熔盛重工
RONGSHENG

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

PASSION TO EXCEL

ANNUAL REPORT 2010

China Rongsheng Heavy Industries Group Holdings Limited is a large and diversified PRC heavy industries group with a leading shipbuilding business, a rapidly growing marine engine building and engineering machinery business and a developing offshore engineering business with a focus on oil and gas related customers and markets. According to Clarkson Research, we were ranked 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 at 31 December 2010. Currently, our products include bulk carriers, crude oil tankers, containerships, offshore engineering products, low-speed marine diesel engines and small to medium-sized excavators and cranes for construction and mining uses.

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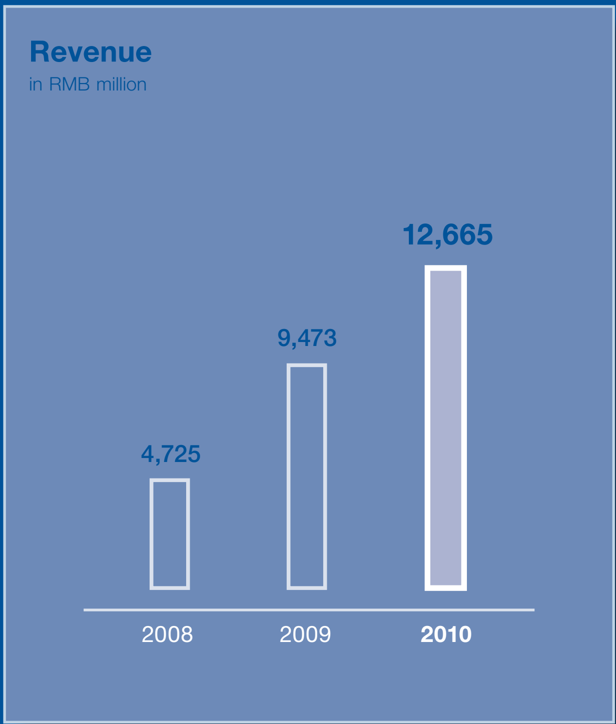
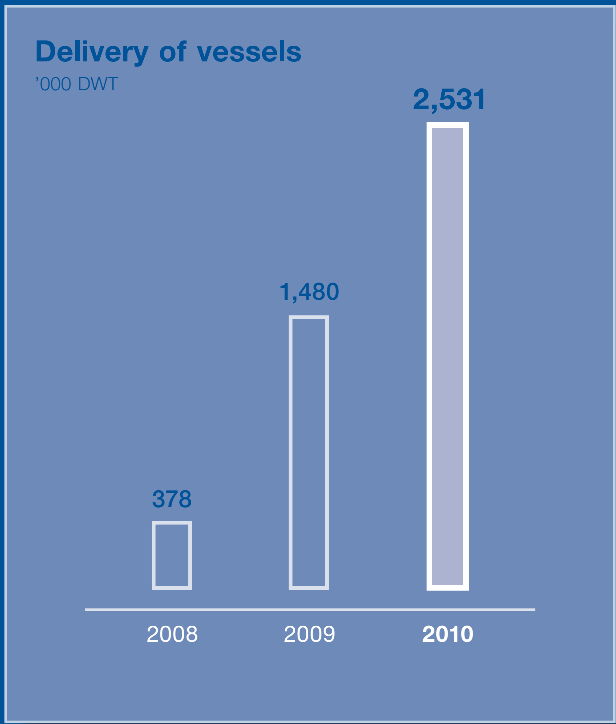
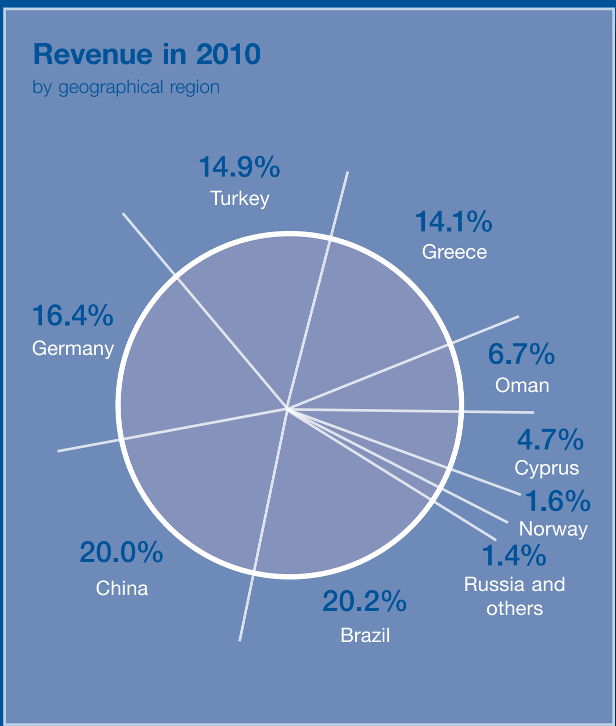
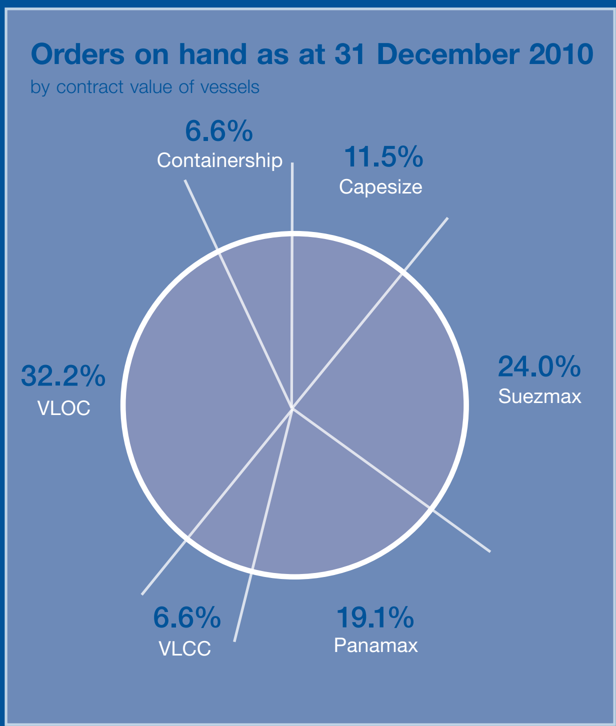








FINANCIAL HIGHLIGHTS

	2010	2009	Change
Revenue (RMB' 000)	**12,665,479**	9,473,206	33.7%
Operating profit (RMB' 000)	**2,033,763**	1,367,769	48.7%
Earnings attributable to the equity holders of the Company (RMB' 000)	**1,718,704**	1,302,183	32.0%
Total assets (RMB' 000)	**40,995,971**	21,970,418	86.6%
Basic and diluted earnings per share (RMB) (based on the weighted average number of ordinary shares)	**0.30**	0.23	30.4%
Net assets per share (RMB) (based on the number of shares in issue as at the end of the year)	**1.98**	0.15	1,220.0%
Current ratio (Current assets/Current liabilities)	**1.5**	0.7	114.3%
Gearing ratio (Total debt/Sum of total debt and total equity)	**54.6%**	85.2%	-35.9%
Proposed dividend per share (RMB cents)	**6.8**	N/A	N/A

Milestones

2005

- commenced the construction of our shipyard in Nantong, Jiangsu Province in October

2006

- commenced the operation of our No. 1 drydock
- signed our first shipbuilding contracts for Panamax bulk carriers in February
- commenced the operation of our No. 2 and No. 3 drydocks
- commenced the construction of our first vessel

2007

- signed the first offshore engineering contract to build a DPV for CNOOC
- our first vessel keel-laid in April
- became a world top 20 shipbuilder in terms of total CGT of vessels on orders received
- Rong An Power Machinery was established

2008

- delivered the first vessel in March
- signed shipbuilding contracts for twelve VLOCs (400,000 DWT each) with Vale S.A.
- entered into strategic cooperation agreements with four renowned international classification societies: DNV, ABS, LR and GL
- commenced the construction of the DPV

2009

- signed shipbuilding 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

2010

- acquired a majority interest in Zhenyu Machinery and established Rong An Heavy Industries
- signed another shipbuilding contract with MSFL for ten 76,000 DWT Panamax bulk carriers
- signed our first shipbuilding contract for VLCCs
- entered into a five-year strategic cooperation agreement with China Eximbank
- entered into a strategic cooperation agreement with CNOOC
- successfully listed on the Main Board of the Hong Kong Stock Exchange

Business

Shipbuilding

We manufacture a variety of vessels for international and domestic customers at our shipyard in Nantong.

We have obtained NDRC approval for the construction of our four drydocks (including our No.4 drydock, mainly for offshore engineering projects). 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 No.1, No. 2 and No. 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 No.4 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 1,600 tonnes. No.4 drydock has been put in trial production since January 2011.

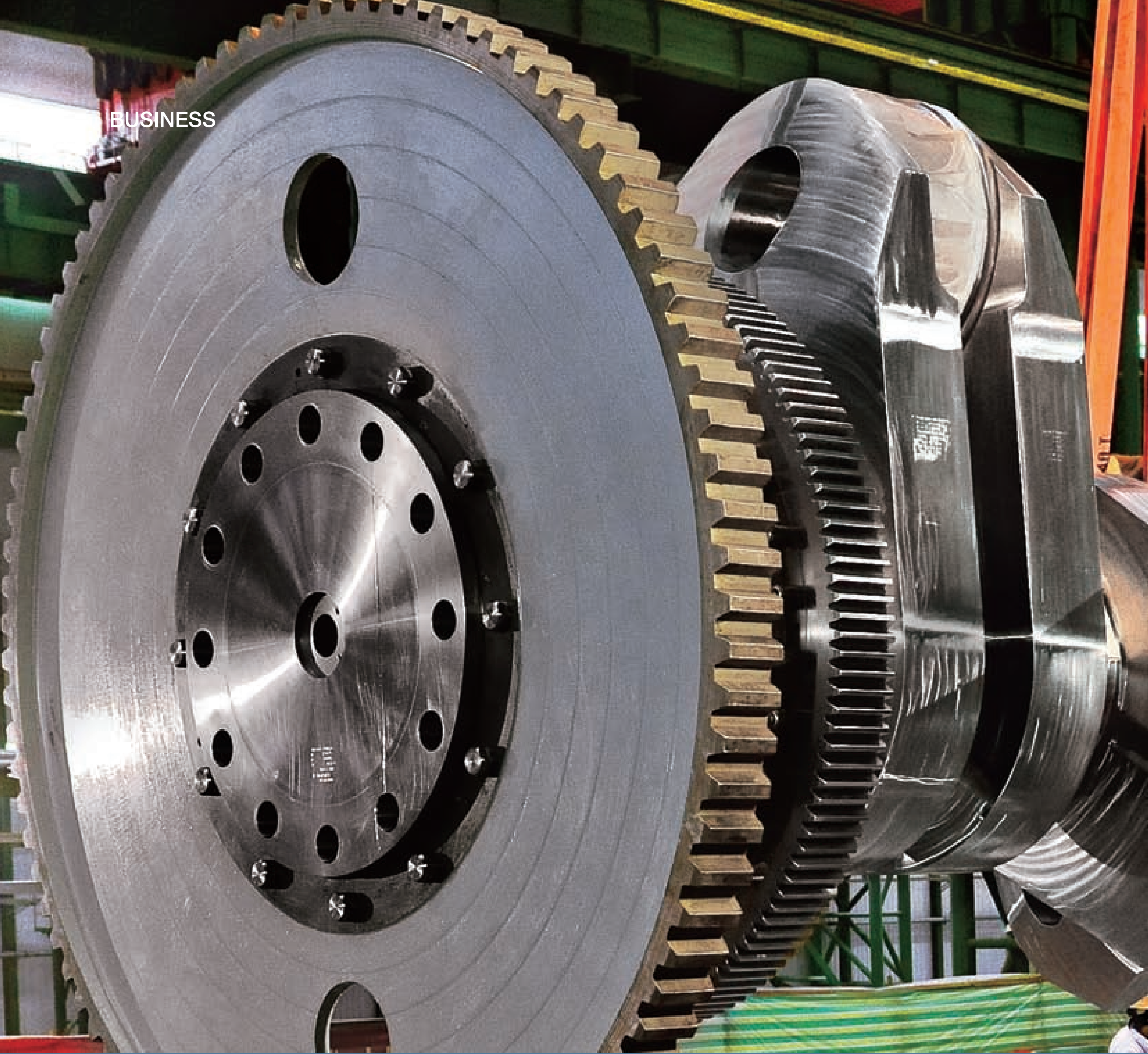
Our principal products are bulk carriers, crude oil tankers and containerships. Currently, our key product offering includes 75,500 DWT ice-strengthened Panamax, 76,000 DWT Panamax and 176,000 DWT Capesize bulk carriers, 400,000 DWT VLOCs, 156,000 DWT and 157,000 DWT Suezmax crude oil tankers, 320,000 DWT VLCCs and 6,500 TEU containerships. We had a customer base spanning 11 countries and regions (including Turkey, Norway, Germany, Brazil and the PRC) as at 31 December 2010. Our customer base primarily comprises large shipping companies, natural resource companies and financial leasing companies.

Offshore Engineering

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, 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 have largely similar production processes. However, certain 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 the shipbuilding segment.

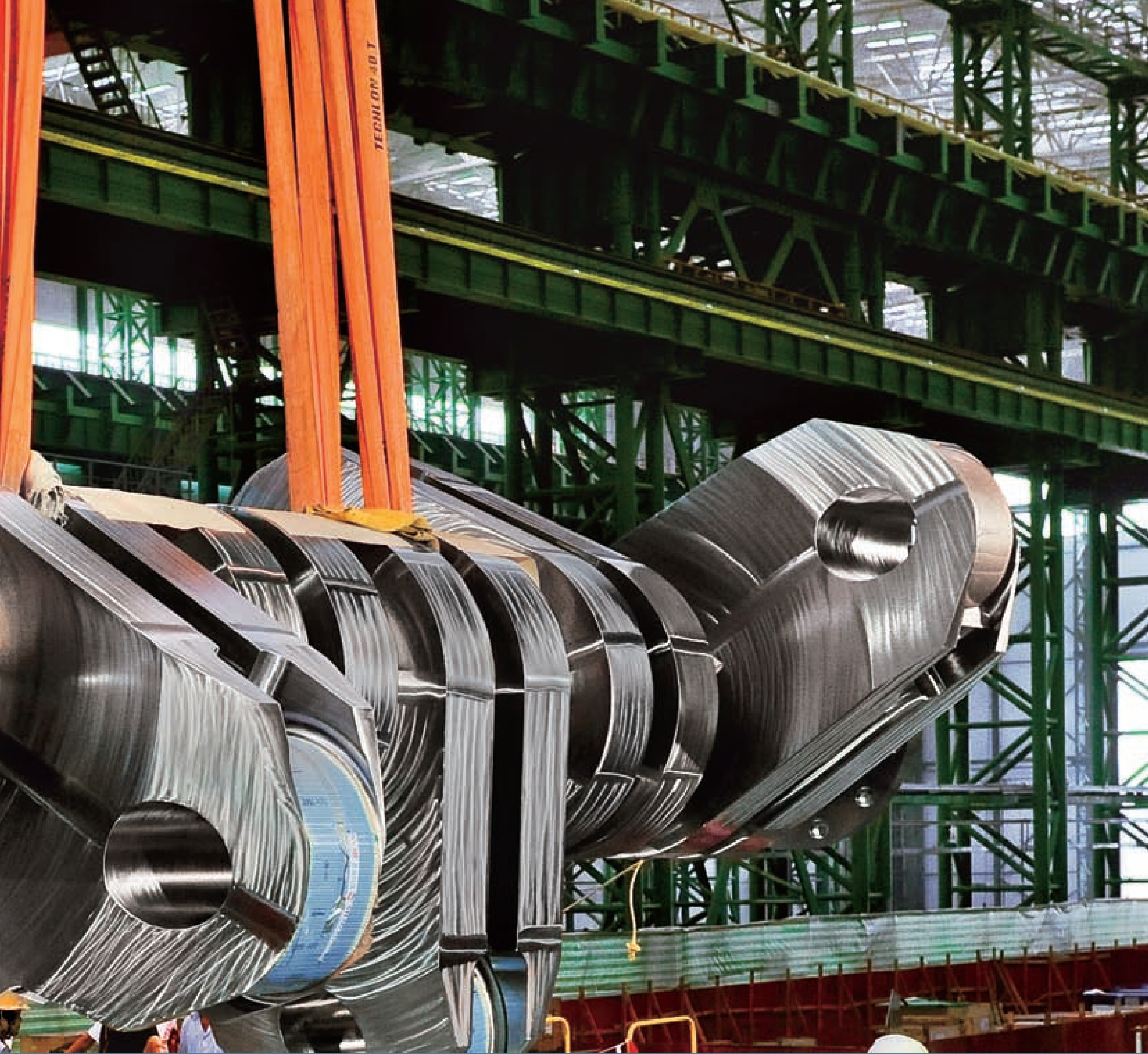
We entered into the offshore engineering business in 2007 with a contract to construct a DPV for CNOOC. Currently, we are one of the few privately-owned companies in the PRC which has the capability to build offshore engineering products. We strive to further expand our business in this segment, including 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 No.4 drydock can also be used for shipbuilding. Upon completion, which is currently scheduled for March 2011, our No.4 drydock will be 139.5 meters wide, 580 meters long and 13.3 meters deep. It will be equipped with a mobile goliath gantry crane that has a designed lifting capacity of 1,600 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, relying on our shipyard facilities, technical know-how and staff.



Marine Engine Building

We run our marine engine building business through Rong An Power Machinery. 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 completed the construction of our production facilities, currently our facilities have an assembly capacity of approximately three million horsepower per year. We expect to reach our planned production capacity of five million horsepower per year 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 boring and milling machines, which will give us a larger production capacity and enable us to produce key components 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.

Engineering Machinery

We commenced our operations in the engineering machinery segment in the first half of 2010.

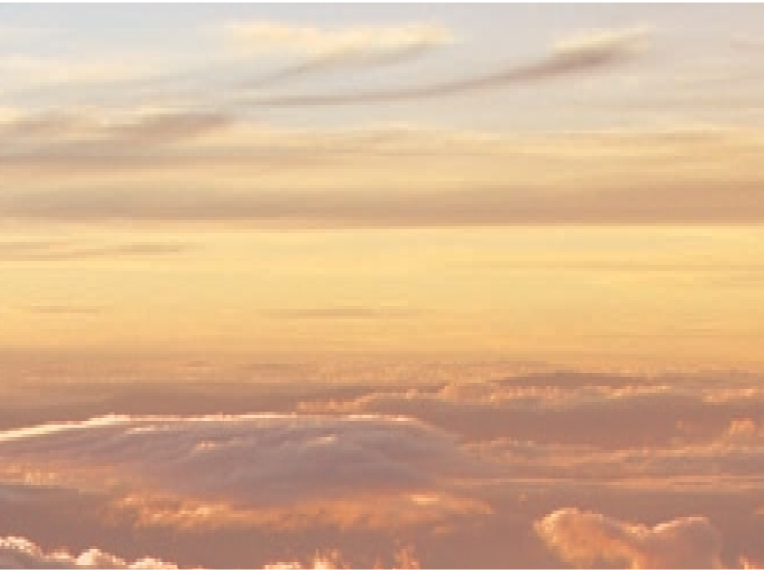
Through Zhenyu Machinery, we currently manufacture 16 varieties of hydraulic excavators and two varieties of hydraulic crawler cranes. Zhenyu Machinery's production facilities cover an area of approximately 53,300 sqm in Hefei. We expect the market demand for engineering machinery to increase substantially 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 offerings by constructing a new manufacturing base in Hefei. The new production base is to be constructed in three phases and will cover an area of approximately 2.7 million sqm, subject to the timing and outcome of relevant government approvals. Phase I of the expansion is expected to cover an area of approximately 566,700 sqm with production capacity of 30,000 excavators per year. Phase I is expected to begin operation 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 machineries.

Chairman's Statement

Dear shareholders,

On behalf of the board of directors of China Rongsheng Heavy Industries Group Holdings Limited, I am pleased to present the annual report of the Group for the financial year ended 31 December 2010, our first annual report since the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 19 November 2010.

Year 2010 was a most memorable year for the Company. Since our establishment a short 5 years ago, we have achieved substantial progress and breakthroughs, securing a leading position among privately-owned shipbuilders in the PRC. Recognized by the international capital markets, during the year the Company completed its IPO in Hong Kong's capital markets. With the support of international capital,



the Company is enthusiastically committed to making great strides towards its goal of becoming a world-class heavy industries company.

