfer	(1,757,522)	1,757,522	—	—	—	—	—
Depreciation	—	(57,510)	(45,881)	(1,539)	(1,466)	(728)	(107,124)
Closing net book amount	1,602,611	3,382,963	668,923	7,807	13,026	12,942	5,688,272
At 31 December 2008							
Cost	1,602,611	3,452,656	726,796	10,950	15,028	14,234	5,822,275
Accumulated depreciation	—	(69,693)	(57,873)	(3,143)	(2,002)	(1,292)	(134,003)
Net book amount	1,602,611	3,382,963	668,923	7,807	13,026	12,942	5,688,272
Year ended 31 December 2009							
Opening net book amount	1,602,611	3,382,963	668,923	7,807	13,026	12,942	5,688,272
Additions	1,039,384	219,751	425,788	3,869	5,710	2,178	1,696,680
Transfer	(1,568,116)	1,396,032	172,084	—	—	—	—
Depreciation	—	(80,384)	(134,015)	(2,639)	(2,873)	(1,281)	(221,192)
Disposal	—	—	(96)	(47)	(106)	—	(249)
Closing net book amount	1,073,879	4,918,362	1,132,684	8,990	15,757	13,839	7,163,511

	Construction in progress	Buildings	Plant and machinery	Computer equipment	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009							
Cost	1,073,879	5,068,439	1,324,572	14,772	20,632	16,412	7,518,706
Accumulated depreciation	—	(150,077)	(191,888)	(5,782)	(4,875)	(2,573)	(355,195)
Net book amount	1,073,879	4,918,362	1,132,684	8,990	15,757	13,839	7,163,511
Eight months ended 31 August 2010							
Opening net book amount	1,073,879	4,918,362	1,132,684	8,990	15,757	13,839	7,163,511
Merger of Rong An Power Machinery (Note 38)	490,220	327,477	1,889	789	1,145	1,583	823,103
Merger of Shanghai Rongsheng Shipbuilding Trading (Note 38)	—	—	—	12	—	320	332
Acquisition of Zhenyu Engineering Machinery (Note 38)	3	19,145	8,880	227	148	1,932	30,335
Contribution by a minority shareholder of a subsidiary (Note 19(a)(vii))	—	2,124,000	—	—	—	—	2,124,000
Additions	853,979	15,156	101,111	2,957	1,654	9,064	983,921
Transfer	(162,315)	93,470	66,934	1,129	—	782	—
Disposal	—	—	—	(1)	—	(2)	(3)
Written off	—	—	—	(22)	—	—	(22)
Depreciation	—	(110,701)	(104,001)	(3,618)	(3,118)	(2,181)	(223,619)
Closing net book amount	2,255,766	7,386,909	1,207,497	10,463	15,586	25,337	10,901,558
At 31 August 2010							
Cost	2,255,766	7,654,384	1,507,387	20,418	24,176	31,758	11,493,889
Accumulated depreciation	—	(267,475)	(299,890)	(9,955)	(8,590)	(6,421)	(592,331)
Net book amount	2,255,766	7,386,909	1,207,497	10,463	15,586	25,337	10,901,558

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

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cost of sales	21,460	76,354	119,040	72,109	119,103
Selling and marketing expenses	15	78	140	88	215
General and administrative expenses	3,745	30,692	102,012	59,806	104,301
	25,220	107,124	221,192	132,003	223,619
Less: capitalised in inventory	—	—	—	—	(5,312)
Charged to combined profit or loss	25,220	107,124	221,192	132,003	218,307

Borrowings and refund guarantees are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB236,050,000, RMB243,240,000, RMB1,339,772,000 and RMB2,030,343,000 as at 31 December 2007, 2008, 2009 and 31 August 2010 respectively (Notes 21 and 36(a)).

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

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost - capitalised finance lease	—	—	600,000	800,000
Accumulated depreciation	—	—	(12,686)	(31,824)
Net book amount	—	—	587,314	768,176

During the year ended 31 December 2009 and eight months ended 31 August 2010, the Group entered into a sale and leaseback arrangement in respect of certain plant and machinery under a non-cancellable lease, with the cost of RMB600,000,000 and RMB200,000,000 respectively. The leases have a term of 3 years where substantial risks and rewards of ownership of the assets retained with the Group.

9 Intangible assets — Group

	As at 31 December							
	2007				2008			
	Goodwill	Patents	Computer software	Total	Goodwill	Patents	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Opening costs	—	—	—	—	—	—	34,083	34,083
Accumulated amortisation	—	—	—	—	—	—	(2,271)	(2,271)
Opening net book amount	—	—	—	—	—	—	31,812	31,812
Movement during the year/period								
Opening net book amount	—	—	—	—	—	—	31,812	31,812
Business combination	—	—	—	—	—	—	—	—
Additions	—	—	34,083	34,083	—	—	547	547
Amortisation charge	—	—	(2,271)	(2,271)	—	—	(3,429)	(3,429)
Closing net book amount	—	—	31,812	31,812	—	—	28,930	28,930
Closing costs	—	—	34,083	34,083	—	—	34,630	34,630
Accumulated amortisation	—	—	(2,271)	(2,271)	—	—	(5,700)	(5,700)
Closing net book amount	—	—	31,812	31,812	—	—	28,930	28,930

	As at 31 December				As at 31 August			
	2009				2010			
	Goodwill	Patents	Computer software	Total	Goodwill	Patents	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Opening costs	—	—	34,630	34,630	—	—	44,477	44,477
Accumulated amortisation	—	—	(5,700)	(5,700)	—	—	(9,855)	(9,855)
Opening net book amount	—	—	28,930	28,930	—	—	34,622	34,622
Movement during the year/period								
Opening net book amount	—	—	28,930	28,930	—	—	34,622	34,622
Business combination (Note 38)	—	—	—	—	55,113	21,644	1,936	78,693
Additions	—	—	9,847	9,847	—	—	2,781	2,781
Amortisation charge	—	—	(4,155)	(4,155)	—	(1,998)	(3,520)	(5,518)
Closing net book amount	—	—	34,622	34,622	55,113	19,646	35,819	110,578
Closing costs	—	—	44,477	44,477	55,113	21,644	49,334	126,091
Accumulated amortisation	—	—	(9,855)	(9,855)	—	(1,998)	(13,515)	(15,513)
Closing net book amount	—	—	34,622	34,622	55,113	19,646	35,819	110,578

Amortisation of the Group's intangible assets has been charged as administrative expenses in the combined profit or loss.

10 Investment in subsidiaries — Company

	As at 31 August 2010
	RMB'000
Unlisted shares, at cost	33

Details of the principal subsidiaries are set out in Note 41.

11 Financial instruments by category

The following is an analysis of financial instruments by category:

Group

	Loans and receivables
	RMB'000
Assets as per combined balance sheet	
As at 31 December 2007	
Amounts due from customers for contract works (Note 13)	53,578
Trade and bills receivables (Note 14)	—
Other receivables and deposits (Note 14)	1,275,784
Pledged deposits (Note 15)	24,476
Cash and cash equivalents (Note 16)	297,567
Total	1,651,405
As at 31 December 2008	
Amounts due from customers for contract works (Note 13)	1,641,095
Trade and bills receivables (Note 14)	1,794
Other receivables and deposits (Note 14)	1,822,530
Pledged deposits (Note 15)	1,607,400
Cash and cash equivalents (Note 16)	2,086,712
Total	7,159,531
As at 31 December 2009	
Amounts due from customers for contract works (Note 13)	4,645,737
Trade and bills receivables (Note 14)	268,143
Other receivables and deposits (Note 14)	2,188,135
Pledged deposits (Note 15)	1,866,789
Cash and cash equivalents (Note 16)	2,862,810
Total	11,831,614
As at 31 August 2010	
Amounts due from customers for contract works (Note 13)	4,274,106
Trade and bills receivables (Note 14)	382,962
Other receivables and deposits (Note 14)	3,257,696
Pledged deposits (Note 15)	4,785,642
Cash and cash equivalents (Note 16)	3,444,992
Total	16,145,398

	Liabilities at fair value through profit or loss	Other financial liabilities at amortised cost	Total
	RMB'000	*RMB'000*	*RMB'000*
Liabilities as per combined balance sheet			
As at 31 December 2007			
Trade and other payables (Note 20)	—	2,833,677	2,833,677
Preferred shares (Note 21)	—	1,856,201	1,856,201
Derivative financial instruments (Note 23)	3,640	—	3,640
Total	3,640	4,689,878	4,693,518
As at 31 December 2008			
Trade and other payables (Note 20)	—	4,909,611	4,909,611
Borrowings (Note 21)	—	1,395,610	1,395,610
Preferred shares (Note 21)	—	2,240,344	2,240,344
Total	—	8,545,565	8,545,565
As at 31 December 2009			
Trade and other payables (Note 20)	—	4,637,682	4,637,682
Borrowings (Note 21)	—	3,981,033	3,981,033
Preferred shares (Note 21)	—	2,702,600	2,702,600
Derivative financial instruments (Note 23)	383	—	383
Finance lease liability (Note 21)	—	499,819	499,819
Total	383	11,821,134	11,821,517
As at 31 August 2010			
Trade and other payables (Note 20)	—	2,773,572	2,773,572
Borrowings (Note 21)	—	18,945,221	18,945,221
Finance lease liability (Note 21)	—	521,939	521,939
Total	—	22,240,732	22,240,732

Company

	Loans and receivables
	RMB'000
Assets as per balance sheet	
As at 31 August 2010	
Other receivables	62
Cash and cash equivalents	4
Total	66

	Other financial liabilities at amortised cost
	RMB'000
Liabilities as per balance sheet	
As at 31 August 2010	
Amounts due to subsidiaries	91
Other payables	29
Total	120

12 Inventories — Group

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	329,200	912,559	999,479	1,460,215
Work in progress	—	—	—	28,644
Finished goods	—	—	—	45,041
	329,200	912,559	999,479	1,533,900

The cost of inventories recognised as expense and included in "Cost of sales" amounted to RMB349,127,000, RMB3,619,752,000, RMB5,737,249,000, RMB2,859,877,000 and RMB5,043,208,000 for the three years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 2010, respectively.

13 Construction contracts — Group

	As at 31 December			As at 31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	728,427	5,404,508	14,943,803	22,986,646
Less: Progress billings	(2,402,142)	(12,687,072)	(18,382,377)	(24,769,561)
Net balance sheet position for ongoing contracts	(1,673,715)	(7,282,564)	(3,438,574)	(1,782,915)
Presented as:				
Amounts due from customers for contract works	53,578	1,641,095	4,645,737	4,274,106
Amounts due to customers for contract works	(1,710,034)	(8,857,570)	(8,084,311)	(6,057,021)
Provision for foreseeable losses	(17,259)	(66,089)	—	—
	(1,673,715)	(7,282,564)	(3,438,574)	(1,782,915)
Advances received from customers for contract works	95,100	—	505,287	184,590

At 31 December 2007, 2008, 2009 and 31 August 2010, there were no retention monies held by customers for contract works.

Refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB nil, RMB2,445,516,000, RMB 2,155,738,000 and RMB2,870,009,000 as at 31 December 2007, 2008, 2009 and 31 August 2010, respectively.

Movements in the provision for foreseeable losses are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
At 1 January	—	17,259	66,089	66,089	—
Provision for foreseeable losses	17,259	66,089	—	—	—
Utilised during the year/period	—	(17,259)	(66,089)	(66,089)	—
At 31 December/31 August	17,259	66,089	—	—	—

The provision for foreseeable losses has been included in "Cost of sales" in the combined profit and loss.

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

(a) *Trade and bills receivables*

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	—	—	268,143	391,266	—	—	—	—
Less: Provision for doubtful receivables	—	—	—	(13,907)	—	—	—	—
Bills receivables	—	1,794	—	5,603	—	—	—	—
	—	1,794	268,143	382,962	—	—	—	—

At 31 December 2007, 2008, 2009 and 31 August 2010, the ageing analysis of trade and bills receivables by due date is as follows:

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Undue	—	1,794	268,143	367,984	—	—	—	—
Past due 0-180 days	—	—	—	9,417	—	—	—	—
Past due 181-360 days	—	—	—	5,561	—	—	—	—
Past due over 360 days	—	—	—	—	—	—	—	—
	—	1,794	268,143	382,962	—	—	—	—

As at 31 December 2007, 2008 and 2009, no trade receivables were past due.

As at 31 August 2010, trade receivables of RMB13,907,000 relate to certain customers of the Engineering Machinery segment were impaired and provided for. The impaired trade receivables have been past due for four to twelve months as at 31 August 2010.

Movements on the provision for doubtful receivables are as follows:

	RMB'000
At 1 January 2007/2008/2009	—
Acquisition of Zhenyu Engineering Machinery	14,051
Reversal of provision	(144)
At 31 August 2010	13,907

The creation and release of provision for doubtful receivables have been included within "General and administrative expenses" in the combined profit and loss.

As at 31 August 2010, trade receivables of RMB14,978,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is listed above.

Certain customers of the Engineering Machinery segment are granted credit terms of up to 365 days. Except for the trade receivables of RMB267,702,000 as at 31 August 2010 with a related party (Note 39), which is due on 31 December 2010, there is no credit term granted to customers of all other segments and all remaining trade receivables are due upon issuance of billings, accordingly, balances are past due if not settled within one month.

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. The Group does not hold any collateral as security.

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

	Group				**Company**			
	31 December 2007	**31 December 2008**	**31 December 2009**	**31 August 2010**	**31 December 2007**	**31 December 2008**	**31 December 2009**	**31 August 2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB	—	1,794	—	112,777	—	—	—	—
US dollar	—	—	268,143	267,702	—	—	—	—
Euro	—	—	—	2,483	—	—	—	—
	—	1,794	268,143	382,962	—	—	—	—

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

	Group				Company			
	31 December 2007	**31 December 2008**	**31 December 2009**	**31 August 2010**	**31 December 2007**	**31 December 2008**	**31 December 2009**	**31 August 2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Receivables from agents	433,136	1,447,621	1,776,152	1,947,839	—	—	—	—
Other receivables								
- Third parties . .	90,098	14,762	16,372	27,246	—	—	—	—
- Related parties (Note 39)	750,481	355,683	294,645	680,035	—	—	—	62
VAT receivable.	67,334	469,555	356,873	741,660	—	—	—	—
Deposits	2,069	4,464	100,966	602,576	—	—	—	—
Prepayments for property, plant and equipment and land use rights								
- Third parties . .	582,797	538,068	221,588	1,247,030	—	—	—	—
- Related parties (Note 39)	256,015	8,094	—	233,950	—	—	—	—
Prepayments for raw materials								
- Third parties . .	902,411	1,971,397	765,725	2,023,605	—	—	—	—
- Related parties (Note 39)	481,180	854,982	216,026	98,460	—	—	—	—
Prepayments - others. .	2,191	8,823	89,026	184,179	—	—	—	—
	3,567,712	5,673,449	3,837,373	7,786,580	—	—	—	62
Less: non-current portion deposits. . .	—	—	(55,594)	(68,663)	—	—	—	—
Current portion.	3,567,712	5,673,449	3,781,779	7,717,917	—	—	—	62

The non-current deposits are due within four years from the end of the reporting period.

Finance lease is secured by certain refundable deposits with an aggregate carrying value of RMB nil, RMB nil, RMB55,594,000 and RMB85,700,000 as at 31 December 2007, 2008, 2009 and 31 August 2010, respectively.

The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contract and procure the relevant refund guarantees. Pursuant to the agency contracts, the ship buyers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the ship buyers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents (Note 20).

As at 31 December 2007, 2008 and 2009 and 31 August 2010, no other receivables were past due.

The carrying amounts of receivables from agents, other receivables and deposits approximate their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable and deposit mentioned above. The Group does not hold any collateral as security.

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

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB	3,273,997	4,763,687	3,617,096	5,833,126	—	—	—	—
HK dollar	2,270	7,513	13,098	29,111	—	—	—	62
US dollar	291,445	902,249	207,179	1,702,063	—	—	—	—
Euro	—	—	—	220,408	—	—	—	—
Japanese Yen ("JPY")	—	—	—	1,872	—	—	—	—
	3,567,712	5,673,449	3,837,373	7,786,580	—	—	—	62

15 Pledged deposits — Group

Pledged deposits are denominated in the following currencies:

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	—	935,367	1,850,410	4,785,642
US dollar	24,476	672,033	16,379	—
	24,476	1,607,400	1,866,789	4,785,642

Pledged deposits are held in dedicated bank accounts pledged as security for the Group's bills payable, refund guarantees, letters of credit, borrowings and forward contracts (Notes 21 and 36(a)).

16 Cash and cash equivalents

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	297,567	1,833,832	2,862,810	3,444,992	—	—	—	4
Short-term bank deposits	—	252,880	—	—	—	—	—	—
	297,567	2,086,712	2,862,810	3,444,992	—	—	—	4

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

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
Effective interest rate	N/A	3%	N/A	N/A	N/A	N/A	N/A	N/A
Maturity (months)	N/A	1	N/A	N/A	N/A	N/A	N/A	N/A

Cash and cash equivalents are denominated in the following currencies:

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB	5,733	777,155	1,199,878	2,602,882	—	—	—	—
US dollar	291,073	1,309,286	1,662,721	818,039	—	—	—	4
HK dollar	761	271	211	23,998	—	—	—	—
Others	—	—	—	73	—	—	—	—
	297,567	2,086,712	2,862,810	3,444,992	—	—	—	4

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

As at 31 December 2007, 2008, 2009 and 31 August 2010, the Group has cash at bank and short-term bank deposits amounting to RMB243,039,000, RMB2,041,887,000, RMB2,829,787,000 and RMB3,392,519,000, respectively, which are denominated in Renminbi and USD and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

17 Non-current assets held for sale

The non-current asset held for sale as at 31 December 2009 represents interests in two companies, namely 上海熔祥房地產開發有限公司 (Shanghai Rongxiang Property Limited) and 上海錦豪房地產開發有限公司 (Shanghai Jinhao Property Limited) ("Companies For Sale"). The only assets of these companies are the prepayments for the land use rights with a total carrying value of RMB220,000,000. The Companies For Sale were established to purchase certain land use rights in Xuhui District; the amount of RMB 220,000,000 for the purchase of these land use rights was paid in 2009. On 20 November 2009, the Group has entered into an agreement to transfer the interest in the Companies For Sale to a related company, Glorious Property Holdings Limited ("Glorious Property Holdings") (see Note 39 (vi)) for a total consideration of RMB2,000,000,000 of which RMB220,000,000 is for carrying value of the assets of these two companies at 31 December 2009 and RMB1,780,000,000 for outstanding payments to complete the purchase of the land use rights in Xuhui District. Completion of the transfer is expected to occur when the Companies For Sale obtain valid land use rights in accordance with applicable laws, including the payment of the full price for the land use rights by the Companies For Sale. Accordingly, the interests in the Companies For Sale were recognised as non-current assets held for sale as at 31 December 2009. On 29 July 2010, the Group completed the transfer of the Companies For Sale to Glorious Property Holdings with no gains or losses from the transfer.

18 Share capital

The Company was incorporated on 3 February 2010 with an authorised capital of 3,800,000 ordinary shares of HK$0.10 each. On the date of incorporation, the Company issued and allotted 100 shares, credited as fully paid. As at 31 August 2010, the Company has issued 1,000,000 shares with issued share capital of HK$100,000 (equivalent to RMB95,000).

As disclosed in Note 2, the Financial Information has been prepared on a combined basis such that the financial information of the companies and businesses now comprising the Group during the Relevant Periods were combined. Combined share capital represents the share capital of the Company. For the purpose of the Financial Information, the issued share capital of Rongsheng Heavy Industries Holdings was assumed to have been issued on 1 January 2007, and the difference between that amount and the aggregate amounts of the respective paid-in capital of the companies and businesses now comprising the Group as at 31 December 2007, 2008, 2009 and 31 August 2010 had been recognised under the capital reserve account (Note 19 (a)(i)).

19 Other reserves

(a) *Group*

	Note	Capital reserve	Equity component of preferred shares	Share-based payment reserve	Statutory reserve	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2007	(i)	833,040	—	—	—	833,040
Capital contribution to Rongsheng Investment by the Group's equity holders	(ii)	1,320,000	—	—	—	1,320,000
Deemed distribution to the then equity holder of Rongsheng Heavy Industries	(iii)	(103,040)	—	—	—	(103,040)
Contribution from equity holders to Rongsheng Heavy Industries Holdings	(iv)	81	—	—		81
Deemed distribution to Rongsheng Investment	(v)	(1,780,177)	—	—	—	(1,780,177)
Preferred shares - equity component (Note 21)		—	52,688	—	—	52,688
Value of employee services (Note 27)		—	—	236,609	—	236,609
Balance at 31 December 2007		269,904	52,688	236,609	—	559,201
Balance at 31 December 2008		269,904	52,688	236,609	—	559,201
Transfer to statutory reserve	(vi)	—	—	—	123,988	123,988
Balance at 31 December 2009		269,904	52,688	236,609	123,988	683,189
Capital injection from a minority shareholder of a subsidiary	(vii)	2,277,199	—	—	—	2,277,199
Merger of Shanghai Rongsheng Shipbuilding Trading	(viii)	234	—	—	—	234
Merger of Rong An Power Machinery	(ix)	(84,419)	—	—	—	(84,419)
Redemption of shares from share swap	(x)	(81)	—	—	—	(81)
Issuance of ordinary shares in exchange for interest in Rongsheng Heavy Industries Holdings	(xi)	60	—	—	—	60
Redemption of preferred shares (Note 21)		—	(52,688)	—	—	(52,688)
Transfer to statutory reserve	(vi)	—	—	—	86,594	86,594
Balance at 31 August 2010		2,462,897	—	236,609	210,582	2,910,088

(i) The beginning balance of the capital reserve represents the difference between issued share capital of Rongsheng Heavy Industries Holdings and the aggregate amounts of the respective paid-in capital of the companies and business now comprising the Group as described in Note 18.

(ii) This represents cash contribution of RMB1,320,000,000 to Rongsheng Investment from the equity holders of the Group.

(iii) This represents the consideration of RMB 103,040,000 paid to Fu Hong, the then equity holder of Rongsheng Heavy Industries, in respect of the transfer of Rongsheng Heavy Industries to the Group on 25 June 2007 pursuant to the 2007 Reorganisation.

(iv) This represents the share capital of Rongsheng Heavy Industries Holdings.

(v) The deemed distribution to the then equity holder of the Group represents the net assets of Rongsheng Investment which are not related to the shipbuilding business (the "Non-Operating Assets") and are retained by Rongsheng Investment upon the completion of the 2007 Reorganisation on 11 September 2007.

Details of the net carrying amount of the Non-Operating Assets at the date of the 2007 Reorganisation are as follows:

	As at date of 2007 Reorganisation
	RMB'000
Assets	
Property, plant and equipment (Note 8)	3,211
Other receivables	1,091,603
Pledged deposits	462,427
Cash and cash equivalents	642,234
Liabilities	
Other payables	(321,146)
Borrowings	(655,562)
Net carrying amount of Non-Operating Assets	1,222,767
Attributable to:	
Equity holders of Rongsheng Investment	1,780,177
Non-controlling interests	(557,410)
	1,222,767

(vi) In accordance with the relevant regulations and their article of association, the Company's subsidiaries incorporated in the PRC are required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to general statutory reserve until such reserve has reached 50% of registered capital. This reserve can only be used for specific purposes and is not distributable or transferable to the loans, advances, cash dividends. Appropriation to the general statutory reserve for the years ended 31 December 2007, 2008, 2009 and 31 August 2010 amounted to approximately RMB nil, RMB nil, RMB123,988,000 and RMB86,594,000, respectively.

(vii) During the period ended 31 August 2010, a minority shareholder of a subsidiary has contributed land and shipbuilding facilities to a subsidiary of the Group and in return 4.8% equity interest of the subsidiary was transferred to the minority shareholder. The capital injection included in Capital Reserve of RMB2,277,199,000 represents the fair value of RMB2,551,428,000 of the assets contributed less the book value of non-controlling interests of RMB274,229,000 in which the minority shareholder was entitled to share immediately after the contribution.

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

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

(x) This represents the transfer of shares of Rongsheng Heavy Industries Holdings through swaping of shares.

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

20 Trade and other payables

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	328,005	1,459,393	998,530	681,921	—	—	—	—
Bills payables	33,145	472,903	591,387	230,000	—	—	—	—
Other payables for purchase of property, plant and equipment								
- Third parties	484,152	563,596	540,124	229,401	—	—	—	—
- Related parties (Note 39)	346,420	409,832	280,905	148,790	—	—	—	—
Other payables								
- Third parties	13,258	38,867	72,652	290,843	—	—	—	—
- Related parties (Note 39)	1,618,434	1,838,319	1,500,306	874,718	—	—	—	29
- subsidiaries	—	—	—	—	—	—	—	91
Receipt in advance	—	—	—	18,124				
Payable to an agent	—	—	294,488	52,440	—	—	—	—
Accrued expenses								
- Payroll and welfare	34,218	35,967	23,213	46,728	—	—	—	—
- Design fees	—	118,935	121,152	63,920	—	—	—	—
- Utilities	—	—	46,646	39,954	—	—	—	—
- Outsourcing and processing fee	—	—	151,620	80,566	—	—	—	—
- Others	10,263	7,766	39,872	62,895	—	—	—	—
VAT payable	7,170	7,254	8,107	29,760	—	—	—	—
Other tax-related payables	62,433	134,380	147,622	152,711	—	—	—	—
	2,937,498	5,087,212	4,816,624	3,002,771	—	—	—	120

At 31 December 2007, 2008, 2009 and 31 August 2010, the ageing analysis of trade and bills payables is as follows:

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
0 - 30 days	266,279	1,643,642	995,218	481,466	—	—	—	—
31 - 60 days	50,946	102,675	248,314	203,533	—	—	—	—
61 - 90 days	13,479	105,897	153,529	107,259	—	—	—	—
Over 90 days	30,446	80,082	192,856	119,663	—	—	—	—
	361,150	1,932,296	1,589,917	911,921	—	—	—	—

Trade and other payables are denominated in the following currencies:

	Group				Company			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB	2,743,854	4,538,438	4,254,794	2,515,779	—	—	—	—
US dollar	99,763	460,400	338,351	265,807	—	—	—	—
HK dollar	93,881	88,374	210,562	210,336	—	—	—	120
Euro	—	—	12,917	10,849	—	—	—	—
	2,937,498	5,087,212	4,816,624	3,002,771	—	—	—	120

21 Borrowings - Group

	Group			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank borrowings	—	—	5,000	9,648,723
Shareholder's loan	—	—	—	253,243
Preferred shares	1,856,201	—	—	—
Finance lease liability	—	—	308,291	256,414
	1,856,201	—	313,291	10,158,380
Current				
Bank borrowings	—	1,395,610	3,976,033	8,311,248
Shareholder's loan	—	—	—	78,687
Promissory notes	—	—	—	653,320
Preferred shares	—	2,240,344	2,702,600	—
Finance lease liability	—	—	191,528	265,525
	—	3,635,954	6,870,161	9,308,780
Total borrowings	1,856,201	3,635,954	7,183,452	19,467,160

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

	Group			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	—	3,635,954	6,870,161	9,308,780
Between 1 and 5 years	1,856,201	—	313,291	8,192,109
Over 5 years	—	—	—	1,966,271
	1,856,201	3,635,954	7,183,452	19,467,160

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

	Group			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010
Finance lease liability	—	—	5.67%	5.67%
Borrowings	—	6.96%	5.11%	5.19%
Preferred shares	20%	20%	20%	—

Borrowings amounting to RMB1,395,610,000, RMB4,475,852,000 and RMB18,172,414,000 as at 31 December 2008, 2009 and 31 August 2010 are secured by the land use rights, buildings, construction contracts, pledged deposits, steel plates and guarantee of the Group and related parties (Notes 7, 8, 13, 15 and 39).

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

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

	Group			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB	—	1,395,610	3,429,170	15,796,614
US dollar	1,856,201	2,240,344	3,754,282	2,368,678
HK dollar	—	—	—	1,301,868
	1,856,201	3,635,954	7,183,452	19,467,160

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

	Group			
	31 December 2007	31 December 2008	31 December 2009	31 August 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
6 months or less	—	931,770	5,696,339	10,962,068
6 - 12 months	—	2,704,184	982,295	2,352,000
1 - 5 years	1,856,201	—	504,818	5,150,182
Over 5 years	—	—	—	1,002,910
	1,856,201	3,635,954	7,183,452	19,467,160

The Group has the following undrawn banking facilities:

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Expiring within one year	76,458	1,941,160	4,008,872	15,185,437
Expiring beyond one year	381,879	980,657	2,820,160	4,539,901
	458,337	2,921,817	6,829,032	19,725,338

Preferred shares

On 31 October 2007 and 11 December 2007, Rongsheng Heavy Industries Holdings issued a total of 161,800 mandatorily redeemable convertible preferred shares at RMB11,603.83 ("Notional Amount") per share, for a total consideration of RMB1,877,500,000. The preferred shares would originally mature on 31 October 2009 and the maturity date was extended to 15 January 2010.

