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

ANNUAL REPORT 2013

PASSION TO EXCEL

ABOUT CHINA RONGSHENG

China Rongsheng Heavy Industries Group Holdings Limited and its subsidiaries are a leading diversified large heavy industries group in China. Our headquarters is located in Hong Kong, with manufacturing bases in Nantong (Jiangsu Province) and Hefei (Anhui Province). Rongsheng Offshore & Marine was established in Singapore to promote our offshore engineering business. Our business segments include shipbuilding, offshore engineering, marine engine building and engineering machinery. According to Clarkson Research, China Rongsheng was the largest non-state-owned shipbuilder in the PRC in terms of orders on hand measured by DWT as at the end of December 2013. The Group operates the largest shipyard in the PRC and is a global leader in the manufacture of very large ore carriers.

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CHAIRMAN'S STATEMENT

"The year 2013 was a year of challenges and opportunities for the global shipbuilding industry, as well as a significant year for structural adjustment of the shipbuilding industry in China ... the shipping market has reached a turning point where we began to see early signs of recovery in the second half of 2013. In line with this trend, the shipbuilding market saw a sign of rebound as new shipbuilding orders increased sharply with a price index steadily rising. We believe the recession of the shipbuilding market has come to an end."

The year 2013 was a year of challenges and opportunities for the global shipbuilding industry, as well as a significant year for structural adjustment of the shipbuilding industry in China. The global shipping industry, staggered from prolonged post-crisis impact, lingered at historic low levels from a long-term point of view. The shipbuilding industry in China followed the trend of the shipping industry and continued to undertake structural adjustment. Affected by the adverse market condition, our overall performance declined sharply in the deteriorated business situation. And yet, in the midst of the current downturn, the shipping market has reached a turning point where we began to see early signs of recovery in the second half of 2013. In line with this trend, the shipbuilding market saw a sign of rebound as new shipbuilding orders increased sharply with a price index steadily rising. We believe the recession of the shipbuilding market has come to an end.

To turn the tide amid the unfavorable business situation, we are actively implementing a variety of measures, in an effort to promote stable production and operation. Meanwhile, we are employing multiple sources of financing to improve the financial position. These measures have been executed timely and accordingly and have proven effective. We entered into a framework agreement with more than ten financial institutions, led by Bank of China, The Export-Import Bank of China and China Minsheng Bank in the Jiangsu Province to mitigate liquidity pressure. Since 2013, we have successfully completed issuance of convertible bonds amounting to HKD2,400 million in aggregate, which demonstrated strong proof of the investors' solid confidence in us and ongoing support.

China's ever increasing attention on marine rights positioned shipbuilding as a significant industry. In an effort to improve industrial environment for the domestic shipbuilders, the Chinese government introduced a sequence of supportive policies in 2013. The State Council published the "Implementation Plans on Accelerating Structural Adjustment and Promoting Transformation and Upgrading of the Shipbuilding Industry (2013-2015)" (《船舶工業加快結構調整促進轉型升級實施方案(2013-2015年)》), launching policies for accelerating structural adjustment, as well as the "Guiding Opinions on Resolving Serious Production Overcapacity Conflicts"(《關於化解產能嚴重過剩矛盾的指導意見》), positioning resolving production overcapacity as a key issue to implement structural adjustment. The Ministry of Transport and four other ministries jointly launched the "Implementation Plan for Early Retirement and Replacement of Obsolete Carriers and Single-hull Tankers" (《老舊運輸船舶和單殼油輪提前報廢更新實施方案》). The Ministry of Industry and Information Technology ("**MIIT**") issued the "Shipbuilding Industry Standard Conditions" (《船舶行業規範條件》). The launch of these policies aims at accelerating structural adjustment and helps shipbuilders pass through cyclical trough. We anticipate that the elimination of outdated overcapacity and lifted market entry barriers will result in an increase in market concentration and thus benefit leading large-scale shipbuilders in the long term. Leveraging on the government policies, we will carry on implementation of our established strategy of "Transformation and Advancement" to further strengthen and expand our company for the long-term development.

We possess sufficient orders on hand, which represent a cornerstone of our strength to enduring through market cycles. In the current downturn, we adopted a tactic of avoiding low-priced orders while preparing for market rebound through enhancing internal "soft power". As the market recovers, we are well positioned to obtain orders at a higher price, which contribute to higher profitability and create values for shareholders. In view of the current market condition, we will maximize sales effort and secure additional orders, and pursue better payment terms of certain existing orders. Meanwhile, we initiated diversified businesses, such as the steel caisson processing project of Hutong Yangtze River Bridge, to maximize utilization of our facilities and mitigate the cyclical impact of the shipbuilding market. This steel caisson, the largest of its kind in China upon completion, will be constructed and undocked as a whole in our manufacturing base.

Adopting technology-driven innovation is essential to implementing our strategy of "Transformation and Advancement". We are continuously developing new environment-friendly fuel-efficient vessels to fulfil the clients' demand for products which meet new shipbuilding regulations and standards imposed by the International Maritime Organization ("**IMO**"). To tackle the market demand for mitigation of global warming, we have already developed ice-strengthened vessels for trans-arctic transportation. Our marine engine building segment is working closely with major power solution providers to develop LNG fuelled marine engines and dual-fuel marine engines to seize the opportunities brought by the technology innovation.

The ever-increasing attention on marine resources from countries around the world, together with the global economic recovery, is pushing demand for offshore energy resources and creating a long-lasting demand for offshore engineering equipment. Our subsidiary in Singapore, Rongsheng Offshore & Marine, is building a platform which integrates the global offshore market and clients with Singaporean professional talents, and performing as an outpost in high-end offshore engineering market to promote corporate strategy of "Transformation and Advancement". Leveraging on our shipbuilding business and offshore engineering experience, we plan to expand our product mix to cover up the comprehensive energy supply chain, such as oil and gas exploitation, production and processing, and storage and transportation.

The year 2013 was a significant year to the implementation of "Transformation and Advancement" amid a challenging environment, as well as a new starting point for our next advancement tempered by market volatility. To adapt to market trend, we re-designed operation flow and utilized efficient management systems to ensure sustainable growth. In the meantime, we adjusted direction for development timely and initiated building an innovative technology-driven competitive edge, in line with the goal of transforming into a heavy industries conglomerate with a focus on comprehensive energy sector service provider.

Looking forward into 2014, I, together with all of my colleagues, shall strive to move forward to seize the opportunities arising from the market recovery as the recession has come to an end. I would like to take this opportunity to express my sincere gratitude to our management team and all our staff for their hard work and cooperation and to all our shareholders, particularly Mr. Zhang Zhi Rong, for their patience and substantial support.

CHEN Qiang
Chairman

Hong Kong, 28 March 2014

MANAGEMENT DISCUSSION & ANALYSIS

SHIPBUILDING

OFFSHORE ENGINEERING

MARINE ENGINE BUILDING

ENGINEERING MACHINERY

Business Review

During the year ended 31 December 2013 (the "**Period**"), revenue of the Company was RMB1,343.6 million, a decrease of 83.1% from RMB7,956.3 million for the year ended 31 December 2012 (the "**Comparative Period**"). Losses attributable to the equity holders of the Company were RMB8,683.7 million, while losses attributable to the equity holders of the Company were RMB572.6 million for the Comparative Period. In 2013, the unfavourable operating environment for ship owners persisted amid the unsatisfying performance of the global shipping market in spite of the tepid recovery from 2012. As a result, ship owners requested shipyards to postpone the delivery of new vessels. Delays in constructions and deliveries of the Company's orders on hand in the core shipbuilding segment led to a significant decline of our revenue. In addition, the results of the Period were directly dented by the increase in the provision for receivables due to collection difficulties and provision for impairments of property, plant and equipment and intangible assets.

Shipbuilding

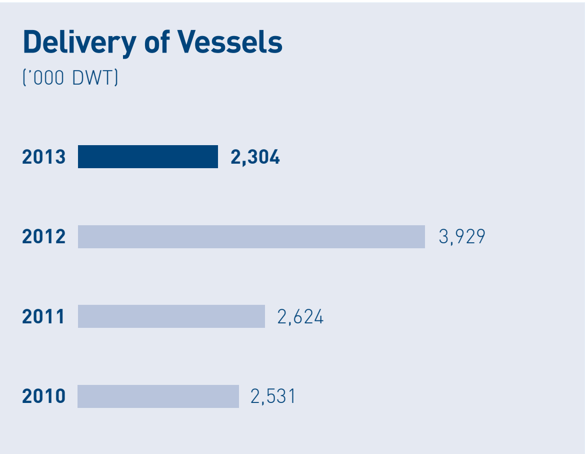
Shipbuilding was our major business and also our primary revenue source. Revenue from our shipbuilding segment decreased 84.2% year-on-year to RMB1,195.7 million for the Period, representing 89.0% of the total revenue. The significant decrease in revenue was primarily attributable to the downturn in the shipbuilding industry.

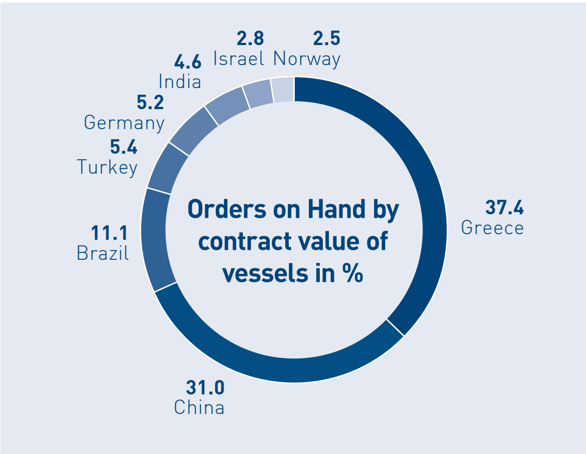
New orders and orders on hand

In 2013, the overcapacity in the global shipping market was not curbed, with shipping enterprises stuck in the loss-making position, exacerbating the overcapacity in shipbuilding industry and leaving the prices for new vessels low. In response to the adverse market environment, we adopted a defensive sales strategy and abandoned some extremely low price orders. For the period, we entered into new shipbuilding contracts of 23 vessels, involving 3 types of bulk carriers with a total volume of 2.3 million DWT and a contract value of US dollar ("**USD**") 728.0 million.

Our total orders on hand as at 31 December 2013 consisted of 94 vessels, representing a total volume of approximately 12.1 million DWT with a total contract value of approximately USD4.59 billion. It included 18 64,000 DWT bulk carriers, 28 Panamax bulk carriers, 2 Capesize bulk carriers, 13 very large ore carriers ("**VLOCs**"), 1 Panamax crude oil tanker, 23 Suezmax crude oil tankers, 2 very large crude oil carriers ("**VLCCs**"), 1 6,500 twenty-foot equivalent unit ("**TEU**") containerships and 6 7,000-TEU containerships. All the vessels in our order book are scheduled to be delivered within the period from 2014 to 2016 as stated in the contracts.

For the Period, we delivered 9 vessels, amounting to 2.3 million DWT. Including the 5 VLOCs that we delivered for the Period, our total number of VLOCs delivered as at the end of 2013 increased to 12, and all the 4 remaining VLOCs are scheduled to be delivered in 2014.





Offshore Engineering

For the Period, there was no revenue contribution from the offshore engineering segment.
We continued to strive to implement our "Transformation and Advancement" strategy in 2013 to transform ourselves into an integrated heavy industry conglomerate serving the energy industry, and seek to upgrade our product structure. We planned to design products that cover the whole energy industry chain, including drilling rigs, Floating Production Storage and Offloading Units ("**FPSOs**"), liquefied natural gas ("**LNG**") carriers and pipe-laying vessels, ultimately providing clients with a comprehensive solution in respect of project engineering, procurement and construction.

Marine Engine Building

For the Period, revenue from our marine engine building segment was RMB131.1 million, a decrease of 30.3% from RMB188.0 million for the Comparative Period. Including inter-segment sales, the revenue was RMB232.4 million for the Period. The decrease in revenue was affected by the depressed shipbuilding industry. For the Period, we completed and delivered 7 diesel engines, involving varied models, such as 6S46ME-B, 7RT-flex82T, 5S60ME-C8, 5RT-flex58T-D, 6S70ME-C and 6RT-flex50-D, and contracted 1 diesel engine. As at 31 December 2013, our marine engine building segment had orders on hand for a total of 34 engines with a total capacity of 699,547 horsepower.

Engineering Machinery

For the Period, primarily due to the slowdown of China's economy and tightening control of infrastructure investment, revenue from the engineering machinery segment was RMB16.8 million, deriving mainly from the sales of 191 excavators, which decreased by 92.0% from RMB209.8 million for the same period last year.

In 2013, the engineering machinery industry stabilized for the moment after experiencing wild swings, showing a faint sign of recovery across the industry. However, the global engineering machinery industry is still under a transitional period characterized by the shrinking market demand.

Financial Review

Revenue

For the Period, our revenue was RMB1,343.6 million as compared to RMB7,956.3 million for the Comparative Period, representing a year-on-year decrease of approximately 83.1%. The significant decrease in revenue was primarily attributable to the downturn of the shipbuilding and the engineering machinery industries, and due to the fact that we responded to market correction. In addition, revenue of RMB431.2 million was debited to the consolidated statement of comprehensive income during the Period, as a result of the change in accounting estimates for the purposes of calculation of the percentage-of-completion method for our active shipbuilding orders.

Cost of sales

For the Period, our cost of sales decreased by approximately 59.3% to RMB2,776.5 million (for the Comparative Period: RMB6,815.7 million), in line with the significant decrease in revenue.

Selling and marketing expenses

For the Period, our selling and marketing expenses decreased by approximately 77.9% to RMB20.3 million (for the Comparative Period: RMB91.7 million). We have thoroughly implemented cost control measures while maintaining marketing activities.

General and administrative expenses

For the Period, our general and administrative expenses increased by approximately 28.8% to RMB1,371.7 million (for the Comparative Period: RMB1,065.0 million). This increase is mainly the result of the writing off of certain trade receivables.

Provisions for impairments and delayed penalties

For the Period, our provisions for impairments and delayed penalties increased by approximately 1416.0% to RMB5,107.0 million (for the Comparative Period: RMB336.9 million). This increase is mainly the result of the provisions for impairments of trade receivables, other receivables and prepayment, amounts due from customers for contract works, property, plant and equipment and intangible assets which amounted to RMB2,083.5 million, RMB892.4 million, RMB275.6 million, RMB944.1 million and RMB503.5 million, respectively, and provision for delayed penalties of RMB407.9 million for the Period. The increase in receivable provisions is mainly due to the increase in default in payment by our customers under current market downturn.

Research and development expenses

For the Period, our research and development expenses decreased by approximately 57.8% to RMB61.9 million (for the Comparative Period: RMB146.6 million), mainly because of the decreased investment in research and development of the new shipbuilding and offshore engineering products.

Finance income and finance costs

Our finance income for the Period, which mainly relate to an interest income of RMB72.4 million, decreased by approximately 19.8% to RMB153.4 million (for the Comparative Period: RMB191.3 million). Our finance costs for the Period decreased by approximately 0.8% to RMB981.4 million (for the Comparative Period: RMB989.2 million) mainly due to the decrease in amount of borrowings on the average for the Period.

Gross loss

During the Period, we recorded a gross loss of RMB1,432.9 million (gross profit for the Comparative Period: RMB1,140.7 million). This is due to the low prices of shipbuilding orders in depressed market conditions, in contrast to rigid costs such as raw materials and labour costs. With diminishing profitability of the conventional shipbuilding business, an operating loss was incurred as a result of decreased production scale yet considerable fixed production cost.

Total comprehensive loss for the Period

During the Period, we recorded total comprehensive loss of RMB8,951.9 million, of which loss attributable to equity holders of the Company is RMB8,683.7 million (for the Comparative Period: RMB572.6 million). Loss attributable to the equity holders of the Company is the result of gross loss and the considerable fixed administrative cost and provisions as discussed in provisions for impairments and delayed penalties above. Other comprehensive income for the Period is RMB1.5 million (for the Comparative Period: nil) which is mainly contributed by the fair value gain on available-for-sale financial asset.

Liquidity and going concern

During the year ended 31 December 2013, the Group incurred a loss of approximately RMB8,953.4 million and had a net operating cash outflow of approximately RMB3,203.3 million due to the market downturn and financial difficulties of the Group's customers. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB6,683.1 million. Its total borrowings and finance lease liabilities amounted to RMB22,407.3 million, out of which RMB13,713.4 million will be due within 12 months. The cash and cash equivalents of the Group amounted to RMB117.0 million as at 31 December 2013. Included in the Group's borrowings were certain current borrowings of RMB127.0 million, which were overdue and have not been renewed or repaid subsequent to year end. However, a series of remedial measures to mitigate the liquidity pressure have been taken to improve its financial and liquidity position of the Group as a whole, details of which are set out in the section headed "Going Concern and Mitigation Measures" in the Corporate Governance Report. Please also refer to the details regarding uncertainties on the going concern of the Group as stipulated in the section headed "Going Concern Basis" in note 2.1(a) to the consolidated financial statements.

Inventories

As a result of the utilisation of inventories and provision for inventories amounting to RMB360.8 million during the Period, our inventories as at 31 December 2013 decreased by RMB711.5 million to RMB1,577.5 million (as at 31 December 2012: RMB2,289.0 million). The inventory turnover days increased from 136 days as at 31 December 2012 to 254 days as at 31 December 2013.

Amounts due from/to customers for contract works

As at 31 December 2013, the amounts due from customers for contract works decreased by RMB892.5 million to RMB7,407.3 million (as at 31 December 2012: RMB8,299.8 million). As at 31 December 2013, amounts due to customers for contract works decreased by RMB9.8 million to RMB321.8 million (as at 31 December 2012: RMB331.6 million). The decrease in amounts due to and from customers for contract works were the results of reduction in production scale. For the Period, RMB2,083.5 million of trade receivable and RMB275.6 million of amounts due from customers for contract works was impaired and provided for after the management's assessment on the recoverability of individual customers.

Borrowings and finance lease liabilities

Our short-term borrowings and finance lease liabilities decreased by RMB1,935.2 million from RMB15,648.6 million as at 31 December 2012 to RMB13,713.4 million as at 31 December 2013. Our long-term borrowings and finance lease liabilities decreased by RMB782.1 million to RMB8,693.9 million as at 31 December 2013 from RMB9,476.0 million as at 31 December 2012.

As at 31 December 2013, our total borrowings and finance lease liabilities were RMB22,407.3 million (as at 31 December 2012: RMB25,124.5 million), of which RMB20,025.1 million (89.4%) was denominated in RMB and the remaining RMB2,382.2 million (10.6%) was denominated in other currencies such as USD and HK dollars. Certain of the borrowings were secured by our land-use rights, buildings, construction contracts, pledged deposits and guarantees from related parties and companies within our Group. The majority of our bank borrowings are at floating interest rates.

Foreign exchange risks

Our shipbuilding business recorded revenue from contract prices mainly denominated in USD while about 30% of the production costs were denominated in USD. The cash flows of unmatched currencies are subject to foreign exchange risks.

Management continuously assesses the foreign exchange risks, with an aim to minimize the impact of foreign exchange fluctuations on our business operations. Management has adopted measures to manage our foreign exchange exposure. The Group incurred net foreign exchange losses of RMB189.3 million due to the appreciation of RMB against USD during the Period which caused exchange losses on certain USD denominated assets, including account receivables and pledged deposits of the Group.

Capital expenditure

For the Period, our capital expenditure was approximately RMB694.0 million (for the Comparative Period: RMB3,457.0 million), which was mainly used in acquisition of land use rights, acquiring facilities and equipment for our constructed plants.

Gearing ratio

Our gearing ratio (measured by total borrowings and finance lease liabilities divided by the sum of total borrowings and finance lease liabilities and total equity) increased from 62.5% as at 31 December 2012 to 78.4% as at 31 December 2013 mainly because the total equity decreased from RMB15,088.2 million as at 31 December 2012 to RMB6,169.1 million as at 31 December 2013, which is mainly affected by the accumulated losses RMB6,043.9 million for the Period (retained earnings for the Comparative Period: RMB2,641.3 million).

Contingent liabilities

As at 31 December 2013, we had contingent liabilities of RMB7,570.1 million (as at 31 December 2012: RMB9,792.7 million), which mainly resulted from the agreements between our Group and over ten banks in China, respectively, in relation to the issuance of letter of guarantee to us and also some disputes in relation to some of our shipbuilding customers and suppliers.

Credit assessment and risk management

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables and amounts due from customers for contract works. As at 31 December 2013, all the Group's cash and bank balances, short term bank deposits and pledged deposits were placed in reputable banks which management believes are of high credit quality and without significant credit risk.

The Group carries out customer credit checks prior to entering into shipbuilding contracts and requests progress payments from customers in accordance with the milestones of the shipbuilding contracts. Such milestone payments received from the customers prior to the delivery of vessels could reduce the Group's credit risk exposure. Certain measures have been taken to further reduce the credit risk, which include (i) negotiating for better payment terms and revising up prices of certain existing shipbuilding orders and; (ii) maximizing sales efforts, securing additional shipbuilding orders in bulk carriers which are of higher prices and better payment terms. Further, certain customers have issued irrevocable letters of guarantee from banks and related companies to provide guarantee on the collectability of the receivables from these customers.

As at 31 December 2013, trade receivables of RMB2,195.3 million (as at 31 December 2012: RMB168.5 million) and RMB270.4 million (as at 31 December 2012: RMB213.7 million) related to certain customers of the shipbuilding segment and engineering machinery segment were impaired and provided for respectively, as a result of the management's assessment on the recoverability of the balances.

Human resources

As at 31 December 2013, we had 4,738 employees (as at 31 December 2012: 6,594). The decrease in number of employees was mainly in relation to the market downturn. In spite of this, we endeavour to cultivate a culture of learning and sharing, focusing on individual training and development, and nurturing the concept of teamwork. The primary goal of our policy for remuneration package is to ensure employees are fairly rewarded and they receive appropriate incentives to maintain high standards of performance. To control administrative cost, we implement human resource optimization and consolidate business units. Furthermore, remuneration package of our senior and middle management of the Group was reduced by 30-50%.

Market Analysis

Faced with a lackluster global shipping industry amid the sluggish economy in 2013, the shipbuilding industry was further dragged down by the tightening interbank liquidity, and an increasing hindrance against the shipbuilders seeking loans from banks and other financial institutions. Nevertheless, the shipbuilding market became more buoyant and saw a steady growth of new orders transaction on the back of increasing demand from ship owners. In 2013, according to the China Association of the National Shipbuilding Industry, the new shipbuilding orders in China surged by 242% year-on-year to 69.84 million DWT. The shipbuilding orders on hand increased by 22.5% year-on-year to 131 million DWT as at the end of December 2013. We believe the recession of the shipbuilding market has come to an end.

In 2013, the Chinese government continued to support structural adjustment and promoted transformation and upgrading of the shipbuilding industry. Priorities including mitigating the serious overcapacity and advancing structural adjustment have been defined in the initiatives such as the "Implementation Plans on Accelerating Structural Adjustment and Promoting Transformation and Upgrading of the Shipbuilding Industry (2013-2015)" (《船舶工業加快結構調整促進轉型升級實施方案(2013-2015年)》) and the "Guiding Opinions on Resolving Serious Production Overcapacity Conflicts"(《關於化解產能嚴重過剩矛盾的指導意見》) issued by the State Council. To advance corporate merger and reorganisation, transformation and upgrade of the development growth model, 12 ministries and commissions including MIIT jointly promulgated the "Guidance on Accelerating Merger and Reorganisation of Enterprises in Key Industries" (《關於加快推進重點行業企業兼併重組的指導意見》). Four ministries and commissions including the Ministry of Transport issued the "Implementation Plan for Early Retirement and Replacement of Obsolete Carriers and Single-hull Tankers" (《老舊運輸船舶和單殼油輪提前報廢更新實施方案》), defining the policies and scope for dismantling and replacement of obsolete vessels. Furthermore, MIIT issued the "Shipbuilding Industry Standard Conditions" (《船舶行業規範條件》) which required strengthening of administration over the shipbuilding industry. Amidst a structural adjustment cycle in the global shipbuilding industry, international competition is increasingly dependent on technology, production efficiency and other soft strengths. In this context, major shipbuilders with leading technologies and sound facilities will be better positioned to leverage on preferential governmental policies and funding from financial institutions to fuel their development.

Prospects

Looking forward to 2014, in view of our current state of operation, we are closely monitoring the future liquidity, sources of financing, and performance of the Company. We are actively utilizing alternative sources of financing, including issuance of convertible bonds and obtaining financial support from major shareholders, which have been executed accordingly and have proven effective. Meanwhile, we have signed a framework agreement with over ten principal banks to establish a debt optimization syndicate, for the purpose of ensuring our stability of operations and improving our state of liquidity. Furthermore, we are implementing a comprehensive and rigid cost control mechanism through a variety of measures, including human resources optimization, management remuneration reduction, establishing strategic cooperation with key suppliers with a view to reducing costs, and re-designing and implementing a cost-oriented operational flow. In consideration of the recovering shipbuilding market, we are maximizing sales effort, arriving at better payment terms and revising up prices of certain existing shipbuilding orders.

We believe that the global shipbuilding industry has bottomed out. The current excessive shipping capacity is expected to be absorbed by the growing trade volume in the course of global economic recovery. Against the backdrop of the recovering shipping demand versus the shrinking shipbuilding capacity, we expect an increasing demand for bulk carriers and large containerships with a steadily rising pricing index in the coming years. The major leading shipbuilders will capitalise on their strengths in scale, cost and technologies to better profit from the recovery, with further aid of the preferential government policies on industry restructuring. We will be ideally placed to benefit from these opportunities by our excellent ship product quality, which have won numerous recognitions and awards across the industry since inception of the Company.

Responding to current market conditions, we will continue to implement our "Transformation and Advancement" strategy. The coming years will see even stronger demand for large LNG and liquefied petroleum gas carriers, as driven by the increasing market of new energy sources to fuel the global economic recovery in a cleaner, more eco-efficient and sustainable way. Meanwhile, the strong demand for offshore exploration and production engineering equipment will be maintained, sustaining the orders for offshore engineering equipment at a high level. Drawing upon our strengths in domestic manufacturing and competitive costs, we will make full use of the preferential industry policies to actively yet prudently promote the development of the offshore engineering business, one of our strategic moves towards transformation and advancement.