Looking back at 2010, the world's economy was recovering from the financial crisis, through slow and steady growth, thus driving a gradual recovery of global commodity trade. Emerging markets such as China, in particular, grew more robust as demand mounted. After showing signs of recovery, it is expected that the marine transportation sector will see growth in 2011. The rapid development of the shipping industry has made China the world's third largest ship-owning country, and strong momentum will remain in line with ever-increasing domestic demand. Global trends indicate that the core of the shipbuilding industry is shifting from Japan and Korea to China. In terms of DWT, the Group ranked first among privately-owned shipbuilders in the PRC in both new orders and orders on hand in 2010. Among our customers are world famous shipping companies including Cardiff Marine Inc., Frontline Ltd. and Geden Lines, major commodity supplier Vale S.A. and the fast-growing MSFL. At the Seatrade Asia Award Ceremony held in April 2010, the Group won the annual Shipbuilding Award in recognition of its efforts in weathering the financial crisis and its accomplishment in impressive development amid a stagnant market.

In a bid to strengthen the exploitation and utilization of offshore resources, the Chinese government has included the high-end equipment manufacturing sector, including offshore engineering, in its 12th Five-year plan as one of the State's key strategic emerging industries. Seizing this opportunity, we have been actively and efficiently expanding our offshore engineering and marine engine building businesses on the basis of serving the shipbuilding needs of the growing energy market. In order to consolidate the world's second place in terms of orders received for Suezmax crude oil tankers, the Group secured its first batch of orders for VLCCs during the year. The Group formed a strategic partnership with CNOOC and is building a DPV for them which can lay pipes 3,000 meters underwater. We will continue to prioritize, under the same conditions, CNOOC's offshore projects and power equipment construction. Our fourth drydock, the largest drydock for offshore engineering projects with Chinese government approval, commenced trial production in January 2011 and will be completed in the near future. The Group's production base in Anhui Province is the only manufacturer in the PRC that has obtained government approval and patents from Wärtsilä and MAN Diesel & Turbo to produce two-stroke low-speed marine diesel engines. In June 2010, we successfully delivered the marine engine for a VLOC, the 72RT-flex82T, the first of its kind produced in China.

Engineering machinery is a new business segment of the Group. China's continuous urbanization and investment in infrastructure, such as, the construction of high-speed rail networks, has created huge demand in this segment. In 2011, the Group will actively enhance its production capacity of excavators and cranes to expand its market share and expand into higher-value-added products in the future.

Leveraging on the government's support towards the high-end equipment manufacturing sector, the Group has gained widespread support from the government at all levels, including banks and non-banking financial institutions. With strong execution capability, our management successfully carried out resource consolidation and secured a general credit line of up to RMB50 billion from the Bank of China during the year, of which the supply chain finance strategic cooperation agreement in the amount of RMB20 billion was a financial service provided by the bank for the first time to cater for enterprises in both upstream and downstream industries. The Group also entered into strategic cooperation agreements with China Eximbank, Agricultural Bank of China and China Everbright Bank with a total credit line of up to RMB68 billion. In addition, the Company is actively initiating strategic cooperation with the PICC.

Adhering to our relentless pursuit of advanced technology, high-value-added and superior quality products, we seek to continuously enhance our internal R&D capability. Over 400 researchers are currently working in our 3 R&D centers, among which over 10 are top industry experts who are entitled to special allowances from the State Council. We have also commenced collaboration with renowned colleges and leading technological R&D institutions for setting up workstations for post-doctorates and academics with a view to boosting innovation and the commercialization of technology, improving product quality, optimizing the production design process to reduce costs and enhancing our soft power for bidding offshore engineering and marine engine building projects.

Looking into the future, and leveraging on our listed status in the Hong Kong capital market, we will reinforce our leading position in the shipbuilding-based equipment manufacturing industry and expand our presence in the high-end equipment manufacturing industry. We will focus on developing offshore engineering equipment such as LNGs and semi-submersible drilling rigs as well as high-tech engines, in addition to increasing the production capacity of our engineering machinery segment to expand our market share. During the transformation from a manufacturer to an integrated system service provider, we strive to make ourselves China's first-class and one of the world's leading heavy industries group.

Standing at the forefront of global development trends and backed by our enthusiastic and dedicated management and staff, I have full confidence in the future prospects of our Group. I truly believe we will accomplish even greater achievements in the coming years. On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to our shareholders and business partners for their wholehearted support and trust. I would also like to thank our outstanding management team and all our staff for their dedication throughout the year.

ZHANG Zhi Rong
Chairman

Hong Kong, 8 March 2011

Our vessels and offshore engineering products are constructed primarily at our shipyard in Nantong in the coastal area of the Yangtze River Delta. Nantong is situated in the eastern part of Jiangsu Province in China, which is approximately 2.5 hours' distance from the city center of Shanghai. The commencement of high-speed rail services in 2013 will place Nantong in the one-hour economic circle of Shanghai. Our shipbuilding manufacturing base, with an area of approximately 4 million sqm, is equipped with four drydocks, two material wharves and five outfitting wharves and owns the rights of using rare coastline as long as approximately 4 kilometers.

At present, we have about **22,000** employees and contract workers, of which more than **400** are senior professionals and over ten are top industry experts enjoying special allowances from the State Council.

CEO's Review

Market Analysis

Over the past ten years, the global shipbuilding industry has been experiencing a dramatic change. The core of the shipbuilding industry has gradually shifted from Japan and South Korea to China. According to data published on 14 January 2011 by the China Association of National Shipbuilding Industry and the Ministry of Industry and Information Technology of the PRC, for the first time, the three major indicators of China's shipbuilding industry all ranked first in the world in 2010: Clarksons Research stated that, for the year 2010, China's shipbuilding output reached 61.2 million Deadweight Tonnage, representing about 41.9% of the global total, leading South Korea (31.9%) and Japan (21.5%); China's total volume of new orders received reached 58.5 million DWT, representing 48.5% of the global total, leading South Korea (38.3%) and Japan (6.1%); and as of the end of December 2010, China's total volume of orders on hand reached 192.9 million DWT, representing 40.8% of the global total, leading South Korea (33.1%) and Japan (17.6%). In the year of

2010, the global economy was gradually recovering from the global financial crisis; the shipbuilding market appeared more active with a significant increase in new orders and a stronger recovery than the industry expectation. Global trading activity became more active, which led to a strong comeback for containership demand. As the second largest energy consuming country, China is a driving force behind the increase for oil and oil-related transportation demand. With the growth of oil consumption and increase in the oil price, the dependency on imported oil creates a greater opportunity for the oil shipping business in the future, which will lead to the continuous market expansion of oil vessel models such as VLCCs. In recent years, China's shipping industry has been growing rapidly, and this trend will continue with growth driven by domestic demand. The future development of China's shipbuilding industry is driven by three factors: the global economic recovery, the rapid growth of international trade, and the cost advantage and policy support.

The recovery of the global economy, together with turmoil in oil producing regions, continues to push the oil price higher, leading to a strong comeback for the offshore engineering market. In the past 10 years, offshore oil and natural gas as a percentage of total global oil and gas consumption has been increasing. Continuous active offshore exploration has stimulated the development of the marine and offshore equipment industry. Meanwhile, the Deepwater Horizon oil spill is likely to accelerate the upgrade of offshore equipment. Recently, the offshore engineering market experienced a mild recovery, with the next 5 to 10 years seen as a major development period. To enhance offshore oil and gas exploration, all three Chinese oil and gas giants have prepared investment plans. As pointed out by relevant parties of the Ministry of Industry and Information Technology of the PRC, offshore engineering has been designated as an emerging industry and part of the high-end equipment manufacturing industry in the "Offshore Engineering Development Planning in the 12th Five-year Plan" and will enjoy more policy and financial support from the government.

As more rigorous rules and regulations have been imposed on marine diesel engines by international maritime organisations for environmental reasons and fuel costs have continued to rise in recent years, marine diesel engine manufacturers are facing new challenges and opportunities. The world's leading diesel engine producers are increasing their research and development ("R&D") input to promote quality products and services. Increasing the efficiency of fuel usage, lower energy consumption, and emission reduction have become major trends for the improvement of marine diesel engines. On the other hand, the power engineering segment will have a brighter future as the government encourages localization of diesel engine production, which creates new opportunities for the diesel engine manufacturing industry.

Over the years, the Chinese engineering machinery industry has evolved into a large-scale and dynamic industry. In 2010, the Chinese engineering machinery industry experienced rapid growth. China will continue its extensive urbanization and infrastructure investment in railways, highways and utilities. Consequently there will be enormous demand for engineering machinery products, especially excavators, and thus a rapid growing phase for the industry and opportunities for emerging producers are expected.

Business Review

In 2010, with the aim of becoming China's first-class and one of the world's leading large-scale heavy industries groups, we completed our initial public offering ("IPO") on the Hong Kong Stock Exchange. The success of our IPO, which recognised our rapid growth in 5 years, has provided us with a broader international platform for our future development.

For the year ended 31 December 2010, our revenue was RMB12,665.5 million, representing growth of 33.7% from RMB9,473.2 million in 2009. Earnings attributable to equity holders of the Company were RMB1,718.7 million, representing an increase of 32.0% as compared with RMB1,302.2 million in 2009. Despite the fact that the global economy in 2010 had yet to fully recover from the global financial crisis in 2009, our large amount of forward looking orders enabled us to achieve rapid growth, and our ability to obtain new orders lays the foundation for our future development. We achieved new orders for 46 vessels in 2010 with a total contract value of USD 2,264.8 million, and the Group's total orders on hand as of 31 December 2010 were 91 vessels with a total contract value of USD 6,272.5 million. These orders on hand alone will sufficiently support our development in the upcoming years.

Marine engine building and offshore engineering will be our growth drivers in the future. With the support of our aggregate orders from shipbuilding, our marine engine building business has been developing rapidly. Our DPV constructed for CNOOC has already been un-docked and will be delivered in 2011. Meanwhile, we have been continuously enhancing our R&D in drilling vessels and LNG carriers.

By acquiring the majority equity interest in Zhenyu Machinery located in Anhui Province in 2010, we entered into the engineering machinery business and we have been expanding our production base in order to increase our production capacity and market share in the engineering machinery sector.

During the year, we acquired Nantong Rongjin Steel Construction Engineering Company Limited and Shanghai Rongsheng Shipbuilding Trading Company Limited, both companies engaged in the business of trading, and Rong An Power Machinery, through which we expanded into the marine engine building business.

Revenue breakdown by geographical regions:

	2010		2009	
		Percentage of		Percentage of
	RMB'000	**revenue**	RMB'000	revenue
Brazil	**2,554,805**	**20.2%**	–	–
China	**2,533,153**	**20.0%**	1,277,312	13.5%
Germany	**2,079,430**	**16.4%**	271,917	2.9%
Turkey	**1,880,949**	**14.9%**	2,494,557	26.3%
Greece	**1,785,951**	**14.1%**	1,792,561	18.9%
Oman	**846,817**	**6.7%**	–	–
Cyprus	**601,289**	**4.7%**	709,650	7.5%
Norway	**204,552**	**1.6%**	1,769,824	18.7%
Russia	**170,940**	**1.3%**	1,000,052	10.6%
Singapore	–	–	157,333	1.6%
Others	**7,593**	**0.1%**	–	–
Total	**12,665,479**	**100.0%**	9,473,206	100.0%

For the year 2010, revenue from five largest customers in our businesses was RMB7,114.1 million, representing 56.2% of our total revenue in 2010.

Shipbuilding

For the year ended 31 December 2010, shipbuilding was our major business segment and also our major revenue source.

Order Book and New Orders

During the year ended 31 December 2010, we demonstrated our strong marketing capability by securing new shipbuilding orders of approximately 5.7 million DWT, representing a total contract value of USD 2,264.8 million. According to Clarkson Research, we ranked first among privately-owned Chinese shipbuilders in terms of both new orders and orders on hand measured by DWT for the year 2010. We were granted "The Shipbuilding Award" in the Seatrade Asia Award in April 2010, which demonstrated the global recognition of our success in achieving significant development in spite of the financial crisis.

As of 31 December 2010, our order book included 91 vessels, representing a total of approximately 15.9 million DWT and a total contract value of approximately USD 6,272.5 million, including 35 Panamax bulk carriers, 9 Capesize bulk carriers, 16 VLOCs, 23 Suezmax crude oil tankers, 4 VLCCs and 4 6,500-TEU containerships. During the year ended 31 December 2010, we commenced the construction of 52 vessels. All the vessels in our order book will be delivered within the period from 2011 to 2014. Our vessels have received approval from several classification societies (included ABS, CCS, DNV, GL and LR).

The following table sets forth the information relating to our orders on hand as of 31 December 2010.

	As of 31 December					
	2010			2009		
	DWT ('000)	**Contract value (USD mm)**	**No. of vessels**	DWT ('000)	Contract value (USD mm)	No. of vessels
Bulk carriers and VLOCs	**10,644.0**	**3,943.0**	**60**	9,095.0	3,247.4	37
Crude oil tankers and VLCCs	**4,877.0**	**1,917.7**	**27**	3,276.8	1,446.6	21
Containerships	**338.6**	**411.8**	**4**	338.6	411.8	4
Total	**15,859.6**	**6,272.5**	**91**	12,710.4	5,105.8	62

Note: our order book, as of the dates indicated above, represents the total nominal contract value of the orders that had not been completed, including the portion of revenue in respect of those orders that had been recognised as of such dates, all as translated (where applicable) into US dollars on the respective balance sheet dates at the rate of USD 1 = RMB6.6800 in 2009 and USD 1 = RMB6.6229 in 2010. In addition, the figures do not include the orders that had been cancelled as of 31 December 2010. Our major customers include: Vale Shipping Singapore Pte. Ltd, Oman Shipping Company, Minsheng Financial Leasing Ltd., Cardiff Marine Inc., Frontline Ltd., and Geden Lines.

The following table sets forth the information relating to our new orders of shipbuilding segment as of 31 December 2010.

	As of 31 December					
	2010			2009		
	DWT ('000)	Contract value (USD mm)	No. of vessels	DWT ('000)	Contract value (USD mm)	No. of vessels
Bulk carriers and VLOCs	**2,052.0**	**922.6**	**27**	2,208.0	761.4	12
Crude oil tankers and VLCCs	**3,629.0**	**1,342.2**	**19**	–	–	–
Containerships	–	–	–	–	–	–
Total	**5,681.0**	**2,264.8**	**46**	2,208.0	761.4	12

Note: the contract values were all translated (where applicable) into US dollars at the rate of USD1 = RMB6.6800 in 2009 and USD1 = RMB6.6229 in 2010. In addition, the figures do not include orders that had been cancelled as of 31 December 2010.

Offshore Engineering

With the purpose of increasing the development and utilization of marine resources, the high-end equipment manufacturing industry including offshore engineering has been listed in the 12th “Five-year Plan” Outline and positioned as a key emerging industry supported by the State. While focusing on shipbuilding, which supports the growing demand of the energy and resources sector, we are also following the national strategy and broadening our business scope into offshore engineering. We are currently constructing a DPV for our strategic partner CNOOC, which can lay pipes 3000 meters underwater. We will continue to prioritize, given the same conditions, CNOOC’s offshore projects and power auxiliary equipment construction. Our fourth drydock, the largest drydock for offshore engineering projects with Chinese government approval, has been under trial production since January 2011.

We rely on domestic demand for our offshore engineering equipment segment. We entered into a strategic cooperation agreement with CNOOC. And we are forging close co-operative relationships with leading Chinese oil and gas giants. Upon completion of the “Ocean Pec 201” – the 3000-meter DPV, our design and construction capacities for offshore engineering were further improved. Meanwhile, we actively pursued offshore projects with the aim of expanding our overseas market.

Pursuant to the State’s “South China Sea Exploration Strategy” and to provide the top three state-owned petroleum corporations with deep ocean exploration equipment and actively expand into the international offshore market, we are currently in the detailed design and production design phase of a 3000-meter semi-submersible drilling platform based on imported basic designs, preparing for related domestic projects and laying the foundation for international market exploration. To master the LNG carrier design and specific construction technology, we signed a patent agreement for vessel containment systems and a cooperative agreement for LNG carrier construction technology with Gaztransport & Technigaz S.A.S (“GTT”) and STX France SA (formerly known as Chantiers de l’Atlantique), respectively. In the beginning of 2011, we sent our engineering team members to GTT for training, in preparation for LNG carrier containment systems and mock-up installation.

We commenced recognizing revenue from our DPV since 2008. The revenue arising from the construction of our DPV increased from RMB289.3 million for the year ended 31 December 2009 to RMB465.4 million for the year ended 31 December 2010, representing an increase of 60.9%. As of 31 December 2010, the percentage of completion of DPV was approximately 96.1%, as compared with approximately 29.0% as of 31 December 2009.

"Ocean Pec 201" (海洋石油201) is the first DPV built in China based on the detail design and production design independently carried out by domestic companies. The 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 vessel is equipped with a heavy duty crane with a full circular swinging capacity of **3,500** tonnes, and a pipe storage zone capable of storing **9,000** tonnes of pipes. The vessel is designed in a way to enable its operation in unrestricted navigation areas around the world other than the North Pole. We are currently one of the few privately-owned companies in China with the capability to build offshore engineering products.

Marine Engine Building

We expanded into the marine engine building segment through our subsidiary Rong An Power Machinery. According to our licensing agreements with two of the world's largest power solutions providers, Wärtsilä and MAN, we were granted the rights to produce and sell Wärtsilä RTA/RT-flex 2-stroke, low-speed marine diesel engines and MAN 2-stroke, low-speed marine diesel engines. Our production base in Anhui Province has obtained approval from the PRC government to produce low-speed diesel engines of up to 5 million horsepower. In June 2010, we successfully delivered the main engine of a VLOC, the 7RT-flex82T, the first of its kind produced in China. Currently, most of our engines are supplied to our own shipbuilding segment. In addition to ensuring our internal supply, we actively identified external customers and achieved ground-breaking results. As at 31 December 2010, our order book of 53 engines amounted to 1,111,437 horsepower with a total contract value of approximately RMB1,951.4 million.

In 2010, we achieved 55 orders for diesel engines with a capacity of 978,085 horsepower, of which 19 were external orders. We delivered 12 diesel engines with a total capacity of 297,148 horsepower, repaired 4 diesel engines and realized revenue of RMB316.0 million.

The Group completed the production of three models during the year: the 7RT-flex82T low-speed diesel engine, the 5RT-flex58T-D diesel engine and the 6S42MC diesel engine. Meanwhile, we made breakthroughs in the engine models we produced. The 7RT-flex82T low-speed diesel marine engine, which is the first of its kind produced in China, signifies our significant achievement in technology and production capacity. The 6S42MC diesel engine is also the first MAN main engine we have produced. For the year 2010, we also completed the fixation tasks for two 5S50MCC and two 6S70MCC main engines. During 2010, despite being in a relatively early development phase, through accomplishing these tasks and accumulating substantial training and experience, we have laid a solid foundation for the great-leap-forward in our development in 2011.

In the future, we will carry out the development and production of electronically controlled diesel engines. Meanwhile, we are actively engaging in the design of new models. For instance, we cooperated with MAN Diesel & Turbo in the field of dual-fuel diesel engines. Currently, the technical research on dual-fuel diesel engines has commenced and the task of combining low-speed and dual-fuel engines has begun. Leveraging on the technical advantages and excellent performance of our products, our marine power segment will fully grasp the opportunity provided by the dual-fuel marine diesel engine market.

Engineering Machinery

We commenced our operations in the engineering machinery segment in March 2010 by acquiring Zhenyu Machinery. Since the date of the acquisition, engineering machinery has contributed total revenue of RMB327.3 million, mainly derived from the sale of excavators and crawler cranes.

We are expanding our excavator production plant. The general assembly workshop is expected to be put into operation in June 2011, the painting workshop in July 2011, and structure and material workshops in December 2011. For sales outside Anhui Province, we shifted from direct sales to distribution, with the number of distributors surging from 4 to 10. We are also actively cooperating with financial institutions.

Financial Review

With our business expansion in 2010, our inventory as of 31 December 2010 increased by RMB557.8 million to RMB1,557.3 million (2009: RMB999.5 million). The inventory turnover remained stable, with a slight increase from 57 days in 2009 to 60 days in 2010.

The amounts due from customers for contract works dropped by RMB554.7 million to RMB4,091.0 million (2009: RMB4,645.7 million). Amounts due to customers for contract

works decreased by RMB3,231.0 million to RMB4,853.3 million (2009: RMB8,084.3 million). The decrease in amounts due from and due to customers for contract works was due to the continuous expansion of the production scale of our shipbuilding segment and the delivery of vessels in 2010. Trade and bill receivables increased by RMB59.7 million to RMB327.8 million (2009: RMB268.1 million). Turnover days of trade and bill receivables posted slight increase from 5 days in 2009 to 9 days in 2010.

Driven by working capital requirements arising from our business expansion in 2010, our short-term borrowings and long-term borrowings increased to RMB9,462.1 million (2009: RMB4,167.6 million) and RMB8,173.3 million (2009: RMB313.3 million) respectively as at 31 December 2010, representing an increase of RMB5,294.5 million and RMB7,860.0 million, respectively. We redeemed our preferred shares during the year ended 31 December 2010 and the related liability decreased from RMB2,702.6 million as at 31 December 2009 to nil as at 31 December 2010.