The preferred shares can be converted into ordinary shares at the option of the holders of preferred shares from the issue date up to the maturity date and all outstanding convertible preferred shares shall be mandatorily converted to ordinary shares upon the Listing, at the conversion price of RMB11,603.83 per share.

The net proceeds of RMB1,877,500,000 received from the issuance of the preferred shares have been allocated to a liability portion and an equity portion determined at the date of the issuance of the preferred shares as follow:

- The liability component, included in borrowings, is initially recognised at its fair value, which was calculated using a market interest rate for an equivalent non-convertible redeemable preferred share. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the preferred shares. The interest expense charged for the Relevant Periods is calculated using an effective interest rate of 20%.

- The residual amount of the proceeds after deducting the fair value of the liability component, representing the value of the equity conversion option, amounting to RMB52,688,000 has been included in equity in other reserves (Note 19).

The holders of preferred shares Rongsheng Heavy Industries Holdings have submitted a redemption notice on 31 October 2009 to Rongsheng Heavy Industries Holdings to request for redemption of the preferred shares at the Notional Amount plus an incremental amount calculated at a compounded rate of return of 18% per annum. The redemption was completed on 15 January 2010 in which all the preferred shares were redeemed at an aggregate redemption price of RMB2,722,169,000. The preferred shares were redeemed by cash settlement of RMB2,068,849,000, for which RMB1,704,801,000 is obtained by way of a shareholder's loan and RMB364,048,000 by bank borrowings. The shareholder's loan is interest free and fully repayable on the earlier of i) 13 January 2012; and ii) the date on which the shares of the Company is listed on the Hong Kong Stock Exchange. As at 31 August 2010, shareholder's loan of RMB1,451,558,000 has been settled. The remaining preferred shares were redeemed by issuance of promissory notes of RMB653,320,000 to the preferred shares holders. The promissory notes are interest free and repayable on demand.

Finance lease liability

Finance lease liability is effectively secured as the rights to the leased assets revert to the lessor in the event of default.

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross finance lease liability - minimum lease payments				
No later than 1 year	—	—	215,843	287,536
Later than 1 year and no later than 5 years	—	—	323,765	269,421
	—	—	539,608	556,957
Future finance charges on finance lease	—	—	(39,789)	(35,018)
Present value of finance lease liability	—	—	499,819	521,939
The present value of finance lease liability is as follows:				
No later than 1 year	—	—	191,528	265,525
Later than 1 year and no later than 5 years	—	—	308,291	256,414
	—	—	499,819	521,939

22 Deferred income tax — Group

The Group has not recognised any deferred income tax assets or liabilities as at 31 December 2007, 2008 and 2009. The movement in deferred income tax assets and liabilities during the period ended 31 August 2010, without taking into consideration the offsetting of balances with the same tax jurisdiction, is as follows:

Deferred tax liabilities	**Fair value gains**	**Total**
	RMB'000	*RMB'000*
At 31 December 2009	—	—
Acquisition of subsidiary (Note 38)	7,728	7,728
Credited to combined profit or loss	(1,076)	(1,076)
At 31 August 2010	6,652	6,652

Deferred tax assets	**Government grant**	**Provisions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2009	—	—	—
Merger of business (Note 38)	10,169	—	10,169
Acquisition of subsidiary (Note 38)	—	4,767	4,767
Charged to combined profit or loss	—	(2,005)	(2,005)
At 31 August 2010	10,169	2,762	12,931

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

23 Derivative financial instruments - Group

	31 December 2007		31 December 2008		31 December 2009		31 August 2010	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Forward foreign exchange contracts - held for trading	—	3,640	—	—	—	383	—	—

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2007 and 2009 are RMB86,833,000 and RMB79,369,000 respectively.

24 Provision for warranty - Group

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

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

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January.	—	15,515	125,731	132,640
Provision for the year/period				
- Charged to combined profit or loss	15,515	116,306	84,780	68,156
- Utilisation during the year/period	—	(6,090)	(77,615)	(3,827)
- Reversal during the year/period	—	—	(256)	—
At 31 December 2007, 2008, 2009, and 31 August 2010	15,515	125,731	132,640	196,969

25 Accumulated losses - Company

	31 August
	2010
	RMB'000
At 3 February 2010 (date of incorporation)	—
Loss for the period	116
At 31 August 2010	116

26 Expenses by nature

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Raw materials and consumable used	410,359	3,807,453	6,100,103	3,030,633	5,394,593
Amortisation of land use rights (Note 7)	1,225	1,564	1,564	1,042	9,476
Depreciation of property, plant and equipment (Note 8)	25,220	107,124	221,192	132,003	218,307
Amortisation of intangible assets (Note 9)	2,271	3,429	4,155	2,553	5,518
Employee benefit expenses (Note 27)	317,687	236,398	328,159	174,642	238,786
Provision for foreseeable losses (Note 13)	17,259	66,089	—	—	—
Operating lease payments	7,388	23,619	67,036	52,386	36,030
Auditors' remunerations	339	390	554	546	754
Outsourcing and processing costs	25,722	312,105	614,124	284,576	326,769
Commission expense	34,396	102,013	89,209	73,499	128,004
Design fees	85,823	61,038	147,345	56,481	13,154
Agency fees	22,574	75,335	38,413	15,550	44,011
Consultancy fees	17,075	18,945	32,780	14,470	16,507
Other tax-related expenses and customs duties (note a)	28,052	86,428	47,714	28,822	20,685
Bank charges (include refund guarantee charges)	8,825	37,132	60,291	37,610	98,776
Provision for warranty (Note 24)	15,515	116,306	84,524	71,257	68,156
Office expenses and utilities	36,318	135,124	272,896	146,466	115,450
Donations and sponsoring expenses	—	10,500	1,145	446	11,000
Impairment loss on inventory	—	—	1,235	—	1,067
Reversal of provision for doubtful receivables (Note 14)	—	—	—	—	(144)
Inspection fees	7,385	17,796	16,569	10,309	18,974
Insurance premiums	528	10,708	24,892	13,718	14,235
Storage and handling charges	—	3,802	27,048	14,102	25,815
Advertising, promotion and marketing expenses	389	2,189	2,928	2,234	51,012
Miscellaneous expenses	4,160	7,725	6,897	1,461	4,655
Total cost of sales, selling and marketing expenses, general and administrative expenses and other operating expenses (note b, c)	1,068,510	5,243,212	8,190,773	4,164,806	6,861,590

Note

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

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

The Group has incurred employee benefit expenses, depreciation and amortisation of property, plant and equipment and intangible assets for the purpose of research and development. The research and development costs incurred for the years ended 31 December 2007, 2008 and 2009, and for each of the eight months ended 31 August 2009 and 2010, were RMB6,061,000, RMB23,277,000, RMB32,735,000, RMB18,498,000 and RMB35,608,000, respectively. The research and development costs incurred during the period ended 31 August 2010 have been fully subsidised by the government as described in note c.

c During the eight months ended 31 August 2010, the Group has received subsidy of RMB520,000,000 from the Jiangsu Government authorities to compensate costs in which the Group has incurred for research and development of shipbuilding processes, designs and the related people development. The subsidy has been recognised in the combined profit and loss for the period ended 31 August 2010. The subsidy has been deducted against cost of sales of RMB317,612,000, selling and marketing expenses of RMB2,611,000, general and administrative expenses of RMB117,549,000 and finance costs of RMB82,228,000. Among which, RMB125,323,000, RMB173,782,000 and RMB88,059,000 were allocated to the employee benefit expenses, outsourcing and processing costs and office expenses and utilities expenses, respectively.

27 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries and wages	60,489	189,387	262,301	152,136	180,921
Social security costs	14,506	28,705	38,566	13,570	28,357
Contribution to pension plans	2,542	5,507	8,894	3,133	10,122
Other benefits	3,541	12,799	18,398	5,803	22,717
Share-based payment (Note a)	236,609	—	—	—	—
	317,687	236,398	328,159	174,642	242,117
Less: capitalised in inventory	—	—	—	—	(3,331)
Charged to combined profit or loss (Note b)	317,687	236,398	328,159	174,642	238,786

Note

a Share-based payment:

In 2007, the immediate holding company of the Group (Note 39) transferred 50,000 ordinary shares of Rongsheng Heavy Industries (the "Awarded Shares") to Mr. Chen Qiang, the Chief Executive Officer of the Group, for his services rendered to the Group. The valuation of the Awarded Shares was determined using the Income Approach based on Free Cash Flow and amounted to RMB236,609,000. The significant inputs for the valuation were the terms and conditions for the restrictions on transfer, dividend yield of 0.9% and an annual risk-free interest rate of 4.6%. The transfer of shares to the senior management employee has no vesting conditions although the disposal of the shares in the next ten years is conditional on the Listing of the Company and the Group achieving certain profit targets. The Group has no legal or constructive obligation to repurchase the shares in cash.

b During the eight months ended 31 August 2010, the Group has received subsidy from the government to compensate costs the Group has incurred and certain amounts have been recorded by reducing employee benefits expenses. Please refer to note 26 (c) for details.

28 Other income

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Compensation penalty received for cancelled shipbuilding contracts (Note a)	—	—	5,038	—	3,778
Government grants (Note b)	—	12,160	8,462	1,587	14,859
Rental income	—	—	5,700	—	—
Scrap sales (Note c)	—	34,438	102,337	63,166	104,941
Others	—	—	1,780	511	4,290
	—	46,598	123,317	65,264	127,868

Note

a During the year ended 31 December 2009, the renegotiation of shipbuilding contracts resulted in cancellation by customers of 24 shipbuilding contracts. The other income of RMB5,038,000 and RMB3,778,000 for the year ended 31 December 2009 and eight months ended 31 August 2010 represents the termination penalty received for a shipbuilding contract cancelled in 2009.

b Government grants represents cash received from Jiangsu government authorities during years ended 31 December 2008, 2009 and eight months ended 31 August 2009 and 2010 as incentives to develop the shipbuilding industry in the PRC.

c The Group recognised scrap sales of RMB34,438,000, RMB102,337,000, RMB63,166,000 and RMB104,941,000 during the years ended 31 December 2008, 2009 and eight months ended 31 August 2009 and 2010, respectively, as a result of sales of unused scrap steel plates materials.

29 Other (losses)/gains - net

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fair value losses on derivative instruments					
— forward contracts	(3,640)	—	(383)	—	—
Net foreign exchange (losses)/gains (Note 32)	(31,454)	(19,326)	(37,598)	(39,061)	3,642
	(35,094)	(19,326)	(37,981)	(39,061)	3,642

30 Finance income and costs

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Finance income:					
Interest income from bank deposits	1,735	22,862	34,230	19,988	35,608
Net foreign exchange gains/(losses) on financing activities (Note 32)	1,481	—	(845)	—	43,070
	3,216	22,862	33,385	19,988	78,678
Finance costs:					
Interest expense					
- Borrowings and finance lease liability	(11,434)	(32,338)	(249,358)	(125,455)	(357,831)
- Preferred shares	(31,389)	(384,143)	(462,256)	(308,171)	(19,569)
Less: borrowing costs capitalised	42,823	344,339	617,010	366,939	206,995
	—	(72,142)	(94,604)	(66,687)	(170,405)
Net finance income/(costs)	3,216	(49,280)	(61,219)	(46,699)	(91,727)

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation in the years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 2010 were 8%, 19%, 20%, 19% and 4%, respectively.

31 Income tax expense/(credit)

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Current income tax:					
- PRC Enterprise Income Tax ("EIT")	842	—	1,889	1,237	204,555
Overprovision in prior years	—	(24)	—	—	—
Deferred income tax	—	—	—	—	(3,081)
Total income tax expense/(credit)	842	(24)	1,889	1,237	201,474

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law, the EIT rate of both domestic enterprise and foreign investment enterprise is 25% from 1 January 2008 onwards. Prior to 1 January 2008, as a domestic enterprise, the applicable EIT rate for Rongsheng Investment was 33%, and for the other PRC subsidiaries which are Foreign Investment Enterprises ("FIEs"), the applicable foreign EIT ("FEIT") rate was 24%.

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

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

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
(Loss)/profit before income tax	(438,723)	(540,309)	1,306,550	630,970	1,348,576
Tax calculated at domestic tax rates applicable to (loss)/profit of respective companies	(41,683)	(102,201)	339,460	180,139	331,963
Income not subject to tax	(14,795)	(21,412)	(4,770)	(1,763)	(2,344)
Expenses not deductible for tax purposes	55,438	207,185	23,514	17,131	55,722
Effect of tax exemption and tax holiday	—	(86,077)	(356,783)	(207,910)	(195,359)
Tax losses for which no deferred income tax asset was recognised	1,882	3,931	2,888	13,640	12,750
Utilisation of previously unrecognised tax losses	—	(1,426)	(2,420)	—	(1,258)
Overprovision in prior years	—	(24)	—	—	—
Tax charge/(credit)	842	(24)	1,889	1,237	201,474

No Hong Kong profits tax has been provided during the Relevant Periods as the Group had no assessable profit in Hong Kong.

The weighted average applicable tax rate was 10%, 19%, 26%, 28% and 25% for the years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 2010, respectively.

As at 31 December 2007, 2008 and 2009 and 31 August 2010, the Group did not recognise deferred income tax assets of RMB1,882,000, RMB3,931,000, RMB4,399,000 and RMB15,891,000 respectively in respect of losses amounting to RMB5,703,000, RMB15,725,000, RMB17,603,000 and RMB63,583,000 respectively that can be carried forward and utilised against future taxable income.

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

	As at 31 December			As at 31 August
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	—	—	—	—
Within 2 years	—	—	—	—
Within 3 years	—	—	—	6,047
Within 4 years	—	—	6,047	6,524
Within 5 years	5,703	15,725	11,556	51,012
	5,703	15,725	17,603	63,583

Provided that the Hong Kong holding entities could meet criteria set out by the Chinese tax authorities for enjoying treaty benefit on dividend to be received from the PRC subsidiaries, the related withholding income tax on dividend income should be calculated in accordance with the Sino-HK tax arrangement. Deferred income tax liabilities of RMB nil, RMB nil, RMB34,292,000, and RMB77,307,000 as at 31 December 2007, 2008, 2009 and 31 August 2010 have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totaled RMB nil, RMB nil, RMB685,850,000, and RMB1,546,143,000 at 31 December 2007, 2008, 2009 and 31 August 2010, respectively and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Hong Kong holding entities in the foreseeable future.

32 Net foreign exchange (losses)/gains

The exchange differences (charged)/credited in the combined profit or loss are included as follows:

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Net foreign exchange (losses)/gains taken to:					
Other (losses)/gains - net (Note 29)	(31,454)	(19,326)	(37,598)	(39,061)	3,642
Finance income/(costs) - net (Note 30)	1,481	—	(845)	—	43,070
	(29,973)	(19,326)	(38,443)	(39,061)	46,712

33 Directors' and senior management's emoluments

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

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors					
— Basic salaries, housing allowances, other allowances and benefit-in-kind	723	960	8,836	5,106	11,394
— Contribution to pension plans	108	113	188	105	124
— Discretionary bonuses	80	—	—	—	—
— Share-based payment (Note 27)	236,609	—	—	—	—
	237,520	1,073	9,024	5,211	11,518
Senior management					
— Basic salaries, housing allowances, other allowances and benefit-in-kind	943	3,032	1,861	1,230	3,300
— Contribution to pension plans	92	206	273	142	154
— Discretionary bonuses	110	—	—	—	—
	1,145	3,238	2,134	1,372	3,454
	238,665	4,311	11,158	6,583	14,972

The remuneration of each of the Director is set out below:

For the year ended 31 December 2007:

Name	Basic salaries, housing allowances, other allowances and benefit-in-kind	Contribution to pension plans	Discretionary bonuses	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Chen Qiang	390	38	40	236,609	237,077
Deng Hui	—	—	—	—	—
Hong Liang	168	37	20	—	225
Luan Xiao Ming	165	33	20	—	218
Sean S J Wang	—	—	—	—	—
Wang Tao	—	—	—	—	—
Wu Zhen Guo	—	—	—	—	—
Non-executive Director					
Zhang Zhi Rong	—	—	—	—	—
Independent Non-executive Directors					
Zhang Xu Sheng	—	—	—	—	—
Tsang Hing Lun	—	—	—	—	—
Chen Gang	—	—	—	—	—
	723	108	80	236,609	237,520

For the year ended 31 December 2008:

Name	Basic salaries, housing allowances, other allowances and benefit-in-kind	Contribution to pension plans	Discretionary bonuses	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Chen Qiang	480	44	—	—	524
Deng Hui	—	—	—	—	—
Hong Liang	240	44	—	—	284
Luan Xiao Ming	240	25	—	—	265
Sean S J Wang	—	—	—	—	—
Wang Tao	—	—	—	—	—
Wu Zhen Guo	—	—	—	—	—
Non-executive Director					
Zhang Zhi Rong	—	—	—	—	—
Independent Non-executive Directors					
Zhang Xu Sheng	—	—	—	—	—
Tsang Hing Lun	—	—	—	—	—
Chen Gang	—	—	—	—	—
	960	113	—	—	1,073

For the year ended 31 December 2009:

Name	Basic salaries, housing allowances, other allowances and benefit-in-kind	Contribution to pension plans	Discretionary bonuses	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Chen Qiang	601	50	—	—	651
Deng Hui	—	—	—	—	—
Hong Liang	241	50	—	—	291
Luan Xiao Ming	241	41	—	—	282
Sean S J Wang	—	—	—	—	—
Wang Tao	221	47	—	—	268
Wu Zhen Guo	331	—	—	—	331
Non-executive Director					
Zhang Zhi Rong	7,201	—	—	—	7,201
Independent Non-executive Directors					
Zhang Xu Sheng	—	—	—	—	—
Tsang Hing Lun	—	—	—	—	—
Chen Gang	—	—	—	—	—
	8,836	188	—	—	9,024

For the eight months ended 31 August 2009:

Name	Basic salaries, housing allowances, other allowances and benefit-in-kind	Contribution to pension plans	Discretionary bonuses	Share-based payment	Total
	RMB'000 (unaudited)	*RMB'000 (unaudited)*	*RMB'000 (unaudited)*	*RMB'000 (unaudited)*	*RMB'000 (unaudited)*
Executive Directors					
Chen Qiang	381	28	—	—	409
Deng Hui	—	—	—	—	—
Hong Liang	161	28	—	—	189
Luan Xiao Ming	161	21	—	—	182
Sean S J Wang	—	—	—	—	—
Wang Tao	161	28	—	—	189
Wu Zhen Guo	241	—	—	—	241
Non-executive Director					
Zhang Zhi Rong	4,001	—	—	—	4,001
Independent Non-executive Directors					
Zhang Xu Sheng	—	—	—	—	—
Tsang Hing Lun.	—	—	—	—	—
Chen Gang	—	—	—	—	—
	5,106	105	—	—	5,211

For the eight months ended 31 August 2010:

Name	Basic salaries, housing allowances, other allowances and benefit-in-kind	Contribution to pension plans	Discretionary bonuses	Share-based payment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Chen Qiang	480	31	—	—	511
Deng Hui	700	—	—	—	700
Hong Liang	160	31	—	—	191
Luan Xiao Ming	160	31	—	—	191
Sean S J Wang (i)	3,094	—	—	—	3,094
Wang Tao	160	31	—	—	191
Wu Zhen Guo	240	—	—	—	240
Non-executive Director					
Zhang Zhi Rong	6,400	—	—	—	6,400
Independent Non-executive Directors					
Zhang Xu Sheng	—	—	—	—	—
Tsang Hing Lun.	—	—	—	—	—
Chen Gang	—	—	—	—	—
	11,394	124	—	—	11,518

(i) Included in the director's emolument of Sean S J Wang for the eight months ended 31 August 2010 is a sign-on bonus amounted to RMB2,900,000.

(b) ***Five highest paid individuals***

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 2010 include two, one, two, three and three directors, whose emoluments are reflected in the analysis presented above.

The emoluments paid or payable to the remaining three, four, three, two and two individuals for the years ended 31 December 2007, 2008, 2009 and eight months 31 August 2009, 2010 are as follows:

	Number of individuals				
	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
				(unaudited)	
Emoluments bands:					
Nil to HK$1,000,000 (approximately RMB880,000)	3	3	3	2	2
HK$1,000,001 (approximately RMB880,000) to HK$2,000,000 (approximately RMB1,760,000)	—	1	—	—	—
	3	4	3	2	2

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Basic salaries, housing allowance, other allowances and benefit-in-kind	710	2,237	1,083	497	1,130
Contribution to pension plans	76	96	115	57	—
Discretionary bonuses	80	—	—	—	—
	866	2,333	1,198	554	1,130

(c) During the Relevant Periods, except for the sign-on bonus paid to one of the directors during the eight months ended 31 August 2010 as detailed in Note 33(a)(i), no other 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.

34 Earnings per share

(a) *Basic*

Basic (loss)/earnings per share is calculated by dividing the results attributable to equity holders of the Company by the deemed weighted average number of ordinary shares in issue during the year/period, accordingly it has not included the effect of the shares to be issued pursuant to the Company's proposed initial public offering.

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
				(unaudited)	
(Loss)/earnings attributable to equity holders of the Company (RMB'000)	(439,565)	(527,173)	1,302,183	652,721	1,118,763
Deemed weighted average number of ordinary shares in issue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Basic (loss)/earnings per share (RMB per share)	(440)	(527)	1,302	653	1,119

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The fully diluted (loss)/earnings per share for the Relevant Periods is the same as the basic (loss)/earnings per share for the years ended 31 December 2007, 2008, 2009 and eight months ended 31 August 2009 and 2010 as there are no dilutive potential ordinary shares for the Relevant Periods.

35 Note to the combined cash flow statements

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

	Year ended 31 December			Eight months ended 31 August	
	2007	2008	2009	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
(Loss)/profit before income tax	(438,723)	(540,309)	1,306,550	630,970	1,348,576
Adjustments for:					
- Amortisation of land use rights (Note 7)	1,225	1,564	1,564	1,042	9,476
- Depreciation (Note 8)	25,220	107,124	221,192	132,003	223,619
- Amortisation of intangible assets (Note 9)	2,271	3,429	4,155	2,553	5,518
- Share-based payment (Note 27)	236,609	—	—	—	—
- Fair value loss on derivative financial instruments	3,640	—	383	—	—
- Loss on disposal of property, plant and equipment	—	—	249	—	—
- Impairment loss on inventory	—	—	—	—	1,067
- Reversal of provision for doubtful receivable	—	—	—	—	(144)
- Provision for foreseeable losses (Note 13)	17,259	66,089	—	—	—
- Provision for warranty (Note 24)	15,515	116,306	84,780	71,257	68,156
- Utilisation/reversal of provision for warranty (Note 24)	—	(6,090)	(77,871)	(55,413)	(3,827)
- Interest income	(1,735)	(22,862)	(33,385)	(19,988)	(35,608)
- Interest expense	—	72,142	94,604	66,687	170,405
Changes in working capital:					
- Inventories	(318,804)	(583,359)	(86,920)	(1,011,143)	(435,624)
- Amounts due from customers for contract works	(42,675)	(1,587,517)	(3,004,642)	(1,439,958)	371,631
- Trade and other receivables, prepayments and deposits	(3,668,044)	(2,383,787)	1,565,099	103,203	(1,231,548)
- Amounts due to customers for contract works	1,562,944	7,130,258	(839,348)	937,526	(2,027,290)
- Advanced received from customers for contract works	95,100	(95,100)	505,287	471,569	(491,022)
- Trade and other payables	2,662,487	1,791,345	67,425	(548,807)	(1,670,781)
- Derivative financial instruments	—	(3,640)	—	—	(383)
- Long-term deposits	—	—	(55,594)	(60,000)	(13,069)
Cash generated from/(used in) operations	152,289	4,065,593	(246,472)	(718,499)	(3,710,848)

(b) *Financing activities*

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Borrowings at the beginning of year/period	—	—	1,395,610	1,395,610	4,480,852
Merger of Rong An Power Machinery	—	—	—	—	1,200,000
Merger of Shanghai Rongsheng Shipbuilding Trading	—	—	—	—	275,000
Acquisition of Zhenyu Engineering Machinery	—	—	—	—	71,400
Proceeds received from borrowings	994,636	1,395,610	6,854,424	4,808,847	17,690,992
Proceeds from shareholder's loans	—	—	—	—	1,783,488
Issue of promissory notes	—	—	—	—	653,320
Proceeds received from finance lease	—	—	600,000	600,000	200,000
Repayments made for borrowings	(339,074)	—	(4,269,001)	(1,091,614)	(5,258,454)
Repayments made for shareholder's loans	—	—	—	—	(1,451,558)
Repayments made for finance lease	—	—	(100,181)	(53,961)	(177,880)
Deemed distribution to Rongsheng Investment (Note 19(a)(v))	(655,562)	—	—	—	—
Interest expense	11,434	32,338	249,358	125,455	357,831
Interest paid	(11,434)	(32,338)	(249,358)	(125,455)	(357,831)
Borrowings at the end of year/period	—	1,395,610	4,480,852	5,658,882	19,467,160

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Preferred shares at the beginning of year/period	—	1,856,201	2,240,344	2,240,344	2,702,600
Proceeds received	1,877,500	—	—	—	—
Redemption of preferred shares	—	—	—	—	(2,722,169)
Transfer to equity	(52,688)	—	—	—	—
Interest expense	31,389	384,143	462,256	308,171	19,569
Preferred shares at the end of year/period	1,856,201	2,240,344	2,702,600	2,548,515	—

(c) *Major non-cash transactions*

The principal non-cash transactions are the issuance of promissory notes of RMB653,320,000 for redemption of preferred shares on 15 January 2010 (Note 21), the disposal of the non-current assets held for sales at a consideration of RMB2,000,000,000 to a related party, of which RMB220,000,000 (Note 17) has not yet been settled as at 31 August 2010 and the acquisition of Rong An Power Machinery at a consideration of RMB494,920,000 (Note 38(ii)) from related parties, which has not yet been settled as at 31 August 2010.

36 Contingencies

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contingencies:				
Refund guarantees (Note a)	936,224	5,333,448	9,121,757	8,313,565
Litigation (Note b)	—	—	117,064	103,730
Financial guarantees (Note c)	—	—	—	53,010
	936,224	5,333,448	9,238,821	8,470,305

(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. Refund guarantees are secured by land and buildings, pledged deposits, personal and corporate guarantees from close family members of the Principal Shareholder and entities owned by close family members of the Principal Shareholder and vessels under constructions.

(b) ***Litigation***

As at 31 December 2009, subsidiaries of the Group were in dispute with two of its suppliers in relation to the procurement of inventory. The alleged claims against the Group amounted to approximately RMB117,064,000. No provision has been made in respect of these claims as at 31 December 2009 as management has determined, on the basis of legal advice from the Group's external counsel, that it is not probable that these claims would result in an outflow of economic benefits from the Group.

On 30 June 2010, the Group has reached an agreement to settle with one of the suppliers in dispute. The settlement has not resulted in any gains or losses for the eight months ended 31 August 2010.

As at 31 August 2010, subsidiaries of the Group are in dispute with two suppliers in relation to the procurement of inventory. The alleged claims against the Group amounted to approximately RMB103,730,000. Management has determined that it is not probable that these claims would result in an outflow of economic benefits from the Group based on legal advice from the Group's external counsel. Accordingly, no provision has been made in respect of these claims as at 31 August 2010.

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

(c) ***Financial guarantees***

The Group has provided guarantees to certain banks in the PRC in respect of mortgage loans drawn by certain customers of the Engineering Machinery segment. The loans were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the banks should the customers default on the mortgage loans. As at 31 August 2010, the total value of the guaranteed mortgage loan outstanding was RMB56,515,000 in which the Group has made a provision of RMB3,505,000 for mortgage loans with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB53,010,000 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 banks for the guarantees.

On 14 July and 4 October 2010, Fine Profit has entered into subscription agreements with Smart Prove Limited ("Smart Prove") and Star Team Enterprise Inc. ("Star Team") whereby Fine Profit agreed to issue exchangeable notes in the amount of US$40,000,000 and US$50,000,000 to Smart Prove and Star Team, respectively. In connection with the exchangeable notes, the Company has granted a mortgage over the shares of Rongsheng Heavy Industries Holdings in favor of Smart Prove and Star Team. Smart Prove is a company wholly owned by CCB International Asset Management Limited and Star Team is a company wholly owned by Bank of China Group Investment Limited.

