广州广船国际股份有限公司

GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

H Stock Code：00317　A Stock Code：600685

ANNUAL REPORT 2009

CONTENTS

IMPORTANT NOTICE

The Board of Directors, the Supervisory Committee and Senior Management of the Company declare that there are no false statements, misleading information or material omissions in this report. The directors, supervisors and senior management are jointly and severally responsible for the authenticity, accuracy and completeness of the contents of this report.

All the directors, including independent non-executive director Mr. Lee Sun-leung, Sunny acting as proxy of independent non-executive director Mr. Wang Xiaojun attended the eighteenth meeting of the sixth term of the Board of Directors held on March 30, 2010, at which this report was passed by unanimous vote.

The Company has no capital impropriated by the controlling shareholder or connected parties, and has not provided any deregulation external guarantees during the period under review.

Mr. Li Zhushi, Chairman of the Board of Directors, Mr. Chen Liping, Chief Accountant of the Company and Mr. Hou Zengquan, Director of Financial Center of the Company, declare and confirm the authenticity and completeness of the financial reports included in this report.

The Audit Committee of the Company has audited and confirmed the annual financial reports for the year 2009 of the Company.

This Annual Report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the accounts prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and the international auditors' report therein where the English shall prevail, while the Chinese version shall prevail for the rest of this annual report.

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OVERVIEW OF THE COMPANY

I. BRIEF INTRODUCTION

Guangzhou Shipyard International Company Limited (the "Company"), founded in 1993, is an important modern key shipbuilding enterprise in South China parented by China State Shipbuilding Corporation ("CSSC"). It is one of the 50 key manufacturing enterprises in Guangdong Province and top 500 manufacturing enterprises and the biggest shipbuilder in the handy-size tanker segment in China, a national enterprise of outstanding contribution to technical talent cultivation and a national hi-tech enterprise, and enjoys autonomy in export and import operations.

The Company is based on the core business of shipbuilding of handy-size tankers, and are also involved in the businesses of large-size steel structure, marine shafting and rudder system processing, ship accommodation, anticorrosive coating, marine labor services, electro-machinery and software exploitation, and has entered into the high-tech and high value-added shipbuilding market of Ro/Ro vessels, Ro/Ro passenger vessels and semi-submersible heavy lift vessels.

The Company adheres to the quality policy of "Lean Management, Technological Innovation, Continuous Improvement, Sincerity and Mutual Benefit, Customer Satisfaction" and occupational health & safety policy of "Lawful Operation, Cherishing Life, Green Shipbuilding, Continuous Improvement" and had gained ISO9001:2000, and GJB90011A-2001 standard certificate, Occupational Health & Safety Management System Certificate and Environmental Management System Certificate issued by British Lloyds Society Quality Assurance Ltd. Moreover, the Company also gained National Confidential Certificate and Weapon Research & Production Certificate by National Defense Science and Technique Bureau.

II. GENERAL INFORMATION

Registered Chinese Name of the Company	广州广船国际股份有限公司
Abbreviation of Chinese Name of the Company	广船国际
Registered English Name of the Company	Guangzhou Shipyard International Company Limited
Abbreviation of English Name of the Company	GSI
Legal Representative of the Company	Mr. Li Zhushi
Secretary to the Board of Directors	Mr. Li Zhidong
Address	40 South Fangcun Main Road, Liwan District, Guangzhou, P.R.C.
Tel	(8620) 8189 1712 ext. 2962
Fax	(8620) 8189 1575
E-Mail Address	lzd@chinagsi.com
Authorized Securities Representative	Ms. Yang Ping
Address	40 South Fangcun Main Road, Liwan District, Guangzhou, P.R.C.
Tel	(8620) 8189 1712 ext. 2995
Fax	(8620) 8189 1575
E-Mail Address	yangping@chinagsi.com
Registered Address and Office	40 South Fangcun Main Road, Liwan District, Guangzhou, The People's Republic of China Postal code: 510382
Principal Place of Business in Hong Kong	28/F, Three Pacific Place 1 Queen's Road East, Hong Kong
URL of the Company	www.chinagsi.com
E-Mail Address	gsi@chinagsi.com
Publications for Disclosing Information	Shanghai Securities News
URL for Publishing the Report	www.sse.com.cn, www.hkexnews.hk, www.chinagsi.com
Place for Inspection of the Annual Report	The Board of Directors' Office
Place of Listing of the Company's Shares	
A Shares	Shanghai Stock Exchange
Stock Code	600685
Abbreviated Name	Guangzhou Shipyard International
H Shares	The Stock Exchange of Hong Kong Limited
Stock Code	00317
Abbreviated Name	Guangzhou Shipyard International

OVERVIEW OF THE COMPANY

Registration Date and Address	
First Registration Date and Address	June 7, 1993; Guangzhou
Business Registration Number	19049939-0
Taxation Registration Number	440107190499390
Organization Number	19049939-0
First Amended	
Registration Date and Address	October 21, 1994; Guangzhou
Business Registration Number	QI GU YUE SUI ZONG ZI DI 000264
Second Amended	
Registration Date and Address	December 7, 2009; Guangzhou
Business Registration Number	440101400025144
Domestic Auditors	Ascenda Certified Public Accountants, Limited A12/F, Investment Plaza, 27 Jinrong Street Xicheng District, Beijing
International Auditors	PricewaterhouseCoopers, Certified Public Accountants 22/F, Prince's Building, Central, Hong Kong
Solicitors	Guangzhou Z & T Law Firm 21/F, Yuehai Mansion, 472 East Huangshi Road, Guangzhou Jones Day 29/F, Edinburgh Tower, The Landmark 15 Queen's Road Central, Hong Kong
Share Registrars	
Registry Office for A Shares	China Securities Depository and Clearing Corporation Limited, Shanghai Office 3/F, China Assurance Tower, 166 East Lujiazui Road, Pudong New District, Shanghai, PRC
Share registered transfer agent for H Shares	Computershare Hong Kong Investor Services Limited, 46/F Hopewell Centre 183, Queen's Road East, Hong Kong
ADR Custodian Bank	The Bank of New York Mellon

SUMMARY OF ACCOUNTING AND BUSINESS DATA

Except as otherwise noted, the accounting and business data involved in this summary relate to the Company and its subsidiaries (hereinafter collectively the "Group").

I. MAJOR FINANCIAL DATA

(I) Prepared under PRC Accounting Standards for Business Enterprises and Relevant Regulations ("PRC Accounting Standards and Regulations")

Unit: RMB

Item	Amount
Operating profit	543,947,955.07
Total profit	613,687,828.53
Net profit attributable to shareholders	514,961,903.36
Net profit attributable to shareholders after deduction of exceptional items	499,297,991.27
Net cash flow from operating activities	-464,920,580.03

(II) Prepared in accordance with Hong Kong Financial Report Standards ("HKFRS")

Unit: RMB'000

Item	Amount
Profit before tax	613,688
Profit attributable to shareholders	514,962

SUMMARY OF ACCOUNTING AND BUSINESS DATA

II. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP IN RECENT YEARS

(I) Prepared under PRC Accounting Standards and Regulations

Unit: RMB

Item	2009	2008	Change	2007	
			(%)	After adjustment	Before adjustment
Total revenue	**6,553,424,803.99**	6,984,087,521.27	-6.17	5,952,697,163.61	5,952,697,163.61
Total profit	**613,687,828.53**	921,285,578.25	-33.39	1,343,060,757.80	1,343,060,757.80
Net profit attributable to shareholders	**514,961,903.36**	820,395,655.17	-37.23	940,656,796.04	940,656,796.04
Net profit attributable to shareholders after deduction of exceptional items	**499,297,991.27**	803,295,845.89	-37.84	697,094,500.58	915,678,615.36
Basic earnings per share	**1.04**	1.66	-37.23	1.90	1.90
Diluted earnings per share	**–**	–	–	–	–
Basic earnings per share after deduction of exceptional items	**1.01**	1.62	-37.84	1.41	1.85
Weighted average returns on net assets (%)	**17.42**	31.58	decreased by 14.16 percent	52.17	52.17
Weighted average returns on net assets after deduction of exceptional items (%)	**16.89**	30.92	decreased by 14.03 percent	38.66	50.78
Net cash flow from operating activities	**-464,920,580.03**	-195,267,322.66	138.09	1,818,659,141.44	1,818,659,141.44
Net cash flow from operating activities per share	**-0.94**	-0.39	138.09	3.68	3.68

Item	As at December 31, 2009	As at December 31, 2008	Change	2007	
			(%)	After adjustment	Before adjustment
Total assets	**9,805,223,077.98**	10,258,230,707.13	-4.42	11,034,433,438.69	11,034,433,438.69
Total liabilities	**6,548,243,353.48**	7,415,365,491.69	-11.69	8,507,075,060.14	8,507,075,060.14
Shareholders' equity (excluding minority interests)	**3,168,840,358.56**	2,747,359,653.70	15.34	2,451,509,684.38	2,451,509,684.38
Net assets per share attributable to shareholders of the Company	**6.41**	5.55	15.34	4.96	4.96

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(II) Prepared in accordance with HKFRS

Unit: RMB'000

Item	2009	2008	2007	2006	2005
Turnover	**6,553,425**	6,984,088	5,906,793	3,322,299	2,728,916
Operating profit	**488,255**	635,405	1,158,930	288,260	91,318
Profit before taxation	**613,688**	921,286	1,340,964	310,978	112,288
Profit attributable to shareholders	**514,962**	820,396	938,560	266,635	135,011
Total assets	**9,804,407**	10,251,665	11,029,129	7,672,237	3,432,086
Total liabilities	**6,547,427**	7,408,800	8,501,772	6,349,186	2,499,650
Total shareholders' equity (excluding minority interests)	**3,168,841**	2,747,360	2,451,509	1,261,647	882,716
Earnings per share (RMB) (Number of shares in issue at the end of the year)	**1.0410**	1.6584	1.8973	0.5390	0.2729
Earnings per share (RMB) (Weighted average number of shares in issue)	**1.0410**	1.6584	1.8973	0.5390	0.2729
Net assets per share (RMB) (Number of shares in issue at the end of the year)	**6.41**	5.55	4.96	2.55	1.78
Return on net assets (%) (Shareholders' equity at the end of the year)	**16.25**	29.86	38.28	21.13	15.29
Return on net assets (%) (Average of shareholders' equity at the beginning and the end of year)	**17.41**	31.56	50.55	24.87	16.86
Ratio of shareholders' equity (%) (Shareholders' equity/Total assets x 100%)	**32.32**	26.80	22.23	16.44	25.72
Current ratio (Current assets/ Current liabilities)	**1.25**	1.20	1.13	1.19	0.91
Gearing ratio (%)	**66.78**	72.27	77.08	82.76	72.83

Notes:

(1) Methods for calculating earnings/(loss) per share, net assets per share, return on net assets, adjusted net assets per share, net cash flow from operating activities per share and gearing ratio are as follows:

* Based on balances at the end of the year:

  Earnings per share = net profit/total number of ordinary shares at the end of the year

  Net assets per share = shareholders' equity at the end of the year/total number of ordinary shares at the end of the year

  Return on net assets = net profit/shareholders' equity at the end of the year × 100%

  Adjusted net assets per share = (shareholders' equity at the end of the year – accounts receivable aged over three years – deferred expenses – long-term deferred expanses/total number of ordinary shares at the end of the year

  Net cash flow from operating activities per share = net cash flow operating activities/total number of ordinary shares at the end of the year

* Based on weighted average balances:

  Earnings per share = net profit/weighted monthly average number of shares for the year

  Return on net assets = P/(E0 + NP÷2 + Ei×Mi÷M0 – Ej×Mj÷M0±Ek×Mk÷M0)

  P: the net profit attributable to shareholders, and that after deduction of exceptional items
  NP: the net profit attributable to shareholders
  EO: the operation balance of net assets attributable to shareholders
  Ei: the increase of net assets attributable to shareholders arising from new shares issuing or debt transferring to share during the period under review
  Ej: the decrease of net assets attributable to shareholders arising from purchasing back share or dividend in cash during the period under review
  MO: the reporting months
  Mi: the months that from the next month which the net assets increased to the end of the period under review
  Mj: the months that from the next month which the net assets decreased to the end of the period under review
  Ek: the change of net assets arising from other business or affairs
  Mk: the months that from the next month which the net assets changed by other business or affairs to the end of the period under review

* Gearing ratio = total liabilities/total assets ×100%

III. THE DIFFERENCE IN THIS YEAR'S NET PROFIT (PROFIT ATTRIBUTABLE TO SHAREHOLDERS) AND SHAREHOLDERS' EQUITY CALCULATED ON THE BASIS OF THE PRC ACCOUNTING STANDARDS AND REGULATIONS AND THE HKFRS

During the period under review, there are no differences between profit attributable to shareholders and shareholders' equity prepared under the PRC accounting standards and regulations and the HKFRS.

IV. THE NATURE AND AMOUNT OF EXCEPTIONAL ITEMS ARE AS FOLLOWS:

Unit: RMB

Item	Amount	Notes
Profits or losses from disposal of non-current assets, including write-offs of asset impairment provisions	-7,826,711.14	Mainly resulted from disposal of fixed assets and investment real estate
Government subsidies recognized in the current profits and losses	3,997,891.74	Mainly resulted from local government subsidy and income from research and development
Gains/Losses from fair value changes of trading securities and trading financial liabilities, and investment income from disposal of trading assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's main operation	22,596,606.60	Resulted from fair value changes of trading securities and trading financial liabilities, and investment income from disposal of trading assets and trading financial liabilities
Apart from above items, other non-operating profits and losses	465,534.02	
Subtotals (effect on income before tax)	19,233,321.22	
Less: influence on income tax	2,884,998.18	
Total influence on net profits	16,348,323.04	
Including: attributable to minority interests	684,410.95	
Influence attributable to common shareholders of parent company	15,663,912.09	
Net profits attributable to common shareholders of parent company after deducting unusual items	499,297,991.27	

V. ITEMS ESTIMATED ON FAIR VALUE

Unit: RMB

Item	Opening balance	Closing balance	Change	Effect on current profit and loss
Financial assets				
1. Derivative financial assets estimated on fair value and the change recorded in the current profit and loss	157,360,902.20	63,993,056.22	-93,367,845.98	-93,367,845.98
2. Available-for-sale financial assets	185,450,000.00	337,360,250.00	151,910,250.00	–
Financial liabilities	5,199,844.99	–	-5,199,844.99	5,199,844.99

VI. PRINCIPAL BUSINESS DATA

The turnover and the results from the principal operations of the Group during the year under review are as follows:

Unit: RMB'000

	Year ended December 31, 2009			Year ended December 31, 2008		
	Revenue from principal activities (note 1)		**Gross profit (loss) before taxation**	Revenue from principal activities (note 1)		Gross profit (loss) before taxation
Principal operation	**Amount**	**Percentage (%)**	**Amount**	Amount	Percentage (%)	Amount
Shipbuilding	**5,718,471**	**88.54**	**729,667**	5,904,445	86.22	814,306
Steel structure	**464,784**	**7.20**	**289**	659,891	9.64	55,341
Mechanical and electrical products and others	**275,568**	**4.27**	**55,211**	283,335	4.14	18,202
Subtotal	**6,458,823**	**100.00**	**785,167**	6,847,671	100	887,849
Other operating profit	–	–	**10,443**	–	–	25,775
Operating expenses *(note 2)*	–	–	**228,911**	–	–	43,841
Business tax and surcharge	–	–	**31,877**	–	–	22,272
Impairment loss	–	–	**23,037**	–	–	-3,961
Gain change from fair value	–	–	**-88,168**	–	–	-130,521
Investment income	–	–	**120,330**	–	–	136,719
Net non-operating income	–	–	**84,703**	–	–	70,375
Net non-operating expenditure	–	–	**14,963**	–	–	6,759
Total profit (under PRC Rules and Regulations)	–	–	**613,688**	–	–	921,286
Profit before taxation (under HKFRS)	–	–	**613,688**	–	–	921,286

Notes:

1. The definition of revenue from principal activities, which represents the revenue from principal operations prepared in accordance with PRC Accounting Standards and Regulations, is set out in note V39 on page 121 to the Financial Statements.

2. Operating expenses, including selling, administrative and financial expenses, represent non-distinctive amounts incurred in the various principal operations. As operating expenses incurred did not have a direct correlation with the respective activities, it is impracticable to analyze these expenses by activities.

CHANGES OF SHARE CAPITAL AND SHAREHOLDERS

I. SHARE CAPITAL

(I) Change in Share Capital

Unit: share

Category	Before the change		Changes during the year (+,-)					After the change	
	Amount	Percentage (%)	New Share	Bonus Share	Conversion from reserves	Others	Sub-total	Amount	Percentage (%)
1. Shares subject to sale restrictions									
(1) State-owned shares	176,650,615	35.71	–	–	–	-176,650,615	-176,650,615	–	–
2. Freely transferable shares									
(1) State-owned shares	–	–	–	–	–	176,650,615	176,650,615	176,650,615	35.71
(2) PRC listed domestic shares	160,628,965	32.47	–	–	–			160,628,965	32.47
(3) Overseas listed foreign shares	157,398,000	31.82	–	–	–	–	–	157,398,000	31.82
3. Total	494,677,580	100	–	–	–	–	–	494,677,580	100

(II) Share Issue and Listing Information

As at December 31, 2009, except that the CSSC offered 2.7 bonus shares for every 10 shares to holders of A shares of the Company on May 24, 2006 due to A share reform, the Company has not arranged any further issue of any new shares, derivatives, bonus shares, rights shares or conversion of shares from reserves and does not have employee shares, since the issue of 157,398,000 new H shares and 126,479,500 new A shares on August 3, 1993 and September 22, 1993 respectively. The Proposal Rights Issue was terminated, for more details please refer to Significant Events on page 62.

(III) Change in Shares Subject to Sale Restrictions

The shares subject to sale restrictions held by CSSC became shares without any sale restriction on May 26, 2009, and no shares of the Company are subject to any sale restrictions as from such date. The number of the shares held by CSSC had not changed during the period under review.

II. SHAREHOLDERS

(I) Number of Shareholders and Information of the top ten shareholders

Unit: share

Total Number of Shareholders As at December 31, 2009, there were 72,069 shareholders, including 71,700 shareholders of listed freely transferable A-Shares and 369 shareholders of listed H-Shares.

Top Ten Shareholders' Information

Name	Changes in 2009	Number of shares at the end of year	Percentage (%)	Shares pledged or subject to attachment	Shareholders' Classification	Share Classification
China State Shipbuilding Corporation	–	176,650,615	35.71	None	State-owned shares	A Shares
HKSCC Nominees Limited	-1,467,790	151,504,389	30.63	Unknown	Foreign legal entity shares	H Shares
Southern Ingredients Select Securities Investment Fund	4,855,503	4,855,503	0.98	Unknown	Other	A Shares
Bosera Emerging Growth Securities Investment Fund	3,000,000	3,000,000	0.61	Unknown	Other	A Shares
CHAN KWOK TAI EDDIE	250,000	2,250,000	0.45	Unknown	Foreign natural person shares	H Shares
Invesco Great Wall Select Blue Chip Fund	2,071,381	2,071,381	0.42	Unknown	Other	A Shares
SYWG BNP Paribas New Economy Mixed Securities Investment Fund	1,848,962	1,848,962	0.37	Unknown	Other	A Shares
Harvest in Shanghai and Shenzhen 300 Index Securities Investment Fund	20,148	1,097,521	0.22	Unknown	Other	A Shares
ICBCCS Select Balanced Equity Fund	999,916	999,916	0.20	Unknown	Other	A Shares
Beijing Zhonglianya Real Estate Development Co., Ltd.	850,000	850,000	0.17	Unknown	Other	A Shares

Note of relation or action in concert of shareholders above-mentioned The Company is not aware of whether the top ten shareholders disclosed above are connected with each other or they are persons acting in concert as defined in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

2. Apart from the shareholders disclosed above, as at December 31, 2009, the register the Company maintains pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong ("SFO") recorded the following interest and short positions in the shares and underlying shares of the Company:

shareholder	**Shareholding** (share)	**Proportion of total H shares** (%)	**Proportion of total issued shares** (%)
Mirae Asset Global Investments (Hong Kong) Limited	9,436,000	5.99	1.91

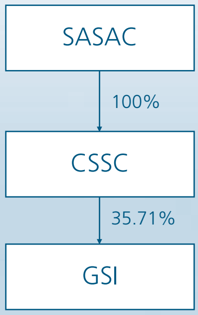
3. Information of the controlling shareholder and actual controller

CSSC is the controlling shareholder of the State-owned shares, which accounted for 35.71% of the shares of the Company. CSSC, the registered capital of which is RMB6,374,300,000, was founded on July 1, 1999 through reorganizing China State Shipbuilding Company. Mr. Tan Zuojun is the legal representative of CSSC. The business of CSSC includes: shipbuilding, ship-repairing, manufacturing and export/import of marine equipment, diversified business such as other steel structure manufacturing and international cooperation, joint venture, financing, technology trading and exchange workforce exportation etc.

The actual controller of the Company is the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"). CSSC manages the state-owned shares of the Company under SASAC's authorization.

During the period under review, the controlling shareholder and actual controller of the Company have not changed.

The following diagram depicts the property right and controlling relationship between the Company and actual controller:



CHANGES OF SHARE CAPITAL AND SHAREHOLDERS

III. OTHER INFORMATION

(I) Pre-emptive rights

As there is no provision for preemptive rights according to the Company's Articles of Association, the Company had not arranged any scheme for such right during the period under review.

(II) Warrants and others

During the period under review, neither the Company nor its subsidiaries have issued any warrants, convertible securities, options or other securities with similar rights, nor had any person exercised any right noted above.

(III) Purchase, sale or redemption of the Company's securities

Neither the Company nor its subsidiaries made any purchase, sale or redemption of the Company's securities during the year.

(IV) Sufficiency of public float

Based on the information that is publicly available to the Company as at the latest practicable date for preparation of this annual report and within the knowledge of the Directors, there was a sufficient public float of the Company's H-shares as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

I. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Basic Information

Name	Position	Gender	Age	Current Tenure Commencement date	Total remuneration received from the Company in 2009 (RMB)	Whether received any remuneration from shareholders of the Company (yes/no)
Li Zhushi	Chairman	Male	65	2008-05-13	300,000	Yes
Han Guangde	Vice chairman & president	Male	48	2008-05-13	977,019	No
Chen Jingqi	Executive director	Male	57	2008-05-13	901,751	No
Zhong Jian	Executive director	Male	47	2008-05-13	806,863	No
Yu Baoshan	Non-executive director	Male	49	2008-05-13	80,000	Yes
Pan Zunxian	Non-executive director	Male	56	2008-05-13	80,000	Yes
Miao Jian	Non-executive director	Male	45	2008-05-13	80,000	Yes
Wang Xiaojun	Independent non-executive director	Male	55	2008-05-13	100,000	No
Lee Sun-leung, Sunny	Independent non-executive director	Male	39	2008-05-13	100,000	No
Peng Xiaolei	Independent non-executive director	Male	58	2008-05-13	100,000	No
Fu Zhengping	Independent non-executive director	Male	45	2009-05-19	66,667	No
Wang Shusen	Chairman of the Supervisory Committee	Male	69	2008-05-13	200,000	Yes
Liang Mianhong	Executive supervisor	Male	56	2008-05-13	711,044	No
Liu Shibai	Executive supervisor	Male	58	2008-05-13	674,072	No
Ye Weiming	Non-executive supervisor	Male	47	2008-05-13	80,000	No
Fu Xiaosi	Non-executive supervisor	Male	49	2008-05-13	80,000	No
Chen Ji	Vice president	Male	43	2008-05-13	807,713	No
Yang Li	Vice president	Male	42	2008-05-13	826,500	No
Zhou Dusheng	Vice president	Male	54	2008-05-13	843,236	No
Chen Liping	Chief accountant	Male	43	2009-10-27	173,936	No
Li Zhidong	Company secretary	Male	44	2008-05-13	721,976	No
Total	–	–	–	–	8,710,777	–

The tenure ending date of the directors, supervisors and senior management of the Company disclosed above is the date of the commencement of the next term of the Board of Directors.

Director Mr. Chen Jingqi held 2,540 A shares at the beginning of the year 2009. Except for disclosed above, there are no directors, supervisors or senior management holding the shares of the company during the period under review.

The total remuneration received by directors, supervisors and senior management from the Company included basic remuneration, performance remuneration, special awards, housing accumulated fund, social pension and other insurance and subsidiaries. For details refer to note 34 "Employee Benefit Expense – Directors and supervisors' emoluments" stated in Notes to the Consolidated Financial Statements on page 230 to page 231.

Main experience of directors, supervisors and senior management

Directors-executive

Mr. Li Zhushi, male, aged 65, senior engineer (Professional Level), general engineer of CSSC, is currently chairman of the Board. Mr. Li graduated from Shanghai Jiaotong University in 1967 and joined Tianjin Xin Gang Shipyard in 1968. His prior work experience include being technician, deputy section chief, deputy factory director and factory director of Tianjin Xingang Shipyard, deputy general manager of China Shipping Trade Company, general manager of Hong Kong Hualian Marine Company Limited, and vice president of CSSC. Mr. Li joined the Company in 2005.

Mr. Han Guangde, male, aged 48, senior engineer (Professional Level), vice board chairman and president of the Company, graduated from Huazhong University of Science and Technology and joined Guangzhou Shipyard in 1983, and obtained a master degree of industrial engineering administration in 2002. He experienced as deputy director and deputy manager of the No. 2 Technical Office, deputy section chief, deputy manager, manager of the Shipbuilding Division, and vice president of the Company.

Mr. Chen Jingqi, male, aged 57, senior political officer, presently director and secretary of Party Committee of the Company, joined Guangzhou Shipyard in 1969, and graduated from Guangzhou Television University in 1987. He experienced as secretary of branch party committee of Coating Workshop, secretary of party committee of Container Division of Guangzhou Shipyard, deputy chairman and chairman of Labor Union, vice secretary of Party Committee and secretary of the Disciplinary Inspection Committee of the Company, and supervisor of the Company.

Mr. Zhong Jian, male, aged 47, senior engineer (Professional Level), director, vice president and deputy secretary of Party Committee of the Company. Mr. Zhong graduated from Shanghai Jiaotong University and joined Guangzhou Shipyard in 1983. He obtained a degree of MBA in 1993. He experienced as deputy chief economic engineer, manager of the Development and Investment Department, assistant to president, vice president of the Company, deputy manager and manager of Assets Management Dept. of CSSC.

Mr. Yu Baoshan, male, aged 49, senior engineer (Professional Level), presently assistant to president of CSSC, president of Guangzhou Shipbuilding Corporation (an affiliate of CSSC) and vice board chairman of Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd. He joined Guangzhou Shipyard in 1978, graduated from Guangdong Zhanjiang Aquatic College in 1982, and obtained a master degree of industrial engineering administration in 2002. He experienced as director in the Second Design Office of Guangzhou Shipyard, and deputy manager in Shipbuilding Division, vice president, president, president of Guangzhou CSSC Longxue Shipbuilding Co., Ltd, and vice board chairman of the Company.