Profit attributable to the equity holders of the Company was RMB1,718.7 million in 2010, representing an increase of 6.7% from, or RMB108.2 million more than, the forecast profit of RMB1,610.5 million as stated in the Prospectus.

Revenue

Our revenue for the year ended 31 December 2010 was RMB12,665.5 million as compared to RMB9,473.2 million in 2009, representing a year-on-year growth of 33.7%. The significant revenue growth was primarily attributable to the continuous expansion of our shipbuilding business and our new orders for 46 vessels (2009: 12 vessels).

Cost of sales

Our cost of sales for the year ended 31 December 2010 increased by approximately 29.0% to RMB9,834.0 million (2009: RMB7,624.9 million), in line with the 33.7% increase in revenue.

Selling and marketing expenses

Our selling and marketing expenses for the year ended 31 December 2010 increased by approximately 1,284.8% to RMB63.7 million (2009: RMB4.6 million), due to increased advertising activities to further promote our brand name. Moreover, we incurred additional costs for the expansion of our marine engine sector and entering into the engineering machinery sector, which need additional marketing efforts for their products.

General and administrative expenses

Our general and administrative expenses for the year ended 31 December 2010 increased by approximately 70.6% to RMB957.7 million (2009: RMB561.3 million), mainly due to an increase in our operational scale and additional costs incurred for the expansion of our marine engine sector and entering into the engineering machinery sector.

Finance income and finance costs – Net

Our finance income for the year ended 31 December 2010 increased by approximately 424.6% to RMB175.2 million (2009: RMB33.4 million), mainly due to net foreign exchange gains of RMB103.2 million. Our finance costs for the year ended 31 December 2010 increased by approximately 74.8% to RMB165.4 million (2009: RMB94.6 million), mainly due to an increase in our borrowings to support our expansion of production scale.

Liquidity and financial resources

As of 31 December 2010, our cash and cash equivalents balance was RMB10,413.0 million (2009: RMB2,862.8 million).

As at 31 December 2010, our pledged deposits were RMB4,009.8 million (2009: RMB1,866.8 million), which was primarily attributable to the increase in the number of vessels under construction.

Loans

As at 31 December 2010, our total loans were RMB17,635.4 million (2009: RMB7,183.5 million), of which RMB15,879.0 million (90.0%) was denominated in RMB and the remaining RMB1,756.4 million (10.0%) was denominated in foreign currencies such as US dollars. The average interest rate on such loans were calculated at rates ranging from 5.37% to 5.83% per annum (2009: 5.11% to 20.0%). In 2010, we managed to reduce the proportion of short-term borrowings in total borrowings from 95.6% to 53.7%. Certain of the borrowings were secured by our land-use rights, buildings, construction contracts, pledged deposits, secured and guarantee from the Company and certain of its subsidiaries.

Gearing ratios

Our gearing ratio (total debt divided by the sum of total equity and total debt) decreased from 85.2% as at 31 December 2009 to 54.6% as at 31 December 2010, primarily due to the receipt of proceeds generated from our Listing on the Hong Kong Stock Exchange during the year.

Foreign exchange risks

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

Capital expenditure

For the year ended 31 December 2010, our capital expenditure was approximately RMB4,146.4 million (2009: RMB1,089.5 million), which was mainly used in acquiring facilities and equipment for our newly constructed plants.

Contingent liabilities

As of 31 December 2010, we had contingent liabilities of RMB9,719.8 million (2009: RMB9,238.8 million), which mainly resulted from the agreements entered between our Group and over ten banks in China, respectively, in relation to the grant of credit facilities to us.

Human resources

As of 31 December 2010, we had 5,782 employees (2009: 4,825). We had recruited new employees to cater for the business expansion in the year. We offer competitive remuneration packages to employees. Moreover, discretionary bonuses are granted to qualified employees by reference to the performance of individuals and our Group as a whole. As our success hinges on the concerted effort from all departments formed by skilled employees with high morale, we endeavor to cultivate a culture of learning and sharing, focusing on individual training and development, and nurture the concept of teamwork.

Prospects

At present, the shipbuilding segment is still the major business of our Group. 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. 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 upon completion of additional facilities.

By tapping into our extensive expertise in shipbuilding, recent R&D as well as broad knowledge of our experienced staff in offshore engineering, we are capable of manufacturing various offshore engineering products including drilling platforms, drillships, FPSO/FSO, offshore engineering fleet (such as DPV) and LNG carriers. We have been proactively participating in international project bidding processes and are well positioned to secure new orders in the future. We are dedicated to serving the energy industry. The shift of energy resource production from onshore to offshore and from oil to gas is inspiring a boom in offshore engineering, a high-end equipment manufacturing industry. Meanwhile, unlike the shipbuilding business, offshore engineering is not facing the same level of international trade barriers.

We will implement strategic measures to maintain our position in the shipbuilding market in China and capitalize on the offshore engineering market in line with the objectives of our second five-year development plan and three-year revolving operation plan.

Strong internal demand from our shipbuilding segment, coupled with ever-increasing external demand for marine engines in China, especially from private shipbuilders, will create momentum towards continuous growth in our marine engine building segment in the future. We are currently completing phase one of our manufacturing plant for marine engines, which will offer us annual production capacity of 3 million horsepower. We are also preparing to kick off phase two of our construction and other ancillary projects.

Engineering machinery is our emerging business segment. The continuous urbanization in China stimulates investment in infrastructure projects such as railways and creates enormous demand for engineering machinery products. In 2011, the Company plans to expand the production capacity in excavators and cranes and increase the market share of our business. In striving to expand our markets, we intend to strengthen the Rongsheng brand, expand our marketing network and leveraging a variety of resources. We currently intend to fund our future expansion plans using the net proceeds generated from our Listing on the Hong Kong Stock Exchange as well as from internally generated funds.

CHEN Qiang
Chief Executive Officer

Hong Kong, 8 March 2011

Corporate Social Responsibility Report

As a corporate citizen with a historic sense of mission, we have always demonstrated corporate social responsibility in our actions. For the past five years since our establishment, we have been proactively creating jobs, boosting the income level of local residents, increasing government tax revenue and consequently generating regional economic development, all of which have been well recognized by the local government. Meanwhile, we have paid great attention to the development of charities, sports and education and have contributed to social welfare. In 2010, Rongsheng Heavy Industries was named an "Excellent Enterprise in Social Responsibility in China in 2010".

Enduring support to local charity and due performance of social responsibility

As a leading local enterprise, we have been giving back to society. Along with our rapid growth in the past five years since our establishment, we have been contributing to the local economy and social welfare development. We proactively donated to charitable funds like Rugao Charitable Foundation and the Rugao Organization for the Disabled. Rongsheng Heavy Industries also established a long-term partnership with the Rugao Organization for the Disabled to support the businesses of disabled persons. To date, we have ordered over RMB27 million worth of worker's supplies from the Rugao Disabled Persons' Service Center. In February 2010, before the Chinese New Year, our management visited 30 families with disabled members in Rugao and donated money and daily necessities (such as rice, cooking oil, blankets and fruits) to them. In addition, we expressed our deep concerns and sincere regards to them.

Actively supporting national sports and bolstering national spirit

Apart from our social responsibility commitments, charitable concerns and assistance to underprivileged groups, we have provided great support to the development of national sports. Our long-term contribution to sports and other social welfare undertakings has long been regarded as a vital component of our enterprise's development strategy. We entered into a sponsorship contract with the Bayi Table Tennis team on 6 March 2010, adding great vigor to the development of table tennis in China. We chose to sponsor the Bayi team at a difficult moment in its time in the hope that the team could continue to promote the spirits of sportsmanship, hard work and advancement and to bring more awards for the country. With our support, the Bayi team ranked second in the Table Tennis Super League in 2010, the best performance in the team's history.

Moreover, we have sponsored the "Rongsheng Cup – National Equestrian Championship and Xiwu Grand Prix" for three consecutive years since 2008, thereby playing our part in contributing to China's equestrian sports. Although national sports development has been robust in recent years, equestrian sports is just in its nascent stage when compared with other types of sports, and is far behind international levels in terms of development. We chose to sponsor equestrian sports at the critical period of initial development in the hope that such sponsorship could elevate the standard of the sports in China to an international level.

Participation in social campaign against of AIDS – "Love & AIDS Connection"

With the approach of the 23rd World AIDS Day on 1 December 2010, we participated in the "Love & AIDS Connection – 2010 World AIDS Day Social Campaign" jointly organized by The All-China Federation of Industry & Commerce, the AIDS Working Committee Office of the State Council and the Ministry of Health, and we also participated in the "Red Ribbon Charity Auction". All these initiatives have helped to clear misconceptions about AIDS, eliminate the stigma attached to AIDS and assist children orphaned by AIDS. As a result, people will better understand that AIDS is no more than a disease and will pay greater attention to children orphaned by AIDS. Through our participation in these activities, we have also increased our staff's concerns for the community and lives, so that they would cherish life and health.

An environmental-friendly, healthy and safe working environment

Our shipyards were acknowledged by Environment Management System Standards: ISO 14001:2004 and Occupational Health and Safety Management System Standards: OHSAS 18001:2007, evidencing our efforts in establishing and maintaining an occupational health and safety system and an environment management system which ensure timely removal of various hidden problems in the entire course of our operations and to effectively control various major risks detrimental to health, safety and the environment in the course of vessel construction, continuously enhancing our standard of onsite safety and environmental management. We were effective in terms of establishing management of health and safety environment organizations. We also maintained sound rules and regulations and developed environmental and occupational health and safety management systems, thus effectively safeguarding occupational health. Adhering to the spirit of unifying innovative and pragmatic endeavours, China Rongsheng Heavy Industries made great efforts in achieving the goal of creating "neat and clean manufacturing facilities, orderly traffic and security and comprehensive facilities and functions".

Always stand with the nation for the creation of precious dreams and hopes

The two devastating earthquakes at Wenchuan and Yushu left many victims homeless and separated from their families. China Rongsheng Heavy Industries offered a helping hand to them when they were in greatest need of help. Our staff's concerns for the victims extend beyond the one-off donations made at the time of disaster, to our concerns towards the victims' long-term livelihood, so they may experience warmth with boundless love.

In 2008, upon the occurrence of "5.12 Wenchuan Earthquake", we immediately donated over RMB5 million to the quake-stricken regions despite the fact that we were still at a critical stage of investment and construction with limited funding. In an active response to the call of the All China Federation of Trade Unions, our staff entered into the quake-hit Sichuan regions to undertake recruitment activities, which created jobs for around 300 people at the disaster areas in Wenchuan, effectively relieving the employment problems there. On 5 October 2010, we actively supported and took part in "Wenchuan Stands Up – Large Photo Documentary Tour on the Reconstruction Achievements of China, Hong Kong, Macau and Taiwan" Exhibition held in Hong Kong, which exhibited Wenchuan's "China Power" to the world.

After the outbreak of Yushu Earthquake in 2010, we donated RMB11 million to the quake-hit areas for reconstruction and provided aid to Yushu Hongqi Primary School to express our concerns for the future study and growth of students there. Our Group's labor union representatives visited Yushu Hongqi Primary School on 1 September 2010 and provided the students with school bags packed with love and care from over 20,000 Rongsheng staff members. Meanwhile, we launched the charity channel named "Rongsheng Assistance to Students" in collaboration with Ifeng.com, with the aim of continuously supplying materials to the quake-hit regions in Yushu, and Yushu Hongqi Primary School in particular. We also started a special fund to support Yushu with the aim of fostering communication and interaction between teachers and students in Yushu and various circles of society through an online platform, thus arousing more attention in Yushu and Yushu Hongqi Primary School, and gathering social forces for the reconstruction of the school campus and the purchase of teaching facilities, so that school areas could be redeveloped through continuous care and donations and children in the quake-stricken areas could be well-supported. We established a continuous reconstruction-oriented relationship with the primary school, which has created a favourable study environment for students in terms of both software and hardware and provided strong material support to the sustainable development of the school. In 2010, with the approach of Children's Day, we invited teachers and students of Yushu Hongqi Primary School to attend the Shanghai World Expo and jointly organized the activity "In One Boat – Sail To The Sea" with Soong Ching Ling School in order to give the children an enjoyable 6.1 Children's Day.

Creating jobs, boosting workers' skills and upgrading regional industry through various channels

China Rongsheng Heavy Industries has also played its part in stabilising and increasing employment. We place great emphasis on recruitment and on-the-job training, and have closely linked our enterprise's developments to employment and social security initiatives. We have created jobs through various channels and have increased our hiring of talent through the recruitment of over 5,000 staff during the year 2010, earning the title "National Advanced Private Enterprise in Employment and Social Welfare".

In November 2009, we sponsored the "Second Jiangsu Rongsheng Shipbuilding Electric Welder Skill Contest". With the rapid development in the shipbuilding capacity of Jiangsu Province, labor training became a determining factor in corporate competitiveness. As the title sponsor of this contest, we have contributed to the sound and rapid development of the shipbuilding industry across the Province, the establishment of a modern shipbuilding model and the improvement of the skills of shipbuilding electric welders in Jiangsu Province, thereby fostering the enhancement of industrial workers' skills and driving the advancement of regional industry. Meanwhile, we have actively contributed to the development of job evaluation of shipbuilding professionals by Jiangsu Provincial Personnel Department and Jiangsu Economy and Information Technology Committee, which has paved the way for the job evaluation of shipbuilding professionals in Jiangsu Province, in particular those in private shipbuilding enterprises.

Pressing ahead with corporate culture establishment to promote well-rounded staff development

Development of corporate culture is an effective way to bolster core corporate competitiveness. In light of this, Rongsheng Heavy Industries established the "Rongsheng Workers' Troupe" and "Rongsheng Branch of Rugao General Union Employees Troupe" in collaboration with the Federation of Trade Unions and the Youth League of Jiangsu Province, Nantong City and Rugao City. On July 1st every year, the Company's party members and staff presented splendid cultural shows at the "July 1st Excellent Party Member Award Presentation Ceremony" to fully demonstrate the positive spirit of our staff. We have also set up a "Rongsheng Hundred-People Choir", "Rongsheng Vigor Men Percussion Team" and "Women Drum Team" and actively participate in the local army and enterprise get-together functions on August 1st every year. Our perfect performance has won the accolades of various circles in the community. In 2010, the Company continued to actively organise reading activities. "Responsibility Over Capability II" was read in the first and second quarters of the year while "This Is My Fault" by the entire staff and "Embrace Your Employees" were read by assistant managers in the third and fourth quarters of the year. Such reading activities enabled our staff to realize the importance of responsibility, and thus further promoted team cohesion and entrenched their sense of identity with the enterprise. We also established a "Workers' Home" for our staff, which provided them with a variety of entertainment and cultural venues including a library, badminton stadium, chess room, table tennis room, gym, multi-media room and e-reading room, hence enriching their life after work.

We have continued to adhere to the "family" culture and conducted various activities to make our staff feel the warmth of the Rongsheng family. In the Mid-Autumn Festival of 2010, in order to provide a reunion opportunity for our senior staff, family members of employees were specially invited to our offices for a visit, which also gave us the opportunity to express our gratitude for their support and dedication to their families.

Developing a comprehensive, multi-level and multi-nature personnel training to develop a top Rongsheng team

On staff training, we joined hands with well-known training companies such as Myzion, Sunshine Media and Ministers to conduct management training programs and training on team building, organizational strategy and management skills for supervisory and management personnel. We continued to adopt a training model focused on job-specific qualifications complemented by training on skills improvement. In 2010, we organized a total of six batches of training for 918 staff members, and 523 staff members passed the team leader training. We also arranged a three-month intensive pre-job and production training for 260 university students and over a mentorship program for over 1,000 vocational school students, of which 550 vocational school students underwent welder training and received certificates. We completed full induction training (pre-employment body check, safety training, skills identification and pre-job training) for 22,000 staff members and special job certification, review and training for 10,500 technicians. In 2010, a total of 320 staff members passed the Rugao assistant technician examination, 43 staff members passed the Nantong middle-level job preliminary evaluation and eight staff members passed the Jiangsu senior job evaluation. We focused on enhancing the skills of welders and fitters and arranged for a total of 523 welders and 262 fitters to take part in middle- and high-level training and accreditation, through which their skills were significantly improved. We also organized activities including off-the-job training for Shanghai's numerical control trainees, a summer program on diesel engine knowledge enhancement at the Shanghai Jiaotong University, a mentorship program at assembly lines, as well as instructor training and overseas training for senior technicians, with the aim of reinforcing our internal staff development so as to accumulate strength for rapid development.

The spirit entrenched in China Rongsheng Heavy Industries contributed to its determination in shouldering corporate social responsibilities. As a large national enterprise, China Rongsheng Heavy Industries is determined to take on greater social responsibilities. Over the past five years of development, our Group has secured support from the government and society. As such, our Group is always ready to give back to society when needs arise. It is the hope of our Group that both the enterprise and staff members would have in them the idea of social responsibility, and are willing to commit more on this front. China Rongsheng Heavy Industries will live up to its commitments to customers, staff members and society by offering products of higher quality, caring more about its people, and paying more attention to the environment.

Directors and Senior Management

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, one of whom is a non-executive Director, seven of whom are executive Directors, and three of whom are independent non-executive Directors.

Non-executive Director

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

Mr. Zhang, aged 42, is a non-executive Director of the Company, our chairman and founder and controlling shareholder of the Group. He was appointed as a Director on 3 February 2010. He is the chairman of our remuneration committee. Mr. Zhang is not involved in the day-to-day operations of the Group as a non-executive Director, but participates in formulating the Group's overall strategies. Mr. Zhang has more than 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 field by establishing our Group. He received his MBA degree from Asia Macau International Open University in 2002. Mr. Zhang is the chairman and executive director of Glorious Property Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 845). Mr. Zhang holds 100% beneficial interest in Fine Profit Enterprises Limited, the direct controlling shareholder of the Company.

Executive Directors

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

Mr. Chen, aged 49, an executive Director and chief executive officer. Mr. Chen joined us in 2004 and was appointed as an executive Director on 24 October 2010. He is responsible for overseeing the overall operations of the Group, and is also a director of Rongsheng Heavy Industries and Rongsheng Research and Design, both being subsidiaries of the Company. Mr. Chen obtained his doctorate degree in naval architecture and ocean engineering from Harbin Engineering University (哈爾濱工程大學) and an MBA degree from China Europe International Business School (中歐國際工商學院) in 2002. Mr. Chen obtained a master's degree in professional accounting (EMPAcc) (專業會計碩士) from the Chinese University of Hong Kong and was awarded the CFO Qualifying Certificate from the Shanghai National Accounting Institute (上海國家會計學院) in 2010. He also obtained a bachelor's degree in marine power engineering from Shanghai Jiao Tong University (上海交通大學) in 1982. Mr. Chen once served as an assistant to the general manager and subsequently a deputy manager of Jiangnan Shipbuilding Group Co., Ltd. (江南造船集團有限公司). Mr. Chen was a deputy general manager and subsequently the vice-chairman to the board of directors and general manager of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司), and was one of the founders of the company. Mr. Chen is one of the experts on the National Expert Database of the PRC and was named as one of the "one hundred entrepreneurial talents" by the Jiangsu provincial government. In 2010, the prestigious Norwegian shipping magazine "TradeWinds" ranked him the 41st among the "100 Most Influential People in Shipping Today". Mr. Chen enjoys special government allowances granted by the State Council and has won many domestic awards and has been granted many honorary titles, for example, the State Scientific and Technological Progress Second Class Award (國家科學技術進步二等獎) in 1990. Mr. Chen is the vice-president of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), an executive member of the Council of the Shanghai Society of Naval Architects & Marine Engineers (上海造船工程學會), a committee member of the Jiangsu Shipbuilding and Offshore Engineering Assessment Panel of Professional Qualification (江蘇省船舶與海洋工程高級專業技術資格評審會). He is also a member of the council of CCS (中國船級社) and a member of the technology committee of the five biggest ship classification societies, namely, DNV, ABS, GL, LR and BV.

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

Mr. Wu, aged 61, is our vice chairman and an executive Director. Mr. Wu joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is also the chairman of Rongsheng Heavy Industries, a subsidiary of the Company. Mr. Wu is primarily responsible for the administration and management of the Group. Mr. Wu obtained his bachelor's degree in economics and management from Fudan University (復旦大學) in 1994. Mr. Wu was a member of Shanghai Government Economic Reform Committee (上海市政府經

濟體制改革委員會). From 2001 to 2010, Mr. Wu was the president of Shanghai Sun Glow Investment Group Co., Ltd. (上海陽光投資集團) and was responsible for overseeing the management of its day-to-day operations.