37 Commitments

(a) *Capital commitments*

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

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment				
— Contracted but not provided for	1,507,930	1,872,328	1,901,097	2,958,635
Other capital commitment				
— Contracted but not provided for	—	—	1,780,000	—
	1,507,930	1,872,328	3,681,097	2,958,635

Other capital commitment as at 31 December 2009 represents commitment of the Companies For Sale to purchase certain land use rights in the Xuhui District (Note 17).

(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:

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	98	8,014	26,799	56,004
Later than 1 year and no later than 5 years	—	—	32,517	95,749
	98	8,014	59,316	151,753

38 Business combination

(i) *Acquisition of Hefei Zhenyu Engineering Machinery Company Limited*

On 25 June 2010, the Group has completed the acquisition of 88.05% interest in Zhenyu Engineering Machinery from Rongsheng Investment which was a transaction under common control of Mr. Zhang. Zhenyu Engineering Machinery was acquired by Rongsheng Investment from certain unrelated parties on 29 March 2010. The Group accounts for the transaction under common control using the predecessor value method. Therefore for the purpose of this combined financial statements, the Group is deemed to have 88.05% interest acquired in Zhenyu Engineering Machinery from independent third parties for a total consideration of RMB161,740,000 on 29 March 2010. The acquired business contributed revenue of RMB121,361,000 and net profit of RMB18,909,000 to the Group for the period from 29 March 2010 to 31 August 2010. If the acquisition had occurred on 1 January 2010, Group revenue would have been RMB8,184,224,000, and net profit for the period would have been RMB1,146,499,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2010, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

	RMB'000
— Cash paid	161,740
Total purchase consideration	161,740

The goodwill is attributable to the business development in the segment of engineering machinery.

The assets and liabilities as at 29 March 2010 arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	RMB'000	*RMB'000*
Cash and cash equivalents	10,773	10,773
Pledged deposits	8,428	8,428
Trade and other receivables	62,783	62,783
Inventories	92,711	88,413
Intangible assets	21,663	19
Leasehold land and land use right	20,051	12,203
Property, plant and equipment	30,335	25,064
Deferred tax assets	4,767	4,767
Trade and other payables	(42,821)	(42,821)
Borrowings	(71,400)	(71,400)
Current income tax	(1,005)	(1,005)
Deferred tax liabilities	(7,728)	—
Fair value of net assets	128,557	97,224
Non-controlling interests (11.95%)	(21,930)	—
Goodwill (Note 9)	55,113	—
Total purchase consideration	161,740	—
Purchase consideration settled in cash		(161,740)
Cash and cash equivalents acquired		10,773
Net cash outflow on acquisition		(150,967)

Non-controlling interests have been measured at fair value.

(ii) ***Merger of Shanghai Rongsheng Shipbuilding Trading and Rong An Power Machinery***

On 6 June 2010, Rongsheng Investment transferred its 100% shareholding in Shanghai Rongsheng Shipbuilding Trading to Rongsheng Heavy Industries for a consideration of RMB50,000,000 following which Shanghai Rongsheng Shipbuilding Trading was owned as to 100% and controlled by Rongsheng Heavy Industries.

On 30 June 2010, Rongye Mechanical acquired 24% and 25% of the registered capital of Rong An Power Machinery from Rongsheng Investment and Nantong

Accessories for considerations of RMB118,780,800 and RMB123,730,000, respectively. On the same date, Rongsheng Shipbuilding acquired 51% of the registered capital of Rong An Power Machinery from Rongsheng Investment for a consideration of RMB252,409,200. Upon completion of the transfer, the Group obtained control of Rong An Power Machinery as it controls both Rongsheng Shipbuilding and Rongye Mechanical.

These two transactions are considered as combination of businesses under common control as Shanghai Rongsheng Shipbuilding Trading, Rong An Power Machinery and the Group were under common control before and after the transfer. During the period from 31 October 2007 to 15 January 2010, the Group was under the joint control of Mr. Zhang and the holders of the mandatory redeemable convertible preferred shares whereas Shanghai Rongsheng Shipbuilding Trading and Rong An Power Machinery were both controlled by entities under Mr. Zhang's sole control. Upon the redemption of the preferred shares and release of the investors' rights of the preferred shareholders on 15 January 2010, the Group became under Mr. Zhang's sole control. Accordingly, the Group, Rong An Power Machinery and Shanghai Rongsheng Shipbuilding Trading became under common control from 15 January 2010 onwards. Therefore the Group has combined the results of Shanghai Rongsheng Shipbuilding Trading and Rong An Power Machinery from 15 January 2010 onwards.

The predecessor carrying amounts of the assets and liabilities of the combined business as at 15 January 2010 were as follows:

	Shanghai Rongsheng Shipbuilding Trading	**Rong An Power Machinery**
	RMB'000	*RMB'000*
Cash and cash equivalents	4,532	471,235
Trade and other receivables, prepayments and deposits	773,083	500,092
Inventories	1,239	5,914
Intangible assets	—	1,917
Leasehold land and land use right	—	133,867
Property, plant and equipment	332	823,103
Deferred tax assets	—	10,169
Trade and other payables	(453,952)	(155,302)
Advances from customers	—	(170,325)
Borrowings	(275,000)	(1,200,000)
Current income tax	—	(10,169)
Net assets combined	50,234	410,501
Merger reserve	(234)	84,419
Total purchase consideration	50,000	494,920
Satisfied by:		
Cash paid	50,000	—
Other payable to related parties	—	494,920
Total purchase consideration	50,000	494,920
Cash consideration paid	(50,000)	—
Cash and cash equivalents in subsidiaries combined	4,532	471,235
Net cash (outflow)/inflow on acquisition	(45,468)	471,235

39 Related party transactions

Ultimate controlling party of the Group is Mr. Zhang. Fine Profit (incorporated in British Virgin Islands), the immediate and ultimate holding company of the Group, owns 76.88% and 76.88 % of the shares of Rongsheng Heavy Industries Holdings as at 31 December 2008 and 2009 respectively. Fine Profit owns 73.06% of the Company after the 2010 Reorganisation. Fine Profit is wholly owned by Mr. Zhang throughout the Relevant Periods and controls the Group except for the period from 31 October 2007 to 15 January 2010 where it had joint control with the holders of preferred shares of Rongsheng Heavy Industries.

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 Relevant Periods:

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co. Ltd 上海地通建設(集團)有限公司	Entity controlled by a close family member of Mr. Zhang
Nantong Heloifu Shipping Equipment Co. Ltd 南通和來福船舶配套設備有限公司	Entity controlled by a close family member of Mr. Zhang
Rongsheng Investment	Entity controlled by a close family member of Mr. Zhang
Nantong Shengshi Building Materials Co. Ltd 南通晟昰建材有限公司	Entity controlled by a close family member of Mr. Zhang
Shanghai Rongsheng Shipbuilding Trading Company Limited 上海熔盛船舶貿易有限公司	Entity controlled by a close family member of Mr. Zhang (Merge with the Group on 15 January 2010)
New Horizon Green Land Investment Limited	Preferred Shareholder of Rongsheng Heavy Industries Holdings (party which has a joint control over Rongsheng Heavy Industries Holdings from 31 October 2007 to 15 January 2010)
Power Goal Investments Limited	Preferred Shareholder of Rongsheng Heavy Industries Holdings (party which has a joint control over Rongsheng Heavy Industries Holdings from 31 October 2007 to 15 January 2010)
Roxen Star Maritime Inc	Entity controlled by Mr. Zhang
Fu Hong Wei Ye Holdings Ltd. 富宏偉業集團有限公司	Entity controlled by Mr. Zhang
Nantong Drawshine Petrochemical Co. Ltd 南通焯晟石油化工有限公司	Entity controlled by a close family member of Mr. Zhang
Nantong Rongsheng Steel Structure Co., Ltd 南通熔盛鋼結構有限公司	Entity controlled by a close family member of Mr. Zhang
無錫旺佳瑞有限公司	Entity controlled by Mr. Zhang
上海創盟國際建築設計有限公司	Entity controlled by Mr. Zhang
上海陽光投資(集團)有限公司	Entity controlled by Mr. Zhang
上海陽光名邸餐飲管理有限公司	Entity controlled by Mr. Zhang
上海永曄商業投資管理有限公司	Entity controlled by a close family member of Mr. Zhang
上海熔祥房地產開發有限公司	Entity controlled by Mr. Zhang
Nantong Rongsheng Infrastructure Accessories Company Limited 南通熔盛基礎設施配套工程有限公司	Entity controlled by a close family member of Mr. Zhang
上海卓信投資管理有限公司	Entity controlled by a close family member of Mr. Zhang

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

(i) ***Sales of goods and services***

Non-continuing transaction:

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Sales of vessel					
— An entity controlled by Mr. Zhang	—	—	492,942	492,942	—

(ii) ***Purchase of goods and services***

Continuing transactions:

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Purchase of catering services					
— Entities controlled by Mr. Zhang	1,310	206	731	402	247
Purchase of paints					
— Entities controlled by close family members of Mr. Zhang	—	—	683	6	—
Purchase of cranes					
— Entities controlled by close family members of Mr. Zhang	—	—	977	974	—
Purchase of steels and equipments					
— Entities controlled by close family members of Mr. Zhang	132,246	308,880	191,757	122,327	—
Purchase of motor vehicles					
— An entity controlled by Mr. Zhang	—	—	—	—	1,102
	133,556	309,086	194,148	123,709	1,349
Purchase of steels and equipments					
— Entities controlled by close family members of Mr. Zhang	—	—	383,838	5,123	—

(iii) ***Purchase of construction services***

Continuing transactions:

	Year ended 31 December			Eight months ended 31 August	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Purchase of construction services					
— Entities controlled by close family members of Mr. Zhang	555,293	1,266,798	506,795	182,541	184,565
— Entity controlled by Mr. Zhang	—	—	—	—	200
	555,293	1,266,798	506,795	182,541	184,765

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

(iv) ***Year-end balances with related parties***

Group

As at 31 December 2007, 2008, 2009 and 31 August 2010, the balances are interest free, unsecured, repayable on demand and approximate their fair value.

	31 December			31 August
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables for vessel (Note 14):				
— An entity controlled by Mr. Zhang	—	—	268,143	267,702
Prepayments for property, plant and equipment (Note 14):				
— Entities controlled by close family members of Mr. Zhang	256,015	8,094	—	233,950
Prepayments for raw materials (Note 14):				
— Entities controlled by close family members of Mr. Zhang	481,180	854,982	216,026	98,460
Other receivables - non-trade (Note 14):				
— Entities controlled by Mr. Zhang or close family members of Mr. Zhang	666,409	355,609	294,041	679,962
— Mr. Zhang	78	74	74	73
— Holders of mandatory redeemable convertible preferred shares	83,994	—	—	—
— Key management	—	—	530	—
	750,481	355,683	294,645	680,035
Other payables for property, plant and equipment (Note 20):				
— Entities controlled by close family members of Mr. Zhang	346,420	409,832	280,905	148,790
Other payables - non-trade (Note 20):				
— Entities controlled by Mr. Zhang or close family members of Mr. Zhang	1,618,203	1,583,660	1,500,077	874,484
— Mr. Zhang	231	254,659	229	234
	1,618,434	1,838,319	1,500,306	874,718

No provision was required as at 31 December 2007, 2008, 2009 and 31 August 2010 for the above receivables due from the related parties. These related parties have no default history.

Company

As at 31 December 2007, 2008, 2009 and 31 August 2010, the balances are interest free, unsecured, repayable on demand and approximate their fair value.

	31 December			31 August
	2007	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables - non-trade (Note 14):				
— Shareholders	—	—	—	62
	—	—	—	62
Other payables - non-trade (Note 20):				
— A shareholder	—	—	—	29
— Subsidiaries	—	—	—	91
	—	—	—	120

No provision was required as at 31 December 2007, 2008, 2009 and 31 August 2010 for the above receivables due from the related parties. These related parties have no default history.

(v) ***Guarantees provided by related parties***

During the years ended 31 December 2008, 2009 and 31 August 2010, certain of the Group's facilities for borrowings and refund guarantees were secured by guarantees provided by entities controlled by Mr. Zhang and entities controlled by close family members of Mr. Zhang. As at 31 December 2008, 2009 and 31 August 2010, the value of the guarantees provided by related parties were approximately RMB9,000,211,000, RMB17,696,031,000, RMB27,849,775,000 respectively. As at the date of this report, the Group has agreed with the respective lenders to release the said guarantees by the related parties and/or replace them with guarantees from the Company with effect from the date of the Company's listing on The Stock Exchange of Hong Kong Limited.

(vi) ***Other related party transactions***

The Group has entered into an agreement with a subsidiary of Glorious Property, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited and a company controlled by Mr. Zhang, to transfer the Group's interests in two entities to Glorious Property Holdings (see Note 17).

40 Subsequent events

On 6 September 2010, Rongsheng Heavy Industries acquired 100% of the registered capital of Nantong Rongsheng Construction Materials Trading Co. Ltd. from Rongsheng Investment, for consideration of RMB5,000,000. On the same date, Rongsheng Heavy Industries contributed cash of RMB45,000,000 to Nantong Rongsheng Construction Materials Trading Co. Ltd. as additional capital. On 20 September 2010, the Company name of Nantong Rongsheng Construction Materials Trading Co. Ltd. was changed to Nantong Rongjin Steel Construction Engineering Company Limited.

On 7 September 2010, certain land with fair value of RMB18,350,500 has been transferred from Rongsheng Investment (company controlled by Mr. Zhang) to Rongsheng Shipbuilding (subsidiary of the

Group) through capital injection and Rongsheng Heavy Industries has also contributed additional cash of RMB17,630,900 to Rongsheng Shipbuilding as capital. Subsequent to this transaction, Rongsheng Investment and Rongsheng Heavy Industries retained their respective interests in Rongsheng Shipbuilding and the Group continues to control Rongsheng Shipbuilding.

On 20 October 2010, Rongsheng Heavy Industries, Rongsheng Shipbuilding and Rongsheng Investment entered into an exclusive consulting and services agreement ("Services Agreement") for a period of twenty years. The Services Agreement will enable Rongsheng Heavy Industries to obtain 100% of the economic benefits of Rongsheng Shipbuilding with the Group being entitled to approximately a 93.8% effective interest in Rongsheng Shipbuilding.

41 Particulars of principal subsidiaries

As at the date of this report, 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	Economic interest attributable to the Group	Auditor	Years of audit
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27/07/07	Limited liability company	Investment holding; Hong Kong	HK$100,000	98.50%	No statutory audit required	N/A
Rongsheng Engineering Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%	No statutory audit required	N/A
Rongsheng Power Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%	No statutory audit required	N/A
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%	No statutory audit required	N/A
Rongsheng Capital Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%	No statutory audit required	N/A
Clear Joy International Limited	British Virgin Islands	02/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%	No statutory audit required	N/A
Nice In Holdings Limited	British Virgin Islands	13/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%	No statutory audit required	N/A

Shares held directly by the Company

N/A Not Applicable

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	Economic interest attributable to the Group	Auditor	Years of audit
Charm Dragon Holdings Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%	No statutory audit required	N/A
Grace Shine International Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	100%	No statutory audit required	N/A
Head Park Group Limited	British Virgin Islands	25/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%	No statutory audit required	N/A
New Sea Enterprises Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	US$50,000	100%	No statutory audit required	N/A
Mega New International Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%	No statutory audit required	N/A
Host Rich International Enterprise Limited	British Virgin Islands	13/05/09	Limited liability company	Investment holding; Hong Kong	US$1	100%	No statutory audit required	N/A
System Advance Investment Limited	British Virgin Islands	12/01/10	Limited liability company	Investment holding; Hong Kong	US$1	98.50%	No statutory audit required	N/A
Ocean Sino Holdings Limited	British Virgin Islands	18/01/10	Limited liability company	Investment holding; Hong Kong	US$1	98.50%	No statutory audit required	N/A
Power Shine Investments Limited	British Virgin Islands	07/01/10	Limited liability company	Investment holding; Hong Kong	US$1	98.50%	No statutory audit required	N/A
Capital Sign International Limited	British Virgin Islands	26/03/09	Limited liability company	Investment holding; Hong Kong	US$1	98.50%	No statutory audit required	N/A
Dragon Courage Investments Limited	British Virgin Islands	02/04/09	Limited liability company	Investment holding; Hong Kong	US$1	98.50%	No statutory audit required	N/A
Hinco International Limited	Hong Kong	12/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%	PricewaterhouseCoopers	2007 to 2009
Pacific Atlantic Limited	Hong Kong	24/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%	PricewaterhouseCoopers	2007 to 2009

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	Economic interest attributable to the Group	Auditor	Years of audit
Wenca Development Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%	PricewaterhouseCoopers	2007 to 2009
Asiafair International Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%	PricewaterhouseCoopers	2007 to 2009
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%	PricewaterhouseCoopers	2007 to 2009
Wellbo Holdings Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%	PricewaterhouseCoopers	2007 to 2009
Profit On International Development Limited	Hong Kong	15/05/09	Limited liability company	Investment holding; Hong Kong	HK$1	100%	No auditor engaged as not yet required to file the statutory accounts	N/A
Yes Power Corporation Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%	No auditor engaged as not yet required to file the statutory accounts	N/A
Ocean Power International Industrial Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%	No auditor engaged as not yet required to file the statutory accounts	N/A
Glory Sources Limited	Hong Kong	25/01/10	Limited liability company	Dormant	HK$1	98.50%	No auditor engaged as not yet required to file the statutory accounts	N/A
World Profit Corporation Limited	Hong Kong	05/02/10	Limited liability company	Dormant	HK$1	98.50%	No auditor engaged as not yet required to file the statutory accounts	N/A

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	Economic interest attributable to the Group	Auditor	Years of audit
Jiangsu Rongsheng Shipbuilding Co. Ltd. 江蘇熔盛造船有限公司 (formerly known as "Nantong Rongding Shipbuilding Co. Ltd. 南通熔鼎造船有限公司")	PRC	21/06/07	Limited liability company	Manufacturing, maintaining and machining of shipping; Trading of self-produced products; PRC	RMB778,784,897	45.95%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
Nantong Rongsheng Painting Co. Ltd. 南通熔盛塗裝有限公司	PRC	21/06/07	Limited liability company	Painting, coating and fabrication of shipping; Manufacturing and trading of self-produced products; PRC	US$12,620,000	93.58%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
Nantong Rongye Ship 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	US$12,656,000	95%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
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	US$29,700,000	93.58%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009

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	Economic interest attributable to the Group	Auditor	Years of audit
Nantong Rongding Marine Engineering Co. Ltd. 南通熔鼎海洋工程有限公司 (formerly known as "Nantong Rongding Pipe Engineering Co. Ltd. 南通熔鼎管道工程有限公司")	PRC	22/06/07	Limited liability company	Manufacturing and installing of Pipeline and shipping equipments; Trading of self-produced products; PRC	US$12,764,000	95%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
Jiangsu Rongsheng Heavy Industries Co., Ltd. 江蘇熔盛重工有限公司 (formerly known as "江蘇熔煒鋼結構有限公司/富宏偉業(江蘇)物流有限公司")	PRC	08/06/06	Limited liability company	Manufacturing of shipping; Trading of self-produced products; Providing services of shipping; PRC	US$312,000,000	93.77%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
Jiangsu Rongsheng Shipbuilding Engineering Research and Design Company Limited 江蘇熔盛船舶工程設計研究院有限公司	PRC	04/03/08	Limited liability company	Researching, designing and providing consultation for shipbuilding; PRC	RMB10,000,000	93.77%	Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
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	RMB50,000,000	93.77%	Nantong DaHua United CPAS	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009
Anhui Rongan Heavy Industries Machinery Company Limited 安徽熔安重工機械有限公司	PRC	11/03/10	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB100,000,000	100%	No auditor engaged as not yet required to file the statutory accounts	N/A

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	Economic interest attributable to the Group	Auditor	Years of audit
Hefei Zhenyu Engineering Machinery Company Limited 合肥振宇工程機械有限公司 (formerly known as "合肥振宇機械施工有限責任公司/合肥振宇工程機械股份有限公司")	PRC	10/12/98	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB72,000,000	95%	Crowe Horwath Certified Public Accountants Co. Ltd	2007
							Crowe Horwath Certified Public Accountants Co. Ltd	2008
							Crowe Horwath Certified Public Accountants Co. Ltd	2009
Hefei Zhenyu Yida Engineering Machinery Company Limited 合肥振宇意達工程機械有限公司 (formerly known as "安徽科化新材料科技有限公司")	PRC	18/04/03	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB10,000,000	95%	Crowe Horwath Certified Public Accountants Co. Ltd	2009
Hefei Rongan Power Machinery Company Limited 合肥熔安動力機械有限公司	PRC	15/08/07	Limited liability company	Building of marine engines; PRC	RMB494,920,000	69.99%	Anhui Huazhou Certified Public Accountants	2007
							Anhui Huazhou Certified Public Accountants	2008
							Anhui Huazhou Certified Public Accountants	2009
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	69.99%	Shanghai Lixin Certified Public Accountants	2009

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	Economic interest attributable to the Group	Auditor	Years of audit
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	93.77%	RuGao GaoJin Certified Public Accountants Co., Ltd.	2007
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2008
							RuGao GaoJin Certified Public Accountants Co., Ltd.	2009

III SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Group have been prepared for the Company and its subsidiaries in respect of any period subsequent to 31 August 2010. Up to the date of this report, no dividend or distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31 August 2010.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I in this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the "Accountant's Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as at August 31, 2010 as if the Global Offering had taken place on August 31, 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group as at August 31, 2010 or at any future dates following the Global Offering.

	Unadjusted audited combined net tangible assets of our Group attributable to the equity holders of our Company as at August 31, 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of our Group attributable to the equity holders of our Company	Unaudited pro forma adjusted net tangible assets per share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 6)*
Based on an Offer Price of HK$7.30 per share	3,981,144	8,348,637	12,329,781	1.76	2.05
Based on an Offer Price of HK$10.10 per share	3,981,144	11,595,254	15,576,398	2.23	2.59

Notes:

(1) The unadjusted audited combined net tangible assets attributable to the equity holders of our Company as of August 31, 2010 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of our Group attributable to the equity holders of our Company of RMB4,091,722,000 with adjustments for intangible assets of RMB110,578,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$7.30 per Share and HK$10.10 per Share after deduction of the underwriting commission and other related expenses payable by our Company.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 7,000,000,000 Shares to be in issue immediately upon the completion of the Global Offering but takes no account of any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme.

(4) As of September 30, 2010, our Group's property interests were valued by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, and the relevant property valuation reports are set out in Appendix IV — Property Valuation. The net revaluation surplus, representing the excess of market value of the property interests over their book value, is approximately RMB258.6 million. Such revaluation surplus has not been included in our Group's combined financial information as of August 31, 2010 and will not be included in our Group's financial statements for the year ending December 31, 2010. The above adjustment does not take into account the above revaluation surplus. Had the property interests been stated at such valuation, an additional depreciation of RMB6.47 million per annum would be charged against the consolidated profit and loss for the year ending December 31, 2010.

(5) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to August 31, 2010.

(6) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.86.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast basic earnings per Share and unaudited pro forma fully diluted forecast earnings per Share have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on January 1, 2010. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the year ending December 31, 2010 or any future period.

Forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2010 *(Note 1)*	Not less than RMB1,610.5 million (equivalent to approximately HK$1,872.7 million)
Unaudited pro forma forecast basic earnings per Share *(Note 2)*	Not less than RMB0.230 (equivalent to approximately HK$0.268)

Notes:

(1) The forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 is extracted from the section headed "Financial Information — Profit forecast for the year ending December 31, 2010" in this prospectus. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2010 based on the audited combined results of the Group for the eight months ended August 31, 2010 and a forecast of the consolidated results of the Group for the remaining four months ending December 31, 2010 on the basis that the current Group structure had been in existence throughout the whole financial year ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section II of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

(2) The unaudited pro forma forecast basic earnings per Share is calculated by dividing the forecast consolidated profit attributable to the equity holders of the Company for the for the year ending December 31, 2010, assuming that the Company had been listed since January 1, 2010 and a total of 7,000,000,000 Shares to be in issue immediately upon completion of the Global Offering were issued and outstanding during the entire period. The calculation assumes that the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme will not be exercised.

C. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED

We report on the unaudited pro forma financial information of China Rongsheng Heavy Industries Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-3 under the headings of "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Unaudited Pro Forma Forecast Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated November 8, 2010 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-3 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited combined net assets of the Group as at August 31, 2010 with the accountant's report as set out in Appendix I of the Prospectus, comparing the unaudited forecast profit attributable to equity holders of the Company for the year ending December 31, 2010 with the profit forecast as set out in the section headed "Financial Information" in the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the adjusted net tangible assets of the Group as at August 31, 2010 or any future date, or

— the earnings per share of the Group for the year ending December 31, 2010 or any future periods.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, November 8, 2010

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2010

Our forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2010 is set out in the section headed "Financial Information — Profit forecast for the year ending December 31, 2010" in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast consolidated profit attributable to our equity holders for the year ending December 31, 2010, based on the audited combined results of our Group for the eight months ended August 31, 2010, a forecast of the consolidated results of the Group for the remaining four months ending December 31, 2010 on the basis that the current Group structure had been in existence throughout the whole financial year ending December 31, 2010. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as summarised in the Accountant's Report of our Company as set out in Appendix I to this prospectus. The profit forecast has been prepared on the bases that Rongsheng Shipbuilding will be treated as wholly-owned subsidiary of Rongsheng Heavy Industries with the Group being entitled to approximately a 93.8% effective interest in Rongsheng Shipbuilding during the period from November 19, 2010 to December 31, 2010 (for the period January 1, 2010 to November 18, 2010, the results of Rongsheng Shipbuilding has been consolidated into the Group's results as a 49% owned subsidiary of Rongsheng Heavy Industries, in which 45.9% of results were attributable to the Group) and the following principal assumptions:

- It is assumed that the Group will be able to continue in business and will not be materially interrupted by any unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including the occurrence of natural disasters or catastrophes.
- It is assumed that there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in the PRC or any other territories in which the Group operates during the periods covered by the forecast.
- It is assumed that there will be no significant changes in the bases and rates of taxation, surcharges or other government levies in the countries or territories in which the Group operates except as otherwise disclosed in the prospectus.
- It is assumed that there will be no material changes in inflation or interest rates from those currently prevailing in the PRC and any other countries where our customers and suppliers operate during the periods covered by the forecast.
- It is assumed that there will be no material changes in exchange rates during the periods covered by the forecast. The exchange rates set out below have been used in the preparation of the forecasts.

  From September 1 to December 31, 2010
  US$ 1 = RMB6.63
  HK$ 1 = RMB0.8743

- It is assumed that the Group's operations, results, and financial position will not be adversely affected by the occurrence of any of the events described in the risk factors as mentioned in the prospectus.

B. LETTER FROM REPORTING ACCOUNTANT

The following is the text of a letter received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

November 8, 2010

The Directors
China Rongsheng Heavy Industries Group Holdings Limited
Morgan Stanley Asia Limited
CCB International Capital Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the forecast of the consolidated profit attributable to equity holders of China Rongsheng Heavy Industries Group Holdings Limited (the "Company") for the year ending December 31, 2010 (the "Profit Forecast") as set out in the subsection headed "Profit forecast for the year ending December 31, 2010" in the section headed "Financial Information" in the prospectus of the Company dated November 8, 2010 (the "Prospectus").

We conducted our work in accordance with Auditing Guideline 3.341 on "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Forecast, for which the directors of the Company are solely responsible, has been prepared by them based on the audited combined results of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the eight months ended August 31, 2010 and a forecast of the consolidated results of the Group for the remaining four months ending December 31, 2010 on the basis that the current Group structure had been in existence throughout the whole financial year ending December 31, 2010.

In our opinion, the Profit Forecast, so far as the calculations and accounting policies are concerned, has been properly compiled in accordance with the bases and assumptions made by the directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies adopted by the Group as set out in Note 3 of section II in Appendix I of the Prospectus.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

C. LETTER FROM THE JOINT SPONSORS

The following is the text of a letter, prepared for inclusion in this prospectus, received by the Directors from Morgan Stanley, CCBI and J.P. Morgan, the Joint Sponsors in connection with the forecast of the Group's combined profit attributable to equity holders of the Company for the year ending December 31, 2010.

Morgan Stanley 建银国际 CCB International J.P.Morgan

November 8, 2010

The Directors
China Rongsheng Heavy Industries Group Holdings Limited

Dear Sirs,

We refer to the forecast of the combined net profit of China Rongsheng Heavy Industries Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") attributable to equity holders of the Company for the year ending December 31, 2010 (the "Profit Forecast") as set out in the prospectus issued by the Company dated November 8, 2010 (the "Prospectus").

The Profit Forecast, for which you as the directors of the Company (the "Directors") are solely responsible, has been prepared based on the unaudited combined results of the Group for the eight months ended August 31, 2010 and a forecast of the combined results of the Group for the remaining four months ending December 31, 2010.