Due to the ongoing releases of new emission standards by the IMO, the ship owners adapting to new fuel-efficient and environment-friendly marine engines will be more advantageously positioned in market competition. We are working closely with licensors to develop and manufacture innovative LNG-driven and dual-fuel environment-friendly marine engines as well as medium-speed diesel engines, to capture the innovation opportunities to expand our market share. Meanwhile, as the shipbuilding industry is to recover, the demand for marine diesel engines should gradually pick up the momentum. We will strengthen management to enhance competitiveness of the marine engine building segment, aiming to not only provide solid support for our shipbuilding segment but also capture external market share.

We have adjusted our business strategy in accordance with the current state of operation. We are taking a variety of measures to improve financial position and cash flow position, which have been responded positively from relevant stakeholders. We will carry out risk management with more prudence and establish a conservative financial management system to turn around the financial position. The market recovery of our business segments, on top of continuous support from relevant stakeholders, has created a favourable atmosphere for our development, and we have full confidence in the prospects of the Company. Taking 2014 as a new starting point, we are prepared for our next advancement tempered by market instability.

CORPORATE SOCIAL RESPONSIBILITY REPORT

China Rongsheng has always incorporated social responsibility as an integral part of its development strategy and operation management to conscientiously support sustainable development of the society.

Environmental Protection

To fulfill our commitment to the environment, we emphasize green shipbuilding concepts in the shipping industry to meet current and future environmental requirements. Green vessels enable the ship owners to operate their business in a more fuel-efficient way with less emissions, joining the efforts of the shipping industry participants to contribute to a low-carbon and sustainable society.

During the year, we further delivered five 380,000 DWT class VLOCs. The vessel type is not only one of the largest ore carriers in the world, but also demonstrates superior environmental performance. In comparison with similar bulk carriers, the VLOC has a better performance with its significantly lower fuel consumption level per ton nautical mile. The VLOC records 9% and 34% less CO_2 and SO_X emissions, respectively, compared with typical vessel types such as 300,000 DWT bulk carrier and 175,000 DWT bulk carrier. With the Energy Efficiency Design Index ("**EEDI**") of approximately 1.99 during sea trials, the VLOCs are fully in line with low-carbon and green product initiatives. Our emission record successfully meets both the benchmark requirements on emission reduction set by the IMO, which came into effect as of 1 January 2013, and the IMO Tier III emission requirements.

Moreover, we introduced highly efficient large diameter propellers, energy-saving devices and propeller boss cap fins technology, and optimized the hull structure and force flow design of our Panamax bulk carriers. With EEDI performance improved by 27%, its design efficiency has acquired its EEDI verification from Lloyd's Register. Compared with similar bulk vessels under the same speed, the power output of the main engine could be reduced by 875 kW, making it 11% more efficient. Through ongoing improvements, the vessel not only reaches the EEDI reference line set in Phase 0, but is also in accordance with the Phase 1 (2015-2020) requirement and its NO_X emission volume satisfies the IMO's TIER II standard.

A 380,000 DWT class VLOC was leaving the wharf

Corporate Spirits

On 28 October 2013, the Company held a celebration for its eighth anniversary in order to invoke employee dedication to our mission of transformation and advancement, enrich corporate culture and enhance their physical fitness. More than 300 employees participated in "New Start – Tour of Production Base", a running race organised by the Communist Youth League committee of the Company. A variety of activities such as basketball and badminton matches and chorus competition were also staged.

Employee Welfare

Corporate sustainability requires an effective employee welfare scheme. We sincerely encourage our employees to achieve a sense of community and contribute to a peaceful work environment. The 10,000m^2 Workers' Home operates as a leisure facility for employees to enhance their sense of belonging and team spirit. We also visited and offered helps to employees whose families are in need.

Skills Tutoring

We encourage employees to sharpen their skills through tutoring and learning. Our Nantong manufacturing base did its share for the local industry in technology research, innovations, communication and tutoring of skills, as demonstrated by Mr. Zhu Jian Xin, one of our welding technicians who was included in the list of Corporate Chief Technicians of Jiangsu Province and named the "Skill Master Studio of Nantong" by Nantong Municipal Human Resources and Social Security Bureau. The approval of "Zhu Jian Xin Skill Master Studio" lay a solid ground for the Company to further establish the master work systems for other posts.

Technical Interchange

Furthermore, we kept in close touch with domestic and foreign engineering academia and the industry community. In 2013, we made technical interchange with participants of the Shipbuilding and Offshore Engineering Technical Advancement and Talent Cultivation Forum 2013. Representatives from colleges and corporations including Chinese Society of Naval Architects and Marine Engineers, Zhejiang Ocean University, China University of Petroleum, and Jiangsu University of Science and Technology

The approval of "Zhu Jian Xin Skill Master Studio" laid a solid foundation for our master studio programme

were invited to visit our Hefei manufacturing base, to communicate on manufacturing equipment for machined parts and diesel components. The forum made a profound contribution to our concepts in technology innovations and talent cultivation in the shipbuilding and offshore engineering sector. We also made in-depth communication with the experts from Harbin Engineering University in their visit to our Hefei manufacturing base, to consider the potential cooperation on shipbuilding and power source.

Internationally, we maintained close contact with the overseas maritime industry. For example, we shared experience with a senior maritime delegation comprising officers from Norwegian Maritime Directorate and Det Norske Veritas at our Nantong manufacturing base. Norway as a global maritime giant has extensive experience in various fields of the shipping industry. Through further cooperation with the maritime sector of Norway, we expect to bridge the gap between China and the western countries leading in marine equipment manufacturing, and contribute valuable insights to Chinese high-end equipment manufacturers in expanding overseas market.

We celebrated the 8th anniversary of the establishment of the Nantong production base

Our staff participating in "New Start – Tour of Production Base" were crossing the finishing line

Distinguished delegation of Norwegian maritime community shared their opinions and experience with us

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

The Board, which oversees the Company's operations through several committees, has ultimate responsibility for the administration of the affairs of the Company. The Board consists of eleven Directors, seven of whom are executive Directors, and four of whom are independent non-executive Directors.

Executive Directors

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

Mr. Chen Qiang, aged 52, an executive Director, Chairman and chief executive officer of the Company. Mr. Chen joined us in 2004 and was appointed as an executive Director on 24 October 2010. He was further appointed as the Chairman with effect from 26 November 2012. He is also the chairman of our finance and investment committee, a member of our corporate governance committee and a member of our remuneration committee. He is responsible for overseeing the overall operations of the Group, and is also a chairman of Rongsheng Heavy Industries and Rongsheng Research and Design, both subsidiaries of the Company. Mr. Chen obtained his doctorate degree in naval architecture and ocean engineering from Harbin Engineering University (哈爾濱工程大學) and an MBA degree from China Europe International Business School (中歐國際工商學院) in 2002. Mr. Chen obtained a master's degree in professional accounting (EMPAcc) (專業會計碩士) from the Chinese University of Hong Kong and was awarded the CFO Qualifying Certificate from the Shanghai National Accounting Institute (上海國家會計學院) in 2010. He also obtained a bachelor's degree in marine power engineering from Shanghai Jiao Tong University (上海交通大學) in 1982. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. Mr. Chen once served as an assistant to the general manager and subsequently a deputy manager of Jiangnan Shipbuilding Group Co., Ltd. (江南造船集團有限公司). Mr. Chen was an executive deputy general manager and subsequently the vice-chairman to the board of directors and general manager of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司), and was one of the founders of the company.

Mr. Chen is one of the experts on the national expert database of the PRC and was named as one of the "one hundred entrepreneurial talents" by the Jiangsu provincial government. In 2011, he is also a top-tier chief scientist enrolled in the 4th "333 Talents Cultivation Project" of Jiangsu Province. In 2010, the prestigious Norwegian shipping magazine "TradeWinds" ranked him the 41st among the "100 Most Influential People in Shipping Today". In 2012, Lloyd's List ranked him the 88th among the "100 Most Influential People in Global Shipping Industry of 2012". Mr. Chen enjoys special government allowances granted by the State Council and has won many domestic awards and has been granted many honorary titles, for example, the State Scientific and Technological Progress Second Class Award (國家科學技術進步二等獎) in 1990. Mr. Chen is the vice-president of the China Association of the National Shipbuilding Industry (中國船舶工業行業協會), an executive member of the 13th Council of the Shanghai Society of Naval Architects and Ocean Engineers (上海市船舶與海洋工程學會), a vice chairman of the Council of Ministers of the "Marine Technology" magazine, the president of the Jiangsu Association of Offshore Engineering (江蘇省海洋工程協會), a vice chairman of the Nantong Association for Science and Technology of Jiangsu Province (江蘇省南通市科協), a committee member of the Jiangsu Shipbuilding and Offshore Engineering

Assessment Panel of Professional Qualification (江蘇省船舶與海洋工程高級專業技術資格評審會). He is also a member of the council of CCS (中國船級社) and a member of the technology committee of the four biggest ship classification societies, namely, DNV GL, ABS, LR and CCS.

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

Mr. Wu Zhen Guo, aged 64, is the vice chairman and an executive Director of the Company. Mr. Wu joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is a member of our remuneration committee. Mr. Wu is primarily responsible for the administration and management of the Group. Mr. Wu obtained his bachelor's degree in economics and management from Fudan University (復旦大學) in 1994. Mr. Wu was a member of Shanghai Government Economic Reform Committee (上海市政府經濟體制改革委員會). From 2001 to 2010, Mr. Wu was the president of Shanghai Sun Glow Investment Group Co., Ltd. (上海陽光投資集團有限公司) and was responsible for overseeing the management of its day-to-day operations.

Mr. HONG Liang (洪樑)
Executive Director

Mr. Hong Liang, aged 42, is an executive Director and our vice-president. Mr. Hong joined us in 2006 and was appointed as an executive Director on 24 October 2010. He is also a member of our finance and investment committee. He is also a director of Rongsheng Heavy Industries, Rongsheng Painting, Rongye Storage, and the Chairman of Rongsheng Machinery and Rong An Power Machinery, all being subsidiaries of the Company. Mr. Hong is primarily responsible for investment and financing, capital as well as cost and budget management. Mr. Hong obtained his bachelor's degree in accounting from Shanghai University (上海大學) in 1994. He obtained the Master of Executive Professional Accountancy (EMPAcc) from Shanghai National Accounting Institute and The Chinese University of Hong Kong in August 2010. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. Mr. Hong has 18 years of experience in corporate finance and strategic investment gained from his service in investment banks. Mr. Hong worked at Shenyin and Wanguo Securities (申銀萬國證券公司) as an assistant manager of division two of the Shanghai investment banking department from 1994 to 1997, the deputy general manager of the Shanghai investment banking division of CITIC Securities Limited (中信證券有限責任公司), the general manager of the investment banking division of United Securities Company Limited (聯合證券股份公司) from 1998 to 1999, the deputy manager of the investment banking division of CITIC Securities Limited (中信證券股份公司) from 1999 to 2002, the general manager of the investment and development division of Shanghai Sun Glow Investment Co., Ltd. (上海陽光投資集團有限公司) from 2002 to 2004, and the deputy general manager of the strategic investment division of Shanghai Daisheng Holdings Limited (上海大盛資產公司) from 2004 to 2005.

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

Mr. Sean S J Wang, aged 50, is an executive Director and the chief financial officer of the Company. Mr. Wang joined us in June 2010. He was appointed as an executive Director on 24 October 2010. He is also a member of our corporate governance committee and finance and investment committee. He is responsible for financial management, investor relations and public relations management. He has in-depth and extensive experience in enterprise management and funds operation. He also has many years of experience in financial operation and project management at various multinational firms listed on the New York Stock Exchange, NASDAQ and the Hong Kong Stock Exchange. Previously, he held the positions of president and chief operating officer of Hurray! Holding Limited, a company listed on NASDAQ. From June 2008 to May 2010, Mr. Wang acted as an executive director and the chief financial officer of SOHO China Limited, a company listed on the Hong Kong Stock Exchange. Mr. Wang is also an independent non-executive director of Tomson Group Ltd., a company listed on Hong Kong

Stock Exchange. He received a "2010 Top 10 CFO of the Year in China" award from the "CFO World" Magazine. He studied economics at Peking University and later received a bachelor of science degree from Hamline University in 1986. He received his MBA degree from University of Minnesota in 1989. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011.

Mr. WANG Tao (王濤)
Executive Director

Mr. Wang Tao, aged 41, is an executive Director. Mr. Wang joined us in 2008 and was appointed as an executive Director on 24 October 2010. He is also a director of the following subsidiaries of the Company: Rongsheng Heavy Industries, Rongsheng Offshore Engineering, Hefei Rong An Heavy Machine Co., Ltd. and Rong An Power Machinery. Mr. Wang is primarily responsible for legal affairs. He obtained his bachelor's degree in law from China University of Political Science and Law (中國政法大學) in 1994. Mr. Wang obtained his certificate in world economics from the Department of Economics of Renmin University of China (中國人民大學研究生院經濟學院) in 2005 and graduated from an advanced course in ship finance law (船舶融資法律實務高級研修班) from Shanghai Jiao Tong University (上海交通大學) in 2010. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in October 2011. From 1999 to 2008, Mr. Wang had held various positions in Shanghai Sun Glow Investment Group Co., Ltd. (上海陽光投資集團有限公司), namely legal consultant, assistant to the president, vice-president and assistant to the chairman of the board. Mr. Wang qualified as a lawyer in the PRC in 1999.

Mr. WEI A Ning (魏阿寧)
Executive Director

Mr. Wei A Ning, aged 62, is an executive Director. Mr. Wei was appointed as an executive Director on 26 November 2012. Mr. Wei has served as the senior vice president of the Company since October 2012. He is a member of our nomination committee. He has also served as chief of the supervisory and audit department of Rongsheng Heavy Industries, a subsidiary of the Company, since June 2010; and he has become a vice president of Rongsheng Heavy Industries responsible for supervision and auditing in August 2013. Mr. Wei graduated from the Nanjing Political College of the Chinese People's Liberation Army (中國人民解放軍南京政治學院) in July 2001 majoring in economics and management. He also completed the Real Estate MBA Core Subjects program (房地產MBA核心課程高級研修班) offered by Shanghai Jiao Tong University in October 2008 and the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012. Mr. Wei has served as the legal representative and executive director of China Yangguang Investment Group Co., Ltd. (中國陽光投資集團有限公司) since February 2008.

Ms. ZHU Wen Hua (朱文花)
Executive Director

Ms. Zhu Wen Hua, aged 45, is an executive Director. Ms. Zhu was appointed as an executive Director on 31 December 2013. Since March 2014, she has served as vice-president of Rongsheng Heavy Industries, as well as head of the cost control department and director of the bidding office. She had served as an assistant supervisor of the supervisory and audit department and a supervisor of the bidding control department of Rongsheng Heavy Industries, a subsidiary of the Company, since 2009 and January 2012 respectively. She also had served as an assistant to the president of Rongsheng Heavy Industries since October 2013. Ms. Zhu graduated from the Graduate School of the Shanghai University (上海大學研究生部) in May 2010 studying a professional postgraduate course in Management Science & Engineering. She also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012.

Independent Non-executive Directors

Mr. TSANG Hing Lun (曾慶麟)

Independent Non-executive Director

Mr. Tsang Hing Lun, aged 64, is an independent non-executive Director. He was appointed as an independent non-executive Director on 24 October 2010. Mr. Tsang is also the chairman of our audit committee, a member of our finance and investment committee and a member of our remuneration 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, Sino-Ocean Land Holdings Limited and Nexteer Automotive Group Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. XIA Da Wei (夏大慰)

Independent Non-executive Director

Mr. Xia Da Wei, aged 61, is an independent non-executive Director. He was appointed as an independent non-executive Director with effect from 28 December 2012. He is a member of our audit committee, corporate governance committee, finance and investment committee and nomination committee. Mr. Xia has held various positions at the Shanghai University of Finance and Economics (上海財經大學) since 1993, including dean of its School of International Business Administration, assistant to the president and vice president, and dean of the Shanghai National Accounting Institute (上海國家會計學院) since 2000. Mr. Xia is also currently the officer of the academic affairs department, a professor and supervisor for doctoral candidates of the Shanghai National Accounting Institute (上海國家會計學院), a vice president of the Chinese Industrial Economic Association (中國工業經濟學會), a consultant of the China Accounting Standards Committee of the Ministry of Finance (財政部會計準則委員會), a member of the Committee on Internal Control Standard of Enterprises of the Ministry of Finance (財政部企業內部控制標準委員會), the president of the Shanghai Accounting Association (上海市會計學會), an honorary professor of the School of Accountancy of the Chinese University of Hong Kong (香港中文大學) and a member of the Listed Companies Committee (上市公司委員會) of Shanghai Stock Exchange.

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

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

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

Mr. HU Wei Ping (胡衛平)
Independent Non-executive Director

Mr. Hu Wei Ping, aged 63, is an independent non-executive Director. He was appointed as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 28 May 2013. He is the chairman of our remuneration committee, and a member of our audit committee, corporate governance committee and nomination committee. He has over 30 years of experience in the chemical engineering and energy industries. Since 1991, he has held senior positions with several departments of the National Development and Reform Commission (國家發展和改革委員會) of the PRC, including serving as the deputy director general of the Department of Oil and Natural Gas of the National Energy Administration (國家能源局石油天然氣司) from 2008 to 2011. Mr. Hu is qualified as a senior engineer in the PRC. He obtained a bachelor's degree in chemical engineering from Zhengzhou University (鄭州大學) in 1977.

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

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

Mr. Wang Jin Lian, aged 68, is an independent non-executive Director. He was appointed as an independent non-executive Director on 31 July 2013. He is the chairman of our corporate governance committee and nomination committee and a member of our audit committee and remuneration committee. He is currently the secretary general of China Association of the National Shipbuilding Industry. Mr. Wang has over 40 years of experience in shipbuilding industry. He is currently an expert of China International Engineering Consulting Corporation Academic Committee (中國國際工程諮詢公司專家學術委員會) and Jiangsu Province Marine Engineering Industry Technology Innovation Strategic Alliance Technical Committee (江蘇省海洋工程產業技術創新戰略聯盟技術委員會). He previously held various senior positions, including deputy director general of the international bureau of China State Shipbuilding Corporation (中國船舶工業總公司), director general of the planning and development department of China State Shipbuilding Corporation (中國船舶工業集團公司), vice chairman of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司) and vice chairman of Hudong Heavy Machinery Co., Ltd. (滬東重機股份有限公司). He is currently an independent director of Shanghai CSR Hange Shipping Engineering Co., Ltd. (上海南車漢格船舶工程有限公司). Mr. Wang holds the senior engineer (researcher level) qualification in PRC. He graduated from Beijing Institute of Aeronautics (北京航空學院) in 1969.

Senior Management Team

Mr. CHANG Jian Hua (常建華)

Mr. Chang Jian Hua, aged 44, executive vice-president of Rongsheng Heavy Industries, joined Rongsheng Heavy Industries in 2010 and served as vice-president and subsequently head of human resources, and has been appointed as executive vice-president of Rongsheng Heavy Industries in 2014. Mr. Chang is primarily responsible for work on human resources and administrative management. He graduated from Dalian University of Technology (大連理工大學) with a bachelor's degree in engineering in 1992 and received a master's degree in industrial engineering from School of Economics and Management of University of Science and Technology Beijing (北京科技大學管理學院), and obtained the title of senior engineer in 2005. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in June 2012. Prior to joining the Group, Mr. Chang served as director of human resources of Jianlong Group (建龍集團), deputy general manager of Tangshan Jianlong Industrial Co., Ltd.(唐山建龍實業有限公司) and vice-president of Yangfan Group Co., Ltd. (揚帆集團股份有限公司), thus possessing extensive experience in managing human recourses and administrative affairs.

Mr. CHEN Wen Jun (陳文軍)

Mr. Chen Wen Jun, aged 44, vice-president of Rongsheng Heavy Industries. Mr. Chen joined Rongsheng Heavy Industries on 4 May 2008, and served as its vice-president and chief economist, primarily responsible for information technology and technological development management of our Group. Prior to joining the Group, Mr. Chen was a project manager, department head and chief information officer of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). Mr. Chen obtained his bachelor's degree in engineering mechanics from Dalian University of Technology (大連理工大學) in 1993 and his MBA degree from the China Europe International Business School (中歐工商管理學院) in 2004. In October 2011, he also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania.

Mr. ZHAO Zhong Wu (趙仲武)

Mr. Zhao Zhong Wu, aged 42, vice-president of Rongsheng Heavy Industries, is primarily responsible for the development of non-shipping related business of our Group. After joining Rongsheng Heavy Industries on 15 May 2008, Mr. Zhao served as vice-president, assistant to president and head of the production management department, head of the production planning department and head of the economic operation department. Prior to joining the Group, Mr. Zhao was deputy director and deputy department head of Jiangnan Shipyard Group Co., Ltd (江南造船廠). Mr. Zhao received his bachelor's degree in ship engineering from Dalian University of Technology (大連理工大學) in 1993 and master's degree in traffic and transportation engineering from Huazhong University of Science and Technology (華中科技大學) in 2012.

Mr. MIAO Ke (苗科)

Mr. Miao Ke, aged 38, vice-president of Rongsheng Heavy Industries, joined Rongsheng Heavy Industries in 2013. Mr. Miao served as assistant to president and subsequently general manager of our second shipbuilding business division. He has been appointed as vice-president of Rongsheng Heavy Industries since 2014 and served concurrently as head of the production management department and general manager of second shipbuilding business division. Mr. Miao is primarily responsible for the Company's production and shipbuilding management and planning management. He graduated from Jiangsu University of Science and Technology (江蘇科技大學) with a bachelor's degree in 1997 and obtained the title of engineer. Prior to joining the Group, Mr. Miao served as technician, constructor and section chief and deputy department head of production department in Hudong-Zhonghua Shipbuilding Group (滬東中華造船集團), assistant to president and general manager of production and operation department in Jinhai Heavy Industry (金海重工), thus possessing extensive experience in shipbuilding management.

Mr. ZHANG Hong Yu (張虹宇)

Mr. Zhang Hong Yu, aged 35, vice-president of Rongsheng Heavy Industries, is primarily responsible for production management. Since joining Rongsheng Heavy Industries in December 2007, Mr. Zhang had successively served as deputy head of shipbuilding business division, head of second business division, deputy chief economist and general manager of shipbuilding business division and assistant to the president of Rongsheng Heavy Industries. In June 2010, he took up the post of vice-president of Rongsheng Heavy Industries. Prior to joining the Group, he was deputy foreman of Shanghai Waigaoqiao Shipyard (上海外高橋造船廠). Mr. Zhang received his bachelor's degree in automation technology from Nanjing Hohai University (南京河海大學) in 2001. He obtained qualifications for the title of senior engineer in "shipping and marine engineering" in December 2012.

Mr. WANG Zhi Liang (王志良)

Mr. Wang Zhi Liang, aged 65, is executive vice-president and chief production officer of Rong An Power. Mr. Wang is primarily responsible for production management, safety and environmental protection, and power and material supply. Prior to joining Rong An Power Machinery in January 2009, Mr. Wang worked for Hudong Shipyard (滬東造船廠) from 1972 to 1998, successively serving as section chief of the laboratory of the machinery manufacturing department, general assembly workshop director, deputy director of the diesel engine business division and factory manager of the foundry (鑄造分廠). Mr. Wang served concurrently as assistant to the general manager of Hudong Heavy Machinery (滬東重機) and general manager of Jinqiao Branch Company (金橋分公司). Mr. Wang also served as general manager of Shanghai Eastern Boat Company (上海東舟公司).

Mr. LEE Fook Kang, Don (李福根)

Mr. Lee Fook Kang, Don, aged 65, serves as director and chief executive officer of Rongsheng Offshore & Marine. Mr. Lee is responsible for overseeing the offshore EPC business of the Group. Mr. Lee has over 40 years of experience in the marine and offshore industry and held various senior management positions at world-class offshore companies including Sembcorp Marine Ltd. and Keppel Corporation Ltd. Prior to joining us in September 2012, Mr. Lee served as senior vice president of marketing of Sembcorp Marine Ltd. and senior general manager of Jurong Shipyard Pte Ltd, a subsidiary of Sembcorp Marine Ltd. from 2000 to 2012. Mr. Lee also served as director of Jurong Brazil Pte Ltd and director of PPL Shipyard Pte Ltd from 2003 to 2012, and director of Brazil Netherlands BV from 2009 to 2012.

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 2013.

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 2013 are set out in the consolidated statement of comprehensive income on page 55 of this annual report.

Dividends

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: nil).

Closure of Register of Members

The register of members of the Company will be closed during the period from Friday, 16 May 2014 to Wednesday, 21 May 2014 (both days inclusive), during which no transfers will be registered, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on 21 May 2014 ("**2014 AGM**"). In order to be eligible to attend and vote at the 2014 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 15 May 2014.

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 of Convertible Bonds

On 7 August 2013, the Company issued convertible bonds in an aggregate principal amount of HKD1,400.0 million. The convertible bonds due 2016 has an initial conversion price of HKD1.00 per share (subject to adjustment), bearing interest at 7.0% per annum on the principal amount of the convertible bonds outstanding. Mr. Zhang Zhi Rong (a substantial shareholder of the Company) agreed to guarantee the payment obligations of the Company under the convertible bonds. During the year ended 31 December 2013, there were no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the convertible bonds by the Company.

As at the date of this report, the Group has partly utilised the net proceeds as to approximately HKD546.2 million for working capital (including approximately HKD204.9 million on costs of production materials such as raw materials, equipment and consumable use and approximately HKD341.3 million on operating expenses such as employee benefits expenses, office expenses and utilities, professional fees and outsourcing and processing costs) and as to approximately HKD821.8 million for repayment of short to medium term bank borrowings of the Group, and the Company intends to use the remainder, being approximately HKD11.0 million, for general working capital.

Please refer to the section headed "Events After the Balance Sheet Date" below for details of further issues of convertible bonds by the Company subsequent to 31 December 2013.

Share Premium and Reserves

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

Distributable Reserves

As at 31 December 2013, the reserves of the Company available for distribution to shareholders amounted to RMB5,709.6 million (2012: RMB6,472.4 million).

Donations

No charitable donations were made by the Group during the year ended 31 December 2013. (2012: RMB26.6 million).

Property, Plant and Equipment

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

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2013 and for the previous four financial years are set out in the Five-Year Financial Summary section on page 146 of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's amended and restated articles of association (the "**Articles of Association**") or the relevant laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis.