Mr. Pan Zunxian, male, aged 56, senior economist, presently deputy director of the business & marketing department and vice president of Material Purchasing Department of CSSC. He joined in Shanghai Shipyard in 1971, and experienced as deputy secretary of Party Committee, and vice manager of Shanghai Shipyard, secretary of Party Committee of Chengxi Shipyard and secretary of Party Committee of Chengxi Shipyard Co., Ltd.

Mr. Miao Jian, male, aged 45, senior engineer, graduated from Shanghai Jiaotong University in 1987 and joined in Economy and Trade Office of 601 Institute of CSSC in the same year. Presently he is the deputy director of the Second Section in Financial Department of CSSC. Mr. Miao joined the Company in 2003.

Mr. Wang Xiaojun, male, aged 55, lawyer qualified to practice in the PRC, Hong Kong and the United Kingdom, graduated from the University of Hong Kong in 1992, and joined the Stock Exchange of Hong Kong Limited in the same year. He had worked for Richards Butler and Peregrine Finance Co. and the sole proprietor of X.J. Wang & Co., and now is copartner of Jun He Law Office. Mr. Wang joined the Company in 2005.

Mr. Lee Sun-leung, Sunny, male, aged 39, member of ACCA, the UK, and qualifying as Chartered Financial Analyst, the US. He was graduated from the Chinese University of Hong Kong in 1993 and has worked for NWS Infrastructure Management Limited, Hong Kong since 2003. Mr. Lee joined the Company in 2006.

Mr. Peng Xiaolei, male, aged 58, master degree, senior accountant (Professional Level). He graduated from Zhongnan University of Economics, and served for Hubei Material School, Guangdong University of Business Studies, China United Telecommunications Corporation Limited Guangdong Branch, Guangdong Transportation Group Co., Ltd., and now he is the vice president and chief accountant of Guangdong Guangye Assets Management Co., Ltd. Mr. Peng joined the Company in 2008.

Mr. Fu Zhengping, male, aged 45, economic doctor. He obtained economic master degree from International Economic Institute Nankai University in 1991, and joined Management College of Sun Yat-sen University, and majored in teaching and research of multinational business and enterprise stratagem management. He obtained economic doctor degree from Beijing Normal University in 2002, and presently is associate dean, professor and PhD candidates supervisor of Management College of Yat-sen University. Mr. Fu joined the Company in 2009.

Supervisors

Mr. Wang Shusen, male, aged 69, senior economist, graduated from Harbin Institute of Technology in 1966 and subsequently joined Zhongnan Optical Instrument Factory, experienced as a section member, deputy section chief, director of general engineer office and deputy manager of Zhongnan Optical Instrument Factory, general manager of Wuhan Shipbuilding Corporation, deputy director of financial department and financial director of the former China State Shipbuilding Company, deputy general manager, chief accountant of the CSSC. Presently, he is vice board chairman of CSSC Financial Co., Ltd. and chairman of the Supervisory Committee of the Company. Mr. Wang joined the Company in 2004.

Mr. Liang Mianhong, male, aged 56, senior political officer, currently a supervisor of the Company and the chairman of Labor Union of the Company. He joined Guangzhou Shipyard in 1969, graduated from Guangzhou Employee Spare-time University in 1987, experienced as clerical worker of Communist Youth League Committee and of the personnel department of Guangzhou Shipyard, clerical worker, deputy secretary and secretary of CCP committee mechanical factory branch, deputy manager of mechanical factory of Guangzhou Shipyard, secretary of CCP committee mechanical division branch, deputy manager of mechanical division of the Company, director assistant of CSSC Guangzhou Administrative Bureau, secretary of Party Committee shipbuilding division branch, the deputy manager of shipbuilding division of the Company and the deputy secretary of Party Committee.

Mr. Liu Shibai, male, aged 58, accountant, currently a supervisor of the Company, secretary of Supervisory Committee and deputy manager of Audit Department of the Company. He graduated from Guangzhou Finance School and joined Guangzhou Shipyard in 1975, and experienced as deputy section chief of Financial Section, deputy section chief of financial Department, director of Audit Office of Guangzhou Shipyard, director of Audit Office, supervisor of the first Supervisory Committee and Deputy Chief Accountant of the Company.

Mr. Ye Weiming, male, aged 47, lawyer, graduated from Zhongshan University and joined in Judiciary Department of Guangdong Province in 1986. He worked for Guangdong Zhujiang Law Office as a part-time lawyer between 1989 and 1994. He became a partner of Guangdong Sanzheng Law Office in September 1994 and he was transferred to Economy System Reform Committee of Guangdong Province in 1999. In July 2001, he established Gaungdong Xinyang Law Office and presently he is the director and senior partner of the office. He joined the Company in 2004.

Mr. Fu Xiaosi, male, aged 49, senior accountant, registered accountant, graduated from Huazhong University of Science and Technology in 1986. He has served for Zhongqing Wanxing Public Accountants, Limited and experienced as senior manager, department manager, deputy director accountant (senior partner) and presently is chief accountant of Hubei Tri-ring Co., Ltd.. Mr. Fu joined the Company in 2008.

Senior Management

Mr. Chen Ji, male, aged 43, senior engineer, currently vice president of the Company, graduated from Shanghai Jiaotong University in 1989 and joined Guangzhou Shipyard in the same year, and obtained a degree of MBA in 2001. He has experienced as ship repairing supervisor, assistant to production section chief of ship repairing factory of Guangzhou Shipyard, and assistant to production section chief, assistant to manager and deputy manager of ship repairing division, and assistant to president of the Company.

Mr. Yang Li, male, aged 42, engineer, graduated from Harbin Ship Engineering Institute and joined Guangzhou Shipyard in 1991, and obtained a degree of MBA in 2006. He experienced as technician of Technical Office of Guangzhou Shipyard, section chief, deputy manager and manager of Purchase Department in Shipbuilding Division of the Company, manager of Marketing Department and assistant to president of the Company.

Mr. Zhou Dusheng, male, aged 54, senior engineer, graduated from Zhenjiang Ship Institute and joined Guangzhou Shipyard in 1980, and obtained a master degree of MBA in 2003. He experienced as technician and deputy section chief of Technical Office of Guangzhou Shipyard, deputy manager of Quality Department, deputy manager of Engineering Department in Shipbuilding Division of the Company, deputy manager and director manager of Guangzhou Xinshun Shipping Service Company Limited, a subsidiary of the Company, assistant to manager, deputy manager and manager of Shipbuilding Division, manager of Shipbuilding Administration Department and assistant to president of the Company.

Chen Liping, male, aged 43, senior accountant, graduated from Harbin Institute of Technology in 1989, joined Guangzhou Wenchong Shipyard in the same year, and obtained a master's degree in business administration in 2002. He has served as deputy director of Administrative Office, deputy director of coating workshop of ship-repairing branch, deputy director, director and manager of human resource management department of Guangzhou Wenchong Shipyard, deputy manager, manager of financial department, vice chief accountant, chief accountant of Guangzhou Wenchong Shipbuilding Limited. Mr. Chen joined the Company in 2009.

Mr. Li Zhidong, male, aged 44, senior engineer, currently company secretary, assistant to president of the Company and director of Administrative Office. He graduated from Shanghai Jiaotong University in August 1987 and joined Guangzhou Shipyard in the same year. He obtained a degree of MBA in 1997, experienced as engineer of Accommodation section of ship design office, deputy manager of engineering department in shipbuilding division, assistant to the manager of Financial Department of the Company, deputy director of Administrative Office of the Company, and qualified as Fellow member of the Britain Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries in the year 2008.

(II) Positions in holding company

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Yu Baoshan	CSSC	Assistant to president	Since Jun. 2007	No
	Guangzhou Shipbuilding Corporation	President	Since Mar. 2006	Yes
	Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	Vice Board Chairman	Since Jun. 2005	No
	Guangzhou CSSC Yuanhang Wengchong Shipbuilding Engineering Co., Ltd.	Board Director	Since Nov. 2005	No
	Guangzhou CSSC Marine Diesel Engine Co., Ltd.	Chairman	Since Nov. 2008	No
Pan Zunxian	Business & Marketing Department of CSSC	Deputy Director	Since Aug. 2007	Yes
	Department of Purchasing of CSSC	Vice President	Since Jul. 2008	No
	Zhenjiang CSSC Equipment Co., Ltd.	Board Director	Since 2007	No
	Shanghai CSSC Mitsui Marine Diesel Engine Co., Ltd.	Board Director	Since 2007	No
	CSSC Chengxi Shipbuilding and Repairing Co., Ltd.	Board Director	Since 2006	No
Miao Jian	CSSC	Deputy Director of financial department	From Sep. 2001 to Dec. 2009	Yes
	CSSC Huanan Marine Mechanical Co., Ltd.	Board Director	Since Dec. 2006	No
Wang Shusen	CSSC Financial Co., Ltd.	Vice Board Chairman	Since Mar. 2004	No
	China CSSC Holdings Limited	Chairman of the Supervisory Committee	Since Jul. 2007	No

(III) Positions in other Companies

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Wang Xiaojun	Wang & Co., XJ	Sole Proprietor	From 2001 to Sep. 2009	Yes
	Jun He Law Offices	Copartner	Since Oct. 2009	Yes
	Norinco International Cooperation Company	Independent Director	Since Jun. 2008	Yes
	Zijin Mining Group Co., Ltd.	Independent Director	Since 2009	Yes
Lee Sun-leung, Sunny	NWS Infrastructure Management Limited	Senior manager	Since May 2006	Yes
Peng Xiaolei	Guangdong Guangye Assets Management Co., Ltd.	Vice President & Chief Accountant	Since 2002	Yes
	Guangdong Nanyue Logistic Co., Ltd.	Independent Director	Since Feb. 2004	Yes
Fu Zhengping	Management College of Sun Yat-sen University	Professor, Phd Supervisors, Associate Dean	Since Sep. 2005	Yes
Ye Weiming	Guangdong Xingyan Law Office	Lawyer, Partner	Since Jul. 2001	Yes
Fu Xiaosi	Hubei Tri-ring Co., Ltd.	Director, Chief Accountant	Since Sep. 2006	Yes

II REMUNERATION INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Decision-making Procedure of Remuneration of Directors, Supervision and Senior Management

1. The Emolument and Examination Committee of the fifth term of the Board of Directors formulated "*Remuneration Scheme for Senior Management of the Sixth Term of the Board*" and "*the Basic Remuneration Scheme for Senior Management of the Sixth Term of the Board*", and revised "*the Performance Examination Rules of Senior Management*". "*the Basic Remuneration Scheme for Senior Management of the Sixth Term of the Board*", and revised "*the Performance Examination Rules of Senior Management*" implemented after approval by the Board while "*Remuneration Scheme for Senior Management of the Sixth Term of the Board*" implemented after approval by general meeting of shareholders.

2. The Emolument and Examination Committee examines the performance the executive directors, internal supervisors and senior management in the previous year in accordance with "*the Performance Examination Rules of Senior Management*", determines their performance coefficients and performance remunerations, and reported to the Board for consideration.

3. The Emolument and Examination Committee proposes to issue special annual awards to the executive directors, internal supervisors and senior management in accordance with the market situation, performance result of the Company as well as the total remunerations.

4. The Board approved the performance remunerations and/or annual special awards.

(II) Decision-making Basis of Remuneration of Directors, Supervision and Senior Management

The remuneration of current directors, supervisors and senior management is based on the "*Remuneration Scheme for Senior Management of the Sixth Term of the Board*", "*the Basic Remuneration Scheme for Senior Management of the Sixth Term of the Board*" and "*the Performance Examination Rules of Senior Management*".

The remuneration scheme for the sixth term senior management is as follows:

The basic remuneration of each of the sixth term executive directors, internal supervisors and senior management will be between RMB210,000 and RMB300,000 for the first year of the term, and will be adjusted in accordance with the performance of the Company for the second and third years, but will not be less than 90% of that in the first year nor exceed 120% of that in the previous year.

The Company may, in the absolute discretion of the Board of Directors, pay the executive directors, internal supervisors and senior management a discretionary year-end bonus based on the performance of the Group but such bonus will not exceed 3 percent of the Group's consolidated profit after taxation and minority interests (before payment of the bonus) minus any net extraordinary loss of the Group but taking no account of any net extraordinary gain of the Group for each financial year of the Group during the three-year period of the term.

The emolument of each independent non-executive director is RMB100,000, and that of each non-executive director, the chairman of Supervisory Committee and each external supervisor is RMB80,000, RMB200,000 and RMB80,000 respectively.

(III) The highest paid individuals

During the period under review, the five individuals whose emoluments were the highest in the Company for the year include five directors or supervisors or senior management whose emoluments are reflected in "Basic information" mentioned above and in note 34 "Employee Benefit Expense" (Five highest paid individuals) of the Notes to the Consolidated Financial Statements on page 232.

III. INFORMATION ON CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Status	Reasons
Chen Xin	Independent Non-executive Director	resignation	Job relocation
Fu Zhengping	Independent Non-executive Director	appointment	–
Zeng Xiangxin	Chief Accountant	resignation	Job relocation
Chen Liping	Chief Accountant	appointment	–

IV. OTHER INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Interests of directors, supervisors and senior management

Except as disclosed above under "Information of Directors, supervisors, senior management and staff", at no time during the year up to December 31, 2009 had the Company been notified that any director, supervisor or member of senior management (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 equity or debt securities of the Company and or associated corporations (within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers or which were required to be entered in the register required to be kept under section 352 of the SFO.

(II) Service contracts of directors and supervisors

None of the service contracts which was entered into between the Company and the sixth term of the Board of Directors, Supervisory Committee was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

(III) Interests of directors and supervisors in contracts

During the year, no contracts of significance in relation to the Company's business, to which the Company and its subsidiaries were a party, and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, were in existence.

V. STAFF OF THE COMPANY

(1) The number of employees and their emoluments

	Number
The number of the registered employees	3,498
the number of retired employees whose expenses undertaken by the Company	3,124

Professional Structure	**Number**
Manufacturing staff	1,380
Marketing staff	29
Technical staff	1,493
Financial staff	49
Administrative staff	352

Educational Structure	**Number**
Vocational Education	165
College Education	535
Bachelor Education	954
Graduate Education	51

The emoluments of the employees of the Group include their salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

(II) Employees' pension scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since January 1, 1994. Under the scheme, during the period under review, the Company had made contributions to the scheme at the rate of 18% of the total salary (for purpose of calculating pensions, of all working employees). Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province. The contribution made by the Group for 2009 was RMB63,238,187.55 (2008: RMB57,923,687.93). In addition, during the year the Company had made payments of RMB1,617,738 (2008: RMB1,796,887.58) as subsidies to retirees.

(III) Purchase of staff quarters by employees

Guangzhou Shipyard owns staff quarters occupied by employees of the Company. The sale of staff quarters to the Company's employees by Guangzhou Shipyard are in accordance with the State and Guangzhou City's housing reform policy and the Company was not involved in the selling of staff quarters to the employees.

The Company has issued housing subsidy on a monthly basis to employees who have not obtained welfare quarters and processed relevant applications since January 2001 in accordance with the spirit of the "Notice in relation to Implementing of Matters Concerning Housing Subsidies" (Document No. 18 of 2000) issued by the Guangzhou Municipal Government, and the Company's "Housing Subsidies Implementation Measures".

Pursuant to the document (Sui Fu【1998】21) issued by Guangzhou Municipal Government, where as employees had not received full housing subsidy as at retirement, his original employer should continue to pay the retired employee a monthly housing subsidy at the rate that s/he was entitled to at the time of retirement, for a period for 25 years. The twelfth meeting of the sixth term of the Board held on August 20, 2009 approved the lump-sum provision in the amount of approximately RMB23.46 million for unpaid housing cash subsidies for 476 employees who retired between January 2001 to June 2009 after discounting, and provisions shall be made monthly for unpaid housing cash subsidies for employees retiring in current month after discounting as from July 2009.

(IV) Basic medical insurance

During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance scheme managed by Guangzhou Municipal Labor Protection Administration Department and paid insurance amounting to RMB30.22 million for its employees.

(V) Enterprise annuity

In order to improve the company's compensation system, enhance cohesion, the implementation of long-term incentive to achieve to share the interests of the Company with its workers, the company formulated the enterprise annuity system, and implemented in the fourth quarter of 2007. As at December 31, 2009, the Company had paid into the enterprise annuity amounting to approximately RMB33 million totally.

CORPORATE GOVERNANCE

I. CORPORATE GOVERNANCE INFORMATION

The Company always strictly conforms to the Company Law and the Securities Law of the PRC, relevant Regulations issued by the China Securities Regulatory Commission and the listing rules of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited by actively monitoring its corporate governance structure, and standardizing its operations. During the period under review, the Company has strictly complied with all code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During 2009, the activities in relation to corporate governance of the Company are as follows.

(I) Continuing rectification

In 2009, the Company continuously carried out corporate governance rectification in accordance with the routine operating situation and the requirements of Guangdong Securities Regulatory Bureau of China Securities Regulatory Commission. The Company rectified the defects which were disclosed in 2008 and further improved the control programs regarding information disclosure by management of connected transactions, strengthened its management system as well as improved the corporate governance of subsidiaries to promote the governance level of the Company.

(II) Systems improvement

1. Amended "the Annual Report Working Process of Audit Committee of the Board of Directors", solidifying the Audit Committee's right and liability for the auditors' appointment, and its role of monitoring the annual audit.

2. Amended "Information Disclosure Management System" and added "Insider Information Confidentiality Agreement" as its attachment. These increased the requirements of disclosing the information in relation to individual and shareholding exchange of the shares of the Company by directors, supervisor and senior management, standardized the reporting of information, standardized confidentiality reminders and standardized the recording of external information, targeted at insiders on the whole.

3. Established "the System in Relation to Shareholding and Exchange of the Shares of the Company by Directors, Supervisor and Senior Management" in accordance with relevant requirements of regulatory organizations both of Shanghai and Hong Kong.

4. Established a training record for directors, supervisor and senior management to understand their training information timely.

5. Amended "the Articles of Association" and "the Investor Relationship System" in accordance with E-submission implemented at the Stock Exchange of Hong Kong Limited and the organization adjustment of the Company.

(III) Items under improvement

1. To establish an accountability system for significant errors in the annual report disclosures

Pursuant to the requirements of China Securities Regulatory Commission, and the information disclosure inspection special activities carried out by Guangdong Securities Regulatory Bureau, the Company will amend the "Information Disclosure Management System", which will increase terms of accountability for significant errors of annual report disclosure, strengthen the investigation and accountability by the person in charge of annual report information disclosure for improving the quality as well as openness of annual report. This work shall be finished before September 30, 2010 and the Company Secretary Mr. Li Zhidong will be in charge.

2. To improve and sign the "Insider Information Confidentiality Agreement"

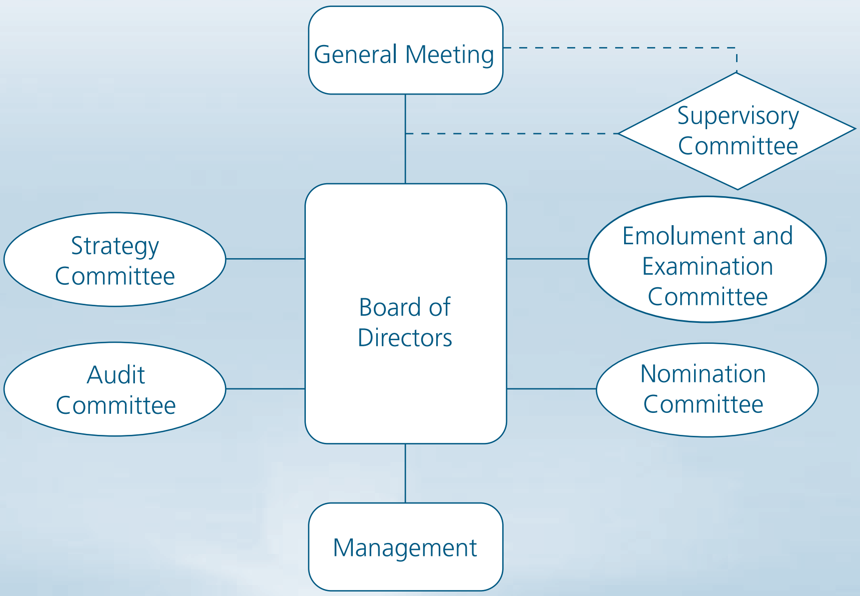
For ensuring the secrecy of insider information, the Company will extend the confidentiality obligations of each relevant department by grade and ask each insider to sign the "Insider Information Confidentiality Agreement".

This work is scheduled to be finished before December 31, 2010 and the Company Secretary Mr. Li Zhidong will be in charge.

3. To establish an internal accountability system

Pursuant to relevant requirements of "Notice Concerning Further Promoting Special Corporate Governance of the Listed Companies "issued by Guangdong Securities Regulatory Bureau, the Company is working to establish an internal accountability system, which is being researched presently. This work should be finished before December 31, 2010 and the President Mr. Han Guangde will be in charge.

II. CORPORATE GOVERNANCE STRUCTURE



(I) Shareholders and General meetings

1. Shareholders

The Company treats all shareholders equally and ensures that all shareholders have the right to be informed of, and to make decisions on, material matters relating to the Company. The Company ensures that all shareholders, particularly medium and small shareholders, have the right to speak, enjoy equality and may fully exercise their rights. The notification, authorization and deliberation of general meetings complied with the relevant procedures.

CSSC, as the controlling shareholder of the Company, conducts its activities in a regulated manner. It has never been involved in any acts of bypassing the general meeting or interfering, whether directly or indirectly, with the Company's policy decisions or operations. The Company and the controlling shareholder are independent of each other in terms of personnel, assets, finance, institution and business. The information about CSSC and other substantial shareholders as at the end of the period under review are set out in "Changes of Share Capital and Shareholders" of this Annual Report.

2. Independence from the controlling shareholder

Business independence	The Company operates independently, owns independent and integrate business structure, and has no competition with the controlling shareholder or its subsidiaries.
Personnel independence	The Company established integrate independent labor, personnel and emolument system, and manages the personnel, performance examination, and emolument distribution independently.
Assets independence	The fixed assets and intangible assets such as industry property right, brand and patent of the Company are strictly separated from the controlling shareholder. The Company possesses entire independent system of production, purchase and sale.
Institutional independence	The Company owns perfect organization system, the Board of Directors and Supervisory Commission and inner organization operate independently without any control or influence of other parties.
Financial independence	The Company has separate financial department, entire dependent accounting and financial management system as well as separate bank accounts.

3. *Shareholders' general meeting*

The Board endeavors to maintain on-going communications with shareholders and regards the annual general meeting as a major opportunity to contact individual shareholders. All shareholders holding shares of the Company are entitled to attend the annual general meeting.

The Company issues the notice of general meeting and shareholders' circular at least 45 days and 21 days respectively before a general meeting, which contain the matters for consideration at the meeting and the voting procedures in detail. Separate resolutions were proposed at the general meeting and voted on by way of poll on each substantially separate issue, including the election of individual directors. The chairman of the Board attends and presides over the annual general meeting and arranges for representatives of independent directors and the management of the Company to answer questions raised by shareholders at the meeting. The voting format and the voting procedures of shareholders' general meetings has been specified in the "Articles of Association" and "Rules of Proceedings for General Meetings", contained in the shareholders' circular and explained at the meetings.

The Company confirms the validity of all the voting shares present at the meeting and appointed a supervisor, an external auditor and shareholders as scrutineers to properly count and record the valid votes. The Company's PRC lawyer's issue letters of legal opinions on the final voting results, and the voting results are published in designated newspaper and websites.

For details of general meetings held in 2009 refer to "Brief Introduction to the General Meeting Information" in this Annual Report.

(II) Board of Directors and Directors

1. *Board of Directors*

The Board is in its sixth term since the establishment of the Company, and is composed of eleven directors, including four executive directors, three non-executive directors and four independent non- executive directors. Members of the Board have different industry backgrounds with expertise in corporate management, finance and accounting, investment and strategy, shipbuilding management and law affairs, etc.

The Board reports to shareholders' general meetings, fully representing the interests of shareholders and formulates the Company's development strategies in strict compliance with the "Rules of Proceedings for Board of Directors Meetings" within its terms of reference as stipulated by the Articles of Associations. The Board also monitors the implementation of the Group's operation management and its financial performance, with the primary mission of achieving operating results that generate the best stable long-term returns.

The roles of the chairman and the president are undertaken by different persons, whose responsibilities are clearly defined and separated while set out in detail in the Company's Articles of Association, the "Rules of Proceedings for Board of Directors Meetings" and "Detailed Rules for the Operation of President", ensuring the independence of the Board in decision-making as well as the independence of the management in routine operation management activities.

2. *Board meetings*

In 2009, the Company held eight Board meetings, which included four regular meetings and four extraordinary meetings, to discuss the Group's development strategies, investment projects and the operational and financial performance of the Company. The Board meetings proceeded efficiently and arrived at prompt and prudent decisions. During the period under review, the four independent non-executive directors had no objection to decisions of the Company.

Attendance at meetings of the Board and its special committees (attendance in person/number of meetings):

Name	Board meetings	Audit Committee	Emolument and Examination Committee	Strategy Committee	Nomination Committee
Directors					
Li Zhushi *(Chairman)*	7/8	–	–	2/2	–
Han Guangde *(President)*	8/8	–	–	2/2	–
Chen Jingqi	8/8	–	–	2/2	–
Zhong Jian	7/8	–	–	2/2	2/2
Yu Baoshan	6/8	–	1/1	–	–
Pan Zunxian	8/8	–	–	2/2	–
Miao Jian	7/8	3/4	–	–	–
Independent Directors					
Wang Xiaojun	7/8	–	–	–	2/2
Lee Sun-leung, Sunny	8/8	3/4	–	–	–
Chen Xin (Note 2)	3/3	–	1/1	–	1/1
Peng Xiaolei	8/8	4/4	1/1	–	–
Fu Zhengping (Note 2)	5/5	–	–	–	1/1

Notes:

(1) Directors who had been unable to attend the meetings in person had appointed other directors as their proxies to attend and vote at the meetings on their behalf.

(2) The 2008 Annual General Meeting held on May 19, 2009 approved the resignation of Mr. Chen Xin as independent non-executive director and the election of Mr. Fu Zhengping as independent non-executive director of the Company.

The notice of regular Board meeting were given 14 days before the meeting, and the notice of the extraordinary Board meeting was also given within a reasonable time before the meeting to ensure that all directors were given an opportunity to attend.

The Company Secretary is responsible for preparing and maintaining all minutes and the relevant meeting materials of the Board and its committees which are available for inspection by any director at any reasonable time. The minutes of meetings reflect objectively the consideration, voting and opinions given by the directors in detail and are duly signed by directors attending the meetings. The connected directors abstained from voting on connected transactions at meetings of the Board.