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

Mr. Luan, aged 39, is an executive Director and chief operating officer. Mr. Luan joined us in 2006 and was appointed as an executive Director on 24 October 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongye Storage and Rongding Marine Engineering. Mr. Luan is primarily responsible for sales and marketing, research and development of technologies and sourcing of materials. He obtained his bachelor's degree in economics from Shanghai Institute of Foreign Trade (上海對外貿易學院) in 1993. Mr. Luan has 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. DENG Hui (鄧輝), Executive Director

Mr. Deng, aged 53, is an executive Director and our standing vice-president. Mr. Deng joined us in September 2007 and was appointed as an executive Director on 24 October 2010. He is also the chairman of Rong An Power Machinery and an executive director of Rong An Mechanical & Electrical Equipment. Mr. Deng is primarily responsible for strategic development and corporate culture functions, and overseeing the overall operations of Rong An Power Machinery and Rong An Heavy Industries. Mr. Deng obtained his bachelor's degree in marine power engineering (船舶動力工程學士) from Shanghai Jiao Tong University (上海交通大學) in 1982 and his MBA degree from China Europe International Business School (中歐國際工商管理學院) in 2002. Mr. Deng is a member of the Standing Committee of the China Shipbuilding Industry Association (中國船舶工業行業協會). He was an assistant engineer and subsequently an engineer of China State Shipbuilding Corporation (中國船舶工業總公司) from 1982 to 1990, the deputy head of division three of the export department of China Shipbuilding Trading Co., Ltd. (中國船舶工業貿易公司) from 1991 to 1996, an assistant president of China Offshore Industrial Corporation (中國國際海洋石油工程公司) from 1996 to 1998, a vice-president of China Great Wall Industry Shanghai Corporation (中國長城工業上海公司) and president of China National Precision Machinery Shanghai Pudong Co. Ltd. (中國精密機械上海浦東公司) from 1998 to 2000, a special assistant to the chairman of the board of Bailian Company Limited (百麗安公司) from 2000 to 2001, and the chief representative and regional manager of the China region of Caterpillar Marine Power Systems (卡特彼勒船舶動力) from 2001 to 2007.

Mr. HONG Liang (洪樑), Executive Director

Mr. Hong, aged 39, is an executive Director and our vice-president. Mr. Hong joined us in 2006 and was appointed as an executive Director on 24 October 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongsheng Painting and Rongye Storage. Mr. Hong is primarily responsible for investment and financing, capital as well as cost and budget management. Mr. Hong obtained his bachelor's degree in accounting from Shanghai University (上海大學) in 1994. He obtained the Master of Executive Professional Accountancy (EMPAcc) from Shanghai National Accounting Institute and The Chinese University of Hong Kong in August 2010. Mr. Hong has 16 years of experience in corporate finance and strategic investment gained from his service in investment banks. Mr. Hong worked at Shenyin and Wanguo Securities (申銀萬國證券公司) as an assistant manager of division two of the Shanghai investment banking department from 1994 to 1997, the deputy general manager of the Shanghai investment banking division of CITIC Securities Limited (中信證券有限責任公司), the general manager of the investment banking division of United Securities Company Limited (聯合證券股份公司) from 1998 to 1999, the deputy manager of the investment banking division of CITIC Securities Limited (中信證券股份公司) from 1999 to 2002, the general manager of the investment and development division of Shanghai Sun Glow Investment Co. Ltd. (上海陽光投資集團有限公司) from 2002 to 2004, and the deputy general manager of the strategic investment division of Shanghai Daisheng Holdings Limited (上海大盛資產公司) from 2004 to 2005.

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

Mr. Wang, aged 47, is an executive Director and our chief financial officer. Mr. Wang joined us in June 2010. He was appointed as an executive Director on 24 October 2010. He is responsible for financial management, investor relations and public relations management. He has in-depth and extensive experience in enterprise management and funds operation. He also has many years of experience in financial operation and project management at various multinational firms listed on the New York Stock Exchange, NASDAQ and the Hong Kong Stock Exchange. Previously, he held the positions of president and chief operating officer of Hurray! Holding Limited, a company listed on NASDAQ. From June 2008 to May 2010, Mr Wang acted as an executive director and the chief financial officer of SOHO China Limited, a company listed on the Hong Kong Stock Exchange. Mr. Wang is also 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.

Mr. WANG Tao (王濤), Executive Director

Mr. Wang, aged 38, is an executive Director. Mr. Wang joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries and Rongding Marine Engineering. Mr. Wang is primarily responsible for legal affairs and risk control. He obtained his bachelor’s degree in law from China University of Political Science and Law (中國政法大學) in 1994. Mr. Wang obtained his certificate in world economics from the Department of Economics of Renmin University of China (中國人民大學研究生院經濟學院) in 2005 and graduated from an advanced course in ship finance law (船舶融資法律實務高級研修班) from Shanghai Jiao Tong University (上海交通大學) in 2010. From 1999 to 2008, Mr. Wang had held various positions in Shanghai Sun Glow Investment Group Co. Ltd. (上海陽光投資集團), namely legal consultant, assistant to the president, vice-president and assistant to the chairman of the board. Mr. Wang qualified as a lawyer in the PRC in 1999.

Independent Non-executive Directors

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

Mr. Chen, aged 48, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Chen is also 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. In 2002, Mr. Chen obtained an MBA degree from China Europe International Business School (中歐國際工商學院). Mr. Chen has many years of experience in engineering. As a deputy chief engineer and chief engineer, he worked at the construction supervisory department of Shanghai Pudong International Airport, Shanghai International Airport Co., Ltd. and the construction supervisory department of Shanghai Deep Sea Port. From 2003 to 2009, Mr. Chen was the Dean of the School of Naval Architecture and Civil Engineering at Shanghai Jiao Tong University (上海交通大學). Since 2004, Mr. Chen has been the vice-president of Shanghai Jiao Tong University (上海交通大學). Mr. Chen is the vice-chairman of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), advisory committee member of the 25th International Towing Tank Conference, standing member of the Council of the Chinese Society of Naval Architects and Marine Engineers, member of the Expert Committee of CCS and a member of the China Expert Committee of LR (Lloyd’s Register Quality Assurance Limited). Mr. Chen is a professor of Shanghai Jiao Tong University (上海交通大學).

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

Mr. Tsang, aged 61, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Tsang is also the chairman of our audit committee. In addition, he is the chief executive officer of Influential Consultants Ltd. and a fellow member of the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. The principal activity of Influential Consultants Ltd. is the provision of financial planning and related advisory services in Hong Kong. Mr. Tsang graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration (First Class Hons) in 1973. Mr. Tsang has served in a senior management capacity in several publicly listed companies operating in Hong Kong and Singapore. Mr. Tsang joined Hang Seng Bank in 1973 and served for 17 years. He acted as an assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its first vice-president. After working in the UOB Group, Mr. Tsang acted as an executive director of China Champ Group in 1994 and as an alternate chief executive and a deputy general manager of the China Construction Bank, Hong Kong Branch from 1995 to 1998. Mr. Tsang currently acts as an independent non-executive director of Sinotrans Shipping Limited, Beijing Media Corporation Limited and Sino-Ocean Land Holdings Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. ZHANG Xu Sheng (張緒生), Independent Non-executive Director

Mr. Zhang, aged 54, is an independent non-executive Director of the Company. He was appointed as an independent non-executive Director on 24 October 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 practise law. He has been responsible for different regional and international listed projects. Mr. Zhang is the specialist of enterprise, bank and securities law. He has been a partner of Jingtian Associates (北京市競天律師事務所) since 1992.

Senior Management Team

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

Mr. CHEN Wen Jun *(陳文軍),* aged 41, is our vice-president. Mr. Chen joined Rongsheng Heavy Industries on 4 May 2008 and served as vice-president and chief economist of Rongsheng Heavy Industries. Mr. Chen was previously the president of Rongsheng Research and Design. He is primarily responsible for economic operations, planning management, human resources and information technology of our Group. Prior to joining us, Mr. Chen was a project manager, department head and chief information officer of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen obtained his bachelor's degree from Dalian University of Technology (大連理工大學) in 1993 and his MBA degree from the China Europe International Business School (中歐工商管理學院) in 2004.

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

1. Shipbuilding and Offshore Engineering Segments

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

Mr. CHEN Guo Rong *(陳國榮)*, aged 50, currently serves as the president of Rongsheng Heavy Industries and is also general director of plant construction and general manager of our DPV projects. Mr. Chen joined us as vice-president on 1 March 2006. Mr. Chen is primarily responsible for 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 deputy head of general assembly department and party branch secretary, head of manufacturing department and head of marine engineering department of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen graduated from Shanghai Shipbuilding School (上海船舶工業專業學校) in 1991, majoring in shipbuilding.

2. Marine Engine Building Segment

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

Mr. ZOU Zhi Ming *(鄒志明)* aged 66, currently serves as the president of Rong An Power Machinery. He is primarily responsible for monitoring plant operation and overall management of Rong An Power Machinery. Mr. Zou is a researcher-level senior engineer and enjoys special government allowances granted by the State Council. Prior to joining Rong An Power Machinery in September 2009, Mr. Zou worked for Dalian Marine Diesel Engine Factory (大連船用柴油機廠) for a long time, serving as machinery manufacturing technician, workshop director, deputy factory manager and factory manager.

3. Engineering Machinery Segment

Mr. YU Zheng *(郁政)*, aged 64, currently serves as the chairman and president of Rong An Heavy Industries. Mr. Yu is mainly responsible for the overall operation of Rong An Heavy Industries, and formulating the corporate development strategy. Mr. Yu joined Rong An Heavy Industries in December 2010. Prior to this, he joined Rong An Power Machinery in September 2007 as the vice-president and general director of construction, and had served as the general manager of Shanghai Zhuoxin Investment Management Ltd. (上海卓信投資有限公司), as well as the general director of construction and vice-president of Rongsheng Heavy Industries since 2002. Mr. Yu served as the officer of the Office of Finance and Trade of Nantong City and secretary to the municipal party committee of Rugao City between July 1990 and January 2002, and served as the deputy secretary to the government of Qiannan Autonomous Prefecture, Guizhou Province between August 1970 and July 1990.

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.

Report of the Directors

The Directors are pleased to submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

Principal Activities and Analysis of Operations

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

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

Results

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 62 of this annual report.

Dividends

The Directors have recommended the payment of a final dividend of RMB6.8 cents per ordinary share for the year ended 31 December 2010.

Subject to the shareholders' approval of the payment of the final dividend at the 2011 AGM, the final dividend of the Company will be distributed to shareholders on or about Thursday, 12 May 2011.

The register of members of the Company will be closed from Thursday, 21 April 2011 to Thursday, 28 April 2011, both days inclusive, during which no transfer of shares will be effected. In order to qualify for the proposed final dividend and be entitled to attend and vote at the 2011 AGM, all share transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 20 April 2011.

Share Capital

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

Issue and Listing of Shares and Use of Proceeds

On 19 November 2010, the shares of the Company became listed on the Main Board of the Hong Kong Stock Exchange. Pursuant to a capitalization issue on 19 November 2010, the Company allotted and issued pro rata to its existing shareholders 5,599,000,000 shares of a par value of HK$0.1 each. On the Listing Date, 1,400,000,000 shares were issued and offered by the Company at the offer price of HK$8.0 through the Hong Kong Public Offering and International Offering, and raised gross proceeds of approximately RMB9,592.4 million for the Company.

The Company successfully raised net proceeds of RMB9,084.2 million from the Listing. As at 31 December 2010, RMB1,995.2 million have been used to repay bank borrowings. The remaining net proceeds will be applied in the manner as stated in the Prospectus.

Share Premium and Reserves

Movements in the share premium and reserves of the Group and the Company during the year are set out in statement of changes in equity and Notes 17 and 19 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2010, the reserves of the Company available for distribution to shareholders amounted to RMB8,307.0 million.

Donations

Charitable donations made by the Group during the year amounted to RMB11.5 million (2009: nil).

Property, Plant and Equipment

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

Four-Year Financial Summary

A summary of the results for the year ended and the assets and liabilities of the Group as at 31 December 2010 and for the previous three financial years are set out in the Four-Year Financial Summary section on page 144 of this annual report.

Pre-emptive Rights

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

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

During the Review Period, the Company had not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the Review Period.

Share Option Schemes

On 24 October 2010, the Company conditionally approved and adopted the Pre-IPO Share Option Scheme. As at 31 December 2010, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 62,500,000 shares, which is equivalent to approximately 0.89% of the total existing issued share capital of the Company. No further options will be offered or granted by the Company pursuant to the Pre-IPO Share Option Scheme.

On 24 October 2010, the Company also conditionally approved and adopted the Share Option Scheme for the purpose of enabling the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. During the Review Period, no share options had been granted under the Share Option Scheme.

Particulars of the Company's Pre-IPO Share Option Scheme and Share Option Scheme are set out in Note 18 to the consolidated financial statements.

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Pre-IPO Share Option Scheme and its movement during the year ended 31 December 2010:

		Number of Share Options					Exercise	
						As at	Price	Exercisable
	Date of Grant	Granted	Exercised	Cancelled	Lapsed	31/12/2010	HK$	Period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note
Mr. Luan Xiao Ming	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Deng Hui	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note
Senior management and other employees (in aggregate)	24 October 2010	37,500,000	–	–	–	37,500,000	4.00	Note
Total		**62,500,000**	**–**	**–**	**–**	**62,500,000**		

Note:

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

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

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

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

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

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

Subsidiaries

Details of the Company's subsidiaries at 31 December 2010 are set out in Note 41 to the consolidated financial statements.

Major Customers and Suppliers

During the year ended 31 December 2010, the percentage of purchases from the Group's largest supplier and the five largest suppliers were 12.6% and 44.1%, respectively. The percentage of sales attributable to the Group's largest customer and the five largest customers were 20.2% and 56.2% respectively. During the year ended 31 December 2010, none of the Directors or any of their associates or any shareholders which to the best knowledge of the Directors, who own more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest suppliers and customers.

Directors' Interests in Competing Business

As at 31 December 2010, none of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

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

The independent non-executive Directors have also reviewed and confirmed the compliance with, and the enforcement of, the Deed of Non-compete Undertaking by Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong during the Review Period.

Connected Transactions

Pursuant to Chapter 14A of the Listing Rules, the following transactions are connected transactions or continuing connected transactions as defined in the Listing Rules which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. Certain of these connected transactions which also constitute related party transactions are set out in Note 40 to the consolidated financial statements.

Continuing Connected Transactions with Shanghai Ditong

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

Mr. Zhang De Huang (the father of Mr. Zhang Zhi Rong, the Chairman of the Board and the indirect ultimate controlling shareholder of the Company) is the indirect controlling shareholder of Shanghai Ditong. Therefore, Shanghai Ditong is a connected person of the Group pursuant to Chapter 14A of the Listing Rules and the construction and installation services provided to the Group by Shanghai Ditong constitutes continuing connected transactions of the Group.

For the year ended 31 December 2010, the annual cap for the continuing connected transactions between the Group and Shanghai Ditong in respect of the construction and installation services under the Construction Contracts as set out in the Prospectus is RMB1,491 million and the actual amount for the construction and installation services payable by the Group to Shanghai Ditong is RMB1,256.6 million.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditor of the Company to conduct certain fact-finding procedures in respect of the continuing connected transactions of the Group in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed to the Board in writing that for the year ended 31 December 2010, the continuing connected transactions, (i) have received the approval of the Board of Directors of the Company; (ii) have been entered into in accordance with the relevant agreement governing such transactions; and (iii) have not exceeded the relevant cap amount for the financial year ended 31 December 2010 as set out in the Prospectus.

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

Structure Agreements

According to the Foreign Investment Industries Catalogue, foreign ownership in a ship repair, design and manufacturing company in PRC may not exceed 49%. Additionally, foreign ownership in companies which repair, design and manufacture marine engineering equipment and those that design and manufacture low-speed and medium-speed marine diesel engines may not exceed 49%. In view of the abovementioned foreign ownership restrictions, Rongsheng Heavy Industries only owns a 49% equity interest in Rongsheng Shipbuilding and Rongsheng Investment owns the remaining 51% equity interest. Similarly, Rong An Power Machinery is owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Our controlling shareholder and chairman of the Board, Mr. Zhang Zhi Rong, ultimately controls Rongsheng Investment.

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

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

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

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

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

During the Review Period, Rongsheng Investment had not received any dividend income from Rongsheng Shipbuilding.

The Services Agreement and the terms of the transactions thereunder during the Review Period have been reviewed by the independent non-executive Directors. The independent non-executive Directors have confirmed that, pursuant to the terms of the Services Agreement:

(1) the transactions carried out during the Review Period 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;

(2) 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

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

Pension Schemes

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

Remuneration Policy

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

The principal elements of the Company's executive remuneration package include:

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

Details of the Director's emoluments and the five highest paid individuals of the Group for the year ended 31 December 2010 are set out in Note 33 to the consolidated financial statements.

Directors

Non-executive Director

Mr. Zhang Zhi Rong *(Chairman)*

Executive Directors

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

Independent Non-executive Directors

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

In accordance with the Company's articles of association, Mr. Zhang Zhi Rong, Mr. Chen Qiang, Mr. Wu Zhen Guo and Mr. Deng Hui will retire by rotation at the forthcoming annual general meeting. All of the retiring directors, being eligible, will offer themselves for re-election.

The biographical details of the Directors and senior management of the Company at the date of this annual report are set out in the Directors and Senior Management section on pages 38 to 43 of this annual report.

Directors' Service Contacts

None of the Directors entered into a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts of Significance

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

Directors' Interests and Short Positions In Shares, Underlying Shares and Debentures

As at 31 December 2010, the Directors and chief executive of the Company and their associates had the following interests in the Shares and underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

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

	Number of Shares				
Name of Director	**Personal interest**	**Corporate Interest**	**Equity derivatives (share options)** (Note 3)	**Total**	**Percentage of issued share capital**
Mr. Zhang Zhi Rong	–	3,762,281,157 (Note 1)	–	3,762,281,157	53.75%
Mr. Chen Qiang	–	196,000,000 (Note 2)	–	196,000,000	2.80%
Mr. Wu Zhen Guo	–	–	5,000,000	5,000,000	0.07%
Mr. Luan Xiao Ming	–	–	4,375,000	4,375,000	0.06%
Mr. Deng Hui	–	–	4,375,000	4,375,000	0.06%
Mr. Hong Liang	–	–	4,375,000	4,375,000	0.06%
Mr. Sean S J Wang	–	–	2,500,000	2,500,000	0.04%
Mr. Wang Tao	–	–	4,375,000	4,375,000	0.06%

Notes:

As at 31 December 2010,

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

(2) 196,000,000 shares were held by Boom Will Limited, a company 100 per cent. beneficially owned by Mr. Chen Qiang.

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

(B) Long Positions in Associated Corporations

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

Notes:

As at 31 December 2010,

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

(2) 15,000 shares in Rongsheng Heavy Industries Holdings Limited were held by Boom Will Limited, a company 100 per cent. beneficially owned by Mr. Chen Qiang.

Save as disclosed above, as at 31 December 2010, none of the Directors and chief executive of the Company or their associates had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(C) Share Options

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

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

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

As at 31 December 2010, the interests of substantial shareholders (other than the Directors or chief executive) in the Shares or the underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:–

Name of shareholder	Capacity	Number of Shares	Percentage of issued share capital
Fine Profit Enterprises Limited (Note 1)	Beneficial owner	3,653,557,157 (Note 2)	52.19%

Notes:

(1) Fine Profit Enterprises Limited was 100 per cent. beneficially owned by Mr. Zhang Zhi Rong as of 31 December 2010.

(2) Represents long position in the shares.

Save as disclosed above, as at 31 December 2010, there was no other person (other than the Directors or chief executive of the Company) who had any 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 the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in its normal course of business are set out in Note 40 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules, which are set out in the section headed "Connected Transactions" above, have complied with Chapter 14A of the Listing Rules.

Public Float

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

Management Contracts

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

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 53 to 56 of this annual report.

Auditor

The financial statements for the year ended 31 December 2010 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the forthcoming annual general meeting. PricewaterhouseCoopers, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the forthcoming annual general meeting.

Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2010, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

On behalf of the Board
ZHANG Zhi Rong
Chairman

Hong Kong, 8 March 2011

Corporate Governance Report

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

The Board

Board Composition

The Board is currently composed of seven executive Directors, one non-executive Director and three independent non-executive Directors. The Board considers this composition to be balanced, and reinforces a strong independent review and monitoring function on overall management practices. Directors' biographical details are set out in the Directors and Senior Management section on pages 38 to 43 of this annual report.

Chairman and Chief Executive Officer

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

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

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

Roles and Responsibilities of the Board

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

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

Delegation to Management

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

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

Board and Committee Meetings

During the Review Period, the Board held one meeting, which all Directors attended.

At the Board meeting, the Directors discussed and formulated overall strategies for the Group, discussed and approved the listing of the Company on the Hong Kong Stock Exchange and other significant transactions of the Group.

Notices of Board meetings are given to all Directors at least 14 days prior to the meetings. The agendas and accompanying board papers are given to all Directors in a timely manner. All Directors are properly briefed on issues arising at Board meetings by the Chairman.

Independence of Non-executive Directors

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

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

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

Appointment and Re-election of the Directors

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

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

Each of the executive Directors had entered into a service contract with the Company for a term of three years commencing on 24 October 2010. Each of the non-executive Director and independent non-executive Directors had entered into an appointment letter with the Company for a term of three years commencing on 24 October 2010.