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

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Share Option Schemes

Pre-IPO Share Option Scheme

On 24 October 2010, the Company conditionally approved and adopted the Pre-IPO Share Option Scheme. As at 31 December 2013, the total number of shares in respect of the outstanding options granted under the Pre-IPO Share Option Scheme was 43,125,000 shares, which is equivalent to approximately 0.62% of the total existing issued share capital of the Company. No further options will be offered or granted by the Company pursuant to the Pre-IPO Share Option Scheme.

The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to acquire a personal stake in the Company and help motivate such participants to optimize their performance and efficiency, and also to help retain the participants whose contributions are important to the long-term growth and profitability of the Group.

The exercise price per Share of the options granted under the Pre-IPO Share Option Scheme is HKD4.00.

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Pre-IPO Share Option Scheme and their movements during the year ended 31 December 2013:

		Number of Share Options						
Names of Grantees	Date of Grant	As at 1 January 2013	Exercised	Cancelled	Lapsed	As at 31 December 2013	Exercise Price (HKD)	Exercisable Period
Mr. Wu Zhen Guo	24 October 2010	5,000,000	–	–	–	5,000,000	4.00	Note [1]
Mr. Luan Xiao Ming [2]	24 October 2010	4,375,000	–	–	4,375,000	-	4.00	Note [1]
Mr. Deng Hui [3]	24 October 2010	4,375,000	–	–	4,375,000	-	4.00	Note [1]
Mr. Hong Liang	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note [1]
Mr. Sean S J Wang	24 October 2010	2,500,000	–	–	–	2,500,000	4.00	Note [1]
Mr. Wang Tao	24 October 2010	4,375,000	–	–	–	4,375,000	4.00	Note [1]
Mr. Wei A Ning	24 October 2010	750,000	–	–	–	750,000	4.00	Note [1]
Ms. Zhu Wen Hua [4]	24 October 2010	375,000	–	–	–	375,000	4.00	Note [1]
Senior Management and other employees (in aggregate)	24 October 2010	34,875,000	–	–	9,125,000	25,750,000	4.00	Note [1]
Total		61,000,000	–	–	17,875,000	43,125,000		

Notes:

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

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

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

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

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

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

2 Mr. Luan Xiao Ming resigned as an executive director and the chief operating officer of the Company on 31 December 2013.

3 Mr. Deng Hui resigned as an executive director of the Company on 28 February 2013.

4 Ms. Zhu Wen Hua was appointed as an executive director of the Company on 31 December 2013.

Share Option Scheme

On 24 October 2010, the Company also conditionally approved and adopted a share option scheme for the purpose of enabling the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. As at 31 December 2013, the total number of shares in respect of the outstanding options granted under the Share Option Scheme was 263,800,000 shares, which is equivalent to approximately 3.77% of the total existing issued share capital of the Company. During the Period, no share options had been granted under the Share Option Scheme.

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

The following table discloses details of the Company's outstanding share options held by the Directors and certain employees of the Company under the Share Option Scheme and their movements during the year ended 31 December 2013:

		Number of Share Options						
Name of Grantee	**Date of Grant**	**As at 1 January 2013**	**Exercised**	**Cancelled**	**Lapsed**	**As at 31 December 2013**	**Exercise price (HKD)**	**Exercisable Period**
Mr. Chen Qiang	30 April 2012	**70,000,000**	–	–	–	**70,000,000**	1.94	Note [1]
Mr. Wu Zhen Guo	30 April 2012	**7,000,000**	–	–	–	**7,000,000**	1.94	Note [1]
Mr. Luan Xiao Ming [2]	30 April 2012	**14,000,000**	–	–	14,000,000	**-**	1.94	Note [1]
Mr. Deng Hui [3]	30 April 2012	**7,000,000**	–	–	7,000,000	**-**	1.94	Note [1]
Mr. Hong Liang	30 April 2012	**14,000,000**	–	–	–	**14,000,000**	1.94	Note [1]
Mr. Sean S J Wang	30 April 2012	**7,000,000**	–	–	–	**7,000,000**	1.94	Note [1]
Mr. Wang Tao	30 April 2012	**6,380,000**	–	–	–	**6,380,000**	1.94	Note [1]
Mr. Wei A Ning	30 April 2012	**6,380,000**	–	–	–	**6,380,000**	1.94	Note [1]
Ms. Zhu Wen Hua [4]	30 April 2012	**4,500,000**	–	–	–	**4,500,000**	1.94	Note [1]
Senior Management and other employees (in aggregate)	30 April 2012	**212,320,000**	–	–	63,780,000	**148,540,000**	1.94	Note [1]
Total		**348,580,000**	–	–	84,780,000	**263,800,000**		

Notes:

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

2 Mr. Luan Xiao Ming resigned as an executive director and the chief operating officer of the Company on 31 December 2013.

3 Mr. Deng Hui resigned as an executive director of the Company on 28 February 2013.

4 Ms. Zhu Wen Hua was appointed as an executive director of the Company on 31 December 2013.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2013 are set out in Note 40 to the consolidated financial statements.

Disclosable Transaction

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

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

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

Details of the update on the Transaction were disclosed in the announcements of the Company dated 26 April 2011, 1 June 2012, 5 June 2012, 17 July 2012, 17 August 2012, 21 August 2012, 2 December 2012, 11 July 2013 and 21 November 2013 respectively.

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 disclosure requirements under Chapter 14A of the Listing Rules.

Structure Agreements

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

In view of the abovementioned foreign ownership restrictions, Rongsheng Heavy Industries only owns a 49% equity interest in Rongsheng Shipbuilding and Rongsheng Investment owns the remaining 51% equity interest. Similarly, Rong An Power Machinery is owned by Rongsheng Shipbuilding as to 51% and by Rongye Mechanical as to 49%. Mr. Zhang Zhi Rong, who is currently a substantial shareholder of the Company and who was formerly the Chairman and a non-executive director of the Company prior to his resignation on 26 November 2012, is the ultimate controlling shareholder of Rongsheng Investment.

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

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

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

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

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

During the year ended 31 December 2013, Rongsheng Investment had not received any dividend income from Rongsheng Shipbuilding.

The Services Agreement and the terms of the transactions thereunder during the year ended 31 December 2013 have been reviewed by the independent non-executive Directors who have confirmed that, pursuant to the terms of the Services Agreement:

(1) the transactions carried out during the year ended 31 December 2013 were entered into in accordance with the relevant provisions of the Services Agreement and had been operated so that any profits generated by Rongsheng Shipbuilding had been retained by the Group;

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

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

Exempt Connected Transactions

During the year ended 31 December 2013, the Company entered into certain related party transactions which also constitute fully exempt connected transaction under Chapter 14A of the Listing Rules, details of which are set out below:

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

During the year ended 31 December 2013, directors and substantial shareholders of the Company or entities controlled by them provided guarantees and security in respect of certain bank borrowings and refund guarantees of the Group.

As the above financial assistance was provided by connected persons for the benefit of the Company on normal commercial terms (or better to the Company) and no security over the assets of the Company is granted in respect of the financial assistance, the financial assistance constitutes connected transactions for the Company exempt from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.65(4) of the Listing Rules.

Related Party Transactions

Details of the material related party transactions undertaken by the Group in the normal course of business are set out in Note 39 to the consolidated financial statements. Those related party transactions which constituted connected transactions/continuing connected transactions under the Listing Rules are set out in the section headed "Connected Transactions" above, and the Company has complied with the requirements in accordance with Chapter 14A of the Listing Rules.

Events After the Balance Sheet Date

Further issue of Convertible Bonds

On 9 January 2014, the Company completed the issue of convertible bonds in an aggregate principal amount of HKD1,000.0 million pursuant to two subscription agreements entered into on 23 December 2013 as amended by a nomination letter dated 27 December 2013. The convertible bonds due 2016 has an initial conversion price of HKD1.05 per share (subject to adjustment), bearing interest at 7.0% per annum on the principal amount of the convertible bonds outstanding. Mr. Zhang Zhi Rong, a substantial shareholder of the Company, has guaranteed the payment obligation under the convertible bonds. Details of the issue of the convertible bonds were disclosed in the announcements of the Company dated 23 December 2013, 27 December 2013 and 9 January 2014.

On 24 February 2014, the Company entered into two subscription agreements in connection with the further issue of convertible bonds in an aggregate principal amount of HKD1,000.0 million. The convertible bonds due 2016 has an initial conversion price of HKD1.05 per share (subject to adjustment), bearing interest at 7.0% per annum on the principal amount of the convertible bonds outstanding. The issuance of the convertible bonds was approved at an extraordinary general meeting of the Company convened on 25 March 2014. Details of the issue of the convertible bonds were disclosed in the announcements dated 24 February 2014 and 25 March 2014 and the circular dated 10 March 2014 of the Company.

Major Customers and Suppliers

During the year ended 31 December 2013, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 16.0% and 39.5%, respectively. The percentages of sales attributable to the Group's largest customer and the five largest customers were 28.9% and 79.2%, respectively. During the year ended 31 December 2013, none of the Directors or any of their associates, or any shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital), had any interest in any of the Group's five largest suppliers or customers.

Pension Schemes

Details of the Group's pension schemes are set out in Note 2.21 to the consolidated financial statements.

Remuneration Policy

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

The principal elements of the Directors' remuneration package include:

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

Details of the Directors' emoluments, the five highest-paid individuals and senior management of the Group for the year ended 31 December 2013 are set out in Note 33 to the consolidated financial statements.

Directors

Directors of the Company during the year ended 31 December 2013 and up to the date of this report are as follows:

Executive Directors

Mr. Chen Qiang *(Chairman and Chief Executive Officer)*
Mr. Wu Zhen Guo *(Vice Chairman)*
Mr. Luan Xiao Ming *(resigned as executive Director and Chief Operating Officer on 31 December 2013)*
Mr. Deng Hui *(resigned as executive Director on 28 February 2013)*
Mr. Hong Liang
Mr. Sean S J Wang *(Chief Financial Officer)*
Mr. Wang Tao
Mr. Wei A Ning
Ms. Zhu Wen Hua *(appointed on 31 December 2013)*

Independent Non-executive Directors

Mr. Chen Gang *(retired after the conclusion of the 2013 AGM held on 28 May 2013)*
Mr. Tsang Hing Lun
Mr. Zhang Xu Sheng *(resigned on 31 July 2013)*
Mr. Xia Da Wei
Mr. Hu Wei Ping *(appointed after the conclusion of the 2013 AGM held on 28 May 2013)*
Mr. Wang Jin Lian *(appointed on 31 July 2013)*

In accordance with the Company's Articles of Association, Ms. Zhu Wen Hua, Mr. Tsang Hing Lun, Mr. Hu Wei Ping and Mr. Wang Jin Lian will retire by rotation at the 2014 AGM. All the retiring Directors, being eligible, will offer themselves for re-election, except for Mr. Tsang Hing Lun, who has indicated to the Board that he does not offer himself for re-election and therefore will retire at the 2014 AGM.

The biographical details of the Directors and senior management of the Company as at the date of this Report are set out in the Directors and Senior Management section on pages 16 to 22 of this annual report.

Directors' Service Contracts

During the year ended 31 December 2013, all of executive Directors (other than Mr. Luan Xiao Ming) entered into renewed service contracts for a term of three years commencing on 24 October 2013 with changes in directors' emoluments. Ms. Zhu Wen Hua was appointed an executive Director on 31 December 2013 and entered into a service contract with the Company for a term of three years commencing on 31 December 2013. Mr. Luan Xiao Ming resigned as an executive Director on 31 December 2013.

Save as disclosed above, none of the Directors have entered into a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts of Significance

Save for the contracts described under the section headed "Connected Transactions" above, no contracts of significance (as defined in Appendix 16 to the Listing Rules) in relation to the Group's business to which the Company or its holding company or a subsidiary of the Company or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2013.

Directors' Interests in Competing Business

As at 31 December 2013, none of the Directors were interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with businesses of the Group.

In order to protect the Group's interests and its current business activities, on 24 October 2010, the then controlling shareholders of the Company, namely, Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong, entered into a deed of non-compete undertaking (the "**Deed of Non-compete Undertaking**") in favour of the Company, under which each of Fine Profit Enterprises Limited and Mr. Zhang Zhi Rong has undertaken and covenanted with the Company that, at any time during which the securities of the Company are listed on the Stock Exchange and for so long as they or their associates (within the meaning of Rule 1.01 of the Listing Rules) directly or indirectly hold, whether individually or taken together, 30% or more of the issued shares in the Company, they shall not and shall procure their respective associates not to directly or indirectly participate in, or hold any right or interest in, or otherwise be involved in any business engaged in the design, manufacture, marketing and sale of ships, offshore engineering, marine engines and engineering machinery in the PRC (other than through the Group). After certain share transfers which were disclosed in the announcement of the Company dated 24 January 2013, Mr. Zhang Zhi Rong and Fine Profit Enterprises Limited ceased to be the controlling shareholders of the Company on 28 January 2013 (being the date of completion of the said share transfers). Therefore, pursuant to the terms of the Deed of Non-compete Undertaking, the Deed of Non-compete Undertaking was automatically terminated on the same date.

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 period from 1 January 2013 to 28 January 2013.

The independent non-executive Directors of the Company 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 period from 1 January 2013 to 28 January 2013 (being the date of termination of the Deed of Non-compete Undertaking).

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

As at 31 December 2013, the Directors and chief executive of the Company had the following interests in the Shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**"):

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

	Number of Shares Interested				
Name of Director	**Personal interest**	**Corporate Interest**	**Equity derivatives (share options)**[2]	**Total**	**Percentage of issued share capital**
Mr. Chen Qiang	–	1,061,216,000[1]	70,000,000	1,131,216,000	16.16%
Mr. Wu Zhen Guo	–	–	12,000,000	12,000,000	0.17%
Mr. Hong Liang	–	–	18,375,000	18,375,000	0.26%
Mr. Sean S J Wang	–	–	9,500,000	9,500,000	0.14%
Mr. Wang Tao	–	–	10,755,000	10,755,000	0.15%
Mr. Wei A Ning	–	–	7,130,000	7,130,000	0.10%
Ms. Zhu Wen Hua	–	–	4,875,000	4,875,000	0.07%

Notes:

1 Among 1,061,216,000 Shares (before taking into account of the 70,000,000 Shares that may be granted to Mr. Chen Qiang pursuant to share options), 641,216,000 Shares and 420,000,000 Shares are directly held by Boom Will Limited and Leader World Investments Limited, respectively. Boom Will Limited and Leader World Investments Limited are 100% and 38.33% directly beneficially owned by Mr. Chen Qiang, respectively.

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

(B) Long Positions in Associated Corporations

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

Note:

1 As at 31 December 2013, 15,000 shares in Rongsheng Heavy Industries Holdings Limited were held by Boom Will Limited, a company 100% beneficially owned by Mr. Chen Qiang.

Save as disclosed above, as at 31 December 2013, none of the Directors or the chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(C) Share Options

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

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

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

As at 31 December 2013, the interests of substantial shareholders (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of substantial shareholder	Number of shares interested	Percentage of issued share capital [6]
Fine Profit Enterprises Limited [1]	2,052,281,157	29.32%
Mr. Zhang Zhi Rong [1]	2,052,281,157	29.32%
Action Phoenix Limited [2]	1,400,000,000	20.00%
VMS Investment Group Limited [2]	1,400,000,000	20.00%
Ms. Mak Siu Hang Viola [2]	1,400,000,000	20.00%
Partners Kingwin Fund (I) [3]	952,380,952	13.61%
Partners and Kingwin Asset Management Limited [3]	952,380,952	13.61%
Bullion Riches Limited [3]	952,380,952	13.61%
Sunshine Partners Financial Holdings Limited [3]	952,380,952	13.61%
Winnex International Investments Limited [3]	952,380,952	13.61%
Mr. Cheng Kin Ming [3]	952,380,952	13.61%
Kingwin Victory Investment Limited [3]	952,380,952	13.61%
Mr. Wang Ping [3]	952,380,952	13.61%
Gallop Sun Limited [4]	800,000,000	11.43%
Mr. Zhang De Huang [4]	800,000,000	11.43%
Boom Will Limited [5]	641,216,000	9.16%
Leader World Investments Limited [5]	420,000,000	6.00%

Notes:

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

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

3 These are derivative interests directly held by Partners Kingwin Fund (I) in the underlying shares of the Company in relation to the convertible bonds to be issued by the Company. Partners Kingwin Fund (I) is 100% directly beneficially owned by Partners and Kingwin Asset Management Limited, which is 50% directly beneficially owned by each of Bullion Riches Limited and Kingwin Victory Investment Limited respectively. Bullion Riches Limited is a wholly-owned subsidiary of Sunshine Partners Financial Holdings Limited, which is 100% directly beneficially owned by Winnex International Investments Limited, a company 100% directly beneficially owned by Mr. Cheng Kin Ming. Kingwin Victory Investment Limited is a company 100% directly beneficially owned by Mr. Wang Ping.

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

5 The 641,216,000 shares and the 420,000,000 shares are directly held by Boom Will Limited and Leader World Investments Limited respectively. Boom Will Limited and Leader World Investments Limited are 100% and 38.33% directly beneficially owned by Mr. Chen Qiang respectively.

6 These percentages have been compiled based on the total number of issued shares of the Company of 7,000,000,000 as at 31 December 2013 and rounded up to two decimal places.

Save as disclosed above, as at 31 December 2013, the Company had not been notified of any persons (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2013 and as at the date of this Report, there has been sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report section on pages 36 to 47 of this annual report.

Auditor

The financial statements for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the 2014 AGM. PricewaterhouseCoopers, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the 2014 AGM.

Directors' Responsibilities for the Accounts

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2013, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group.

On behalf of the Board

CHEN Qiang
Chairman

Hong Kong, 28 March 2014

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2013, the Company complied with the applicable code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules, save for the deviations as described in this Corporate Governance Report.

Code provision A.1.3 of the Code stipulates that at least 14 days' notice should be given for a regular Board meeting to give all Directors an opportunity to attend. During the year ended 31 December 2013, less than 14 days' notice was given for three Board meetings (other than regular meetings) to suit the tight and busy schedules of the participants.

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

The Board

Board Composition

The Board currently comprises seven executive Directors, namely Mr. Chen Qiang (Chairman and Chief Executive Officer), Mr. Wu Zhen Guo (vice chairman of the Board), Mr. Hong Liang, Mr. Sean S J Wang (Chief Financial Officer), Mr. Wang Tao, Mr. Wei A Ning and Ms. Zhu Wen Hua, and four independent non-executive Directors, namely Mr. Tsang Hing Lun, Mr. Xia Da Wei, Mr. Hu Wei Ping and Mr. Wang Jin Lian. The Board considers this composition to be balanced, and reinforces a strong independent review and monitoring function on overall management practices.

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on page 30.

The Directors' biographical details are set out in the Directors and Senior Management section on pages 16 and 22 of this annual report.

Roles and Responsibilities of the Board

The Board is responsible for formulating the overall strategies as well as reviewing the operation and financial performance of the Group. The Board is responsible for considering and deciding on matters covering the Group's overall strategies, major acquisitions and disposals, annual budgets, annual and interim results, approving Directors' appointments to the Board, major capital transactions and other significant operational and financial matters. The Board also exercises powers to issue equity securities under the relevant general mandates.

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

Delegation to Management

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

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

Attendance Records of Directors and Board Committee Members

During the year ended 31 December 2013, the Board held six Board meetings. The agendas and accompanying board papers are given to all Directors in a timely manner. All Directors are properly briefed on issues arising at Board meetings by the Chairman.

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

	Meetings Attended/Held							Continuous Professional Development
	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	Annual General Meeting	Extraordinary General Meeting	Type of Training (Notes)
Executive Directors								
Mr. Chen Qiang (Chairman) [1]	6/6		2/2		2/2	1/1	1/1	A
Mr. Wu Zhen Guo	6/6				4/4	1/1	0/1	A
Mr. Luan Xiao Ming (resigned on 31 December 2013)	6/6					1/1	0/1	A
Mr. Deng Hui (resigned on 28 February 2013)	0/0					0/0	0/0	N/A
Mr. Hong Liang	6/6					1/1	0/1	A
Mr. Sean S J Wang	6/6		2/2			1/1	1/1	A
Mr. Wang Tao	6/6					1/1	0/1	A
Mr. Wei A Ning	6/6			2/2		1/1	0/1	A
Ms. Zhu Wen Hua (appointed on 31 December 2013)	0/0					0/0	0/0	B
Independent non-executive Directors								
Mr. Chen Gang [2] (retired after the conclusion of 2013 AGM held on 28 May 2013)	3/3	1/1		2/2	2/2	0/1	0/0	A
Mr. Tsang Hing Lun [3]	6/6	2/2			2/2	1/1	1/1	A
Mr. Zhang Xu Sheng [4] (resigned 31 July 2013)	4/5	1/1	1/1	2/2	2/2	1/1	0/0	A
Mr. Xia Da Wei [5]	6/6	1/1	1/1	0/0		1/1	0/1	A
Mr. Hu Wei Ping [6] (appointed after the conclusion of 2013 AGM held on 28 May 2013)	2/3	1/1	1/1	0/0	2/2	0/0	0/1	A, B
Mr. Wang Jin Lian [7] (appointed on 31 July 2013)	1/1	1/1	1/1	0/0	2/2	0/0	0/1	B

Notes relating to attendance records of meetings:

1 Attendance of meetings of Mr. Chen Qiang (Chairman of the Board) is stated with reference to the number of the meetings held during the period from his appointment as a member of Remuneration Committee from the conclusion of the 2013 AGM held on 28 May 2013 to 31 December 2013.

2 Attendance of meetings of Mr. Chen Gang is stated with reference to the number of the meetings held during the period from 1 January 2013 to the conclusion of the 2013 AGM held on 28 May 2013 (his date of retirement as an independent non-executive Director upon which he also ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee, the Finance and Investment Committee and the Nomination Committee).

3 Attendance of meetings of Mr. Tsang Hing Lun is stated with reference to the number of the meetings held during the period from his appointment as a member of Remuneration Committee from the conclusion of the 2013 AGM held on 28 May 2013 to 31 December 2013.

4 Attendance of meetings of Mr. Zhang Xu Sheng is stated with reference to the number of the meetings held during the period from 1 January 2013 to 31 July 2013 (his date of resignation as an independent non-executive Director, the chairman of the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee and a member of the Audit Committee). Mr. Zhang Xu Sheng was appointed as the chairman of the Remuneration Committee in place of Mr. Chen Gang from the conclusion of the 2013 AGM held on 28 May 2013.

5 Attendance of meetings of Mr. Xia Da Wei is stated with reference to the number of the meetings held during the period from his appointment as a member of the Audit Committee, the Corporate Governance Committee, the Finance and Investment Committee and the Nomination Committee from the conclusion of the 2013 AGM held on 28 May 2013 to 31 December 2013.

6 Attendance of meetings of Mr. Hu Wei Ping is stated with reference to the number of the meetings held during the period from his appointment as a member of the Audit Committee, the Corporate Governance Committee, the Nomination Committee and Remuneration Committee from the conclusion of the 2013 AGM held on 28 May 2013 to 31 December 2013. Mr. Hu Wei Ping was appointed as the chairman of the Remuneration Committee on 31 July 2013.

7 Attendance of meetings of Mr. Wang Jin Lian is stated with reference to the number of the meetings held during the period from his date of appointment as the chairman of the Corporate Governance Committee and the Nomination Committee and a member of the Audit Committee and the Remuneration Committee on 31 July 2013 to 31 December 2013.

Notes relating to attendance records of trainings:

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

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

Continuous Professional Development

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

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

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

During the year ended 31 December 2013, the Company organized one training session conducted by external legal advisor for all Directors. Please refer to the attendance records of the training of each Director in association with their attendance records of meetings in the table above.

Independence of Independent Non-executive Directors

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Directors, whereby at least one of whom possesses appropriate professional qualifications or accounting or related financial management expertise.

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

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

Appointment and Re-election of the Directors

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

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

Mr. Chen Gang retired as an independent non-executive Director pursuant to the Articles of Association on the conclusion of the 2013 AGM.

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

All independent non-executive Directors are appointed by the Company for a term of three years. Each of Mr. Xia Da Wei, Mr. Hu Wei Ping and Mr. Wang Jin Lin has entered into a letter of appointment for a term of three years commencing on his date of appointment on 28 December 2012, 28 May 2013 and 31 July 2013 respectively whereas Mr. Tsang Hing Lun had entered into a letter of appointment for a further renewal term of three year commencing on 24 October 2013.

Mr. Tsang Hing Lun has indicated to the Board that he will retire as an independent non-executive Director and does not offer himself for re-election at the conclusion of the forthcoming 2014 AGM.

Directors' Interests in Shares

Details of Directors' interests in the shares of the Company are set out in the Report of the Directors section on pages 32 to 33 of this annual report.

Model Code on Securities Transactions

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

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities undertaken for the Company. During the year ended 31 December 2013, no claim was made against the Directors.

Board Committees

The Board has established an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**"), a nomination committee (the "**Nomination Committee**"), a corporate governance committee (the "**Corporate Governance Committee**") and a finance and investment committee (the "**Finance and Investment Committee**") with defined terms of reference. Details and reports of the committees are set out below.

Audit Committee

The Audit Committee was established to review the Group's financial reporting, internal controls and make relevant recommendations to the Board. The Audit Committee comprises of four members: Mr. Tsang Hing Lun, being chairman of the Audit Committee, Mr. Xia Da Wei, Mr. Hu Wei Ping and Mr. Wang Jin Lian, all of whom are independent non-executive Directors. 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.

Mr. Chen Gang ceased to be a member of the Audit Committee upon his retirement as an independent non-executive Director on the conclusion of the 2013 AGM held on 28 May 2013. Both of Mr. Xia Da Wei and Mr. Hu Wei Ping served as a member of the Audit Committee on the conclusion of the 2013 AGM held on 28 May 2013 whereas Mr. Wang Jin Lian served as a member of the Audit Committee on 31 July 2013.

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

During the year ended 31 December 2013, the Audit Committee held two meetings. The following is a summary of the work of the Audit Committee during the year:

- review of and recommendation for the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2012;
- review of and recommendation for the Board's approval the Group's interim condensed consolidated financial information for the six months ended 30 June 2013;
- review of the reports from the external auditor;
- review of the internal controls and risk management system of the Group;
- review of the reports from the internal auditor;
- approval of the internal audit plan for the year ended 31 December 2013; and
- review of the external auditor's remuneration and terms of engagement.