The management reports operation information to the Board monthly, and reports the progress of significant events and present operation situation on regular meetings. The directors, as well as the special committees of the Board, may seek the advice of independent professional institutions in the course of exercising their powers, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

3. Directors

Directors are elected or replaced at general meetings and the elections of directors are conducted by way of cumulative voting. The directors are appointed for a term of three years, and may offer themselves for re-election after the serve terms expire. Only appointees not related to the Company's management and substantial shareholders in any aspect would be selected as independent non-executive director and independent non-executive directors are eligible for re-election subject to a maximum of six consecutive years. There exists no relationship among Board members, including financial, operational, family or other relevant material relations. The individual resume and service term are set out in "Directors, Supervisors, Senior Management and Staff" of this report.

Through the company secretary, all directors obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that directors of a listed company must comply with, ensuring understanding of their duties and assuring thorough implementation of procedures of the Board and due compliance with applicable laws and regulations.

The Company has strictly complied with the relevant restrictive provisions imposed by Hong Kong and PRC regulatory organs in relation to securities transactions by directors. During the period under review, the Company established "the Regulations in Relation to Shareholding and Changes in Shareholding of the Company by Directors, Supervisors and Senior Management". The Company has made specific inquiries of all directors and they have confirmed that they have complied with "the Model Code for Securities Transactions by Directors of Listed Companies", and have not traded in the shares of the Company during the trading restriction period such as regular reports announcements, profit warning, and other significant events announcements during the period under review.

4. *Independent Directors*

The independent non-executive directors of the Company are familiar with the rights and obligations as independent non-executive directors of a listed company. During the period under review, they all participated in the meetings of the Board in a highly conscientious and responsible manner, gave to the benefit of the Company their experiences and special knowledge in their work of achieving the corporate governance and making significant decisions, issued pertinent and external opinion on relevant matters such as significant events and connected transactions, improved the decision-making of the Board and its decision process, ensured the benefit of the shareholders and the Company as a whole. The four independent non-executive directors occupy positions in the special committees established under the Board.

The nomination, election, change, independence, working requirements, rights and responsibilities of independent directors are regulated clearly and set out in "the Articles of Association", "Rules of Proceedings for Board of Directors Meetings" and "Work Code of Independent Directors". The Company has established "Annual Report Work Regulation of Independent Directors", which has been implemented for two years. During the annual report compilation and disclosure process, all independent directors participated in independent directors working day activities, site visits and attended debriefings by the management and communicated with auditors regarding the production and business situation as well as significant events, performed their responsibilities faithfully and improved the information disclosure quality effectively.

The four independent non-executive directors have confirmed to the Company that they continued to satisfy the independence criteria as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year 2009.

(III) Special committees of the Board

The Board has set up four special committees. The Board selects and appoints members of each committee by taking into account the expertise and experience of each director so that each committee can commence its work with high efficiency. Each committee has defined implementation rules for operation which deal clearly with the committee's authority and duties as well as the procedures for handling matters. Each committee has established work team to assist the committees' work. For the attendance of directors at meetings of the special committees of the Board please refer to "Attendance at meetings of the Board and its special committees".

1. Audit Committee

The principal responsibility of the Audit Committee is assisting the Board to review the financial reporting procedure, the performance effect of the internal control and risk management system, inspect the audit program and communicate with internal accountants and external auditors independently.

The Audit Committee of the sixth term of the Board comprises two independent non-executive directors Mr. Peng Xiaolei (chairman) and Mr. Lee Sun-leung, Sunny, and a non-executive director Mr. Miao Jian. All of them have expertise and experience in financial management, and none of them is a former partner of the external auditors.

The Company established the "Implementing Rules for Audit Committee" and "the Annual Report Working Process of Audit Committee of the Board of Directors". The "Implementing Rules for Audit Committee" sets out the composition, responsibility and rights, decision-making procedure and consideration rules in detail. The "Annual Report Working Process of Audit Committee of the Board of Directors" sets out the responsibility and working procedure of annual financial audit and reappointment of changing annual auditors.

During 2009, the Audit Committee held four meetings, at which management, domestic auditors and/or international auditors reported financial situation and relevant significant events of internal control. All matters considered at the committee meetings have been properly recorded and filed as well as signed by the members. The chairman of the committee reported to the Board on significant matters discussed. During the annual audit of 2009, the Audit Committee completely performed its responsibility in accordance with the "Annual Report Working Process of Audit Committee of the Board of Directors". Major tasks accomplished by the Audit Committee during the period under review are as follows:

– Reviewing the annual, interim and quarterly reports and financial statements of the Group;

– Reviewing the accounting policies and practices adopted by the Group and related matters;

– Checking and ensuring the connected transactions of the Company are fair, impartial and open, offering sufficient protection to the interests of minority shareholders;

– Assisting the Board to conduct independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control systems;

– Providing opinions or reminding the management of related risks in respect of significant matters of the Company.

2. Strategy Committee

The Strategy Committee is principally responsible for examining and reviewing the directions of the Company's strategic development, formulating the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The Strategy Committee comprises four executive directors Mr. Li Zhushi (chairman), Mr. Han Guangde, Mr. Chen Jingqi and Mr. Zhong Jian, and a non- executive director Mr. Pan Zunxian, all of them have served shipbuilding enterprises for decades, and have rich experience in shipbuilding management, technology, production and marketing.

During the year 2009, the Strategy Committee held two meetings which considered the strategic development and the future five year development scheme.

3. Nomination Committee

The Nomination Committee is principally responsible for selecting the candidates for the directors and the president and for choosing the selection standard and process of the directors and the president.

The Nomination Committee is responsible for scouting suitable candidates from the Company, its controlled entities and the market in accordance with the demand for directors and the management personnel required by the Company, collects information on the profession, education qualification, professional title and working experience, etc of the candidates and seeks consent from the candidates. Afterwards, the Nomination Committee will hold nomination committee meetings to review the qualification of the candidates. If the candidates pass the review, the Nomination Committee will make a recommendation to the Board to hire the candidates, or the Board will make a recommendation to the general meeting to hire the candidates.

The Nomination Committee comprises two independent non-executive directors Mr. Wang Xiaojun (chairman), and Mr. Fu Zhengping, and an executive director Mr. Zhong Jian.

The Nomination Committee held two meetings in the year 2009 to discuss the nomination of the persons for independent director candidate, members of the special committees of the board and chief accountant, and put forward proposals to the Board of Directors.

4. Emolument and Examination Committee

The Emolument and Examination Committee is principally responsible for researching examination standard of the directors, supervisors and senior management of the Company, examining them and putting forward proposals, researching and examining remuneration policies and scheme of the directors, supervisors and senior management of the Company.

The Emolument and Examination Committee comprises two independent non-executive directors Mr. Peng Xiaolei (chairman) and Mr. Fu Zhengping, and a non-executive director Mr. Yu Baoshan.

In 2009, the Emolument and Examination Committee held one meeting to discuss and determine the year-end reward scheme for executive directors, internal supervisors and senior management, the special reward scheme to crucial staff for the year 2008 and the remuneration scheme for the Sixth Term Senior Management.

(IV) Control mechanisms

1. Supervisory Committee

The Supervisory Committee is in its sixth term since the establishment of the Company, and was elected by the 2007 annual general meeting. The Supervisory Committee is composed of five supervisors, including three external supervisors and two staff supervisors.

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The Supervisory Committee held four meetings during 2009; each attended by all supervisors in person and carried out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the directors and senior management. All supervisors attended all Board meetings and general meetings, and diligently performed its supervisory duties. For information on their work refer to "Supervisory Committee Report" in this Annual Report.

2. Building of Internal Control System

The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the control procedures for financial, operational and supervisory matters. Such internal control system is implemented by management upon the authorization of the Board and the effectiveness of the internal control system is reviewed by the Audit Committee.

The Company has designed an integrated internal control system adapted to its current mode of manufacturing, operating, and managing the Company, to ensure that decision-making and administration meet modern corporation governance levels. The internal control system includes management systems such as shareholders' general meeting, the Board and its professional committees, operations, financial, R&D, investment, human resources, purchasing, connected transactions and information disclosure. The internal control system has supplied a reliable guarantee for systematic decision-making on manufacturing and operations of the Company after years of practice with continuous improvement and enhancement.

The Company has established an internal audit department. Depending on the materiality of potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, supervision and evaluation of the Company's financial information disclosure, operations and internal control activities on a regular or as-needed basis, with the purpose of ensuring transparency in information disclosure, operational efficiencies and effectiveness of the corporate control regimes. It furnishes independent and objective evaluations and recommendations in the form of audit reports.

At present, the Company has formed comparatively complete internal control system. The concept and style of the operations management, the structures of organization and duties of divisions, the relevant internal control system, internal and external communications as well as the human resource management policy have formed the internal control environment of the Company. In order to collect, analyze, classify, measure, record, and report transactions, reflect the management's operation performance and the liability in keeping relevant assets and liabilities under commission, the Company established relevant methods and records which composed the accounting system of the Company. To ensure the internal control system is effectively implemented and fulfilled, the management of the Company has used means including ratifying, authorizing, verifying, coordinating, checking, periodic checking, record checking, property protection, responsibility separating, performance examination and the independent audit system, which composed the internal control procedures of the Company. The internal control environment, accounting system and control procedures are the key elements of the integrate internal control system of the Company. The Company has staff with rich experience in financial report.

3. *Internal Review and Self-evaluation Report on Internal Control*

In accordance with the Internal Control Framework of the Company, the Company shall review its internal control once a year and report on the same to audit committee and the Board. The Administrative Management, Audit Department, Enterprise Planning Department and Shipbuilding Management Department are in charge of the review and supervision of the internal control of the Company.

In 2009, the Company rectified deficiencies which were found during the internal control review in 2008. Besides, the Company carried out 2009 internal control review focusing on risk avoidance, human resources management, capital gain and cost control as well as considering the negative effect from financial crisis to shipbuilding industry, and set out the internal control emphases for 2010. The internal control review report is the working manuscript of the Self-evaluation Report on Internal Control.

The Board considers that the Company has formed comparatively complete internal control system, which was performed effectively, controlled various risks reasonably and improved the achievement of the operating and financial strategy. Moreover, with its internal supervisory mechanisms, the system can be amended and improved continuously with the development of the business, and provide a platform for the development of the Company. The Company has not appointed professional organizations to verify and appraise the internal control situation of 2009.

4. Auditors

In 2009, the domestic auditors of the Company, Ascenda Certified Public Accountants, Ltd.* (天健光华（北京）会计师事务所有限公司), has merged with Zhonghe Zhengxin Certified Public Accountants, Ltd.* (中和正信会计师事务所有限公司), which is the continuing legal entity and the merged entities was renamed Ascenda Certified Public Accountants, Ltd.* (天健正信会计师事务所有限公司). For ensuring the continuity for the audit work, the First Extraordinary General Meeting of 2009 approved the appointment of Ascenda Certified Public Accountants, Ltd.* (天健正信会计师事务所有限公司) as domestic auditors of the Company for the year 2009.

The international auditors of the Company for the year 2009 is still PricewaterhouseCoopers, Certified Public Accountants, which has provided 17 years of audit services for the Company.

During the period under review, audit services in respect of connected transactions, external guarantee and other matters were provided to the Company by the domestic or international auditors (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally), but no non-audit services were provided.

The financial statements for the year of 2009 were prepared in accordance with PRC Accounting Standards and Regulations and the HKFRS, which have been audited by Ascenda Certified Public Accountants, Limited* (天健正信会计师事务所有限公司) and PricewaterhouseCoopers, Certified Public Accountants respectively, for which the Company has paid RMB0.79 million and RMB2 million respectively. The certified accountants who signed on the domestic audit report in 2009 Annual Report are Mr. Chen Gang and Mr. Song Yong.

* English name for identification purposes only.

5. Chief Accountant

The chief accountant oversees all financial matters of the Company and is accountable to the president. The chief accountant is responsible for preparing financial statements in accordance with the PRC Accounting Standards and Regulations and HKFRS and in compliance with relevant provisions of The Stock Exchange of Hong Kong Limited, China Securities Regulatory Commission and Shanghai Stock Exchange. The chief accountant is also responsible for organizing the preparation of the Company's annual budget plans and annual accounts and monitoring the implementation of annual financial and operational plans. The chief accountant is also required to collaborate with the Board in the formulation of relevant internal control systems and to make recommendations thereof to the Board.

(V) Others

1. *Investor relationship*

The Company believes that the core of the investor relationship is effective communication; and full information disclosure is the basis of good investor relationship. In 2009, the Company has improved "Information Disclosure Management System" and "Investor Relationship Management System", to strengthen insider information management and ensure openness, fairness and impartiality in information disclosure and to enhance transparency. The company secretary and securities affairs representative are responsible for information disclosure of the Company and reception of visiting shareholders and investors.

2. *Training of directors, supervisors and senior management*

The Company emphasizes training of directors, supervisors and senior management to enhance standard operation and improve corporate governance. In 2009, seven directors, supervisors and senior managers of the Company attended training courses for directors, supervisors, senior managers and independent directors held by Guangdong Securities Regulatory Bureau, Hubei Securities Regulatory Bureau of China Securities Regulatory Commission and Shanghai Stock Exchange.

3. *Examination and motivation of senior management*

The Company established "Remuneration Scheme for the Sixth Term Senior Management" and "the Performance Examination Rules of Senior Management", and combined their performance and the results of the Company with their annual performance remuneration together, to motivate them to make concerted efforts and devote themselves to the sustainable healthy development of the Company.

4. *Social Responsibility*

The Company adheres to legal and ethical operation. Concurrently with seeking profit maximization, the Company actively protects the legal interest of investors, creditors and its staff, treats customers and suppliers in good faith, engages in environment protection and carries out green shipbuilding, provides social service, to advance harmonious development of the Company and the society.

III. CONCLUSION

The corporate governance system adopted by the Company is an indication of the standard in managing and operating its business. Good corporate governance contributes to the healthy development of a company and enhances investors' confidence in the company. To be effective in corporate governance, relevant measures must be reviewed on a regular basis to ensure that they are in tandem with market trends and requirements of regulatory authorities. It is a long-term goal of the Company to achieve unwavering corporate system leadership, through establishing and improving upon a modernized corporate system. As such, we will continue to enhance corporate governance as part of our efforts to ensure stable development and to increase shareholders' value.

BRIEF INTRODUCTION TO THE GENERAL MEETINGS

I. ANNUAL GENERAL MEETING AND CLASS MEETINGS

The 2008 Annual General Meeting, the first class meeting of domestic shares of 2009 and the first class meeting of foreign shares of 2009 were held at the conference room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, the PRC on May 19, 2009 at which the following resolutions were passed.

1. 2008 Annual General Meeting

(1) Approved the annual report for the year 2008.

(2) Approved the proposal for profit distribution for 2008–after deduction for purposes of statutory public welfare fund, a dividend of RMB0.45 on each ordinary share to be paid.

(3) Amended the Articles of Association of the Company.

(4) Approved the termination of the Proposed Rights Issue and the Proposed Acquisition approved on August 18, 2008.

(5) Approved the resignation of Mr. Chen Xin as independent non-executive director of the Company and appointed Mr. Fu Zhengping as independent non-executive director of the Company.

(6) Reappointed the domestic and international auditors for the year 2009.

2. The First Class Meeting of Domestic Shares of 2009

Approved the termination of the Proposed Rights Issue and the Proposed Acquisition.

3. The First Class Meeting of Foreign Shares of 2009

Approved the termination of the Proposed Rights Issue and the Proposed Acquisition.

The announcement in relation to the resolutions passed at the meetings had been published on May 20, 2009 in the Shanghai Securities News, the website of Shanghai Securities Exchange (www.sse.com.cn) the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinagsi.com).

II. EXTRAORDINARY GENERAL MEETING

The first extraordinary general meeting of 2009 was held at the conference room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, the PRC on December 29, 2009 at which the following resolutions were passed:

1. Approved the framework agreement for continuing connected transactions for 2010 to 2012 between the Company and China State Shipbuilding Corporation.

2. Approved the appointment of Ascenda Certified Public Accountants, Ltd* (天健正信會計師事務所有限公司) as domestic auditors of the Company for the year 2009.

The announcement in relation to the resolutions passed at the meeting was published on December 30, 2009 in the Shanghai Securities News, the website of Shanghai Securities Exchange (www.sse.com.cn) the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinagsi.com).

* For identification purpose

REPORT OF THE BOARD OF DIRECTORS

I. DISCUSSION AND ANALYSIS OF OPERATIONS DURING THE PERIOD UNDER REVIEW

(I) General Situation and Result

In 2009, because of the global economic crisis, the shipbuilding market was still depressed. For sustainable development and to overcome the economic crisis, the Company improved the internal capability and strengthened its internal management as well as enhanced the technological research and development, intensified efforts to construct and produce vessels that satisfy the PSPC requirements, promoted shipbuilding efficiency and duty analysis and the construction of Zhongshan GSI Marine Engineering Company Limited ("Zhongshan Company"), strived in marketing, operating, quality, cost control and risk avoiding, and gained satisfactory results. Furthermore, the Company carried out new strategy research and formulated the development target of the Company in the coming future.

As at December 31, 2009, the operating income and turnover of the Group prepared in accordance with PRC Accounting Standards and Regulations and HKFRS respectively amounted to RMB6.553 billion (of which the principal operating income amounted to RMB6.459 billion), representing a decrease of 6.17% over that of last year. The audited consolidated net profit attributable to shareholders and the profit attributable to shareholders after taxation and minority interests both amounted to RMB515 million, representing a decrease of 37.23% over that of last year. The earnings per share and that after deduction of exceptional items were RMB1.04 and RMB1.01 respectively.

1. Main work and results in 2009

- The Company promoted the application of design management system, strengthened design planning control, enhanced organization & coordination, overcame the difficulties from labor shortages, schedules delay, inspection difficulties, adjustments of production scheme and constructions of vessels satisfying PSPC, and achieved the shipbuilding production of commencing construction work on 21 vessels, launching 16 vessels, completing 17 vessels and delivering 15 vessels.

- The Company promoted the construction of vessels that satisfied the PSPC and implemented Regulations of Construction of Vessel satisfying the PSPC, improved steel plate pretreatment line facilities, formulated Regulations on Paint Protection, drew up PSPC Operation Instruction of Dock Erection, and promoted shipbuilding operation with the purpose of obtaining the certificates of PSPC, and had made certain progress.

- The Company adjusted the marketing positioning, further strengthened the optimization and improvement of MR tankers and focused on the research and development of special vessels. In 2009, the Company secured the shipbuilding orders for 4 special vessels which reduced the adverse effects of the depressed tanker market. As at December 31, 2009, the Company has 52 vessels' construction orders in hand, with a total tonnage of 2,212,700dwt and the delivery dates till year 2012.

- The Company strengthened risk prevention, introduced economy and law affairs management system and standardized contract management procedures, enhanced real-time analysis and control of contracts in hand, and adjusted the delivery dates of the vessels rationally. Besides, the Company actively utilized national policies, offered assistance to foreign ship owners with their financing and loans with banks in China, solved their financing difficulties and insured the orders in hand of the Company.

- The Company adjusted the marketing strategy of non-shipbuilding operation, focusing on shield machine facilities, environment-friendly products, traditional electrical & mechanical products, new-energy products and marine engineering products, achieved success on key technology of large-size shield machines and obtained construction contracts of shield machines.

2. *Adjustment of Strategic Goal*

As realized the goal of "to be No.1 enterprise in China and the No. 3 enterprise in the world in designing and building handy-size tankers" and faced with the fluctuation of the market, the Company appointed a strategic consulting company to analyze the strengths, weaknesses, opportunities and threats of the Company by comparison with shipbuilding companies in Japan and South Korea in 2009.

After consideration of limited scale, single growth pattern and undefined development strategy of the non-shipbuilding operation, the Company made the new strategic target and scheme, which is to be a famous enterprise with advanced technology and excellent service in the segment of small & middle size vessels through optimizing the operation structure in the coming five years to creating the second pillar of the operation, to become an important base of building special vessels in South China, and striving to form four main operations of shipbuilding, heavy machinery, service industry and oceanographic engineering.

3. *Technical Innovation and Energy-saving & Environment protection*

In 2009, the Company made breakthrough technological research, gained most project determinations with a national research project, three ministry-level projects, a province-level project and a city-level project. Among those, the project of Ro/Ro passenger vessel with unlimited navigation areas first gained the financial support of the nation in recent ten years, and provided the base of further research and renovation & updating of Ro/Ro passenger vessels. Moreover, "the research on key technology and building of large-size shield machines" project was the first non-shipbuilding project supported by the national finance.

In 2009, the Company completed the main part of noise abatement project, carried out effluent with zinc treatment project, added two cool towers with a volume of 200 cubic meters to increase the volume of water recycled, and completed the rebuilding of sewage pipes net and its connection with the sewage pipes net of Guangzhou City so as to realize "zero discharge". Besides, the Company built coating workshop, reduced the environmental pollution resulted from dust and organic gases caused by burnishing and painting, as well as waste gases caused by pipes processing, installed new type energy-saving lamps and equipments with high efficiency, promoted the new technique and equipments of energy-saving and improved the utilization ratio of electricity. In 2009, the Company's comprehensive energy consumption of industrial added value per RMB10,000 made a decrease of 2.27% compared with that of 2008.

(II) Principal operation information

1. Major operation information by products

Unit: RMB

Products	Operating income	Operating cost	Operating gross margin	Change in operating income over that of 2008 (%)	Change in operating cost over that of 2008 (%)	Change in operating gross margin over that of 2008 (%)
Shipbuilding	5,718,470,581.05	4,988,803,945.23	12.76	-3.15	-1.99	-1.03
Steel structure	464,784,364.57	464,494,949.89	0.06	-29.57	-23.17	-8.33
Electrical & mechanical products and others	275,568,002.58	220,356,728.64	20.04	-2.74	-16.89	13.62

During the period under review, as affected by the financial crisis, the global economy was still not so optimistic. Construction progresses were delayed due to difficulty in inspections, and orders of steel structure was in a severe shortage due to less investment of clients.

Influenced by aforesaid factors, the principal operating income of the Company in 2009 amounted to RMB6.553 billion, representing a decrease of 6.17% compared with that of 2008. The comprehensive gross margin of the Company was 12.14%, representing a decrease by 0.94%, and influenced the profit at the amount of RMB62 million.

The operating income of shipbuilding in 2009 amounted to RMB5.718 billion, representing a decrease of 3.15% compared with that of 2008. Although the total completed percentage of vessels in 2009 increased by 27.9% compared with that of 2008, the operation income still decreased mainly due to the cumulative appreciation of RMB. Though the exchange rate of RMB in 2009 was still stable compared with that of the end of 2008 the average exchange rate of RMB in 2009 increased by

1.41% compared with that in 2008. The gross margin of shipbuilding products in 2009 was 12.76%, representing a decrease of 1.03%, which was mainly due to the high-price of steel and raw materials, the cumulative appreciation of RMB-USD and difficulty in efficiency improvement resulting from inspection difficulty.

The decrease in gross margin of steel structure was mainly due to the shortage of orders as affected by global financial crisis, higher cost resulted from relatively high purchase prices of partial steel and steel products, as well as high labor cost in recent years.

The gross margins of electrical & mechanical products and others made an increase during the period under review, mainly due to the improved elevator market which benefited from favorable real estate market. However, for its small proportion, the influence on the operating income of the Company was rather limited on the whole.

2. Geographical analysis of turnover

Unit: RMB

Countries or Regions	Operating income For the year 2009	For the year 2008	Change (±%)
Malta	**60,997,676.99**	1,248,505,028.09	-95.11
Germany	**384,022,536.75**	327,760,861.88	17.17
Denmark	**3,376,132,028.10**	2,114,264,244.03	59.68
Macao	**–**	440,950.00	-100.00
Italy	**366,083,312.51**	30,144,808.15	1,114.42
U.S.A	**90,677,389.23**	357,014,494.29	-74.60
Hong Kong	**278,261,998.04**	299,633,532.71	-7.13
Greece	**525,417,858.95**	532,198,804.79	-1.27
Taiwan	**1,235,997.40**	8,189,067.59	-84.91
Sweden	**15,248,947.43**	399,078,654.64	-96.18
India	**–**	1,413,858.69	-100.00
Australia	**92,239,934.97**	–	100.00
Angola	**2,098,215.81**	–	100.00
Subtotal	**5,192,415,896.18**	5,318,644,304.86	-2.37
Mainland China	**1,266,407,052.02**	1,529,026,276.63	-17.18
Total	**6,458,822,948.20**	6,847,670,581.49	-5.68

(III) Major customers and suppliers

In 2009, the turnover attributable to the Group's five largest customers amounted to RMB3.867 billion and accounted for 59.88% of the total turnover of the Group. Of those, the turnover from Denmark A/S Torm Company, the Group's largest customer, amounted to RMB2.085 billion, representing 32.29% of the total turnover of the Group.

In 2009, the purchase of raw materials and equipment from the Group's five largest suppliers amounted to RMB1.894 billion and accounted for 50.85% of the total purchases of the Group. Of those, the purchase from Chongqing Iron and Steel Co., Ltd., the Group's largest supplier, amounted to RMB625 million and accounted for 16.79% of the total purchase of the Group.

None of the directors, supervisors and their respective associates had any interests in the five largest customers and suppliers, nor had any of the Company's shareholders disclosed to the Company the he or she had any interest in the above mentioned major customers or suppliers.

(IV) Financial position analysis

1. Balance sheet items

Unit: RMB

Balance Sheet Items	Closing balance	Opening balance	Change (± %)	Main reasons of change
Tradable financial assets	63,993,056.22	157,360,902.20	-59.33	The deliveries of partial derivative instruments.
Notes receivable	300,000.00	–	100.00	Received the notes from selling elevators products.
Advances to suppliers	299,139,760.51	486,868,845.98	-38.56	The completed contracts projects were carried over.
Interest receivable	82,320,687.20	142,294,820.00	-42.15	The decrease in the balance and the interest rate of fixed deposit.
Other receivable	115,243,348.09	191,817,452.41	-39.92	Received export tax refund receivable.
Available-for-sale financial assets	337,360,250.00	185,450,000.00	81.91	The fair value of the stocks hold by the Company increased.
Deferred tax assets	12,530,702.92	6,810,856.62	83.98	Mainly due to the provision of the outstanding housing subsidies made by monthly for retirees who have enjoyed such subsidies.
Short-term borrowings	1,465,361,484.13	478,026,177.43	206.54	More foreign exchange loan borrowed for the foreign exchange payment of importing materials and equipments.
Tradable financial liabilities	–	5,199,844.99	-100.00	The change in fair value which caused by the settlement of partial mature financial derivatives and the fluctuations in exchange rate.
Notes payable	360,901,710.85	143,660,239.95	151.22	The Company adopted the bank notes for settlement to ensure the rational utilization of the capital.
Advances from customers	127,281,207.61	218,775,845.39	-41.82	The completed non-shipbuilding products were carried over and sold.
Taxes payable	68,690,776.51	126,535,514.31	-45.71	The business income taxes for 2008 were paid.
Interest payable	1,878,526.18	20,146,276.66	-90.68	The decrease in long-term borrowings.
Dividend payable	12,785,975.61	34,632.88	36,818.60	The subsidiary United Steel Structure Limited declared to pay dividend for the year 2006 and 2007.
Non-current liabilities due within one year	170,705,000.00	877,863,362.40	-80.55	Returned bank loans at term or in advance.
Long-term borrowings	–	205,038,000.00	-100.00	Returned bank loans at term or in advance.
Provisions for foreseeable liabilities	121,547,344.07	87,150,182.48	39.47	1) The increase in the provision for products quality assurance as sales income rising; and 2) The provision of the outstanding housing subsidies for retirees who have enjoyed such subsidies with a total amount of RMB23.46 million.
Other non-current liabilities	13,760,555.79	5,714,990.79	140.78	Received fund of deferred income.