We have discussed with you the bases and assumptions, as set forth in part (A) of Appendix III to the Prospectus, upon which the Profit Forecast has been made. We have also considered the letter dated November 8, 2010 addressed to yourselves and ourselves from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
Morgan Stanley Asia Limited
Justin Haik
Managing Director

For and on behalf of
CCB International Capital Limited
Simon Lee
Managing Director

For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited
Catherine KC Leung
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at September 30, 2010 of the property interests of the Group.

JONES LANG LASALLE® SALLMANNS

Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

November 8, 2010

The Board of Directors
China Rongsheng Heavy Industries Group Holdings Limited
Suites 2505-2508
25/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which China Rongsheng Heavy Industries Group Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at September 30, 2010 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the properties in Group I (excluding the portions under construction) and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

In valuing the property interests of Group II and the portions under construction in Group I, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the cost and fees to be expended to complete the development.

We have attributed no commercial value to the property interests in Group III and Group IV, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates and Building Ownership Certificates relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Commerce & Finance Law Offices, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 27 years' experience in the valuation of properties in the PRC and 30 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at September 30, 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as at September 30, 2010 RMB
1.	9 parcels of land, 77 buildings and various structures together with 7 buildings and 2 structures being constructed No. 1 Shugang Road Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	6,834,519,000	93.772%	6,408,865,000
2.	2 parcels of land, Dock nos. 1 to 3 and Dock no. 4 under construction No. 1 Shugang Road Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	894,469,000	45.94828%	410,993,000
3.	A parcel of land, 9 buildings and a dock No. 9166 Susong Road Econ-Tech Development Zone Hefei City Anhui Province The PRC	785,592,000	46.55%	365,693,000
4.	A parcel of land, 4 buildings and various structures No. 21 Hongfeng Road Hi-Tech Development Zone Hefei City Anhui Province The PRC	23,614,000	95%	22,433,000
5.	A parcel of land and 2 buildings No. 23 Hehuan Road Hi-Tech Development Zone Hefei City Anhui Province The PRC	13,553,000	95%	12,875,000
	Subtotal:	**8,551,747,000**		**7,220,859,000**

Group II — PROPERTY INTEREST HELD UNDER DEVELOPMENT BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at September 30, 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as at September 30, 2010 RMB
6.	16 buildings and various structures together under construction No. 9166 Susong Road Econ-Tech Development Zone Hefei City Anhui Province The PRC	439,259,000	46.55%	204,475,000
	Subtotal:	**439,259,000**		**204,475,000**

Group III — PROPERTY INTERESTS LEASED AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at September 30, 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as at September 30, 2010 RMB
7.	5 office buildings No.1 Chongchuan Road Nantong City Jiangsu Province The PRC	No commercial value	93.772%	No commercial value
8.	A 4-storey building No.1 Chongchuan Road Nantong City Jiangsu Province The PRC	No commercial value	93.772%	No commercial value
9.	Various units of 12 residential & commercial buildings Jinjia Garden No.12 Shugang Road Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	No commercial value	93.772%	No commercial value

No.	Property	Capital value in existing state as at September 30, 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as at September 30, 2010 RMB
10.	Four 5-storey buildings of Yinfeng Garden located at Changqingsha Town Rugao Municipal Nantong City Jiangsu Province The PRC	No commercial value	93.772%	No commercial value
11.	58 units and 86 car parking spaces of a 15-storey office building No.31 Alley 168 Daduhe Road Putuo District Shanghai The PRC	No commercial value	93.772%	No commercial value
12.	An office unit of a 2-storey building No. 158 Gong Ping Cun Road Huqiao Village Zhelin Town Fengxian District Shanghai The PRC	No commercial value	93.772%	No commercial value
13.	3 office buildings No.1 Chongchuan Road Nantong City Jiangsu Province The PRC	No commercial value	93.772%	No commercial value
14.	Units D-121 and D-223 of Jiahua Business Center No. 808 Hongqiao Road Xuhui District Shanghai The PRC	No commercial value	46.55%	No commercial value
15.	Level 3 of a 5-storey building No. B-1 Building Technical Industrial Park No. 168 Xiangzhang Street Hi-Tech Development Zone Hefei City Anhui Province The PRC	No commercial value	100%	No commercial value

No.	Property	Capital value in existing state as at September 30, 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as at September 30, 2010 RMB
16.	A dock, a wharf and other ancillary structures located at Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	No commercial value	45.94828%	No commercial value
	Subtotal:	**Nil**		**Nil**

Group IV — PROPERTY INTEREST LEASED AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property	Capital value in existing state as at September 30, 2010 RMB	Interest attributable to the Group	Capital value attributable to the Group as at September 30, 2010 RMB
17.	Suites 2505 to 2508 on 25th Floor Two Exchange Square No. 8 Connaught Place Hong Kong	No commercial value	98.5%	No commercial value
	Sub-total:	**Nil**		**Nil**
	Grand total:	**8,991,006,000**		**7,425,334,000**

VALUATION CERTIFICATE

GROUP I — PROPERTY INTERESTS HELD AND OCCUPIED BY THE GROUP IN THE PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
1.	9 parcels of land, 77 buildings and various structures together with 7 buildings and 2 structures being constructed No. 1 Shugang Road Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	The property consists of the following 3 parts: **Part A**: Part A comprises 9 parcels of land with a total site area of approximately 3,806,893.70 sqm, 75 buildings and various ancillary structures erected thereon which were completed in various stages between 2007 and 2010. The 75 buildings have a total gross floor area of approximately 691,212.1 sqm. The buildings mainly include industrial buildings, office buildings, dormitories, canteens, warehouses, transformer rooms and guardhouses. The structures mainly include stacking areas, fabrication platforms, roads and gates. **Part B**: Part B comprises 5 wharves with a total length of approximately 1,392 meters erected along the Yangtze River and 2 transformer rooms with a total gross floor area of approximately 873.68 sqm erected thereon which were completed in 2008. **Part C**: Part C comprises 7 buildings, a wharf with a length of approximately 1,397 meters and a stacking area which are being constructed on the land of Part A. As advised by the Group, Part C is scheduled to be completed in 2011. Upon completion, the 7 buildings will have a total gross floor area of approximately 149,454.8 sqm. The total construction cost of Part C is estimated to be approximately RMB730,820,800, of which RMB416,758,369.48 had been paid up to the date of valuation. The land use rights of the property have been granted for various terms expiring on August 15, 2056, June 12, 2059 and July 17, 2059 for industrial use.	The property is currently occupied by the Group for production, office, warehouse and ancillary purposes except for Part C which is under construction.	6,834,519,000 93.772% interest attributable to the Group: RMB6,408,865,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract - Gao Guo Tu Zi (2005) Chu Zi No. 107, the land use rights of a parcel of land with a site area of approximately 410,528 sqm were contracted to be granted to Nantong Rongsheng Shipbuilding Co., Ltd. for a term of 50 years for industrial use. The land premium was RMB45,174,501.12. As advised by the Company, Nantong Rongsheng Shipbuilding Co., Ltd. is the former name of Jiangsu Rongsheng Investment Group Co., Ltd. ("Rongsheng Investment"), a company beneficially owned by Mr. Zhang Zhi Rong (the ultimate controlling shareholder of the Company).

Pursuant to 4 State-owned Land Use Rights Grant Contracts - Gao Guo Tu Zi (2006) Chu Zi Nos. 19 and 028 and Gao Gu Tu Zi (2007) Chu Zi Nos. 43 and 44, the land use rights of 4 parcels of land with a total site area of approximately 1,632,873 sqm were contracted to be granted to Jiangsu Rongsheng Heavy Industries Group Co., Ltd. (the former name of Rongsheng Investment) for a term of 50 years for industrial use. The total land premium was RMB256,144,124.

2. Pursuant to a Meeting Memorandum issued by the People's Government of Rugao dated November 16, 2007, the land mentioned in note 1 will be reassigned to Jiangsu Rongsheng Heavy Industries Group Co., Ltd. and its subsidiaries with nil consideration and fees. As advised by the Group, the aforesaid land includes the land parcels stated in note 3 and the land parcel set out in note 2 of property no. 2.

3. Pursuant to 5 State-owned Land Use Rights Certificates - Gao Guo Yong (2007) Di Nos. 1405 to 1409, the land use rights of 5 parcels of land with a total site area of approximately 1,933,140.77 sqm have been granted to Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries", a 93.772%-owned subsidiary of the Company) for various terms expiring on August 15, 2056 for industrial use.

4. Pursuant to 4 State-owned Land Use Rights Grant Contracts - 3206822009CR0019 and 3206822009CR0056 to 3206822009CR0058, the land use rights of 4 parcels of land with a total site area of approximately 1,954,660 sqm were contracted to be granted to Rongsheng Investment,for a term of 50 years for industrial use. The total land premium was RMB430,909,200.

   Pursuant to 4 State-owned Land Use Rights Transfer Contracts dated August 27, 2009 entered into between Rongsheng Investment and Rongsheng Heavy Industries, the land use rights of the aforesaid 4 parcels of land with a total site area of approximately 1,873,752.93 sqm were contracted to be transferred to Rongsheng Heavy Industries for various terms expiring on June 12, 2059 and July 17, 2059 at a total consideration of RMB413,109,564.60.

5. Pursuant to 4 State-owned Land Use Rights Certificates - Gao Guo Yong (2010) Di Nos. 609 to 612, the land use rights of the 4 parcels of land mentioned in note 4 with a total site area of approximately 1,873,752.93 sqm have been granted to Rongsheng Heavy Industries for various terms expiring on June 12, 2059 and July 17, 2059 for industrial use.

6. Pursuant to an Other Rights Certificate - Gao Di Ta Xiang Di Ya Di No. 2010-445 dated June 25, 2010, the 4 parcels of land mentioned in note 5 have been mortgaged to Jiangsu Province Branch of China Development Bank for a loan of RMB523,087,835 with a term from January 20, 2010 to January 19, 2018.

7. Pursuant to 74 Building Ownership Certificates - Gao Fang Quan Zheng Zi Di Nos. 69641, 69644 to 69654, 70099 to 70103, 73445 to 73474, 91483 to 91487, 91492 to 91506 and 91509 to 91515, 75 buildings of Part A and 2 buildings of Part B together having a total gross floor area of approximately 692,085.78 sqm are owned by Rongsheng Heavy Industries.

8. Pursuant to 3 Construction Work Planning Permits - Jian Zi Di Gang Nos. 320682201000022 and 320682201000034 and Jian Zi Di Zhen No. 320682200800140 in favor of Rongsheng Heavy Industries, 7 buildings of Part C (with a total planned gross floor area of approximately 149,454.8 sqm) and 27 buildings of Part A (with a total planned gross floor area of approximately 400,781.84 sqm) have been approved for construction.

9. Pursuant to 2 Construction Work Commencement Permits - 3206982010090900001A and 3206822009072000001A in favour of Rongsheng Heavy Industries permission by the relevant local authority was given to commence construction work of 4 buildings of Part C (with a total gross floor area of approximately 147,609 sqm) and 35 buildings of Part A (with a total gross floor area of approximately 135,725 sqm).

10. Pursuant to a Port Work Commencement Report dated July 12, 2010 issued by Rugao Municipal Port and Shipping Management Bureau, Rongsheng Heavy Industries has been approved to commence the construction work of a wharf of Part C with a length of 1,397 meters.

11. For the remaining 3 buildings of Part C with a total gross floor area of approximately 1,845.8 sqm, we have not been provided with relevant Construction Work Commencement Permits.

12. Pursuant to 5 Tenancy Agreements, portions of the property are leased to Nantong Rongye Ship Mechanical and Equipment Installation Co., Ltd., Nantong Rongding Marine Engineering Co., Ltd., Nantong Rongsheng Printing Co., Ltd., Nantong Rongye Storage Co., Ltd. and Nantong Rongjin Steal Construction Engineering Company Limited respectively from Rongsheng Heavy Industries for various terms expiring on June 1, 2012 and September 5, 2010 respectively at a total rental of RMB630,000.

13. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

    a. Rongsheng Heavy Industries has legally obtained the land use rights of the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property;

    b. Rongsheng Heavy Industries has legally obtained the building ownership rights of the 77 buildings mentioned in note 7 and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the aforesaid buildings; and

    c. for the buildings mentioned in note 11, (i) Rongsheng Heavy Industries has not obtained relevant Construction Work Commencement Permits for them. After obtaining relevant Construction Work Commencement Permits, Rongsheng Heavy Industries will have the right to commence the construction; and (ii) Rongsheng Heavy Industries may be ordered by local authorities to stop construction, correct this violation within a certain time limit and imposed a fine of 1% to 2% of the total construction cost of these buildings.

14. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the buildings mentioned in note 11. However, for reference purpose, we are of the opinion that the capital value of them (excluding the land element) as at the date of valuation would be RMB1,020,000 assuming all construction permits have been obtained and they could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
2.	2 parcels of land, Dock nos. 1 to 3 and Dock no. 4 under construction No. 1 Shugang Road Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	The property comprises 2 parcels of land with a total site area of approximately 191,166.81 sqm and 3 docks with lengths ranging from 464 meters to 530 meters, widths ranging from 102 meters to 106 meters and a depth of 11.3 meters, which were completed in 2008. The property also includes a dock of no. 4 which was under construction as at the date of valuation. Dock no. 4 is scheduled to be completed in 2011. Upon completion, it will have a length of 580 meters, a width of 139.5 meters and a depth of 13.3 meters. The total construction cost of Dock no. 4 is estimated to be approximately RMB174,770,000, of which RMB41,092,441 had been paid up to the date of valuation. The land use rights of the property have been granted for various terms expiring on August 15, 2056 and July 17, 2059 respectively for industrial use.	The property is currently occupied by the Group for production purpose except for Dock no.4 which is under construction.	894,469,000 45.94828% interest attributable to the Group: RMB410,993,000

Notes:

1. Pursuant to a State-owned Land Use Rights Transfer Contract dated August 27, 2009 entered into between Jiangsu Rongsheng Investment Group Co., Ltd. and Jiangsu Rongsheng Shipbuilding Co., Ltd. ("Rongsheng Shipbuilding", a 45.94828%-owned subsidiary of the Company), the land use rights of a parcel of land with a site area of approximately 80,907.07 sqm were contracted to be transferred to Rongsheng Shipbuilding for a term expiring on July 17, 2059 at a consideration of RMB17,799,555.40.
2. Pursuant to a State-owned Land Use Rights Certificate - Gao Guo Yong (2010) Di No. 613, the land use rights of the parcel of land mentioned in note 1 with a site area of approximately 80,907.07 sqm have been granted to Rongsheng Shipbuilding for a term expiring on July 17, 2059 for industrial use.
3. Pursuant to an Other Rights Certificate - Gao Di Ta Xiang Di Ya Di No. 2010-444 dated June 25, 2010, the parcel of land mentioned in note 2 has been mortgaged to Jiangsu Province Branch of China Development Bank for a loan of RMB22,492,165 with a term from January 20, 2010 to January 19, 2018.
4. Pursuant to a State-owned Land Use Rights Certificate - Gao Guo Yong (2007) Di No. 1404, the land use rights of a parcel of land with a site area of approximately 110,259.74 sqm have been granted to Rongsheng Shipbuilding for a term expiring on August 15, 2056 for industrial use.
5. Pursuant to a Port Work Commencement Report dated July 12, 2010 issued by Rugao Municipal Port and Shipping Management Bureau, Rongsheng Shipbuilding has been approved to commence the construction work of Dock no. 4 with a length, width and depth of 580 meters, 139.5 meters and 9 meters.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. Rongsheng Shipbuilding has legally obtained the land use rights of the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and
   b. Rongsheng Shipbuilding has legally obtained requisite approvals for Dock no. 4 and has the rights to legally commence the construction of Dock no. 4.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
3.	A parcel of land, 9 buildings and a dock No. 9166 Susong Road Econ-Tech Development Zone Hefei City Anhui Province The PRC	The property comprises a parcel of land with a site area of approximately 565,267.20 sqm and 9 buildings and a dock erected thereon which were completed in 2009 and 2010. The buildings have a total gross floor area of approximately 86,880.30 sqm. The buildings mainly include 4 industrial buildings, an office building, 2 transformer rooms, a pump room and a sewage treatment room. The land use rights of the property have been granted for a term expiring on August 8, 2058 for industrial use. In addition to the above buildings and the dock, there are 16 buildings and various structures which are being constructed on the aforesaid land parcel, the details are set out in this report as property no. 6.	The property is currently occupied by the Group for production, office and ancillary purpose.	785,592,000 46.55% interest attributable to the Group: RMB365,693,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract - He Di Jing Ji Qu Gong Ye No. 2008, the land use rights of a parcel of land with a site area of approximately 565,267.20 sqm were contracted to be granted to Hefei Rongan Power Machinery Co., Ltd. ("Rong An Power Machinery", a 46.55%-owned subsidiary of the Company) for a term of 50 years for industrial use. The land premium was RMB217,062,730.
2. Pursuant to a State-owned Land Use Rights Certificate - He Jing Kai Guo Yong (2009) Di No. 030, the land use rights of a parcel of land with a site area of approximately 565,267.20 sqm have been granted to Rong An Power Machinery for a term expiring on August 8, 2058 for industrial use.
3. Pursuant to 9 Building Ownership Certificates - Fang Di Quan Zheng He Chan Zi Di Nos. 110070868, 110070869, 110070883, 110070889, 110079837 and 110077843 to 110077846, 9 buildings of the property having a total gross floor area of approximately 86,880.30 sqm are owned by Rong An Power Machinery .
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. Rong An Power Machinery has legally obtained the land use rights of the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and
   b. Rong An Power Machinery has legally obtained the building ownership rights of the 9 buildings mentioned in note 3 and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the aforesaid buildings.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
4.	A parcel of land, 4 buildings and various structures No. 21 Hongfeng Road Hi-Tech Development Zone Hefei City Anhui Province The PRC	The property comprises a parcel of land with a site area of approximately 29,999.97 sqm, 4 buildings and various structures erected thereon which were completed in various stages between 2003 and 2007. The buildings have a total gross floor area of approximately 14,003.75 sqm. The buildings comprise 3 industrial buildings and an office building. The land use rights of the property have been granted for a term expiring on April 12, 2052 for industrial use.	The property is currently occupied by the Group for production and office purposes.	23,614,000 95% interest attributable to the Group: RMB22,433,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate - He Gao Xin Guo Yong (2008) Di No. 038, the land use rights of a parcel of land with a site area of approximately 29,999.97 sqm have been granted to Hefei Zhenyu Engineering Machinery Stock Co., Ltd., the former name of Hefei Zhenyu Engineering Machinery Co., Ltd. ("Zhenyu Engineering Machinery", a 95%-owned subsidiary of the Company), for a term expiring on April 12, 2052 for industrial use.
2. Pursuant to 3 Building Ownership Certificates — Fang Di Quan Zheng He Chan Zi Di Nos. 110089579, 110089580 and 110089582, 3 industrial buildings with a total gross floor area of approximately 13,423.75 sqm are owned by Zhenyu Engineering Machinery.
3. Pursuant to 2 Mortgage Contracts of Maximum Amount, the land use rights of the parcel of land mentioned in note 1 and 3 buildings mentioned in note 2 are subject to a mortgage in favour of Hefei Wangjiang Road Sub-Branch of Industrial and Commercial Bank of China Limited (the "Bank"), as security to guarantee the principal obligation under a contract entered into between the Bank and Hefei Zhenyu Engineering Machinery Stock Co., Ltd. for a maximum amount of RMB18,000,000 with the security term from October 21, 2008 to October 20, 2011.
4. For the office building with a gross floor area of approximately 580 sqm, we have not been provided with any proper title certificates.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. Zhenyu Engineering Machinery has legally obtained the land use rights of the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property;
   b. Zhenyu Engineering Machinery has legally obtained the building ownership rights of the 3 buildings mentioned in note 2 and has the rights to occupy, use, transfer, lease, mortgage, or otherwise dispose of the aforesaid buildings; and
   c. for the office building with a gross floor area of approximately 580 sqm mentioned in note 4, Zhenyu Engineering Machinery should apply for relevant planning and construction permits for obtaining proper title certificate. If Zhenyu Eningeering Machinery can not obtain relevant title certificate, the building may be regarded as illegal construction according to the PRC laws and be demolished or confiscated by local authorities accordingly; and at the same time Zhenyu Engineering Machinery may be imposed a fine of up to 10% of the total construction cost of this building.
6. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the office building of the property. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building (excluding the land element) as at the date of valuation would be RMB635,000 assuming the relevant title certificates have been obtained and the building could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
5.	A parcel of land, 2 buildings and various structures No. 23 Hehuan Road Hi-Tech Development Zone Hefei City Anhui Province The PRC	The property comprises a parcel of land with a site area of approximately 23,333.27 sqm, 2 industrial buildings and various structures erected thereon which were completed in 2005. The buildings have a total gross floor area of approximately 5,675.32 sqm. The land use rights of the property have been granted for a term expiring on July 17, 2053 for industrial use.	The property is currently occupied by the Group for production purpose.	13,553,000 95% interest attributable to the Group: RMB12,875,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate - He Gao Xin Guo Yong (2010) Di No. 4, the land use rights of a parcel of land with a site area of approximately 23,333.27 sqm have been granted to Hefei Zhenyu Yida Engineering Machinery Co., Ltd. ("Zhenyu Yida Engineering Machinery", a 95%-owned subsidiary of the Company) for a term expiring on July 17, 2053 for industrial use.
2. Pursuant to 2 Building Ownership Certificates - Fang Di Quan Zheng He Shu Zi Di Nos. 140013727 and 140013753, 2 buildings with a total gross floor area of approximately 5,675.32 sqm are owned by Zhenyu Yida Engineering Machinery.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. Zhenyu Yida Engineering Machinery has legally obtained the land use rights of the property and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land use rights of the property; and
   b. Zhenyu Yida Engineering Machinery has legally obtained the building ownership rights of the 2 buildings mentioned in note 2 and has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the aforesaid buildings.

VALUATION CERTIFICATE

GROUP II — PROPERTY INTEREST HELD UNDER DEVELOPMENT BY THE GROUP IN THE PRC

No.	**Property**	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at September 30, 2010 RMB**
6.	16 buildings and various structures under construction No. 9166 Susong Road Econ-Tech Development Zone Hefei City Anhui Province The PRC	The property comprises 16 buildings and various structures which are being constructed on the land of property no. 3. The property is scheduled to be completed in December 2010. Upon completion, the buildings of the property will have a total gross floor area of approximately 177,027.30 sqm, the details of which are set out as follows:	The property is currently under construction.	439,259,000 46.55% interest attributable to the Group: RMB204,475,000

Usage	**Planned Gross Floor Area (sqm)**
Industrial	108,902.60
Office	36,313.00
Residential	27,670.10
Ancillary	4,141.60
Total:	**177,027.30**

The total construction cost is estimated to be approximately RMB578,889,800, of which RMB293,273,164 had been paid up to the date of valuation.

Notes:

1. Pursuant to 4 Construction Work Planning Permits - He Gui Jing Jian Gong Xu (2009) Nos. 066, 078 and 094 and He Gui Jing Jian Gong Xu (2010) No. 076 in favour of Hefei Rongan Power Machinery Co., Ltd. ("Rong An Power Machinery", a 45.55%-owned subsidiary of the Company), 9 buildings of the property ("Part A", with a total planned gross floor area of approximately 154,198.4 sqm) and 9 buildings of property no. 3 (with a total planned gross floor area of approximately 80,970.5 sqm) have been approved for construction.
2. For the remaining 7 buildings of the property ("Part B") with a total gross floor area of approximately 26,419.6 sqm, we have not been provided with relevant Construction Work Planning Permits.
3. Pursuant to 6 Construction Work Commencement Permits - 010310070002, 01030050013, 010309110003, 010309110012, 010310110001 and 010310030014 in favour of Rong An Power Machinery, permission by the relevant local authority was given to commence the construction work of 8 buildings of Part A (with a total gross floor area of approximately 148,790.2 sqm), 5 buildings of Part B (with a total gross floor area of approximately 26,355.6 sqm) and 3 buildings of property no. 3 (with a total gross floor area of approximately 1,981.9 sqm). As advised by the Group, there is a building with a gross floor area of approximately 6,865.7 sqm under the Construction Work Commencement Permit - 010310110001 which has not commenced the construction as at the date of valuation.
4. For the remaining one building of Part A and 2 buildings of Part B together having a total gross floor area of approximately 1,881.5 sqm, we have not been provided with relevant Construction Work Commencement Permits.
5. As advised by the Group, the property is located on the land parcel under a State-owned Land Use Rights Certificate - He Jing Kai Guo Yong (2009) Di No. 030, the details of which are set out in note 2 of property no. 3.
6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. Rong An Power Machinery has legally obtained requisite approvals for 13 buildings of the property with a total gross floor area of approximately 174,145.8 sqm and has the rights to legally commence the construction of them;

b. for a building of Part A with a gross floor area of approximately 1,817.5 sqm under the Construction Work Planning Permit of He Gui Jing Jian Gong Xu (2009) No.078, (i) Rong An Power Machinery has not obtained relevant Construction Work Commencement Permit for it. After obtaining relevant Construction Work Commencement Permit, Rong An Power Machinery will have the right to commence the construction; and (ii) Rong An Power Machinery may be ordered by local authorities to stop construction, correct this violation within a certain time limit and imposed a fine of 1% to 2% of the construction cost of the building; and

c. for the 2 buildings of Part B with a total gross floor area of approximately 64 sqm, (i) Rong An Power Machinery may be ordered to stop construction; (ii) if the local authorities conclude that it is possible to take measures to eliminate the impact on the implementation of urban and rural planning, Rong An Power Machinery may be ordered to correct this violation within a certain time limit and be imposed a fine of 5% to 10% of the total construction cost; and (iii) in case the local authorities conclude that it is impossible to take measures to eliminate the impact, Rong An Power Machinery may be ordered to dismantle these buildings within a certain time limit, or face the confiscation of these buildings or the gain from the buildings if dismantlement is infeasible.

7. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to the buildings mentioned in note 4. However, for reference purpose, we are of the opinion that the capital value of the buildings (excluding the land element) as at the date of valuation would be RMB4,513,000 assuming all construction permits have been obtained and they could be freely transferred.