The consolidated financial statements of the Group for the year ended 31 December 2013 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2013.

Remuneration Committee

The Remuneration Committee was established on 24 October 2010 and has been delegated with the responsibility of determining the remuneration policy and structure for all Directors and senior management, reviewing and approving the specific remuneration packages of all Directors and making recommendations to the Board regarding the remuneration of non-executive Directors. The Remuneration Committee comprises five members: Mr. Hu Wei Ping (an independent non-executive Director), being the chairman of the Remuneration Committee, Mr. Chen Qiang (Chairman of the Board and an executive Director), Mr. Wu Zhen Guo (vice chairman of the Board and an executive Director), and Mr. Tsang Hing Lun (an independent non-executive Director), and Mr. Wang Jin Lian (an independent non-executive Director).

Mr. Chen Gang ceased to be the chairman of the Remuneration Committee upon his retirement as an independent non-executive Director on the conclusion of the 2013 AGM held on 28 May 2013. Mr. Zhang Xu Shang resigned as the chairman of the Remuneration Committee on 31 July 2013. Each of Mr. Chen Qiang, Mr. Tsang Hing Lun and Mr. Hu Wei Ping served as a member of the Remuneration Committee on the conclusion of the 2013 AGM held on 28 May 2013, Mr. Hu Wei Ping served as the chairman of the Remuneration Committee in place of Mr. Zhang Xu Sheng on 31 July 2013 whereas Mr. Wang Jin Lian served as a member of the Remuneration Committee on 31 July 2013.

During the year ended 31 December 2013, the Remuneration Committee held four meetings. The following is a summary of the work of the Remuneration Committee during the year:

- annual review of the remuneration packages of the Directors and senior management of the Company;

- review and provide recommendation for the Board's approval the remuneration packages of the newly appointed executive Director and independent non-executive Directors;

- review and provide recommendation for the Board's approval the revised remuneration packages on renewal of service contracts of executive Directors; and

- review of and recommendation for the Board's approval the remuneration packages on renewal of an appointment letter of an independent non-executive Director.

All the members of the Remuneration Committee had also passed five written resolutions to approve and recommend for the Board's approval on (i) change in executive Directors' emoluments and renewal of their services contracts for a further three year term commencing from 24 October 2013; (ii) revision on remuneration proposals of the management of the Group; and (iii) the remuneration packages of a newly appointed executive Director and an independent non-executive Director.

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

Pursuant to B.1.5 of the Code, the remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

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

Nomination Committee

The Nomination Committee was established on 1 April 2012 with written terms of reference. The Nomination Committee comprises of four members, namely Mr. Wang Jin Lian (an independent non-executive Director) being the chairman of the Nomination Committee, Mr. Wei A Ning (an executive Director), Mr. Xia Da Wei (an independent non-executive Director) and Mr. Hu Wei Ping (an independent non-executive Director).

Mr. Chen Gang ceased to be a member of the Nomination Committee upon his retirement on the conclusion of the 2013 AGM held on 28 May 2013. Both of Mr. Xia Da Wei and Mr. Hu Wei Ping served as a member of the Nomination Committee on the conclusion of the 2013 AGM held on 28 May 2013. Mr. Zhang Xu Sheng resigned as a member of the Nomination Committee on 31 July 2013.

The key duties of the Nomination Committee are as follows:

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

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

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

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

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

During the year ended 31 December 2013, the Nomination Committee held two meetings. The meetings were held to review and recommend for the Board's approval: (i) the diversity policy of the Board to be adopted in light of the Listing Rules amendments effective on 1 September 2013; and (ii) the new appointments of an independent non-executive Director and members of Audit Committee, the Corporate Governance Committee, the Finance and Investment Committee, the Nomination Committee and the Remuneration Committee.

All the members of the Nomination Committee had also passed two written resolutions to recommend for the Board's approval on the appointment of an executive Director and independent non-executive Directors and the chairman of the Corporate Governance Committee and the Nomination Committee; and a member of the Audit Committee and the Remuneration Committee.

Nomination Procedures and Criteria

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

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

The Nomination Committee is responsible for making recommendations to the Board with respect to the nomination of candidates for directorship by making reference to the Company's Board Diversity Policy, which was adopted by the Board on 26 March 2013 and various aspects of the candidate, including (but not limited to) his/her education background, professional experience, experience in the relevant industry and past directorships. In particular, for candidates to be independent non-executive directors, the Nomination Committee assesses his/her independence under Rule 3.13 of the Listing Rules. Then, the Nomination Committee will make its recommendations to the Board for consideration and approval.

Corporate Governance Committee

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

Both of Mr. Xia Da Wei and Mr. Hu Wei Ping served as a member of the Corporate Governance Committee from the conclusion of the 2013 AGM held on 28 May 2013. Mr. Wang Jin Lian served as the chairman of the Corporate Governance Committee in place of Mr. Zhang Xu Sheng on 31 July 2013.

The key duties of the Corporate Governance Committee are as follows:

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

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

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

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

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

During the year ended 31 December 2013, the Corporate Governance Committee held two meetings. The meetings were held to:

- review the compliance with the Code and the relevant disclosure in the draft 2012 Annual Report and the draft 2013 interim report;
- review the policies and practices on compliance with legal and regulatory requirements;
- review the corporate governance policy in relation to disclosure on inside information;
- review the training and continuous professional development of Directors and senior management.

Finance and Investment Committee

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

Mr. Chen Gang ceased to be a member of the Finance and Investment Committee upon his retirement on the conclusion of the 2013 AGM held on 28 May 2013. Mr. Xia Da Wei served as a member of the Finance and Investment Committee on the conclusion of the 2013 AGM held on 28 May 2013.

The key responsibilities of the Finance and Investment Committee are as follows:

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

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

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

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

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

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

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

Board Diversity Policy

The Board Diversity Policy was adopted by the Company pursuant to the resolutions passed at a Board meeting held on 26 March 2013. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against an objective criteria, having due regard for the benefits of diversity on the Board.

The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Internal Controls and Risk Management

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

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

The Audit Committee reviewed the effectiveness of the Company's internal controls systems, including financial, operational and compliance control and risk management systems. During the year ended 31 December 2013, no irregularity or material weakness was noted within any function or process. The Audit Committee is satisfied that the internal controls systems had functioned effectively as intended.

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

Company Secretary

The company secretary, Ms. Lee Man Yee, is a full time employee of the Group and reports to the chief executive officer of the Company. All Directors have access to the advice and services of the company secretary to ensure that board procedures, and all applicable laws, rules and regulations, are followed. During the year ended 31 December 2013, the company secretary had taken no less than 15 hours of relevant professional training.

External Auditor

The Company has engaged PricewaterhouseCoopers as its external auditor. The aggregate remuneration in respect of services provided by PricewaterhouseCoopers for the year ended 31 December 2013 was approximately HKD19.8 million (2012: HKD18.2 million), of which HKD19.7 million (2012: HKD15 million) represents annual audit and other audit-related services and HKD0.1 million (2012: HKD3.2 million) represents fees for certain non-audit related services, which mainly consist of taxation, review, consultancy and other reporting services.

Directors' Responsibility for Accounts and Auditor's Responsibility

The statement of the Directors' responsibility and auditor's statement of reporting responsibility and opinion on the consolidated financial statements of the Company for the year ended 31 December 2013 are set out on page 49 of this annual report.

The statement of the auditor about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 49 of this annual report.

Going Concern and Mitigation Measures

During the year ended 31 December 2013, the Group incurred a loss of approximately RMB8,953.4 million and had a net operating cash outflow of approximately RMB3,203.3 million due to the market downturn and financial difficulties of the Group's customers. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB6,683.1 million. Its total borrowings and finance lease liabilities amounted to RMB22,407.3 million, out of which RMB13,713.4 million would due within 12 months. The cash and cash equivalents of the Group amounted to RMB117.0 million as at 31 December 2013.

In addition, the Group failed to comply with certain restrictive financial covenants of certain current bank borrowings totaling RMB687.0 million and non-current bank borrowings totaling RMB1,004.0 million as at 31 December 2013. Subsequent to 31 December 2013, certain loan principal repayments and interest payments of the Group were overdue which may cause the relevant current and non-current bank loans totaling RMB4,039.0 million and RMB1,004.0 million respectively as at 31 December 2013 to become immediately repayable should the banks enforce their rights under the loan agreements. As of the date of the approval of these consolidated financial statements, these banks have not taken any action against the Group.

In relation to those bank loans for which the Group failed to comply with the relevant loan covenants or did not repay on time, the Group (1) obtained a waiver from the lender from complying with the relevant covenant in March 2014 in relation to an outstanding current bank loan of RMB607.0 million; and (2) is in the process of negotiating with the relevant banks to either extend the repayment terms or obtain waivers from complying with the relevant covenants.

These conditions, together with others described in Note 2.1(a) to the consolidated financial statements, had indicated the existence of material uncertainties which might cast significant doubt about the Group's ability to continue as a going concern.

The Board had given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group would have sufficient financial resources to continue as a going concern. Certain measures had been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

(i) negotiating with principal banks for the renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates. In particular, the Group has entered into "Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimization Framework Agreement" (《江蘇熔盛重工有限公司債務優化銀團框架協議》) in March 2014 with more than 10 PRC financial institutions, led by Bank of China, The Export-Import Bank of China and China Minsheng Bank in the Jiangsu province to extend the repayment and renewal terms of credit facilities granted to the Group by the 10 PRC financial institutions to the end of the year of 2015. The credit facilities cover but are not limited to the following facilities: letters of credit, project financing, trading financing, working capital loans, medium-term loans, trust and factoring arrangements;

(ii) obtaining financial support from an existing substantial shareholder via security-free and interest-free revolving facilities of up to RMB3,000.0 million, for use by the Group for working capital purposes;

(iii) pursuing alternative sources of financing, including issuance of convertible bonds to strategic investors. The Group has completed the issuance of convertible bonds amounting to HKD1,000.0 million in January 2014. The Group is expected to issue additional convertible bonds amounting to HKD1,000.0 million in April 2014 pursuant to the subscription agreements entered into with two subscribers in February 2014;

(iv) controlling administrative costs through various channels, including human resources optimization, reduction of executive directors' remuneration by 50%, reduction of middle to senior level management's remuneration by 30-50% and suppressing capital expenditures;

(v) negotiating for better payment terms and revising up prices of certain existing shipbuilding orders;

(vi) re-designing operation flow and controlling costs for existing shipbuilding orders;

(vii) maximizing sales efforts, securing additional shipbuilding orders in bulk carriers which are of higher prices and better payment terms, and obtaining the appropriate project-based financing; and

(viii) establishing strategic cooperation with key suppliers with a view to reducing costs of supplies.

Please also refer to the details regarding the material uncertainties on the going concern and the mitigation measures taken by the Group as stipulated in the section headed "Going Concern Basis" in Note 2.1(a) to the consolidated financial statements.

Shareholders' Rights

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

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

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

Shareholders' Enquiries to the Board

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

Investor Relations Department

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

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

Shareholders' Meetings

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

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

Investor Relations

The Board adopted a shareholder's communication policy on 20 March 2012 which provides, among other things, that:

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

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

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

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

CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS AND NOTES /

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

We were engaged to audit the consolidated financial statements of China Rongsheng Heavy Industries Group Holdings Limited (the "Company") set out on pages 51 to 145, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, it is not possible to form an opinion on the consolidated financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

As set out in Note 2 to the consolidated financial statements, the Group incurred a net loss of approximately RMB8,953,435,000 and had a net operating cash outflow of approximately RMB3,203,275,000 during the year ended 31 December 2013. As of the same date, the Group's current liabilities exceeded its current assets by RMB6,683,147,000. In addition, as at the same date and up to the date of the approval of the consolidated financial statements, certain loan principal repayments and interest payments were overdue and the Group also failed to comply with certain restrictive financial covenants of certain borrowings. These conditions, together with others described in Note 2 to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

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

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

Basis for Disclaimer of Opinion (Continued)

Multiple Uncertainties Relating to Going Concern (Continued)

The directors of the Company have been undertaking certain measures to improve the Group's liquidity and financial position, which are set out in Note 2 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) availability of financing from banks through successful negotiations for extension or renewal of outstanding bank loans, including those with overdue principal repayments and interest payments, provision of new loans, and waiver from complying with certain restrictive financial covenants of certain borrowings; (ii) availability of other alternative sources of financing, including the availability of the financial support from the major shareholder as needed and the successful issuance of convertible bonds; (iii) whether the bondholders of certain convertible bonds issued and to be issued will exercise their early redemption options to request the Company to redeem the outstanding convertible bonds should the market price of the Company's shares falls below a certain level; and (iv) whether the Group is able to generate adequate cash flows from its operations.

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

Disclaimer of Opinion

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

Other Matters

This report has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**4,045,028**	875,666
Property, plant and equipment	7	**17,471,432**	18,616,499
Intangible assets	8	**–**	468,589
Long-term deposits	14	**149,430**	153,343
Prepayments for non-current assets	14	**82,459**	1,868,540
Deferred tax assets	22	**–**	168,052
Available-for-sale financial asset	11	**41,547**	40,000
		21,789,896	22,190,689
Current assets			
Inventories	12	**1,577,495**	2,288,978
Amounts due from customers for contract works	13	**7,407,254**	8,299,806
Trade and bills receivables	14	**1,318,923**	3,811,363
Other receivables, prepayments and deposits	14	**2,632,931**	7,497,132
Pledged deposits	15	**1,131,225**	3,937,081
Cash and cash equivalents	16	**117,020**	2,143,788
		14,184,848	27,978,148
Total assets		**35,974,744**	50,168,837
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**599,526**	599,526
Share premium	17	**7,490,812**	7,490,812
Other reserves	19	**3,514,818**	3,480,596
(Accumulated losses)/retained earnings		**(6,043,869)**	2,641,306
		5,561,287	14,212,240
Non-controlling interests		**607,765**	875,965
Total equity		**6,169,052**	15,088,205

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	21	**7,979,016**	8,788,822
Finance lease liabilities – non-current	21	**714,843**	687,144
Advances from a related party	20	**243,838**	–
Deferred tax liabilities	22	**–**	4,191
		8,937,697	9,480,157
Current liabilities			
Amounts due to customers for contract works	13	**321,778**	331,616
Trade and other payables	20	**6,243,083**	9,278,474
Borrowings	21	**13,615,249**	15,282,755
Derivative financial instruments	23	**482,997**	5,094
Provision for warranty	24	**106,731**	146,655
Finance lease liabilities – current	21	**98,157**	365,812
Current income tax liabilities		**–**	190,069
		20,867,995	25,600,475
Total liabilities		**29,805,692**	35,080,632
Total equity and liabilities		**35,974,744**	50,168,837
Net current (liabilities)/assets		**(6,683,147)**	2,377,673
Total assets less current liabilities		**15,106,749**	24,568,362

The consolidated financial statements on pages 51 to 145 were approved by the Board of Directors on 28 March 2014 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**33**	33
Current assets			
Other receivables and prepayments	14	**4,570**	110
Amounts due from subsidiaries	14	**9,829,316**	9,553,692
Cash and cash equivalents	16	**4,134**	190,693
		9,838,020	9,744,495
Total assets		**9,838,053**	9,744,528
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**599,526**	599,526
Share premium	17	**7,490,812**	7,490,812
Other reserves	19	**314,971**	282,236
Accumulated losses	25	**(1,781,197)**	(1,018,453)
Total equity		**6,624,112**	7,354,121

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	21	–	752,346
		–	752,346
Current liabilities			
Other payables	20	580,091	5,076
Amount due to a related company	20	27,903	–
Amounts due to subsidiaries	20	5,995	5,991
Borrowings	21	2,116,955	1,621,900
Derivative financial instruments	23	482,997	5,094
		3,213,941	1,638,061
Total liabilities		3,213,941	2,390,407
Total equity and liabilities		9,838,053	9,744,528
Net current assets		6,624,079	8,106,434
Total assets less current liabilities		6,624,112	8,106,467

The consolidated financial statements on pages 51 to 145 were approved by the Board of Directors on 28 March 2014 and signed on its behalf by

Hong Liang
Director

Sean S J Wang
Director

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Revenue	5	**1,343,566**	7,956,347
Cost of sales	26	**(2,776,491)**	(6,815,650)
Gross (loss)/profit		**(1,432,925)**	1,140,697
Selling and marketing expenses	26	**(20,341)**	(91,741)
General and administrative expenses	26	**(1,371,716)**	(1,064,999)
Research and development expenses	26	**(61,853)**	(146,552)
Provisions for impairments and delayed penalties	26	**(5,107,036)**	(336,869)
Other income	28	**40,613**	668,878
Other (losses)/gains - net	29	**(277,284)**	56,242
Operating (loss)/profit		**(8,230,542)**	225,656
Finance income	30	**153,357**	191,288
Finance costs	30	**(981,392)**	(989,166)
Finance costs – net	30	**(828,035)**	(797,878)
Loss before income tax		**(9,058,577)**	(572,222)
Income tax credit	31	**105,142**	10,187
Loss for the year		**(8,953,435)**	(562,035)
Loss attributable to:			
Equity holders of the Company		**(8,685,175)**	(572,577)
Non-controlling interests		**(268,260)**	10,542
		(8,953,435)	(562,035)
Other comprehensive income for the year:			
Items that may be reclassified to profit or loss			
– Fair value gain on available-for-sale financial asset		**1,547**	–
Other comprehensive income for the year, net of tax		**1,547**	–
Total comprehensive loss for the year		**(8,951,888)**	(562,035)
Attributable to:			
Equity holders of the Company		**(8,683,688)**	(572,577)
Non-controlling interests		**(268,200)**	10,542
		(8,951,888)	(562,035)
Loss per share attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	34	**(1.24)**	(0.08)
Dividend			
Dividend (expressed in RMB per share)	35	**–**	–

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company						
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013		599,526	7,490,812	3,480,596	2,641,306	14,212,240	875,965	15,088,205
Loss for the year		–	–	–	(8,685,175)	(8,685,175)	(268,260)	(8,953,435)
Other comprehensive income								
Fair value gain on available-for-sale financial assets		–	–	1,487	–	1,487	60	1,547
Total comprehensive income/ (loss) for the year		–	–	1,487	(8,685,175)	(8,683,688)	(268,200)	(8,951,888)
Transactions with equity holders in their capacity as owners								
Share-based payment	18	–	–	32,735	–	32,735	–	32,735
Transactions with equity holders of the Company		–	–	32,735	–	32,735	–	32,735
Balance at 31 December 2013		599,526	7,490,812	3,514,818	(6,043,869)	5,561,287	607,765	6,169,052

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

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

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	36(a)	**(1,687,472)**	129,753
Interest paid		**(1,594,797)**	(1,973,318)
Income tax paid		**–**	(44,370)
Income tax refund		**78,994**	–
Net cash used in operating activities		**(3,203,275)**	(1,887,935)
Cash flows from investing activities			
Purchase of property, plant and equipment and deposits for land use rights		**(548,863)**	(3,144,025)
Purchase of intangible assets	8	**(145,128)**	(312,968)
Refund from proposed acquisition of Anhui Quanchai Group Corp.	14(b)(ii)	**–**	523,890
Purchase of available-for-sale financial asset	11	**–**	(40,000)
Refund of a deposit		**40,000**	–
Interest received		**72,398**	183,599
Pledged deposits		**2,805,856**	1,024,433
Net cash generated from/(used in) investing activities		**2,224,263**	(1,765,071)
Cash flows from financing activities			
Dividend paid	35	**–**	(154,000)
Proceeds from bank borrowings	36(b)	**17,575,760**	17,513,387
Proceeds from other borrowings		**603,000**	–
Repayment of bank borrowings	36(b)	**(20,839,468)**	(19,959,142)
Proceeds from issuance of convertible bonds	36(b)	**1,097,257**	–
Proceeds received from finance lease		**–**	600,000
Repayments of finance lease	36(b)	**(160,875)**	(438,394)
Net advances received from/(repayment of advances to) related parties		**690,346**	(4,504)
Net proceeds from issuance of medium-term note		**–**	1,982,000
Net cash used in financing activities		**(1,033,980)**	(460,653)
Net decrease in cash and cash equivalents		**(2,012,992)**	(4,113,659)
Cash and cash equivalents at beginning of the year		**2,143,788**	6,255,138
Exchange (loss)/gain on cash and cash equivalents		**(13,776)**	2,309
Cash and cash equivalents at end of the year	16	**117,020**	2,143,788

The notes on pages 59 to 145 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

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

The Company is an investment holding company. The principal activities of the subsidiaries are set out in Note 40 to the consolidated financial statements.

The consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2014.

2 Principal accounting policies

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

2.1 Basis of preparation

(a) Going concern basis

During the year ended 31 December 2013, the Group had incurred a loss of approximately RMB8,953,435,000 and had a net operating cash outflow of approximately RMB3,203,275,000 due to the market downturn and financial difficulties of the Group's customers. As at the same date, the Group's current liabilities exceeded its current assets by RMB6,683,147,000. Its total borrowings and finance lease liabilities amounted to RMB22,407,265,000, out of which RMB13,713,406,000 would due within 12 months. The cash and cash equivalents of the Group amounted to RMB117,020,000 as at 31 December 2013.

Included in the Group's borrowings were certain current bank loans of approximately RMB127,000,000, which were overdue and have not been renewed or repaid subsequent to year end. In addition, the Group failed to comply with certain restrictive financial covenants of certain current bank borrowings totaling RMB687,000,000 and non-current bank borrowings totaling RMB1,004,000,000 as at 31 December 2013 (see Note 21). Subsequent to year end, certain loan principal repayments and interest payments were overdue which may cause the relevant current and non-current bank loans totaling RMB4,039,000,000 and RMB1,004,000,000 respectively as at 31 December 2013 to become immediately repayable should the banks enforce their rights under the loan agreements. As of the date of the approval of these consolidated financial statements, these banks have not taken any action against the Group.

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

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

i) taking active measures to expedite collections of outstanding receivables from shipbuilding customers, control administrative costs through various channels including human resources optimization and management remuneration adjustment and contain capital expenditures;

ii) arriving at better payment terms and revising up prices of certain existing shipbuilding orders;

iii) re-designing its operation flow and control costs for its existing shipbuilding orders;

iv) maximizing sales efforts, including securing additional shipbuilding orders, in particular in bulk carrier which are of high prices and better conditions compared with before, and obtaining the appropriate project-based financing;

v) establishing strategic cooperation with key suppliers with a view to reducing costs of supplies;

vi) in relation to those bank loans for which the Group failed to comply with the relevant loan covenants or did not repay on time, the Group (1) obtained waiver from the lender from complying with the relevant covenant in March 2014 in relation to an outstanding current bank loan of RMB607,000,000; and (2) is in the process of negotiating with the relevant banks to either extend the repayment terms or obtain waivers from complying with the relevant covenants;

vii) the Group has been actively negotiating with a number of commercial banks for renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates, or securing new loans or facilities. In particular, the Group has signed a framework agreement with a group of People's Republic of China ("**PRC**") banks in the Jiangsu Province, with which the Group had total outstanding current and non-current loans amounting to RMB9,203,000,000 and RMB1,140,000,000 respectively, to extend the repayment and renewal terms to the end of the year 2015. The Group is actively negotiating with these banks on the final terms and conditions of the extension of repayment under loan agreements, which have not yet been fixed and determined. For the remaining current bank loans not covered in the above framework agreement, the directors expect that they will either be restructured, renewed or repaid in the year 2014 upon expiry. Subsequent to the year end, loans in the aggregate principal amount of RMB2,412,000,000 were successfully renewed, at a weighted average interest rate of 6.84% per annum and repayable from April 2014 to March 2015; and

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

viii) other than bank borrowings, the Group is actively seeking alternative sources of financing. In January 2014, the Group successfully issued convertible bonds with the principal amount of HKD1 billion (equivalent to approximately RMB786,000,000) which is scheduled for repayment in July 2016 if no conversion occurs. In addition, the Group has entered into subscription agreements with two subscribers pursuant to which the Group expects to issue further convertible bonds amounting to HKD1 billion (equivalent to approximately RMB786,000,000) in April 2014, which is scheduled for repayment in October 2016 if no conversion occurs. Furthermore, in December 2013, Mr. Zhang Zhi Rong ("**Mr. Zhang**"), an existing major shareholder of the Company, has agreed to provide security-free and interest-free revolving facility up to March 2015 to the Group for an amount up to RMB3 billion. Up to the date of approval of these consolidated financial statements, Mr. Zhang has provided interest-free loans to the Group totaling approximately RMB1,283,000,000, of which RMB593,000,000 were provided subsequent to 31 December 2013. These loans are repayable beyond twelve months from the date of approval of these consolidated financial statements.

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

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

(i) securing the final borrowing arrangements with a group of PRC banks in Jiangsu Province under the signed framework agreement, at terms and conditions that are acceptable to the Group, so that the Group would be able to extend the repayment terms of the related current and non-current loans amounting to RMB9,203,000,000 and RMB1,140,000,000 respectively to the end of year 2015;

(ii) seeking alternative sources of financing with other banks not covered in the framework arrangement mentioned in (i) above for the renewal, extension, or obtaining additional new financing to repay the remaining current bank loans upon expiry;

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Going concern basis (Continued)

(iii) negotiation with the relevant banks to extend the repayment terms or obtain waivers on those outstanding current and non-current bank loans totaling RMB4,773,000,000 and RMB1,004,000,000 respectively, which (1) the Group has failed to comply with certain financial covenants; and/or (2) were overdue but have not been renewed or repaid by the Group;

(iv) obtaining additional financial supports from Mr. Zhang as needed;

(v) issuance of convertible bond of HKD1 billion in April 2014;

(vi) requesting the convertible bondholders not to exercise their redemption options to require the Company to redeem the outstanding convertible bonds issued in August 2013 of HKD1.4 billion (which is currently a current borrowing as the bondholders have the unconditional right to request for redemption starting from August 2014), the convertible bonds of HKD1 billion issued in January 2014 (scheduled to be repayable in July 2016); and the convertible bonds of HKD1 billion expected to be issued in April 2014 (scheduled to be repayable in October 2016), as all these convertible bonds contain terms that allow the bondholders to early redeem the whole or any part of the principal amount outstanding when the market price of the Company's shares falls below a certain level; and

(vii) implementation of its operations plan described above to control costs and generate adequate cash flows.