2. *Profit and loss statement items*

Unit: RMB

Items	2009	2008	Change (± %)	Main reasons of change
Financial expenses	**-122,948,206.40**	-288,581,498.27	-57.40	The decrease in exchange earning caused by the fluctuation of exchange rate.
Assets impairment loss	**23,036,871.16**	-3,959,877.74	-681.76	The provision for impairment of properties in Xinjiang Province.
Income/Losses from fair value changes	**-88,168,000.99**	-130,520,655.24	-32.45	The fluctuation of exchange rate at the end of the period and some forward contracts were settled.
Non-operating expenditure	**14,963,284.04**	6,759,353.39	121.37	The Company eliminated an expired piping processing product line and disposed the disabled fixed assets.

3. *Cash flow statement items*

Unit: RMB

Items	2009	2008	Change (± %)	Main reasons of change
Net cash flow from operating activities	**-464,920,580.03**	-195,267,322.66	138.09	The cash inflows from principal operations decreased.
Net cash flow from investing activities	**-267,263,465.71**	-760,569,150.21	-64.86	The mature pledge deposit of banks was received.
Net cash flows from financing activities	**-197,417,795.86**	-681,882,351.01	-71.05	The decrease in interests resulted from less long-term loans.

(V) Prospects for the coming year

Influenced by the financial crisis and periodicity of shipbuilding industry, shipbuilding market is experiencing a rare hard time and a great adjustment. The recovery of the shipbuilding market is faced with many restraining factors as the fundamental contradiction between global shipping industry and rather excess shipbuilding capacity haven't been solved. Moreover, the increasing speed of shipbuilding would accelerate the execution of orders, and the depressed shipbuilding market would intensify the competition. Furthermore, the economic recovery in China, domestic market demand, the support of national policies such as Shipbuilding Medium and Long Period Development Plan and the Program for revitalization of Shipbuilding Industry, as well as the Outline of Program for Reform & Management of Pearl River Delta, would contribute to the shift of Shipbuilding industry to China.

Under such a serious situation with both opportunities and challenges, the Company will accelerate the innovation, improve the professional quality of ship types, and open up a new situation for marketing operation; strengthen the schedule control and evolution, and enhance quality management to ensure the deliveries of the vessels with all joint efforts; integrate resources to speed up the development of heavy machinery operation; and promote the construction of Zhongshan Company to overcome the bottleneck of capacity insufficiency.

1. Plan for the year 2010

- Shipbuilding operation: In 2010, the Company will focus on special vessels construction and promoting the construction of vessels satisfying the requirements of PSPC, the production organization will transfer to multi-types and small quantity ship types from series ship types. The Company will strengthen the section construction and material & equipments delivery management, further optimize the technique of PSPC, realize the series dock shipbuilding and control the shipbuilding cycles.

- Non-shipbuilding operations: To implement the strategic goal of heavy machinery operation gradually, ascertain the responsible entities, and focus on complete suits such as marine shafting & rudder system processing, heavy steel structure, electro-mechanical products, etc.

- Technical innovation: To strengthen research of new rules and regulations, develop new ship types with low cost, high cost efficiency and high operating revenue and provide technical support to secure orders.

- Cost Control: To reduce the material procurement costs, increase the procurement rate of domestic-made material and equipments, strengthen budgetary control and target cost management and to reduce the variable expenses by 10% compared with that of 2009; continuously improve production technique and increased efficiency; enhance fund management, avoid exchange rate risk; to reduce the construction costs and intensify the competitiveness of the Company.

- The construction of Zhongshan Company: With the policy of high standards, to assure the construction speed and quality, ensure the synchronizations of project progress and schedule, main project and supporting facilities as well as production facilities and living facilities, to satisfy the need of block supply of the Company.

2. Capital expenditure plan

It was expected that the capital expenditure of the Group during 2010 would be approximately RMB433 million which will be mainly used in fixed asset investment. The Group has sufficient financial resources to meet the demand for its capital expenditure and daily working.

II. INVESTMENTS INFORMATION

During the period under review, the Company had not raised funds during the year nor utilized any proceeds previously raised. In 2009, the investment capital not from share offering of the Company amounted to RMB358 million, increased by RMB10 million and representing an increase of 2.87% compared with that of last year. The investments in 2009 are mainly as follows:

Unit: RMB'0000

Items	Amount	Progress	Income
Zhongshan GSI Large-size Marine Engineering Company Limited	22,147	Under construction	Not yet generate revenues
New Coating Workshop	1,216	Completed	had generated income
Electrical & mechanical materials collective warehouse project	1,668	Completed	had generated income
Equipments installation in assembly workshop	4,113	Completed	had generated income
Mechanic processing center	1,447	Completed	had generated income
Additional docking base of Changzhou island	325	Under construction	Not yet generate revenues
Reconstruction for secrecy network of military design	220	Under construction	Not yet generate revenues
Lengthening the dry dock and track of cranes	1,347	Under construction	Not yet generate revenues
Project of the ground and pre-assembling around the coating workshop	635	Under construction	Not yet generate revenues
Other renovated projects	2,633	Partially completed	Income of completed part was reflected in the total profits of current year

Major subsidiaries

The operation conditions of the Company's major subsidiaries, with 51% or more interest held, during the year are summarised as follows:

Unit: RMB'000

	Company Name	Principal Activities	Registered Capital	Interest Attributable to the Company (%)	Assets	Net profit (loss)
Direct holding subsidiaries						
1	Guangdong Guangzhou Shipyard International Elevator Co., Ltd.	Elevator production and sales	21,000	95	77,512	293
2	Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	80	31,779	1,117
3	Guangzhou Hongfan Information Technique Co., Ltd.	Development of computer software, system integration and sales of hardware	5,000	51	14,412	2,405
4	Guangzhou Xinshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	83	35,094	2,067
5	Guangzhou Masterwood Shipbuilding Co., Ltd.	Furniture manufacturing	3,315	51	14,287	929
6	Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	Design, processing, installation and sale of marine auxiliaries, large-size mechanical and electric equipments sets, wind power equipments, shearing and pressing machine, shield machine, hydraulic machinery, plastics injection moulding machine and metal structure	30,000	100	128,971	-7,081
7	United Steel Structures Limited	Large-sized steel structure	73,573	51	204,993	7,952
8	Glory Group Development Co., Ltd.	Trading	HKD30,000,000	100	196,376	16,037
9	Zhongshan GSI Marine Engineering Co., Limited.	Design, processing, installation, manufacture and sale of vessels and their accessories (except for fishing vessels), metal structure and components, common machines, casting and forging, steel manufactures with glasses, electric lining, piping of shipbuilding, shipbuilding implements. furniture, mechanical equipments and maritime engineering equipments	100,000	100	230,182	-129

	Company Name	Principal Activities	Registered Capital	Interest Attributable to the Company (%)	Assets	Net profit (loss)
Indirect holding subsidiaries						
10	Guangzhou Masterwood Shipbuilding Co., Ltd.	Furniture manufacturing	3,315	25	14,287	929
11	Guangzhou Hongfan Hotel Co., Ltd.	Traveling and catering services	10,000	99.11	8,919	526
12	Guangdong Guangzhou Shipyard International Elevator Co., Ltd.	Elevator production and sales	21,000	3.8	77,512	293
13	Fonkwang Development Ltd.	General trade	HKD200,000	70	130,025	1,690
14	Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	15.20	31,779	1,117
15	Guangzhou Xinshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	16.18	35,094	2,067

Except that Glory Group Development Co., Ltd. and Fonkwang Development Ltd. were registered in Hong Kong, other above-mentioned subsidiaries are cooperated affiliated companies established and operated in Mainland China.

During the period under review, the Company registered and founded a new subsidiary Zhongshan GSI Marine Engineering Co., Ltd. and Guangzhou Masterwood Co., Ltd., a subsidiary of the Company, changed its name as Guangzhou Masterwood Shipbuilding Company Limited.

Properties investment

The Group received the following properties in its efforts to recover accounts receivable and such properties are currently treated as properties of the Company held for investment purpose. Save as disclosed, the Group has no property held for development or sale or investment purpose, for which the percentage ratios as defined under rule 14.04(9) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited exceed 5%, or which represents over 15% of the value of net tangible assets, or where contribution derived from properties exceeded 15% of pre-tax operating profit.

Properties	Address	Use	Permanent freehold or not
Shops in Urumchi, Xinjiang	No. 3 Beijingbei Road, New District, Urumchi, Xinjiang	Rent/ sale	No
Real estate in Henshan, Guangdong	Huangyuan, No. 496 Xincheng Road, Shaping Town in Heshan, Guangdong Province	Rent/ sale	No
Shops in Hengyang, Hunan	No. 33 Jiefang Road, High-tech Development Zone in Hengyang City, Hunan Province	Rent/ sale	No

III. THE REASONS AND INFLUENCES OF CHANGES OF THE ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE AND MODIFICATION OF SIGNIFICANT FINANCIAL ERRORS OF THE COMPANY

During the period under review, there is no change of accounting policies, accounting estimate and modification of significant financial errors of the Company

IV. REPORT OF THE DAILY OPERATIONS OF THE BOARD OF DIRECTORS

(I) Meetings of the Board of Directors

The information of meetings of the Board held during the period under review was as follow:

Meetings	Convening date	Major Publications Disclosing Information	Date of Disclosing Information	Note
Ninth meeting of the sixth term of the Board	March 10, 2009	Shanghai Securities News	March 11, 2009	–
Tenth meeting of the sixth term of the Board	March 26, 2009	Shanghai Securities News	March 27, 2009	–
Eleventh meeting of the sixth term of the Board	April 23, 2009	Shanghai Securities News	April 24, 2009	–
Twelfth meeting of the sixth term of the Board	August 20, 2009	Shanghai Securities News	August 21, 2009	–
Thirteenth meeting of the sixth term of the Board	August 27, 2009	–	–	Note 1
Fourteenth meeting of the sixth term of the Board	September 28, 2009	–	–	Note 2
Fifteenth meeting of the sixth term of the Board	October 27, 2009	Shanghai Securities News	October 28, 2009	–
Sixteenth meeting of the sixth term of the Board	December 14, 2009	Shanghai Securities News	December 21, 2009	–

Notes:

1. The thirteenth meeting of the sixth term of the Board approved the Company to put up the commercial property located in Beijing Road, New District, Urumqi, Xinjiang for sale at price not less than the valuation price of RMB40.4425 million.

2. The fourteenth meeting of the sixth term of Board of Directors approved the Company to fully participate in the right issue of China Merchants Bank, subject to all approvals for such rights issue being obtained.

(II) Implementation by the Board in respect of the resolutions passed at General Meetings

During the year, the Board of Directors had implemented all the resolutions passed at the 2008 Annual General Meeting, A-shares Class Meeting and H-shares Class Meeting of 2009, and First Extraordinary General Meeting of 2009.

(III) Discharge of responsibilities by the Special Committees of the Board

Please refer to the section Special Committees of the Board in the Corporate Governance Report on page 32 to page 34.

V. PROFIT DISTRIBUTION FOR THE YEAR 2009

For the year 2009, the net profit of the Company prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB512,728,580.60, while that prepared in accordance with HKFRS amounted to RMB512,770,865.60. Pursuant to the provision of the Articles of Association of the Company, the profit distribution should be on the basis of the lower of the profits prepared in accordance with the two accounting standards mentioned above.

Profit distribution for the year 2009 should be based on the net profit of the Company prepared in accordance with PRC Accounting Standards and Regulations, with proposed details are as follows:

1. To withdraw 10% to the statutory public welfare fund, amounting to RMB51,272,858.06.

2. On the basis of 494,677,580 shares in issue, to pay a dividend of RMB0.28 (tax-included) on each share the total dividend will amount to RMB138,509,722.40.

There is no increase of share capital through the transfer of capital reserve fund.

The undistributed earnings will be accumulated and distributed in the future years. This profit distribution plan will be submitted to the shareholders general meeting for consideration.

VI. DIVIDEND INFORMATION OF LAST THREE YEARS

Unit: RMB

Year	Cash dividend amount (tax-included)	Net profit attributable to shareholders of the Company in consolidated income statements	Ratio of dividend to net profit attributable to shareholders of the Company in consolidated income statements (%)
2006	0	267,537,448.04	0
2007	247,338,790.00	940,656,796.04	26.29
2008	222,604,911.00	820,395,655.17	27.13

VII. OTHER INFORMATION

Financial summary

A summary of the results, assets and liabilities of the Group for the last five financial years prepared in accordance with the PRC Accounting Standards and Regulations, and the HKFRS, are set out in on page 7 and page 8, respectively.

Results and profit distribution

The results and profit distribution of the Group for the year ended December 31, 2009 prepared under PRC Accounting Standards and Regulations, and the HKFRS, are set out in the consolidated statement of changes in equity on page 68 and consolidated statement of comprehensive income on page 158.

Reserves

The changes to the reserves of the Group prepared under PRC Accounting Standards and Regulations, and the HKFRS, are set out in note V36 to V38 to the financial statements on page 120 to 121 and note 22 on page 215 respectively.

Fixed assets

As at December 31, 2009 the fixed assets pledged as security for the Group's banking facilities amounted to RMB124.86 million. Details of movements in fixed assets (including properties and other tangible assets) of the Group prepared under PRC Accounting Standards and Regulations and the HKFRS are set out in note V12 to the financial statements on page 104 and note V13 on page 105, and note 6 to the notes to the consolidated financial statements on page 193 respectively.

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group as at December 31, 2009 are set out in note V19, V29, V30 and V31 to the financial statements on page 111 to 118 and note 24 to the notes to the consolidated financial statement on page 217, respectively.

Contingent liabilities

Up to December 31, 2009, the Group had no significant contingent liabilities.

Significant litigation

Please refer to item 1 in the section "Significant Events" on page 57.

Certified Accountants' Special Statement on Capital Impropriation by the Controlling Shareholder and Connected Parties

In accordance with the requirement of relevant notice from China Securities Regulatory Commission, 天健正信會計師事務所有限公司 (Ascenda Certified Public Accountants, Limited), the domestic auditors of the Company, audited the fund flows of the Company and its controlling shareholder, CSSC and other connected parties, and certified that as at December 31, 2009, the fund flows between the Company and CSSC and other connected parties arose from connected transactions in the ordinary and usual course of business of the Company. Apart from these, they have not identified any breach by the Company of the requirements stated in "Notice of Regulating Fund Flows between Listed Companies and Connected Parties and External Guarantees of Listed Companies".

Independent Directors' Special Statement and Independent Opinion on the External Guarantees of the Company

In accordance with the regulation stated in "Notice of Regulating Fund Flows between listed companies and Connected parties and the External Guarantees of Listed Companies", Zheng Jian Zi 【2003】 No. 56 (the "Notice") issued by the China Securities Regulatory Commission, the independent directors of the Company have thoroughly reviewed and checked the external guarantees and its decision procedure of the Company and found that, the decision procedure of the Company is in accordance with the regulations of relevant law, regulations and rules and Articles of Association of the Company, and has not provided any guarantee for the controlling shareholder, other connected parties with less than 50% shares controlled by the Company, any unincorporated unit or individuals up to December 31, 2009.

Auditors

The financial statements for the year ended December 31, 2009 prepared under PRC Accounting Standards and Regulations and the HKFRS have been audited by Ascenda Certified Public Accountants, Limited and PricewaterhouseCoopers, Certified Public Accountants, respectively. They shall respectively retired and, being eligible, offer themselves for re-appointment at the upcoming annual general meeting. For further information on change of auditors please refer to the sub-section "Auditors" in the section "Control Mechanisms" in the Corporate Governance Report on page 36.

Acknowledgment

The Board of Directors would like to extend its sincere gratitude to its customers for their trust in the Company, and to the shareholders for their valuable support to the Company, and to the staff for their efforts and dedication to the Company's development.

On behalf of the Board of Directors
Chairman
Li Zhushi

Guangzhou, March 30, 2010

REPORT OF THE SUPERVISORY COMMITTEE

The Sixth Supervisory Committee of the Company has pleasure to present the 2009 Report of the Supervisory Committee for review and would like to extend our best wishes to every shareholder.

I. INFORMATION ABOUT OPERATION OF THE SUPERVISORY COMMITTEE

(I) General information

The Supervisory Committee faithfully carried out its duties, protected the interests of the Company and shareholders in a fiduciary, serious, just and prudent manner and strengthened its role in supervising the financial affairs, directors, president and other senior management of the Company in accordance with the Company law of the People's Republic of China (hereinafter referred to the "Company Law"), the Articles of Association of the Company ("Articles") and the Rules of proceeding for the Supervisory Committee. During the year under the report, with the support of shareholders, board of director, senior management and related departments of the Company, the Supervisory Committee operates canonically and exerts benign functions.

In accordance with the Articles, the members of Supervisory Committee attended general meetings, and attended the meetings of the Board, meetings of the presidents and other relevant meetings as a nonvoting delegate. Supervisory Committee can gain the information of significant events and decisions of the Company in time, and exercised superintendence during the decision-making of significant events. Moreover, the Supervisory Committee has gained timely information of the asset and finance through the relevant information and reports provided by related administrative departs, and provide advantages to the prosecution of the duties of Supervisory Committee.

For promoting the work of information disclosure, enhancement of relevant systems and protecting the interests of minority shareholders, the Supervisory Committee has inspected the performance of Information Disclosure Management System twice in 2009, and issued inspection reports to the Board office, executive directors as well as the company secretary, which promoted standardization of information disclosure management of the Company.

All above information indicate that the Supervisory Committee can exercise its superintendence in accordance with the law and regulations to protect the interests of the Company and shareholders.

(II) Information of "Supervisors' Work-day" Meetings and Trainings

During the period under review, according to the "Supervisor's work-day schedule of Guangzhou Shipyard International Company Limited", the Supervisory Committee held four "Supervisors' work-day" meetings. The main contents of the meetings are as follows:–

1. Study the documents in relation to 2008 annual report and others issued by China Securities Regulatory Commission (CSRC).

2. Study documents relative to strictly regulate listed companies' directors, supervisors and senior management of the company's shares trading behavior issued by CSRC and Guangdong Securities Regulation Bureau.

3. Study relative documents issued by Shanghai Stock Exchange.

4. Discuss the daily management of the Company and communicate on matters related.

By routine meetings of supervisors, all supervisors of the Company can obtain more information of the laws, regulations and requirements and pulse of lasted policies, and the independent supervisors can gain the relevant information of the Company timely through to exert their powers and authorities better.

II. THE INFORMATION OF THE SUPERVISORY COMMITTEE MEETINGS

During the year under review, the Supervisory Committee held four meetings as follows:–

1. The fourth meeting of the sixth term of the Supervisory Committee was held on March 10, 2009 in the Company. The five supervisors attended the meeting. The resolutions passed at the meeting are as follows:–

   1) Approved the 2008 Report of Supervisory Committee, and submitted the same to AGM for consideration.

   2) Approved the 2008 Annual Report of the Company and provided written inspection opinion.

2. The fifth meeting of the sixth term of the Supervisory Committee was held on April 23, 2009 in the Company. The five supervisors attended the meeting and approved the First Quarterly Report of 2009 and released written inspection opinion.

3. The sixth meeting of the sixth term of the Supervisory Committee was held on August 20, 2009 in the Company. The five supervisors attended the meeting and approved the Interim Report of 2009 and released written inspection opinion.

4. The seventh meeting of the sixth term of the Supervisory Committee was held on October 27, 2009 in the Company. The five supervisors attended the meeting and approved the Third Quarterly Report of 2009 and released written inspection opinion.

III. SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON THE COMPANY'S OPERATION ACCORDING TO LAW

During the year under review, the company had not raised any fund.

During the year under review, the transactions involving the acquisition and sale of assets were lawfully conducted under fair and reasonable price, no insider dealing was noted and accordingly the interests of the shareholders and the assets of the Company were not adversely affected.

During the year under review, the connected transactions were conducted under fair and reasonable terms, and accordingly the interests of the Company were not adversely affected.

The Committee is of the view that the procedure of decision-making of the Company is in accordance with Articles and has established necessary internal control system, which performed well. The directors, president and other senior management have carried out their duties rigorously, scrupulously and diligently in accordance with the fiduciary, clean and prudent principles under the regulations of the Listing Rules of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. There were no violations of laws, regulations or the Articles, nor was there any abuse of power to detriment the interests of the Company, the Shareholders or the staff.

In 2009, facing with the rare depression of global shipping market, the Board of Directors, senior management and all over the staff make unremitting efforts to develop the special vessels and heavy machinery business according to market situation and actively adjust the business strategy, and overcome the difficulties to achieve the steady development of the shipbuilding operation and continuous improvement of risk prevention ability.

IV. SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON REVIEWING OF THE FINANCIAL CONDITION OF THE COMPANY

The Supervisory Committee has audited the annual report and financial reports for the year 2009 before the submission of them to AGM for consideration in accordance with the Company Law and the Articles, and in view that the financial records met the requirements of PRC Accounting Standards and Regulations and HKFRS, accurately reflected the financial position and business results of the Company.

The Supervisory Committee also consents to the Reports of the Board of Directors and the profit distribution proposal for the year of 2009.

Ascenda Certified Public Accountants, Limited* (天健正信会计师事务所有限公司) and PricewaterhouseCoopers, Certified Public Accountants, which were appointed to audit the financial statements of the Company for this year, have presented their audit reports on the Company with unqualified opinion.

The Supervisory Committee would like to extend our sincere gratitude to the Board of Directors, the senior management, all the staffs and shareholders of the Company for their trust, support and co-ordination during the year.

* For identification purposes only.

On behalf of the Supervisory Committee
Chairman
Wang Shusen

Guangzhou, March 30, 2010

SIGNIFICANT EVENTS

I. SIGNIFICANT LITIGATION OR ARBITRATION EVENT

The Company and Guangzhou International Trust Investment Company ("GZITIC"), Hong Kong Guanghong Intl' Co., Ltd ("HKGH") entered into a "Creditor's Right Transfer Agreement" on August 17,2005, according to which GZITIC transferred the creditor's right amounting to RMB10.64 million of HKGH owned by Guangzhou International Trust Investment Development Co., Ltd., a subsidiary of GZITIC, to the Company. At the same time, the Company and HKGH entered into a "Debt Offset Agreement", which stated that HKGH would transfer seven cars to the Company before September 30, 2005; while the rest of debts would be settled by HKGH's entity interest in Guanghong Electronic (Shenzhen) Co., Ltd. which is controlled by HKGH.

The Company convened litigation against HKGH at the Intermediate People's Court of Guangzhou on May 23, 2008. HKGH was ordered to pay back the debt amounting to RMB10.64 million and corresponding interest to the Company within ten days after the sentence took effect. However, the court rejected the request of the Company that Mr. Huang Jinchao should undertake joint liability up to amount of RMB0.6 million. The Company had appealed to the High People's Court of Guangdong province.

The High People's Court of Guangdong province made final order on September 21, 2009, rejecting the Company's appeal and upheld the order of the Intermediate People's Court of Guangzhou. In accordance with the final order, HKGH should pay back the debt amounting to RMB10,640,232.15 and corresponding interest to the Company within ten days after the sentence took effect.

Apart from disclosure above, no significant litigation arbitration events occurred during the period under review.

II. BANKRUPTCY OR REORGANIZATION EVENT

Neither bankruptcy nor reorganization events occurred during the period under review.

III. SHARES OF THE OTHER LISTED COMPANY OR EQUITY OF FINANCIAL COMPANY HELD BY THE COMPANY.

Unit: RMB

Stock Code	Abbreviation	Initial investment cost (RMB)	Proportion in the interest of the listed company (%)	Book value as at December 31,2009	Profit and loss during the period under review	Changes in shareholders of the Company	Accounting Subject	Source of the shareholding
600036	Merchants Bank	9,760,150	0.081	278,060,250	1,185,000	–	Available-for-sale financial assets	Purchasing
601872	Merchants Energy Shipping	37,100,000	0.29	56,600,000	1,000,000	–	Available-for-sale financial assets	Purchasing
Total		46,860,150	–	334,660,250	2,185,000	–	–	–

IV. PROPERTY AND INTEREST TRANSFER

1. Approved by the twelfth meeting of the sixth term of the Board of Directors, the Company put up for sale of five properties located at Room 201, 203, 301, 601and 603, No. 277 Wushan Road, Tianhe District in Guangzhou at the price not less than the valuation price of RMB2,475,080 through China Beijing Equity Exchange ("Equity Exchange"). The Company sold the properties and received the proceeds in November 2009. The transfer procedure is in process.

2. Approved by the thirteenth meeting of the sixth term of Board of Directors, the Company put up for sale of commercial property located in Beijing Road, New District, Urumqi, Xinjiang at a price not less than the valuation price of RMB40.4425 million. The property which belonged to GZITIC was in compensation for the bond it owed to the Company. The Company had put up for sale the property in Equity Exchange. The property was sold at the price of RMB42 million in February 2010. Currently the buyer had paid the first installment to the Equity Exchange amounting to RMB20 million. The rest will be paid after the transfer procedure.

   As at December 31, 2009, the net book value of the property was RMB55,931,888.68, and there have been significant impairment. Considering transaction costs of the real estate are not clear, approved by the eighteenth meeting of sixth term of Board of Directors held on March 30, 2010, the company accrued the provision for impairment RMB15,489,388.68, which calculated into profit and loss of 2009, on the basic of the assessed value. The impairment of the property did not constitute a significant impact on the Company's 2009 annual profit and loss.

3. The sale of certain assets to a connected person, further details please refers to item 4 in Significant Connected Transactions in this section on page 61.

   Except for disclosed above, there were no property or interest transfers during the period under review.

V INFORMATION ABOUT THE IMPLEMENTATION OF EQUITY INCENTIVE AND ITS IMPACT

The company does not implement equity incentive plan

VI SIGNIFICANT CONNECTED TRANSACTIONS

The Company's continuing connected transactions under the Chapter 14A of the Rules of the Stock Exchange of Hong Kong Limited constituted of routine connected transaction and comprehensive service contract, which had been disclosed in accordance with relevant regulations. Further details are set out in note 42 to the financial statements prepared under the HKFRS on page 236.