VALUATION CERTIFICATE

GROUP III — PROPERTY INTERESTS LEASED AND OCCUPIED BY THE GROUP IN THE PRC

No.	**Property**	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at September 30, 2010** **RMB**
7.	5 office buildings No.1 Chongchuan Road Nantong City Jiangsu Province The PRC	The property comprises 5 office buildings completed in about 2001. The buildings have a total lettable area of approximately 5,393.89 sqm. The property is leased to Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries", a 93.772%-owned subsidiary of the Company) for a term of 4 years expiring on January 31, 2013, at an annual rental of RMB1,700,000, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rongsheng Heavy Industries and Nantong Chongchuan Finance & Accounting Training Center, an independent third party, the property is leased to Rongsheng Heavy Industries for a term of 4 years expiring on January 31, 2013 at an annual rental of RMB1,700,000, exclusive of management fees, water and electricity charges.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
8.	A 4-storey building No.1 Chongchuan Road Nantong City Jiangsu Province The PRC	The property comprises a 4-storey residential building completed in about 2005. The building has a lettable area of approximately 1,442.16 sqm. The property is leased to Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries", a 93.772%-owned subsidiary of the Company) for a term of 4 years expiring on January 31, 2013, at an annual rental of RMB280,000, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rongsheng Heavy Industries and Nantong Chongchuan Economic Development Company, an independent third party, the property is leased to Rongsheng Heavy Industries for a term of 4 years expiring on January 31, 2013 at an annual rental of RMB280,000, exclusive of management fees, water and electricity charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
9.	Various units of 12 residential & commercial buildings Jinjia Garden No.12 Shugang Road Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	The property consists of the following three parts: **Part A**: Part A comprises 46 units on Level 2 of a 2-storey residential & commercial building completed in 2009. **Part B**: Part B comprises 640 units on Levels 2 to 5 of ten 5-storey residential & commercial buildings and the whole of a 3-storey office building which were completed in 2009 and 2010 respectively. **Part C**: Part C comprises the whole of Level 1 of a 5-storey residential & commercial building completed in about 2009. The details of the property are set out as follows: **Part** / **Lettable Area (sqm)** A 1,175 B 68,447.30 C 2,100 **Total: 71,722.3** The property is leased to Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries", a 93.772%-owned subsidiary of the Company) for various terms expiring on March 11, 2011 for Part A, February 29, 2012 for Part B and March 30, 2011 for Part C at a total annual rental of RMB18,118,467, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential and office purposes.	No commercial value

Notes:

1. Pursuant to 3 Tenancy Agreements entered into between Rongsheng Heavy Industries and Nantong Jinjia Garden Real Estate Development Company Limited, an independent third party, the property is leased to Rongsheng Heavy Industries for various term expiring on March 11, 2011 for Part A, February 29, 2012 for Part B and March 30, 2011 for Part C at a total annual rental of RMB18,118,467, exclusive of management fees, water and electricity charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
10.	Four 5-storey buildings of Yinfeng Garden located at Changqingsha Town Rugao Municipal Nantong City Jiangsu Province The PRC	The property comprises four 5-storey residential buildings with a total lettable area of approximately 9,236.96 sqm completed in 2008. The property is leased to Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries", a 93.772%-owned subsidiary of the Company) for a term of 3 years expiring on July 31, 2012, at an annual rental of RMB997,591.68, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for residential purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rongsheng Heavy Industries and Rugao Gaogang Property Management Company Limited, an independent third party, the property is leased to Rongsheng Heavy Industries for a term of 3 years expiring on July 31, 2012, at an annual rental of RMB997,591.68, exclusive of management fees, water and electricity charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
11.	58 units and 86 car parking spaces of a 15-storey office building No.31 Alley 168 Daduhe Road Putuo District Shanghai The PRC	The property comprises 58 units on Levels 1 to 3 and Levels 5 to 10 and 86 car parking spaces of a 15-storey office building completed in 2008. The units have a total lettable area of approximately 12,355.20 sqm. The property is leased to Jiangsu Rongsheng Heavy Industries Co., Ltd. ("Rongsheng Heavy Industries", a 93.772%-owned subsidiary of the Company) for a term commencing from March 5, 2011 and expiring on March 4, 2014. The monthly rental is RMB2,254,824 for the 58 units, exclusive of management fees, water and electricity charges. For the 86 car parking spaces, the monthly rental is nil for 60 car parking spaces and RMB720 for each of the remaining 26 car parking spaces, exclusive of management fees.	The property is currently under decoration.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement and relevant Supplementary Agreement entered into between Rongsheng Heavy Industries and Shanghai Beian Fengshang Real Estate Co., Ltd., an independent third party, the property is leased to Rongsheng Heavy Industries for a term commencing from March 5, 2011 and expiring on March 4, 2014. The monthly rental is RMB2,254,824 for the 58 units, exclusive of management fees, water and electricity charges. For the 86 car parking spaces, the monthly rental is nil for 60 car parking spaces and RMB720 for each of the remaining 26 car parking spaces, exclusive of management fees.
2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
12.	An office unit of a 2-storey building No. 158 Gong Ping Cun Road Huqiao Village Zhelin Town Fengxian District Shanghai The PRC	The property comprises a unit on Level 2 of a 2-storey building completed in 1990. The unit has a lettable area of approximately 20 sqm. The property is leased to Shanghai Rongsheng Shipping Trading Co., Ltd. ("Rongsheng Shipping Trading", a 93.772%-owned subsidiary of the Company) for a term commencing from March 20, 2007 and expiring on March 21, 2017 at an annual rental of RMB6,000.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rongsheng Shipping Trading and Forest Farm of Fengxian District, Shanghai, an independent third party, the property is leased to Rongsheng Shipping Commercial for a term commencing from March 20, 2007 and expiring on March 21, 2017 at an annual rental of RMB6,000.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
13.	3 office buildings No.1 Chongchuan Road Nantong City Jiangsu Province The PRC	The property comprises 3 office buildings completed in about 2005. The buildings have a total lettable area of approximately 1,970.46 sqm. The property is leased to Jiangsu Rongsheng Shipbuilding Engineering Research and Design Co., Ltd. ("Rongsheng Research and Design", a 93.772%-owned subsidiary of the Company) for a term commencing from December 31, 2008 and expiring on December 30, 2010, at a monthly rental of RMB4,000, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rongsheng Research and Design and Nantong Chongchuan Economic Development Company, an independent third party, the property is leased to Rongsheng Naval Engineering for a term commencing from December 31, 2008 and expiring on December 30, 2010 at a monthly rental of RMB4,000, exclusive of management fees, water and electricity charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
14.	Units D-121 and D-223 of Jiahua Business Center No. 808 Hongqiao Road Xuhui District Shanghai The PRC	The property comprises 2 office units of Jiahua Business Center completed in 1994. The units have a total lettable area of approximately 328 sqm. The property is leased to Shanghai Rong An Mechanical & Electrical Equipment Company Limited ("Rong An Mechanical & Electrical Equipment", a 46.55%-owned subsidiary of the Company) for terms of 8 months commencing from March 1, 2010 and expiring on October 31, 2010 and 12 months commencing from November 1, 2010 and expiring on October 31, 2010 at a total monthly rental of RMB30,100, exclusive of management fees, water and electricity charges.	The property was occupied by the Group for office purpose as at the date of valuation.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rong An Mechanical & Electrical Equipment and Shanghai Jiahua Business Center Co., Ltd., Unit D-121 was leased to Rong An Mechanical & Electrical Equipment for a term of 8 months expiring on October 31, 2010, at a monthly rental of RMB20,000, exclusive of management fees, water and electricity charges.
2. Pursuant to a Tenancy Agreement entered into between Hefei Rongan Power Machinery Co., Ltd. ("Rong An Power Machinery"), Unit D-223 was leased to RongAn Power Machinery for a term of 12 months expiring on October 31, 2010 at a monthly rental of RMB10,100, exclusive of management fees, water and electricity charges; pursuant to an Alternation Agreement entered into between Shanghai Jiahua Business Center Co., Ltd., Rong An Power Machinery and Rong An Mechanical & Electrical Equipment, the lessee of this lease has been changed to Rong An Mechanical & Electrical Equipment since November 14, 2009.
3. As advised by the Group, the agreements stated in notes 1 and 2 have terminated after the expiry date of October 31, 2010.
4. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
   a. the Tenancy Agreements are legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
15.	Level 3 of a 5-storey building No. B-1 Building Technical Industrial Park No. 168 Xiangzhang Street Hi-Tech Development Zone Hefei City Anhui Province The PRC	The property comprises Level 3 of a 5-storey building completed in 2009. The property has a lettable area of approximately 1,251.65 sqm. The property is leased to Anhui Rongan Heavy Industries Machinery Company Limited ("Rong An Heavy Industries", a wholly-owned subsidiary of the Company) for a term expiring on June 30, 2012, at a rental of RMB21,590 from May 15, 2010 to June 30, 2010, RMB13/sqm/month from July 1, 2010 to June 30, 2011 and RMB14.3/sqm/month for the remaining months respectively, exclusive of management fees, water and electricity charges.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rong An Heavy Industries and Hefei Hi-Tech Construction & Investment Group Company, the property is leased to Rong An Heavy Industries for a term expiring on June 30, 2012, at a rental of RMB21,590 from May 15, 2010 to June 30, 2010, RMB13/sqm/month from July 1, 2010 to June 30, 2011 and RMB14.3/sqm/month for the remaining months respectively, exclusive of management fees, water and electricity charges.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2010 RMB
16.	A dock, a wharf and other ancillary structures located at Changjiang Town Rugao Municipal Nantong City Jiangsu Province The PRC	The property consists of the following 2 parts: **Part A**: Part A comprises a dock with a length of 300 meters and a width of 50 meters and other ancillary structures. **Part B**: Part B comprises a wharf with a length of approximately 245 meters and a stacking area with a site area of approximately 1,200 sqm. The property is leased to Jiangsu Rongsheng Shipbuilding Co., Ltd. ("Rongsheng Shipbuilding", a 45.94828%-owned subsidiary of the Company) for terms expiring on December 31, 2011 and March 30, 2012 respectively.	The property is currently occupied by the Group for production purpose.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Rongsheng Shipbuilding and Jiangsu Haitong Marine Engineering Equipment Company Limited (a) Part A, a goliath gantry crane and a dock crane are leased to Rongsheng Shipbuilding for a term from January 1, 2011 to December 31, 2011 with an annual rental of RMB31,500,000 to RMB42,000,000 depended on the output of the dock of Part A; (b) Part B and a wharf crane are leased to Rongsheng Shipbuilding for a term from April 1, 2011 to March 30, 2012 with an annual rental of RMB2,940,000 for Part B and RMB500 per hour for the crane.

2. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the Company's PRC legal advisers, which contains, inter alia, the following:

   a. the Tenancy Agreement is legal and valid, binding on both signing parties, and enforceable.

VALUATION CERTIFICATE

GROUP IV — PROPERTY INTEREST LEASED AND OCCUPIED BY THE GROUP IN HONG KONG

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at September 30, 2010 RMB
17.	Suites 2505 to 2508 on 25th Floor Two Exchange Square No. 8 Connaught Place Hong Kong	The property comprises four office units on the 25th floor of a 44-storey office building completed in about 1985. The units have a total lettable area of approximately 613.81 sqm. (6,607 sq.ft.) The property is leased by Wellbo Holdings Limited, a 98.5%-owned subsidiary of the Company, from The Hongkong Land Property Company Limited for a term of 3 years expiring on June 30, 2013, at a monthly rental of HK$673,914, exclusive management fees, rates and other outgoings.	The property is currently occupied by the Group for office purpose.	No commercial value

Notes:

1. The registered owner of the property is The Hongkong Land Property Company vide Memorial No. UB3069643 dated 2/6/1986.

PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directive sand orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws 全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on June 10, 1981, the Supreme People's Court has the power to issue general interpretations on the application of laws in judicial proceedings in addition to its power to issue specific interpretations in specific cases. The State Council and its ministries and commissions are also vested with the power to issue interpretations of the rules and regulations promulgated by itself. At the regional level, the power to issue interpretations of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry the force of law.

Judicial System

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中華人民共和國憲法) and the Law of Organization of the People's Courts of the People's Republic of China (中華人民共和國法院組織法), the People's Courts comprise the Supreme People's Court, the People's Local Courts, military courts and other special People's Courts. The People's Local Courts are divided into three levels, namely, the basic People's Courts, intermediate People's Courts and higher People's Courts. The basic People's Courts are divided into civil, criminal, administrative and economic divisions. The intermediate People's Courts have divisions similar to those of the basic People's Courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of People's Courts at lower levels are subject to supervision of People's Courts at higher levels. The People's procuratorates also have the right to exercise legal supervision over the proceedings of People's Courts of the same or lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the People's Courts of all levels.

The People's Court adopts a two-tier appeal system. At first instance a party may, before a judgment or order takes effect, appeal against the judgment or order of a Local People's Court to the People's Court of the next higher level. Judgments or orders at the second instance of the same level of the People's Court or at the next higher level of the People's Court are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a

People's Court of a higher level finds an error in a final and binding judgment of any People's Court of a lower level which has taken effect, or the presiding judge of a People's Court finds an error in a final and binding judgment which has taken effect in a court over which he presides, a retrial of the case may be ordered according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中華人民共和國民事訴訟法) (the "Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007. The Civil Procedure Law governs the institution of a civil action, the jurisdiction of the People's Courts, the procedures for the conduct of a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's country of domicile. The jurisdiction may also be selected by express agreement of the contractual parties provided that the jurisdiction of the People's Court so selected is connected with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or performed in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. In respect of litigation, a foreign national or foreign enterprise is accorded the same rights and subject to the same obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a People's Court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the People's Court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a People's Court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the People's Court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (中華人民共和國仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognized as such for the purposes of PRC Law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC Law to be arising from contractual and non-contractual mercantile legal relations.

Foreign Exchange Control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, with the authorization of the State Council, issued on December 28, 1993 the Notice on the Further Reform of the Foreign Exchange Control System (中國人民銀行關於進一步改革外匯管理體制的通知) and on March 26, 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理暫行規定) which came into effect on April 1, 1994 respectively. On January 29, 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例) which took effect on April 1, 1996 and revised on January 14, 1997. On June 20, 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定), which took effect on July 1, 1996. On October 25, 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from December 1, 1998, all foreign exchange transactions for FIEs may only be conducted through authorized banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organizations in the PRC.

Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies. In general, all organizations and individuals within the PRC, including FIEs, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by an FIE to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the approval of the foreign exchange administration authority is still required before a PRC enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation in April 1994. CFETC has set up a computerized network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to December 1, 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From December 1, 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorized banks and inter-bank lending between PRC banks.

Share holder Loans Denominated in Foreign Currencies

Any shareholder may extend a foreign currency-denominated loan to an FIE if the applicable statutory test is satisfied. Under the test, the sum of the amount of foreign currency-denominated loans (including long-, medium- and short-term loans) and the amount of Renminbi-denominated loans that are guaranteed by foreign institutions must not exceed the difference between the amount of total investment and the amount of registered capital. The amount of investment and the amount of registered capital of an FIE is each subject to approval by the relevant regulatory authority. If the statutory test is not satisfied, the enterprise may not borrow any additional foreign currency-denominated loans from its shareholders. The enterprise, however, may retain the amount of the loan up to a period of six months, during which it could submit supplementary applications to the regulatory authority for the requisite approval. If the approval is not obtained within this period, the foreign exchange authorities may instruct the relevant bank to return the loan to the shareholder.

In extending foreign-currency loans to an FIE, shareholders must register such loans with the relevant foreign exchange authority and comply with the stipulated settlement procedures. Within 15 days of the signing of the loan contract, the enterprise, as borrower, must submit the said contract to the local foreign exchange agency and complete other registration procedures in order to procure a registration certificate for the loan. The borrowed amount must be wired to the enterprise's account designated for foreign loan transactions. The account may only be opened in one of the designated foreign exchange banks approved by SAFE with the presentation of the registration certificate.

With the approval of the foreign exchange administrative authority, an enterprise may fulfill its repayment obligations under the loan contract by remitting the required amount (including principal and interest) outside of the PRC through its foreign loan account.

Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on December 26, 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the Company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the Company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the Company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalized. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

Company Law

The establishment and operation of corporate entities in the PRC is governed by the PRC Company Law (中華人民共和國公司法), which was promulgated by the Standing Committee of the NPC on December 29, 1993 and became effective on July 1, 1994. The Law was subsequently amended on December 25, 1999, August 28, 2004 and October 27, 2005.

The PRC Company Law generally governs two types of companies: limited liabilities companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liabilities of shareholders of a limited liability company are limited to the contributions which they have made. A joint stock limited company is a company with a registered share capital divided into shares of equal par value, and liabilities of its shareholders are limited to the amount of capital they are legally obliged to contribute for the shares for which they have subscribed.

According to the latest revised PRC Company Law, the principle of "piecing the corporate veil" is adopted and the creditors are allowed, under certain circumstances, to have access to recourse against the assets of the shareholders of a limited liability company or a joint stock limited company for repayment of the debt of the company.

The latest revised PRC Company Law has adopted provisions with respect to one-person limited liability companies, which legitimate the incorporation of one-shareholder limited liability companies in addition to wholly State-owned enterprises. However, if the shareholder of a one-person limited liability company is unable to prove that the property of its invested company is independent from its own property, the shareholder shall bear joint and several liabilities for the debts of such one-person limited liability company.

Wholly Foreign-Owned Enterprise

Wholly foreign-owned enterprises are governed by the Law of the People's Republic of China Concerning Enterprises with Sole Foreign Investments (中華人民共和國外資企業法), which was promulgated on April 12, 1986 and subsequently amended on October 31, 2000, and its Implementation Regulations which were promulgated on December 12, 1990 and subsequently mended on April 12, 2001 (together the "Foreign Enterprises Law").

(a) ***Procedures for establishment of a wholly foreign-owned enterprise***

The establishment of a wholly foreign-owned enterprise will have to be approved by MOC (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOC (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business license from SAIC before it can commence business.

(b) ***Nature***

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by installments and the registered capital must be contributed within the period as approved by MOC (or its delegated authorities) in accordance with relevant regulations.

(c) ***Profit distribution***

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10.0% of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50.0% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

Sino-Foreign Equity

The Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法) which was promulgated on July 8, 1979 and subsequently amended on April 4, 1990 and March 15, 2001 provides that a Sino-foreign equity joint venture is a limited liability company under the Sino-foreign Equity Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the Chinese and foreign investors. The liability of the Chinese and foreign investors are limited to the amount of registered capital contributed. Chinese and foreign investors may make their contributions by installments and the registered capital must be contributed within the period as stated in the Sino-foreign equity joint venture contract.

It is provided that after payment of taxes, a Sino-foreign equity joint venture must make contributions to a reserve fund, an employee bonus and welfare fund and a development fund ("Three Funds"). The allocation ratio for the Three Funds may be determined by the Sino-foreign equity joint venture. The reserve fund may be used by a Sino-foreign equity joint venture to make up its losses and with the consent of the examination and approval authority, can also be used to expand its production operations and to increase its capital. The employee bonus and welfare fund can only be used for the collective benefit and facilities of the employees of the Sino-foreign equity joint venture. The development fund is non-distributable and its usage is similar to that of the reserve fund. A Sino-foreign equity joint venture is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

Dividend Distribution and Remittance

Distribution of dividends is principally governed by the PRC Law on Foreign-invested Enterprises (中華人民共和國外資企業法), which was last amended on October 31, 2000, and the implementation rules promulgated thereunder. Under the applicable regulations, an FIE may only distribute dividends out of the portion of income in excess of (a) the amount of income taxes payable, (b) the respective amounts to be set aside for the reserve fund and the workers' bonus and benefit fund and (c) the amount to be retained to compensate for any previous financial losses not yet compensated for. The amount to be set aside for the reserve funds must not be less than 10.0% of the enterprise's after-tax profit. The undistributed profits during the previous accounting years can be distributed together with the profits available for distribution during this accounting year.

Upon the payment in foreign currencies of any liabilities on its current accounts, an FIE may distribute and remit its after-tax profit as dividends outside of the PRC through its foreign exchange account in one of the designated banks, so long as such distribution is supported by a resolution of its board of directors and other related documents. No prior approval from the foreign exchange department is needed.

Under PRC law, an FIE is required to distribute dividends among its shareholders in accordance with their shares of equity interests in the enterprise.

Return Investment via Overseas Special Purpose Companies

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), a domestic resident shall, before establishing or controlling an overseas special purpose company (the "SPC"), bring the prescriptive materials to the local branch of SAFE (the "SAFE Branch") to apply for going through the procedures for foreign exchange registration of overseas investments, SAFE Branch shall, after examining and checking the materials to be inerrant, affix the special seal for foreign exchange business for capital account transactions on the "Certificate of Foreign Exchange Registration of Overseas Investments" or the "Form of Foreign Exchange Registration of Overseas Investments of the Domestic Individual Resident". Where a domestic resident contributes the assets or stock rights of a domestic enterprise it owns into a SPC, or engages in stock right financing abroad after contributing assets or stock rights into a SPC, it shall go through the procedures for modification of foreign exchange registration of overseas investments with regard to the net asset equities of the SPC it holds. After a SPC accomplishes overseas financing, the domestic resident may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use inside PRC into PRC. A domestic resident may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, stock right assignment expenses, capital decrease expenses, etc. to the SPC. Where a SPC meets with a major capital modification event such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, provision of guaranty to a foreign party, etc., and is not involved in return investment (the "Major Events"), the domestic resident shall, within 30 days as of the major event, apply to the SAFE Branch for going through the procedures for modification or filing of the foreign exchange registration of the overseas investments.

PRC Taxation

Enterprise Income Tax

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles.

In accordance with the "Provisional Regulations of China on Enterprises Income Tax" (中華人民共和國企業所得稅暫行條例) and the "Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises" (中華人民共和國外商投資企業和外國企業所得稅法), each of which has been abolished since January 1, 2008, both domestic enterprises and FIEs incorporated in the PRC are generally subject to an enterprise income tax rate of 33.0%. The PRC government at the central level or its local agencies provides preferential tax treatment, in the form of reduced tax rates or tax holidays, to certain qualified enterprises.

On March 16, 2007, the National People's Congress, the PRC legislature, enacted the Enterprise Income Tax Law (中華人民共和國企業所得稅法), or the EIT Law, which became effective on January 1, 2008. Under the EIT Law, FIEs and domestic companies are subject to a uniform income tax rate of 25.0%. The EIT Law provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the EIT Law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. According to Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) dated December 26, 2007, the income tax rate of the enterprises which have been entitled to a income tax rate of 15.0% will be increased to 18.0% for year 2008, 20.0% for 2009, 22.0% for 2010, 24.0% for 2011 and 25.0% for and after 2012. For those enterprises which are enjoying tax holidays, such tax holidays may continue until their expiration in accordance with the original tax regulations, but where the tax holiday has not yet started because of losses, such tax holiday shall be deemed to commence from the first effective year of the EIT Law.

While the EIT Law equalizes the income tax rates for FIEs and domestic companies, preferential tax treatment will continue to be given to companies in certain encouraged sectors and to entities classified as high-technology companies supported by the PRC government, whether FIEs or domestic companies. According to the EIT Law, entities that qualify as "high-technology companies especially supported by the PRC government" will benefit from a tax rate of 15.0% as compared to the uniform tax rate of 25.0%. However, according to the Implementation Rules of the Enterprise Income Tax Law, or the Implementation Rules, enacted by the State Council dated December 6, 2007 and effective January 1, 2008, there are a number of requirements for a company to qualify as a "high-technology company especially supported by the PRC government," including those relating to business scope, and the new accreditation rules of the "high-technology company especially supported by the PRC government", or the New Accreditation Rules, are yet to be promulgated by relevant authorities.

According to the EIT Law and the Implementation Rules, dividends payable to foreign investors will be subject to the PRC withholding tax at the rate of 10.0% unless the foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. However, due to the Arrangement between the Mainland and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income signed by the two parties on August 21, 2006, a company incorporated in Hong Kong will be subject to a withholding tax at a rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company and it is considered as the "beneficial owner" of any such dividends, or 10% if it holds less than 25% interest in the PRC company or it is not considered as the "beneficial owner" of such dividends. In addition, the PRC State Administration of Taxation promulgated the Notice of Taxation on How to Understand and Determine the "Beneficial Owners" in Tax Agreements (the "Circular 601") (國家稅務總

局關於如何理解和認定稅收協定中"受益所有人"的通知) (國稅函[2009]601號) on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits.

According to the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management body" located within the PRC, such an enterprise may be recognized as a PRC tax resident enterprise and subject to enterprise income tax at the rate of 25%. The PRC State Administration of Taxation issued a Notice on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management on April 22, 2009. The notice defines the Chinese-controlled companies incorporated in foreign jurisdictions (Overseas Chinese Companies) which may be determined to be Chinese resident enterprises for enterprise income tax purposes. According to the notice, an Overseas Chinese Company is defined as an enterprise that is incorporated under the laws of a foreign jurisdiction and primarily controlled by a domestic Chinese enterprise or enterprise group as a shareholder. However, according to this definition, the notice does not apply to foreign-incorporated enterprises that are controlled by PRC individual residents or foreign-incorporated companies and there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises. Therefore, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents.

According to the Enterprise Income Tax Law, dividends received by a qualified PRC tax resident from another qualified PRC tax resident are exempted from enterprise income tax. However, the PRC foreign exchange control authorities, who enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC EIT purposes.

Value Added Tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例) promulgated by the State Council came into effect on January 1, 2009. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中華人民共和國增值稅暫行條例實施細則), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Business Tax

In accordance with the Interim Regulation of the People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例) which was promulgated on December 13, 1993 and amended on November 10, 2008 and came into effect on January 1, 2009, business that provide services (except entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3.0% to 5.0% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

PRC LAWS AND REGULATIONS RELATED TO SHIPBUILDING

On March 23, 2007, the PRC Commission of Science, Technology and Industry for National Defense published the guidelines "Basic Requirements and Evaluation Methods for Production Conditions of Vessel Manufacturing Enterprises" which set out the basic requirements for ship production and the standards for the shipbuilding industry. These guidelines took effect from October 1, 2007. With effect from October 1, 2007, all vessels that we build will have to comply with the standards prescribed.

COAST LINE USE RIGHTS IN THE PRC

Water Law of the People's Republic of China (中華人民共和國水法) (the "Water Law") was promulgated by Standing Committee of the National People's Congress on August 29, 2002 and effective on October 1, 2002. Flood-prevention Law of the People's Republic of China (中華人民共和國防洪法) (the "Flood-Prevention Law") was promulgated by Standing Committee of the National People's Congress on August 29, 1997 and effective on January 1, 1998. According to the Water Law and the Flood-Prevention Law, any projects across or adjacent to rivers are required to be approved by the related water resources authorities. In addition, construction projects involving Coastline Use Right in Jiangsu Province will be required by relevant Water Administrative Authorities to obtain an Occupying Certificate of Riverway Construction Project (the "Certificate").

Both the Water Law and the Flood-Prevention Law stipulate the provisions in connection to remedy and penalty measures. If any projects across or adjacent to rivers are/were constructed without the relevant water resources authorities, the relative water resources authorities have the power and authorization:

(i) to cease the illegal activities and make up the corrective procedures within a given time limit;

(ii) to enjoin to demolish the illegal projects if the law-breaker refuses to take the corrective procedures or the corrective procedures is not approved; and

(iii) to demolish the illegal projects with force at the expenses of the law-breaker, plus a fine varying from RMB10,000 to RMB100,000, if the law-breaker refuses to demolish.

PRC DEVELOPMENT PLANS FOR THE SHIPPING INDUSTRY

As approved by the State Council in September 2006, the National Development and Reform Commission and the Commission of Sciences Technology and Industry for National Defense jointly formulated the Long-term and Mid-term Development Plan for Shipbuilding Industry (the "New Plan"). According to the New Plan, for new shipyard in the form of Sino-foreign joint venture to be built, the Chinese party will require to hold at least 51.0% of the equity interests. The New Plan further states that acquisition of domestic shipyards by offshore companies, wholly foreign-owned enterprises and joint ventures controlled by the foreign party will be deemed as building new shipyard joint ventures.

Moreover, the New Plan sets ups higher threshold entrance to large-scale shipyards. According to the New Plan, the total investment for newly-built large-scale shipbuilding facility projects shall be at least RMB2,000,000,000, of which the capital contribution will be at least 40.0% of the total investment in fixed assets.

On June 9, 2009, the General Office of the State Council promulgated the Plan on Adjusting and Revitalizing the Ship Industry. The plan provides that, among other things, except for the shipbuilding projects included in the New Plan, the relevant authorities will not accept any application of the new dock or/and slipway project. New projects of infrastructure dedicated to the large scale marine engineering equipment need to be approved by the relevant authorities in the state level. No expansion of the current dock or/and slipway projects will be approved within the coming three years.

PRC NEW CATALOGUE OF FOREIGN INVESTMENT INDUSTRIES

PRC industries are generally classified by the State Development and Reform Commission into three types for foreign investment purposes: (i) industries that are encouraged by the PRC government for foreign investment, (ii) industries that are subject to certain restrictions for foreign investment and (iii) industries that are prohibited from foreign investment. According to the latest New Catalogue of Foreign Investment Industries promulgated by the State Development and Reform Commission and the MOC on October 31, 2007, which became effective on December 1, 2007, the PRC shipbuilding industry (ordinary vessels) is classified as a restricted industry that foreign ownership is allowed only up to 49.0%. The shipbuilding industry, the building, repair and design of marine engineering equipments and the design and manufacture of the low-speed and middle-speed marine diesel engines are classified as the encouraged industries but the foreign ownership is allowed only up to 49% as well.

PRC M&A PROVISIONS

On August 8, 2006, the MOC, the State-owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration of Industry and Commerce, the China Securities Regulatory Commission and the SAFE, jointly adopted the Regulations on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the "M&A Regulations") which came into effect on September 8, 2006 and was amended on June 22, 2009. These regulations apply to, among other matters, a foreign investor's purchase of equity interests in a domestic PRC enterprise or subscription of a domestic company's capital increase, resulting in the conversion of the domestic PRC company into a newly established FIE, or a foreign investor's establishment of an FIE and purchase through such FIE, of the assets of a domestic PRC enterprise and operation of such assets, or a foreign investor's purchase of the assets of a domestic PRC enterprise and use of such assets to invest in and establish an FIE to operate such assets. The M&A Provisions provide that application shall be made to the MOC for examination and approval of the acquisition of any company inside the PRC affiliated to a domestic PRC company, enterprise or natural person, which is made in the name of a foreign company lawfully established or controlled by such domestic PRC company, enterprise or natural person.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum Of Association

The Memorandum of Association of the Company was adopted on October 24, 2010 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VIII in the section headed "Documents available for inspection".

2 Articles Of Association

The Articles of Association of the Company were adopted on October 24, 2010 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is HK$3,800,000,000 divided into 38,000,000,000 shares of HK$0.1 each.

2.2 *Directors*

(a) *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(C) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 ***Alteration to constitutional documents***

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 ***Variation of rights of existing shares or classes of shares***

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 ***Alteration of Capital***

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares ratably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and

(c) sub-divide its shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Companies Law.

2.6 ***Special resolution - majority required***

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 ***Voting rights***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) which he represents as that recognized clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorization.