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

(b) Statement of compliance

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

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

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

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

In the current year, the Group has adopted the following new and revised standards and amendments and interpretations to existing standards ("**new and revised IFRSs**") which are mandatory for the accounting periods beginning on or after 1 January 2013:

- IAS 1 (Amendment) — Presentation of Items of Other Comprehensive Income
- IAS 19 (Amendment) — Employee Benefits
- IAS 27 (revised 2011) — Separate Financial Statements
- IAS 28 (revised 2011) — Investments in Associates and Joint Ventures
- IFRS 1 (Amendment) — Government Loans
- IFRS 7 (Amendment) — Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
- IFRS 10 — Consolidated Financial Statements
- IFRS 11 — Joint Arrangements
- IFRS 12 — Disclosure of Interests in Other Entities
- IFRS 10, IFRS 11 and IFRS 12 (Amendments) — Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- IFRS 13 — Fair Value Measurements
- IFRIC 20 — Stripping Costs in the Production Phase of a Surface Mine
- Annual improvements 2011 — Improvements to IAS and IFRS

The adoption of the above new and revised IFRSs does not have any significant impacts on the consolidated financial statements of the Group.

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(d) New standards, amendments to standards and interpretations have been issued, but are not effective for the financial period beginning 1 January 2013 and have not been early adopted by the Group:

- IAS 19 (Amendment) — Employee Benefits – Defined Benefits Plans[2]
- IAS 32 (Amendment) — Financial Instruments: Presentation[1]
- IAS 36 (Amendment) — Recoverable Amount Disclosures for Non-financial Assets[1]
- IAS 39 (Amendment) — Novation of derivatives[1]
- IFRS 7 and IFRS 9 (Amendments) — Mandatory Effective Date and Transition Disclosures[3]
- IFRS 9 — Financial Instruments[4]
- IFRS 10, IFRS 12 and IAS 27 (2011) (Amendments) — Investment Entities[1]
- IFRIC 21 — Levies[1]
- Annual improvements project (2012 – 2013 cycle) — Improvements to IAS and IFRS[2]

1 Changes effective for annual periods beginning on or after 1 January 2014
2 Changes effective for annual periods beginning on or after 1 July 2014
3 Changes effective for annual periods beginning on or after 1 January 2015
4 Effective date to be determined

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations to the existing standards, but is not yet in a position to state whether these new standards, amendments and interpretations would have a significant impact on its results of operation and finance position.

(e) Changes in accounting policies

In previous years, the Group's buildings, including buildings under construction, were carried at historical cost less accumulated depreciation and impairment losses. Management reassessed the appropriateness of this accounting policy during the year and concluded that using the revaluation model under IAS 16 "Property, Plant and Equipment" would result in the consolidated financial statements providing more appropriate and relevant information about the underlying value of the Group's assets employed for its operation and the return thereon.

Consequently, the Group changed its accounting policy on buildings, including buildings under construction, to follow the revaluation model under IAS 16 with effect from 1 January 2013. The change from a cost model to a revaluation model of buildings, including buildings under construction, has been accounted for prospectively, which is in accordance with IAS 16 and specifically exempted from retrospective application under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

2 Principal accounting policies (Continued)

2.1 Basis of preparation (Continued)

(e) Changes in accounting policies (Continued)

Management has assessed the fair value of the buildings, including buildings under construction, and also performed an impairment assessment covering these assets as at 31 December 2013. The results and assumptions of these assessments are disclosed in Note 7 to the consolidated financial statements.

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

The Group applies the 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 recognized 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 recognized directly in equity as part of the capital reserve.

2 Principal accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

2 Principal accounting policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

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

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

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2 Principal accounting policies (Continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

(c) Group companies

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

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

(d) Disposal of foreign operation and partial disposal

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

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

2 Principal accounting policies (Continued)

2.5 Property, plant and equipment

The Group's buildings, including buildings under construction, are stated at revalued amount. All other property, plant and equipment, except for construction in progress, are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition and construction of the items.

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

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

Buildings	50 years
Plant and machinery	5 – 20 years
Computer equipment	3 – 5 years
Office equipment	5 years
Motor vehicles	4 – 10 years

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

Buildings comprise mainly factories, shipyards and offices.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of comprehensive income.

2.6 Land use rights

Land use rights represented upfront payments made for the use of land and the attached coastal line, if any, and are stated at cost and amortized 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. Amortization of land use rights are expensed in the profit or loss.

2 Principal accounting policies (Continued)

2.7 Intangible assets

(a) Goodwill

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

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

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

(b) Patents

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

(c) Computer software

Acquired computer software are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their respective estimated useful lives of 2 to 10 years.

(d) Research and development costs

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

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

(ii) Its intention to complete the intangible asset;

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

2 Principal accounting policies (Continued)

2.7 Intangible assets (Continued)

(d) Research and development costs (Continued)

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

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

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

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

2.8 Financial assets

2.8.1 Classification

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'long-term deposits', 'trade and bills receivables', 'other receivables', 'pledged deposits' and 'cash and cash equivalents' in the consolidated statement of financial position.

(c) Available-for-sale financial assets

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

2 Principal accounting policies (Continued)

2.8 Financial assets (Continued)

2.8.2 Recognition and measurement

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

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

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

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

2.9 Impairment of non-financial assets

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

2.10 Derivative financial instruments

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

2 Principal accounting policies (Continued)

2.11 Inventories

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

2.12 Trade and other receivables

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

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

2.13 Pledged deposits and cash and cash equivalents

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

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

2.14 Share capital

Ordinary shares are classified as equity.

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

2.15 Trade and other payables

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

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 Principal accounting policies (Continued)

2.16 Borrowings

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

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

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

2.17 Convertible bonds

(i) Convertible bonds with equity component

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

(ii) Convertible bonds without equity component

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

2 Principal accounting policies (Continued)

2.18 Provisions

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

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

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

Provisions for warranties granted by the Group on shipbuilding products and undertakings to repair or replace items that fail to perform satisfactorily are recognized at the end of each reporting period for expected warranty claims for repairs and returns based on industry practice and past experience of the Group.

2.19 Current and deferred income tax

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

(a) Current income tax

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

2 Principal accounting policies (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

(c) Offsetting

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

2.20 Construction contracts

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized 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 recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

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

2 Principal accounting policies (Continued)

2.20 Construction contracts (Continued)

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

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

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

2.21 Employee benefits

(a) Pension and employee social security and benefits obligations

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

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

2 Principal accounting policies (Continued)

2.21 Employee benefits (Continued)

(b) Share-based compensation

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

(c) Bonus plan

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

2.22 Revenue recognition

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

(a) Revenue from construction contracts

Please refer to Note 2.20 "Construction contracts" for the accounting policy on revenue from construction contracts.

(b) Sale of marine engines and engineering machineries

Revenue from sale of marine engines and engineering machineries is recognized 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 recognized until customer acceptance occurs. Revenue is recorded after deduction of any discounts.

2 Principal accounting policies (Continued)

2.23 Interest income

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

2.24 Borrowing costs

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

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

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

2.25 Government grants

Grants from the government are recognized 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 recognized in the consolidated statement of comprehensive income in the same year through offsetting the corresponding expenses by the grants to match them with the costs that they are intended to compensate.

2.26 Leases

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

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

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

2 Principal accounting policies (Continued)

2.26 Leases (Continued)

Sale and leaseback transactions – where the Group is the lessee

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

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

2.27 Financial guarantees

The Group provides guarantees to certain banks in respect of mortgage loans drawn by customers to finance their purchase of equipment from the Group's Engineering Machinery segment. Financial guarantee contracts where the Group is a guarantor are initially recognized 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 amortized 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 amortization of premium, and the best estimate of the amount required to settle the guarantee. Any increase in the liability relating to guarantees is recognized as general and administrative expenses in the consolidated statement of comprehensive income.

2.28 Dividend distribution

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

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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 recognized in the consolidated statement of comprehensive income when the changes arise.

Certain trade, bills and other receivables, prepayments and deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings are denominated in USD, and HKD which are also exposed to foreign exchange risk. Details of the Group's trade and other receivables, prepayments and deposits, pledged deposits, cash and cash equivalents, trade and other payables and borrowings denominated in foreign currencies are disclosed in Notes 14, 15, 16, 20 and 21 respectively.

At 31 December 2013, if RMB had weakened/strengthened by 2% against the USD and HKD respectively with all other variables held constant, pre-tax loss for the year would have been approximately RMB22,120,000 (2012: RMB29,156,000) lower/higher, mainly as a result of foreign exchange differences on translation of USD and HKD denominated monetary assets and liabilities.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

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

At 31 December 2013, if interest rate had increased/decreased by 100 basis points with all other variables held constant, pre-tax loss for the year would have been approximately RMB92,978,000 (2012: RMB136,130,000) higher/lower.

(b) Credit risk

Credit risk is managed on a company basis. Credit risk arises from cash and cash equivalents, pledged deposits, as well as credit exposures to outstanding trade, bills and other receivables, prepayments and amounts due from customers for contract works. As at 31 December 2013, all the Group's cash and bank balances, short term bank deposits and pledged deposits are placed in reputable banks located in the PRC and Hong Kong which management believes are of high credit quality and without significant credit risk.

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

For customers of the Shipbuilding segment, the Group actively monitors the financial situations of its customers who are affected by the market downturn. The Group is exposed to concentration of credit risk as the three largest debtors, of the Shipbuilding segment represented over 50% (2012: over 50%) of the total trade receivables (before provisions) of the Group as at 31 December 2013. Accordingly, the Group's consolidated results would be heavily affected by the financial capability of these debtors to fulfill the obligations under the shipbuilding contracts with the Group. The Group regularly reviews the credit profiles, business prospects, background and financial capability of the customers. As a result, management has made a provision for doubtful receivable of RMB2,026,759,000 (2012: RMB168,545,000) as at 31 December 2013.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

For customers of the Engineering Machinery segment, the Group assesses the credit quality of the customers, taking into account their financial positions, past experience and other factors, before granting credit limits. The Group has a large number of customers on this segment and has no significant concentration of credit risk. As at 31 December 2013, trade receivables of RMB56,708,000 (2012: RMB213,694,000) relating to certain customers of the Engineering Machinery segment are impaired and provided for.

For credit exposures to other receivables and prepayments, management assesses the credit quality of the counterparties on a case-by-case basis, taking into account their financial positions, past experience, amounts and timing of expected receipts and other factors. As at 31 December 2013, other receivables and prepayments amounted to RMB892,381,000 was impaired and provided for (2012: nil).

(c) Liquidity risk

The Group's management regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term (Note 2.1(a)).

During the year ended 31 December 2013, the Group has incurred a loss of approximately RMB8,953,435,000. In addition, the Group has had significant net operating cash outflows of approximately RMB3,203,275,000 due to the market downturn and financial difficulties of the Group's customers. As at 31 December 2013, the Group's current liabilities exceeded its current assets by RMB6,683,147,000. Its total borrowings and finance lease liabilities amounted to RMB22,407,265,000, out of which RMB13,713,406,000 will be due within 12 months. The cash and cash equivalents of the Group amounted to RMB117,020,000 as at 31 December 2013. Included in the Group's borrowings were certain current borrowings of RMB127,000,000, which were overdue and have not been renewed or repaid subsequent to year end. Subsequent to year end, certain loan principal repayments and interest payments were overdue which may cause the relevant current and non-current bank loans totaling RMB4,039,000,000 and RMB1,004,000,000 respectively as at 31 December 2013 to become immediately repayable should the banks enforce their rights under the loan agreements. As of the date of the approval of these consolidated financial statements, these banks have not taken any action against the Group.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

In view of these adverse factors, a series of remedial measures to mitigate the liquidity pressure have been taken to improve its financial and liquidity position of the Group as a whole. Management continued to negotiate with principal banks for the renewal and extension of loans and banking facilities with extended repayment terms and reduced interest rates. In particular, the Group has entered into "Jiangsu Rongsheng Heavy Industries Co., Ltd. Debt Optimization Framework Agreement" (《江蘇熔盛重工有限公司債務優化銀團框架協議》) in March 2014 with more than 10 PRC financial institutions, led by Bank of China, The Export-Import Bank of China and China Minsheng Bank in the Jiangsu Province to extend the repayment and renewal terms of credit facilities granted to the Group by the 10 PRC financial institutions to the end of the year of 2015. The credit facilities cover but are not limited to the following facilities: letters of credit, project financing, trading financing, working capital loans, medium-term loans, trust and factoring arrangements. In relation to those bank loans for which the Group failed to comply with the relevant loan covenants or did not repay on time, the Group (1) obtained waiver from the lender from complying with the relevant covenant in March 2014 in relation to an outstanding current bank loan of RMB607,000,000; and (2) is in the process of negotiating with the relevant banks to either extend the repayment terms or obtain waivers from complying with the relevant covenants. Subsequent to the year end, loans in the aggregate principal amount of RMB2,412,000,000 were successfully renewed, at a weighted average interest rate of 6.84% and repayable from April 2014 to March 2015. Other than bank borrowings, the Group is actively seeking alternative sources of financing, including the issuance of convertible bonds and obtaining a RMB3 billion security-free and interest-free revolving facility up to March 2015 granted by Mr. Zhang.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 31 December 2013				
Borrowings	**14,799,694**	**4,714,772**	**4,546,996**	**24,061,462**
Finance lease liabilities	**153,060**	**763,828**	**–**	**916,888**
Derivative financial instruments	**482,997**	**–**	**–**	**482,997**
Trade and other payables	**5,764,880**	**–**	**–**	**5,764,880**
At 31 December 2012				
Borrowings	16,257,818	4,148,959	5,681,198	26,087,975
Finance lease liabilities	426,568	394,232	331,326	1,152,126
Derivative financial instruments	5,094	–	–	5,094
Trade and other payables	9,003,911	–	–	9,003,911

Company	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	More than 2 years RMB'000	Total RMB'000
At 31 December 2013				
Amount due to subsidiaries	**5,995**	**–**	**–**	**5,995**
Amount due to a related party	**27,903**	**–**	**–**	**27,903**
Other payables	**580,091**	**–**	**–**	**580,091**
Borrowings	**1,439,597**	**77,048**	**1,477,048**	**2,993,693**
Derivative financial instruments	**482,997**	**–**	**–**	**482,997**
At 31 December 2012				
Amount due to subsidiaries	5,991	–	–	5,991
Other payables	5,076	–	–	5,076
Borrowings	1,682,113	756,623	–	2,438,736
Derivative financial instruments	5,094	–	–	5,094

3 Financial risk management (Continued)

3.2 Capital management

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

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

The capital structure of the Group consists of borrowings and shareholders' equity. Capital is managed so as to maximize the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. This ratio is calculated as total liabilities divided by total assets.

The Group's total liabilities and total assets positions and debt-asset ratio at 31 December 2013 and 2012 were as follows:

	2013 **RMB'000**	2012 RMB'000
Total liabilities	**29,805,692**	35,080,632
Total assets	**35,974,744**	50,168,837
Debt-asset ratio	**0.83**	0.70

3.3 Fair value estimation

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

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

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets	–	–	40,000	40,000
Total assets	–	–	40,000	40,000
Liabilities				
Interest rate swap	–	5,094	–	5,094
Total liabilities	–	5,094	–	5,094

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

There were no transfers between levels 1, 2 and 3 during the year

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

Specific valuation techniques used to value financial instruments include:

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

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2013.

	Available-for-sale financial assets RMB'000
Balance at 1 January 2012	–
Acquisition of available-for-sale financial assets	40,000
Balance at 31 December 2012	40,000
Balance at 1 January 2013	40,000
Fair value gain on revaluation recognized in other comprehensive income	1,547
Balance at 31 December 2013	41,547

4 Critical accounting estimates, assumptions and judgement

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

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

(a) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. This method places considerable importance on accurate estimates of the extent of progress towards completion. The Group measures the stage of completion of construction contracts by reference to the contract costs incurred to date compared to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs and in making these estimates, management has relied on past experience and industry knowledge. Management monitors the progress of the construction and reviews periodically the estimated total costs for each contract as the contract progresses. If the actual costs differ from management's estimates, the revenue, cost of sales and provision for foreseeable losses would be adjusted.

4 Critical accounting estimates, assumptions and judgement

(Continued)

(a) Construction contracts (Continued)

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

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

During the year ended 31 December 2013, revenue of RMB431,167,000 was debited to the statement of comprehensive income as a result of the change in accounting estimates for the purposes of calculation of the percentage-of-completion method.

(b) Current income tax and deferred tax

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

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

(c) Impairment of non-financial assets

The Group follows the guidance of IAS 36 "Impairment of Assets" to determine when assets are impaired, which requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the recoverable amount of assets is less than their carrying balance, including factors such as the industry performance and changes in operational and financing cash flows. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (a CGU). The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations require the use of estimates, including operating results, income and expenses of the business, future economic conditions on growth rates and future returns. Significant changes in the key assumptions on which the recoverable amount of the assets is based could significantly affect the Group's financial position and results of operations. Based on management's assessment, including sensitivity analysis, the Group recognized impairment charge of RMB1,447,715,000. Details of which have been disclosed in Note 7.

4 Critical accounting estimates, assumptions and judgement

(Continued)

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

Provision for impairment of trade and other receivables and amounts due from customers for contract works is determined based on the evaluation of collectability of these receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, and in making this judgement, the Group evaluates, among other factors, the current creditworthiness and the past collection history for each debtor/customer and the current market conditions (Note 3.1(b)).

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

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

(f) Estimated fair value of embedded derivative

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

5 Segmental information

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

The chief operating decision-maker is identified as the Executive Directors of the Company. The Executive Directors consider the business from both a geographic and product perspective. The Shipbuilding segment derives its revenue primarily from the construction of vessels, and the Offshore Engineering segment derives its revenue from the construction of vessels for marine projects. The Engineering Machinery segment derives its revenue from manufacturing of excavators and crawler cranes while the Marine Engine Building segment derives its revenue from building marine engines. The Executive Directors assess the performance of the reportable segments based on a measure of revenue and gross profit. Segment results are calculated by offsetting segment revenue from external customers with segment cost of sales. The segment information provided to the Executive Directors for the reportable segments for the year ended 31 December 2013 is as follows:

	Shipbuilding		Offshore Engineering		Engineering Machinery		Marine Engine Building		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**1,195,727**	7,558,567	**-**	–	**18,350**	301,855	**232,361**	740,526	**1,446,438**	8,600,948
Inter-segment revenue	**-**	–	**-**	–	**(1,573)**	(92,104)	**(101,299)**	(552,497)	**(102,872)**	(644,601)
Revenue from external customers	**1,195,727**	7,558,567	**-**	–	**16,777**	209,751	**131,062**	188,029	**1,343,566**	7,956,347
Segment results	**(1,033,387)**	1,108,047	**-**	–	**(322,189)**	49,272	**(77,349)**	(16,622)	**(1,432,925)**	1,140,697
Selling and marketing expenses									**(20,341)**	(91,741)
General and administrative expenses									**(1,371,716)**	(1,064,999)
Research and development expenses									**(61,853)**	(146,552)
Other income									**40,613**	668,878
Other (losses)/gains, net									**(277,284)**	56,242
Provisions for impairments and delayed penalties									**(5,107,036)**	(336,869)
Finance costs, net									**(828,035)**	(797,878)
Loss before income tax									**(9,058,577)**	(572,222)

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	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Segment assets	7,526,873	11,185,400	1,076,649	1,136,265	745,578	1,773,632	3,706,833	4,573,595	13,055,933	18,668,892
Unallocated									22,918,811	31,499,945
Total assets									35,974,744	50,168,837
Segment liabilities	202,176	331,616	192,722	105,367	548,379	1,142,624	4,643,575	4,188,012	5,586,852	5,767,619
Unallocated									24,218,840	29,313,013
Total liabilities									29,805,692	35,080,632

The unallocated items mainly included prepayments and deposits and cash and cash equivalents. Unallocated assets also included inventories and property, plant and equipment jointly used by the Shipbuilding and Offshore Engineering segments.

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

No revenue was derived from the Offshore Engineering segment for the year ended 31 December 2013.

During the year ended 31 December 2013, revenue from the top customer of the Shipbuilding segment amounted to RMB388,075,000 (2012: RMB2,128,536,000), representing 28.9% of the total revenue (2012: 26.8%).

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 2013 (2012: same).

The top three customers of the Group amounted to RMB809,086,000 (2012: RMB3,473,177,000), representing 60.2% of the total revenue (2012: 43.7%).

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

5 Segmental information (Continued)

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

	2013 RMB'000	2012 RMB'000
China	573,396	1,654,648
Greece	252,661	2,083,127
Israel	212,095	337,704
India	160,171	701,165
Turkey	96,813	568,722
Norway	83,549	177,782
Germany[a]	(812)	13,911
Brazil[a]	(34,371)	2,133,094
Oman	–	273,132
Others	64	13,062
	1,343,566	7,956,347

(a) The reduction in revenue from certain customers during the year was mainly due to the change in accounting estimates in recognizing revenue using the percentage-of-completion method.

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:

	2013 RMB'000	2012 RMB'000
Opening net book amount	875,666	643,565
Additions	3,233,367	248,184
Amortization (Note 26)	(64,005)	(16,083)
Closing net book amount	4,045,028	875,666
In the PRC, held on:		
Leases between 10 to 50 years	4,045,028	875,666

Borrowings and refund guarantees are secured by certain land use rights with an aggregate carrying value of RMB746,602,000 as at 31 December 2013 (2012: RMB761,404,000) (Notes 21 and 37(a)).

Amortization of the Group's land use rights has been charged to the consolidated statement of comprehensive income as general and administrative expenses (Note 26).

7 Property, plant and equipment – Group

	Construction in progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Computer equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2012							
Cost	6,567,303	8,134,207	2,476,791	45,362	49,129	49,578	17,322,370
Accumulated depreciation	–	(506,314)	(577,644)	(21,137)	(15,637)	(12,993)	(1,133,725)
Net book amount	6,567,303	7,627,893	1,899,147	24,225	33,492	36,585	16,188,645
Year ended 31 December 2012							
Opening net book amount	6,567,303	7,627,893	1,899,147	24,225	33,492	36,585	16,188,645
Additions	2,762,130	34,395	52,398	4,733	12,683	2,685	2,869,024
Disposal	–	–	(58)	(996)	(480)	(317)	(1,851)
Transfer	(2,571,323)	1,709,437	861,375	511	–	–	–
Depreciation (Note 26)	–	(216,412)	(196,782)	(10,239)	(9,326)	(6,560)	(439,319)
Closing net book amount	6,758,110	9,155,313	2,616,080	18,234	36,369	32,393	18,616,499
At 31 December 2012							
Cost	6,758,110	9,864,815	3,390,493	48,383	61,296	51,914	20,175,011
Accumulated depreciation	–	(709,502)	(774,413)	(30,149)	(24,927)	(19,521)	(1,558,512)
Net book amount	6,758,110	9,155,313	2,616,080	18,234	36,369	32,393	18,616,499
Year ended 31 December 2013							
Opening net book amount	**6,758,110**	**9,155,313**	**2,616,080**	**18,234**	**36,369**	**32,393**	**18,616,499**
Additions	**354,057**	**1,082**	**11,067**	**845**	**580**	**1,278**	**368,909**
Disposal	**(9,727)**	**(78,856)**	**(4,614)**	**(385)**	**(351)**	**(6,437)**	**(100,370)**
Transfer	**(269,414)**	**128,924**	**140,490**	**–**	**–**	**–**	**–**
Impairment loss	**(408,323)**	**(368,467)**	**(161,668)**	**(1,295)**	**(1,922)**	**(2,464)**	**(944,139)**
Depreciation (Note 26)	**–**	**(187,476)**	**(261,304)**	**(8,568)**	**(9,652)**	**(2,467)**	**(469,467)**
Closing net book amount	**6,424,703**	**8,650,520**	**2,340,051**	**8,831**	**25,024**	**22,303**	**17,471,432**
At 31 December 2013							
Cost or valuation	**6,424,703**	**8,650,520**	**3,537,817**	**48,841**	**61,143**	**46,757**	**18,769,781**
Accumulated depreciation and impairment loss	**–**	**–**	**(1,197,766)**	**(40,010)**	**(36,119)**	**(24,454)**	**(1,298,349)**
Net book amount	**6,424,703**	**8,650,520**	**2,340,051**	**8,831**	**25,024**	**22,303**	**17,471,432**
At 31 December 2013							
At Valuation	**4,842,723**	**8,650,520**	**–**	**–**	**–**	**–**	**13,493,243**
At Cost	**1,581,980**	**–**	**2,340,051**	**8,831**	**25,024**	**22,303**	**3,978,189**

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

7 Property, plant and equipment – Group (Continued)

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

	2013 RMB'000	2012 RMB'000
Cost of sales	**267,271**	243,681
Selling and marketing expenses	**473**	454
General and administrative expenses	**201,723**	195,184
Charged to the profit or loss (Note 26)	**469,467**	439,319

Borrowings and refund guarantees are secured by certain property, plant and equipment with an aggregate carrying value of approximately RMB6,513,230,000 as at 31 December 2013 (2012: RMB5,433,560,000) (Notes 21 and 37(a)).

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

	2013 RMB'000	2012 RMB'000
Cost – capitalized finance lease	**1,438,704**	1,566,877
Accumulated depreciation	**(232,684)**	(199,007)
Net book amount	**1,206,020**	1,367,870

As at 31 December 2013, certain plant and machineries under a non-cancellable lease, with costs of RMB1,438,704,000 (2012: RMB1,566,877,000), were held by the Group under certain sale and leaseback arrangements. The leases have bargain purchase option and with terms of 3 to 5 years where substantial risks and rewards of ownership of the assets retained with the Group.

At 31 December 2013, the Group was in the process of obtaining the property ownership certificates in respect of certain properties held under medium term land use rights in the PRC with carrying amount of approximately RMB1,168,608,000 (2012: RMB845,846,000). In the opinion of directors, the absence of the property ownership certificates of these properties does not impair their carrying values to the Group as the Group has paid the purchase consideration of these properties in full and the probability of being evicted on the ground of an absence of property ownership certificates is remote.

7 Property, plant and equipment – Group (Continued)

During the year, management has assessed the fair value of the buildings, including buildings under construction and also performed an impairment assessment of the Group's non-current assets at the CGU level. The CGUs are the Shipbuilding and Offshore Engineering, Engineering Machinery and Marine Engine Building segments of the Group.

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and the key assumptions in these financial budgets are set out below. The revenue growth and costs estimates during the five-year projection period reflect the Group's expectation of stabilization in the shipbuilding market and initiatives to contain cost. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the segment operates. Management determined budgeted gross margin based on past performance and its expectations for market development. Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to relevant CGUs.