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify its Directors and officers for their liabilities arising out of corporate activities undertaken for the Company. Throughout the Review Period, no claim has been made against the Directors.

Board Committees

The Board established an audit committee (the "Audit Committee") and an remuneration committee (the "Remuneration Committee") on 24 October 2010 with defined terms of reference. Details and reports of the committees are set out below.

Audit Committee

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

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

During the Review Period, no meeting of the Audit Committee was held.

The Group's consolidated financial statements for the year ended 31 December 2010 have been reviewed and approved by the Audit Committee.

Remuneration Committee

The Remuneration Committee was established on 24 October 2010 and is delegated with the responsibility of determining the remuneration policy and structure for all Directors and senior management, and of reviewing and approving the specific remuneration packages of all Directors and making recommendations to the Board regarding the remuneration of non-executive Directors.

During the Review Period, no meeting of the Remuneration Committee was held.

Internal Control and Risk Management

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

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

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

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

Directors' Interests in Shares

Details of Directors' interests in the Shares are set out in the Report of the Directors section on pages 50 to 51 of this annual report.

Directors' Responsibility for Accounts and Auditor's Responsibility

The statement of the directors' responsibility and auditor's statement of reporting responsibility and opinion on the financial statements of the Company for the year ended 31 December 2010 is set out on page 57 of this annual report.

External Auditor

The Company has engaged PricewaterhouseCoopers as its external auditor. The aggregate remuneration in respect of services provided by PricewaterhouseCoopers for the year ended 31 December 2010 was approximately HK$58.1 million, of which HK$52.4 million represents audit fees in relation to the audit services in respect of the Company's Listing on the Hong Kong Stock Exchange and HK$5.3 million represents annual audit fees and HK$0.4 million represents fees for certain non-audit services.

Investor Relations and Communications

The Company places great importance on promoting investor relations and communications by maintaining a high level of transparency in communications with institutional shareholders, fund managers, other investors, analysts and the media. Management attends investor meetings and conduct roadshows on a regular basis and plans to participate in major investor conferences in Asia, the Middle-East, Europe and North America. The Company is followed by a large number of analysts, and many of them publish reports on the Company regularly. The Company is currently a constituent of the MSCI (Morgan Stanley Capital International) China Index.

The Company's corporate website facilitates effective communications with shareholders, investors and other stakeholders, by making up-to-date information relating to the Group's financial and business developments, operations, financial and other information available electronically and on a timely basis.

The Company's annual general meeting provides the principal channel for Directors to meet and communicate with shareholders. All shareholders are provided 21 days' notice to attend the annual general meeting, during which the Directors are available to answer questions which shareholders may have. Poll results are published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in a timely manner.

Shareholders' Rights

Under the Company's articles of association, in addition to annual general meetings, directors of the Company, on the requisition of two or more shareholders of the Company holding not less than 10% of the paid-up capital of the Company, can convene an extraordinary general meeting to address specific issues of the Company by at least 21 days' written notice deposited to the principal office of the Company in Hong Kong.

Specific enquiries by shareholders requiring the Board's attention can be sent in writing to our company secretary. Other general enquiries can be directed to the Company through our investor relations department, whose contact information is detailed on page 152 to this annual report.

Independent Auditor's Report

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

We have audited the consolidated financial statements of China Rongsheng Heavy Industries Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 143, which comprise the consolidated and Company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 March 2011

Consolidated Balance Sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**657,206**	71,954
Property, plant and equipment	7	**12,123,885**	7,163,511
Intangible assets	8	**108,896**	34,622
Long-term deposits	13	**138,109**	55,594
Deferred tax assets	22	**13,692**	–
		13,041,788	7,325,681
Current assets			
Non-current assets held for sale	16	**–**	220,000
Inventories	11	**1,557,306**	999,479
Amounts due from customers for contract works	12	**4,090,993**	4,645,737
Trade and bills receivables	13	**327,758**	268,143
Other receivables, prepayments and deposits	13	**7,555,390**	3,781,779
Pledged deposits	14	**4,009,762**	1,866,789
Cash and cash equivalents	15	**10,412,974**	2,862,810
		27,954,183	14,644,737
Total assets		**40,995,971**	21,970,418
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**599,526**	–
Share premium	17	**8,484,812**	–
Other reserves	19	**3,043,068**	683,189
Retained earnings			
– Proposed final dividend	35	**476,000**	–
– Others		**1,255,360**	149,370
		13,858,766	832,559
Non-controlling interests		**776,375**	413,273
Total equity		**14,635,141**	1,245,832

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	21	**7,766,846**	5,000
Finance lease liabilities – non-current	21	**406,416**	308,291
Deferred tax liabilities	22	**6,391**	–
		8,179,653	313,291
Current liabilities			
Amounts due to customers for contract works	12	**4,853,326**	8,084,311
Advances received from customers for contract works	12	**432,473**	505,287
Trade and other payables	20	**3,125,500**	4,816,624
Current income tax liabilities		**73,096**	1,889
Borrowings	21	**9,149,294**	3,976,033
Preferred shares	21	**–**	2,702,600
Derivative financial instruments	23	**6,022**	383
Provision for warranty	24	**228,654**	132,640
Finance lease liabilities – current	21	**312,812**	191,528
		18,181,177	20,411,295
Total liabilities		**26,360,830**	20,724,586
Total equity and liabilities		**40,995,971**	21,970,418
Net current assets/(liabilities)		**9,773,006**	(5,766,558)
Total assets less current liabilities		**22,814,794**	1,559,123

Approved by the Board of Directors on 8 March 2011 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2010 RMB'000	As at 31 December 2009 RMB'000
ASSETS			
Non–current assets			
Investments in subsidiaries	9	**33**	–
Current assets			
Cash and cash equivalents	15	**1,676,139**	–
Other receivables and prepayments	13	**1,329**	–
Amounts due from subsidiaries	13	**7,440,310**	–
		9,117,778	–
Total assets		**9,117,811**	–
EQUITY			
Share capital	17	**599,526**	–
Share premium	17	**8,484,812**	–
Other reserves	19	**82,860**	–
Accumulated losses	25		
– Proposed final dividend	35	**476,000**	–
– Others		**(653,890)**	–
Total equity		**8,989,308**	–
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	20	**7,743**	–
Other payables	20	**120,760**	–
		128,503	–
Total equity and liabilities		**9,117,811**	–
Net current assets		**8,989,275**	–
Total assets less current liabilities		**8,989,308**	–

Approved by the Board of Directors on 8 March 2011 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Revenue	5	**12,665,479**	9,473,206
Cost of sales	26	**(9,833,975)**	(7,624,915)
Gross profit		**2,831,504**	1,848,291
Selling and marketing expenses	26	**(63,728)**	(4,605)
General and administrative expenses	26	**(957,707)**	(561,253)
Other income	28	**205,736**	123,317
Other gains/(losses) – net	29	**17,958**	(37,981)
Operating profit		**2,033,763**	1,367,769
Finance income	30	**175,161**	33,385
Finance costs	30	**(165,400)**	(94,604)
Finance income/(costs) – net	30	**9,761**	(61,219)
Profit before income tax		**2,043,524**	1,306,550
Income tax expense	31	**(263,479)**	(1,889)
Profit for the year		**1,780,045**	1,304,661
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year		**1,780,045**	1,304,661
Attributable to:			
Equity holders of the Company		**1,718,704**	1,302,183
Non-controlling interests		**61,341**	2,478
		1,780,045	1,304,661
Earnings per share for earnings attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	34	**0.30**	0.23
Dividend	35	**476,000**	–
Dividend (expressed in RMB per share)		**0.068**	–

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company						
		Share capital	Share premium	Other reserves	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2009		–	–	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
Balance at 1 January 2010		–	–	683,189	149,370	832,559	413,273	1,245,832
Total comprehensive income for the year		–	–	–	1,718,704	1,718,704	61,341	1,780,045
Capital injection from the minority interests of a Jiangsu Rongsheng Heavy Industries Co., Ltd.		–	–	2,277,199	–	2,277,199	274,229	2,551,428
Merger of Hefei Rongan Power Machinery Co. Ltd.		–	–	(84,419)	–	(84,419)	–	(84,419)
Merger of Shanghai Rongsheng Shipbuilding Trading Company Limited		–	–	234	–	234	–	234
Acquisition of Hefei Zhenyu Engineering Machinery Company Limited		–	–	–	–	–	21,930	21,930
Increase in shareholding of Hefei Zhenyu Engineering Machinery Company Limited		–	–	–	–	–	(12,750)	(12,750)
Redemption of preferred shares		–	–	(52,688)	–	(52,688)	–	(52,688)
Share-based payment reserve	18	–	–	82,827	–	82,827	–	82,827
Acquisition of additional interest in Jiangsu Rongsheng Shipbuilding Co. Ltd. from minority interests		–	–	–	–	–	18,352	18,352
Issuance of ordinary shares in exchange for shares of Rongsheng Heavy Industries Holdings Limited		–	–	93	–	93	–	93
Redemption of shares from share swap		–	–	(81)	–	(81)	–	(81)
Issuance of ordinary shares		599,526	8,484,812	–	–	9,084,338	–	9,084,338
Transfer to statutory reserve	19	–	–	136,714	(136,714)	–	–	–
Balance at 31 December 2010		599,526	8,484,812	3,043,068	1,731,360	13,858,766	776,375	14,635,141

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash used in operations	36	**(2,749,062)**	(246,472)
Interest paid	36	**(429,240)**	(249,358)
Income tax paid		**(203,539)**	(2)
Net cash used in operating activities		**(3,381,841)**	(495,832)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(4,142,116)**	(1,079,670)
Proceeds from sales of property, plant and equipment		**62**	–
Disposal/(investment) in non-current assets held for sale		**220,000**	(220,000)
Purchases of intangible assets		**(4,323)**	(9,847)
Net cash flow used in acquisition of Hefei Zhenyu Engineering Machinery Company Limited	39	**(150,967)**	–
Net cash inflow from acquisition of Nantong Rongjin Steel Construction Engineering Company Limited	39	**17**	–
Net cash flow used in merger of Shanghai Rongsheng Shipbuilding Trading Company Limited	39	**(45,468)**	–
Net cash flow used in merger of Hefei Rongan Power Machinery Co. Ltd.	39	**(23,685)**	–
Interest received		**72,008**	33,385
Advances repaid by related parties		**–**	61,568
Pledged deposits		**(2,134,545)**	(259,389)
Net cash used in investing activities		**(6,209,017)**	(1,473,953)

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

		Year ended 31 December	
	Note	2010 RMB'000	2009 RMB'000
Cash flows from financing activities			
Proceeds received from borrowings	36	**26,118,294**	6,854,424
Proceeds received from shareholder's loans	36	**1,783,488**	–
Repayments of borrowings	36	**(14,729,587)**	(4,269,001)
Repayments of shareholder's loans	36	**(1,783,488)**	–
Proceeds received from finance leases	36	**460,000**	600,000
Repayments of finance leases	36	**(240,591)**	(100,181)
Repayments of promissory notes		**(653,320)**	–
Redemption of preferred shares		**(2,121,537)**	–
Repayment of advances to Mr. Zhang		**–**	(342,573)
Net (repayment of advances to)/advances received from related parties		**(720,821)**	4,559
Net proceeds from issuance of ordinary shares		**9,084,243**	–
Contribution from equity holders to the Company		**95**	–
Net cash generated from financing activities		**17,196,776**	2,747,228
Net increase in cash and cash equivalents		**7,605,918**	777,443
Cash and cash equivalents at beginning of the year		**2,862,810**	2,086,712
Exchange loss on cash and cash equivalents		**(55,754)**	(1,345)
Cash and cash equivalents at end of the year	15	**10,412,974**	2,862,810

The notes on pages 66 to 143 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

1.1 General information

a) *General information*

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

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 41 to the consolidated financial statements.

On 19 November 2010, the shares of the Company became listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), pursuant to which 1,400,000,000 new shares of HK$0.1 each were issued by the Company (the "Global Offering").

The consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 8 March 2011.

b) *Material acquisitions and combinations*

(i) On 23 December 2009, Jiangsu Rongsheng Investment Group Co. Ltd. ("Rongsheng Investment") a company controlled by Mr. Zhang) through 合肥熔安動力機械有限公司 (Hefei Rongan 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 Machinery") from independent third parties, for a total consideration of RMB56,170,000. On 27 February 2010, Rongsheng Investment through Rong An Power Machinery acquired 33,342,500 shares representing 46.31% interest in Zhenyu Machinery from independent third parties for a consideration of RMB85,023,375. On 16 March 2010, Rong An Power Machinery transferred 33,000,000 shares in Zhenyu 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 of Rongsheng Heavy Industries Holdings Limited ("Rongsheng Heavy Industries Holdings") for a total consideration of RMB84,150,000. On 29 March 2010, Rongsheng Investment through Rong An Power Machinery acquired 8,057,500 shares representing 11.18% interest in Zhenyu Machinery from independent third parties for a consideration of RMB20,546,625. On 25 June 2010, Rong An Power Machinery transferred its 30,400,000 shares in Zhenyu 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 Machinery from independent third parties for a consideration of RMB12,750,000. Zhenyu Machinery was 95% owned by Rong An Heavy Industries and 5% owned by independent third parties. As at 31 December 2010, the share capital of Zhenyu Machinery is RMB100,000,000 and share of interest remained unchanged.

1 GENERAL INFORMATION *(continued)*

1.1 General information *(continued)*

b) *Material acquisitions and combinations* *(continued)*

(ii) On 6 June 2010, Rongsheng Investment transferred its 100% shareholding in Shanghai Rongsheng Shipbuilding Trading Company Limited ("Shanghai Rongsheng Shipbuilding Trading") to Jiangsu Rongsheng Heavy Industries Co., Ltd ("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 16 December 2010, Rongsheng Heavy Industries contributed cash of RMB50,000,000 to Shanghai Rongsheng Shipbuilding Trading as additional capital.

(iii) On 30 June 2010, Nantong Rongye Ship Mechanical Equipment Installation Co., Ltd. ("Rongye Mechanical") acquired 24% and 25% of the registered capital of Rong An Power Machinery from Rongsheng Investment and 南通熔盛基礎設施配套工程有限公司 (Nantong Rongsheng Infrastructure Accessories Company Limited), for considerations of RMB118,780,800 and RMB123,730,000, respectively. On the same date, Jiangsu Rongsheng Shipbuilding Co. Ltd. ("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 Rong An Power Machinery. On 10 December 2010, Rongye Mechanical injected RMB98,000,000 into Rong An Power Machinery. On 13 December 2010, Rongsheng Shipbuilding injected RMB102,000,000 into Rong An Power Machinery. As of 31 December 2010, the Group retained control over Rong An Power Machinery, with Rongsheng Shipbuilding and Rongye Mechanical owning interests of 51% and 49%, respectively.

iv) 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 a 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's name of Nantong Rongsheng Construction Materials Trading Co. Ltd. was changed to Nantong Rongjin Steel Construction Engineering Company Limited ("Rongjin Steel Engineering").

2 PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Notwithstanding that the Group has net operating cash outflow of RMB3,381,841,000 for the year ended 31 December 2010, the Group had cash and cash equivalents of RMB10,412,974,000 and undrawn banking facilities of RMB4,078,690,000 expiry beyond one year as of 31 December 2010. The directors thus believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as and when required from its operating cash flows and available bank facilities. Accordingly, the directors consider that it is appropriate that the consolidated financial statements are 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 interpretation, and amendments to standards and interpretations have been issued but 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

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

- 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 2010 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

(a) Subsidiaries

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

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

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

Except for business combination under common control, the 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 cost 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 consolidated statements of comprehensive income.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(a) *Subsidiaries* *(continued)*

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.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statement 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 consolidated profit or loss.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

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 gains/(losses) – net", in the consolidated profit or loss.

2.6 Land use rights

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

2.7 Intangible assets

(a) Goodwill

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

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

(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 is 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.7 Intangible assets *(continued)*

(d) Research and development costs

Research costs are recognised in the consolidated 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 consolidated profit or loss as incurred.

2.8 Impairment of non-financial assets

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

2.9 Derivative financial instruments

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

2.10 Inventories

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.11 Trade and other receivables

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

2.12 Pledged deposits and cash and cash equivalents

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

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

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade and other payables

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

2.15 Borrowings

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.16 Provisions

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

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

2.17 Current and deferred income tax

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

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

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

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

2.18 Construction contracts

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.18 Construction contracts *(continued)*

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

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

The Group presents as an asset the amounts due from customers for contract work 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 work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.19 Employee benefits

(a) Pension and employee social security and benefits obligations

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

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

(b) Share-based compensation

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.19 Employee benefits *(continued)*

(c) Bonus plan

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

2.20 Revenue recognition

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

(i) Revenue from construction contracts

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

(ii) Sale of marine engines and engineering machineries

Revenue from sale of marine engines and engineering 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.

2.21 Borrowing costs

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

2.22 Government grants

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

2.23 Leases

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

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.23 Leases *(continued)*

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 consolidated profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. 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.

2.24 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.

2.25 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. Any increase in the liability relating to guarantees is recognised as general and administrative expenses in the consolidated profit and loss.

2.26 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The shipbuilding business generates a major portion of its revenue with the contract prices denominated in USD and incurs substantial portion of its manufacturing costs in RMB. The unmatched currency cash flows are subject to foreign exchange risk. Management continually assesses the Group's exposure to foreign exchange rate risks to mitigate the impact of currency exchange rate fluctuations for the operating business. The Group may use forward foreign exchange contracts from time to time to manage their risk arising from foreign currency transactions. These forward derivatives are not designated or do not qualify for hedge accounting and the fair value changes are recognised in the consolidated 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 (HK$) and are hence exposed to foreign exchange risk. Details of the Group's trade and other receivables, prepayments and deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings denominated in foreign currencies are disclosed in Notes 13, 14, 15, 20 and 21 respectively.

At 31 December 2010, if RMB had weakened/strengthened by 2% against the USD and HK$ respectively with all other variables held constant, pre-tax profits for the year would have been approximately RMB51,915,000 (2009: RMB104,257,000) higher/lower, mainly as a result of foreign exchange differences on translation of USD and HK$ denominated trade and other receivables, pledged deposits, cash and cash equivalents, trade and other payables and borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) *Market risk* *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets except for pledged deposits, cash and cash equivalents and interest bearing trade receivables at fixed rates and with short maturities. The Group's interest rate risk arises mainly from preferred shares and short-term borrowings which are at fixed rates and expose the Group to fair value interest-rate risk. Certain short term borrowings have variable rate interest and expose the Group to cash flow interest risk. The Group 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 2010, if interest rate had increased/decreased by 100 basis points, respectively, with all other variables held constant, pre-tax profit for the year would have been approximately RMB54,990,000 (2009: RMB7,159,000), 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 2010, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC which management believes are of high credit quality and without significant credit risk.

The Group 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 year ended 31 December 2010 (2009: Nil).

The Group actively monitors the financial situation of its customers who are affected by the credit crisis and procedures are taken to renegotiate the shipbuilding contract terms as necessary. No shipbuilding contracts were cancelled during the year ended 31 December 2010 (2009: 24). Cancellation penalty received is recognised over the period in which the customers were granted to confirm the cancellation. The Group recognised RMB3,778,000 in other income in respect of cancellation penalty during the year ended 31 December 2010 (2009: RMB5,038,000).

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) *Liquidity risk*

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term. Management believes that there is no significant liquidity risk as the Group has sufficient committed facilities to fund its operations and debt servicing requirements. The committed lines of funding available as at 31 December 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 RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
Group				
At 31 December 2010				
Borrowings	10,285,327	4,399,011	6,315,973	21,000,311
Finance lease liabilities	350,433	241,433	201,278	793,144
Derivative financial instruments	4,260	1,762	–	6,022
Trade and other payables	2,806,051	–	–	2,806,051
At 31 December 2009				
Borrowings	4,075,434	5,375	–	4,080,809
Preferred shares	2,722,169	–	–	2,722,169
Finance lease liabilities	215,843	215,843	107,922	539,608
Derivative financial instruments	383	–	–	383
Trade and other payables	4,637,682	–	–	4,637,682

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management

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

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

The capital structure of the Group consists of borrowings, 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 2009 and 2010 were as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Total liabilities	**26,360,830**	20,724,586
Total assets	**40,995,971**	21,970,418
Debt-asset ratio	**0.64**	0.94

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The 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 18) was determined using the Income Approach based on Free Cash Flow valuation method. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade 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 2010, the Group was holding certain Level 2 trading derivative liabilities fair valued at RMB6,022,000 (2009: RMB383,000), for which inputs that are observable in active market (for example, over-the-counter derivatives) were used in determining the fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) *Current income tax and deferred tax*

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

(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 would be higher/lower as set out below:

	Year ended 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
	1,300	28,868

(c) *Construction contracts*

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.1 Critical accounting estimates and assumptions *(continued)*

(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.

4.2 Critical judgements in applying the Group's accounting policies

(a) Profit recognition for construction contracts

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

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

(c) Consolidation of 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 consolidated as a subsidiary of the Company.