1. Routine connected transactions

Unit: RMB

No.	Content and category	The cap amount approved by general meeting	Transaction amount	Proportion in the same type of transactions	Pricing basis
1	Products and services provided by the Group to CSSC Group:	541,230,000	246,204,022.35		
1.1	Electrical and mechanical engineering equipment and metallic materials	324,250,000	116,871,561.14	1.78	Market price or agreed price
1.2	Utilities	8,700,000	2,244,695.98	0.03	Cost plus management fee
1.3	Labor supply, design and technology services	208,280,000	127,087,765.23	1.94	Not less than the price to the third parties
2	Products and services provided by the CSSC Group to the Group:	1,199,130,000	544,348,265.44		
2.1	Electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	1,011,740,000	475,940,626.67	8.27	Market price or agreed price, and not less favorable than the price offered by the third independent parties
2.2	Labor supply, design and technology services	187,390,000	68,407,638.77	1.19	Cost plus management fee or market price
3	Financial services provided by CSSC Group to the Group		225,585.32		
3.1	Deposits	100,000,000	54,614,328.13		Interest rate on deposits published by the People's Bank of China
3.2	aggregate interest on deposits for the year	1.500,000	225,585.32	0.14	
3.3	Loans	100,000,000	–		
3.4	aggregate interest on loans for the year	7,100,000			
4	Total guarantee fees for guarantee supplied to the Group from CSSC Group	20,000,000	1,855,846.02	26.65	Agreed fee, not less than the price offered by the third independent parties
5	Total sales agency fees paid by the Group to the CSSC Group	80,520,000	33,698,292.53	38.69	1% of contract price in accordance with international practice
6	Total purchases agency fees paid by the Group to the CSSC Group	20,990,000	7,042,762.15	0.19	1% to 2% of contract price in accordance with international practice

Since the H-shares of the Company were listed on The Stock Exchange of Hong Kong Limited, the Group had engaged in various continuing connected transactions with the CSSC Group due to the nature of assembly building. Such transactions themselves are of an operational nature and in the normal and usual course of business of the Group, they allow the Group to leverage the reputation and bargaining power of the CSSC Group, provide a steady source of materials, labor and design and technology services necessary for the Group to conduct its business, and allow flexibility in handling excess resources which are in short supply for the CSSC Group.

During the period under review, relevant routine connected transactions between the Group and CSSC Group were carried out in accordance with the framework agreement for connected transactions entered into on November 22, 2006 and the supplemental agreement entered into on June 30, 2008, which were approved by the shareholders' general meeting. Since January 1, 2010, relevant routine connected transactions between the Group and CSSC were carried out in accordance with the framework agreement for connected transactions entered into on October 27, 2009 which was approved by the first Extraordinary General Meeting of 2009 held on December 29, 2009.

The Company and Guangzhou Shipyard Company Limited ("Guangzhou Shipyard") entered into a comprehensive services contract for 2009 to 2011 (the "Comprehensive Services Contract") on October 28 2008. Pursuant to the Comprehensive Services Contract, Guangzhou Shipyard agreed to provide the Group, the staff and their family members with catering services, infant care and nursery, training programs for skilled labour and management of staff quarters (the "Comprehensive Services"). Guangzhou Shipyard is an enterprise established in the PRC and wholly controlled by CSSC; its principal business is marine components fabrication, providing services in relation to catering, medical and technician school, etc. The actual transaction amount for the comprehensive services for 2009 was RMB8,181,050.00.

2. The financing balance of the Company and CSSC and its subsidiaries during the year 2009

Unit: RMB

Items	**As at December 31, 2009**	**As at December 31, 2008**
Accounts receivable	61,587,568.59	69,761,805.89
Other receivable	4,254,500.00	0
Advanced payment	55,881,792.31	153,462,673.21
Accounts payable	114,480,622.99	76,973,570.76
Other payable	8,400.00	1,425,899.59
Advances from customers	33,387,906.67	84,813,070.82

3. Funds impropriated and refund by connected parties in 2009

No funds were impropriated by connected parties during the period under review.

4. **Acquisition or sale of assets constituting connected transactions**

Approved by the sixteenth meeting of the sixth term of the Board of Directors, the Company entered into *a Real Estate Sale and Purchase Contract* with China State Shipbuilding Corporation No. 605 Institute (the No. 605 Institute) on December 20, 2009 to sell the sixth and seventh floors with a gross floor area of 1,265.0782 square meters (the "Real Estate") of the office building located at 126 Gexin Road, Haizhu District, Guangzhou (the "Office Building") at a price of RMB8.509 million (the evaluation value assessed by a professional evaluating agency was RMB8.009 million). The sale of the Real Estate is expected to reduce the daily administration expenses of the Company and would also help to improve the assets utilization and income of the Company. The Company had received the first installment payment amounting to RMB4,254,500 and the balance is expected to be due and payable in April 2010.

5. **Others**

The Directors including four independent non-executive directors have reviewed the transactions and confirm that such transactions have been entered into (1) in the ordinary and usual course of business of the Company, (2) either on normal commercial terms or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less than favorable to the Group than terms available to or from (as appropriate) independent third parties, and (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

VII. SIGNIFICANT CONTRACTS AND PERFORMANCE

During the period under review, the Company had not managed any trust, any contract or significant lease assets of other companies nor other companies had not managed any trust, any contract or significant lease assets of the Company.

VIII. IMPLEMENTATION OF COMMITMENT

During the period under review, CSSC, the controlling shareholder subjected to sale restrictions of the Company, carried out the commitment to A-share reform. Such commitment had expired on May 23, 2009.

Expect for disclosed above, neither the Company nor the shareholders who hold over 5% (including 5%) shares of the Company gave any undertaking that might have a great impact on the business results or financial condition of the Company during the period under review or occurred before but continued to the period under review.

IX. CHANGE OF THE AUDITORS

Approved by the First Extraordinary General Meeting of 2009, the Company appointed Ascenda Certified Public Accountants, Ltd. as domestic auditors. For more details please refer to the sub-section "Auditors" in the section "Control Mechanisms" of "Corporate Governance Report" in this annual report on page 36.

X. PUNISHMENT AND RECTIFICATION OF THE COMPANY, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER OF THE COMPANY

During the period under review, there was no inspection, administrative penalty by China Securities Regulatory Commission nor public criticism by any stock exchange of the Company, its directors, supervisors, senior management, controlling shareholders and actual controller.

XI. OTHER SIGNIFICANT EVENTS

1. The Company entered into a conditional equity transfer agreement (the "Agreement") with CSSC on July 25, 2008, to purchase 100% equity interest in Guangzhou Wenchong Shipyard Co., Ltd. ("GWS"), a wholly-owned subsidiary of CSSC, for an acquisition price of RMB3.04 billion. Such proposal had been approved by the second meeting of the sixth term of the Board which was held on June 30, 2008, and the first extraordinary general meeting and the class meetings of 2008 held on August 18, 2008. For more details please refer to the announcements in relation to the proposed acquisition issued on June 30., 2008, July 21, 2008, July 25, 2008, August 7, 2008, August 11, 2008 and August 18, 2008 by the Company.

   Due to the significant changes in the securities market from June 2008 to May 2009, the valuation of the Company's shares had decreased sharply. If the Company persisted in acquisition, it would dilute the earnings and net assets per share, and would also impact on the funds position of the Company, which would not be fair or reasonable to the Company and the shareholders of the Company as a whole. Therefore, the Board of the Company believed that it is in the interests of the Company and the shareholders of the Company as a whole to terminate the Proposed Rights Issue and the Proposed Acquisition. Such termination was approved by the 2008 AGM, first class meeting of domestic shares of 2009 and first class meeting of foreign share of 2009 held on May 19, 2009.

   For more details please refer to the announcements issued by the Company on March 25, 2009 and May 20, 2009 on Shanghai Securities News and on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) on March 27, 2009 and May 19, 2009.

2. Zhongshan GSI Marine Engineering Company Limited ("Zhongshan Company", a wholly-owned subsidiary of the Company in Torch Development District of Zhongshan City, Guangdong Province) obtained its business license on January 19, 2009, and successfully tendered for the land use rights for its production and operation premises in the total area of 530,000 square meters at the price of RMB204,799,987.00 on May 7, 2009. The payments were paid in 2009.

3. Approved by the twelfth meeting of the sixth term of the Board of Directors, the Company made the lump-sum provision for unpaid housing cash subsidies for employees who retired from January 2001 to June 2009 after discounting in the amount of approximately RMB23.46 million, and provisions shall be made monthly for unpaid housing cash subsidies for employees retiring in current month after discounting as from July 2009.

4. Approved by the fourteenth meeting of the sixth term of Board of Directors, the Company fully participated in China Merchants Bank's right issue on March 9, 2010 and paid RMB17.7235 million for allocation of 2002650 shares.

5. It is verified that there is no stock trading of directors, supervisors, senior management or other concerned person of the Company before the disclosing of annual report, performance announcement or performance bulletin as getting the inside information in advance.

DOMESTIC AUDITORS' REPORT

ACPA (2010) GF NO.010044

TO THE SHAREHOLDERS OF GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

We have audited the accompanying financial statements of Guangzhou Shipyard International Company Limited ("the Company"), which comprise the consolidated and the Company's balance sheet as at December 31, 2009, and the consolidated and the Company's income statement, the consolidated and the Company's cash flow statement, and the consolidated and the Company's statement of changes in equity for the year then ended, and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements, in all material respects, give a true and fair view of the financial position of the Company and its subsidiaries as of 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Certified Public Accountants
Chen Gang, Song Yong

Ascenda
Certified Public Accountants, Ltd.

March 30, 2010
Beijing, the People's Republic of China

BALANCE SHEET

31 December, 2009

Unit: RMB yuan

		Consolidated		Parent	
Assets	*Note*	**End. Balance**	**Beg. Balance**	**End. Balance**	**Beg. Balance**
Current assets:					
Cash and cash equivalents	*V 1*	**5,452,246,037.69**	6,132,593,874.55	**5,245,021,720.52**	6,008,183,349.92
Trading financial assets	*V 2*	**63,993,056.22**	157,360,902.20	**54,702,853.82**	157,360,902.20
Notes receivable	*V 3*	**300,000.00**	–	50,000.00	–
Accounts receivable	*V 4*	**334,867,278.77**	392,666,954.58	**378,803,393.71**	236,630,301.29
Advances to suppliers	*V 5*	**299,139,760.51**	486,868,845.98	**340,822,635.50**	435,625,707.10
Interest receivable	*V 6*	**82,320,687.20**	142,294,820.00	**82,419,687.20**	142,294,820.00
Dividend receivable		–	–	**13,250,055.33**	255,000.00
Other receivables	*V 7*	**115,243,348.09**	191,817,452.41	**241,801,283.19**	190,269,833.94
Inventories	*V 8*	**1,354,540,485.87**	1,115,697,445.47	**1,174,277,741.11**	1,040,462,688.11
Non-current assets due within one year		–	–	–	–
Other current assets		–	–	–	–
Total current assets		**7,702,650,654.35**	**8,619,300,295.19**	**7,531,149,370.38**	**8,211,082,602.56**
Non-current assets:					
Available-for-sale financial assets	*V 9*	**337,360,250.00**	185,450,000.00	**337,360,250.00**	185,450,000.00
Held-to-maturity Investment		–	–	–	–
Long-term receivable		–	–	–	–
Long-term equity investment	*V 11*	**41,879,608.90**	35,608,067.54	**226,970,397.30**	127,012,681.53
Investment properties	*V 12*	**74,362,445.37**	94,138,711.50	**74,362,445.37**	94,138,711.50
Fixed assets	*V 13*	**1,252,405,778.57**	964,998,418.77	**1,132,395,747.50**	924,194,120.15
Construction in process	*V 14*	**295,198,915.22**	262,095,452.84	**72,809,133.41**	261,914,097.64
Project material		–	–	–	–
Disposals of fixed assets		–	–	–	–
Intangible assets	*V 15*	**88,834,722.65**	89,828,904.67	**83,223,531.69**	84,071,652.35
Development expenditure		–	–	–	–
Goodwill		–	–	–	–
Long-term deferred		–	–	–	–
Deferred tax assets	*V 16*	**12,530,702.92**	6,810,856.62	**9,909,677.25**	4,661,917.15
Other non-current assets		–	–	–	–
Total non-current assets		**2,102,572,423.63**	**1,638,930,411.94**	**1,937,031,182.52**	**1,681,443,180.32**
Total assets		**9,805,223,077.98**	**10,258,230,707.13**	**9,468,180,552.90**	**9,892,525,782.88**

BALANCE SHEET

31 December, 2009

		Consolidated		Parent	
Liabilities and shareholders' equity	*Note*	**End. Balance**	**Beg. Balance**	**End. Balance**	**Beg. Balance**
Current liabilities:					
Short-term borrowings	V 19	**1,465,361,484.13**	478,026,177.43	**1,405,787,762.56**	428,817,000.00
Trading financial liabilities	V 20	–	5,199,844.99	–	5,199,844.99
Notes payable	V 21	**360,901,710.85**	143,660,239.95	**360,901,710.85**	143,660,239.95
Accounts payable	V 22	**709,751,054.23**	832,918,241.67	**692,370,670.80**	797,649,531.42
Advances from customers	V 23	**127,281,207.61**	218,775,845.39	**77,174,971.21**	159,117,253.99
Accrued employee compensation	V 24	**22,201,256.78**	23,367,012.97	**16,108,835.48**	17,004,591.67
Taxes payable	V 25	**68,690,776.51**	126,535,514.31	**70,950,650.82**	118,263,883.65
Interest payable	V 26	**1,878,526.18**	20,146,276.66	**1,877,926.18**	20,146,276.66
Other payables	V 28	**27,751,512.24**	32,592,043.79	**20,066,248.98**	23,318,111.37
Dividend payable	V 27	**12,785,975.61**	34,632.88	**55,530.29**	34,632.88
Current portion of long-term liabilities	V 29	**170,705,000.00**	877,863,362.40	**170,705,000.00**	877,863,362.40
Other current liabilities	V 30	**3,368,133,623.01**	4,278,333,045.78	**3,377,250,204.55**	4,279,122,484.28
Total current liabilities		**6,335,442,127.15**	**7,037,452,238.22**	**6,193,249,511.72**	**6,870,197,213.26**
Long-term liabilities:					
Long-term borrowings	V 31	–	205,038,000.00	–	205,038,000.00
Bonds payable		**–**	–	**–**	–
Long-term payables		**–**	–	**–**	–
Special payables	V 32	**24,570,000.00**	24,570,000.00	**24,570,000.00**	24,570,000.00
Provision	V 33	**121,547,344.07**	87,150,182.48	**121,547,344.07**	87,150,182.48
Deferred tax liabilities	V 16	**52,923,326.47**	55,440,080.20	**51,390,443.07**	55,440,080.20
Other non-current liabilities	V 34	**13,760,555.79**	5,714,990.79	**13,760,555.79**	5,714,990.79
Total non-current liabilities		**212,801,226.33**	**377,913,253.47**	**211,268,342.93**	**377,913,253.47**
Total liabilities		**6,548,243,353.48**	**7,415,365,491.69**	**6,404,517,854.65**	**7,248,110,466.73**
Shareholders' equity:					
Share capital	V 35	**494,677,580.00**	494,677,580.00	**494,677,580.00**	494,677,580.00
Capital reserves	V 36	**896,683,298.17**	767,559,585.67	**896,683,298.17**	767,559,585.67
Less: treasury stock		**–**	–	**–**	–
Special reserve		**–**	–	**–**	–
Surplus reserves	V 37	**304,296,742.00**	253,023,883.94	**303,120,929.83**	251,848,071.77
Undistributed profit	V 38	**1,473,182,738.39**	1,232,098,604.09	**1,369,180,890.25**	1,130,330,078.71
Translation difference		**–**	–	**–**	–
Equity attributable to the Company's shareholders		**3,168,840,358.56**	**2,747,359,653.70**	**3,063,662,698.25**	**2,644,415,316.15**
Minority interest		**88,139,365.94**	95,505,561.74	–	–
Total shareholders' equity		**3,256,979,724.50**	**2,842,865,215.44**	**3,063,662,698.25**	**2,644,415,316.15**
Total liabilities & shareholders' equity		**9,805,223,077.98**	**10,258,230,707.13**	**9,468,180,552.90**	**9,892,525,782.88**

INCOME STATEMENT

For the year 2009

Unit: RMB yuan

Item		Note	Consolidated 2009	Consolidated 2008	Parent 2009	Parent 2008
I.	**Total revenue**	V 39	**6,553,424,803.99**	**6,984,087,521.27**	**6,242,694,549.57**	**6,395,548,634.25**
II.	**Total costs**	V 39	**5,757,813,988.47**	**6,070,463,652.88**	**5,502,493,559.02**	**5,545,945,452.67**
	Taxes and levies on operations	V 41	**31,876,683.51**	22,271,654.16	**27,549,419.63**	18,430,854.24
	Selling expenses		**37,873,926.69**	49,887,310.04	**31,255,346.51**	44,735,683.06
	General and administrative expenses		**313,985,220.08**	282,534,191.60	**286,812,845.21**	273,877,472.43
	Financial expenses	V 42	**-122,948,206.40**	-288,581,498.27	**-123,272,980.16**	-292,421,998.70
	Impairment	V 43	**23,036,871.16**	-3,959,877.74	**19,285,984.24**	-1,586,852.41
	Plus:gains/Losses from fair value changes	V 44	**-88,168,000.99**	-130,520,655.24	**-97,458,203.39**	**-130,520,655.24**
	Investment income	V 45	**120,329,635.58**	136,718,751.83	**127,695,007.38**	118,174,623.21
	Including: Share of profit/loss of associates and jointly controlled entities		**7,069,170.05**	3,810,566.74	**755,344.46**	895,015.90
III.	**Operating Profit**		**543,947,955.07**	**857,670,185.19**	**528,807,179.11**	**794,221,990.93**
	Plus:Non-operating Income	V 46	**84,703,157.50**	70,374,746.45	**83,253,614.48**	68,431,792.96
	Less:Non-operating expenses	V 47	**14,963,284.04**	6,759,353.39	**14,692,003.05**	5,653,979.27
	Including:losses on disposal of non-current assets		**14,385,377.12**	5,729,400.67	**14,313,053.02**	5,064,278.74
IV.	**Profit before tax**		**613,687,828.53**	**921,285,578.25**	**597,368,790.54**	**856,999,804.62**
	Less:Income tax	V 48	**92,871,675.65**	81,113,055.51	**84,640,209.94**	81,497,291.76
V.	**Net profit/loss**		**520,816,152.88**	**840,172,522.74**	**512,728,580.60**	**775,502,512.86**
	Net profit attributable to the parent company		**514,961,903.36**	820,395,655.17	**512,728,580.60**	775,502,512.86
	Minority interests		**5,854,249.52**	19,776,867.57	–	–
VI.	**Earnings per share ("EPS")**					
	Basic EPS	V 49	**1.04**	1.66	–	–
	Diluted EPS		–	–	–	–
VI.	**Other Comprehensive Income**	V 50	**129,123,712.50**	**-277,206,895.85**	**129,123,712.50**	**-277,206,895.85**
VIII.	**Total Comprehensive Income**		**649,939,865.38**	**562,965,626.89**	**641,852,293.10**	**498,295,617.01**
Attributable to the parent company			**644,085,615.86**	543,188,759.32	**641,852,293.10**	498,295,617.01
Attributable to minority interests			**5,854,249.52**	19,776,867.57	–	–

CASH FLOW STATEMENT

For the year 2009

Unit: RMB yuan

Item		Note	Consolidated		Parent	
			Current year	Last year	Current year	Last year
I.	**Cash flows from operating activities:**					
	Cash received from the sale of goods or rendering of services		**6,396,316,353.64**	7,511,657,429.95	**4,761,107,359.20**	6,243,202,113.87
	Refunds of taxes		**490,204,189.18**	492,129,092.71	**485,035,312.43**	479,535,489.95
	Other cash receipts relating to operating activities	V 51	**69,061,115.28**	102,478,416.23	**50,035,082.35**	94,608,918.59
	Sub-total of cash inflows		**6,955,581,658.10**	8,106,264,938.89	**5,296,177,753.98**	6,817,346,522.41
	Cash paid for goods and services		**6,118,407,094.32**	6,981,570,109.33	**4,997,271,377.22**	6,049,149,494.65
	Cash paid to and on behalf of employees		**758,608,638.95**	724,043,334.78	**384,778,356.40**	423,056,864.83
	Payments of all types of taxes		**333,767,489.52**	361,608,420.06	**283,035,737.61**	319,905,596.68
	Other cash payments relating to operating activities	V 51	**209,719,015.34**	234,310,397.38	**294,497,493.26**	210,615,323.86
	Sub-total of cash out flows		**7,420,502,238.13**	8,301,532,261.55	**5,959,582,964.49**	7,002,727,280.02
	Net cash flows from operating activities		**-464,920,580.03**	-195,267,322.66	**-663,405,210.51**	-185,380,757.61
II.	**Cash flows from investing activities:**					
	Cash received from disposal of investments		**797,628.69**	24,935,284.61	**797,628.69**	24,935,284.61
	Inc: Proceeds from disposal of subsidiaries		**–**	–	**–**	–
	Cash received from return on investment		**2,495,857.94**	26,813,556.39	**7,955,442.33**	26,813,556.39
	Net cash received from the sale of fixed assets, intangible assets and other long- term assets		**26,073,564.06**	278,926.83	**4,700,788.90**	199,193.83
	Proceeds from disposal of fixed assets, intangible assets and other non-current assets		**–**	–	**–**	–
	Proceeds from other investing activities	V 51	**223,575,175.75**	194,354,187.67	**224,658,177.61**	194,290,777.35
	Total cash inflow from investing activities		**252,942,226.44**	246,381,955.50	**238,112,037.53**	246,238,812.18
	Payments for fixed assets, intangible assets and other long-term assets		**369,610,631.16**	174,270,759.70	**142,754,271.70**	168,244,058.98
	Payments for investments		**–**	10,430,695.00	**100,000,000.00**	66,863,787.13
	Payments for other investing activities	V 51	**150,595,060.99**	822,249,651.01	**150,596,862.00**	822,249,651.01
	Total cash outflow for investing activities		**520,205,692.15**	1,006,951,105.71	**393,351,133.70**	1,057,357,497.12
	Net cash flows from investing activities		**-267,263,465.71**	-760,569,150.21	**-155,239,096.17**	-811,118,684.94
III.	**Cash flows from financing activities:**					
	Proceeds from investment		**–**	–	**–**	–
	Inc: proceeds from investment from minority interests		**–**	–	**–**	–
	Proceeds from borrowings		**2,828,694,931.20**	4,020,065,898.49	**1,600,676,297.37**	3,452,468,686.00
	Other proceeds relating to financing activities		**–**	17,242,445.78	**–**	7,450,000.00
	Total cash inflow from financing activities		**2,828,694,931.20**	4,037,308,344.27	**1,600,676,297.37**	3,459,918,686.00
	Repayments of borrowings		**2,750,794,616.43**	4,287,248,824.49	**1,533,218,645.40**	3,752,380,656.60
	Distribution of dividends or profits and interests payments		**268,355,118.84**	417,877,363.02	**267,684,632.14**	416,088,139.65
	Incl. Dividend and profits paid to minority interests		**–**	**120,000.00**	**–**	–
	Payments for other financing activities	V 51	**6,962,991.79**	14,064,507.77	**5,669,747.33**	34,416.66
	Total cash outflow for financing activities		**3,026,112,727.06**	4,719,190,695.28	**1,806,573,024.87**	4,168,503,212.91
	Inc: cash payments for minority shareholders due to decreasing capital in subsidiaries		**–**	–	**–**	–
	Net cash flows from financing activities		**-197,417,795.86**	-681,882,351.01	**-205,896,727.50**	-708,584,526.91
IV.	**Effect of exchange rate changes on cash**		**112,299,223.25**	95,717,672.29	**110,782,542.78**	95,335,283.84
V.	**Net increase (decrease) in cash and cash equivalents**		**-817,302,618.35**	-1,542,001,151.59	**-913,758,491.40**	-1,609,748,685.62
	Add: Cash and cash equivalents at the beginning of the year		**5,197,630,827.85**	6,739,631,979.44	**5,088,610,548.91**	6,698,359,234.53
VI.	**Cash and cash equivalents at the end of the year**		**4,380,328,209.50**	5,197,630,827.85	**4,174,852,057.51**	5,088,610,548.91

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2009

Unit: RMB yuan

	2009									
	Shareholders' (Owners') Equity Attributable to the Parent Company									
Item	**Share Capital**	**Capital Reserves**	**Less: Treasury stock**	**Special reserves**	**Surplus reserves**	**Emergency funds**	**Undistributed Profit**	**Others**	**Minority interest**	**Total equity**
I. Balance at the end of last period	494,677,580.00	767,559,585.67	–	–	253,023,883.94	–	1,232,098,604.09	–	95,505,561.74	2,842,865,215.44
Add: Increase (decrease) in profit due to changes in accounting policies	–	–	–	–	–	–	–	–	–	–
Prior period errors adjustments	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–
II. Balance – at the beginning of this period	494,677,580.00	767,559,585.67	–	–	253,023,883.94	–	1,232,098,604.09	–	95,505,561.74	2,842,865,215.44
III. Increase (decrease) in equity in current year	–	129,123,712.50	–	–	51,272,858.06	–	241,084,134.30	–	-7,366,195.80	414,114,509.06
(i) Net profit	–	–	–	–	–	–	514,961,903.36	–	5,854,249.52	520,816,152.88
(ii) Other comprehensive income	–	129,123,712.50	–	–	–	–	–	–	–	129,123,712.50
Subtotal of (i) (ii)	–	129,123,712.50	–	–	–	–	514,961,903.36	–	5,854,249.52	649,939,865.38
(iii) Shareholders' contribution and withdrawal	–	–	–	–	–	–	–	–	–	–
1. Capital Contributions	–	–	–	–	–	–	–	–	–	–
2. Share-based payment	–	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–	–
(iv) Profit distribution	–	–	–	–	51,272,858.06	–	-273,877,769.06	–	-13,220,445.32	-235,825,356.32
1. Provision of surplus reserves	–	–	–	–	51,272,858.06	–	-51,272,858.06	–	–	–
2. Provision of Emergency funds	–	–	–	–	–	–	–	–	–	–
3. Profit distributed to owners (or shareholders)	–	–	–	–	–	–	-222,604,911.00	–	-13,220,445.32	-235,825,356.32
4. Others	–	–	–	–	–	–	–	–	–	–
(v) Transfers within owner's equity	–	–	–	–	–	–	–	–	–	–
1. Transfers from capital reserves to share capital	–	–	–	–	–	–	–	–	–	–
2. Transfers from surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–
3. Transfers from surplus reserves to undistributed profits	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(vi) Special reserve	–	–	–	–	–	–	–	–	–	–
Current year provision	–	–	–	–	–	–	–	–	–	–
Current year employ	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of this period	494,677,580.00	896,683,298.17	–	–	304,296,742.00	–	1,473,182,738.39	–	88,139,365.94	3,256,979,724.50