2.8 *Annual general meetings*

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorize) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.9 *Accounts and audit*

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 clear days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 ***Notice of meetings and business to be conducted thereat***

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by notice of not less than 21 clear days and any other extraordinary general meeting shall be called by not less than 14 clear days. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(a) the declaration and sanctioning of dividends;

(b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(c) the election of Directors in place of those retiring;

(d) the appointment of auditors;

(e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.11 ***Transfer of Shares***

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favor of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days notice in case of a rights issue) being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year). In the event that there is an alteration of book closure dates, the Company shall give at least 5 business day's notice by the above-mentioned means. If, however, there are exceptional circumstances (e.g. during a number 8 or higher typhoon signal and black rainstorm warning) that rendered the giving of such publication of advertisement above impossible, the Company shall comply with the requirements as soon as possible.

2.12 ***Power of the Company to purchase its own Shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.13 ***Power of any subsidiary of the Company to own Shares***

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 ***Dividends and other methods of distributions***

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney authorized in writing or if the appointer is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 *Calls on Shares and forfeiture of Shares*

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 *Inspection of register of members*

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in case of a rights issue) being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.18 ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in sub-paragraph 2.4 above.

2.19 ***Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 ***Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 ***Untraceable members***

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on February 3, 2010, under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16 Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18 Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from February 16, 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20 General

Maples and Calder the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the registrar of companies and available for inspection — Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on February 3, 2010. The Company has established a place of business in Hong Kong at Suites 2505-2508, 25th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on September 29, 2010. Mr. Zhang of 35/F, Bowen Lookout, 13 Bowen Road, Mid-Levels, Hong Kong has been appointed as the authorized representative of the Company for the acceptance of service of process in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising a memorandum of association and the articles of association. A summary of certain provisions of the articles of association of the Company and relevant aspects of the Companies Law is set out in Appendix VI to this prospectus.

2. Change in share capital of the Company

The authorized share capital of the Company as at the date of its incorporation was HK$380,000 divided into 3,800,000 Shares of HK$0.10 each.

On February 3, 2010, the Company issued and allotted one subscriber share of a par value of HK$0.10 and 99 shares of par value of HK$0.10.

On September 13, 2010, the Company issued and allotted 999,900 shares of HK$0.10 each.

Pursuant to the resolutions in writing of the shareholders of the Company passed on October 24, 2010, the authorized share capital of the Company was increased from HK$380,000 to HK$3,800,000,000 by the creation of an additional 37,996,200,000 Shares.

Immediately following completion of the Global Offering and the Capitalization Issue but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allocation Option or any options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme, the issued share capital of the Company will be HK$700,000,000 divided into 7,000,000,000 Shares, all fully paid or credited as fully paid and 31,000,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed "Resolutions in writing of all the Shareholders of the Company passed on October 24, 2010" below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of all the Shareholders of the Company passed on October 24, 2010

(i) Pursuant to the resolutions in writing passed by all the Shareholders of the Company on October 24, 2010:

  (a) the Company approved and adopted the Memorandum and Articles of Association;

  (b) the authorized share capital of the Company was increased from HK$380,000 to HK$3,800,000,000 by the creation of an additional 37,996,200,000 Shares;

  (c) the Pre-IPO Share Option Scheme (the principal terms of which are set out in the paragraph headed "Pre-IPO Share Option Scheme" in this Appendix) was approved and adopted and the Directors were authorized, subject to such conditions as set out in the Pre-IPO Share Option Scheme, to grant options to subscribe for Shares under the Pre-IPO Share Option Scheme and to allot, issue and deal with the Shares pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and to take all such actions as may be necessary and/or desirable to implement and give effect to the Pre-IPO Share Option Scheme;

(d) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued (pursuant to the Global Offering, the Capitalization Issue, the exercise of the Over-allocation Option, and the exercise of the options to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Joint Global Coordinators) (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:

(i) the Global Offering was approved and the Directors were authorized to effect the same and to to allot and issue the new Shares pursuant to the Global Offering;

(ii) the proposed listing of the Share on the Stock Exchange as mentioned in the Prospectus was approved and the Directors were authorized to implement such listing;

(iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" under the section headed "Other information" in this Appendix, were approved and adopted with effect from the Global Offering and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such actions as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and

(e) subject to the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 5,599,000,000 Shares credited as fully paid at par to the holders of Shares on the register of members of our Company at the close of business on October 22, 2010 (or as they may direct) in proportion to their respective shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of HK$559,900,000 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares ("**Capitalization Issue**");

(f) a general unconditional mandate was granted to our Directors to, inter alia, allot, issue and deal with Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue referred to in sub-paragraph (e) above and the Global Offering.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or upon the exercise of the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme or the options to be granted under the Share Option Scheme. Such mandate will expire:

(i) at the conclusion of the next annual general meeting of our Company;

(ii) at the end of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Articles of Association; or

(iii) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company,

whichever occurs first;

(g) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (excluding Shares which may be allotted and issued upon the exercise of the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme or the options which may be granted under the Share Option Scheme).

This mandate only relates to repurchase made on the Hong Kong Stock Exchange or on any other stock exchange on which the Shares may be listed (and which is recognized by the HKSFC and the Hong Kong Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations. Such mandate will expire:

(i) at the conclusion of the next annual general meeting of our Company;

(ii) at the end of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Articles of Association; or

(iii) when revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company;

whichever occurs first; and

(h) the general unconditional mandate as mentioned in paragraph (f) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (g) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Capitalization Issue and the Global Offering, excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme, or the options which may be granted under the Share Option Scheme).

4. Corporate reorganization

The companies comprising the Group underwent the Reorganization in preparation for the listing of the Shares on the Stock Exchange. Please refer to the section headed "History, Reorganization and Corporate Structure" in this prospectus for further details.

5. Changes in share capital of subsidiaries

Save as disclosed below, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus:

Rongsheng Engineering Machinery

On July 14, 2010, Mapcal Limited transferred one subscriber share of a par value of HK$0.10 each to the Company.

On July 26, 2010, Rongsheng Engineering Machinery issued 99 shares of a par value of HK$0.10 each to the Company.

Rongsheng Power Machinery

On July 14, 2010, Mapcal Limited transferred one subscriber share of a par value of HK$0.10 each to the Company.

On July 26, 2010, Rongsheng Power Machinery issued 99 shares of a par value of HK$0.10 each to the Company.

Rongsheng Marine Engineering

On July 14, 2010, Mapcal Limited transferred one subscriber share of a par value of HK$0.10 each to the Company.

On July 26, 2010, Rongsheng Marine Engineering issued 99 shares of a par value of HK$0.10 each to the Company.

Rongsheng Capital

On July 14, 2010, Mapcal Limited transferred one subscriber share of a par value of HK$0.10 each to the Company.

On July 26, 2010, Rongsheng Capital issued 99 shares of a par value of HK$0.10 each to the Company.

Rongsheng Heavy Industries Holdings

On January 15, 2010, Rongsheng Heavy Industries Holdings redeemed 161,800 Series A preferred shares previously issued.

On March 18, 2010, Rongsheng Heavy Industries Holdings issued and allotted 161,800 shares of HK$0.10 each to Fine Profit.

Capital Sign International

On March 26, 2009 (being the date of incorporation), Capital Sign International had an authorized share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On April 17, 2009, Capital Sign International issued one share of a par value of US$1.00.

Dragon Courage Investments

On April 2, 2009 (being the date of incorporation), Dragon Courage Investments had an authorized share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On April 17, 2009, Dragon Courage Investments issued one share of a par value of US$1.00.

Power Shine Investments

On January 7, 2010 (being the date of incorporation), Power Shine Investments had an authorized share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On March 2, 2010, Power Shine Investments issued one share of a par value of US$1.00.

System Advance

On January 12, 2010 (being the date of incorporation), System Advance had an authorized share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On March 2, 2010, System Advance issued one share of a par value of US$1.00.

Ocean Sino Holdings

On January 18, 2010 (being the date of incorporation), Ocean Sino Holdings had an authorized share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On March 2, 2010, Ocean Sino Holdings issued one share of a par value of US$1.00.

Host Rich International Enterprises

On May 13, 2009 (being the date of incorporation), Host Rich International Enterprises had an authorized share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

On May 29, 2009, Host Rich International Enterprises issued one share of a par value of US$1.00.

World Profit Corporation

On February 5, 2010 (being the date of incorporation), World Profit Corporation had an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On the same day, one share of a par value of HK$1.00 was issued.

Yes Power Corporation

On January 28, 2010 (being the date of incorporation), Yes Power Corporation had an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On the same day, one share of a par value of HK$1.00 was issued.

Glory Sources

On January 25, 2010 (being the date of incorporation), Glory Sources had an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On the same day, one share of a par value of HK$1.00 was issued.

Ocean Power International Industrial

On January 28, 2010 (being the date of incorporation), Ocean Power International Industrial had an authorized share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. On the same day, one share of a par value of HK$1.00 was issued.

Profit On International Development

On May 15, 2009 (being the date of incorporation), Profit On International Development had an authorized share capital of HK$10,000.00 divided into 10,000 shares of HK$1.00 each. On the same day, one share of a par value of HK$1.00 was issued.

Rongsheng Heavy Industries

On January 15, 2010, the registered capital of Rongsheng Heavy Industries was increased from US$297,000,000.00 to US$321,000,000.00.

Rongsheng Shipbuilding

On September 7, 2010, the registered capital of Rongsheng Shipbuilding was increased from RMB742,803,496.50 to RMB778,784,896.50.

Rong An Heavy Industries

On March 11, 2010, the registered capital of Rong An Heavy Industries was changed from RMB100,000,000.00 to US$14,645,577.00.

Rong An Power Machinery

On February 25, 2010, the registered capital of Rong An Power Machinery was increased from RMB214,920,000.00 to RMB334,920,000.00.

On April 1, 2010, the registered capital of Rong An Power Machinery was increased from RMB334,920,000.00 to RMB494,920,000.00.

Zhenyu Engineering Machinery

On September 8, 2010, the registered capital of Zhenyu Engineering Machinery was increased from RMB72,000,000.00 to RMB100,000,000.00.

Rongjin Steel Engineering

On September 13, 2010, the registered capital of Rongjin Steel Engineering was increased from RMB5,000,000.00 to RMB50,000,000.00.

6. Particulars of subsidiaries

Particulars of our subsidiaries are set out in Note 41 of the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

7. Repurchase of Shares by the Company

(a) ***Provisions of the Listing Rules***

The Listing Rules permit companies whose primary listing is on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(*Note*: Pursuant to resolution passed by the shareholders of the Company on October 24, 2010, a general unconditional mandate (the "Buyback Mandate") was granted to the Directors authorizing the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the HKSFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the completion of the Capitalization Issue and the Global Offering (excluding Shares which may be issued upon the exercise of the Over-allocation Option or the options granted under the Pre-IPO Share Option Scheme or the Options which may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time.

(b) ***Reasons for repurchases***

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to receive the general authority from shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) ***Funding of repurchases***

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

Any payment for the repurchase of Shares will be drawn from the profits of the Company or from the proceeds of a fresh issue of shares made for the purpose of the purchase or, if authorized by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles and subject to the Companies Law, out of capital.

The Directors do not propose to exercise the Buyback Mandate to such an extent as would, under the circumstances, have a material adverse effect in the opinion of the Directors on the working capital requirements of the Company or its gearing levels. However, there might be a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in this prospectus in the event that the Buyback Mandate is exercised in full.

(d) ***Share capital***

Exercise in full of the Buyback Mandate, on the basis of 7,000,000,000 Shares in issue immediately after the listing of the Shares (but taking no account of Shares which may be allotted and issued pursuant to the exercise of the Over-allocation Option, the Pre-IPO Share Option Scheme and the Share Option Scheme), could accordingly result in up to 700,000,000 Shares being repurchased by the Company during the period until:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting,

whichever occurs first.

(e) ***General***

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands. The Company has not repurchased any Shares since its incorporation.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he /she or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Code**"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result. The Directors are not aware of any consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Global Offering, then, taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allocation Option or pursuant to the exercise of the any options which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the total number of Share which will be repurchased pursuant to the Buyback Mandate shall be 700,000,000 Shares (being 10% of the issued share capital of the Company based on the aforesaid assumptions). The percentage shareholding of Fine Profit, a controlling shareholder of the Company, will increase to approximately 57.9% of the issued share capital of the Company immediately following the full exercise of the Buyback Mandate. In the event that the Buyback Mandate is exercised in full, the number of Shares held by the public would fall below 25% of the total number of Shares in issue. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue may only be implemented with the approval of the Stock Exchange to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, the Directors have no present intention to exercise the Buyback Mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(1) an equity transfer agreement dated November 12, 2008 entered into between Rongsheng Investment and Pacific Atlantic, pursuant to which Rongsheng Investment agreed to transfer its 15% equity interest in Rongsheng Painting to Pacific Atlantic for a consideration of US$4,425,000;

(2) an equity transfer agreement dated November 26, 2008 entered into between Rongsheng Investment and Wenca Development, pursuant to which Rongsheng Investment agreed to transfer its 15% equity interest in Rongye Mechanical for a consideration of US$4,440,000;

(3) an equity transfer agreement dated November 26, 2008 entered into between Rongsheng Investment and Asiafair International, pursuant to which Rongsheng Investment agreed to transfer its 15% equity interest in Rongye Storage to Asiafair International for a consideration of US$4,455,000;

(4) an equity transfer agreement dated November 26, 2008 entered into between Rongsheng Investment and Sinwell (H.K.), pursuant to which Rongsheng Investment transferred its 15% equity interest in Rongding Marine Engineering to Sinwell (H.K.) for a consideration of US$4,485,000;

(5) a shareholders agreement dated January 8, 2009 entered into between Rongsheng Investment and Rongsheng Heavy Industries, as supplemented by a supplemental agreement entered into between Rongsheng Investment and Rongsheng Heavy Industries dated October 18, 2010, pursuant to which the parties agreed on the rights and obligations of each party as a shareholder of Rongsheng Shipbuilding effective as of May 21, 2008;

(6) an equity transfer agreement dated February 10, 2009 as supplemented by a supplemental agreement dated February 11, 2009 entered into between 滁州市宏達金屬塑料製品有限公司 and Zhenyu Engineering Machinery, pursuant to which 滁州市宏達金屬塑料製品有限公司 transferred its 100% equity interest in Zhenyu Yida Engineering Machinery to Zhenyu Engineering Machinery for a consideration of RMB13,000,000 (the "**Zhenyu Transfer**");

(7) an agreement dated February 12, 2009 entered into between Zhenyu Yida Engineering Machinery and 滁州市宏達金屬塑料製品有限公司, pursuant to which Zhenyu Yida Engineering Machinery agreed to assign all its receivables to 滁州市宏達金屬塑料製品有限公司 and 滁州市宏達金屬塑料製品有限公司 agreed to pay and guarantee the payment of Zhenyu Yida Engineering Machinery's liabilities up to the date of completion of the Zhenyu Transfer;

(8) an equity transfer agreement dated November 20, 2009 entered into between Rongsheng Shipbuilding and Glorious Wuxi, as supplemented by a consent letter dated May 20, 2010 and a supplemental agreement dated July 16, 2010 entered into between Rongsheng Shipbuilding and Glorious Wuxi, pursuant to which Glorious Wuxi agreed to purchase the entire equity interest in and to assign shareholders' loan of Shanghai Rongxiang Property and Shanghai Jinhao Property from Rongsheng Shipbuilding for a total consideration of RMB2,000 million;

(9) an equity transfer agreement dated December 23, 2009 entered into between Mr. Hu 、胡乾銀、胡乾桂、胡乾珍、項賢峰、王建平、葛宜斌、袁松文 and Rong An Power Machinery, pursuant to which Mr. Hu 、胡乾銀、胡乾桂、胡乾珍、項賢峰、王建平、葛宜斌 and 袁松文 agreed to transfer 12,312,500 shares, 4,990,000 shares, 780,000 shares, 2,385,000 shares, 750,000 shares, 380,000 shares, 280,000 shares and 122,500 shares of Zhenyu Engineering Machinery, respectively (representing an aggregate interest of 30.5556% of Zhenyu Engineering Machinery) to Rong An Power Machinery for a total consideration of RMB56,170,000;

(10) the loan agreement dated January 14, 2010 entered into between Rongsheng Heavy Industries Holdings as borrower and Fine Profit as lender, pursuant to which Fine Profit agreed to make a loan facility to Rongsheng Heavy Industries Holdings of up to a principal amount of US$250,000,000 at an interest rate of 18% per annum repayable on demand made in writing by Fine Profit;

(11) a promissory note dated January 15, 2010 signed by Rongsheng Heavy Industries Holdings, pursuant to which Rongsheng Heavy Industries Holdings promised to pay on demand US$7,973,781.34 to Power Goal Investments Limited either in full or by installments to be determined by Power Goal Investments Limited;

(12) a promissory note dated January 15, 2010 signed by Rongsheng Heavy Industries Holdings, pursuant to which Rongsheng Heavy Industries Holdings promised to pay on demand US$71,764,032.05 to New Horizon Green Land Investment Limited either in full or by installments to be determined by New Horizon Green Land Investment Limited;

(13) a promissory note dated January 15, 2010 signed by Rongsheng Heavy Industries Holdings, pursuant to which Rongsheng Heavy Industries Holdings promised to pay on demand US$15,947,562.68 to UBC Limited either in full or by installments to be determined by UBC Limited;

(14) an equity transfer agreement dated March 29, 2010 entered into between 胡乾桂、方餘寶、陳家元、王志剛、徐林學、許斌、邱家煌、孫佩全、丁剛、袁松文、陳國俊、楊振玲、朱光輝、孔季衡、胡坤翠、吳友業、孔昊、馬中偉、張佼靚、馮先寶、汪標、汪謀友、胡太强、何慶剛、許家勝、哈海珊、徐偉慶、逯靜敏、朱啓發、徐進、童良銀 and Rong An Power Machinery, pursuant to which 胡乾桂、方餘寶、陳家元、王志剛、徐林學、許斌、邱家煌、孫佩全、丁剛、袁松文、陳國俊、楊振玲、朱光輝、孔季衡、胡坤翠、吳友業、孔昊、馬中偉、張佼靚、馮先寶、汪標、汪謀友、胡太强、何慶剛、許家勝、哈海珊、徐偉慶、逯靜敏、朱啓發、徐進、童良銀 agreed to transfer 2,340,000 shares, 1,250,000 shares, 1,000,000 shares, 540,000 shares, 500,000 shares, 300,000 shares, 250,000 shares, 140,000 shares, 110,000 shares, 107,500 shares, 100,000 shares, 100,000 shares, 100,000 shares, 100,000 shares, 90,000 shares, 80,000 shares, 80,000 shares, 80,000 shares, 80,000 shares, 80,000 shares, 70,000 shares, 70,000 shares, 70,000 shares, 70,000 shares, 50,000 shares, 50,000 shares, 50,000 shares, 50,000 shares, 50,000 shares, 50,000 shares and 50,000 shares of Zhenyu Engineering Machinery, respectively to Rong An Power Machinery, for a consideration of RMB2.55 per share.

(15) an equity transfer agreement dated March 29, 2010 entered into between Mr. Hu and Rong An Power Machinery, pursuant to which Mr. Hu agreed to transfer 33,342,500 shares of Zhenyu Engineering Machinery to Rong An Power Machinery for a consideration of RMB85,023,375;

(16) an equity transfer agreement dated April 8, 2010 entered into between Rong An Power Machinery and Rong An Heavy Industries, pursuant to which Rong An Power Machinery agreed to transfer its 33,000,000 shares of Zhenyu Engineering Machinery to Rong An Heavy Industries for a consideration of RMB84,150,000;

(17) an equity transfer agreement dated May 28, 2010 entered into between Rong An Power Machinery and Profit On International Development, pursuant to which Rong An Power Machinery agreed to transfer its 100% equity interest in Rong An Heavy Industries to Profit On International Development for a consideration of RMB100,000,000;

(18) an equity transfer agreement dated June 6, 2010 as supplemented by a supplemental agreement dated June 14, 2010 entered into between Rongsheng Investment and Rongsheng Heavy Industries, pursuant to which Rongsheng Investment agreed to transfer its 100% equity interest in Shanghai Rongsheng Shipbuilding Trading to Rongsheng Heavy Industries for a consideration of RMB50,000,000;

(19) a promissory note dated June 14, 2010 signed by Rongsheng Heavy Industries Holdings, pursuant to which Rongsheng Heavy Industries Holdings promised to pay on demand US$15,947,562.68 to Fine Profit either in full or by installments to be determined by Fine Profit;

(20) an equity transfer agreement dated June 25, 2010 entered into among Rongsheng Investment, Nantong Accessories, Rongsheng Shipbuilding and Rongye Mechanical, pursuant to which (i) Rongsheng Investment agreed to transfer its 51% equity interest in Rong An Power Machinery to Rongsheng Shipbuilding, (ii) Rongsheng Investment agreed to transfer its 24% equity interest in Rong An Power Machinery to Rongye Mechanical, and (iii) Nantong Accessories agreed to transfer its 25% equity interest in Rong An Power Machinery to Rongye Mechanical. The consideration for the share transfers was RMB494,920,000 in aggregate;

(21) an equity transfer agreement dated June 25, 2010 as supplemented by a supplemental agreement dated June 25, 2010 entered into between Rong An Power Machinery and Rong An Heavy Industries, pursuant to which Rong An Power Machinery agreed to transfer its 42.22% equity interest in Zhenyu Engineering Machinery to Rong An Heavy Industries for a consideration of RMB77,520,000;

(22) an equity transfer agreement dated July 6, 2010 as supplemented by a supplemental agreement dated August 2, 2010 entered into between Rongsheng Shipbuilding and Rongsheng Heavy Industries, pursuant to which Rongsheng Shipbuilding agreed to transfer its 60% equity interest in Rongsheng Research and Design to Rongsheng Heavy Industries for a consideration of RMB6,000,000;

(23) an equity transfer agreement dated July 19, 2010 entered into between Rongsheng Shipbuilding and Glorious Wuxi, pursuant to which Glorious Wuxi agreed to purchase the entire equity interest in Shanghai Jinhao Property from Rongsheng Shipbuilding for a consideration of RMB10,000,000;

(24) an equity transfer agreement dated July 19, 2010 entered into between Rongsheng Shipbuilding and Glorious Wuxi, pursuant to which Glorious Wuxi agreed to purchase the entire equity interest in Shanghai Rongxiang Property from Rongsheng Shipbuilding for a consideration of RMB10,000,000;

(25) an equity transfer agreement dated August 20, 2010 entered into among 趙虎、費文彩 and Rong An Heavy Industries, pursuant to which 趙虎 and 費文彩 agreed to transfer 3,000,000 shares and 2,000,000 shares of Zhenyu Engineering Machinery, respectively to Rong An Heavy Industries for a total consideration of RMB 12,750,000;

(26) an equity transfer agreement dated September 6, 2010 as supplemented by a supplemental agreement dated September 13, 2010 entered into between Rongsheng Investment and Rongsheng Heavy Industries, pursuant to which Rongsheng Investment agreed to transfer its 100% equity interest in Rongjin Steel Engineering to Rongsheng Heavy Industries for a consideration of RMB5,000,000;

(27) a share mortgage ("**CCB Share Mortgage**") dated September 13, 2010 entered into between the Company as mortgagor and Smart Prove Limited as original security agent, pursuant to which the Company agreed to mortgage, amongst other things, all present and future shares in Rongsheng Heavy Industries Holdings held by it in favor of Smart Prove Limited or any of its successors as continuing security for the payment or discharge of all obligations for the payment or repayment of money by Fine Profit under the notes instrument dated July 14, 2010;

(28) a sale and purchase agreement dated September 13, 2010 entered into between Wealth Consult and the Company, pursuant to which Wealth Consult agreed to sell and the Company agreed to purchase 19,415 ordinary shares of Rongsheng Heavy Industries Holdings in consideration for which the Company agreed to allot and issue 19,415 Shares to Wealth Consult;

(29) a sale and purchase agreement dated September 13, 2010 entered into between Fine Profit and the Company, pursuant to which Fine Profit agreed to sell and the Company agreed to purchase 930,585 ordinary shares of Rongsheng Heavy Industries Holdings in consideration for which the Company agreed to allot and issue 295,585 Shares to Fine Profit;

(30) a sale and purchase agreement dated September 13, 2010 entered into between Boom Will and the Company, pursuant to which Boom Will agreed to sell and the Company agreed to purchase 35,000 ordinary shares of Rongsheng Heavy Industries Holdings in consideration for which the Company agreed to allot and issue 35,000 Shares to Boom Will;

(31) an instrument of transfer dated September 13, 2010 entered into between Mr. Zhang and Rongsheng Engineering Machinery, pursuant to which Rongsheng Engineering Machinery acquired from Mr. Zhang 1 ordinary share of Host Rich International Enterprises for a consideration of US$1.00.

(32) an instrument of transfer dated September 13, 2010 entered into between Clear Joy International and Rongsheng Power Machinery, pursuant to which Rongsheng Power Machinery acquired from Clear Joy International 50,000 ordinary shares of Grace Shine International for a consideration of US$50,000.00.

(33) an instrument of transfer dated September 13, 2010 entered into between Clear Joy International and Rongsheng Marine Engineering, pursuant to which Rongsheng Marine Engineering acquired from Clear Joy International 50,000 ordinary shares of New Sea Enterprises for a consideration of US$50,000.00.