(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 2010; 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.

5 SEGMENTAL INFORMATION

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The Shipbuilding segment derives its revenue primarily from the construction of vessels, the Offshore Marine segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while Marine Engine Building segment derives its revenue from building marine engines. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. The segment information provided to the Executive Directors for the reportable segments for the year ended 31 December 2010 is as follows:

	Shipbuilding Year ended 31 December		Offshore Engineering Year ended 31 December		Engineering Machinery Year ended 31 December		Marine Engine Building Year ended 31 December		Total Year ended 31 December	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Segment revenue	**11,841,980**	9,183,884	**465,393**	289,322	**327,265**	–	**316,022**	–	**12,950,660**	9,473,206
Inter-segment revenue	**-**	–	**-**	–	**-**	–	**(285,181)**	–	**(285,181)**	–
Revenue from external customers	**11,841,980**	9,183,884	**465,393**	289,322	**327,265**	–	**30,841**	–	**12,665,479**	9,473,206
Segment results	**2,570,039**	1,747,643	**183,325**	100,648	**83,955**	–	**(5,815)**	–	**2,831,504**	1,848,291
Selling and marketing expenses									**(63,728)**	(4,605)
General and administrative expenses									**(957,707)**	(561,253)
Other income									**205,736**	123,317
Other gains/(losses), net									**17,958**	(37,981)
Finance income/(costs), net									**9,761**	(61,219)
Profit before income tax									**2,043,524**	1,306,550

5 SEGMENTAL INFORMATION *(continued)*

	Shipbuilding As at 31 December		Offshore Engineering As at 31 December		Engineering Machinery As at 31 December		Marine Engine Building As at 31 December		Total As at 31 December	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Segment assets	**3,954,415**	4,645,737	**619,558**	–	**1,042,601**	–	**3,418,977**	–	**9,035,551**	4,645,737
Unallocated									**31,960,420**	17,324,681
Total assets									**40,995,971**	21,970,418

	Shipbuilding As at 31 December		Offshore Engineering As at 31 December		Engineering Machinery As at 31 December		Marine Engine Building As at 31 December		Total As at 31 December	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Segment liabilities	**5,285,799**	8,335,133	**12,480**	254,465	**808,558**	–	**2,630,001**	–	**8,736,838**	8,589,598
Unallocated									**17,623,992**	12,134,988
Total liabilities									**26,360,830**	20,724,586

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

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

All the revenue of the Offshore Engineering segment for the year ended 31 December 2010 was derived from one customer (2009: same).

No customers of the Engineering Machinery and Marine Engine Building segments individually accounted for ten percent or more of the Group's consolidated revenue for the year ended 31 December 2010 (2009: same).

5 SEGMENTAL INFORMATION *(continued)*

During the year ended 31 December 2010, revenues from three customers (2009: four) of the Shipbuilding segment individually amounted to ten per cent or more of the Group's total consolidated revenue for the year. The revenues of these customers of the Shipbuilding segment during the relevant years are summarised below:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Shipbuilding customer 1	**2,554,805**	–
Shipbuilding customer 2	**1,500,593**	271,916
Shipbuilding customer 3	**1,411,155**	2,032,444
Shipbuilding customer 4	**204,571**	1,747,722
Shipbuilding customer 5	**170,940**	1,000,052
Shipbuilding customer 6	**73,064**	1,414,807

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	
	2010	**2009**
	RMB'000	**RMB'000**
Brazil	**2,554,805**	–
China	**2,533,153**	1,277,312
Germany	**2,079,430**	271,917
Turkey	**1,880,949**	2,494,557
Greece	**1,785,951**	1,792,561
Oman	**846,817**	–
Cyprus	**601,289**	709,650
Norway	**204,552**	1,769,824
Russia	**170,940**	1,000,052
Singapore	**–**	157,333
Others	**7,593**	–
	12,665,479	9,473,206

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

6 LAND USE RIGHTS – GROUP

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

	As at 31 December	
	2010 RMB'000	**2009 RMB'000**
Opening net book amount	**71,954**	73,518
Merger of Rong An Power Machinery (Note 39)	**133,867**	–
Acquisition of Zhenyu Machinery (Note 39)	**20,051**	–
Capital contribution by the non-controlling interests of Rongsheng Shipbuilding	**18,352**	–
Capital contribution by the non-controlling interests of Rongsheng Heavy Industries (Note 19(a)(i))	**427,428**	–
Amortisation	**(14,446)**	(1,564)
Closing net book amount	**657,206**	71,954
In the PRC, held on:		
Leases between 10 to 50 years	**657,206**	71,954

Borrowings and refund guarantees are secured by certain land use rights with an aggregate carrying value of RMB498,414,000 as at 31 December 2010 (2009: RMB43,546,000) (Notes 21 and 37(a)).

Amortisation of the Group's land use rights has been charged to the consolidated profit and loss as general and administrative expenses (Note 26).

7 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Computer equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
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
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

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

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Computer equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2010							
Opening net book amount	1,073,879	4,918,362	1,132,684	8,990	15,757	13,839	7,163,511
Merger of Rong An Power Machinery (Note 39)	490,220	327,477	1,889	789	1,145	1,583	823,103
Merger of Shanghai Rongsheng Shipbuilding Trading (Note 39)	–	–	–	12	–	320	332
Acquisition of Zhenyu Machinery (Note 39)	3	19,145	8,880	227	148	1,932	30,335
Contribution by the non-controlling interests of Rongsheng Heavy Industries (Note 19(a)(i))	–	2,124,000	–	–	–	–	2,124,000
Additions	1,977,021	67,420	276,653	8,751	7,699	12,555	2,350,099
Disposal	–	–	(59)	(1)	–	(2)	(62)
Transfer	(219,318)	93,470	123,937	1,129	–	782	–
Written off	–	–	–	(22)	–	–	(22)
Depreciation	–	(185,175)	(166,461)	(6,753)	(5,188)	(3,834)	(367,411)
Closing net book amount	3,321,805	7,364,699	1,377,523	13,122	19,561	27,175	12,123,885
At 31 December 2010							
Cost	3,321,805	7,699,951	1,735,872	25,657	29,624	33,582	12,846,491
Accumulated depreciation	–	(335,252)	(358,349)	(12,535)	(10,063)	(6,407)	(722,606)
Net book amount	3,321,805	7,364,699	1,377,523	13,122	19,561	27,175	12,123,885

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

	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cost of sales	**172,818**	119,040
Selling and marketing expenses	**383**	140
General and administrative expenses	**194,210**	102,012
Charged to consolidated profit or loss	**367,411**	221,192

Borrowings and refund guarantees are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB1,877,012,000 as at 31 December 2010 (2009: RMB1,339,772,000) (Notes 21 and 37(a)).

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

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

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Cost – capitalised finance leases	**1,060,000**	600,000
Accumulated depreciation	**(48,320)**	(12,686)
Net book amount	**1,011,680**	587,314

During the year ended 31 December 2010, the Group entered into certain sale and leaseback arrangements in respect of plant and machineries under non-cancellable leases, with costs of RMB1,060,000,000 (2009: RMB600,000,000). The leases have terms of 3 to 5 years (2009: 3 years) where substantial risks and rewards of ownership of the assets retained with the Group.

8 INTANGIBLE ASSETS – GROUP

	As at 31 December							
	2010				2009			
	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	**–**	**–**	**44,477**	**44,477**	–	–	34,630	34,630
Accumulated amortisation	**–**	**–**	**(9,855)**	**(9,855)**	–	–	(5,700)	(5,700)
Opening net book amount	**–**	**–**	**34,622**	**34,622**	–	–	28,930	28,930
Movement during the year								
Opening net book amount	**–**	**–**	**34,622**	**34,622**	–	–	28,930	28,930
Business combinations	**55,139**	**21,644**	**1,936**	**78,719**	–	–	–	–
Additions	**–**	**–**	**4,323**	**4,323**	–	–	9,847	9,847
Amortisation charge	**–**	**(3,455)**	**(5,313)**	**(8,768)**	–	–	(4,155)	(4,155)
Closing net book amount	**55,139**	**18,189**	**35,568**	**108,896**	–	–	34,622	34,622
Closing costs	**55,139**	**21,644**	**50,736**	**127,519**	–	–	44,477	44,477
Accumulated amortisation	**–**	**(3,455)**	**(15,168)**	**(18,623)**	–	–	(9,855)	(9,855)
Closing net book amount	**55,139**	**18,189**	**35,568**	**108,896**	–	–	34,622	34,622

Amortisation of the Group's intangible assets has been charged as general and administrative expenses to the consolidated profit or loss.

9 INVESTMENTS IN SUBSIDIARIES – COMPANY

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

Details of the principal subsidiaries are set out in Note 41.

10 FINANCIAL INSTRUMENTS BY CATEGORY

The following is an analysis of financial instruments by category:

Group

	Loans and receivables RMB'000
Assets as per consolidated balance sheet	
As at 31 December 2010	
Amounts due from customers for contract works (Note 12)	4,090,993
Trade and bills receivables (Note 13)	327,758
Other receivables and deposits (Note 13)	2,228,577
Pledged deposits (Note 14)	4,009,762
Cash and cash equivalents (Note 15)	10,412,974
Total	21,070,064
As at 31 December 2009	
Amounts due from customers for contract works (Note 12)	4,645,737
Trade and bills receivables (Note 13)	268,143
Other receivables and deposits (Note 13)	2,188,135
Pledged deposits (Note 14)	1,866,789
Cash and cash equivalents (Note 15)	2,862,810
Total	11,831,614

10 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Group

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per consolidated balance sheet			
As at 31 December 2010			
Trade and other payables (Note 20)	–	2,806,051	2,806,051
Borrowings (Note 21)	–	16,916,140	16,916,140
Derivative financial instruments (Note 23)	6,022	–	6,022
Finance lease liabilities (Note 21)	–	719,228	719,228
Total	6,022	20,441,419	20,447,441
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 liabilities (Note 21)	–	499,819	499,819
Total	383	11,821,134	11,821,517

Company

	Loans and receivables RMB'000
Assets as per balance sheet	
As at 31 December 2010	
Amounts due from subsidiaries (Note 13)	7,440,310
Other receivables (Note 13)	869
Cash and cash equivalents (Note 15)	1,676,139
Total	9,117,318

10 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Company

	Other financial liabilities at amortised cost RMB'000
Liabilities as per balance sheet	
As at 31 December 2010	
Amounts due to subsidiaries (Note 20)	7,743
Other payables (Note 20)	95,487
Total	103,230

11 INVENTORIES – GROUP

	As at 31 December	
	2010 RMB'000	**2009 RMB'000**
Raw materials	**1,466,898**	999,479
Work in progress	**31,215**	–
Finished goods	**59,193**	–
	1,557,306	999,479

The cost of inventories recognised as expense and included in cost of sales amounted to RMB7,266,502,000 for the year ended 31 December 2010 (2009: RMB5,737,249,000).

12 CONSTRUCTION CONTRACTS – GROUP

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**27,251,176**	14,943,803
Less: Progress billings	**(28,013,509)**	(18,382,377)
Net balance sheet position for ongoing contracts	**(762,333)**	(3,438,574)
Presented as:		
Amounts due from customers for contract works	**4,090,993**	4,645,737
Amounts due to customers for contract works	**(4,853,326)**	(8,084,311)
Provision for foreseeable losses	**–**	–
	(762,333)	(3,438,574)
Advances received from customers for contract works	**432,473**	505,287

At 31 December 2010, there were no retention monies held by customers for contract works (2009: Nil).

Refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB3,628,561,000 as at 31 December 2010 (2009: RMB2,155,738,000).

Movements in the provision for foreseeable losses are as follows:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
At 1 January	**–**	66,089
Provision for foreseeable losses	**–**	–
Utilised during the year	**–**	(66,089)
At 31 December	**–**	–

The provision for foreseeable losses has been included in cost of sales in the consolidated profit and loss.

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

(a) Trade and bills receivables

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Trade receivables	**304,852**	268,143	**–**	–
Less: Provision for doubtful receivables	**(16,884)**	–	**–**	–
Bills receivables	**39,790**	–	**–**	–
	327,758	268,143	**–**	–

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

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Undue	**172,672**	268,143	**–**	–
Past due 0-180 days	**89,191**	–	**–**	–
Past due 181-360 days	**65,895**	–	**–**	–
	327,758	268,143	**–**	–

As at 31 December 2010, trade receivables of RMB16,884,000 (2009: RMB Nil) relate to certain customers of the Engineering Machinery segment were impaired and provided for. The impaired trade receivables have been past due for over twelve months as at 31 December 2010.

Movements on the provision for doubtful receivables are as follows:

	RMB'000
At 1 January 2010	–
Acquisition of Zhenyu Machinery	14,051
Provision recognised in profit and loss for the year	2,833
At 31 December 2010	16,884

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

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

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

As at 31 December 2010, trade receivables of RMB155,086,000 (2009: RMB Nil) 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. 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 As at 31 December		**Company As at 31 December**	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
RMB	**314,811**	–	**–**	–
US dollar	**12,146**	268,143	**–**	–
Euro	**801**	–	**–**	–
	327,758	268,143	**–**	–

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

(b) Other receivables, prepayments and deposits

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Receivables from agents	**1,056,521**	1,776,152	**–**	–
Other receivables				
– Third parties	**32,183**	16,372	**869**	–
– Related parties (Note 40)	**467,035**	294,645	**–**	–
– Subsidiaries	**–**	–	**7,440,310**	–
VAT receivable	**748,585**	356,873	**–**	–
Deposits	**672,838**	100,966	**–**	–
Prepayments for intangible assets, property, plant and equipment and land use rights				
– Third parties	**1,829,837**	221,588	**–**	–
– Related parties (Note 40)	**44,224**	–	**–**	–
Prepayments for raw materials				
– Third parties	**2,580,240**	765,725	**–**	–
– Related parties (Note 40)	**170,856**	216,026	**–**	–
Prepayments – others	**91,180**	89,026	**460**	–
	7,693,499	3,837,373	**7,441,639**	–
Less: deposits	**(138,109)**	(55,594)	**–**	–
Current portion	**7,555,390**	3,781,779	**7,441,639**	–

The non-current deposit is due within five years from the end of the reporting period.

Finance leases and letters of credit are secured by certain refundable deposits with an aggregate carrying value of RMB153,194,000 as at 31 December 2010 (2009: RMB55,594,000).

The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contract and procure the relevant refund guarantees. Pursuant to the agency contracts, the ship buyers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the ship buyers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents (Note 20).

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

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

As at 31 December 2010, no other receivables were past due (2009: Nil).

The carrying amounts of receivables from agents, other receivables and deposits approximate their fair values.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable and deposit mentioned above. The Group does not hold any collateral as security.

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

	Group As at 31 December		**Company As at 31 December**	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
RMB	**6,515,961**	3,617,096	**–**	–
HK dollar	**7,985**	13,098	**1,329**	–
US dollar	**894,618**	207,179	**7,440,310**	–
Euro	**259,787**	–	**–**	–
JPY	**12,340**	–	**–**	–
Others	**2,808**	–	**–**	–
	7,693,499	3,837,373	**7,441,639**	–

14 PLEDGED DEPOSITS – GROUP

Pledged deposits are denominated in the following currencies:

	As at 31 December	
	2010 RMB'000	**2009 RMB'000**
RMB	**4,009,762**	1,850,410
US dollar	**–**	16,379
	4,009,762	1,866,789

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

15 CASH AND CASH EQUIVALENTS

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Cash at bank	**6,283,550**	2,862,810	**1,165,581**	–
Short-term bank deposits	**4,129,424**	–	**510,558**	–
	10,412,974	2,862,810	**1,676,139**	–

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

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Effective interest rate	**1.13%**	N/A	**0.95%**	N/A
Maturity (months)	**3**	N/A	**2**	N/A

Cash and cash equivalents are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
RMB	**6,536,705**	1,199,878	**1,000,028**	–
US dollar	**535,175**	1,662,721	**–**	–
HK dollar	**3,340,991**	211	**676,111**	–
Others	**103**	–	**–**	–
	10,412,974	2,862,810	**1,676,139**	–

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

As at 31 December 2010, the Group has cash at bank and short-term bank deposits amounting to RMB5,549,168,000 (2009: RMB2,829,787,000), which are denominated in Renminbi and USD and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

16 NON-CURRENT ASSETS HELD FOR SALE

The non-current assets 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 RMB220,000,000 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 40 (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. The prepayments for the land use rights owned by 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.

17 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

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

17 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY *(continued)*

Note

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

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

(c) Pursuant to the resolutions in writing of the shareholders of the Company passed on 24 October 2010, the Company alloted and issued pro rata to its existing shareholders 5,599,000,000 shares, at par of HK$0.01 each for the total amount of HK$559,900,000 (approximately RMB479,532,000). The capitalisation of shares was recorded against the share premium account.

(d) On 19 November 2010, the Company issued 1,400,000,000 new shares of HK$0.01 each in relation to the Global Offering. The gross proceeds received by the Company from the Global Offering amounted to approximately RMB9,592,350,000.

18 SHARE-BASED PAYMENT – GROUP AND COMPANY

Pre-IPO Share Option Scheme

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

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

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

The total expense recognised in the consolidated profit and loss for share options granted to directors and employees approximates RMB82,827,000 during the year ended 31 December 2010. The group has no legal or constructive obligation to repurchase or settle the options in cash.

18 SHARE-BASED PAYMENT – GROUP AND COMPANY *(continued)*

Pre-IPO Share Option Scheme *(continued)*

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

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

Share Option Scheme

The Company conditionally approved and adopted a share option scheme on 24 October 2010 (the "Share Option Scheme"). The Share Option Scheme became unconditional on 19 November 2010 when the Company's shares are listed on the Hong Kong Stock Exchange. As at 31 December 2010, no options have been granted under the Share Option Scheme.

19 OTHER RESERVES

(a) Group

	Note	Capital reserve RMB'000	Equity component of preferred shares RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Total RMB'000
Balance at 1 January 2009		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
Balance at 1 January 2010		269,904	52,688	236,609	123,988	683,189
Capital injection from the non-controlling interests of Rongsheng Heavy Industries	(i)	2,277,199	–	–	–	2,277,199
Merger of Shanghai Rongsheng Shipbuilding Trading	(ii)	234	–	–	–	234
Merger of Rong An Power Machinery	(iii)	(84,419)	–	–	–	(84,419)
Redemption of shares from share swap	(iv)	(81)	–	–	–	(81)
Issuance of ordinary shares in exchange for interest in Rongsheng Heavy Industries Holdings	(v)	93	–	–	–	93
Redemption of preferred shares (Note 21)		–	(52,688)	–	–	(52,688)
Share-based payment reserve (Note 18)		–	–	82,827		82,827
Transfer to statutory reserve	(vi)	–	–	–	136,714	136,714
Balance at 31 December 2010		2,462,930	–	319,436	260,702	3,043,068

19 OTHER RESERVES *(continued)*

(a) Group *(continued)*

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

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

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

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

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

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

(b) Company

Balance at 1 January and 31 December 2009

	Capital reserve RMB'000	Share-based payment reserve RMB'000	Total RMB'000
Share-based payment reserve	–	82,827	82,827
Issuance of ordinary shares in exchange for interest in Rongsheng Heavy Industries Holdings	33	–	33
Balance at 31 December 2010	33	82,827	82,860

20 TRADE AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2010 **RMB'000**	**2009** **RMB'000**	**2010** **RMB'000**	**2009** **RMB'000**
Trade payables	**1,168,825**	998,530	**–**	–
Bills payables	**623,307**	591,387	**–**	–
Other payables for purchase of property, plant and equipment				
– Third parties	**198,152**	540,124	**–**	–
– Related parties (Note 40)	**199,924**	280,905	**–**	–
Other payables				
– Third parties	**428,436**	72,652	**90,977**	–
– Related parties (Note 40)	**228**	1,500,306	**–**	–
– Subsidiaries	**–**	–	**7,743**	–
Receipt in advance	**60,657**	–	**–**	–
Payable to an agent	**–**	294,488	**–**	–
Accrued expenses				
– Payroll and welfare	**53,500**	23,213	**25,273**	–
– Design fees	**40,036**	121,152	**–**	–
– Utilities	**18,811**	46,646	**–**	–
– Outsourcing and processing fee	**102,550**	151,620	**–**	–
– Others	**25,782**	39,872	**4,510**	–
VAT payable	**38,297**	8,107	**–**	–
Other tax-related payables	**166,995**	147,622	**–**	–
	3,125,500	4,816,624	**128,503**	–

Ageing analysis of trade and bills payables is as follows:

	Group As at 31 December		Company As at 31 December	
	2010 **RMB'000**	**2009** **RMB'000**	**2010** **RMB'000**	**2009** **RMB'000**
0 – 30 days	**1,201,796**	995,218	**–**	–
31 – 60 days	**263,798**	248,314	**–**	–
61 – 90 days	**159,823**	153,529	**–**	–
Over 90 days	**166,715**	192,856	**–**	–
	1,792,132	1,589,917	**–**	–

20 TRADE AND OTHER PAYABLES *(continued)*

Trade and other payables are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	**2,652,599**	4,254,794	**–**	–
US dollar	**337,290**	338,351	**–**	–
HK dollar	**120,988**	210,562	**128,503**	–
Euro	**14,623**	12,917	**–**	–
	3,125,500	4,816,624	**128,503**	–

21 BORROWINGS – GROUP

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Non-current		
Borrowings	**7,766,846**	5,000
Finance lease liabilities	**406,416**	308,291
	8,173,262	313,291
Current		
Borrowings	**9,149,294**	3,976,033
Preferred shares	**–**	2,702,600
Finance lease liabilities	**312,812**	191,528
	9,462,106	6,870,161
Total borrowings	**17,635,368**	7,183,452

21 BORROWINGS – GROUP *(continued)*

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

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Within 1 year	**9,462,106**	6,870,161
Between 1 and 2 years	**3,015,156**	202,440
Between 2 and 5 years	**3,110,289**	110,851
Over 5 years	**2,047,817**	–
	17,635,368	7,183,452

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

	As at 31 December	
	2010	**2009**
Finance lease liabilities	**5.83%**	5.67%
Borrowings	**5.37%**	5.11%
Preferred shares	**–**	20%

Borrowings amounting to RMB17,441,369,000 as at 31 December 2010 (2009: RMB4,475,852,000) are secured by the land use rights, buildings, construction contracts, pledged deposits, steel plates and corporate guarantees of the Company and certain of its subsidiaries (Notes 6, 7, 12 and 14).