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2009

	2008									
	Shareholders' (Owners') Equity Attributable to the Parent Company									
	Share Capital	Capital Reserves	Less: Treasury stock	Special reserves	Surplus reserves	Emergency funds	Undistributed Profit	Others	Minority interest	Total equity
I. Balance at the end of last period	494,677,580.00	1,044,766,481.52	–	–	175,491,051.92	–	736,574,570.94	–	75,848,694.17	2,527,358,378.55
Add: Increase (decrease) in profit due to changes in accounting policies	–	–	–	–	–	–	–	–	–	–
Prior period errors adjustments	–	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–	–
II. Balance – at the beginning of this period	494,677,580.00	1,044,766,481.52	–	–	175,491,051.92	–	736,574,570.94	–	75,848,694.17	2,527,358,378.55
III. Increase (decrease) in equity in current year	–	-277,206,895.85	–	–	77,532,832.02	–	495,524,033.15	–	19,656,867.57	315,506,836.89
(i) Net profit	–	–	–	–	–	–	820,395,655.17	–	19,776,867.57	840,172,522.74
(ii) Other comprehensive income	–	-277,206,895.85	–	–	–	–	–	–	–	-277,206,895.85
Subtotal of (i) (ii)	–	-277,206,895.85	–	–	–	–	820,395,655.17	–	19,776,867.57	562,965,626.89
(iii) Shareholders' contribution and withdrawal	–	–	–	–	–	–	–	–	–	–
1. Capital Contributions	–	–	–	–	–	–	–	–	–	–
2. Share-based payment	–	–	–	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–	–	–	–
(iv) Profit distribution	–	–	–	–	77,532,832.02	–	-324,871,622.02	–	-120,000.00	-247,458,790.00
1. Provision of surplus reserves	–	–	–	–	77,532,832.02	–	-77,532,832.02	–	–	–
2. Provision of Emergency funds	–	–	–	–	–	–	–	–	–	–
3. Profit distributed to owners (or shareholders)	–	–	–	–	–	–	-247,338,790.00	–	-120,000.00	-247,458,790.00
4. Others	–	–	–	–	–	–	–	–	–	–
(v) Transfers within owner's equity	–	–	–	–	–	–	–	–	–	–
1. Transfers from capital reserves to share capital	–	–	–	–	–	–	–	–	–	–
2. Transfers from surplus reserves to share capital	–	–	–	–	–	–	–	–	–	–
3. Transfers from surplus reserves to undistributed profits	–	–	–	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–	–	–	–
(vi) Special reserve	–	–	–	–	–	–	–	–	–	–
Current year provision	–	–	–	–	–	–	–	–	–	–
Current year employ	–	–	–	–	–	–	–	–	–	–
IV. Balance at the end of this period	494,677,580.00	767,559,585.67	–	–	253,023,883.94	–	1,232,098,604.09	–	95,505,561.74	2,842,865,215.44

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2009

Unit: RMB yuan

	2009						
Item	Share Capital	Capital Reserves	Less: Treasury stock	Special reserves	Surplus Reserves	Undistributed Profit	Total equity
I. Balance at the end of last period	494,677,580.00	767,559,585.67	–	–	251,848,071.77	1,130,330,078.71	2,644,415,316.15
Add: Increase (decrease) in profit due to changes in accounting policies	–	–	–	–	–	–	–
Prior period errors adjustments	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–
II. Balance – at the beginning of this period	494,677,580.00	767,559,585.67	–	–	251,848,071.77	1,130,330,078.71	2,644,415,316.15
III. Increase (decrease) in equity in current year	–	129,123,712.50	–	–	51,272,858.06	238,850,811.54	419,247,382.10
(i) Net profit	–	–	–	–	–	512,728,580.60	512,728,580.60
(ii) Other comprehensive income	–	129,123,712.50	–	–	–	–	129,123,712.50
Subtotal of (i) (ii)	–	129,123,712.50	–	–	–	512,728,580.60	641,852,293.10
(iii) Shareholders' contribution and withdrawal	–	–	–	–	–	–	–
1. Capital Contributions	–	–	–	–	–	–	–
2. Share-based payment	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–
(iv) Profit distribution	–	–	–	–	51,272,858.06	-273,877,769.06	-222,604,911.00
1. Provision of surplus reserves	–	–	–	–	51,272,858.06	-51,272,858.06	–
2. Provision of Emergency funds	–	–	–	–	–	-222,604,911.00	-222,604,911.00
3. Profit distributed to owners (or shareholders)	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(v) Transfers within owner's equity	–	–	–	–	–	–	–
1. Transfers from capital reserves to share capital	–	–	–	–	–	–	–
2. Transfers from surplus reserves to share capital	–	–	–	–	–	–	–
3. Transfers from surplus reserves to undistributed profits	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(vi) Special reserve	–	–	–	–	–	–	–
Current year provision	–	–	–	–	–	–	–
Current year employ	494,677,580.00	896,683,298.17	–	–	303,120,929.83	1,369,180,890.25	3,063,662,698.25

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the year 2009

Item	2008						
	Share Capital	Capital Reserves	Capital Reserves	Special reserves	Surplus Reserves	Undistributed Profit	Total equity
I. Balance at the end of last period	494,677,580.00	1,044,766,481.52	–	–	174,315,239.75	679,699,187.87	2,393,458,489.14
Add: Increase (decrease) in profit due to changes in accounting policies	–	–	–	–	–	–	–
Prior period errors adjustments	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–
II. Balance – at the beginning of this period	494,677,580.00	1,044,766,481.52	–	–	174,315,239.75	679,699,187.87	2,393,458,489.14
III. Increase (decrease) in equity in current year	–	-277,206,895.85	–	–	77,532,832.02	450,630,890.84	250,956,827.01
(i) Net profit	–	–	–	–	–	775,502,512.86	775,502,512.86
(ii) Other comprehensive income	–	-277,206,895.85	–	–	–	–	-277,206,895.85
Subtotal of (i) (ii)	–	-277,206,895.85	–	–	–	775,502,512.86	498,295,617.01
(iii) Shareholders' contribution and withdrawal	–	–	–	–	–	–	–
1. Capital Contributions	–	–	–	–	–	–	–
2. Share-based payment	–	–	–	–	–	–	–
3. Others	–	–	–	–	–	–	–
(iv) Profit distribution	–	–	–	–	77,532,832.02	-324,871,622.02	-247,338,790.00
1. Provision of surplus reserves	–	–	–	–	77,532,832.02	-77,532,832.02	–
2. Provision of Emergency funds	–	–	–	–	–	-247,338,790.00	-247,338,790.00
3. Profit distributed to owners (or shareholders)	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(v) Transfers within owner's equity	–	–	–	–	–	–	–
1. Transfers from capital reserves to share capital	–	–	–	–	–	–	–
2. Transfers from surplus reserves to share capital	–	–	–	–	–	–	–
3. Transfers from surplus reserves to undistributed profits	–	–	–	–	–	–	–
4. Others	–	–	–	–	–	–	–
(vi) Special reserve	–	–	–	–	–	–	–
Current year provision	–	–	–	–	–	–	–
Current year employ	494,677,580.00	767,559,585.67	–	–	251,848,071.77	1,130,330,078.71	2,644,415,316.15

I BRIEF INTRODUCTION TO THE COMPANY

Guangzhou Shipyard International Company Limited ("the Company") was reorganized in 1993 from Guangzhou Shipyard, and incorporated in the PRC as a joint stock limited company. Upon approval, the Company was registered as a Sino-foreign joint limited company on October 21, 1994. The business license registeration number of the Company was changed to 440101400025144 as of December 7, 2009. The Company's registered capital amounts to RMB494,677,580.00, its registered address is No.40, south Fangcun Main Road, Liwan District, Guangzhou, and its legal representative is Li Zhushi.

The Company belongs to shipbuilding industry. The principal business scope covers: shipbuilding, steel structure engineering and other mechanical and electrical equipment. In addition to large vessels, the Company's principal products include steel structure's manufacturing, coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

The Company's parent company is China State Shipbuilding Corporation (CSSC), and the ultimate controlling party is State-owned Assets Supervision and Administration Commission of the State Council.

II SIGNIFICANT ACCOUNTING POLICIES ACCOUNTING ESTIMATION AND PRIOR ERRORS

1. Basis of Financial Statements Preparation

The financial statements have been prepared on the going concern and accrual basis, and recognized, measured and reported based on actual transactions and events, in accordance with Accounting Standards for Business Enterprises-Basic Standard and other specific accounting standards, guidelines and explanations. Estimations and assumptions are applied when preparing qualified financial statements according to the requirements of Accounting Standards for Business Enterprises, which would affect presentation and disclosure of asset, liability and contingencies as at balance sheet date, and reporting revenue and expense.

2. State of Compliance

The financial statements have been prepared in conformity with China Accounting Standards for Business Enterprise, truly and fully reflecting the Company's financial conditions, operating results, cash flows and related information.

3. Accounting Period

The accounting period covers the calendar year from January 1st to December 31st.

4. Bookkeeping Currency

Accounting records are maintained in Renminbi.

5. Business Combination

(1) Business combination involving enterprises under common control

For a business combination involving enterprises under common control, assets and liabilities acquired by the acquirer in the business combination shall be accounted at book value of the party been absorbed at combination date. The difference between the initial investment cost and the carrying amount of cash paid (or the aggregate face value of share issued) shall be adjusted to capital reverse. If the balance of capital reverse is not sufficient, any excess shall be adjusted to retained earnings.

(2) Business combination not involving enterprises under common control

For a business combination not involving enterprises under common control, the acquirer shall determine the cost of combination according to the following circumstances: (a) the cost of combination is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, (b) when for a business combination achieved in stages that involves multiple exchange transactions, the cost of combination is the aggregate of the costs of individual transactions, (c)costs incurred by the acquirer that are directly attributable to the business combination shall be included in the cost of business combination.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill. When the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, after reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall recognize the remaining difference in profit or loss for the current period.

6. Preparation of Consolidated Financial Statements

The scope of the consolidation includes all subsidiaries under effective control and special purpose entities under effective control.

The consolidated financial statements shall be prepared in conformity with Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements, by the parent, after eliminating the effects of intra-group transactions. Minority interests are individually presented under shareholder's equity in the consolidated financial statements.

When the Company prepares consolidated financial statements, if the accounting policies and accounting period applied by the subsidiaries and the Company is not consistent. the Company shall standardize the accounting policies of its subsidiaries so that uniform accounting policies are used.

For entities acquired not under common control, the consolidation is prepared at the fair value of identifiable net assets on the acquisition date by making adjustments to the individual statements. For combinations involving common control entities, the combination should be deemed to be incurred at the beginning of the year, and all the assets, liabilities, operating results and cash flows should be consolidated in the statements in the beginning of current period.

7. Cash and Cash Equivalents

Cash equivalents in the cash flow statement are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Foreign Currency Translation

Foreign currency translations during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China on the date when the transactions take place. At the balance sheet date, the monetary item denominated in foreign currencies are adjusted in accordance with the spot rate quoted by the People's Bank of China, exchange difference arising from the adjustment should be recognized in the current profit or loss except those that could be capitalized when purchasing or constructing assets. Foreign currency non-monetary item measured at historical cost shall continue to be translated at the spot exchange rates at the dates of the transactions; the amounts in functional currency shall remain unchanged.

9. Financial Instruments

(1) Classification, Recognition and Measurement

The Company classifies its financial assets into following categories: at fair value through profit or loss, loans and receivables (refers to Note 8), and held-to maturity. The classification depends on the purpose and for which the financial assets were acquired and the ability of holding.

The Company classifies its financial liabilities into following categories: at fair value through profit or loss.

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

Financial assets at fair value through profit or loss, including financial assets held for trading and those designed as at fair value through profit or loss, are recognized initially at fair value with relevant transaction fees charged to current profit or loss. Considerations that include declared dividends or matured interests are recognized as receivables respectively. Dividends and interest received during the holding period are recognized as investment income. At the balance sheet date, change of fair value of the financial assets should be charged to current profit or loss. When derecognizing, difference between the fair value and the initial measurement of the financial asset is recognized as investment income, concurrently adjustment made for gain or loss arising from change in fair value.

(B) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated on initial recognition as available for sale or those financial assets that are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables.

The initial cost of these financial assets is stated at the sum of their fair value and related transaction costs. If the consideration includes bond interests that is matured but not received or dividends that is declared but not paid, it should be recognized as separate receivables. Throughout the holding period, interest income or cash dividend received are recognized as investment income. At the balance sheet date, the financial assets are measured at fair value and their changes in fair value are charged to capital surplus-other capital surplus.

If the fair value of available-for-sale financial assets declines persistently and substantially, and the declination is not expected to be temporary, the impairment loss is recognized in profit or loss as "Asset Impairment Loss", and the amount is at the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, with any cumulative impairment loss on that financial asset previously recognized in owner's equity.

In case of disposal, investment income should be recognized and measured at the difference between the carrying value and the consideration paid, with cumulative change of fair value allocated to the part derecognized, which is previously recognized in owner's equity.

(C) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, including financial liabilities held for trading and those designed as at fair value through profit or loss, are recognized if one of following are met: (a) the financial liability is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) the financial liability is designated as at fair value through profit or loss due to the arrangement of strategic investment or risk management. (3) the financial liability is not an effective hedging derivative.

(D) Other financial liabilities

Other financial liabilities are financial liabilities other than those at fair value through profit or loss, including debentures, trading payables, and long-term payables etc. Other financial liabilities are initially measured at the sum of their fair value and related transaction costs, and subsequently measured at amortized cost.

Financial liabilities of the Company other than those at fair value through profit or loss, such as financial guarantee contract, shall be initially measured at the sum of their fair value and related transaction costs. Subsequent measurement shall be the higher of the amount recognized under "Accounting Standard for Business Enterprises No.13-Contingencies" and the amortized balance under "Accounting Standard for Business Enterprises No.14-Revenue".

(2) Recognition and Measurement of transfer of financial assets

The transfer of financial asset includes two circumstances as follows:

(A) The company transfers the right to another party for receiving the cash flow of the financial asset; and

(B) The company transfers the financial asset to another party, but maintains the right to receive the cash flow of the financial asset and undertakes the obligation to pay the cash flow it receives to the final recipient, and meets the conditions as follows at the same time.

(a) The company is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset. For any short-term payment made by the company on behalf of others, if the company has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.

(b) In accordance with the contractual stipulations, the company can't sell the financial asset or use it as a guaranty, but it may use it as an guarantee for paying the cash flow to the final recipient.

(c) The company is obliged to pay the cash flow it receives to the final recipient in a timely manner. The company has no right to make a re-investment with the cash flow, but in accordance with the contractual stipulations, it may make investment with cash or cash equivalent by using the cash flow it receives during the interval of between 2 consecutive payments. If the company makes a reinvestment in accordance with the contractual stipulations, it shall pay the proceeds by investment to the final recipient in accordance with the contractual stipulations.

Where an enterprise has transferred nearly all of the risks and rewards related to the ownership of the financial asset to the transferee, it shall stop recognizing the financial asset. If it retained nearly all of the risks and rewards related to the ownership of the financial asset, it shall not stop recognizing the financial asset.

Where an enterprise does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, it shall deal with it according to the circumstances as follows, respectively:

(a) If it gives up its control over the financial asset, it shall stop recognizing the financial asset;

(b) If it does not give up its control over the financial asset, it shall, according to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and recognize the relevant liability accordingly.

(3) Conditions of stop recognizing the financial liability

The company should stop recognizing the financial liability entirely or partly when the current obligation is settled entirely or partly, and the difference between the book value and the consideration (including non-cash assets or financial liability incurred) should be recognized as profit or loss.

(4) Determination of fair Value

If there is an active market for a financial instrument, the quoted price in the active market shall be used to establish fair value. If no active market exists, valuation techniques are applied to determine fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models, by making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(5) Impairment of financial assets

At the reporting date the company should inspect all the financial assets except those of at fair value through profit or loss.

If the fair value of available-for-sale financial assets have decrease significantly and continuously, and the decrease is not temporarily, impairment loss should be recognized according to the difference of costs of investment minus the received principal, amortization and current fair value.

10. Accounts receivable

Initial amount is recorded at consideration of contract value. In cases where debtors are bankrupt or dead, unrecoverable even after settlement out of litigation and liquidation or out of legacy; where there are no other obligators, or overdue debtors failed to meet their debt obligations, the receivables are recognized as bad debts, with approval under appropriate procedures.

(1) Single significant receivables

Receivables over 10,000,000.00 are recognized as significant.

On balance sheet date, the Company shall assess the significant receivables individually for impairment, and recognize the amount of impairment loss at the difference between discounted present value of future cash flow and the carrying amount, recording bad debt allowance. If there is no indication of impairment, receivables together with the insignificant amounts shall be assessed collectively, and the allowance is provided based upon ratio of 0.5% of its ending balance.

(2) portfolios with significant risk

Insignificant receivables aged over 1year or there is indication of impairment, are categorized into risk portfolios of significant risk. If there is no indication of impairment, receivables together with the insignificant amounts shall be assessed collectively, and the allowance is provided based upon ratio of 0.5% of its ending balance.

(3) Other insignificant receivables

0.5% of the receivable balances shall be accounted as impairment amount.

When the Company finance with receivables by factoring, pledge or discounting, the Company shall bear the repayment responsibility in case the ultimate overdue debtors failed to meet their debt obligations, the receivables shall be treated as pledge for loans; if the Company has no repayment responsibility, the transfer should be recognized and the profit or loss should be accounted.

When the Company recovers the receivables, the difference between the consideration paid and the carrying amount of the receivables should be charged to current profit or loss.

11. Inventories

Inventories of the Company are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or materials or supplies to be consumed in the production process or in the rendering of services.

Inventories of the Company are valued on the basis of cost, which include:

(1) Raw materials and low-value consumables are stated at standard costs and actual costs. The amount is adjusted for price variance to arrive at actual cost at the end of month.

(2) Low-value consumables are amortized upon issuance for use.

(3) Finished products and work-in-progress are stated at actual cost.

At balance sheet date, inventories are stated at the lower of cost and net realizable value. If the carrying amount of inventories exceed their net realizable value due to obsolesce, out-of date, or low selling price, or estimated loss in construction, provision for impairment of inventory should be made to profit or loss account. Methods of making provision for impairment of inventories include:

(1) For materials (excluding those special materials for the products with the support of contract), provision is made on those damaged or rotten materials based on the difference between cost and net realizable value.

(2) For construction contract (long-term contracted construction), provision is made on the basis of estimated loss incurred during the contracted period.

(3) For finished goods covered by contracts, provision is made based on the difference between cost and sales proceeds when the actual cost is more than the foreseeable operating income.

The Company adopts perpetual inventory method to account inventories and stocktaking is performed periodically. Gain or loss discovered in stock-taking shall be recognized in current period.

12. Long-term Equity Investments

The Company's long-term equity investments include investments in subsidiaries, in associates, in jointly controlled entities, and in other long-term equity investments.

(1) Initial investment cost measurement

Investments in subsidiaries are valued at the initial acquisition cost. The initial measurement of a long-term equity investment acquired through a business combination is described in Note IV (7) Business Combination. Subsequent addition or decrease in the investment should be reflected as adjustments to the cost of investment.

When the Company can exercise jointly control or significant influence over the investee, or for a investee unit that does not have a common control or significant influence, and there is not active market quotations, the fair value measurement can not applied to long-term equity investments reliably, then valuation of that long-term investment will based initial investment cost.

(2) Subsequent measurement and profit/loss confirmation

Long-term equity investments in subsidiaries will be accounted for using the cost method subsequently, and adjusted to equity method when preparing consolidated financial statements. Except considerations on acquisition include declared cash dividend or profit distributions, cash dividend or profit distributions declared by the investee will be recognized as investment income in the current period.

When the Company can exercise jointly control or significant influence over the investee, the long-term equity investment shall be accounted for using the equity method.

Where the initial investment cost of a long-term equity investment exceeds the Company's share of interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment will be made to the initial investment cost. Where the initial investment cost is less than the Company's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference will be charged to profit or loss for the current period, and the cost of the long-term equity investment will be adjusted accordingly.

After acquisition, the Company recognizes its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount will be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Company.

(3) The basis for determining being exercise jointly control or significant influence over investee

Jointly control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Where the Company can exercise joint control over the investee with other parties, the investee is its jointly controlled enterprise. Significant influence is the power to participate in the financial and operating policy decisions of investee but is not control or joint control over those polices. Where the Company can exercise significant influence over the investee, the investee is its associate.

(4) Impairment of long-term equity investments

At balance sheet date, if there is indication of impairment resulted from market prices decline substantially or the operation conditions of investee companies getting worse, recoverable amount should be measured at the higher of the fair value after subtracting the costs of disposal of the net and the present value of estimated future cash flows. If the recoverable amount of long-term equity investments is less than book value, then the company will record book value write down to its recoverable amount, and recognizes amount of write downs as impairment loss through profit or loss. At the same time, make a provision for impairment of assets, at the same time, corresponding provisions for asset impairment must be made. Once impairment of long-term equity investments is recognized, it can not be reversed in later accounting period.

13. Investment Property

Investment property of the Company includes buildings holding for earning rental.

Investment property of the Company is measured initially at its cost. The cost of a purchased investment property comprises its purchase price, related taxes and fee, and other directly attributable expenditures. The cost of a self-constructed investment property consists of all necessary expenditure incurred for bringing the asset to working condition for its intended use.

The Company subsequently measures the investment property through the cost pattern, and makes depreciation in accordance with its estimated useful life and net salvage value. Hereby presented the estimated useful life, net salvage value and annual depreciation rate:

Classifications	Estimated useful life (Year)	Estimated net salvage value (%)	Annual depreciation rate
Buildings	45~70	3%	1.39%~2.16%

When the purpose of investment property has changed, it shall be converted from the investment property to other assets or vise versa. The carrying value of the property prior to the conversion shall be entry value after conversion.

When the recoverable amount of investment property is lower than its carrying value on the balance sheet date, the carrying value shall be written down to the recoverable amount, the write-down amount shall be included in the current profits and losses, and the corresponding provision shall be made in the meantime. Once made, the provision of investment property shall not be reversed in the future accounting periods.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, discarded, damaged or destroyed, the Company shall deduct the carrying value of it as well as the relevant taxes from the disposal income, and include the residual amount in the current profits and losses.

14. Fixed Assets

Fixed assets refer to tangible assets that have been used for more than one accounting year, including other equipment related to the production and business. Fixed assets are stated at actual cost upon acquisition.

The Company provides depreciation for all its fixed assets other than fully depreciated fixed assets that are still in use and is calculated based upon straight-line method.

The Company reasonably determines the useful life and estimates net residual value of a fixed asset according to the nature and use pattern of the fixed asset. At each financial year-end, the Company reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied. If it differs from its previous estimate, and then makes adjustment accordingly.

The estimated useful life and annual rates of depreciation for various categories of fixed assets are listed below:

Classifications	Useful life	Estimated residual value rate	Annual depreciation rate (%)
Buildings	8~50	3%-10%	1.8%~12.13%
Machinery and equipment	6~20	3%-10%	4.5%~16.17%
Vehicles	10~15	3%-10%	6.47%~9.7%
Others	5~50	3%-10%	2.57%~12.13%

At the balance date, if the recoverable amount of fixed assets are less than the original carrying amount, then reduces fixed assets to its recoverable amount, the difference is charged to profit or loss for the current period, at the same time, corresponding provisions for asset impairment must be made. Once impairment of fixed assets is recognized, it cannot be reversed in later accounting period.

Fixed assets of the Company are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, value-added tax, import custom duties and other related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset contributed by an investor will be determined in accordance with the value stipulated in the investment contract or agreement, expect where the value stipulated in the contract or agreement is not fair.

Fixed assets will be derecognized on disposal or when the fixed assets are permanently withdrawn from use and no future economic benefits are expected from its disposal. When fixed assets is sold, transferred, retired or damaged, the Company will recognize the amount of any proceeds on disposal deduct the carrying amount and related taxes in profit or loss for the current period.

15. Construction-in-progress

Construction-in-progress is stated at cost. The relevant interests are included as project cost before the property reaches its conditions for its intended use.

For the project has reached its intended use but not yet settle the final account for completed project, the asset is recorded in accordance with an estimated value to determine their costs and depreciation. After final account of the project has been settled, the Company shall base on actual cost to make adjustment on previous estimated value of the project, but need not adjust depreciation retrospectively.

At the balance sheet date, the value of construction-in-progress is calculated in accordance with the lower of carrying amount and recoverable value. When the recoverable value is lower than carrying amount, the difference will be determined as provision for impairment of construction-in-progress on single asset basis. The provision could not be reversed after recognition.

16. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use, are capitalized as part of the cost of those assets. Other borrowing costs are recognized as expenses when incurred. Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

When the following three requirements are met simultaneously, the expenses of loan in order to purchase or construct assets are capitalized and covered by the cost of the asset.

(1) The payout (only including cash paid, transferred non-currency assets or holding debt liability) has been occurred.

(2) The expenses of loan have been occurred.

(3) The action of buy and construction, which are indispensable in order to reach the scheduled workable condition, has begun.

During the capitalization period, the amount of interest to be capitalized for each accounting period will be determined as such: where funds are borrowed under a specific-purpose borrowing for the acquisition construction or production of a qualifying asset, the amount of interest to be capitalized will be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; where funds are borrowed under general-purpose borrowing and are utilized for the acquisition, construction or production of a qualifying asset, the Company will determined the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings (the capitalization rate will be the weighted average of the interest rates applicable to the general-purpose borrowings). The amount of interest capitalized for each accounting period cannot exceed the actual amount of interest incurred on the related borrowings during that accounting period.

Capitalization of borrowing costs will be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. The borrowing costs incurred during these periods will be recognized as an expense for the current period until the acquisition, construction or production is resumed. However, capitalization of borrowing costs will continue when the interruption is a necessary part of the process of preparing that asset for its intended use or sale.

Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use.

17. Intangible Assets and Development Expenditure

Intangible asset of the Company is identifiable non-monetary asset without physical substance owned or controlled by the Company, including land using right and know-how without patent.

Intangible assets are initially measured at actual cost, which is equivalent to considerations paid and related charges. Once the contracted value is not fair value, the acquisition cost should be value at fair value.

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period when the asset is not yet in use, it is tested for impairment annually.

Amortization is provided to write off the cost evenly over the useful lives from the month it is acquired. Intangible assets are not amortized where the useful lives of intangible assets cannot be ascertained but subject to impairment test annually. The amortization variables are listed as follows:

Category	Useful life	Amortization Method
Land using right	50 year	Straight-line
Know-how without patent	5-10 year	Straight-line

18. Provisions

An obligation related to contingency will be recognized as a provision when all of the following conditions are satisfied:

(1) The obligation is a present obligation of the Company;

(2) It is probable that an outflow of economic benefits will be required to settle the obligation;

(3) The amount of the obligation can be measured reliably.