(34) a share mortgage (the "**BOCGI Share Mortgage**") dated October 4, 2010 entered into between the Company as mortgagor and Smart Prove Limited as original security agent, pursuant to which the Company agreed to mortgage, amongst other things, all present and future shares in Rongsheng Heavy Industries Holdings held by it by way of a second fixed equitable mortgage in favor of Smart Prove Limited or any of its successors as continuing security for the payment or discharge of all obligations for the payment or repayment of money by Fine Profit under the notes instrument dated October 4, 2010;

(35) a security sharing agreement dated October 4, 2010 entered into among the Company, Fine Profit, Smart Prove Limited and Star Team Enterprises Inc., pursuant to which it was agreed by the parties thereto, amongst other things, that the security created under the CCB Share Mortgage and the BOCGI Share Mortgage will rank pari passu in all respects and without any preference among them;

(36) the Services Agreement;

(37) an equity pledge agreement dated October 20, 2010 entered into between Rongsheng Investment and Rongsheng Heavy Industries, pursuant to which Rongsheng Investment agreed to pledge its 51% equity interest in Rongsheng Shipbuilding in favor of Rongsheng Heavy Industries for guaranteeing the performance of its obligations under the Structure Agreements;

(38) the Deed of Non-compete Undertaking;

(39) a cornerstone investor agreement dated October 29, 2010 entered into by and among the Company, China Southern Fund Management Co., Ltd. acting in relation to its management of China Southern International Select Allocation Fund, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which China Southern Fund Management Co., Ltd. acting in relation to its management of China Southern International Select Allocation Fund agreed to subscribe for Shares for the aggregate purchase price of up to US$35,000,000 at the Offer Price;

(40) a cornerstone investor agreement dated October 29, 2010 entered into by and among the Company, Atlantis Investment Management Limited, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which Atlantis Investment Management Limited agreed to subscribe for Shares for the aggregate purchase price of up to US$30,000,000 at the Offer Price;

(41) a cornerstone investor agreement dated October 29, 2010 entered into by and among the Company, China Life Insurance (Group) Company, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which China Life Insurance (Group) Company agreed to subscribe for Shares for the aggregate purchase price of up to US$50,000,000 at the Offer Price;

(42) a cornerstone investor agreement dated October 29, 2010 entered into by and among the Company, Shining East Investments Limited, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which Shining East Investments Limited agreed to subscribe for Shares for the aggregate purchase price of up to US$40,000,000 at the Offer Price;

(43) a cornerstone investor agreement dated November 1, 2010 entered into by and among the Company, Bondic International Holdings Limited, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which Bondic International Holdings Limited agreed to subscribe for Shares for the aggregate purchase price of up to US$50,000,000 at the Offer Price;

(44) a cornerstone investor agreement dated November 2, 2010 entered into by and among the Company, Chow Tai Fook Nominee Limited, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which Chow Tai Fook Nominee Limited agreed to subscribe for Shares for the aggregate purchase price of up to US$50,000,000 at the Offer Price;

(45) a cornerstone investor agreement dated November 2, 2010 entered into by and among the Company, Best Investment Corporation, Morgan Stanley, CCBI, J.P. Morgan, BOCI and Deutsche Bank, pursuant to which Best Investment Corporation agreed to subscribe for Shares for the aggregate purchase price of up to US$30,000,000 at the Offer Price; and

(46) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of the Group

(a) *Trademarks*

(i) As at the Latest Practicable Date, the Group was the registered owner of and had the right to use the following trademarks:

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	301003364	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	301003364	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
熔盛重工 Rongsheng Heavy Industries	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	301003382	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	301003382	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
RSHI	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	301003373	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
熔盛重工	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	300103391	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
Rongsheng Heavy Industries	Hong Kong	Rongsheng Heavy Industries Holdings	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	301003391	November 29, 2007 to November 28, 2017
			37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing		
			39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing		
			40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing		
RSHI	PRC	Rongsheng Heavy Industries	9	Fire boats; nautical apparatus and instruments; naval signaling apparatus; navigational instruments; computers; optical communication instruments; electro-dynamic apparatus for the remote control of signals; boiler control instruments; marine compasses	5958980	December 28, 2009 to December 27, 2019

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
RSHI	PRC	Rongsheng Heavy Industries	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	5958978	November 7, 2009 to November 6, 2019
RSHI	PRC	Rongsheng Heavy Industries	37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	5958976	February 21, 2010 to February 20, 2020
熔 盛	PRC	Rongsheng Heavy Industries	9	Fire boats; nautical apparatus and instruments; naval signaling apparatus; navigational instruments; computers; optical communication instruments; electro-dynamic apparatus for the remote control of signals; boiler control instruments; marine compasses	5958945	December 28, 2009 to December 27, 2019
	PRC	Zhenyu Engineering Machinery	7	Fire boats; nautical apparatus and instruments; naval signaling apparatus; navigational instruments; computers; optical communication instruments; electro-dynamic apparatus for the remote control of signals; boiler control instruments; marine compasses	1772550	May 21, 2002 to May 20, 2012
MSB 猛士	PRC	Zhenyu Engineering Machinery	7	Crushers, joint cutters; excavators; jackdrills; (end of product list)	4068839	October 14, 2006 to October 13, 2016
MSB	PRC	Zhenyu Engineering Machinery	7	Excavators; jackdrills; loaders; pounders (machines); excavators (machines); bulldozers; road rollers; crushing hammers (end of list)	4296930	April 14, 2007 to April 13, 2017
猛士	PRC	Zhenyu Engineering Machinery	7	Excavators; jackdrills; loaders; pounders (machines); excavators (machines); bulldozers; road rollers; crushing hammers (end of list)	4296931	April 14, 2007 to April 13, 2017

Trademark	Place of registration	Registered owner	Class	Products and Services Covered	Registration number	Registration Period
振 宇	PRC	Zhenyu Engineering Machinery	7	Excavators; jackdrills; loaders; crushers (parts of machines); hammers (parts of machines)	6412329	March 14, 2010 to March 13, 2020
	PRC	Zhenyu Engineering Machinery	7	Excavators; excavators (machines); pounders (machines); trenching ploughs; rootdozers; ditch diggers; graders; loaders; mechanical shovels; hoists	6572235	March 28, 2010 to March 27, 2020
合 挖	PRC	Zhenyu Engineering Machinery	7	Extractors for mines; agricultural machines; excavators; road making machines; ditch diggers; bulldozers; hoists; handling apparatus for loading and unloading; vibrating pile drivers; presses	6572236	March 28, 2010 to March 27, 2020

(ii) As at the Latest Practicable Date, the Group has applied for the registration of the following trademarks:

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
	PRC	Rong An Power Machinery	7980924	4	Lubricating oil; fuel; industrial oil; gasoline; coal; industrial wax; dust removing preparations; motor oil	January 8, 2010
	PRC	Rong An Power Machinery	7980918	4	Lubricating oil; fuel; industrial oil; gasoline; coal; industrial wax; dust removing preparations; motor oil	January 8, 2010
熔安 RONG AN	PRC	Rong An Power Machinery	7980913	4	Lubricating oil; fuel; industrial oil; gasoline; coal; industrial wax; dust removing preparations; motor oil	January 8, 2010
	PRC	Rong An Power Machinery	7985358	6	Containers of metal for storage and transport; steel tubes; containers; pipes of metal; steel buildings; building boards of metal; non-electric cables of metal	January 11, 2010
	PRC	Rong An Power Machinery	7985349	6	Containers of metal for storage and transport; steel tubes; containers; pipes of metal; steel buildings; building boards of metal; non-electric cables of metal	January 11, 2010
熔安 RONG AN	PRC	Rong An Power Machinery	7985313	6	Containers of metal for storage and transport; steel tubes; containers; pipes of metal; steel buildings; building boards of metal; non-electric cables of metal	January 11, 2010

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
	PRC	Rong An Power Machinery	7980848	7	Motors for boats; petroleum chemical and industry equipment; metalworking machines; dressing (apparatus for —); electromechanical machines for chemical industry; petrochemical equipment; foundry machines; machine tools cranes (lifting and hoisting apparatus); diesel engines (other than for the land vehicles)	January 8, 2010
	PRC	Rong An Power Machinery	7980836	7	Motors for boats; petroleum chemical and industry equipment; metalworking machines; dressing (apparatus for —); electromechanical machines for chemical industry; petrochemical equipment; foundry machines; machine tools cranes (lifting and hoisting apparatus); diesel engines (other than for the land vehicles)	January 8, 2010
	Hong Kong	Company	201678249	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
				40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
	Hong Kong	Company	301678249	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
				40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
RONGSHENG	Hong Kong	Company	301678258	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

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				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
RONGSHENG	Hong Kong	Company	301678258	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

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RONGSHENG	Hong Kong	Company	301678258	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
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				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
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RONGSHENG	Hong Kong	Company	301678258	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
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Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
				40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
	Hong Kong	Company	301678267	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
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				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
	Hong Kong	Company	301678267	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
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				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
榕盛重工 RONGSHENG	Hong Kong	Company	301678267	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
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				40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
熔盛重工 RONGSHENG	Hong Kong	Company	301678267	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
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				40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
RONGSHENG	Hong Kong	Company	301678276	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
				40	Treatment of materials; air deodorizing, freshening and purification; destruction and recycling of waste and trash; electroplating; engraving; metal casting, plating, tempering and treating; stripping finishes; advisory, consultancy and information services relating to the foregoing	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
RONGSHENG	Hong Kong	Company	301678276	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	
				37	Ship buildings; harbour constructions; yacht building; repair services; installation services; maintenance services; cleaning of exterior ships' decks; provision of shipyard facilities; advisory, consultancy and information services relating to the foregoing	
				39	Transport; boat rental and storage; garage rental; piloting; refloating of ships; rental of warehouses and storage containers; salvage of ships; ships brokerage; stevedoring, packaging and storage of goods; travel arrangement; advisory, consultancy and information services relating to the foregoing	

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				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
熔盛重工	Hong Kong	Rongsheng Heavy Industries Holdings	301678285	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
Rongsheng Heavy Industries	Hong Kong	Rongsheng Heavy Industries Holdings	301678311	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
RSHI	Hong Kong	Rongsheng Heavy Industries Holdings	301678320	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
	Hong Kong	Rongsheng Heavy Industries Holdings	301678302	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
	Hong Kong	Rongsheng Heavy Industries Holdings	301678294	6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores	August 2, 2010
				7	Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs	

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
				42	Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software	
熔安 RONG AN	PRC	Rong An Power Machinery	7980811	7	Motors for boats ; petroleum chemical and industry equipment; metalworking machines; dressing (apparatus for —); electromechanical machines for chemical industry; petrochemical equipment; foundry machines; machine tools ; cranes (lifting and hoisting apparatus); diesel engines (other than for the land vehicles)	January 8, 2010
	PRC	Rong An Power Machinery	7980875	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	January 8, 2010
RONGAN	PRC	Rong An Power Machinery	7985469	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	January 11, 2010
	PRC	Rong An Power Machinery	7980888	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	January 8, 2010
熔安 RONG AN	PRC	Rong An Power Machinery	7980893	12	Ships; hulls (ships-); ships' hulls; inclined ways for boats; fenders for ships; barges, boats; yachts; funnels for ships; screw propellers for ships; steering gear for ships; vehicles and apparatus for locomotion by land, air or water; parts and fittings for the aforesaid goods	January 8, 2010
	PRC	Rong An Power Machinery	7985423	35	Advertising; displaying goods on communication media for retail purpose, organizing commercial or advertising fairs; import and export agents; sales for others; employment agencies; administrative processing of purchase orders; leasing office machines and equipment; accounting; renting automatically vending machine; Business management	January 11, 2010

Trademark	Place of application	Applicant	Application number	Class	Products and Services Covered	Date of application
	PRC	Rong An Power Machinery	7985432	35	Advertising; displaying goods on communication media for retail purpose, organizing commercial or advertising fairs; import and export agents; sales for others; employment agencies; administrative processing of purchase orders; leasing office machines and equipment; accounting; renting automatically vending machine; Business management	January 11, 2010
熔安 RONG AN	PRC	Rong An Power Machinery	7985446	35	Advertising; displaying goods on communication media for retail purpose, organizing commercial or advertising fairs; import and export agents; sales for others; employment agencies; administrative processing of purchase orders; leasing office machines and equipment; accounting; renting automatically vending machine; Business management	January 11, 2010
	PRC	Zhenyu Engineering Machinery	7982439	7	Motors for boats; petroleum chemical and industry equipment; metalworking machines; dressing (apparatus for —); electromechanical machines for chemical industry; petrochemical equipment; foundry machines; machine tools cranes (lifting and hoisting apparatus); diesel engines (other than for the land vehicles)	January 11, 2010
ZHENYU	PRC	Zhenyu Engineering Machinery	7982438	7	Motors for boats; petroleum chemical and industry equipment; metalworking machines; dressing (apparatus for —); electromechanical machines for chemical industry; petrochemical equipment; foundry machines; machine tools cranes (lifting and hoisting apparatus); diesel engines (other than for the land vehicles)	January 11, 2010
合工	PRC	Zhenyu Engineering Machinery	6572237	7	Motors for boats; petroleum chemical and industry equipment; metalworking machines; dressing (apparatus for —); electromechanical machines for chemical industry; petrochemical equipment; foundry machines; machine tools cranes (lifting and hoisting apparatus); diesel engines (other than for the land vehicles)	March 3, 2010

(b) *Patents*

As at the Latest Practicable Date, the Group is the registered proprietor of the following patents in the PRC:

Patent	Patent Owner	Patent No.	Period of Validity
A type of manhole clip-on sealing device (一種人孔夾式封孔裝置)	Rongsheng Heavy Industries and Rongsheng Research and Design	ZL200820187181.3	September 26, 2008 to September 25, 2018
A type of vacuum device for leakage detection (一種真空檢漏器)	Rongsheng Heavy Industries and Rongsheng Research and Design	ZL200820187182.8	September 26, 2008 to September 25, 2018
A type of bottom kerb water tank mechanical structure for large-size cargo vessels (一種大型貨船底邊水艙機構)	Rongsheng Heavy Industries and Rongsheng Research and Design	ZL200820187184.7	September 26, 2008 to September 25, 2018
A type of floating positioning device (一種起浮定位裝置)	Rongsheng Heavy Industries and Rongsheng Research and Design	ZL200820187183.2	September 26, 2008 to September 25, 2018
A type of crawler crane vehicle (一種履帶式吊車)	Zhenyu Engineering Machinery	ZL200720044157.X	September 24, 2007 to September 23, 2017
A type of crawler running device (一種履帶式行走裝置)	Zhenyu Engineering Machinery	ZL200720044156.5	September 24, 2007 to September 23, 2017
A type of wheeled excavator gear switching mechanical structure (一種輪式挖掘機的換擋操作機構)	Zhenyu Engineering Machinery	ZL200820030781.9	January 11, 2008 to January 10, 2018
A type of movable arm for installation on wheeled excavator (一種輪式挖掘機的動臂裝置)	Zhenyu Engineering Machinery	ZL200820038314.0	June 16, 2008 to June 15, 2018
A type of movable arm for excavator (一種挖掘機動臂)	Zhenyu Engineering Machinery	ZL200820137496.7	September 1, 2008 to August 31, 2018
A type of excavator rotary platform gear lubricant injection device (一種挖掘機回轉平台齒圈潤滑脂注入裝置)	Zhenyu Engineering Machinery	ZL200820137495.2	September 1, 2008 to August 31, 2018
Technical equipment for peeling large diameter internal and external matching spherical surfaces on ordinary lathes (可在普通車床上車削大直徑互配內外球面的工藝裝備)	Zhenyu Engineering Machinery	ZL200820211326.9	December 17, 2008 to December 16, 2018
A type of clamping device for welding positioning (一種焊裝定位夾緊裝置)	Zhenyu Engineering Machinery	ZL200920143044.4	February 18, 2009 to February 17, 2019

Patent	Patent Owner	Patent No.	Period of Validity
A type of excavator platform welding tool (一種挖掘機平台焊接工裝)	Zhenyu Engineering Machinery	ZL200920143045.9	February 18, 2009 to February 17, 2019
A type of tool for excavator rotary platform drill processing (一種用於挖掘機回轉平台鑽加工的工裝)	Zhenyu Engineering Machinery	ZL200920143046.3	February 18, 2009 to February 17, 2019
A type of automatic fueling device for excavators (一種挖掘機自動加油裝置)	Zhenyu Engineering Machinery	ZL200920143082.X	February 24, 2009 to February 23, 2019
A type of small size excavator support tent driving room (一種小型挖掘機支撐篷駕駛室)	Zhenyu Engineering Machinery	ZL200920143047.8	February 18, 2009 to February 17, 2019
Excavator (ZY210) (挖掘機（ZY210）)	Zhenyu Engineering Machinery	ZL200630186983.9	November 8, 2006 to November 7, 2016
Excavator (ZYSL240) (挖掘機（ZYSL240）)	Zhenyu Engineering Machinery	ZL200630192773.0	November 16, 2006 to November 15, 2016
Excavator (ZY16) (挖掘機（ZY16）)	Zhenyu Engineering Machinery	ZL200630192774.5	November 16, 2006 to November 15, 2016
Excavator (ZY80) (挖掘機（ZY80）)	Zhenyu Engineering Machinery	ZL200630186981.X	November 8, 2006 to November 7, 2016
Excavator (ZY150) (挖掘機（ZY150）)	Zhenyu Engineering Machinery	ZL200730025872.4	February 2, 2007 to February 1, 2017
Excavator (ZYL80) (挖掘機（ZYL80）)	Zhenyu Engineering Machinery	ZL200730025870.5	February 2, 2007 to February 1, 2017
Excavator (ZY55) (挖掘機（ZY55）)	Zhenyu Engineering Machinery	ZL200730025871.X	February 2, 2007 to February 1, 2017
Excavator (ZYL160) (挖掘機（ZYL160）)	Zhenyu Engineering Machinery	ZL200630186982.4	November 8, 2006 to November 7, 2016
Driving room (no tail small excavator) (駕駛艙(無尾小挖))	Zhenyu Engineering Machinery	ZL200830023211.2	March 7, 2008 to March 6, 2018
Excavatoraudio system (no tail small excavator) (挖掘機音響機(無尾小挖))	Zhenyu Engineering Machinery	ZL200830023212.7	March 7, 2008 to March 6, 2018
Excavatorair-con system (no tail small excavator) (挖掘機空調機(無尾小挖))	Zhenyu Engineering Machinery	ZL200830023210.8	March 7, 2008 to March 6, 2018
Wheeled excavator (ZYL210) (輪胎式挖掘機（ZYL210）)	Zhenyu Engineering Machinery	ZL200930179205.0	January 5, 2009 to January 4, 2019
Crawler crane (QUY20A) (履帶式起重機（QUY20A）)	Zhenyu Engineering Machinery	ZL200930179209.9	January 5, 2009 to January 4, 2019

Patent	Patent Owner	Patent No.	Period of Validity
Excavator (ZY260) (挖掘機(ZY260))	Zhenyu Engineering Machinery	ZL200930179207.X	January 5, 2009 to January 4, 2019
Crawler crane (QUY50A) (履帶式起重機(QUY50A))	Zhenyu Engineering Machinery	ZL200930179208.4	January 5, 2009 to January 4, 2019
Excavator (ZY330) (挖掘機(ZY330))	Zhenyu Engineering Machinery	ZL200930179206.5	January 5, 2009 to January 4, 2019
Excavator (ZY16) (挖掘機(ZY16))	Zhenyu Engineering Machinery	ZL200930179213.5	January 8, 2009 to January 7, 2019
A type of bushing assembling device (一種襯套裝配裝置)	Zhenyu Engineering Machinery	ZL 2009 2 0180706.5	November 20, 2009 to November 19, 2019
A type of welding rollover position fixing rack (一種焊接翻轉定位架)	Zhenyu Engineering Machinery	ZL 2009 2 0180708.4	November 20, 2009 to November 19, 2019
A type of wetland hydraulic excavator shovel fuel tank extension device (一種濕地液壓挖掘機鏟鬥油缸加長裝置)	Zhenyu Engineering Machinery	ZL 2009 2 0180709.9	November 20, 2009 to November 19, 2019
A type of wetland excavator supporter (一種濕地挖掘機支腿)	Zhenyu Engineering Machinery	ZL 2009 2 0180707.X	November 20, 2009 to November 19, 2019
A type of wetland excavator for deep water operations (一種深水區作業的濕地挖掘機)	Zhenyu Engineering Machinery	ZL 2009 2 0180715.4	November 20, 2009 to November 19, 2019
A type of extendable mechanical structure for wetland excavator driving device (一種濕地挖掘機行駛裝置的伸縮機構)	Zhenyu Engineering Machinery	ZL 2009 2 0180714.X	November 20, 2009 to November 19, 2019
A type of fixed point rollover tool for combination board welding (一種組合板焊接定位翻轉工裝)	Zhenyu Engineering Machinery	200920180936.1	December 2, 2009 to December 1, 2019
A type of processing tool for double headed boring lathe (一種雙頭鏜床的加工工裝)	Zhenyu Engineering Machinery	200920180935.7	December 2, 2009 to December 1, 2019
A type of centre fixing device for installation hole of tools (一種用於工件安裝孔的定心定位裝置)	Zhenyu Engineering Machinery	200920180934.2	December 2, 2009 to December 1, 2019
A type of gear reduction control loop for wheeled excavators (一種輪式挖掘機的降檔控制回路)	Zhenyu Engineering Machinery	200710192026.0	December 28, 2007 to December 27, 2027

(c) As the Latest Practicable Date, the Group has applied for the registration of the following patents in the PRC:

Patent	Applicant	Application No.	Date of application
A type of ancillary support for centering tools (一種對中工具輔助支架)	Rong An Power Machinery	201010165220.1	April 30, 2010
A type of hydraulic excavator shovel for preventing shovel and boom collision (一種可防止鬥杆撞擊的液壓挖掘機鏟鬥)	Zhenyu Engineering Machinery	201020238877.1	June 24, 2010
A type of concentric inspection device (一種同心度檢測裝置)	Zhenyu Engineering Machinery	201020238866.3	June 24, 2010
A type of extendable mechanical structure for wetland excavator running device (一種濕地挖掘機行走裝置的伸縮機構)	Zhenyu Engineering Machinery	200910185583.9	November 20, 2009
Technical equipment for peeling large diameter internal and external matching spherical surfaces on ordinary lathes (可在普通車床上車削大直徑互配內外球面的工藝裝備)	Zhenyu Engineering Machinery	200810233942.9	December 17, 2008
A type of wetland excavator for deep water zone operations (一種深水區作業的濕地挖掘機)	Zhenyu Engineering Machinery	200910185584.3	November 20, 2009
A type of air pre-filter (一種空氣預濾器)	Zhenyu Engineering Machinery	201020247616.6	July 5, 2010
A type of vehicle battery fixing device (一種車輛電瓶固定裝置)	Zhenyu Engineering Machinery	201020253767.2	July 8, 2010
A type of excavator hydraulic fuel tank (一種挖掘機的液壓油箱)	Zhenyu Engineering Machinery	201020253698.5	July 8, 2010
A type of excavator driving room floor board (一種挖掘機駕駛室底板)	Zhenyu Engineering Machinery	201020253735.2	July 8, 2010
A type of excavator fuel tank (一種挖掘機燃油箱)	Zhenyu Engineering Machinery	201020253733.3	July 8, 2010
A type of clamping device for flat board lifting equipment (一種平板吊具的夾緊裝置)	Zhenyu Engineering Machinery	201020266157.6	July 16, 2010

Patent	Applicant	Application No.	Date of application
A type of tool equipment for installation of movable arm bushing of excavator (一種用於挖掘機動臂襯套安裝的工裝)	Zhenyu Engineering Machinery	201020276159.3	July 27, 2010
A type of assembled vehicle capable of rolling over (一種可翻轉的裝配車)	Zhenyu Engineering Machinery	201020276168.2	July 27, 2010
Supporting structure for split type excavator engine assembly (分體設置的挖掘機驅動總成支撐結構)	Zhenyu Engineering Machinery	201020298025.1	August 12, 2010
Excavator (ZY65) (挖掘機(ZY65))	Zhenyu Engineering Machinery	201030223669.X	June 30, 2010

(d) *Domain Names*

As at the Latest Practicable Date, the Group is the registered proprietor of the following domain names:

Domain Name	Place of Registration	Registered Owner	Expiration Date
jsrs.cn	PRC	Rongsheng Heavy Industries	August 4, 2011
jsrshi.cn	PRC	Rongsheng Heavy Industries	August 4, 2011
rshi.cn	PRC	Rongsheng Heavy Industries	August 4, 2011
江蘇熔盛.中國	PRC	Rongsheng Heavy Industries	August 4, 2011
熔盛.中國	PRC	Rongsheng Heavy Industries	August 4, 2011
熔盛重工.中國	PRC	Rongsheng Heavy Industries	August 4, 2011
中國熔盛.中國	PRC	Rongsheng Heavy Industries	August 4, 2011
hefeizhenyu.com.cn	PRC	Zhenyu Engineering Machinery	November 10, 2010

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) ***Disclosure of interest — interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations***

Immediately following completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes, assuming that the Over-allocation Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme are not exercised and assuming an Offer Price of HK$7.30, being the lowest point of the proposed Offer Price range, the interest or short position of Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed, are as follows:

(i) *Interests in the Company*

Name of Director	Nature of interest	Number of securities [3]	Approximate percentage of shareholding
Mr. Zhang	Interest of a controlled corporation[1]	3,753,693,180(L)	53.7%
Mr. Chen	Interest of a controlled corporation[2]	196,000,000(L)	2.80%

Notes:

(1) Mr. Zhang owns the entire issued share capital of Fine Profit and Wealth Consult and is deemed to be interested in 3,644,969,180 Shares and 108,724,000 Shares held by Fine Profit and Wealth Consult, respectively.

(2) Mr. Chen Qiang owns the entire issued share capital of Boom Will and is deemed to be interested in 196,000,000 Shares held by Boom Will.

(3) The letter "L" denotes the person's long position in such shares.

(ii) *Interest in the underlying shares of our Company*

Name of Director	Nature of interest	Value of Shares subject to the options[1] (HK$)	Number of underlying Shares subject to the options[1]	Approximate percentage of shareholding [2]
Mr. Wu Zhen Guo	Beneficial owner	40,000,000	5,479,452	0.0775%
Mr. Deng Hui	Beneficial owner	35,000,000	4,794,520	0.0678%
Mr. Hong Liang	Beneficial owner	35,000,000	4,794,520	0.0678%
Mr. Luan Xiao Ming . .	Beneficial owner	35,000,000	4,794,520	0.0678%
Mr. Wang Tao	Beneficial owner	35,000,000	4,794,520	0.0678%
Mr. Sean S J Wang . . .	Beneficial owner	20,000,000	2,739,726	0.0388%

Notes:

(1) The number of Shares subject to the Pre-IPO Share Option Scheme is equal to the value of Shares as stated above divided by the Offer Price. For illustration purpose, we have calculated the number of underlying Shares subject to the options by dividing the aforesaid value by the Offer Price of HK$7.30 per Share, being the lowest point of the proposed Offer Price range.

(2) The percentage is for illustrative purpose only and is based on the number of Shares in issue immediately following completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (without taking into account that the Over-alllocation Option and options which may be granted under the Share Option Scheme have not been exercised), assuming an Offer Price at the lowest point of the proposed Offer Price range and all options granted under the Pre-IPO Share Option Scheme has been exercised in full.

(iii) *Interest in associated corporations*

Name of Director	Name of associated corporation	Number of securities	Approximate percentage of shareholding
Mr. Zhang	Fine Profit	50,000 shares	100%
Mr. Chen Qiang. . .	Rongsheng Heavy Industries Holdings	15,000 shares[1]	1.5%

Note:

(1) 15,000 shares of Rongsheng Heavy Industries Holdings are held by Boom Will, which in turn is wholly-owned by Mr. Chen Qiang.

(b) ***Particulars of service contracts***

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

(c) ***Directors' remuneration***

An aggregate of approximately RMB9,024,000 was paid to the Directors as remuneration for the year ended December 31, 2009 (including salaries, other allowances and benefits-in-kind, contribution to pension plans, discretionary bonuses and share-based payment).

The non-executive Director and the independent non-executive Directors have been appointed for a term of three years. The Company intends to pay a director's fee of HK$1,200,000, HK$240,000 per annum to each of the non-executive Director and the independent non-executive Directors, respectively.

Under the arrangement currently in force, the aggregate amount of remuneration payable by the Group to the Directors for the year ending December 31, 2010 will be approximately RMB20,604,000.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the subsection headed "Directors" in this Appendix.

2. Substantial Shareholders

(a) So far as the Directors are aware, immediately following the completion of the Global Offering, the Capitalization Issue and exchange of the Exchangeable Notes (but without taking into account the exercise of the Over-allocation Option and the Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and options which may be granted under the Share Option Scheme) and assuming an Offer Price of HK$7.30, being the lowest point of the proposed Offer Price range, the following persons (other than the Directors and chief executives of the Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares[(2)]	Approximate percentage of shareholding[(3)]
Fine Profit[(1)]	Beneficial owner	3,644,969,180(L)	52.1%

Notes:

(1) Fine Profit is owned by Mr. Zhang as to 100%.

(2) The letter "L" denotes the person's long position in such shares.

(3) The percentage is for illustrative purpose only and is based on the number of Shares in issue immediately following completion of the Global Offering, the Capitalization Issue and the exchange of the Exchangeable Notes (assuming that the Over-alllocation Option, the options granted under the Pre-IPO Share Option Scheme and the options which may be granted under the Share Option Scheme have not been exercised and an Offer Price at the lowest point of the proposed Offer Price range.)

(b) As of the Latest Practicable Date, so far as is known to the Directors, the following persons were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had option in respect of such capital:

Name of shareholder	Name of member of our Group	Approximate percentage of shareholding
Rongsheng Investment.	Rongsheng Shipbuilding	51%
Rongsheng Shipbuilding	Rong An Power Machinery	51%

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

4. Disclaimers

Save as disclosed herein:

(a) none of the Directors or the chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

(b) none of the Directors or experts referred to under the heading "Consents of experts" in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the Global Offering, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

(f) none of the experts referred to under the heading "Consents of experts" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(g) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or shareholders of the Company who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Pre-IPO Share Option Scheme

Summary of Terms

The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to acquire a personal stake in our Company and help motivate such participants to optimize their performance and efficiency, and also to help retain the participants whose contributions are important to the long-term growth and profitability of our Group. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of the Shareholders dated October 24, 2010, are substantially the same as the terms of the Share Option Scheme except that:

(a) the exercise price per Share under the Pre-IPO Share Option Scheme shall be equal to a 50% discount to the Offer Price (assuming an Offer Price of HK$8.70 per Share, being the mid-point of the Offer Price range of HK$7.30 to HK$10.10 per Share, the exercise price per Share will be HK$4.35);

(b) any option granted under the Pre-IPO Share Option Scheme will be exercisable in the following manner:

(i) up to twenty (20)% of the Shares that are subject to the options so granted to him/her (round down to the nearest whole number) at any time during the period commencing on the Listing Date and ending on the first anniversary of the Listing Date;

(ii) up to forty (40)% of the Shares that are subject to the options so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing from the expiry of the first anniversary of the Listing Date and ending on the second anniversary of the Listing Date;

(iii) up to sixty (60)% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing from the expiry of the second anniversary of the Listing Date and ending on the third anniversary of Listing Date;

(iv) up to eighty (80)% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded down to the nearest whole number) at any time during the period commencing from the expiry of the third anniversary of the Listing Date and ending on the fourth anniversary of Listing Date; and

(v) such number of Shares subject to the option so granted to him/her less the number of Shares in respect of which the option has been exercised (rounded to the nearest whole number) at any time commencing from the expiry of the fourth anniversary of the Listing Date and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options;

(c) the maximum number of Shares in respect of which options may be granted shall be such number that may be determined by dividing HK$500,000,000 by the Offer Price, rounded down to the nearest Share; and

(d) save for the options which have been granted, no further options will be granted on or after the Latest Practicable Date.