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

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

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
RMB	**15,879,045**	3,429,170
US dollar	**1,736,866**	3,754,282
Euro	**13,529**	–
Swiss Franc	**5,928**	–
	17,635,368	7,183,452

21 BORROWINGS – GROUP *(continued)*

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

	As at 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
6 months or less	**16,837,952**	5,696,339
6 – 12 months	**386,000**	982,295
1 – 5 years	**411,416**	504,818
	17,635,368	7,183,452

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
Expiring within one year	**11,674,314**	4,008,872
Expiring beyond one year	**4,078,690**	2,820,160
	15,753,004	6,829,032

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 follows:

- 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 year is calculated using an effective interest rate of 20%.

21 BORROWINGS – GROUP *(continued)*

Preferred shares *(continued)*

- 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 of 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 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. Shareholder's loan was fully settled by the Group as at 31 December 2010.

The remaining preferred shares were redeemed by issuance of promissory notes of RMB653,320,000 to preferred share holders. The promissory notes are interest free and repayable on demand. As at 31 December 2010, all promissory notes were settled by the Group.

Finance lease liabilities

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

	As at 31 December	
	2010 RMB'000	**2009 RMB'000**
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**350,433**	215,843
Later than 1 year and no later than 5 years	**442,711**	323,765
	793,144	539,608
Future finance charges on finance lease	**(73,916)**	(39,789)
Present value of finance lease liabilities	**719,228**	499,819
The present value of finance lease liabilities is as follows:		
No later than 1 year	**312,812**	191,528
Later than 1 year and no later than 5 years	**406,416**	308,291
	719,228	499,819

22 DEFERRED INCOME TAX – GROUP

The Group has not recognised any deferred income tax assets or liabilities as at 31 December 2009. The movement in deferred income tax assets and liabilities during the year ended 31 December 2010, without taking into consideration the offsetting of balances with the same tax jurisdiction, is as follows:

	Fair value gains RMB'000	Total RMB'000
Deferred tax liabilities		
At 31 December 2009	–	–
Acquisition of a subsidiary (Note 39)	7,728	7,728
Credited to consolidated profit or loss	(1,337)	(1,337)
At 31 December 2010	6,391	6,391

	Government grant RMB'000	Provisions RMB'000	Total RMB'000
Deferred tax assets			
At 31 December 2009	–	–	–
Merger of business	10,169	–	10,169
Acquisition of a subsidiary (Note 39)	–	4,767	4,767
Charged to consolidated profit or loss	–	(1,244)	(1,244)
At 31 December 2010	10,169	3,523	13,692

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

23 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	As at 31 December 2010		As at 31 December 2009	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward foreign exchange contracts				
– held for trading	**–**	**6,022**	–	383

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2010 was RMB706,952,000 (2009: RMB79,369,000).

24 PROVISION FOR WARRANTY – GROUP

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

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

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
At 1 January	**132,640**	125,731
Provision for the year		
– Charged to consolidated profit or loss	**99,841**	84,780
– Utilisation during the year	**(3,827)**	(77,615)
– Reversal during the year	**–**	(256)
At 31 December	**228,654**	132,640

25 ACCUMULATED LOSSES – COMPANY

	RMB'000
At 3 February 2010 (date of incorporation)	–
Loss for the period	177,890
At 31 December 2010	177,890

26 EXPENSES BY NATURE

	Year ended 31 December	
	2010 RMB'000	2009 RMB'000
Raw materials and consumable used	**7,922,484**	6,100,103
Amortisation of land use rights (Note 6)	**14,446**	1,564
Depreciation of property, plant and equipment (Note 7)	**367,411**	221,192
Amortisation of intangible assets (Note 8)	**8,768**	4,155
Employee benefit expenses (Note 27)	**395,612**	328,159
Operating lease payments	**55,031**	67,036
Auditors' remunerations	**5,789**	554
Outsourcing and processing costs	**865,508**	614,124
Commission expense	**216,772**	89,209
Design fees	**104,312**	147,345
Agency fees	**97,658**	38,413
Consultancy fees	**38,664**	32,780
Other tax-related expenses and customs duties (Note a)	**78,096**	47,714
Bank charges (include refund guarantee charges)	**102,234**	60,291
Provision for warranty (Note 24)	**99,841**	84,524
Office expenses and utilities	**238,629**	272,896
Donations and sponsoring expenses	**16,539**	1,145
(Reversal of)/impairment loss on inventory	**(1,960)**	1,235
Impairment loss on trade and other receivables	**2,833**	–
Inspection fees	**33,719**	16,569
Insurance premiums	**21,741**	24,892
Storage and handling charges	**29,200**	27,048
Advertising, promotion and marketing expenses	**97,651**	2,928
Miscellaneous expenses	**44,432**	6,897
Total cost of sales, selling and marketing expenses, general and administrative expenses (Note b, c)	**10,855,410**	8,190,773

Note

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

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

The Group has incurred employee benefit expenses, depreciation and amortisation of property, plant and equipment and intangible assets for the purpose of research and development. The research and development costs incurred for the year ended 31 December 2010, was RMB69,286,000 (2009: RMB32,735,000). The research and development costs incurred during the year ended 31 December 2010 have been subsidised by the government as described in Note c.

26 EXPENSES BY NATURE *(continued)*

c During the year ended 31 December 2010, the Group has received subsidy of RMB830,000,000 from the Jiangsu Government authorities to compensate costs in which the Group has incurred for research and development of shipbuilding processes, designs and the related people development. The subsidy has been recognised in the consolidated profit and loss for the year ended 31 December 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 RMB197,549,000 and finance costs of RMB312,228,000. Among which, RMB201,759,000, RMB173,782,000 and RMB105,324,000 were allocated to 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	
	2010	**2009**
	RMB'000	**RMB'000**
Salaries and wages	**207,804**	262,301
Social security costs	**33,552**	38,566
Contribution to pension plans	**10,221**	8,894
Other benefits	**61,238**	18,398
Share-based payment (Note 18)	**82,827**	–
	395,642	328,159
Less: capitalised in inventory	**(30)**	–
Charged to consolidated profit or loss (Note a)	**395,612**	328,159

Note

(a) During the year ended 31 December 2010, the Group has received subsidy from the government to compensate costs the Group has incurred and certain amounts have been rewarded by reducing employee benefits expenses. Please refer to Note 26 (c) for details.

28 OTHER INCOME

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Compensation penalty received for cancelled shipbuilding contracts (Note a)	**3,778**	5,038
Government grants (Note b)	**32,743**	8,462
Rental income	**–**	5,700
Scrap sales (Note c)	**164,925**	102,337
Others	**4,290**	1,780
	205,736	123,317

28 OTHER INCOME *(continued)*

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 RMB3,778,000 for the year ended 31 December 2010 (2009: RMB5,038,000) represents amount recognised to income in relation to termination penalty received for a shipbuilding contract cancelled in 2009.

(b) Government grants represent cash received from Jiangsu Government authorities during years ended 31 December 2009 and 2010 as incentives to develop the shipbuilding industry in the PRC.

(c) The Group recognised scrap sales of RMB164,925,000 during the year ended 31 December 2010 (2009: RMB102,337,000), as a result of sales of unused scrap steel plates materials.

29 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Fair value losses on derivative instruments – forward contracts	**(6,022)**	(383)
Net foreign exchange gains/(losses) (Note 32)	**23,980**	(37,598)
	17,958	(37,981)

30 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Finance income:		
Interest income from bank deposits	**72,008**	34,230
Net foreign exchange gains/(losses) on financing activities (Note 32)	**103,153**	(845)
	175,161	33,385
Finance cost:		
Interest expense		
– Borrowings and finance lease liabilities	**(429,240)**	(249,358)
– Preferred shares	**(19,569)**	(462,256)
Less: borrowing costs capitalised	**283,409**	617,010
	(165,400)	(94,604)
Net finance income/(costs)	**9,761**	(61,219)

The capitalisation rate used to determine the amount of borrowing costs incurred eligible for capitalisation in the year ended 31 December 2010 was 4.18% (2009: 20%).

31 INCOME TAX EXPENSE

	Year ended 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
Current income tax:		
– PRC Enterprise Income Tax ("EIT")	**263,572**	1,889
Deferred income tax	**(93)**	–
Total income tax expense	**263,479**	1,889

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

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

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

	Year ended 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
Profit before income tax	**2,043,524**	1,306,550
Tax calculated at domestic tax rates applicable to profit of respective companies	**550,342**	339,460
Income not subject to tax	**(12,453)**	(4,770)
Expenses not deductible for tax purposes	**20,794**	23,514
Effect of tax exemption and tax holiday	**(313,597)**	(356,783)
Tax losses for which no deferred income tax asset was recognised	**18,393**	2,888
Utilisation of previously unrecognised tax losses	**–**	(2,420)
Tax charge	**263,479**	1,889

31 INCOME TAX EXPENSE *(continued)*

No Hong Kong profits tax has been provided during the years ended 31 December 2009 and 2010, respectively, as the Group had no assessable profit in Hong Kong.

The weighted average applicable tax rate was 27% for the year ended 31 December 2010 (2009: 26%).

As at 31 December 2010, the Group did not recognise deferred income tax assets of RMB22,791,000 (2009: RMB4,399,000) in respect of losses amounting to RMB91,186,000 (2009: RMB17,603,000) that can be carried forward and utilised against future taxable income.

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

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Within 1 year	**–**	–
Within 2 years	**–**	–
Within 3 years	**6,047**	–
Within 4 years	**21,331**	6,047
Within 5 years	**63,808**	11,556
	91,186	17,603

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 RMB100,304,000 as at 31 December 2010 (2009: RMB34,292,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totaled RMB2,006,078,000 at 31 December 2010 (2009: RMB685,850,000), and the Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Company in the foreseeable future.

32 NET FOREIGN EXCHANGE GAINS/(LOSSES)

The exchange differences credited/(charged) in the consolidated profit or loss are included as follows:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Net foreign exchange gains/(losses) taken to:		
Other income/(losses) – net (Note 29)	**23,980**	(37,598)
Finance income/(cost) – net (Note 30)	**103,153**	(845)
	127,133	(38,443)

33 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and senior management's emoluments

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Directors		
– Fees	**73**	–
– Basic salaries, housing allowances, other allowances and benefit-in-kind	**19,925**	8,836
– Contribution to pension plans	**253**	188
– Discretionary bonuses	**25,857**	–
– Share-based payment (Note 18)	**33,130**	–
	79,238	9,024
Senior management		
– Basic salaries, housing allowances, other allowances and benefit-in-kind	**5,530**	1,861
– Contribution to pension plans	**278**	273
– Share-based payment (Note 18)	**15,074**	–
	20,882	2,134
	100,120	11,158

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

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

For the year ended 31 December 2009:

Name	Basic salaries, housing allowances, other allowance and benefit-in-kind RMB'000	Contribution to pension plans RMB'000	Discretionary bonuses RMB'000	Share-based payment RMB'000	Total RMB'000
Non-executive Director					
Zhang Zhi Rong	7,201	–	–	–	7,201
Executive Directors					
Chen Qiang	601	50	–	–	651
Wu Zhen Guo	331	–	–	–	331
Luan Xiao Ming	241	41	–	–	282
Deng Hui	–	–	–	–	–
Hong Liang	241	50	–	–	291
Sean S J Wang	–	–	–	–	–
Wang Tao	221	47	–	–	268
Independent Non-executive Directors					
Chen Gang	–	–	–	–	–
Tsang Hing Lun	–	–	–	–	–
Zhang Xu Sheng	–	–	–	–	–
	8,836	188	–	–	9,024

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

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

For the year ended 31 December 2010:

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

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2010 include five directors (2009: two directors), whose emoluments are reflected in the analysis presented above.

	Number of individuals Year ended 31 December	
	2010	**2009**
Emoluments bands:		
Nil to HK$1,000,000 (approximately RMB880,000)	–	3
HK$1,000,001 (approximately RMB880,000) to HK$2,000,000 (approximately RMB1,760,000)	–	–
	–	3

	Year ended 31 December	
	2010 RMB'000	**2009 RMB'000**
Basic salaries, housing allowance, other allowances and benefit-in-kind	–	1,083
Contribution to pension plans	–	115
Discretionary bonuses	–	–
	–	1,198

(c) During the year ended 31 December 2010, except for the sign-on bonus paid to one of the directors as detailed in Note 33(a)(i), no directors or the five highest paid individuals received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2009: Nil).

34 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2010	**2009**
Earnings attributable to equity holders of the Company (RMB'000)	**1,718,704**	1,302,183
Weighted average number of ordinary shares in issue	**5,761,095,890**	5,600,000,000
Basic earnings per share (RMB per share)	**0.30**	0.23

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2009 and 2010.

35 DIVIDENDS

The dividends paid in 2010 and 2009 were nil. A dividend in respect of the year ended 31 December 2010 of RMB0.068 per share, amounting to a total dividend of RMB476,000,000, is to be proposed at the annual general meeting on 28 April 2011. These financial statements do not reflect this dividend payable.

	2010 **RMB'000**	**2009** **RMB'000**
Proposed final dividend of RMB0.068 (2009: RMB Nil) per ordinary share	**476,000**	–

The aggregate amounts of the dividend paid and proposed during 2010 and 2009 have been disclosed in the consolidated profit and loss in accordance with the Hong Kong Company Ordinance.

36 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash used in operations

	Year ended 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
Profit before income tax	**2,043,524**	1,306,550
Adjustments for:		
– Amortisation of land use rights (Note 6)	**14,446**	1,564
– Depreciation (Note 7)	**367,411**	221,192
– Amortisation of intangible assets (Note 8)	**8,768**	4,155
– Share-based compensation (Note 18)	**82,827**	–
– Fair value loss on derivative financial instruments	**6,022**	383
– Loss on disposal of property, plant and equipment	**–**	249
– Write off on property, plant and equipment	**22**	–
– Reversal of impairment loss on inventory	**(3,491)**	–
– Provision for trade and other receivables	**2,833**	–
– Provision for warranty (Note 24)	**99,841**	84,780
– Utilisation/reversal of provision for warranty (Note 24)	**(3,827)**	(77,871)
– Interest income	**(72,008)**	(33,385)
– Interest expense	**165,400**	94,604
– Provision of impairment loss on inventory	**1,531**	–
– Unrealised exchange loss	**55,754**	–
Changes in working capital:		
– Inventories	**(456,003)**	(86,920)
– Amounts due from customers for contract works	**554,744**	(3,004,642)
– Trade and other receivables, prepayments and deposits	**(1,096,376)**	1,565,099
– Amounts due to customers for contract works	**(3,230,985)**	(839,348)
– Advanced received from customers for contract works	**(243,139)**	505,287
– Trade and other payables	**(963,458)**	67,425
– Derivative financial instruments	**(383)**	–
– Long-term deposits	**(82,515)**	(55,594)
Cash used in operations	**(2,749,062)**	(246,472)

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

(b) Financing activities

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Borrowings at the beginning of year	**4,480,852**	1,395,610
Merger of Rong An Power Machinery	**1,200,000**	–
Merger of Shanghai Rongsheng Shipbuilding Trading	**275,000**	–
Acquisition of Zhenyu Machinery	**71,400**	–
Proceeds received from borrowings	**26,118,294**	6,854,424
Proceeds received from shareholder's loans	**1,783,488**	–
Proceeds received from finance leases	**460,000**	600,000
Repayments of borrowings	**(14,729,587)**	(4,269,001)
Repayments of shareholder's loans	**(1,783,488)**	–
Repayments of finance leases	**(240,591)**	(100,181)
Interest expense	**429,240**	249,358
Interest paid	**(429,240)**	(249,358)
Borrowings at the end of year	**17,635,368**	4,480,852

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Preferred shares at the beginning of year	**2,702,600**	2,240,344
Redemption of preferred shares	**(2,722,169)**	–
Interest expense	**19,569**	462,256
Preferred shares at the end of year	**–**	2,702,600

37 CONTINGENCIES

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Contingencies:		
Refund guarantees (Note a)	**9,569,246**	9,121,757
Litigation (Note b)	**100,140**	117,064
Financial guarantees (Note c)	**50,440**	–
	9,719,826	9,238,821

(a) Refund guarantees

Refund guarantees relate to the guarantees provided by the bankers to the Group's customers in respect of advances received from customers. In the event of non-performance, the customers may call upon the refund guarantees and the Group would be liable to the banks in respect of the refund guarantees provided. As at 31 December 2010, refund guarantees are secured by land and buildings, pledged deposits, vessels under constructions and corporate guarantees from the Company and certain of its subsidiaries.

(b) Litigation

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

As at 31 December 2010, subsidiaries of the Group were in dispute with one of its suppliers and employees in relation to the procurement of inventory and injury. The alleged claims against the Group amounted to approximately RMB99,730,000 (2009: RMB117,064,000) and RMB410,000 (2009: Nil) respectively. No provision has been made in respect of these claims as at 31 December 2010 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.

(c) Financial guarantees

The Group has provided guarantees to certain banks in the PRC in respect of mortgage loans drawn by certain customers of the Engineering Machinery Segment. The loans were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the banks should the customers default on the mortgage loans. As at 31 December 2010, the total value of the guaranteed mortgage loan outstanding was RMB57,931,000 in which the Group has made a provision of RMB7,491,000 for mortgage loans with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB50,440,000 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.

38 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Property, plant and equipment		
– Contracted but not provided for	**3,591,282**	1,901,097
Other capital commitment		
– Contracted but not provided for (i)	**–**	1,780,000
	3,591,282	3,681,097

(i) Other capital commitments as at 31 December 2009 represents commitment of the Companies For Sale to purchase certain land rights in the Xuhui District (Note 16).

(b) Operating lease commitments – where the Group is the lessee

The Group leases various offices, residential properties and production facilities under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
No later than 1 year	**93,114**	26,799
Later than 1 year and no later than 5 years	**66,442**	32,517
	159,556	59,316

39 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 Machinery from Rongsheng Investment which was a transaction under common control of Mr. Zhang. Zhenyu 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 consolidated financial statements, the Group is deemed to have 88.05% interest acquired in Zhenyu Machinery from independent third parties for a total consideration of RMB161,740,000 on 29 March 2010. The acquired business contributed revenue of RMB327,266,000 and net profit of RMB25,042,000 to the Group for the period from 29 March 2010 to 31 December 2010. If the acquisition had occurred on 1 January 2010, Group revenue would have been RMB12,679,320,000, and net profit for the year would have been RMB1,779,442,000. 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.

39 BUSINESS COMBINATION *(continued)*

(i) Acquisition of Hefei Zhenyu Engineering Machinery Company Limited *(continued)*

The assets and liabilities as at 29 March 2010 arising from the acquisition are as follows:

	Fair value RMB'000	Acquiree's carrying amount 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 8)	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 of net assets.

39 BUSINESS COMBINATION *(continued)*

(ii) Acquisition of Nantong Rongjin Steel Construction Engineering Company Limited

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's name of Nantong Rongsheng Construction Materials Trading Co. Ltd. was changed to Nantong Rongjin Steel Construction Engineering Company Limited.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

	RMB'000
– Cash consideration	5,000
Total purchase consideration	5,000

The goodwill is attributable to the business development in the shipbuilding segment.

The assets and liabilities as at 6 September 2010 arising from the acquisition are as follows:

	Fair value RMB'000	Acquiree's carrying amount RMB'000
Cash and cash equivalents	17	17
Trade and other receivables	4,957	4,957
Fair value of net assets	4,974	4,974
Goodwill (Note 8)	26	–
Total purchase consideration	5,000	–
Purchase consideration settled in cash		–
Cash and cash equivalents acquired		17
Net cash inflow on acquisition		17

39 BUSINESS COMBINATION *(continued)*

(iii) Merger of Shanghai Rongsheng Shipbuilding Trading Company Limited and Hefei Rongan Power Machinery Co. Ltd.