A provision will be initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties, and time value of money will be taken into account as a whole in reaching the best estimate. When the effect of the time value is material, provisions are discounted to the best estimates from relevant future cash flows. The Company will review the carrying amount of a provision at the balance date, and adjust the book value to the best estimates.

19. Revenue

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. It is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

If the collection of the receivables stipulated in the contract or agreement is on installments, and if it is financing in nature, the revenue incurred by selling goods shall be recognized at the fair value based upon the contract or agreement.

Revenue from rendering of services

Revenue from rendering of services is recognized when the contract has been executed and the sum of money in contract or the evidence of collecting money has been received.

When the Company has entered into a contract or an agreement comprising both sale of goods and rendering of services, if the sale of goods component and the services component can be separately identifiable and measurable, the sale of goods component will be accounted for as sale of goods and the services component will be accounted for as rendering of services. If the sale of goods component and the services component cannot be separately identifiable, or cannot be separately measurable despite being separately identifiable, both the sale of goods component and the services component will be accounted for as sale of goods.

Use by others of enterprise assets

Revenue from use by others of enterprise assets is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income is recognized on a time-proportion basis using the effective interest method, which are determined according to the period and calculation required by related contract and agreements.

Construction contracts

When the outcome of a construction contract can be estimated reliably at the balance date, contract revenue and contract expenses will be recognized using the percentage of completion method. When the outcome of a construction contract cannot be estimated reliably, different accounting treatments will be adopted depending on the circumstances: (a) if contract costs can be recovered, contract revenue will be recognized to the extent of the contract costs that can be recovered; and contract costs will be recognized as contract expenses in the period in which they are incurred; (b) if contract costs cannot be recovered, they will be recognized as contract expenses immediately when incurred and contract revenue will not be recognized. If the estimated total contract costs exceed total contract revenue, the expected loss will be recognized immediately as an expense for the current period.

When the result of construction contract is foreseeable, it is to calculate the business income on basis of the percentage of the construction progress when settle accounts, and to calculated the business cost on basis of the same percentage of scheduled cost. The provision for loss, which consists of the whole cost of construction, will be made when foreseeable loss. Generally, in accordance with the situation of the Company could anticipate the result for the contracts of a long-term project such as a first-made shipbuilding contract (or new order) reasonably when the construction progress reached 50%. And for the ships of batch production, the Company could anticipate the result when the construction progress reached 30%. If progress of ship constructions could not be reasonably estimated, construction costs is recognized at the actual amount of incurred expenditure, and equivalent amount as revenue, zero margin as a result.

Foreign currency revenue entries base upon contracted currency, and are translated into Renminbi according to No.19 Accounting Standards for Business Enterprises – Foreign Currency Translation.

At the balance sheet date, an amount equal to the total contract revenue multiplied by the percentage of completion less the accumulated revenue recognized in previous accounting periods will be recognized as contract revenue for the current period. Meanwhile, an amount equal to the estimated total contract costs multiplied by the percentage of completion less the accumulated expenses recognized in previous accounting periods will be recognized as contract expenses for the current period.

20. Government Grants

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital contributions from the government as an owner of the Company to Enterprises.

If a government grant is in the form of a transfer of a monetary asset, the item will be measured at the amount received or receivable; if a government grant is in the form of a transfer of a non-monetary asset, the item will be measure at fair value. If fair value is not reliably determinable, the item will be measured at a nominal amount (RMB1).

Government grants relating to the purchase of fixed assets, intangible assets and other long-term assets should be presented as deferred income and recognized as income evenly over the useful life of the related assets from the date when they have been established for use.

Government grants relating to income, which is to compensate future expenditure and losses, are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. In case the compensation is for the expenditure or losses already incurred, the grants should be directly recorded in current profit and loss.

Refund of a government grant previously recognized will be accounted for as follows: (a) if there is any related deferred income, the repayment will be offset against the carrying amount of the deferred income, and any excess will be recognized in profit or loss for the current period; (b) if there is no related deferred income, the repayment will be recognized immediately in profit or loss for the current period.

21. Deferred Tax Assets and Deferred Tax Liability

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods will be measured at the amount expected to be paid (or returned) according to the requirements of tax laws; Deferred tax assets and deferred tax liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

At the balance sheet date, the carrying amount of a deferred tax asset will be reviewed. Current and deferred tax of the Company will be recognized as income or an expense and included in profit or loss for the current period, except to the extent that the tax arises from a business combination or a transaction or event which is recognized directly in owner's equity.

22. Lease

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. Other than a finance lease, is an operating lease. At present, the company runs operating lease only.

(1) The Company as leaser

Lease income from operating leases shall be recognized by the Company in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred by the Company shall be charged to profit or loss for the current period.

(2) The Company as lessee

Lease payment under an operating lease shall be recognized by the Company on a straight-line basis over the lease term, and either included in the cost of another related asset or charged to profit or loss for the current period. Initial direct costs incurred by the Company shall be charged to profit or loss for the current period.

23. Pension Funds

The Company has design business pension funds plan according the related regulations promulgated nationally. The scheme is approved by the Company's employees' representatives committee and board of directors, also archived by provincial ministry of labor and social security.

The Company has set up enterprise pension funds committee, which is responsible for daily management of the funds. The management of the funds separated with other assets of the Company, and the independent third party was invited to be manager of the account. The Company accounts for the expenditure of enterprise pension fund as employee benefits, charging to the current profit or loss, or capitalizing as assets. At the same time, the Company will pay the annuity directly to the account of employees which was set up in the bank and managed by enterprise pension funds committee.

24. Changes in Accounting Policies, and Accounting Estimates

There is no change in accounting policies and accounting estimates occurred in the current period.

25. Changes in Corrections of Errors

There is no significant prior period errors occurred in the current period.

III TAXATION

1. The type and rate of tax and associate charges applicable to the major business activities are:

(1) Turnover Tax and Surcharge

Categories	Taxation Basis	Tax Rate
Business Tax	Transportation and construction installation	3%
	Other services	5%
Value-added Tax	The sale of goods and provision of processing, repairing, repair services	17%
	Sales except the oil and gas exports	0%
Urban Maintenance and Construction Tax	Turnover tax payable during the year	7%
Education surcharge	Turnover tax payable during the year	3%
Flood defense expenses	Income from principal activities and other incomes	0.09%

(2) Corporate Income tax

Companies	Tax Rate
Guangzhou Shipyard International Company Limited	15%
Rongguang Developing Co., Ltd.	17.5%
Fonkwong Developing Co., Ltd.	17.5%
Guangzhou Hongfan Technology Co., Ltd.	15%
Other subsidiary company	25%

(3) Real Estate Tax

Real estate tax used by the Company is based on the 70% of the original cost of the buildings and calculated at the tax rate of 1.2%; for those leased, it was based on the rental income and calculated at the tax rate of 12%.

(4) Individual Income Tax

The Company pays and withholds individual income tax for its employees.

2. Tax Preference and approval

The Company and its subsidiary Guangzhou Hongfan Technology Co., Ltd. are approved to be Hi-tech Enterprises by relevant authorities (Guangzhou Liwan District, National Tax Bureau,【2009】No.08002; Guangzhou Tianhe District, National Tax Bureau【2008】No.5012). The Company and Guangzhou Hongfan Technology Co., Ltd. are together taxed at 15% for three years since January 1, 2008.

IV BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. As at December 31, 2009, information of the Company's subsidiary companies was displayed as follows:

(1) Enterprises acquired under common control

Subsidiaries	Type of subsidiary	Registration Place	Industry	Registered Capital ('000)	Legal representative	Business Scope
Guangzhou Masterwood Shipbuilding Company Limited	Subsidiary	Guangzhou	Furniture manufacturing	USD600	Jin Lichao	Manufacture and sales of all kind of furniture
Guangzhou Xinsun Shipping Service Co., Ltd.	Subsidiary	Guangzhou	Installation, welding, , fitting coating, repairing of hull structure	RMB2,000	Li Yongqiang	Installation, welding, fitting, coating, repairing of hull structure
Guangzhou United Steel Structures Ltd.	Subsidiary	Guangzhou	Production and sales of steel structure	USD8,850	Chen Jianrong	Production and sales of steel structure, installation of structures
Guangdong GSI Elevator Co., Ltd.	Subsidiary	Guangzhou	Elevator manufacturing	RMB21,000	Wang Lijian	Design, manufacturing, sale and Installation of elevator
Guangzhou Hongfan Information Technique Co., Ltd.	Subsidiary	Guangzhou	Developing of computer software, system integration and sales	RMB5,000	Wang Lijian	Developing of computer software, system integration and sales
Guangzhou Guangli Marine Human Resource Service Co., Ltd	Subsidiary	Guangzhou	Labor service supply	RMB500	Qin Tinggui	Provincial labor employment introduction, marine Installation
Guangzhou Hongfan Hotel Co., Ltd	Subsidiary	Guangzhou	Restaurant	RMB10,000	Wang Lijian	Lodge, restaurant
Glory Group Developing Co., Ltd.	wholly-owned subsidiary	Hong Kong	Trading	HKD30,000	Hang Guangde	Trading
Fonkwang Developing Co., Ltd.	wholly-owned subsidiary	Hong Kong	Trading	HKD200	Zeng Xiangxin	Trading
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	wholly-owned subsidiary	Guangzhou	Designing, manufacturing and installing	RMB30,000	Zhong Jian	Designing, manufacturing, installing and selling marine auxiliaries, set of heavy machinery
Zhongshan GSI Marine Engineering Co., Ltd.	wholly-owned subsidiary	Zhongshan	Manufacture of hull fitting and ocean project equipment	RMB100,000	Wang Lijian	Designing, manufacturing, installing and selling marine auxiliaries (fishing use excluded), steel structure, general machine, cast metal components, fiberglass, hull fitting and ocean project equipment

Subsidiaries	Holding Ratio Direct	Holding Ratio Indirect	Representative Ratio	Investment As at the Year End	Other item substantially constitute investment	Consolidated (Y/N)
Guangzhou Masterwood Shipbuilding Company Limited	51%	25%	76%	1,690,742.00	–	Y
Guangzhou Xinsun Shipping Service Co., Ltd.	83%	16.184%	99.184%	1,666,600.00	–	Y
Guangzhou United Steel Structures Ltd.	51%	–	51%	37,522,079.55	–	Y
Guangdong GSI Elevator Co., Ltd.	95%	3.8%	98.8%	19,950,000.00	–	Y
Guangzhou Hongfan Information Technique Co., Ltd.	51%	–	51%	2,550,000.00	–	Y
Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	80%	15.2%	95.2%	400,000.00	–	Y
Guangzhou Hongfan Hotel Company Limited	–	99.11%	99.11%	8,000,000.00	–	Y
Glory Group Developing Co., Ltd.	100%	–	100%	26,443,792.13	–	Y
Fonkwang Developing Co., Ltd.	–	70%	70%	HKD140,000.00	–	Y
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	100%	–	100%	30,000,000.00	–	Y
Zhongshan GSI Marine Engineering Co., Ltd	100%	–	100%	100,000,000.00	–	Y

Subsidiaries	Type of company	Organization code	Minority interest	Amount of minority interest to offset minority loss	Amount of parent equity to offset extra minority shareholder loss that exceed the proportion minority shareholder should bear
Guangzhou Masterwood Shipbuilding Co., Ltd.	State holding	61841220-X	1,733,959.62	–	–
Guangzhou Xinsun Shipping Service Co., Ltd.	State holding	231249006	178,053.85	–	–
Guangzhou United Steel Structures Ltd.	Sino-foreign joint venture	61843570-0	77,199,698.79	–	–
Guangdong GSI Elevator Co., Ltd.	State holding	23112891-7	373,275.19	–	–
Guangzhou Hongfan Information Technique Co., Ltd.	State holding	70825764-5	6,075,105.12	–	–
Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	State holding	19047465-2	256,135.47	–	–
Guangzhou Hongfan Hotel Co., Ltd.	State holding	63320352-9	42,944.11	–	–
Glory Group Developing Co., Ltd.	State holding	190445392	–	–	–
Fonkwang Developing Co., Ltd.	State holding	190440559	2,280,193.79	–	–
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	State holding	68132734-X	–	–	–
Zhongshan GSI Marine Engineering Co., Ltd.	State holding	684420937	–	–	–

2. Changes of Consolidation Scope

During the current period, one subsidiary has been added into the consolidate group because of new establishment, shown as follows

Name	Reason	Ending balance of net asset	Net profit for current period
Zhongshan GSI Marine Engineering Co., Ltd.	New established	99,871,206.38	-128,793.62

V NOTES TO CONSOLIDATED ACCOUNTS

1. Cash and Cash Equivalents

	Ending balance			Beginning balance		
Item	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
1.CASH						
RMB	118,699.87	1.0000	118,699.87	117,046.27	1.0000	117,046.27
USD	2,417.80	6.8282	16,509.22	3,713.80	6.8346	25,382.34
HKD	35,867.95	0.8805	31,581.73	44,875.66	0.8819	39,575.84
GBP	917.25	10.9780	10,069.57	917.25	9.8798	9,062.25
EUR	954.84	9.7971	9,354.66	954.84	9.6590	9,222.80
Subtotal			186,215.05			200,289.50
2.BANK						
RMB	4,204,423,156.46	1.0000	4,204,423,156.46	5,124,161,553.61	1.0000	5,124,161,553.61
USD	23,807,463.78	6.8282	162,562,124.16	7,128,898.30	6.8346	48,723,168.32
HKD	10,367,005.02	0.8805	9,128,147.92	18,369,199.62	0.8819	16,199,797.14
EUR	388,471.36	9.7971	3,805,892.77	787,134.50	9.6590	7,602,932.14
Subtotal			4,379,919,321.31			5,196,687,451.21
3.Other monetary funds						
RMB	1,072,140,501.33	1.0000	1,072,140,501.33	935,706,133.84	1.0000	935,706,133.84
Subtotal			1,072,140,501.33			935,706,133.84
Total			5,452,246,037.69			6,132,593,874.55

Note 1: The ending balance of other monetary funds includes credit card deposit RMB224,474.15 and fixed deposit RMB1,071,916,027.18 as guaranty.

Note 2: As at December 31, 2009, there is no pledge, frozen risk related to the Company's cash except those shown above.

Note 3: As at December 31, 2009, the company Deposit RMB54,614,328.13 in CSSC Financial CO. CSSC Financial CO., one of subsidiaries of CSSC, is a non-bank financial institution authorized by People's Bank of China.

2. Trading Financial Assets

Item	Ending Fair Value	Beginning Fair Value
Financial assets designated as at fair value through current profit or loss	63,993,056.22	157,360,902.20
Total	63,993,056.22	157,360,902.20

Note 1: There is no significant restriction on the liquidity of financial assets at fair value through profit or loss.

Note 2: The decrease of 59.33% in balance compared to the beginning is resulted from the fluctuation of fair value caused by the changes of exchange rate, and the settlement of matured forward contracts.

3. Notes Receivable

Item	Ending Balance	Beginning Balance
Bank Acceptance	300,000.00	–
Total	300,000.00	–

4. Accounts Receivable

(1) Classification based on significance:

	Ending Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	244,948,640.92	71.76%	1,204,009.12	18.53%	243,744,631.80
Individually insignificant but significant based on credit risk characteristics	19,707,231.47	5.77%	4,911,067.43	75.57%	14,796,164.04
Other insignificant balances	76,710,033.10	22.47%	383,550.17	5.90%	76,326,482.93
Total	341,365,905.49	100.00%	6,498,626.72	100%	334,867,278.77

	Beginning Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	298,629,204.57	75.16%	1,493,146.02	31.76%	297,136,058.55
Individually insignificant but significant based on credit risk characteristics	34,585,564.43	8.70%	2,887,041.88	61.41%	31,698,522.55
Other insignificant balances	64,153,139.18	16.14%	320,765.70	6.83%	63,832,373.48
Total	397,367,908.18	100.00%	4,700,953.60	100%	392,666,954.58

Note 1: Individually significant receivables refer to the receivables with the amount more than 10 million. The Company has assessed the significant receivables individually for impairment at the end of the year, 0.5% of the receivable balances shall be accounted as provision in the condition that there is no indication of impairment for the receivables.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the insignificant receivables aging more than 1 year or those with signs of impairment.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

Foreign currency included in the balance:

	Ending Balance			Beginning Balance		
Item	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	14,515,839.83	6.8282	99,117,057.53	19,329,787.92	6.8346	132,111,368.53
HKD	1,263,559.32	0.8805	1,112,563.98	3,208,781.04	0.8819	2,829,824.00
EUR	4,269,536.74	9.7971	41,829,078.40	578,855.00	9.6590	5,591,160.45
AUD	5,656,385.17	0.8555	4,839,037.51	–	–	–
Total			146,897,737.42			140,532,352.98

(2) Classification based on aging:

Aging	Ending Balance Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	321,658,674.02	94.23%	1,587,559.30	320,071,114.72
1-2 year (Inclusive)	5,516,722.83	1.62%	27,583.61	5,489,139.22
2-3 year (Inclusive)	4,633,231.14	1.36%	23,166.15	4,610,064.99
Over 3 year	3,261,556.37	0.96%	16,307.78	3,245,248.59
Special	6,295,721.13	1.83%	4,844,009.88	1,451,711.25
Total	341,365,905.49	100.00%	6,498,626.72	334,867,278.77

Aging	Beginning Balance Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	360,798,187.59	90.80%	1,823,071.11	358,975,116.48
1-2 year (Inclusive)	22,279,300.29	5.61%	108,662.64	22,170,637.65
2-3 year (Inclusive)	10,679,786.18	2.69%	53,398.94	10,626,387.24
Over 3 year	1,495,422.23	0.37%	600,609.02	894,813.21
Special	2,115,211.89	0.53%	2,115,211.89	–
Total	397,367,908.18	100.00%	4,700,953.60	392,666,954.58

(3) Individually insignificant but significant based on credit risk characteristics

Item	Book value	Bad Debt Allowance	Ratio	Reason
Shunde Yucheng Municipal Engineering Company	937,473.62	937,473.62	100%	Financial predicament
WHL–FONKWANG	4,839,037.51	3,387,326.26	70%	Dispute,promised to pay 30%
Hunan Lianxiang elevator company	85,560.00	85,560.00	100%	Long period and financial predicament
Guilin Hongyun elevator company	398,250.00	398,250.00	100%	Long period and financial predicament
Lianzhou the sixth civil Engineering Company	2,400.00	2,400.00	100%	Remodel without announcement and payment
Wuzhou Public Security Bureau	33,000.00	33,000.00	100%	Refuse to pay on excuse of quality of product
Total	6,295,721.13	4,844,009.88		

For other receivables without indication of impairment but significant based on credit risk characteristics,the allowance is provided based upon ratio of 0.5% of its ending balance.

(4) Information on Write off receivable

Name	Related party	Ending balance	Aging	Amount writing off	Reason
DELTAK LLC	N	1,177,738.27	3-4 years	1,177,738.27	Uncollectable
Guangzhou Qiaofu winehouse	N	48,000.00	4-5 years	48,000.00	Business licenses cancelled
Total		1,225,738.27		1,225,738.27	

(5) Up to December 31, 2009, there are no account receivables of shareholders holding 5% or more than 5% of the voting stocks.

(6) Top 5 balances:

Name	Relationship with the company	Ending balance	Aging	Proportion
General Armament Department of Chinese navy	External customer	113,985,000.00	Within 1 year	33.39%
Motia Compagnia D	External customer	61,503,645.86	Within 1 year	18.02%
CSSC Guangzhou Longxue Shipyard Co., Ltd	Same parent company	22,984,752.27	Within 1 year	6.73%
Jiangnan Heavy Industry Co., LTD.	Ultimate control of CSSC	23,801,569.32	Within 1 year	6.97%
Asia aluminum (China) Co., Ltd.	External customer	14,821,673.47	Within 1 year	4.34%
Total		237,096,640.92		69.45%

(7) Balance with connected parties

Balance with related party is 61,587,568.59, which takes up 18.06% of total amount. Details are shown in Note VI3

5. Advances to suppliers

(1) Classification based on aging:

Aging	Ending Balance Amount	Ending Balance Ratio	Beginning Balance Amount	Beginning Balance Ratio
Within one year	236,667,084.65	79.12%	476,117,195.98	97.79%
1-2 years (Inclusive)	61,915,094.92	20.70%	10,745,100.00	2.21%
2-3 years (Inclusive)	557,580.94	0.18%	6,550.00	0.00%
Total	299,139,760.51	100.00%	486,868,845.98	100.00%

Foreign currency included in the balance:

Item	Ending Balance Original Currency	Ending Balance Exchange Rate	Ending Balance RMB Equivalent	Beginning Balance Original Currency	Beginning Balance Exchange Rate	Beginning Balance RMB Equivalent
USD	3,828,159.24	6.7926	26,003,132.21	5,716,217.36	6.8159	38,961,291.95
EUR	4,185,386.28	10.0948	42,250,537.15	18,037,541.84	9.8871	178,339,877.13
Total			68,253,669.36			217,301,169.08

(2) Top 5 balance

Suppliers' Name	Relationship with the company	Ending balance	Proportion	Time of payment	Reason
Dalian Marine Diesel Engine Factory	External supplier	139,201,000.00	46.53%	2009	On equipment
WARTSILA Company	External supplier	48,228,858.18	16.12%	2008	On equipment
Zhenjiang CSSC Equipment Ltd.	Under the Same Control of CSSC	41,360,000.00	13.83%	2009	On equipment
Chongqing Steel Ltd	External supplier	20,925,000.00	7.00%	2009	On equipment
Mitsubishi Heavy Industry Co., Ltd	External supplier	19,008,595.20	6.35%	2009	On equipment
Total		268,723,453.38	89.83%		

(3) Significant balances aged over 1 year are displayed as below:

Suppliers	Ending Balance	Aging	Unsettled Reason
WARTSILA Company	48,228,858.18	1-2 years	Contract undue
CSSC Huanan Shipping Machine Co., Ltd	5,040,000.00	1-2 years	Contract undue
Guangzhou Panyu Yuanhang propeller Company	3,240,213.75	1-2 years	Contract undue
Dalian Freezing Machine company	1,746,000.00	1-2 years	Contract undue
Foshan Shunde Rongda steel engineering company	700,000.00	1-2 years	Contract undue
Total	58,955,071.93		

(4) Up to December 31, 2009, there is no advances to suppliers of shareholders holding 5% or more than 5% of the voting stocks As at December 31, 2009, balance of advances to suppliers with connected parties amounts to RMB58,881,792.3, which takes up 19.68% of the total balance. details refer to Notes VI3.

(5) The Reasons for decrease of 38.56% in balance compared to the beginning is carrying down last year engineering funds.

6. Interest Receivables

Borrowers	Beginning Balance	Increase	Decrease	Ending Balance
Fixed deposit interest	142,294,820.00	162,381,450.96	222,355,583.76	82,320,687.20
Total	142,294,820.00	162,381,450.96	222,355,583.76	82,320,687.20

There is no overdue interest at the end of the period.

7. Other Receivable

(1) Classification based on significance:

	Ending Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	108,645,501.58	87.05%	9,487,358.15	99.16%	99,158,143.43
Individually insignificant but significant based on credit risk characteristics	2,142,032.00	5.67%	10,710.16	0.11%	2,131,321.84
Other insignificant balances	14,024,003.34	7.28%	70,120.52	0.73%	13,953,882.82
Total	124,811,536.92	100.00%	9,568,188.83	100%	115,243,348.09

	Beginning Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	142,017,480.80	70.61%	9,013,974.06	96.83%	133,003,506.74
Individually insignificant but significant based on credit risk characteristics	3,686,068.18	1.83%	18,430.34	0.20%	3,667,637.84
Other insignificant balances	55,423,424.95	27.56%	277,117.12	2.97%	55,146,307.83
Total	201,126,973.93	100.00%	9,309,521.52	100%	191,817,452.41

Note 1: Individually significant receivables refer to the receivables with the amount of more than 10 million. The Company has assessed the significant receivables individually for impairment at the end of the year, and the Receivable of Hong Kong Guanghong International Corporation, which amounts to 10,340,232.15, was made a provision of RMB8,360,252.99.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

Foreign currency included in the balance:

	Ending Balance			Beginning Balance		
Item	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	1,500.00	6.8346	10,251.90	5,000.00	6.8282	34,141.00
Total			10,251.90			34,141.00

(2) Classification based on aging:

	Ending Balance			
Aging	Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	112,329,272.77	90.00%	1,197,225.68	111,132,047.09
1-2 year (Inclusive)	1,509,992.00	1.21%	7,549.96	1,502,442.04
2-3 year (Inclusive)	187,614.00	0.15%	938.07	186,675.93
Over 3 year	444,426.00	0.36%	2,222.13	442,203.87
Special	10,340,232.15	8.28%	8,360,252.99	1,979,979.16
Total	124,811,536.92	100.00%	9,568,188.83	115,243,348.09

	Beginning Balance			
Aging	Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	189,000,673.60	93.97%	940,338.19	188,060,335.41
1-2 year (Inclusive)	1,214,503.78	0.60%	6,072.52	1,208,431.26
2-3 year (Inclusive)	406,645.56	0.20%	2,033.23	404,612.33
Over 3 year	164,918.84	0.08%	824.59	164,094.25
Special	10,340,232.15	5.14%	8,360,252.99	1,979,979.16
Total	201,126,973.93	100.00%	9,309,521.52	191,817,452.41

(3) Significant or individual insignificant but single assess of impairment:

Name	Ending Balance	Bad Debt Allowance	Ratio	Reason
Hong Kong Guanghong International Corp	10,340,232.15	8,360,252.99	80.85%	Note1
Total	10,340,232.15	8,360,252.99	80.85%	

Note1. Trusted deposits has been exchanged for some assets with Guangzhou Notional Investment Corporation under Debt Restructuring Agreement. According to the "Creditor's Right Transfer Agreement" signed by the Company and Guangzhou Notional Investment Corp. and Hong Kong Gunghong international Corp., Guangzhou Notional Investment Corp. transferred the claim of 10,640,000.00 to Hong Kong Gunghong international Corp, which belongs to its subsidiary Guangzhou Guoxin economic developing Corp. to the Company. In the meantime, according to the contract, Hong Kong Gunghong international Corp shall offset part of the debts with 7 cars, which was due to hand over before September 9, 2005, and pay the rest debt with interest in Guanghong electrooptical technology Corp, on which Hong Kong Gunghong international Corp has the right of disposition. Up to December 31, 2009, the Company had not realized the creditor's rights, and shall pay attention to further following up.

There are no indications of impairment of receivables of individual insignificant but significant based on credit risk characteristics which amount to 2,142,032.00, the allowance is provided based upon ratio of 0.5% of its ending balance.

(4) Up to December 31, 2009, there are no other receivables of shareholders holding 5% or more than 5% of the voting stocks; Balance of other receivables with connected parties amounts to RMB4,254,500.00, which takes up 3.41% of the total balance, details refers to Note VI3.