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

Segments	Gross margin	Discount rate	Terminal growth rate
Shipbuilding and Offshore Engineering	Range from 18% to 21%	15%	4%
Marine Engine Building	Range from 8% to 17%	15%	4%
Machinery Engineering	Range from 13% to 29%	15%	4%

As a result of the assessment, management has provided a total impairment charge of RMB1,447,715,000. Details of the impairment charge is as follows:

	Segments			
	Shipbuilding RMB'000	Engineering Machinery RMB'000	Marine Engine Building RMB'000	Total RMB'000
Property, plant and equipment	301,904	173,365	468,870	944,139
Intangible assets	425,032	73,372	5,172	503,576
Total	726,936	246,737	474,042	1,447,715

8 Intangible assets – Group

	As at 31 December									
	2013					2012				
	Goodwill RMB'000	Patents RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000	Goodwill RMB'000	Patents RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000
At 1 January costs	55,139	21,644	74,768	371,812	523,363	55,139	21,644	60,868	72,744	210,395
Accumulated amortization	-	(13,469)	(26,756)	(14,549)	(54,774)	-	(8,621)	(16,649)	-	(25,270)
Net book amount	55,139	8,175	48,012	357,263	468,589	55,139	13,023	44,219	72,744	185,125
Movement during the year										
Opening net book amount	55,139	8,175	48,012	357,263	468,589	55,139	13,023	44,219	72,744	185,125
Additions (Note 26(a))	-	-	2,749	142,379	145,128	-	-	13,900	299,068	312,968
Impairment (Note 7)	(55,139)	(3,535)	(35,122)	(409,780)	(503,576)	-	-	-	-	-
Amortization charge (Note 26)	-	(4,640)	(15,639)	(89,862)	(110,141)	-	(4,848)	(10,107)	(14,549)	(29,504)
Closing net book amount	-	-	-	-	-	55,139	8,175	48,012	357,263	468,589
At 31 December costs	55,139	21,644	77,517	514,191	668,491	55,139	21,644	74,768	371,812	523,363
Accumulated impairment	(55,139)	(3,535)	(35,122)	(409,780)	(503,576)	-	-	-	-	-
Accumulated amortization	-	(18,109)	(42,395)	(104,411)	(164,915)	-	(13,469)	(26,756)	(14,549)	(54,774)
Closing net book amount	-	-	-	-	-	55,139	8,175	48,012	357,263	468,589

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

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

9 Investments in subsidiaries – Company

	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**33**	33

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

10 Financial instruments by category

The following is an analysis of financial instruments by category:

Group

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Assets as per consolidated statement of financial position			
As at 31 December 2013			
Trade and bills receivables (Note 14 (a))	**–**	**1,318,923**	**1,318,923**
Other receivables and deposits		**1,857,890**	**1,857,890**
Available-for-sale financial asset (Note 11)	**41,547**	**–**	**41,547**
Pledged deposits (Note 15)	**–**	**1,131,225**	**1,131,225**
Cash and cash equivalents (Note 16)	**–**	**117,020**	**117,020**
Total	**41,547**	**4,425,058**	**4,466,605**
As at 31 December 2012			
Trade and bills receivables (Note 14 (a))	–	3,811,363	3,811,363
Other receivables and deposits	–	3,448,346	3,448,346
Available-for-sale financial asset (Note 11)	40,000	–	40,000
Pledged deposits (Note 15)	–	3,937,081	3,937,081
Cash and cash equivalents (Note 16)	–	2,143,788	2,143,788
Total	40,000	13,340,578	13,380,578

10 Financial instruments by category (Continued)

The following is an analysis of financial instruments by category:

Group

	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost	Total
	RMB'000	RMB'000	RMB'000
Liabilities as per consolidated statement of financial position			
As at 31 December 2013			
Trade and other payables	**–**	**5,764,880**	**5,764,880**
Borrowings (Note 21)	**–**	**21,594,265**	**21,594,265**
Derivative financial instruments (Note 23)	**482,997**	**–**	**482,997**
Finance lease liabilities (Note 21)	**–**	**813,000**	**813,000**
Total	**482,997**	**28,172,145**	**28,655,142**
As at 31 December 2012			
Trade and other payables	–	9,003,911	9,003,911
Borrowings (Note 21)	–	24,071,577	24,071,577
Derivative financial instruments (Note 23)	5,094	–	5,094
Finance lease liabilities (Note 21)	–	1,052,956	1,052,956
Total	5,094	34,128,444	34,133,538

10 Financial instruments by category (Continued)

Company

	Loans and receivables RMB'000
Assets as per statement of financial position	
As at 31 December 2013	
Other receivables (Note 14(b))	**4,570**
Amounts due from subsidiaries (Note 14(b))	**9,829,316**
Cash and cash equivalents (Note 16)	**4,134**
Total	**9,838,020**
As at 31 December 2012	
Other receivables (Note 14(b))	110
Amounts due from subsidiaries (Note 14(b))	9,553,692
Cash and cash equivalents (Note 16)	190,693
Total	9,744,495

10 Financial instruments by category (Continued)

Company

	Liabilities at fair value through profit or loss RMB'000	Other financial liabilities at amortized cost RMB'000	Total RMB'000
Liabilities as per statement of financial position			
As at 31 December 2013			
Amounts due to subsidiaries (Note 20)	**–**	**5,995**	**5,995**
Amounts due to a related party (Note 20)	**–**	**27,903**	**27,903**
Other payables (Note 20)	**–**	**580,091**	**580,091**
Borrowings (Note 21)	**–**	**2,116,955**	**2,116,955**
Derivative financial instruments (Note 23)	**482,997**	**–**	**482,997**
Total	**482,997**	**2,730,944**	**3,213,941**
As at 31 December 2012			
Amounts due to subsidiaries (Note 20)	–	5,991	5,991
Other payables (Note 20)	–	5,076	5,076
Borrowings (Note 21)	–	2,374,246	2,374,246
Derivative financial instruments (Note 23)	5,094	–	5,094
Total	5,094	2,385,313	2,390,407

11 Available-for-sale financial asset

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Unlisted equity investment outside Hong Kong at fair value	**41,547**	40,000	**–**	–

The fair value of unlisted securities amounted to RMB41,547,000 (2012: RMB40,000,000) is determined based on the valuation prepared by management using inputs that are not observable in active market.

Bank borrowings are secured by the available-for-sale financial asset with an aggregate amount of RMB41,547,000 as at 31 December 2013 (2012: nil).

12 Inventories – Group

	2013 RMB'000	2012 RMB'000
Raw materials	**1,465,512**	1,703,461
Work in progress	**263,469**	156,816
Finished goods	**218,131**	454,447
Provision for inventories	**(369,617)**	(25,746)
	1,577,495	2,288,978

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

	2013 RMB'000	2012 RMB'000
At 1 January	**25,746**	8,532
Written off against during the year	**(16,932)**	(2,576)
Provision made during the year (Note 26)	**360,803**	19,790
At 31 December	**369,617**	25,746

The cost of inventories recognized as expense and included in cost of sales amounted to RMB1,168,788,000 for the year ended 31 December 2013 (2012: RMB4,807,489,000).

13 Construction contracts – Group

	2013 RMB'000	2012 RMB'000
Aggregate contract costs incurred and recognized profits (less recognized losses) to date	**14,967,290**	18,934,011
Less: Progress billings	**(7,881,814)**	(10,965,821)
Net position for ongoing contracts	**7,085,476**	7,968,190
Presented as:		
Amounts due from customers for contract works	**7,407,254**	8,299,806
Amounts due to customers for contract works	**(321,778)**	(331,616)
	7,085,476	7,968,190

Bank borrowings and refund guarantees are secured by certain vessels under construction with aggregate contract costs incurred of RMB9,106,777,000 as at 31 December 2013 (2012: RMB2,243,969,000) (Note 37(a)).

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

(a) Trade and bills receivables

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**3,784,629**	4,187,652	**–**	–
Less: Provision for doubtful receivables	**(2,465,706)**	(382,239)	**–**	–
Bills receivables	**–**	5,950	**–**	–
	1,318,923	3,811,363	**–**	–

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

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Undue	**36,020**	266,369	**–**	–
Past due 1–180 days	**55,071**	359,746	**–**	–
Past due 181– 360 days	**60,431**	1,956,856	**–**	–
Over 361 days	**1,167,401**	1,228,392	**–**	–
	1,318,923	3,811,363	**–**	–

Movements on the provision for doubtful receivables are as follows:

	2013	2012
	RMB'000	RMB'000
At 1 January	**382,239**	45,370
Provision for the year	**2,115,652**	338,304
Reversed during the year	**(32,185)**	(1,435)
At 31 December	**2,465,706**	382,239

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

As at 31 December 2013, trade receivables of RMB2,195,304,000 (2012: RMB168,545,000) and RMB270,402,000 (2012: RMB213,694,000) related to certain customers of the Shipbuilding segment and the Engineering Machinery segment were impaired and provided for respectively.

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

(a) Trade and bills receivables (Continued)

As at 31 December 2013, trade receivables of RMB1,282,903,000 (2012: RMB3,544,994,000) were past due but not impaired. The ageing analysis of these trade receivables by due date is listed above.

As at 31 December 2013, trade receivables amounting to RMB206,107,000 (2012: RMB359,441,000) were secured by guarantees issued by the banks or related companies of certain customers. The maximum exposure to credit risk at the reporting date is the fair value of RMB1,318,923,000 less the secured trade receivables.

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

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

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

	Group 31 December		Company 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**197,707**	623,205	**–**	–
USD	**1,121,216**	3,188,158	**–**	–
	1,318,923	3,811,363	**–**	–

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

(b) Other receivables, prepayments and deposits

	Group 31 December 2013 RMB'000	Group 31 December 2012 RMB'000	Company 31 December 2013 RMB'000	Company 31 December 2012 RMB'000
Receivables from agents [i]	**300,839**	332,154	**–**	–
Other receivables				
– Third parties [ii]	**1,387,855**	2,471,081	**–**	110
– Related parties (Note 39)	**–**	453,857	**–**	–
– Subsidiaries	**–**	–	**9,829,316**	9,553,692
VAT receivable	**770,562**	1,097,631	**–**	–
Deposits [iii]	**169,196**	191,254	**–**	–
Prepayments for property, plant and equipment and land use rights				
– Third parties	**318,188**	3,125,784	**–**	–
– Related parties (Note 39)	**–**	1,054	**–**	–
Prepayments for raw materials and production costs				
– Third parties [iv]	**748,442**	1,662,251	**–**	–
– Related parties (Note 39)	**–**	170,846	**–**	–
Prepayments – others				
– Third parties	**62,119**	13,103	**4,570**	–
Less: allowance for impairment of other receivables and prepayments (Note 26)	**(892,381)**	–	**–**	–
	2,864,820	9,519,015	**9,833,886**	9,553,802
Less: non-current deposits and prepayments	**(231,889)**	(2,021,883)	**–**	–
Current portion	**2,632,931**	7,497,132	**9,833,886**	9,553,802

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

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

(i) The Group entered into a number of agency contracts with several agency companies. These agency companies assisted the Group to secure the shipbuilding contracts and procure the relevant refund guarantees. Pursuant to the agency contracts, the customers agreed to pay the contract price to the agents for which the agents are responsible for payment to the raw materials suppliers according to the progress of the shipbuilding works. As such, the amounts received by the agents from the customers are classified as receivables from agents and the relevant payments made to suppliers by the agents are classified as payables to agents (Note 20). As at 31 December 2013, receivables from agents amounted to RMB118,958,000 were impaired, as a result of the managements assessment on the recoverability of these receivables.

(ii) The other receivables as at 31 December 2013 included RMB630,000,000 (2012: RMB630,000,000) paid in respect of the proposed acquisition of Anhui Quanchai Group Corp (安徽全柴集團有限公司) (Note 37). Total deposits of RMB1,153,890,000 was paid in 2011 which comprised RMB630,000,000 deposit paid to Anhui Province Property Rights Exchange Co., Ltd (安徽省產權交易中心有限責任公司) ("**Anhui Property Exchange**") and RMB523,890,000 deposit to China Securities Depository and Clearing Corp. Ltd, Shanghai Branch (中國證券登記結算有限責任公司上海分公司) ("**China Securities Clearing**"). Management has decided not to proceed with the acquisition in August 2012 and applied for the refund of the deposits. As at 31 December 2012, RMB523,890,000, being the deposit previously paid to the China Securities Clearing, together with interest, had been received by the Group. For the remaining balance, together with the relevant interest, a litigation proceeding was initiated by the Company's subsidiary, Jiangsu Rongsheng Heavy Industries Co., Ltd, against Anhui Property Exchange for the return. The litigation proceeding has been accepted by Anhui Province Higher People's Court (安徽省高級人民法院) on 11 July 2013. On 19 November 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. received a counterclaim by Quanjiao People's Government (Note 37). After obtaining the advice from an external legal counsel, RMB20,000,000 (2012: Nil) was provided for the counterclaim.

In 2011, the Group placed a deposit of RMB162,170,000 pursuant to a non-binding memorandum of intent to acquire certain land use rights in Beijing. Management has decided not to proceed with the transaction in late 2011 and this deposit became refundable according to the non-binding memorandum. Management has agreed to a repayment schedule with the counterparty to recover this deposit and considered its recoverability by evaluating the Group's ability to enforce the corporate guarantees in connection with this outstanding receivable. During the year, RMB60,424,000 has been received. On the basis of its review of the available evidence, management is of the view that its recoverability is in doubt. The remaining deposit amounted to RMB98,018,000 is therefore fully provided for (2012: nil).

(iii) Finance lease and letters of credit are secured by certain refundable deposits with an aggregate carrying value of RMB13,430,000 as at 31 December 2013 (2012: RMB154,880,000). As at 31 December 2013, the Group has a non-current time deposit of RMB13,450,000 (2012: RMB13,450,000) at an interest rate of 3.6% per annum and with a maturity date on 27 August 2015.

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

(iv) According to the contracts entered with certain suppliers, the Group placed deposits and prepayments to secure the supply of raw materials. As at 31 December 2013, the Group prepaid RMB349,283,000 to the five largest suppliers (2012: RMB571,025,000).

(v) Except as described above, the provision for impairment of other receivables and prepayments represented provisions for certain prepayments for raw materials and property, plant and equipment and other receivables, on which management has performed assessment of their recoverability. Based on management's assessment, there may be risks that the counterparties may not have the financial ability to fulfil their contractual obligations. As a result, a total provision of RMB655,405,000 was made for these prepayments and other receivables are provided.

As at 31 December 2013, no other receivables were past due (2012: 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.

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

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

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

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**2,528,878**	8,708,820	**–**	–
HKD	**6,373**	179,190	**9,833,886**	9,553,802
USD	**287,891**	531,505	**–**	–
Euro	**4,004**	98,193	**–**	–
Japanese Yen	**37,674**	1,307	**–**	–
	2,864,820	9,519,015	**9,833,886**	9,553,802

15 Pledged deposits – Group

Pledged deposits are denominated in the following currencies:

	2013	2012
	RMB'000	RMB'000
RMB	**887,245**	3,645,363
USD	**243,980**	291,718
	1,131,225	3,937,081

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

As at 31 December 2013, the weighted average effective interest rate is 1.35% per annum (2012: 1.92% per annum).

16 Cash and cash equivalents

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**117,020**	1,786,122	**4,134**	180,420
Short-term bank deposits	**–**	357,666	**–**	10,273
	117,020	2,143,788	**4,134**	190,693

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

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
Effective interest rate	**–**	3.01%	**–**	3.00%
Maturity (months)	**–**	2.9	**–**	0.9

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**95,206**	1,508,896	**290**	12,434
USD	**12,347**	627,324	**523**	177,379
HKD	**7,060**	4,413	**3,321**	880
SGD	**2,288**	2,998	**–**	–
Others	**119**	157	**–**	–
	117,020	2,143,788	**4,134**	190,693

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 2013, the Group has cash at bank and short-term bank deposits amounting to approximately RMB96,419,000 (2012: RMB1,828,944,000) which are denominated in Renminbi and USD and held in the PRC. These cash and bank balances are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

17 Share capital and share premium

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share premium	Total
		HKD	RMB'000	RMB'000	RMB'000
Authorised					
Ordinary shares of HKD0.1 each at 31 December 2012 and 2013	38,000,000,000	3,800,000,000	–	–	–
Issued:					
Ordinary shares of HKD0.1 each at 1 January 2012	7,000,000,000	700,000,000	599,526	7,644,812	8,244,338
Dividend paid(Note 35)	–	–	–	(154,000)	(154,000)
Ordinary shares of HKD0.1 each at 31 December 2012 and 2013	7,000,000,000	700,000,000	599,526	7,490,812	8,090,338

18 Share-based payment – Group and Company

Pre-IPO Share Option Scheme

Pursuant to the written resolutions of the Shareholders dated 24 October 2010, selected employees were granted a total share options of 62,500,000 shares (the "**Pre-IPO Share Options**") under the Pre-IPO Share Option Scheme (the "**Pre-IPO Share Option Scheme**"). The exercise price per share under the Pre-IPO Share Options shall be equal to a 50% discount to the Offer Price (i.e. HKD4 per share). Each of the Pre-IPO Share Options has a 10-year exercisable period, from 19 November 2010 ("**Old Grant Date**"), and ending on the expiration of the tenth anniversary of the date of acceptance of the grant of options, on 26 October 2020. As at 31 December 2013, 34,500,000 share options were exercisable (2012: 36,600,000).

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

The fair value of the share options granted on 24 October 2010, determined using the binominal model (the "**Model**"), ranged from HKD4.38 to HKD5.17 per option. The significant inputs into the Model were the share price of HKD8 at the Old Grant Date, exercise price shown above, expected dividend yield rate of 1.32%, risk-free rate of 2.09%, an expected option life of ten years and expected volatility of 55.0%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

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 HKD per share	Number of share options (thousands)
At 1 January 2012	4	61,500
Granted	–	–
Exercised	–	–
Lapsed	4	(500)
At 31 December 2012	4	61,000
At 1 January 2013	**4**	**61,000**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**4**	**(17,875)**
At 31 December 2013	**4**	**43,125**

Share Option Scheme

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

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

The fair value of the share options granted on 30 April 2012, determined using the binominal model (the "**Model**"), ranged from HKD0.63 to HKD0.64 per option. The significant inputs into the Model were the share price of HKD1.94 at the New Grant Date, the exercise price shown above, expected dividend yield rate of 4.66%, risk-free rate of 1.14%, an expected option life of ten years and expected volatility of 54.5%. The volatility measured is based on the average annualised standard deviations of the continuously compounded rates of return on the share prices of comparable companies with similar business operations.

18 Share-based payment – Group and Company (Continued)

Share Option Scheme (Continued)

	Average exercise price in HKD per share	Number of share options (thousands)
At 1 January 2012		
Granted	1.94	348,580
Exercised	–	–
Lapsed	–	–
At 31 December 2012	1.94	348,580
At 1 January 2013	**1.94**	**348,580**
Granted	**–**	**–**
Exercised	**–**	**–**
Lapsed	**1.94**	**(84,780)**
At 31 December 2013	**1.94**	**263,800**

The total expense recognized in the consolidated statement of comprehensive income for share options granted to directors and employees was approximately RMB32,735,000 during the year ended 31 December 2013 (2012: RMB112,384,000). The amount of RMB4,599,000 (2012: RMB48,354,000) is recognized for the Pre-IPO Share Scheme and RMB28,136,000 (2012: RMB64,030,000) is recognized for the Share Option Scheme. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

19 Other reserves

(a) Group

	Note	Capital reserve RMB'000	Available-for-sale financial asset reserve RMB'000	Share based payment reserve RMB'000	Statutory reserve RMB'000	Total RMB'000
At 1 January 2012		2,462,930	–	406,428	471,159	3,340,517
Share-based payment reserve (Note 18)		–	–	112,384	–	112,384
Transfer to statutory reserve	(i)	–	–	–	27,695	27,695
At 31 December 2012		2,462,930	–	518,812	498,854	3,480,596
At 1 January 2013		**2,462,930**	**–**	**518,812**	**498,854**	**3,480,596**
Available-for-sale financial asset reserve		**–**	**1,487**	**–**	**–**	**1,487**
Share-based payment reserve (Note 18)		**–**	**–**	**32,735**	**–**	**32,735**
At 31 December 2013		**2,462,930**	**1,487**	**551,547**	**498,854**	**3,514,818**

(i) In accordance with the relevant regulations and their article of association, the Company's subsidiaries incorporated in PRC are required to allocate at least 10% of their after-tax profit according to PRC accounting standard and regulations to general statutory reserve until such reserve has reached 50% of registered capital. This reserve can only be used for specific purposes and it is not distributable or transferable to the loans, advances, cash dividends. No amount has been appropriated to the general statutory reserve for the year ended 31 December 2013 (2012: RMB27,695,000).

(b) Company

	Capital reserve RMB'000	Share-based payment reserve RMB'000	Total RMB'000
At 1 January 2012	33	169,819	169,852
Share-based payment reserve	–	112,384	112,384
At 31 December 2012	33	282,203	282,236
Share-based payment reserve	–	32,735	32,735
At 31 December 2013	33	314,938	314,971

20 Trade and other payables

	Group 31 December 2013 RMB'000	Group 31 December 2012 RMB'000	Company 31 December 2013 RMB'000	Company 31 December 2012 RMB'000
Trade payables	**1,734,475**	2,815,079	**–**	–
Bills payables				
– Third parties	**574,610**	3,686,309	**–**	–
– Related parties (Note 39)	**52,190**	2,950	**–**	–
Other payables for purchase of property, plant and equipment				
– Third parties	**482,360**	370,889	**–**	–
– Related parties (Note 39)	**175,659**	904,420	**–**	–
Other payables				
– Third parties	**1,335,149**	234,686	**566,086**	–
– Related parties (Note 39)	**271,840**	102	**27,903**	–
– Subsidiaries	**–**	–	**5,995**	5,991
Receipt in advance	**147,742**	158,822	**–**	–
Accrued expenses				
– Payroll and welfare	**116,118**	90,810	**–**	–
– Design fees	**68,407**	88,560	**–**	–
– Utilities	**30,475**	7,369	**–**	–
– Outsourcing and processing fee	**558,573**	466,005	**–**	–
– Others	**365,024**	336,732	**14,005**	5,076
Provision for litigation cases	**149,402**	–	**–**	–
Provision for delayed penalties	**407,883**	–	**–**	–
VAT payable	**1,344**	5,841	**–**	–
Other tax-related payables	**15,670**	109,900	**–**	–
	6,486,921	9,278,474	**613,989**	11,067
Less: non-current for other payables	**(243,838)**	–		–
Current trade and other payables	**6,243,083**	9,278,474	**613,989**	11,067

Ageing analysis of trade and bills payables is as follows:

	Group 31 December 2013 RMB'000	Group 31 December 2012 RMB'000	Company 31 December 2013 RMB'000	Company 31 December 2012 RMB'000
0 – 30 days	**154,312**	2,007,458	**–**	–
31 – 60 days	**88,836**	1,047,057	**–**	–
61 – 90 days	**39,596**	588,370	**–**	–
Over 90 days	**2,078,531**	2,861,453	**–**	–
	2,361,275	6,504,338	**–**	–

20 Trade and other payables (Continued)

Trade and other payables are denominated in the following currencies:

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**5,614,500**	9,167,792	**–**	–
USD	**227,166**	98,435	**–**	–
HKD	**639,192**	7,103	**613,989**	11,067
Euro	**6,063**	5,083	**–**	–
Others	**–**	61	**–**	–
	6,486,921	9,278,474	**613,989**	11,067

21 Borrowings

	Group		Company	
	31 December		31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Bank borrowings	**5,997,016**	6,806,822	**–**	752,346
The medium-term notes	**1,982,000**	1,982,000	**–**	–
Finance lease liabilities	**714,843**	687,144	**–**	–
	8,693,859	9,475,966	**–**	752,346
Current				
Bank borrowings	**12,841,859**	15,282,755	**1,343,565**	1,621,900
Convertible bonds	**773,390**	–	**773,390**	–
Finance lease liabilities	**98,157**	365,812	**–**	–
	13,713,406	15,648,567	**2,116,955**	1,621,900
Total borrowings	**22,407,265**	25,124,533	**2,116,955**	2,374,246

21 Borrowings (Continued)

The Group's borrowings were repayable as follows:

	Group 31 December		Company 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**13,713,406**	15,648,567	**2,116,955**	1,621,900
Between 1 and 2 years	**5,194,763**	4,118,625	**–**	752,346
Between 2 and 5 years	**2,680,096**	3,699,339	**–**	–
Over 5 years	**819,000**	1,658,002	**–**	–
	22,407,265	25,124,533	**2,116,955**	2,374,246

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

	Group 31 December		Company 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease liabilities	**6.76%**	6.79%	**–**	–
Borrowings	**7.10%**	6.12%	**17.72%**	3.30%

Borrowings and finance lease liabilities amounting to RMB19,024,407,000 as at 31 December 2013 (2012: RMB22,492,534,000) are secured by the land use rights, buildings, plant and machinery, construction contracts, pledged deposits, available-for-sale financial asset, guarantee of the Group, guarantee from a director of the Group and a substantial shareholder of the Company.

As at 31 December 2013, a borrowing with current portion and non-current portion amounted to RMB80,000,000 and RMB1,004,000,000 respectively required Jiangsu Rongsheng Heavy Industries Co., Ltd., a subsidiary of the Group, to comply with certain restrictive financial covenants, including (i) debt to asset ratio not exceeding 0.75; (ii) contingent liabilities not exceeding 100%; and (iii) no continuous operating cash outflow for a period of one year. At 31 December 2013, this subsidiary failed to comply with covenants (i) and (ii) mentioned above.

Two (2012: three) borrowings totaling RMB1,343,000,000 of the Group required the Group to maintain consolidated tangible net worth at any time of not less than RMB13,000,000,000 and the ratio of consolidated net borrowings to the consolidated tangible net worth shall not exceed 1.8 to 1.0. In March 2014, the Group obtained a waiver from one of the lenders from complying with the relevant covenant in relation to the outstanding current bank loan of RMB607,000,000. Another loan amounted to RMB736,000,000 was repaid in full subsequent to year end. Among the two (2012: three) borrowings, one (2012: two) borrowing amounting to RMB609,690,000 was secured by 25% (2012: 50%) ownership of shares of Wellbo Holding Limited, one of the subsidiaries of the Group which holds 100% of the Jiangsu Rongsheng Heavy Industries Co., Ltd. (Note 40).