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.

On 30 June 2010, Rongye Mechanical acquired 24% and 25% of the registered capital of Hefei Rongan Power Machinery Co. Ltd. ("Rong An Power Machinery") from Rongsheng Investment and Nantong Rongsheng Infrastructure Accessories Company Limited 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 consolidated the results of Shanghai Rongsheng Shipbuilding Trading and Rong An Power Machinery from 15 January 2010 onwards.

39 BUSINESS COMBINATION *(continued)*

(iii) Merger of Shanghai Rongsheng Shipbuilding Trading Company Limited and Hefei Rongan Power Machinery Co. Ltd. *(continued)*

The predecessor carrying amounts of the assets and liabilities of the consolidated business as at 15 January 2010 were as follows:

	Shanghai Rongsheng Shipbuilding Trading RMB'000	**Rong An Power Machinery 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 during the year ended 31 December 2010	50,000	494,920
Total purchase consideration	50,000	494,920
Cash consideration paid	(50,000)	(494,920)
Cash and cash equivalents in subsidiaries consolidated	4,532	471,235
Net cash used in acquisition	(45,468)	(23,685)

40 RELATED PARTY TRANSACTIONS

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

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

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co. Ltd. 上海地通建設(集團)有限公司	Entity controlled by a close family member of Mr. Zhang
Nantong Heloifu Shipping Equipment Co. Ltd. 南通和來福船舶配套設備有限公司	Entity controlled by a close family member of Mr. Zhang
Jiangsu Rongsheng Investment Group Co. Ltd.	Entity ultimately controlled by 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

40 RELATED PARTY TRANSACTIONS *(continued)*

Name	Relationship with the Group
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
Glorious Property Holdings Limited 恒盛地產控股有限公司	Entity controlled by 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
南通熔盛船舶機電配套有限公司	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
江蘇熔德智教育投資有限公司	Entity controlled by a close family member of Mr. Zhang

During the years ended 31 December 2009 and 2010, the Group carried out the following transactions with related parties:

(i) Sales of goods and services

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Sales of vessel		
– An entity controlled by Mr. Zhang	–	492,942

40 RELATED PARTY TRANSACTIONS *(continued)*

(ii) Purchase of goods and services

Continuing transactions:

	Year ended 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
Purchase of catering services – Entities controlled by Mr. Zhang	**247**	731
Purchase of paints – Entities controlled by close family members of Mr. Zhang	**–**	683
Purchase of cranes – Entities controlled by close family members of Mr. Zhang	**1,818**	977
Purchase of steels and equipments – Entities controlled by close family members of Mr. Zhang	**–**	191,757
Purchase of motor vehicles – Entity controlled by Mr. Zhang	**1,102**	–
Purchase of consultation services – Entity controlled by close family members of Mr. Zhang	**318**	–
	3,485	194,148
Non-continuing transactions: Purchase of steels and equipments – Entities controlled by close family members of Mr. Zhang	**–**	383,838

40 RELATED PARTY TRANSACTIONS *(continued)*

(iii) Purchase of construction services

Continuing transactions:

	Year ended 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Purchase of construction services		
– Entities controlled by close family members of Mr. Zhang	**1,256,615**	506,795
– Entity controlled by Mr. Zhang	**1,955**	–
	1,258,570	506,795

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

40 RELATED PARTY TRANSACTIONS *(continued)*

(iv) Year-end balances with related parties

Group

As at 31 December 2009 and 2010, the balances are interest free, unsecured, repayable on demand and approximate their fair value.

	As at 31 December	
	2010 **RMB'000**	**2009** **RMB'000**
Trade receivables for vessel (Note 13):		
– Entities controlled by Mr. Zhang	**–**	268,143
Prepayments for property, plant and equipment (Note 13):		
– Entities controlled by close family members of Mr. Zhang	**44,224**	–
Prepayments for raw materials (Note 13):		
– Entities controlled by close family members of Mr. Zhang	**170,856**	216,026
Other receivables – non-trade (Note 13):		
– Entities controlled by Mr. Zhang or close family members of Mr. Zhang	**464,355**	294,041
– Mr. Zhang	**–**	74
– Key management	**2,680**	530
	467,035	294,645
Other payables for property, plant and equipment (Note 20):		
– Entities controlled by close family members of Mr. Zhang	**199,924**	280,905
Other payables – non-trade (Note 20):		
– Entities controlled by Mr. Zhang or close family members of Mr. Zhang	**–**	1,500,077
– Mr. Zhang	**228**	229
	228	1,500,306

40 RELATED PARTY TRANSACTIONS *(continued)*

(iv) Year-end balances with related parties *(continued)*

Company

As at 31 December 2009 and 2010, the balances are interest free, unsecured, repayable on demand and approximate their fair value.

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
Other receivables – non-trade (Note 13):		
– Subsidiaries	**7,440,310**	–
	7,440,310	–
Other payables – non-trade (Note 20):		
– Subsidiaries	**7,743**	–
	7,743	–

(v) Guarantees provided by related parties

During the year ended 31 December 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 2010, the value of the guarantees provided by related parties was RMB Nil (2009: RMB17,696,031,000).

(vi) Other related party transactions

The Group has entered into an agreement with a subsidiary of Glorious Property Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange and a company controlled by Mr. Zhang, to transfer the Group's interests in two entities to Glorious Property Holdings Limited (see Note 16).

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.

40 RELATED PARTY TRANSACTIONS *(continued)*

(vi) Other related party transactions *(continued)*

On 7 September 2010, certain land with fair value of RMB18,352,000 has been transferred from Rongsheng Investment to Rongsheng Shipbuilding 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 for a period of twenty years (the "Services Agreement"). 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 96.1% effective interest in Rongsheng Shipbuilding.

41 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 31 December 2010, the Company has direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/paid-in capital	Equity interest attributable to the Group
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27/07/07	Limited liability company	Investment holding; Hong Kong	HK$100,000	98.50%
Rongsheng Engineering Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Rongsheng Power Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Rongsheng Capital Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HK$10	100%
Clear Joy International Limited	British Virgin Islands	02/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%
Nice In Holdings Limited	British Virgin Islands	13/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%
Charm Dragon Holdings Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%
Grace Shine International Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	100%
Head Park Group Limited	British Virgin Islands	25/04/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%
New Sea Enterprises Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	US$50,000	100%
Mega New International Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	US$50,000	98.50%

Shares held directly by the Company

41 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/paid-in capital	Equity interest attributable to the Group
Host Rich International Enterprise Limited	British Virgin Islands	13/05/09	Limited liability company	Investment holding; Hong Kong	US$1	100%
System Advance Investment Limited	British Virgin Islands	12/01/10	Limited liability company	Investment holding; Hong Kong	US$1	98.50%
Ocean Sino Holdings Limited	British Virgin Islands	18/01/10	Limited liability company	Investment holding; Hong Kong	US$1	98.50%
Power Shine Investments Limited	British Virgin Islands	07/01/10	Limited liability company	Investment holding; Hong Kong	US$1	98.50%
Capital Sign International Limited	British Virgin Islands	26/03/09	Limited liability company	Investment holding; Hong Kong	US$1	98.50%
Dragon Courage Investments Limited	British Virgin Islands	02/04/09	Limited liability company	Investment holding; Hong Kong	US$1	98.50%
Hinco International Limited	Hong Kong	12/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Pacific Atlantic Limited	Hong Kong	24/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Wenca Development Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%
Asiafair International Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	100%
Wellbo Holdings Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Profit On International Development Limited	Hong Kong	15/05/09	Limited liability company	Investment holding; Hong Kong	HK$1	100%
Yes Power Corporation Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%

41 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/paid-in capital	Equity interest attributable to the Group
Ocean Power International Industrial Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HK$1	98.50%
Glory Sources Limited	Hong Kong	25/01/10	Limited liability company	Dormant	HK$1	98.50%
World Profit Corporation Limited	Hong Kong	05/02/10	Limited liability company	Dormant	HK$1	98.50%
Jiangsu Rongsheng Shipbuilding Co. Ltd. 江蘇熔盛造船有限公司 (formerly known as "Nantong Rongding Shipbuilding Co. Ltd. 南通熔鼎造船有限公司")	PRC	21/06/07	Limited liability company	Manufacturing, maintaining and machining of shipping; Trading of self-produced products; PRC	RMB778,784,897	96.09%
Nantong Rongsheng Painting Co. Ltd. 南通熔盛塗裝有限公司	PRC	21/06/07	Limited liability company	Painting, coating and fabrication of shipping; Manufacturing and trading of self-produced products; PRC	US$29,500,000	93.58%
Nantong Rongye Ship Mechanical 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$29,600,000	95%
Nantong Rongye Storage Co. Ltd. 南通熔燁倉儲有限公司	PRC	21/06/07	Limited liability company	Storing of shipping material; Carry cargo; PRC	US$29,700,000	93.58%

41 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/paid-in capital	Equity interest attributable to the Group
Nantong Rongding Marine Engineering Co. Ltd. 南通熔鼎海洋工程有限公司 (formerly known as "Nantong Rongding Pipe Engineering Co., Ltd. 南通熔鼎管道工程有限公司")	PRC	22/06/07	Limited liability company	Manufacturing and installing of Pipeline and shipping equipments; Trading of self-produced products; PRC	US$29,900,000	95%
Jiangsu Rongsheng Heavy Industries Co., Ltd 江蘇熔盛重工有限公司 (formerly known as "江蘇熔燁鋼結構有限公司／富宏偉業(江蘇)物流有限公司")	PRC	08/06/06	Limited liability company	Manufacturing of shipping; Trading of self-produced products; Providing services of shipping; PRC	US$611,000,000	96.09%
Jiangsu Rongsheng Shipbuilding Engineering Research and Design Company Limited 江蘇熔盛船舶工程研究設計院有限公司	PRC	04/03/08	Limited liability company	Researching, designing and providing consultation for shipbuilding; PRC	RMB10,000,000	96.09%
Nantong Rongjin Steel Construction Engineering Company Limited 南通熔錦鋼結構工程有限公司 (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)	PRC	16/03/05	Limited liability company	Steel construction engineering; manufacture, processing and sales of steel and accessories and sales of building materials, PRC	RMB50,000,000	96.09%
Shanghai Rongsheng Shipbuilding Trading Company Limited 上海熔盛船舶貿易有限公司	PRC	27/03/07	Limited liability company	Trading of vessel accessories; PRC	RMB100,000,000	96.09%
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	US$30,000,000	100%

41 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/paid-in capital	Equity interest attributable to the Group
Hefei Zhenyu Engineering Machinery Company Limited 合肥振宇工程機械有限公司 (formerly known as "合肥振宇機械施工有限責任公司／合肥振宇工程機械股份有限公司")	PRC	10/12/98	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB100,000,000	95%
Hefei Zhenyu Yida Engineering Machinery Company Limited 合肥振宇意達工程機械有限公司 (formerly known as "安徽科化新材料科技有限公司")	PRC	18/04/03	Limited liability company	Manufacturing and sales of engineering machineries; PRC	RMB10,000,000	95%
Hefei Rongan Power Machinery Co. Ltd. 合肥熔安動力機械有限公司	PRC	15/08/07	Limited liability company	Building of marine engines; PRC	RMB694,920,000	95.55%
Shanghai Rong An Mechanical & Electrical Equipment Company Limited 上海熔安機電設備有限公司	PRC	10/11/09	Limited liability company	Wholesale and retail sales of electronic machinery, PRC	RMB10,000,000	95.55%

Four-Year Financial Summary

Consolidated Results

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

Assets and liabilities

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

Glossary

"2011 AGM"	the annual general meeting of the Company to be held on 28 April 2011
"ABS"	American Bureau of Shipping, a classification society founded in the United States in 1862, is a non-profit organization that provides marine and offshore classification services
"Board"	the board of Directors of our Company
"bulk carrier"	a vessel that is designed to carry unpacked cargo, usually consisting of a dry commodity, such as grain or coal
"BV"	Bureau Veritas, a classification society founded in Belgium in 1828, is an international group specialized in the inspection, analysis, audit, and certification of products, infrastructure (including maritime vessels) and management systems in relation to regulatory or voluntary standards
"Capesize"	cargo ships of 150,000 DWT and above with a draft above 18.91 meters
"CCS"	China Classification Society, a classification society founded in the PRC in 1956, is a specialized non-profit organization providing classification service
"CGT"	compensated gross tonnage, calculated by multiplying the tonnage of a ship by a coefficient determined according to type and size of a particular ship, and used as an indicator of the volume of work necessary to build a given ship
"China" or "PRC"	the People's Republic of China excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan
"China Eximbank"	the Export – Import Bank of China (中國進出口銀行)
"classification society"	worldwide non-governmental, experienced and reputable organizations or groups of professionals, ship surveyors and representatives of offices that promote the safety and protection of the environment of vessels and offshore structures. To do so, such societies set technical rules, confirm that designs and calculations meet these rules, survey vessels and structures during the process of construction and commissioning, and periodically survey vessels to ensure that they continue to meet the rules
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 883) and the New York Stock Exchange (stock code: CEO)

"Company", "our Company", "China Rongsheng" or "China Rongsheng Heavy Industries"	China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands on 3 February 2010
"Containerships"	cargo ships that carry all of their load in truck-size containers, in a technique called containerization
"Director(s)"	director(s) of our Company
"DNV"	Det Norse Veritas, a classification society founded in 1864 and originally a Norwegian-based organization that inspected and evaluated the technical condition of merchant vessels there. Since then, the core competencies have expanded to cover the identification, assessment and advisement on managing risk in a variety of industries (including maritime vessels)
"DPV"	deepwater pipe laying crane vessel, self propelled vessel dedicated to subsea pipe laying in deepwater regions. These vessels also generally have their own cranes and derricks, sometimes with heavy lift capability
"drillship"	a maritime vessel that has been fitted with drilling apparatus. It is most often used for exploratory offshore drilling of new oil or gas wells in deep water or for scientific drilling
"drydock" or "dry dock"	a narrow basin that can be flooded to allow a load to be floated in, then drained to allow that load to come to rest on a dry platform. Drydocks are used for the construction, maintenance, and repair of ships, boats, and other watercraft
"DWT", "deadweight tonnes" or "dwt"	one DWT equals to 1,000 kilogrammes, a unit of measurement of the maximum permitted load of a vessel, including the weight of cargo, passengers, fuel, stores and crew, when loaded to its maximum summer load line
"Foreign Investment Industries Catalogue"	the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) (promulgated by the NDRC and the MOFCOM on 31 October 2007) which became effective on 1 December 2007
"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

GLOSSARY

"GL"	Germanisher Lloyd, a classification society founded in 1867, which is a German-based organization that serves a wide range of industries in both the maritime and energy sectors
"Group", "our Group", "we" or "us"	the Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
"HK$", "HK dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"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 Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"horsepower"	a unit for measuring the power of an engine with one horsepower equaling 0.736kW
"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

"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	19 November 2010, being the date on which the Shares are listed on the Main Board of the Hong Kong Stock Exchange
"LNG"	liquefied natural gas
"LNG carrier"	liquefied natural 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
"MAN Diesel & Turbo" or "MAN"	MAN Diesel & Turbo SE, Germany
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Zhang"	Mr. Zhang Zhi Rong (張志熔), our chairman of the Board, non-executive Director and controlling shareholder
"MSFL"	Minsheng Financial Leasing Co., Ltd (民生金融租賃股份有限公司)
"NDRC"	The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Panamax"	ships classified as Panamax are of the maximum dimensions that will fit through the locks of the Panama Canal, each of which is 1,000 feet long by 110 feet wide and 85 feet deep. Accordingly, a Panamax ship will usually have dimension of approximately 965 feet long (294.0 meters), 106 feet wide (32.3 meters) and a draft of 39.5 feet (12.0 meters)
"PICC"	The People's Insurance Company (Group) of China Limited (中國人民保險集團股份有限公司)
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally approved and adopted by our Company pursuant to a resolution passed by our Shareholders on 24 October 2010
"Prospectus"	the prospectus of the Company issued in connection with its Listing on the Hong Kong Stock Exchange dated 8 November 2010
"Review Period"	the period from the Listing Date to 31 December 2010 under review
"RMB" or "Renminbi"	the lawful currency of the PRC

"Rong An Heavy Industries"	Anhui Rongan Heavy Industries Machinery Company Limited (安徽熔安重工機械有限公司), a company established under the laws of the PRC on 11 March 2010 and our wholly-owned subsidiary
"Rong An Mechanical & Electrical Equipment"	Shanghai Rong An Mechanical & Electrical Equipment Company Limited (上海熔安機電設備有限公司), a company established under the laws of the PRC on 10 November 2009 and our non-wholly owned subsidiary
"Rong An Power Machinery"	Hefei Rongan Power Machinery Co. Ltd. (合肥熔安動力機械有限公司), a company established under the laws of the PRC on 15 August 2007, and our non-wholly owned subsidiary
"Rongding Marine Engineering"	Nantong Rongding Marine Engineering Co. Ltd. (南通熔鼎海洋工程有限公司), a company established under the laws of the PRC on 22 June 2007, and owned by us as to 95% and owned as to 5% by Rongsheng Investment
"Rongye Mechanical"	Nantong Rongye Ship Equipment Installation Co. Ltd (南通熔燁船舶機電安裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by us as to 95% and owned by Rongsheng Investment as to 5%
"Rongsheng Heavy Industries"	Jiangsu Rongsheng Heavy Industries Co., Ltd. (江蘇熔盛重工有限公司), a company established under the laws of the PRC on 8 June 2006 and a company owned by Rongsheng Heavy Industries Holdings as to 97.55% and Rongsheng Investment as to 2.45%
"Rongsheng Heavy Industries Holdings"	Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司), a company incorporated in the Cayman Islands with limited liability on 27 July 2007 and owned by us as to 98.5%
"Rongsheng Investment"	Jiangsu Rongsheng Investment Group Co. Ltd. (江蘇熔盛投資集團有限公司), a company established under the laws of the PRC on 12 February 2004, and ultimately controlled by Mr. Zhang
"Rongsheng Painting"	Nantong Rongsheng Painting Co. Ltd. (南通熔盛塗裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by Rongsheng Heavy Industries Holdings as to 95% and owned by Rongsheng Investment as to 5%
"Rongsheng Research and Design"	Jiangsu Rongsheng Shipbuilding Engineering Research and Design Company Limited (江蘇熔盛船舶工程研究設計院有限公司), a company established under the laws of the PRC on 4 March 2008 and a wholly-owned subsidiary of Rongsheng Heavy Industries

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

Information for Shareholders

Listing Information

Listing	:	Hong Kong Stock Exchange
Stock Code	:	01101

Index Constituent

MSCI Index Series

Financial Key Dates

Announcement of 2010 Annual Results	:	8 March 2011
Book Closure Period	:	21 April 2011 to 28 April 2011 (both days inclusive)
Annual General Meeting	:	28 April 2011
Proposed Final Dividend Payment Date	:	12 May 2011

Share Information

Board Lot Size	:	500 shares
Issued Shares as at 31 December 2010	:	7,000,000,000 shares
Market Capitalization as at 31 December 2010	:	HK$46,900,000,000.00
Basic Earnings per Share for 2010	:	RMB 0.30
Proposed Final Dividend per Share for 2010	:	RMB 6.8 cents

Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
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183 Queen's Road East,
Wanchai, Hong Kong
Tel : (852) 2862-8628
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Corporate Information

Chairman and Non-executive Director	ZHANG Zhi Rong
Executive Directors	CHEN Qiang (Chief Executive Officer) WU Zhen Guo (Vice Chairman) LUAN Xiao Ming (Chief Operating Officer) DENG Hui HONG Liang Sean S J WANG (Chief Financial Officer) WANG Tao
Independent Non-executive Directors	CHEN Gang TSANG Hing Lun ZHANG Xu Sheng
Audit Committee	TSANG Hing Lun (Chairman) ZHANG Xu Sheng CHEN Gang
Remuneration Committee	ZHANG Zhi Rong (Chairman) ZHANG Xu Sheng CHEN Gang
Company Secretary	LEE Man Yee
Auditor	PricewaterhouseCoopers
Principal Bankers	The Export-Import Bank of China (Jiangsu Province Branch) China Development Bank (Jiangsu Province Branch) Bank of China Limited (Nantong Gangzha Branch) Shanghai Pudong Development Bank Limited (Hefei Branch) China Everbright Bank (Hefei Branch) Industrial and Commercial Bank of China (Hefei City Wangjiang Road Branch)
Legal Advisors	Paul, Hastings, Janofsky & Walker Commerce & Finance Law Offices
Compliance Advisor	Guotai Junan Capital Limited
Company Website	http://www.rshi.cn


中 國 熔 盛 重 工 集 團 控 股 有 限 公 司
CHINA RONGSHENG HEAVY INDUSTRIES GROUP HOLDINGS LIMITED