Options granted pursuant to the Pre-IPO Share Option Scheme are non-transferable. No Share will be issued under the Pre-IPO Share Option Scheme if the Company's public float will as a result of such issue be less than the minimum requirements under the Listing Rules.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

Outstanding Options Granted

The proposal to grant the options under the Pre-IPO Share Option Scheme to the grantees as set out below has been approved by the Board (including the independent non-executive Directors) on October 24, 2010. The number of underlying Shares pursuant to the Pre-IPO Share Option Scheme is equal to the fixed value determined and approved by the Board stated in the table below, divided by the Offer Price. Assuming an Offer Price of HK$8.70 per Share, being the mid-point of the proposed Offer Price range of HK$7.30 to HK$10.10 per Share as stated in this Prospectus, the number of underlying Shares pursuant to the options expected to be granted under the Pre-IPO Share Option Scheme will amount to 57,471,232 Shares, representing approximately 0.81% of the issued Shares immediately following the completion of the Global Offering and the Capitalization Issue but assuming that the Over-allocation Option and the options which may be granted under the Share Option Scheme are not exercised. As at the Latest Practicable Date, we have conditionally granted options to 61 participants at a consideration of HK$1.00 under the Pre-IPO Share Option Scheme. All the options under the Pre-IPO Share Option Scheme were granted on October 24, 2010 and no further options will be granted under the Pre-IPO Share Option Scheme from the Latest Practicable Date.

As at the Latest Practicable Date, particulars of the options granted under the Pre-IPO Share Option Scheme are as follows:

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)[1]	Number of underlying Shares pursuant to the option for illustrative purposes[1]	Approximate percentage of the issued Shares for illustrative purposes[2]
Wu Zhen Guo (鄔振國)	Executive Director	Room 603 No. 14 3rd Tai Shan Village Pu Tuo District Shanghai, PRC	40,000,000	4,597,701	0.0651%
Deng Hui (鄧輝)	Executive Director	No. 710 Lane 2199 Gudai Road Min Hang District Shanghai, PRC	35,000,000	4,022,988	0.0570%
Hong Liang (洪樑)	Executive Director	Room 301 No. 25 Lane 368 Qing Yu Road Pu Tuo District Shanghai, PRC	35,000,000	4,022,988	0.0570%
Luan Xiao Ming (欒曉明)	Executive Director	Room 1202 No. 24 Lane 2328 Yi Shan Road Shanghai, PRC	35,000,000	4,022,988	0.0570%
Wang Tao (王濤)	Executive Director	Room 2703 No. 36 Lane 8 Lin Yi Road Shanghai, PRC	35,000,000	4,022,988	0.0570%
Sean S J Wang (王少劍)	Executive Director	Flat E, 9/F, Tower 3, The Harbour Side 1 Austin Road West Tsim Sha Tsui Kowloon, Hong Kong	20,000,000	2,298,850	0.0326%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)(1)	Number of underlying Shares pursuant to the option for illustrative purposes(1)	Approximate percentage of the issued Shares for illustrative purposes(2)
Chen Kai Guo (陳開國)	Executive Vice-President of Rongsheng Heavy Industries	Room 801, No.1 Lane 1109, Zhongshan South Avenue One, Luwan District, Shanghai, PRC	10,000,000	1,149,425	0.0163%
Chen Guo Rong (陳國榮)	Vice-President of Rongsheng Heavy Industries	Room 1501, No.7 Lane 981, Zhoujiazui Road, Hongkou District, Shanghai, PRC	20,000,000	2,298,850	0.0326%
Chang Jian Hua (常建華)	Vice-President of Rongsheng Heavy Industries	Room703, Block 42, Sujian Garden (蘇建花園), Chongchuan District, Nantong City, Jiangsu Province, PRC	6,000,000	689,655	0.0098%
Zhao Zhong Wu (趙仲武)	Vice-President of Rongsheng Heavy Industries	Room 601, No.5 Lane 900, Xizang South Road, Huangpu District, Shanghai, PRC	6,000,000	689,655	0.0098%
Zhang Hong Yu (張虹宇)	Vice-President of Rongsheng Heavy Industries	Room 601, No.46 Lane 1238, Yixian Road, Baoshan District, Shanghai, PRC	6,000,000	689,655	0.0098%
Gong Jin Gen (龔金根)	Vice-President of Rongsheng Heavy Industries	Room 203, Block 6, Lane 1288, Xikang Road, Putuo District, Shanghai, PRC	3,000,000	344,827	0.0049%
Chen Wen Jun (陳文軍)	Vice-President of Rongsheng Heavy Industries	Room 402, No. 27, Lane 259, Tiandeng Road, Xuhui District, Shanghai, PRC	20,000,000	2,298,850	0.0326%
Wei A Ning (魏阿寧)	Vice-President of Rongsheng Heavy Industries	Room 1602, Block 3, Lane 1688, Kaixuan Road, Xuhui District, Shanghai, PRC	6,000,000	689,655	0.0098%
Zhang Shi Wei (張時瑋)	Assistant to Chairman of Rongsheng Heavy Industries	Room 304, Block 5, No. 108 Qinzhou Road, Xuhui District, Shanghai, PRC	15,000,000	1,724,137	0.0244%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)(1)	Number of underlying Shares pursuant to the option for illustrative purposes(1)	Approximate percentage of the issued Shares for illustrative purposes(2)
Zhu Jue (朱 珏)	Assistant to Chairman of Rongsheng Heavy Industries	Room 1701, Block 2, No. 389 Anshun Road, Changning District, Shanghai, PRC	20,000,000	2,298,850	0.0326%
Jiang Wei (江 維)	Assistant to Chairman of Rongsheng Heavy Industries	Room 1001, No. 5 Huayang Court (華陽苑), Lane 2100, Zhangyang Road, Pudong New District, Shanghai, PRC	15,000,000	1,724,137	0.0244%
Lam Hoi To (林海濤)	Assistant to Chairman of Rongsheng Heavy Industries	Flat D, 1/F, Yee Yun Mansion, No.31 Tai Hong Street, Lei King Wan, Hong Kong	5,000,000	574,712	0.0081%
Ren Cui Bing (任翠冰)	Assistant to Chairman of Rongsheng Heavy Industries	Room 302, No. 124 Lane 1036, Xinzhen Road, Minhang District, Shanghai, PRC	5,000,000	574,712	0.0081%
Wang Dong Yun (王冬雲)	Assistant to Chairman of Rongsheng Heavy Industries	Room 802, No. 75 Lane 289, Jinian Road, Yangpu District, Shanghai, PRC	4,000,000	459,770	0.0065%
Ni Qin (倪 琴)	Assistant to Chairman of Rongsheng Heavy Industries	No. 22 Lane 12, Yongjia Road, Shanghai, PRC	4,000,000	459,770	0.0065%
Zhou Guo Sheng (周國勝)	Assistant to President of Rongsheng Heavy Industries	Room 1606, Block 3, No. 8 Weigongcun Road, Haidian District, Beijing, PRC	3,000,000	344,827	0.0049%
Wei Qi Guang (魏啟光)	Assistant to President of Rongsheng Heavy Industries	Room 704, Block 10, Shangde Chengbang (尚德城邦), No. 99 Haoxi Road, Nantong City, Jiangsu Province, PRC	3,000,000	344,827	0.0049%
Hou Zhen (侯 振)	Assistant to President of Rongsheng Heavy Industries	Room 602, No. 5 Ludilao Street, Nanqiao Township, Fengxian District, Shanghai, PRC	5,000,000	574,712	0.0081%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)(1)	Number of underlying Shares pursuant to the option for illustrative purposes(1)	Approximate percentage of the issued Shares for illustrative purposes(2)
Song Xiao Juan (宋曉娟)	Assistant to President of Rongsheng Heavy Industries	Room 302, No. 32 Lane 1818, Qixin Road, Minhang District, Shanghai, PRC	5,000,000	574,712	0.0081%
Zhou Yang (周 洋)	Assistant to President of Rongsheng Heavy Industries	Room 902, No. 20 Lane 1650, Yongtai Road, Pudong New District, Shanghai, PRC	5,000,000	574,712	0.0081%
Cao Shi Yong (曹式永)	Assistant to President of Rongsheng Heavy Industries	Room 1703, No. 18 Lane 1111, Lianhua South Road, Minhang District, Shanghai, PRC	5,000,000	574,712	0.0081%
Ruan Sen (阮 森)	Assistant to President of Rongsheng Heavy Industries	Room 502, No. 55 Lane 100, Lianyuan Road, Pudong New District, Shanghai, PRC	5,000,000	574,712	0.0081%
Xu Yi Fei (徐軼飛)	Assistant to President of Rongsheng Heavy Industries	5-406 Zhongnan Liyuan (中南儷園), Longwangqiao East Road, Nantong City, Jiangsu Province, PRC	5,000,000	574,712	0.0081%
Yang Zhi Fu (楊志富)	Assistant to President of Rongsheng Heavy Industries	No.2, Group 24, Wenzhu Village, Linzi Township, Rugao City, Jiangsu Province, PRC	5,000,000	574,712	0.0081%
Zeng Gui Mei (曾桂美)	Department Head of Rongsheng Heavy Industries	Room 206, Block 2, Tongyu Garden (通宇花園), No.48 Xizhima Camp, Baixia District, Nanjing, PRC	5,000,000	574,712	0.0081%
Lei Dong (雷 棟)	Department Head of Rongsheng Heavy Industries	Room 501, Block 9, Lane 901, Huting North Road, Songjiang District, Shanghai, PRC	5,000,000	574,712	0.0081%
Cai Hu Sheng (蔡虎生)	Department Head of Rongsheng Heavy Industries	Room 1-901, Kaixianghuayuan (凱祥花苑), No.16 Weigang West Road, Baixia District, Nanjing City Jiangsu Province, PRC	5,000,000	574,712	0.0081%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)[1]	Number of underlying Shares pursuant to the option for illustrative purposes[1]	Approximate percentage of the issued Shares for illustrative purposes[2]
Lu Wen Bing (陸文兵)	Department Head of Rongsheng Heavy Industries	Room 402, No. 12 Lane 18, Yanggao Central Road, Pudong New District, Shanghai, PRC	5,000,000	574,712	0.0081%
Wang Xue Feng (王學峰)	Department Head of Rongsheng Heavy Industries	No.44 Lane 545, Changde Road, Jingan District, Shanghai, PRC	3,000,000	344,827	0.0049%
Zhang Yong Ping (張永平)	Department Head of Rongsheng Heavy Industries	Room 502, No. 30 Lane 3455, Chunshen Road, Minhang District, Shanghai, PRC	3,000,000	344,827	0.0049%
Zhao Wei Qing (趙衛清)	Department Head of Rongsheng Heavy Industries	Room 202, No. 329, Xizang North Road, Zhabei District, Shanghai, PRC	3,000,000	344,827	0.0049%
Jiang Shi Cong (姜世聰)	Department Head of Rongsheng Heavy Industries	Room 302, Block 3, Huaqiaohuayuan (華僑花苑), Nantong City, Jiangsu Province, PRC	3,000,000	344,827	0.0049%
Tao Jian Sheng (陶建生)	Department Head of Rongsheng Heavy Industries	Room 802, No. 5 Lane 666, Hongqiao Road, Xuhui District, Shanghai, PRC	3,000,000	344,827	0.0049%
Man Jing (滿 晶)	Department Head of Rongsheng Heavy Industries	Room 401, No. 14 Lane 1700, Qishan Road, Pudong New District, Shanghai, PRC	3,000,000	344,827	0.0049%
Jia Qi Zheng (賈琦錚)	Department Head of Rongsheng Heavy Industries	Room 402, No. 42, Phase 4, Zhengdajiayuan (証大家園), Lane 1769, Wulian Road, Pudong New District, Shanghai, PRC	4,000,000	459,770	0.0065%
Yao Si Qiang (姚思強)	Department Head of Rongsheng Heavy Industries	Room 2101, No. 2 Lane 289, Minli Road, Zhabei District, Shanghai, PRC	2,000,000	229,885	0.0033%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)(1)	Number of underlying Shares pursuant to the option for illustrative purposes(1)	Approximate percentage of the issued Shares for illustrative purposes(2)
Tan Jie (譚 杰)	Department Head of Rongsheng Heavy Industries	Room 602, No. 7 Lane 505, Lianyuan Road, Pudong New District, Shanghai, PRC	3,000,000	344,827	0.0049%
Wang Zhong Zhu (汪忠柱)	Department Head of Rongsheng Heavy Industries	Room 901, No. 36 Lane 258, Tiandeng Road, Xuhui District, Shanghai, PRC	3,000,000	344,827	0.0049%
Li Yue (李 岳)	Department Head of Rongsheng Heavy Industries	Room 902, No. 44 Lane 788, Hongxu Road, Minhang District, Shanghai, PRC	3,000,000	344,827	0.0049%
Zhu Wen Hua (朱文花)	Department Head of Rongsheng Heavy Industries	Room 502, No. 5 Lane 1089, Dingxiang Road, Pudong New District, Shanghai, PRC	3,000,000	344,827	0.0049%
Jia Hui Chun (賈惠春)	Department Head of Rongsheng Heavy Industries	Room 1508, Block 35, Sujian Garden (蘇建花園), Renmindong Road, Chongchuan District, Nantong City, Jiangsu Province, PRC	3,000,000	344,827	0.0049%
Shen Heng Jun (沈恒均)	Department Head of Rongsheng Heavy Industries	Room 1402, No. 18 Lane 377, Gumei Road, Minhang District, Shanghai, PRC	3,000,000	344,827	0.0049%
Hu Hai Yun (胡海雲)	Department Head of Rongsheng Heavy Industries	No.28, Group 26, Qiaokou Village, Linzi Township, Rugao City, Jiangsu Province, PRC	3,000,000	344,827	0.0049%
Chen Rui (陳 睿)	Senior Management of Rongsheng Heavy Industries	No. 1, Shugang Road, Rugao Port Economic Development Zone, Jiangsu Province, PRC	5,000,000	574,712	0.0081%
Zou Zhi Ming (鄒志明)	Senior Management of Rong An Power Machinery	No. 2-4-1, No. 55 Gao’erji Road, Xigang District, Dalian City, Liaoning Province, PRC	5,000,000	574,712	0.0081%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)(1)	Number of underlying Shares pursuant to the option for illustrative purposes(1)	Approximate percentage of the issued Shares for illustrative purposes(2)
Yu Zheng (郁 政)	Senior Management of Rong An Power Machinery	Room 308, block 6, No. 12, Musuyuan West, Baixia District, Nanjing, PRC	5,000,000	574,712	0.0081%
Wang Zhi Liang (王志良)	Senior Management of Rong An Power Machinery	Room 401, No. 4 Lane 1033, Huimin Road, Yangpu District, Shanghai, PRC	5,000,000	574,712	0.0081%
Xu Bao An (徐寶安)	Senior Management of Rong An Power Machinery	No.3-5-2, No. 1 Yongli Lane, Fushun Street, Shahekou District, Dalian City, Liaoning Province PRC	3,000,000	344,827	0.0049%
Chen Guang Qing (陳廣慶)	Senior Management of Rong An Power Machinery	Room 83-46-207, Xilinger Road, Xiling District, Yichang City, Hubei Province, PRC	3,000,000	344,827	0.0049%
Chen Liang Yu (陳良宇)	Senior Management of Rong An Power Machinery	No. 4-202, Lane 1100, Zhongshan North Avenue One, Hongkou District, Shanghai, PRC	3,000,000	344,827	0.0049%
Feng Jian Jun (馮建軍)	Senior Management of Rong An Power Machinery	Room 1005, No. 1 Guxing Lane, Siming District, Xiamen City, Fujian Province, PRC	3,000,000	344,827	0.0049%
Ling Li (凌 立)	Senior Management of Rong An Power Machinery	Room 303, No. 13 Lane 89, Huaifang Road, Pudong New District, Shanghai, PRC	5,000,000	574,712	0.0081%
Chen Shao Zhong (陳紹忠)	Senior Management of Rong An Power Machinery	No. 30 Gaoyangzhong Road, Linzi Township, Rugao City, Jiangsu Province, PRC	2,000,000	229,885	0.0033%
Jia Shao Jun (賈少軍)	Senior Management of Rong An Heavy Industries	Room 1805, Block 1, Gaodijingcheng (高迪晶城), Gangzha District, Nantong City, Jiangsu Province, PRC	5,000,000	574,712	0.0081%

Grantee	Position in relevant Group companies	Residential address	Value for the purpose of determining number of option to be granted (HK$)[1]	Number of underlying Shares pursuant to the option for illustrative purposes[1]	Approximate percentage of the issued Shares for illustrative purposes[2]
Li Peng (李 鵬)	Senior Management of Rong An Heavy Industries	Room 201, No. 10 Lane 1111, Xingzhong Road, Minhang District, Shanghai, PRC	5,000,000	574,712	0.0081%
Total			500,000,000	57,471,232	0.8131%

Notes:

(1) The number of underlying Shares pursuant to the option under the Pre-IPO Share Option Scheme is equal to the value determined by the Company as stated above, in HK$, divided by the Offer Price. For illustration purposes, we have calculated the number of underlying Shares pursuant to the Option by dividing the aforesaid value, in HK$, by an Offer Price of HK$8.70 per Share, being the mid-point value of the proposed Offer Price range of HK$7.30 to HK$10.10 per Share as stated in this prospectus.

(2) The percentage is for illustrative purposes only and is based on the number of Shares in issue immediately following completion of the Global Offering, the Capitalization Issue, exchange of Exchangable Notes, and the exercise of options which may be granted under the Share Option Scheme and assuming an Offer Price at the mid-point of the proposed Offer Price range and all options granted under the Pre-IPO Share Option Scheme have been exercised in full, without taking into account the Over-allocation Option.

The number of options granted to each grantee under the Pre-IPO Share Option Scheme was determined by the Board at the time of grant based upon a number of factors including the length of service and performance of the grantees, the requirement that our Shares be listed on a recognized stock exchange before the options could be exercised and an estimate of the likely period before which any such listing would occur.

Assuming an Offer Price of HK$8.70 per Share, being the mid-point of the proposed Offer Price range of HK$7.30 to HK$10.10 per Share as stated in the Prospectus and the calculation stated in the table above, the options issued under the Pre-IPO Share Option Scheme represent approximately 0.81% of our enlarged share capital as at the Listing Date (assuming that the Over-allocation Option and the options granted under the Share Option Scheme and the Pre-IPO Share Option Scheme are not exercised). If all options are exercised, this would have a dilutive effect of approximately 0.81% on earnings per Share. However, as the options are exercisable over a period of not more than ten years, any such dilution and impact on earnings per Share will be staggered over several years. No further options will be granted under the Pre-IPO Share Option Scheme after the Latest Practicable Date.

2. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of the shareholders of the Company passed on October 24, 2010.

(i) *Purpose*

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

(ii) ***Who may join***

The Directors (which expression shall, for the purpose of this paragraph, include a duly authorized committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, who the Board considers, in its sole discretion, have contributed or will contribute to the Group, to take up options to subscribe for Shares:

(a) any directors (including executive Directors, no-executive directors and independent non-executive Directors) and employees of any member of the Group; and

(b) any advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise so determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to the participant's contribution to the development and growth of the Group.

(iii) ***Maximum number of Shares***

(a) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital of the Company from time to time.

(b) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 700,000,000 Shares ("General Scheme Limit"), but excluding any Shares which may be issued upon the exercise of the Over-allocation Option.

(c) Subject to paragraph (a) above and without prejudice to paragraph (d) below, the Company may issue a circular to its Shareholders and seek approval of its Shareholders in a general meeting to extend the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of the Group shall not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(d) Subject to paragraph (a) above and without prejudice to paragraph (c) above, the Company may seek separate Shareholders' approval in a general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph (c) above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) ***Maximum entitlement of each participant***

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("Individual Limit"). Any further grant of options in aggregate in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) ***Grant of options to connected persons***

(a) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

(b) Where any grant of options to a substantial Shareholder of the Company or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million;

such further grant of options must be approved by Shareholders of the Company in a general meeting. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the general meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in a general meeting.

(vi) ***Time of acceptance and exercise of option***

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Share Option Scheme. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) ***Performance targets***

Unless the Directors otherwise determine and state in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) ***Subscription price for Shares and consideration for the option***

The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1.00 is payable upon acceptance of the grant of an option.

(ix) ***Ranking of Shares***

(a) Shares allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association of the Company and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members ("Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of the Company as the holder thereof.

(b) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of the Company from time to time.

(x) ***Restrictions on the time of grant of options***

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the meeting of the Directors for the approval of the Company's results for any year, half-year, quarter or any other interim period; and (b) the last date on which the Company must publish its announcement of its results for any year, half-year, quarter or any other interim period, and ending on the date of the announcement of the results, no offer for grant of options may be made.

The Directors may not grant any option to a participant who is a Director during the period or time in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xi) ***Period of the Share Option Scheme***

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) ***Rights are personal to the grantee***

An option is personal to the grantee and shall not be transferable or assignable.

(xiii) ***Rights on ceasing employment***

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

(xiv) ***Rights on death, ill-health or retirement***

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xv) ***Rights on dismissal***

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not be exercisable on or after the date of ceasing to be an Eligible Employee.

(xvi) ***Rights on breach of contract***

If the Directors shall at their absolute discretion determine that (a) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of its relations with the Group or by other reason whatsoever; and (b) the option granted to the grantee under the Share Option scheme shall lapse as a result of any event specified in items (1), (2) or (3) above, his option will lapse automatically and will not be exercisable on or after the date on which the Directors have so determined.

(xvii) ***Rights on a general offer, a compromise or arrangement***

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company.

If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders, a grantee shall be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be.

(xviii) ***Rights on winding up***

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of the Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of the Company.

(xix) ***Grantee being a company wholly-owned by eligible participants***

If the grantee is a company wholly-owned by one or more eligible participants: sub-paragraphs (xi), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xi), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant, and the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly-owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xx) ***Adjustments to the subscription price***

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding adjustment (if any) certified by the auditors for the time being of or an independent financial advisor to the Company as fair and reasonable will be made to (a) the number or nominal amount of Shares to which the Share Option Scheme or any option relates, so far as unexercised, (b) the subscription price of the option concerned, and/or (c) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in the option or which remain comprised in the option, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any adjustment made on a capitalization issue, such auditors or independent financial advisor must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing

Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, but not limited to, the "Supplementary Guidance on Main Board Listing Rule 17.03(13) and the Note immediately after the Rule" attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to the share option scheme).

(xxi) ***Cancellation of options***

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When the Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant to sub-paragraphs (ii) (c) and (d) above.

(xxii) ***Termination of the Share Option Scheme***

The Company may by resolution in a general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxiii) ***Lapse of option***

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(a) the expiry of the period referred to in sub-paragraph (vi);

(b) the expiry of the periods or dates referred to in sub-paragraphs (xi), (xiii), (xiv), (xv), (xvii) and (xviii);

(c) the date on which the grantee commits a breach of the provision which restricts the grantee to transfer or assign an option granted under the Share Option Scheme or sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option;

(d) the date on which the grantee (being an employee or a director of any member of the Group) ceases to be a participant of the Share Option Scheme by reason of the termination of his or her employment or engagement on the grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become bankrupt or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment summarily;

(e) the date on which the grantee joins a company which the board believes in its sole and reasonable opinion to be a competitor of the Company;

(f) the date on which the grantee (being a corporation) appears either to be unable to pay or to have no reasonable prospect of being able to pay its debts or has become insolvent or has made any arrangement or composition with its creditors generally; and

(g) unless the Board otherwise determines, and other than in the circumstances referred to in sections 6.3(a) or (b), the date the Grantee ceases to be a Participant (as determined by a Board resolution) for any other reason.

(xxiv) ***Others***

(a) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number representing the General Scheme Limit. Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(b) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in a general meeting.

(c) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders of the Company in a general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(d) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(e) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders of the Company in a general meeting.

(xxv) ***Value of options***

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of a certain option pricing model or other method that depends on various assumptions including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options granted as at the Latest Practicable Date would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

(xxvi) ***Grant of options***

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

3. Estate Duty

Our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

4. Litigation

As at the Latest Practicable Date, save as disclosed in the section headed "Business — Legal Proceedings" in this prospectus, no member of the Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of the Group.

5. Joint Sponsors

The Joint Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of the Over-allocation Option, any options granted under the Pre-IPO Share Option Scheme or options which may be granted under the Share Option Scheme).

6. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK$39,100 and are payable by the Company.

7. Promoter

There are no promoters of the Company. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus.

8. Taxation of holders of Shares

(a) *Hong Kong*

The sale, purchase and transfer of Shares registered with the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after February 11, 2006.

(b) *Cayman Islands*

Under present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) *Consultation with professional advisors*

Intending holders of the Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of the Company, the Directors or the other parties involved in the Share Offer will accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

9. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this Prospectus:

Name	Qualifications
Morgan Stanley Asia Limited	Licensed to conduct type 1 (dealing in securities), type 4(advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance), type 7 (providing automated trading services) and type 9 (asset management) regulated activities under the SFO
CCB International Capital Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
J.P. Morgan Securities (Asia Pacific) Limited	Licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Commerce & Finance Law Offices	Legal adviser to our Company on PRC laws
Jun He Law Offices	Legal adviser to the Joint Sponsors on PRC laws
Maples and Calder	Legal adviser to our Company on Cayman Islands law
Jones Lang LaSalle Sallmanns Limited	Professional property surveyors and valuers

10. Consents of experts

Each of Morgan Stanley Asia Limited, CCB International Capital Limited, J.P. Morgan Securities (Asia Pacific) Limited, PricewaterhouseCoopers, Commerce & Finance Law Offices, Jun He Law Offices, Maples and Calder and Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is included.

11. Particulars of the Selling Shareholder

Name	Description	Registered Office	Number of Sale Shares
Fine Profit(1)	Limited liability company and our Controlling Shareholder	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	350,000,000(2)

Notes:

(1) The entire issued share capital in Fine Profit is owned by Mr. Zhang, our chairman and non-executive Director.

(2) Fine Profit may be required to sell up to an aggregate of 262,500,000 Shares under the Over-allocation Option. If the Over-allocation Option is exercised in full, the number of Sale Shares will increase to 612,500,000.

12. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately in reliance on the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Binding effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

14. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this Prospectus:

(i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;

(b) save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries;

(c) save as disclosed in this prospectus, none of the persons named in the sub-paragraph headed "Consents of experts" in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;

(d) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since August 31, 2010 (being the date to which the latest audited combined financial statements of the Group were made up);

(e) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;

(f) the principal register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. All transfer and other documents of title of the Shares must be lodged for registration with and registered by the Company's share register in Hong Kong. All necessary arrangements have been made to enable the Shares to be admitted to CCASS; and

(g) no company within the Group is presently listed on any stock exchange or traded on any trading system.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of the prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the white, yellow and green application forms, the written consents referred to in "Other information — Consents of experts" in Appendix VII to this prospectus, particulars of the Selling Shareholder and copies of the material contracts referred to in "Further information about the business — Summary of material contracts" in Appendix VII to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Paul, Hastings, Janofsky and Walker at 22nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours up to and including 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the accountant's report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;

(c) the audited combined financial statements of the Company and its subsidiaries for the three years ended December 31, 2009 and for the eight months ended August 31, 2010;

(d) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the letters from PricewaterhouseCoopers and the Joint Sponsors relating to the profit forecast of the Group, the text of which is set out in Appendix III to this prospectus;

(f) the letter, summary of values and valuation certificates relating to the property interests of the Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this prospectus;

(g) the PRC legal opinion(s) prepared by Commerce & Finance Law Offices and Jun He Law Office in respect of PRC law;

(h) the material contracts referred to in the section headed "Further information about the business" under "Summary of material contracts" in Appendix VII to this prospectus;

(i) the rules of the Pre-IPO Share Option Scheme;

(j) the rules of the Share Option Scheme;

(k) the service contracts referred to in "Particulars of service contracts" in Appendix VII to this prospectus;

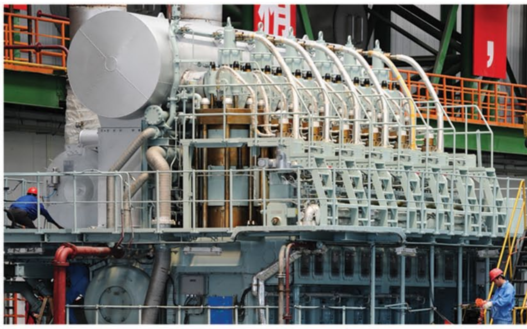
(l) the written consents referred to in "Other information — Consents of experts" in Appendix VII to this prospectus;

(m) the letter dated the date of this Prospectus and prepared by Maples & Calder summarizing certain aspects of the Cayman Islands company law as referred to in Appendix VI to this prospectus;

(n) the Companies Law; and

(o) a statement of particulars of the Selling Shareholder.


海洋石油 201
HAI YANG SHI YOU

ZHENYU


Rongsheng Heavy Indus
I2W-QM-03

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