21 Borrowings (Continued)

Included in the Group's borrowings were certain current bank loans of approximately RMB127,000,000, which were overdue and have not been renewed or repaid subsequent to year end.

As at 31 December 2013, the borrowings from a bank amounting to RMB1,991,253,000 required Jiangsu Rongsheng Heavy Industries Co., Ltd., a subsidiary of the Group to maintain the debt to asset ratio not exceeding 0.9. As at 31 December 2013, this subsidiary comply with this covenant.

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

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

	Group 31 December		Company 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**20,025,265**	22,036,574	**–**	–
USD	**1,608,610**	3,059,834	**1,343,565**	2,374,246
Euro	**–**	915	**–**	–
JPY	**–**	27,138	**–**	–
HKD	**773,390**	–	**773,390**	–
Others	**–**	72	**–**	–
	22,407,265	25,124,533	**2,116,955**	2,374,246

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

	Group 31 December		Company 31 December	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
6 months or less	**15,667,664**	19,350,896	**1,343,565**	2,374,246
6– 12 months	**3,637,211**	3,063,768	**–**	–
1– 5 years	**3,102,390**	2,709,869	**773,390**	–
	22,407,265	25,124,533	**2,116,955**	2,374,246

The Group has the following undrawn borrowing facilities:

	2013	2012
	RMB'000	RMB'000
Expiring within one year	**2,382,962**	1,706,518
Expiring beyond one year	**744,000**	1,900,848
	3,126,962	3,607,366

21 Borrowings (Continued)

Finance lease liabilities – Group

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

	2013 RMB'000	2012 RMB'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**153,060**	426,568
Later than 1 year and no later than 5 years	**763,828**	725,558
	916,888	1,152,126
Future finance charges on finance lease	**(103,888)**	(99,170)
Present value of finance lease liabilities	**813,000**	1,052,956
The present value of finance lease liabilities are as follows:		
No later than 1 year	**98,157**	365,812
Later than 1 year and no later than 5 years	**714,843**	687,144
	813,000	1,052,956

Convertible bonds

On 7 August 2013, the Company issued HKD1,400,000,000 7% guaranteed convertible bonds. The bonds mature 30 months from the date of issuance (on 7 February 2016) and can be converted into shares at the holder's option at any time on or after the twelfth months from the closing date and up to the third business days prior to the maturity date at an initial conversion price of HKD1 per share. When the share price of the Company is equal or below HKD0.6, the holder has the right to require the Group to redeem whole or part of the bond at 103% of the principal amount at any time up to the third business days prior to the maturity date.

All or any part of the principal amount outstanding can be redeemed at 105% of the principal amount of the bond at the Group's option at any time on or after the second anniversary from the closing date and up to the third business days prior to the maturity date.

Conversion price will be subject to adjustment for consolidation or subdivision, capitalization of profits or reserves, capital distribution, right issues and other dilutive events which may have adverse effects on the rights of the holder.

21 Borrowings (Continued)

Convertible bonds (Continued)

The fair value of the convertible bonds was determined by an independent qualified valuer based on the COX, Ross and Rubinstein Binomial Model. The fair value of the liability component on initial recognition was valued as the proceeds of the convertible redeemable bond (net of transaction cost) minus the fair value of the embedded derivative. The fair value of the embedded derivative was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the embedded derivative.

The conversion feature fails the fixed-for-fixed requirement for equity classification. The conversion option, together with all other options, are therefore regarded as a single embedded derivative with changes in fair value through profit or loss in accordance with IAS 39, "Financial instruments: recognition and measurement". For details, please refer to Note 23.

The convertible bonds are guaranteed by Mr. Zhang, the Company's single largest shareholder.

The convertible bonds recognized in the consolidated statement of financial position is calculated as follows:

	RMB'000
Face value of the convertible bond on issue	1,097,257
Less: Fair value of the embedded derivative	(389,941)
Transaction cost	(13,046)
Fair value of the liability component at initial recognition	694,270
Interest expenses	80,294
Exchange losses	(1,174)
Carrying amount as at 31 December	773,390

Interest expenses on the liability component of the convertible bonds are calculated using the effective interest method, applying the effective interest rate of 28% per annum to the liability component.

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

As at 31 December 2013, there was no conversion or redemption of the convertible bonds.

22 Deferred income tax – Group

The movement in deferred income tax assets and liabilities during the year ended 31 December 2013, without taking into consideration the offsetting of balances with the same tax jurisdiction, is as follows:

	Fair value gains RMB'000	**Total** RMB'000
Deferred tax liabilities		
At 1 January 2012	5,546	5,546
Credit to profit or loss	(1,355)	(1,355)
At 31 December 2012	4,191	4,191
At 1 January 2013	4,191	4,191
Credit to profit or loss	(4,191)	(4,191)
At 31 December 2013	–	–

	Government grant RMB'000	**Provisions** RMB'000	**Total** RMB'000
Deferred tax assets			
At 1 January 2012	10,169	63,680	73,849
(Charged)/Credited to consolidated profit or loss	(10,169)	104,372	94,203
At 31 December 2012	–	168,052	168,052
At 1 January 2013	–	168,052	168,052
(Charged)/Credited to consolidated profit or loss	–	(168,052)	(168,052)
At 31 December 2013	–	–	–

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

23 Derivative financial instruments

	31 December 2013		31 December 2012	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Interest rate swap – Group and Company	**–**	**1,538**	–	5,094
Embedded derivatives in convertible bond – Group and Company	**–**	**481,459**	1	1

There was no outstanding forward foreign exchange contracts as at 31 December 2013 (2012: Nil).

The notional principal amount of the outstanding interest rate swap as at 31 December 2013 was USD110,000,000 (equivalent to approximately RMB670,659,000) (2012: USD110,000,000 (equivalent to approximately RMB693,099,000)).

The fair value of the embedded derivatives in convertible bond as at 31 December 2013 is determined using the Cox, Ross and Rubinstein Binomial Model (the "**Model**"). The significant inputs into the Model were the stock price of the underlying shares of HKD1.21, the exercise price of HKD1,420,000,000, the expect option life of 2.5 years, the risk-free interest rate of 0.3478%, the expected dividend yield assuming 0% and the expected volatility of 43.9%. The volatility measured is based on the daily share price volatility of the Company for an observation period calculated by the difference between the valuation date and maturity date and adjusted by the difference of Hang Seng Index historical and implied volatility as of the valuation dates.

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

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

	2013 RMB'000	2012 RMB'000
At 1 January	**146,655**	189,867
Provision for the year		
– Charged to profit or loss	**11,503**	40,875
– Utilization during the year	**(2,014)**	(2,733)
– Reversal during the year upon expiring of the warranty period	**(49,413)**	(81,354)
At 31 December	**106,731**	146,655

25 Accumulated losses – Company

	RMB'000
At 1 January 2012	748,232
Loss for the year	270,221
At 31 December 2012	1,018,453
Loss for the year	762,744
At 31 December 2013	1,781,197

26 Expenses by nature

	2013 RMB'000	2012 RMB'000
Raw materials and consumable used	**1,052,221**	5,166,753
Amortization of land use rights (Note 6)	**64,005**	16,083
Depreciation of property, plant and equipment (Note 7)	**469,467**	439,319
Amortization of intangible assets (Note 8)	**110,141**	29,504
Employee benefits expenses (Note 27)	**541,598**	655,495
Operating lease payments	**126,420**	77,497
Auditors' remuneration (Note c)	**11,268**	13,049
Outsourcing and processing costs	**626,534**	797,353
Commission expense	**55,138**	72,926
Design fees	**3,875**	68,234
Agency fees	**15**	27,815
Consultancy and professional fees	**95,650**	60,859
Bank charges (include refund guarantee charges)	**61,729**	75,445
Reversal of warranty (Note 24)	**(37,910)**	(40,479)
Donations and sponsoring expenses	**–**	26,600
Inspection fees	**18,359**	49,252
Insurance premiums	**16,090**	21,553
Storage and handling charges	**36,699**	55,109
Advertising, promotion and marketing expenses	**101,556**	82,912
Royalty expenses	**22,108**	39,485
Trade receivables written off	**263,250**	–
Provision for delayed penalties	**407,883**	–
Provision for inventories (Note 12)	**360,803**	19,790
Impairment provisions of		
– trade receivables, net	**2,083,467**	336,869
– other receivables and prepayments (Note 14(b))	**892,381**	–
– amounts due from customers for contract woks	**275,590**	–
– property, plant and equipment (Note 7)	**944,139**	–
– intangible assets (Note 8)	**503,576**	–
Miscellaneous expenses	**231,385**	364,388
Total cost of sales, selling and marketing expenses, general and administrative expenses, research and development expenses (Notes a and b)	**9,337,437**	8,455,811

26 Expenses by nature (Continued)

Notes:

(a) The research and development expenses incurred during the year ended 31 December 2013 were RMB204,232,000 (2012: RMB445,620,000), among which RMB142,379,000 (2012: RMB299,068,000) were capitalized in intangible assets as disclosed in Note 8.

(b) During the year ended 31 December 2012, the Group received subsidies of RMB1,271,758,000 from various governmental authorities to compensate costs the Group incurred for research and development of shipbuilding processes, designs investments in the heavy industries and the related people development. An amount of RMB1,271,758,000 was deducted against cost of sales of RMB1,022,132,000, general and administrative expenses of RMB159,114,000, other (losses)/gains – net of RMB1,749,000, finance costs of RMB76,572,000, and selling and marketing expenses of RMB12,191,000. During the year ended 31 December 2013, no government subsidy was eligible to deduct against the expenses incurred by the Group.

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

27 Employee benefit expenses (including directors' emoluments)

	2013 RMB'000	2012 RMB'000
Salaries and wages	474,658	570,594
Social security costs	36,281	80,351
Contribution to pension plans	5,118	14,539
Other benefits	18,613	67,181
Share-based payment (Note 18)	32,735	112,384
	567,405	845,049
Less: Capitalized in intangible assets	(1,421)	(179,805)
Capitalized in property, plant and equipment	(24,386)	(9,749)
Charged to profit or loss	541,598	655,495

28 Other income

	2013 RMB'000	2012 RMB'000
Government grants [Note a]	26,464	88,036
Gain on scrap sales	–	312,279
Compensation income [Note b]	–	239,689
Others	14,149	28,874
	40,613	668,878

28 Other income (Continued)

Notes:

(a) Government grants represented cash received from Jiangsu and Anhui Government authorities during the years ended 31 December 2012 and 2013.

(b) In 2012, the Group recognized compensation income of RMB239,689,000 from certain suppliers in relation to advanced payments. No compensation income was recognized during the year ended 31 December 2013.

29 Other (losses)/gains – net

	2013	2012
	RMB'000	RMB'000
Fair value change of derivative instruments - forward contracts	**–**	(9,729)
Fair value change on derivative instruments - interest rate swap	**3,557**	(2,079)
Fair value change on derivative instruments - embedded derivative in convertible bond	**(91,518)**	–
Net foreign exchange (losses)/ gains (Note 32)	**(189,323)**	68,050
Total	**(277,284)**	56,242

30 Finance income and costs

	2013	2012
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**72,398**	183,599
Net foreign exchange gains on financing activities (Note 32)	**80,959**	7,689
	153,357	191,288
Finance costs:		
Interest expense		
– Borrowings and finance lease liabilities	**(1,696,270)**	(1,973,318)
Less: borrowing costs capitalized	**714,878**	984,152
	(981,392)	(989,166)
Net finance costs	**(828,035)**	(797,878)

The capitalization rate used to determine the amount of borrowing costs incurred eligible for capitalization for the year ended 31 December 2013 was 4.37% (2012: 5.15%).

31 Income tax (credit)/expense

	2013 RMB'000	2012 RMB'000
Current income tax:		
– PRC Enterprise Income Tax ("**EIT**")	–	85,371
– Over-provision in prior year	(271,782)	–
Deferred income tax	166,640	(95,558)
Total income tax credit	(105,142)	(10,187)

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

A PRC subsidiary is eligible for EIT exemption for two years commencing from the first taxable year followed by a 50% reduction in the EIT rate for the next three years. The first taxable year of this subsidiary eligible for EIT exemption was 2008. As at 31 December 2013, the EIT exemption and the 50% reduction in the EIT rate of the PRC subsidiary have expired and all the PRC subsidiaries are subject to EIT rate of 25%.

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:

	2013 RMB'000	2012 RMB'000
Loss before income tax	(9,058,577)	(572,222)
Tax calculated at domestic tax rates applicable to profit of respective companies	(2,007,541)	(94,645)
Income not subject to tax	(28,828)	(1,642)
Expenses not deductible for tax purposes	107,331	133,179
Effect of tax exemption and tax holiday	–	(69,093)
Items which no deferred income tax asset was recognized	2,095,678	37,778
Over-provision in prior years	(271,782)	–
Utilization of previously unrecognized tax losses	–	(15,764)
Tax credit	(105,142)	(10,187)

31 Income tax (credit)/expense (Continued)

No Hong Kong profits tax has been provided for the years ended 31 December 2013 and 2012, respectively, as the Group had no assessable profit in Hong Kong.

The weighted average applicable tax rate was 22% for the year ended 31 December 2013 (2012: 17%).

As at 31 December 2013, the Group did not recognize deferred income tax assets of RMB1,447,170,000 (2012: nil) in respect of certain provisions and accruals amounting to RMB6,227,654,000 (2012: nil) as future profit before income tax is not probable.

As at 31 December 2013, the Group did not recognize deferred income tax assets of RMB968,327,000 (2012: RMB48,530,000) in respect of losses amounting to RMB3,873,342,000 (2012: RMB198,964,000) that can be carried forward and utilized against future taxable income.

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

	2013 **RMB'000**	2012 RMB'000
Within 1 year	**5,688**	–
Within 2 years	**15,911**	5,688
Within 3 years	**33,466**	15,911
Within 4 years	**143,899**	33,466
Within 5 years	**3,674,378**	143,899
	3,873,342	198,964

Provided that the Hong Kong holding entities could meet the criteria set out by the Chinese tax authorities for enjoying treaty benefit on dividend to be received from the PRC subsidiaries, the related withholding income tax on dividend income should be calculated in accordance with the Sino-HK tax arrangement. No deferred income tax liabilities as at 31 December 2013 (2012: RMB171,950,000) have been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. No unremitted earnings as at 31 December 2013 (2012: RMB3,439,002,000).

32 Net foreign exchange (losses)/gains

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

	2013 RMB'000	2012 RMB'000
Net foreign exchange (losses)/gains taken to:		
Other (losses)/gains – net (Note 29)	(189,323)	68,050
Finance income – net (Note 30)	80,959	7,689
	(108,364)	75,739

33 Directors' and senior management's emoluments

(a) Directors' and senior management's emoluments

	2013 RMB'000	2012 RMB'000
Directors		
– Fees	1,534	1,912
– Basic salaries, housing allowances, other allowances and benefit-in-kind	34,921	40,330
– Contribution to pension plans	344	341
– Share-based payment	14,615	44,124
	51,414	86,707
Senior management		
– Basic salaries, housing allowances, other allowances and benefit-in-kind	20,150	9,561
– Contribution to pension plans	501	172
– Share-based payment	4,534	10,004
	25,185	19,737

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

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

For the year ended 31 December 2013:

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

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

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

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

For the year ended 31 December 2012:

Name	Fees RMB'000	Basic salaries, housing allowances, other allowance and benefit-in-kind RMB'000	Contribution to pension plans RMB'000	Share-based payment RMB'000	Total RMB'000
Non-executive Director					
Zhang Zhi Rong [vii]	882	–	–	–	882
Executive Directors					
Chen Qiang [viii]	–	12,000	66	12,858	24,924
Zhang De Huang [ix]	–	2,167	–	–	2,167
Wu Zhen Guo	–	3,600	–	5,154	8,754
Luan Xiao Ming	–	3,600	66	5,956	9,622
Deng Hui	–	3,600	66	4,671	8,337
Hong Liang	–	3,600	66	5,956	9,622
Sean S J Wang	–	7,813	11	3,220	11,044
Wang Tao	–	3,600	66	4,557	8,223
Wei A Ning [x]	–	350	–	1,752	2,102
Independent Non-executive Directors					
Chen Gang	342	–	–	–	342
Tsang Hing Lun	342	–	–	–	342
Zhang Xu Sheng	342	–	–	–	342
Xia Da Wei [xi]	4	–	–	–	4
	1,912	40,330	341	44,124	86,707

(vii) Resigned as a non-executive director of the Company and Chairman of the Board from 26 November 2012
(viii) Appointed as Chairman of the Board on 26 November 2012 who is also an executive director and the Chief Executive Officer of the Company
(ix) Resigned as an executive director of the Company and Vice Chairman of the Board from 26 November 2012
(x) Appointed as an executive director of the Company on 26 November 2012
(xi) Appointed as an independent non-executive director of the Company on 28 December 2012

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 2013 are four directors and one senior management personnel (2012: all are directors), whose emoluments are reflected in the analysis presented above. The emolument of the senior management personnel is approximately RMB11,426,000 (2012; RMB3,483,000).

(c) During the year ended 31 December 2013, 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 (2012: same).

34 Loss per share

(a) Basic

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

	2013	2012
Loss attributable to equity holders of the Company (RMB'000)	**8,683,688**	572,577
Weighted average number of ordinary shares in issue	**7,000,000,000**	7,000,000,000
Basic loss per share (RMB per share)	**1.24**	0.08

Diluted loss per share is the same as basic loss per share as there were no potential dilutive ordinary shares outstanding during the year (2012: same).

35 Dividends

The Board has resolved not to declare for the payment of final dividend for the year 2013 (2012: nil).

36 Note to the consolidated cash flow statement

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

	2013 RMB'000	2012 RMB'000
Loss before income tax	(9,058,577)	(572,222)
Adjustments for:		
– Amortization of land use rights (Note 6)	64,005	16,083
– Depreciation (Note 7)	469,467	439,319
– Amortization of intangible assets (Note 8)	110,141	29,504
– Share-based compensation (Note 18)	32,735	112,384
– Fair value loss on derivative financial instruments	87,961	11,808
– Trade receivables written off (Note 26)	263,250	–
– Provision for inventories (Note 12)	360,803	19,790
– Provision for delayed penalties	407,883	–
– Impairment provisions of		
trade receivables	2,083,467	336,869
other receivables and prepayment (Note 14(b))	892,381	–
amounts due from customers for contract works	275,590	–
property, plant and equipment (Note 7)	944,139	–
intangible assets (Note 8)	503,576	–
– Reversal of warranty (Note 26)	(37,910)	(40,479)
– Interest income	(72,398)	(183,599)
– Interest expense	1,525,939	1,660,439
– Gain on disposal of property, plant and equipment	(1,818)	–
– Unrealised exchange loss	13,776	(2,309)
Changes in working capital:		
– Inventories	350,680	301,190
– Amounts due from customers for contract works	616,962	(1,100,770)
– Trade and bills receivables, and other receivables, prepayments and deposits	2,846,034	(772,584)
– Amounts due to customers for contract works	(9,838)	(836,703)
– Advanced received from customers for contract works	–	(133,220)
– Trade and other payables	(4,357,619)	935,789
– Long-term deposit	3,913	(88,803)
– Utilization of provision for warranty (Note 24)	(2,014)	(2,733)
Cash (used in)/generated from operations	(1,687,472)	129,753

36 Note to the consolidated cash flow statement (Continued)

(b) Movement of bank borrowings and finance leases

	2013 RMB'000	2012 RMB'000
Bank borrowings and finance leases liabilities at 1 January	**25,124,533**	25,426,682
Proceeds received from bank borrowings	**17,575,760**	17,513,387
Proceeds received from issuance of convertible bonds	**1,097,257**	–
Net proceeds from issuance of medium-term note	**–**	1,982,000
Proceeds received from finance leases	**–**	600,000
Repayments made for bank borrowings	**(20,839,468)**	(19,959,142)
Repayments made for finance leases	**(160,875)**	(438,394)
Less: Reclassified to embedded derivative	**(389,942)**	–
Bank borrowings and finance leases liabilities at 31 December	**22,407,265**	25,124,533

37 Contingencies

	2013 RMB'000	2012 RMB'000
Contingencies:		
Refund guarantees (Note a)	**6,143,433**	9,408,887
Litigation (Note b)	**1,261,158**	261,072
Financial guarantees (Note c)	**165,475**	122,722
	7,570,066	9,792,681

(a) Refund guarantees

Refund guarantees relate to the guarantees provided by the banks to the Group's customers in respect of advances received from customers. In the event of non-performance, the customers may call upon the refund guarantees and the Group would be liable to the banks in respect of the refund guarantees provided. As at 31 December 2013, refund guarantees are secured by land and buildings, pledged deposits, vessels under constructions, corporate guarantees from the Company and certain of its subsidiaries and personal guarantee from a director of the Group.

37 Contingencies (Continued)

(b) Litigation

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

As at 31 December 2013, certain subsidiaries of the Group were in dispute with certain of its suppliers in relation to the procurement of inventory and certain of its employees in relation to the employment contracts. The alleged claims against the Group amounted to RMB769,025,000 (2012: RMB111,951,000). Provision amounted to RMB768,654,000 has been made in respect of the claims as at 31 December 2013 (2012: RMB97,770,000) as management has determined, on the basis of legal advice from the Group's internal and external counsels that it is not probable that these claims would result in an outflow of economic benefits exceeds the provisions made by the Group.

On 11 July 2013, litigation proceedings were initiated by Jiangsu Rongsheng Heavy Industries Co., Ltd. with Anhui Province Higher People's Court (安徽省高級人民法院) ("**Anhui Province Higher People's Court**") against Anhui Province Property Rights Exchange Co., Ltd (安徽省產權交易中心有限責任公司) for the return of the payment of RMB630,000,000 made by Jiangsu Rongsheng Heavy Industries Co., Ltd.to Anhui Province Property Rights Exchange as a security deposit (the "**Deposit**") for the bidding of the equity interest in Auhui Qunchai Group (the "**Transaction**"), together with the relevant interest (the "**Proceedings**"). On 10 September 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. requested that the People's Government of Quanjiao County, Anhui Province (安徽省全椒縣人民政府) ("**Quanjiao People's Government**"), the vendor of in the Transaction, be joined as a co-defendant in the Proceedings. On 19 November 2013, Jiangsu Rongsheng Heavy Industries Co., Ltd. received a notification from Anhui Province Higher People's Court on the initiation of a counter-claim (the "**Counter-claim**") by Quanjiao People's Government seeking an order for (i) the return of the deposit to Quanjiao People's Government, (ii) the payment by Jiangsu Rongsheng Heavy Industries Co., Ltd. of the amount of RMB427,183,000 for alleged breach of contract, interest on delay in payment and compensation for loss to Quanjiao People's Government, and (iii) all the costs of the litigation proceedings be borne by Jiangsu Rongsheng Heavy Industries Co., Ltd. RMB20,000,000 has been provided in respect of this claim as at 31 December 2013 as management has determined, on the basis of legal advice from the Group's external legal counsel, that it is not probable that this claim would result in an outflow of economic benefits exceeding the provision made by the Group.

As at 31 December 2013, the Group was in dispute with one of its customers in relation to a shipbuilding contract. The alleged claim against the Group amounted to approximately USD36,675,000, equivalent to approximately RMB223,604,000 (2012: USD36,675,000, equivalent to approximately RMB230,521,000). No provision has been made in respect of this claim as at 31 December 2013 as management has determined, on the basis of legal advice from the Group's external legal counsel, that it is not probable that this claim would result in an outflow of economic benefits from the Group.

(c) Financial guarantees

The Group has provided guarantees to certain financial institutions in the PRC in respect of borrowings drawn by certain customers of the Engineering Machinery segment. The borrowings were drawn by the customers of the Engineering Machinery segment to finance the purchase of excavators from the Group. Under the financial guarantee contracts, the Group is required to make payments to the financial institutions should the customers default on the borrowings. As at 31 December 2013, the total value of the guaranteed borrowings outstanding was RMB167,409,000 (2012: RMB126,618,000) in which the Group has made a provision of RMB1,934,000 (2012: RMB3,896,000) for borrowings with delinquent payments. Management has determined that no further provision for the remaining contingency of RMB165,475,000 (2012: RMB122,722,000) is required as the relevant customers have no history of default and it is not probable that the Group would have to make payments to the financial institutions for the guarantees.

38 Commitments

(a) Capital commitments

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

	2013 RMB'000	2012 RMB'000
Property, plant and equipment – Contracted but not provided for	936,433	1,967,175
Land use right – Contracted but not provided for	–	177,416
Other capital commitment – Contracted but not provided for (note i)	160,000	160,000

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

On 16 January 2012, the Group entered into an agreement with 6 strategic investors for the Fund, where the Group proposed to invest RMB200,000,000 into the Fund, representing 6.66% of the total capital of the Fund. As at 31 December 2013, the Group has paid the first instalment of RMB40,000,000 to the Fund which is classified as available-for-sale financial assets in the consolidated statement of the financial position (Note 11).

(b) 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:

	2013 RMB'000	2012 RMB'000
No later than 1 year	26,984	155,514
Later than 1 year and no later than 5 years	17,424	76,187
	44,408	231,701

39 Related party transactions

Fine Profit Enterprises Limited (a company incorporated in the British Virgin Islands) ("**Fine Profit**") owned 29.32% of the issued shares of the Company as at 31 December 2013 (2012: 47.75%). Fine Profit was wholly-owned by Mr. Zhang as at 31 December 2013.

39 Related party transactions (Continued)

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

Name	Relationship with the Group
Shanghai Ditong Construction (Group) Co., Ltd. 上海地通建設(集團)有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Jiangsu Xu Ming Investment Group Co., Ltd. 江蘇旭明投資集團有限公司 (Formerly known as Jiangsu Rongsheng Investment Group Co., Ltd. 江蘇熔盛投資集團有限公司)	Entity ultimately controlled by Mr. Zhang
Nantong Shengshi Building Materials Co., Ltd. 南通晟昰建材有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Drawshine Petrochemical Co., Ltd. 南通焯晟石油化工有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Glorious Wangjiarui (Wuxi) Co., Ltd. 恒盛旺佳瑞(無錫)有限公司	Entity ultimately controlled by Mr. Zhang
Nantong Rongsheng Infrastructure Accessories Co., Ltd. 南通熔盛基礎設施配套工程有限公司 (Formerly known as Nantong Rongsheng Shipping Equipment Co., Ltd. 南通船舶電機配套有限公司)	Entity ultimately controlled by Mr. Zhang
Shanghai Zhuo Xin Investment Management Co., Ltd. 上海卓信投資管理有限公司	Entity controlled by a shareholder/close family member of Mr. Zhang
Nangtong Heloifu Shipping Equipment Co., Ltd. 南通和來福船舶配套設備有限公司	Entity ultimately controlled by Mr. Zhang
Jiangsu Rong Tong Marine Mechanical and Electrical Co., Ltd. 江蘇熔通海工機電有限公司	Entity ultimately controlled by Mr. Zhang
Rugao Ru Gang New City Development 如皋市如港新城開發投資有限公司	Entity ultimately controlled by Mr. Zhang
Jiangsu Rongdezhi Education Investment Co., Ltd. 江蘇熔德智教育投資有限公司	Entity ultimately controlled by Mr. Zhang
Giant Chance Limited 弘機有限公司	Entity ultimately controlled by Mr. Zhang

39 Related party transactions (Continued)

During the year ended 31 December 2013, the Group carried out the following transactions with the related parties:

(i) Purchase of construction services

	2013 RMB'000	2012 RMB'000
Continuing transactions:		
Purchase of construction services		
– Entities controlled by Mr. Zhang/a close family member of Mr. Zhang	–	643,132
	–	643,132

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

39 Related party transactions (Continued)

(ii) Year-end balances with related parties

Group

As at 31 December 2013 and 2012, the balances are interest-free, unsecured and approximate their fair values. All these balances are repayable on demand except the non-current portion of other payables-non-trade amounting to RMB243,838,000, which is not repayable until March 2015.

	2013 RMB'000	2012 RMB'000
Prepayments for property, plant and equipment (Note 14): – Entities controlled by Mr. Zhang	–	1,054
Prepayments for raw materials (Note 14): – Entities controlled by Mr. Zhang	–	170,846
Other receivables–non-trade (Note 14): – Entities controlled by Mr. Zhang or a shareholder/ close family member of Mr. Zhang	–	453,857
Bills payable for property, plant and equipment (Note 20): – Entities controlled by Mr. Zhang/close family member of Mr. Zhang	52,190	2,950
Other payables for property, plant and equipment (Note 20): – Entities controlled by Mr. Zhang or a shareholder/ close family members of Mr. Zhang	175,659	904,420
Other payables–non-trade (Note 20): – Entities controlled by Mr. Zhang or a shareholder/ close family members of Mr. Zhang	271,840	102

39 Related party transactions (Continued)

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

Company

As at 31 December 2012 and 2013, the balances are interest free, unsecured, repayable on demand and approximate their fair values.

	2013 RMB'000	2012 RMB'000
Other receivables – non-trade (Note 14):		
– Subsidiaries	9,829,316	9,553,692
Other payables – non-trade (Note 20):		
– Subsidiaries	5,995	5,991
– Entities controlled by Mr Zhang or a shareholder/ close family member of Mr Zhang	27,903	–
	33,898	5,991

(iii) Acquisition of Shares by the chairman of the Board of Directors from Mr. Zhang

On 24 January 2013, Fine Profit Enterprises Limited ("**Fine Profit**") and Boom Will Limited ("**Boom Will**") entered into a share transfer agreement (the "**Share Transfer Agreement**"), pursuant to which Fine Profit agreed to sell to Boom Will, and Boom Will agreed to acquire from Fine Profit, an aggregate of 490,000,000 shares, representing approximately 7.0% of the issued share capital of the Company, at a total consideration of HKD820,260,000 ("**First Share Transfer**"). Prior to the completion of the First Share Transfer, Fine Profit was the controlling shareholder of the Company and wholly-owned by Mr. Zhang. Boom Will is wholly-owned by Mr. Chen Qiang ("**Mr. Chen**"), the Chairman of the Board, an Executive Director, and Chief Executive Officer of the Company. Immediately after the completion of the First Share Transfer, Mr. Chen was deemed interested in shares representing approximately 16.66% (after taking into account the share options granted) of the total issued share capital of the Company.

(iv) Acquisition of shares by Mr. Zhang De Huang from Mr. Zhang

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

Immediately after the completion of the First and Second Share Transfers, Mr. Zhang held approximately 29.32% of the total issued share capital of the Company and Mr. Zhang remains as the single largest beneficial shareholder of the Company.

(v) Financial support from an existing substantial shareholder

During the year ended 31 December 2013, the substantial shareholder provides security-free and interest-free revolving facilities up to RMB3,000,000,000 for use by the Group, for working capital purposes. As at 31 December 2013, RMB690,346,000 has been drawn down by the Group.

(vi) Guarantee by the directors

As at 31 December 2013, certain bank borrowings and refund guarantees are secured by a director of the Group (2012: nil).

40 Particulars of principal subsidiaries

(a) As at 31 December 2013, the Company has direct and indirect interests in the following subsidiaries:

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity Interest attributable to the Group 2013	2012
Rongsheng Heavy Industries Holdings Limited#	Cayman Islands	27/07/07	Limited liability company	Investment holding; Hong Kong	HKD100,000	98.50%	98.50%
Rongsheng Engineering Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	100%	100%
Rongsheng Power Machinery Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	100%	100%
Rongsheng Marine Engineering Petroleum Services Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	100%	100%
Rongsheng Capital Limited#	Cayman Islands	14/07/10	Limited liability company	Investment holding; Hong Kong	HKD10	100%	100%
Clear Joy International Limited	British Virgin Islands	02/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%	98.50%
Nice In Holdings Limited	British Virgin Islands	13/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%	98.50%
Charm Dragon Holdings Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%	98.50%
Grace Shine International Limited	British Virgin Islands	19/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	100%	100%
Head Park Group Limited	British Virgin Islands	25/04/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%	98.50%
New Sea Enterprises Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	100%	100%
Mega New International Limited	British Virgin Islands	02/05/07	Limited liability company	Investment holding; Hong Kong	USD50,000	98.50%	98.50%
Host Rich International Enterprise Limited	British Virgin Islands	13/05/09	Limited liability company	Investment holding; Hong Kong	USD1	100%	100%
System Advance Limited	British Virgin Islands	12/01/10	Limited liability company	Investment holding; Hong Kong	USD1	98.50%	98.50%

40 Particulars of principal subsidiaries (Continued)

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity Interest attributable to the Group 2013	2012
Ocean Sino Holdings Limited	British Virgin Islands	18/01/10	Limited liability company	Investment holding; Hong Kong	USD1	98.50%	98.50%
Power Shine Investment Limited	British Virgin Islands	07/01/10	Limited liability company	Investment holding; Hong Kong	USD1	98.50%	98.50%
Capital Sign International Limited	British Virgin Islands	26/03/09	Limited liability company	Investment holding; Hong Kong	USD1	98.50%	98.50%
Dragon Courage Investments Limited	British Virgin Islands	02/04/09	Limited liability company	Investment holding; Hong Kong	USD1	98.50%	98.50%
Tropic Star Holdings Inc.	British Virgin Islands	03/08/13	Limited liability company	Dormant	USD1	100%	-
Xcellcrest Holdings Pte. Ltd.	Singapore	01/11/12	Limited liability company	Investment holding; Singapore	SGD1	100%	100%
Rongsheng Offshore & Marine Pte. Ltd.	Singapore	05/04/12	Limited liability company	Installation of industrial machinery and equipment; Manufacture and repair of marine engine and ship parts; Singapore	SGD1,000,000	95%	95%
Xcellcrest Trading Pte. Ltd.	Singapore	03/10/12	Limited liability company	Dormant	SGD1	100%	100%
Hinco International Limited	Hong Kong	12/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	98.50%	98.50%
Pacific Atlantic Limited	Hong Kong	24/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	98.50%	98.50%
Wenca Development Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	100%	100%
Asiafair International Limited	Hong Kong	25/04/07	Limited liability company	Investment holding; Hong Kong	HKD1	98.50%	98.50%
Sinwell (H.K.) Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HKD1	100%	100%

40 Particulars of principal subsidiaries (Continued)

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity Interest attributable to the Group 2013	2012
Wellbo Holdings Limited	Hong Kong	10/05/07	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Profit On International Development Limited	Hong Kong	15/05/09	Limited liability company	Investment holding; Hong Kong	HKD1	**100%**	100%
Yes Power Corporation Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Ocean Power International Industrial Limited	Hong Kong	28/01/10	Limited liability company	Investment holding; Hong Kong	HKD1	**98.50%**	98.50%
Glory Source Limited	Hong Kong	25/01/10	Limited liability company	Dormant	HKD1	**98.50%**	98.50%
World Profit Corporation Limited	Hong Kong	05/02/10	Limited liability company	Dormant	HKD1	**98.50%**	98.50%
Jiangsu Rongsheng Shipbuilding Co., Ltd. 江蘇熔盛造船有限公司 (formerly known as "Nantong Rongding Shipbuilding Co., Ltd. 南通熔鼎造船有限公司") (Note 1)	PRC	21/06/07	Limited liability company	Manufacturing, maintaining and machining of shipping; Trading of self-produced products; PRC	RMB778,784,897	**96.09%**	96.09%
Nantong Rongsheng Painting Co., Ltd. 南通熔盛塗裝有限公司	PRC	21/06/07	Limited liability company	Painting, coating and fabrication of shipping; Manufacturing and trading of self-produced products; PRC	USD29,500,000	**93.58%**	93.58%
Nantong Rongye Ship Mechanical and Equipment Installation Co., Ltd. 南通熔燁船舶機電安裝有限公司	PRC	21/06/07	Limited liability company	Manufacturing mechanical and electrical equipments and accessories for shipping production; Trading of self-produced products; PRC	USD29,600,000	**95%**	95%
Nantong Rongye Storage Co., Ltd. 南通熔燁倉儲有限公司	PRC	21/06/07	Limited liability company	Storing of shipping material; Carry cargo; PRC	USD99,700,000	**97.03%**	93.58%

40 Particulars of principal subsidiaries (Continued)

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity Interest attributable to the Group 2013	2012
Jiangsu Rongsheng Offshore Engineering Co., Ltd. 江蘇熔盛海洋工程有限公司 (formerly known as "Nantong Rongding Marine Engineering Co., Ltd. 南通熔鼎海洋工程有限公司"/"Nantong Rongding Pipe Engineering Co., Ltd 南通熔鼎管道工程有限公司")	PRC	22/06/07	Limited liability company	Manufacturing and installing of pipeline and shipping equipments; Trading of self-produced products; PRC	USD29,900,000	95%	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	USD701,000,000	96.09%	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%	96.09%
Nantong Rongjin Steel Construction Engineering Company Limited 南通熔錦鋼結構工程有限公司	PRC	16/03/05	Limited liability company	Steel construction engineering; manufacture, processing and sales of steel and accessories and sales of building materials, PRC	RMB50,000,000	96.09%	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%	96.09%
Rongsheng Machinery Company Limited 熔盛機械有限公司 (formerly known as "Anhui Rong An 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	USD78,000,000	100%	100%
Hefei Zhenyu Engineering Machinery Company Limited 合肥振宇工程機械有限公司 (formerly known as "合肥振宇機械施工有限責任公司/合肥振宇工程機械股份有限公司")	PRC	10/12/98	Limited liability company	Manufacturing of excavators and crawler cranes; PRC	RMB100,000,000	95%	95%

40 Particulars of principal subsidiaries (Continued)

Name	Place and date of incorporation/ establishment	Date of incorporation/ establishment	Type of legal entity	Principal activities and place of operation	Issued/ paid-in capital	Equity Interest attributable to the Group 2013	2012
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%	95%
Hefei Rong An Power Machinery Co., Ltd. 合肥熔安動力機械有限公司	PRC	15/08/07	Limited liability company	Building of marine engines; PRC	RMB1,232,300,000	95.55%	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%	95.55%
Jiangsu Bosheng Industrial Trading Development Co., Ltd. 江蘇博盛興業貿易發展有限公司	PRC	26/04/11	Limited liability company	Manufacturing and sales of metal proceeding products; PRC	RMB200,000,000	96.09%	96.09%
Nantong Rongsheng Shipowners Club Construction Co., Ltd. 南通熔盛船東會所建設有限公司	PRC	20/06/11	Limited liability company	Building of shipowners club; PRC	RMB100,000,000	96.09%	96.09%
Hefei Rong An Heavy Machinery Co., Ltd. 合肥熔安重機有限公司	PRC	06/12/11	Limited liability company	Design, manufacture and sale of marine high-power diesel engine parts and semi-finished parts; PRC	RMB37,917,000	100%	100%
Rongsheng Machinery Hefei Sales Co., Ltd 熔盛機械合肥銷售有限公司	PRC	17/09/13	Limited liability company	Wholesale and retail sale of engineering machinery; PRC	RMB100,000	100%	N/A

Shares held directly by the Company

Note:

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

40 Particulars of principal subsidiaries (Continued)

(b) Material non-contolling interests

Material non-controlling interest amounting to RMB390,335,000 represented an 51% equity interest in Jiangsu Rongsheng Shipbuilding Co., Ltd. held by Jiangsu Xu Ming Investment Group Co., Ltd. (formerly known as "Jiangsu Rongsheng Investment Group Co., Ltd."). Such non-controlling interest was recognized on the date when the Group had control over the finance and operating policies of Jiangsu Rongsheng Shipbuilding Co., Ltd. in relation to the restructuring before the initial public offering of the Company in year 2010.

Pursuant to certain confirmations and undertakings obtained from Mr. Zhang, the Company's substantial shareholder and also the controlling shareholder of Jiangsu Xu Ming Investment Group Co., Ltd., the Group is entitled to 100% of the economic benefits of Jiangsu Rongsheng Shipbuilding Co., Ltd. Accordingly, Jiangsu Rongsheng Shipbuilding Co., Ltd. has been consolidated as a subsidiary of the Company and Jiangsu Xu Ming Investment Group Co., Ltd. does not share any profit or loss of Jiangsu Rongsheng Shipbuilding Co., Ltd after the restructuring.

Except for the above, there were no other individually material non-controlling interests as at 31 December 2013.

41 Events after the reporting period

(i) Issuance of Convertible bonds of HKD1,000,000,000 with interest at 7.0% per annum

On 23 December 2013, the Company as issuer, Mr. Zhang as guarantor and Partners Kingwin Fund (I), a company incorporated in the Cayman Islands with limited liability, and Kingwin Victory Investment Limited, a company incorporated in the British Virgins Islands with limited liability as subscribers, entered into the subscription agreements, pursuant to which the Company conditionally agreed to issue, and the subscribers have conditionally agreed to subscribe for, the convertible bonds in an aggregate principal amount of HKD1,000,000,000. The convertible bonds has an initial conversion price of HKD1.05 per share (subject to adjustment) and bear interest at 7.0% per annum on the principal amount of the convertible bonds outstanding. Mr. Zhang agreed to guarantee the payment obligations of the Company under the convertible bonds. The net proceeds will be used for working capital and general corporate purposes and repayment of the loans of the Group. On 27 December 2013, the Company, Mr. Zhang and the subscribers entered into a side letter pursuant to which Kingwin Victory Investment Limited nominated Partners Kingwin Fund (I) to take up its rights and obligations under the subscription agreement entered into by it, and the Company and Mr. Zhang consented to such nomination. On 9 January 2014, the issuance of the convertible bonds was completed.

(ii) Proposed issuance of convertible bonds of HKD1,000,000,000 with interest at 7.0% per annum

On 24 February 2014, the Company as issuer, Mr. Zhang as guarantor and Partners Kingwin Fund (I), a company incorporated in the Cayman Islands with limited liability, and Kingwin Victory Investment Limited, a company incorporated in the British Virgin Islands with limited liability, entered into subscription agreements, pursuant to which the Company conditionally agreed to issue, and the subscribers have conditionally agreed to subscribe for, the convertible bonds in an aggregate principal amount of HKD1,000,000,000. The convertible bonds have an initial conversion price of HKD1.05 per share (subject to adjustment) and bear interest at 7.0% per annum on the principal amount of the convertible bonds outstanding. Mr. Zhang agreed to guarantee the payment obligations of the Company under the convertible bonds. The net proceeds will be used for working capital and general corporate purposes and repayment of the loans of the Group. The issuance of the convertible bond is expected to be completed in April 2014.

FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	2013 RMB'000	2012 RMB' 000	2011 RMB' 000	2010 RMB' 000	2009 RMB' 000
Revenue	**1,343,566**	7,956,347	15,904,585	12,665,479	9,473,206
Gross (loss)/profit	**(1,432,925)**	1,140,697	3,193,700	2,831,504	1,848,291
Operating (loss)/profit	**(8,230,542)**	225,656	2,020,970	2,033,763	1,367,769
Total comprehensive (loss)/ income for the year	**(8,951,888)**	(562,035)	1,809,723	1,780,045	1,304,661
Attributable to:					
Equity holders of the Company	**(8,683,688)**	(572,577)	1,720,675	1,718,704	1,302,183
Non-controlling interests	**(268,200)**	10,542	89,048	61,341	2,478

CONSOLIDATED ASSETS AND LIABILITIES

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Total assets	**35,974,744**	50,168,837	51,260,616	40,995,971	21,970,418
Non-current assets	**21,789,896**	22,190,689	19,986,597	13,041,788	7,325,681
Current assets	**14,184,848**	27,978,148	31,274,019	27,954,183	14,644,737
Total liabilities	**29,805,692**	35,080,632	35,568,760	26,360,830	20,724,586
Non-current liabilities	**8,937,697**	9,480,157	10,023,127	8,179,653	313,291
Current liabilities	**20,867,995**	25,600,475	25,545,633	18,181,177	20,411,295
Total equity	**6,169,052**	15,088,205	15,691,856	14,635,141	1,245,832

GLOSSARY

"2014 AGM"	the annual general meeting of the Company to be held on 21 May 2014
"ABS"	American Bureau of Shipping, a classification society founded in the United States in 1862, is a non-profit organization that provides marine and offshore classification services
"Board"	the board of Directors of our Company
"bulk carrier"	a vessel that is designed to carry unpacked cargo, usually consisting of a dry commodity, such as grain or coal
"Capesize"	cargo ships of 150,000 DWT and above with a draft above 18.91 meters
"CCS"	China Classification Society, a classification society founded in the PRC in 1956, is a specialized non-profit organization providing classification service
"China" or "PRC"	the People's Republic of China excluding, for the purposes of this annual report, Hong Kong, Macau and Taiwan
"classification society"	worldwide non-governmental, experienced and reputable organizations or groups of professionals, ship surveyors and representatives of offices that promote the safety and protection of the environment of vessels and offshore structures. To do so, such societies set technical rules, confirm that designs and calculations meet these rules, survey vessels and structures during the process of construction and commissioning, and periodically survey vessels to ensure that they continue to meet the rules
"Company", "our Company", "China Rongsheng" or "China Rongsheng Heavy Industries"	China Rongsheng Heavy Industries Group Holdings Limited (中國熔盛重工集團控股有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands on 3 February 2010
"containership"	cargo ship that carry all of its load in truck-size containers, in a technique called containerization
"crude oil tanker"	a vessel which is designed to carry crude oil or other petroleum products in big tanks
"Director(s)"	director(s) of our Company

"DNV GL"	Det Norse Veritas is a classification society founded in 1864 and originally a Norwegian-based organization that inspected and evaluated the technical condition of merchant vessels there. Since then, the core competencies have expanded to cover the identification, assessment and advisement on managing risk in a variety of industries (including maritime vessels); Germanisher Lloyd is a classification society founded in 1867, which is a German-based organization that serves a wide range of industries in both the maritime and energy sectors. DNV and GL signed an agreement to merge in December 2012. The new entity will be called DNV GL Group.
"DWT"	one DWT equals 1,000 kilogrammes, a unit of measurement of the maximum permitted load of a vessel, including the weight of cargo, passengers, fuel, stores and crew, when loaded to its maximum summer load line
"Energy Efficiency Design Index" or "EEDI"	an index quantifying the amount of carbon dioxide that a vessel emits in relation to the goods transported
"Foreign Investment Industries Catalogue"	the Catalogue for the Guidance of Foreign investment industries (外商投資產業指導目錄) (promulgated by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and the Ministry of Commerce of the PRC (中華人民共和國商務部) on 31 October 2007) which became effective on 1 December 2007
"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
"Group", "our Group", "we" or "us"	the Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of China
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"horsepower"	a unit for measuring the power of an engine with one horsepower equaling 0.736kW

"International Maritime Organization" or "IMO"	the United Nations agency for maritime safety and the prevention of marine pollution by ships established in 1948
"kW"	kilowatt, a unit for measuring power, 1 kW is equivalent to one thousand watts of electricity
"Listing"	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	19 November 2010, being the date on which the Shares are listed on the Main Board of the Hong Kong Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended and supplemented from time to time
"LNG"	liquefied natural gas
"LR"	Lloyd's Register Society, a classification society and independent risk management organization founded in 1760 in the United Kingdom, is a non-profit organization that provides risk assessment and mitigation services and management systems certification
"Panamax"	ships classified as Panamax are of the maximum dimensions that will fit through the locks of the Panama Canal, each of which is 1,000 feet long by 110 feet wide and 85 feet deep. Accordingly, a Panamax ship will usually have dimension of approximately 965 feet long (294.0 meters), 106 feet wide (32.3 meters) and a draft of 39.5 feet (12.0 meters)
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally approved and adopted by our Company pursuant to a resolution passed by our Shareholders on 24 October 2010
"RMB" or "Renminbi"	the lawful currency of the PRC
"Rong An Heavy industries"	Anhui Rong An Heavy Industries Machinery Company Limited (安徽熔安重工機械有限公司), a company established under the laws of the PRC on 11 March 2010 and our wholly-owned subsidiary, now renamed as Rongsheng Machinery
"Rong An 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 Rong An Power Machinery Co., Ltd. (合肥熔安動力機械有限公司), a company established under the laws of the PRC on 15 August 2007, and our non-wholly owned subsidiary
"Rongsheng Offshore Engineering"	Jiangsu Rongsheng Offshore Engineering Co., Ltd. (江蘇熔盛海洋工程有限公司), a company established under the laws of the PRC on 22 June 2007, and owned by us as to 95% and owned as to 5% by Rongsheng Investment
"Rongye Mechanical"	Nantong Rongye Ship Mechanical and Electrical Equipment Installation Co., Ltd (南通熔燁船舶機電安裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by us as to 95% and owned by Rongsheng Investment as to 5%
"Rongsheng Heavy Industries" or "Jiangsu Rongsheng Heavy Industries"	Jiangsu Rongsheng Heavy Industries Co., Ltd. (江蘇熔盛重工有限公司), a company established under the laws of the PRC on 8 June 2006 and a company owned by Rongsheng Heavy Industries Holdings as to 97.55% and Rongsheng Investment as to 2.45%
"Rongsheng Heavy Industries Holdings"	Rongsheng Heavy Industries Holdings Limited (熔盛重工控股有限公司), a company incorporated in the Cayman islands with limited liability on 27 July 2007 and owned by us as to 98.5%
"Rongsheng Investment"	Jiangsu Rongsheng Investment Group Co., Ltd. (江蘇熔盛投資集團有限公司), a company established under the laws of the PRC on 12 February 2004 and ultimately controlled by Mr. Zhang, now renamed as Jiangsu Xuming Investment Group Co., Ltd. (江蘇旭明投資集團有限公司)
"Rongsheng Machinery"	Rongsheng Machinery Co., Ltd. (熔盛機械有限公司), formerly known as Rong An Heavy Industries
"Rongsheng Offshore & Marine" or "RSOM"	Rongsheng Offshore & Marine Pte. Ltd., a company incorporated in the Republic of Singapore on 5 April 2012 and owned by the Company indirectly as to 95%
"Rongsheng Painting"	Nantong Rongsheng Painting Co., Ltd. (南通熔盛塗裝有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by Rongsheng Heavy industries Holdings as to 95% and owned by Rongsheng investment as to 5%
"Rongsheng Research and Design"	Jiangsu Rongsheng Shipbuilding Engineering Research and Design Company Limited (江蘇熔盛船舶工程研究設計院有限公司), a company established under the laws of the PRC on 4 March 2008 and a wholly-owned subsidiary of Rongsheng Heavy industries

"Rongsheng Shipbuilding"	Jiangsu Rongsheng Shipbuilding Co., Ltd. (江蘇熔盛造船有限公司), a company established under the laws of the PRC on 21 June 2007 and owned by Rongsheng Heavy Industries as to 49% and Rongsheng Investment as to 51% and our nonwholly owned subsidiary
"Rongye Storage"	Nantong Rongye Storage Co., Ltd. (南通熔燁倉儲有限公司), a company established under the laws of the PRC on 21 June 2007, and owned by Rongsheng Heavy Industries Holdings as to 95% and owned by Rongsheng Investment as to 5%
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended and supplemented from time to time
"Share Option Scheme"	the share option scheme we conditionally adopted pursuant to a resolution passed by our Shareholders on 24 October 2010
"Share(s)"	ordinary share(s) in our Company with a nominal value of HKD0.10 each
"Suezmax"	ships of between 120,000 DWT and 200,000 DWT, with dimensions allowing it to transit the Suez Canal fully loaded
"TEU"	twenty-foot equivalent unit, an inexact unit of cargo capacity often used to describe the capacity of containerships and container terminals. it is based on the volume of a 20-foot-long (film) intermodal container, a standard-sized metal box
"USD"	United States dollars, the lawful currency of the United States
"VLCC"	very large crude oil carrier of 200,000 DWT or above
"VLOC"	very large ore carrier greater than 220,000 DWT

INFORMATION FOR SHAREHOLDERS

Listing Information

Listing	:	Hong Kong Stock Exchange
Stock Code	:	01101

Financial Key Dates

Announcement of 2013 Annual Results	:	28 March 2014
Annual General Meeting	:	21 May 2014
Book Closure Period for determining entitlement to attend and vote at AGM	:	16 May 2014 to 21 May 2014 (both days inclusive)

Share Information

Board Lot Size	:	500 shares
Issued Shares as at 31 December 2013	:	7,000,000,000 shares
Interim Dividend per Share for 2013	:	—
Final Dividend per Share for 2013	:	—

Principal Share Registrar and Transfer Agent

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

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Tel : (852) 2862-8628
Email : hkinfo@computershare.com.hk

Registered Office

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

Principal Place of Business and Headquarter

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

Contact Enquiries

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

CORPORATE INFORMATION

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

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

www.rshi.cn