(5) Top 5 balance

Item	Content	Relationship with the company	Ending balance	Aging	Proportion
Export Rebates and Product Subsidy	export rebates and product subsidy	Others	98,305,269.43	Within 1 year	78.76%
Guangzhou Notional Investment Corp.	Trust deposit	External customer	10,340,232.15	Over 5 years	8.28%
Guangzhou Shipping and Ocean engineering research institute	Sell house	under the Same Control of CSSC	4,254,500.00	Within 1 year	3.41%
Shanghai Waigaoqiao Bonded Area Custom	Tariff bail	Other	1,882,531.98	Within 1 year	1.51%
Shenzhen Guangtianhaihui economical consulting company	Consulting service	External customer	364,800.00	Within 1 year	0.29%
Total			115,147,333.56		92.25%

(6) The decrease of 39.92% in balance compared to the beginning is mainly resulted from the taking back of export rebates.

8. Inventories

(1) Classification of inventories are listed as below:

	Ending Balance			Beginning Balance		
Item	Book value	Impairment	Net value	Book value	Impairment	Net value
Raw Materials	443,406,536.23	12,454,663.89	430,951,872.34	462,707,013.67	9,747,802.99	452,959,210.68
Work-in-Process	897,671,911.84	276,115.95	897,395,795.89	656,536,129.45	–	656,536,129.45
Commodity/Finished Goods	4,359,626.59	–	4,359,626.59	5,409,429.91	–	5,409,429.91
Revolving Materials`	–	–	–	792,675.43	–	792,675.43
Goods in transit	22,042,936.59	209,745.54	21,833,191.05	–	–	–
Total	1,367,481,011.25	12,940,525.38	1,354,540,485.87	1,125,445,248.46	9,747,802.99	1,115,697,445.47

(2) Movement of provision for impairment:

			Decrease		
Categories	Beginning Balance	Increase	Reverse	Write-off	Ending Balance
Raw Materials	9,747,802.99	3,756,565.79	–	1,049,704.89	12,454,663.89
Work-in-Process	–	276,115.95	–	–	276,115.95
Goods in transit	–	209,745.54	–	–	209,745.54
Total	9,747,802.99	4,242,427.28	–	1,049,704.89	12,940,525.38

(3) Reasons for movement of provision

Categories	Reasons for provision	Reasons for reverse	Proportion of reverse value to ending balance of inventory
Raw Materials	Book value is higher than net reliable value (Estimated selling price minus expenses and taxation)		
Work-in-Process	Book value is higher than net reliable value (Estimated selling price minus costs and expenses of selling)		
Goods in transit	Book value is higher than net reliable value (Estimated selling price minus expenses of taxation)		

9. Available-for-sale Financial Assets

(1) Classifications of available-for-sale financial assets are listed as below:

Item	Ending Fair Value	Beginning Fair Value
Equity instruments	337,360,250.00	185,450,000.00
Total	337,360,250.00	185,450,000.00
Less: Impairment provisions for available-for-sale financial assets		
Net Value	337,360,250.00	185,450,000.00

(2) Details about available-for-sale financial assets:

Item	Ending Fair Value	Beginning Fair Value
China Merchants Energy Shipping Co., Ltd	56,600,000.00	38,600,000.00
China Merchants Bank Co., Ltd	278,060,250.00	144,096,000.00
Membership of Wuhan Gold and Silver Golf Club	2,700,000.00	2,754,000.00
Total	337,360,250.00	185,450,000.00

Note: The increase balance of 81.91% compared to the beginning mainly is resulted from increased year-end fair value of "CMES","CMBC". As at December 31, 2009, the holding stocks on "CMES" and "CMBC" are unrestricted outstanding shares. The fair value of above-mentioned stocks is based on their closing price of December 31, 2009.

10. Investment in Joint venture and Association

Main joint venture and association of the company are shown as follows:

Investee	Type of company	Registration Place	Legal representative	Industry	Holding Ratio	Representation Ratio	Registered Capital
Association							
South China Marine and Industrial Special Coating Co., Ltd	Limited company	Guangzhou	GuGang	Coating of engineering	25%	25%	6,888,240.00
Zhanjiang South Ocean Marine Services Inc.	Limited company	Zhanjiang	Chen Miaogeng	Repair of navy device	40%	40%	2,000,000.00
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	State owned business	Zhenjiang	Wang Wenqu	Manufacture of equipment	32%	32%	85,000,000.00

Investee	Ending total assets	Ending total liability	Ending total net assets	Current year revenue cumulative	Current year net profit	Organization code
Association South China Marine and Industrial Special Coating Co., Ltd	15,491,868.58	1,627,253.24	13,864,615.34	28,668,150.59	3,016,573.35	618428789
Zhanjiang South Ocean Marine Services Inc.	2,696,881.23	674,111.57	2,022,769.66	1,190,558.30	3,002.82	749150668
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	179,569,658.81	62,755,618.22	116,814,040.59	136,683,823.66	19,730,704.97	782067313

11. Long-term Equity Investment

(1) Long-term equity Investment are shown as follows:

Investee	Measurement	Initial Investment	Beginning Balance	Increase ("-"for decrease)	Ending balance
Shenzhen Yuanzhou Science & Technology Industry	Cost Method	1,000,000.00	1,000,000.00	–	1,000,000.00
CSSC Information Co., Ltd.	Cost Method	900,000.00	900,000.00	–	900,000.00
South China Marine and Industrial Special Coating Co., Ltd	Equity Method	1,722,060.00	3,492,677.97	-43,485.35	3,449,192.62
Zhanjiang South Ocean Marine Services Inc.	Equity Method	800,000.00	810,897.31	1,201.12	812,098.43
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	Equity Method	15,558,800.00	29,404,492.26	6,313,825.59	35,718,317.85
Total		19,980,860.00	35,608,067.54	6,271,541.36	41,879,608.90

Investee	Holding ration	Representative Ratio	Impairment	Current year impairment provision	Current year cash bonus
Shenzhen Yuanzhou Science	7%	7%	–	–	–
& Technology Industry			–	–	–
CSSC Information Co., Ltd.	15%	15%	–	–	–
South China Marine and Industrial Special Coating Co., Ltd	25%	25%	–	–	797,628.69
Zhanjiang South Ocean Marine Services Inc.	40%	40%	–	–	–
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	32%	32%	–	–	–
Total			–	–	797,628.69

(2) There are no constraints of investee entities on transferring funds in period 2009.

12. Investment Properties

(1) Investment property of the company under cost model are as follows this year:

Item		Beginning Balance	Increase	Decrease	Ending Balance
1.	Total Original Costs	101,487,209.82	–	2,402,044.53	99,085,165.29
	House and Buildings	101,487,209.82	–	2,402,044.53	99,085,165.29
2.	Accumulated Depreciation (Amortization)	5,493,486.73	2,016,024.12	131,191.20	7,378,319.65
	House and Buildings	5,493,486.73	2,016,024.12	131,191.20	7,378,319.65
3.	Net value before impairment	95,993,723.09	–	–	91,706,845.64
	House and Buildings	95,993,723.09	–	–	91,706,845.64
4.	Provision for Impairment	1,855,011.59	15,489,388.68	–	17,344,400.27
	House and Buildings	1,855,011.59	15,489,388.68	–	17,344,400.27
5.	Net Value	94,138,711.50	–	–	74,362,445.37
	House and Buildings	94,138,711.50	–	–	74,362,445.37

Note 1: Current year amortization is 2,016,024.12.

Note 2: Current year provision for impairment is 15,489,388.68; it is because of indication of impairment of International Supermarket Business Building in West Urumqi in Xinjiang after assessment at the end of 2009.

Note 3: the decreased amount of investment property is mainly resulted from selling.

13. Fixed Assets

(1) Movements of fixed assets and accumulated depreciation are listed as below:

Item		Beginning Balance	Increase	Decrease	Ending Balance
(1)	Total Original Cost	1,740,870,493.61	424,058,823.74	91,940,179.10	2,072,989,138.25
	1. House and Buildings	780,175,401.08	211,625,052.69	11,120,730.93	980,679,722.84
	2. Machinery Equipment	879,553,543.42	201,701,400.92	74,881,557.07	1,006,373,387.27
	3. Transportation Vehicles	33,398,856.11	6,396,626.83	5,862,798.00	33,932,684.94
	4. Other	47,742,693.00	4,335,743.30	75,093.10	52,003,343.20
(2)	Accumulated deprecation	775,872,074.84	102,308,166.33	57,596,881.49	820,583,359.68
	1. House and Buildings	246,463,432.08	27,191,995.56	7,792,540.19	265,862,887.45
	2. Machinery Equipment	491,246,894.97	69,433,702.89	46,360,040.50	514,320,557.36
	3. Transportation Vehicles	14,893,920.48	2,482,156.53	3,371,081.38	14,004,995.63
	4. Other	23,267,827.31	3,200,311.35	73,219.42	26,394,919.24
(3)	Net Value before impairment	964,998,418.77	321,750,657.41	34,343,297.61	1,252,405,778.57
	1. House and Buildings	533,711,969.00	184,433,057.13	3,328,190.74	714,816,835.39
	2. Machinery Equipment	388,306,648.45	132,267,698.03	28,521,516.57	492,052,829.91
	3. Transportation Vehicles	18,504,935.63	3,914,470.30	2,491,716.62	19,927,689.31
	4. Other	24,474,865.69	1,135,431.95	1,873.68	25,608,423.96
(4)	Accumulated impairment				
(5)	Net value	964,998,418.77			1,252,405,778.57
	1. House and Buildings	533,711,969.00			714,816,835.39
	2. Machinery Equipment	388,306,648.45			492,052,829.91
	3. Transportation Vehicles	18,504,935.63			19,927,689.31
	4. Other	24,474,865.69			25,608,423.96

Note 1: Accumulated deprecation during the year amounted to RMB102,308,166.33.

Note 2: Total fixed asset transferred from construction-in-progress during the year amounted to RMB326,212,881.33.

Note 3: There are no temporary idle fixed assets.

Note 4: The decreased amount of fixed asset is mainly resulted from discarding and selling.

14. Construction-in-Progress

(1) Construction-in-progresses are shown as follows:

	Ending balance			Beginning balance		
Item	Amount	Impairment	Net value	Amount	Impairment	Net value
Ground and install preparation project	6,227,890.04		6,227,890.04			
Dock prolong	1,403,479.01		1,403,479.01	185,845.12		185,845.12
Dock prolong 80T,400T (1st period)	11,236,739.72		11,236,739.72			
Drain out project of road outside machine progress center	1,779,071.22		1,779,071.22			
Improvement of secrecy net	2,201,744.78		2,201,744.78			
Support facilities prophase fees of small and medium ship construction outfit project	2,340,251.24		2,340,251.24	2,340,251.24		2,340,251.24
Zhongshan shipyard base prophase fees	223,946,109.81		223,946,109.81	2,471,605.53		2,471,605.53
Changzhou dock dolphin construction	3,249,601.96		3,249,601.96			
Longxue base work shop prophase fees	3,944,347.23		3,944,347.23	6,060,810.02		6,060,810.02
Longxue base work shop	7,063,185.22		7,063,185.22	90,599,062.72		90,599,062.72
Electric device and road light outside machine progress center	10,520,560.89		10,520,560.89	2,430,925.96		2,430,925.96
Other little project	21,285,934.10		21,285,934.10	158,006,952.25		158,006,952.25
Total	295,198,915.22		295,198,915.22	262,095,452.84		262,095,452.84

(2) Basic Status and Movements of significant project:

Item	Budget	capital source	Beginning Balance amount	Beginning Balance Including: Capitalized interest	Increase amount	Increase Including: Capitalized interest
Ground and install preparation project	23,210,000.00	Other source			6,349,960.98	
Dock prolong	28,320,000.00	Other source	185,845.12		1,602,716.33	
Dock prolong 80T, 400T (1st period)		Other source			11,867,334.18	
Drain out project of road outside machine progress center	3,000,000.00	Other source			1,779,071.22	
Improvement of secrecy net	3,050,000.00	Other source			2,201,744.78	
Support facilities prophase fees of small and medium ship construction outfit project	8,120,000.00	Other source	2,340,251.24			
Zhongshan shipyard base prophase fees	793,140,000.00	Other source	2,471,605.53		221,511,045.31	
Changzhou dock dolphin construction	7,200,000.00	Other source			3,249,601.96	
Longxue base work shop prophase fees	720,000.00	Other source	6,060,810.02		-533,983.79	
Longxue base work shop	92,720,000.00	Other source	90,599,062.72		5,133,781.27	
Electric device and road light outside machine progress center	17,000,000.00	Other source	2,430,925.96		8,089,634.93	
Other little project		Other source	158,006,952.25		98,065,436.54	
Total	976,480,000.00		262,095,452.84		359,316,343.71	

Item	Decrease amount	Decrease Including: Transfer to Fixed Asset	Ending Balance amount	Ending Balance Including: Capitalized interest	Progress rate	Investment per Budget
Ground and install preparation project	122,070.94	122,070.94	6,227,890.04		Partly completed	27.36%
Dock prolong	385,082.44	385,082.44	1,403,479.01		Partly completed	48.22%
Dock prolong 80T,400T (1st period)	630,594.46	630,594.46	11,236,739.72		Partly completed	
Drain out project of road outside machine progress center			1,779,071.22		In progress	59.30%
Improvement of secrecy net			2,201,744.78		In progress	72.19%
Support facilities prophase fees of small and medium ship construction outfit project			2,340,251.24		In progress	28.82%
Zhongshan shipyard base prophase fees	36,541.03	36,541.03	223,946,109.81		In progress	28.24%
Changzhou dock dolphin construction			3,249,601.96		In progress	45.13%
Longxue base work shop prophase fees	1,582,479.00	1,582,479.00	3,944,347.23		Partly completed	767.61%
Longxue base work shop	88,669,658.77	88,669,658.77	7,063,185.22		Partly completed	103.25%
Electric device and road light outside machine progress center			10,520,560.89		In progress	61.89%
Other little project	234,786,454.69	234,786,454.69	21,285,934.10			
Total	326,212,881.33	326,212,881.33	295,198,915.22			

15. Intangible Assets

(1) Amortization and impairment of intangible assets:

Item		Beginning Balance	Increase during Current Year	Decrease during Current Year	Ending Balance
(1)	Total Costs	135,154,526.83	5,536,427.03		140,690,953.86
	1. Land use right	79,395,716.06	–		140,690,953.86
	2. Technology without patent	55,758,810.77	5,536,427.03		61,295,237.80
(2)	Total Accumulated Amortization	45,325,622.16	6,530,609.05		51,856,231.21
	1. Land use right	19,533,119.85	1,624,518.12		21,157,637.97
	2. Technology without patent	25,792,502.31	4,906,090.93		30,698,593.24
(3)	Net value before impairment	89,828,904.67	–	–	88,834,722.65
	1. Land use right	59,862,596.21	–	–	58,238,078.09
	2. Technology without patent	29,966,308.46	–	–	30,596,644.56
(4)	Provision for impairment for intangible assets				
(5)	Total book value of intangible assets	89,828,904.67	–	–	88,834,722.65
	1. Land use right	59,862,596.21	–	–	58,238,078.09
	2. Technology without patent	29,966,308.46	–	–	30,596,644.56

Amortization during the period amounted to RMB6,530,609.05.

16. Deferred Tax Assets and Liabilities

Item	Ending Balance		Beginning Balance	
	Temporary Difference	Deferred Tax Assets	Temporary Difference	Deferred Tax Assets
Impairment Provision	42,068,108.29	7,358,626.51	27,158,167.27	4,073,725.09
Prepaid housing subsidy	6,236,550.00	935,482.50	7,241,940.00	1,086,291.00
Housing allowance for retirees	23,607,825.20	3,541,173.78	4,009,670.80	601,450.62
Medical insurance for retirees within 10 years	2,327,298.73	349,094.81	3,791,341.07	568,701.16
Early retiree benefits	2,308,835.47	346,325.32	3,204,591.67	480,688.75
Total	76,548,617.69	12,530,702.92	45,405,710.81	6,810,856.62

Item	Ending Balance: Temporary Difference	Ending Balance: Deferred Tax Liabilities	Beginning Balance: Temporary Difference	Beginning Balance: Deferred Tax Liabilities
Derivatives	56,235,737.20	9,738,311.47	152,161,057.20	22,824,158.58
Net movement on fair value of available-for-sale financial assets	287,900,100.00	43,185,015.00	135,989,850.00	20,398,477.50
Exchange gain			81,449,627.47	12,217,444.12
Total	344,135,837.20	52,923,326.47	369,600,534.67	55,440,080.20

Note: The increase of 83.98% in balance of deferred tax assets compared to the beginning is resulted from the provision of unpaid housing allowance for retirees which should be paid monthly from January 2001 to June 2009. Beside, the provision of impairment is also one significant cause.

17. Provision for Assets Impairment

Item	Beginning Balance	Increase	Decrease during Current Year: Reverse	Decrease during Current Year: Write-off	Ending Balance
Bad Debts	14,010,475.12	3,305,055.20		1,248,714.77	16,066,815.55
Provision for Inventories Impairment	9,747,802.99	4,242,427.28		1,049,704.89	12,940,525.38
Provision for Investment Property Impairment	1,855,011.59	15,489,388.68			17,344,400.27
Total	25,613,289.70	23,036,871.16		2,298,419.66	46,351,741.20

18. Restrictions on Ownership of Assets

Details of assets with restrictions on ownership are listed as below:

Classification	Beginning Balance	Increase during Current Year	Decrease during Current Year	Ending Balance	Reasons
(1) Assets used as security					
1. Fixed deposit	919,572,801.01	651,914,226.17	499,571,000.00	1,071,916,027.18	Pledge
Total	919,572,801.01	651,914,226.17	499,571,000.00	1,071,916,027.18	

19. Short-term Borrowings

(1) Details of short-term borrowings are listed as below:

Categories	Ending Balance	Beginning Balance	Notes
Pledged Borrowings	798,899,400.00	307,557,000.00	
Credit Borrowings	666,462,084.13	170,469,177.43	
Total	1,465,361,484.13	478,026,177.43	

Note1: Pledged borrowings took CD as a pledge.

Note2: The increase of 206.54% compared to the beginning balance is mainly resulted from new foreign currency borrowings to meet the need of import.

20. Trading Financial Liabilities

Item	Ending Fair Value	Beginning Fair Value
The financial liability is designated as at fair value through profit or loss		5,199,844.99
Total		5,199,844.99

Note: The decrease of 100% compared to the beginning balance is mainly resulted from terminate of derivatives.

21. Notes Payable

Classification	Ending Balance	Beginning Balance	Notes
Bank acceptance	360,901,710.85	143,660,239.95	
Total	360,901,710.85	143,660,239.95	

Note 1: The ending balance of 360,901,710.85 will mature in the next accounting period.

Note 2: The increase of 151.22% compared to the beginning balance is mainly resulted from changes in clearing form.

22. Accounts Payable

Item	Ending Balance	Beginning Balance
Total	709,751,054.23	832,918,241.67
Including: Age over 1 year	29,851,550.20	11,048,837.81

(1) As at 31 Dec, 2009, accounts age over 1 year are displayed as below:

Suppliers	Amount	Content	Unsettled Reason
CSSC Heavy Research Institute	6,905,000.00	Goods	Not yet due
Lianjian-Fanguang JV Limited Company	2,669,843.10	Goods	Dispute, not settled
Pingshan Zhonggong (Dalian) Co.,Ltd	2,003,324.89	Goods	Dispute, negotiation
CSSC Ship System Engineering Department	1,795,000.00	Goods	Not yet due
Shanxi Diesel Engine Heavy Machine Co.,ltd	1,275,000.00	Goods	Not yet due
Total	14,648,167.99		

(2) Up to December 31, 2009, there are no account payables of shareholders holding 5% or more than 5% of the voting stocks; Balance of accounts payable with connected parties amounts to RMB114,520,192.99, which takes up 16.14% of the total balance, details refer to Note VI3.

(3) Foreign currency included in the balance:

	Ending Balance			Beginning Balance		
Item	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	24,989.50	6.8282	170,633.31	24,989.50	6.8346	170,793.24
EUR	365,655.00	9.7971	3,582,358.60			
Total			3,752,991.91			170,793.24

23. Advances from Customers

Item	Ending Balance	Beginning Balance
Total	127,281,207.61	218,775,845.39
Including: Age over 1 year	20,945,821.33	41,148,907.94

(1) As at 31 Dec, 2009, accounts age over 1 year are displayed as below:

Customers	Amount	Content	Unsettled Reason
Hudong Zhonghua Shipbuilding (Group) Co., Ltd	4,600,000.00	Design fee	Uncompleted
China Construction the eighth Industry Equipment Installment Co.,Ltd	2,808,000.00	Design fee	Uncompleted
Jiantao (Lianzhou) Copper toil Co.,Ltd	1,588,200.00	Design fee	Uncompleted
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	1,592,966.00	Design fee	Uncompleted
CSSC Guangzhou Longxue Shipyard Co.,Ltd	625,000.00	Design fee	Uncompleted
Total	11,214,166.00		

(2) Up to December 31, 2009, there are no advances of shareholders holding 5% or more than 5% of the voting stocks; Balance of accounts payable with connected parties amounts to RMB33,382,906.67, which takes up 26.23% of the total balance, details refer to note VI3.

(3) Foreign currency included in the balance:

	Ending Balance			Beginning Balance		
Item	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	462,856.93	6.8327	3,162,549.54	6,108,738.09	6.9948	42,729,443.90
HKD	1,129,880.00	0.8806	994,959.04			
EUR	1,574,973.88	10.0370	15,807,992.66	371,295.80	10.4549	3,881,874.48
Total			19,965,501.24			46,611,318.38

24. Accrued Employee Compensation

(1) Details of accrued employee compensation are displayed below:

Item	Beginning Balance	Increase during Current Year	Decrease during Current Year	Ending Balance
Employee Wages or Salaries, Bonuses, Allowances and Subsidies	15,085,000.00	577,237,200.61	577,502,200.61	14,820,000.00
Employee Welfare	5,077,421.30	27,810,479.86	27,815,479.86	5,072,421.30
Social Security		122,184,210.56	122,184,210.56	
Inc: Medical insurance		34,022,947.81	34,022,947.81	
Basic endowment assurance		68,121,396.87	68,121,396.87	
Supplementary pension		14,218,285.11	14,218,285.11	
Unemployed insurance		990,707.32	990,707.32	
Work injury insurance		2,302,999.20	2,302,999.20	
Maternity insurance		2,527,874.25	2,527,874.25	
public accumulation fund for housing construction		63,808,492.64	63,808,492.64	
Union & Education funds		11,698,872.32	11,698,872.32	
Compensation for dismiss of labor relationship	3,204,591.67	121,590.84	1,017,347.03	2,308,835.48
Total	23,367,012.97	802,860,846.83	804,026,603.02	22,201,256.78

Note 1: The ending balance of employee wages which is the year end bonus for parent company and subsidiary of Guangzhou United Steel Structures Co., Ltd.of 2009 amounts to RMB14,820,000.00 and the company will deliver before June 2010..

Note 2: Balance of employee welfare consists of accrued employee welfare and bonus fund of subsidiary Guangzhou United Steel Structures Limited, which was calculated according to the post-rate setup in the company's article of association.

25. Taxes and Expenses Payable

Categories	Ending Balance	Beginning Balance
Value-added Tax	3,568,317.99	2,924,971.33
Business Tax	1,068,662.79	806,367.01
Corporate Income Tax	48,667,188.84	105,668,914.01
Individual income tax	4,155,555.88	5,559,541.26
City Maintenance and Construction Tax	3,280,489.61	4,537,056.12
Land use Tax	282,031.82	8,481.02
Real estate tax	2,885,124.07	1,715,210.72
Education surcharge	1,366,097.30	1,937,452.32
Flood control and maintain expenses	3,433,647.10	3,465,711.20
Others	-16,338.89	-88,190.68
Total	68,690,776.51	126,535,514.31

Note: The decrease of 68.91% compared to the beginning balance is resulted from the payment of corporate income tax, which is comparably higher at the start of the period.

26. Interest payable

Item	Ending balance	Beginning balance
Interest on long-term borrowings		18,212,694.11
Interest on short-term borrowings	1,878,526.18	1,933,582.55
Total	1,878,526.18	20,146,276.66

27. Dividends Payable

Investors	Ending Balance	Beginning Balance	Unsettled over 1 year Reason
CANAM STEEL STRUCTURES LIMITED (shareholder of subsidiary of Guangzhou United Steel Structures Limited)	12,730,445.32		
Unpaid A share dividend	55,530.29	34,632.88	
Total	12,785,975.61	34,632.88	

28. Other Payables

Item	Ending Balance	Beginning Balance
Total	27,751,512.24	32,592,043.79
Including: Age over 1 year	11,523,681.86	10,581,314.73

(1) Up to December 31, 2009, there are no other payables of shareholders holding 5% or more than 5% of the voting stocks; Balance of accounts payable with connected parties amount to RMB8,400.00, which takes up 0.03% of the total balance, details refer to note VI3.

(2) Major account balances are displayed as below:

Item	Ending Balance	Nature or Content
Supplementary pension	3,252,424.65	Supplementary pension
Retiree medical insurance	2,327,298.76	Medical insurance
Certified public accountants	1,998,996.11	Mediator
Monetary retiree housing subsidy	800,000.00	Unpaid portion
Housing assistance	789,300.00	
Total	9,168,019.52	

(3) Significant accounts age over 1 year are displayed as below:

Item	Ending Balance	Nature or Content	Unsettled Reason
Supplementary pension	3,252,424.65	Supplementary pension	Leave without draw
Monetary retiree housing subsidy	800,000.00	Unpaid portion	Gone abroad
Renfuwei scientific and technological progress bonus fund	459,496.53	Agency fund	
Mutual help fund	153,480.00	Agency fund	
Guangzhou Yushun Engineering Technical Service Co., Ltd	100,000.00	Engineering security deposit	Undue
Total	4,765,401.18		

29. Current Portion of Long-term Liabilities

(1) Mature in 1 year:

Item	Ending balance	Beginning balance
Long-term borrowings mature in 1 year	170,705,000.00	877,863,362.40
Total	170,705,000.00	877,863,362.40

(2) Long-term borrowings mature in 1 year

A. Details are shown as follow:

Item	Ending balance	Beginning balance
Pledged borrowings	170,705,000.00	375,903,000.00
Guarantee borrowings		501,960,362.40
Total	170,705,000.00	877,863,362.40

B. Top 5 balance

					Ending balance		Beginning balance	
Borrower	Starting date	Expiry date	Currency	Annual interest rate (%)	Foreign currency	RMB	Foreign currency	RMB
Calyon Corporate and Investment Shanghai branch	2008-4-28	2010-4-26	USD	Margin (3.5%)+LIBOR+ commitment fee (0.5%)	20,000,000.00	136,564,000.00		
Calyon Corporate and Investment Shanghai branch	2008-5-28	2010-4-26	USD	Margin (3.5%)+LIBOR+ commitment fee (0.5%)	5,000,000.00	34,141,000.00		
Total					25,000,000.00	170,705,000.00		

Note 1. Pledged borrowings took CD as a pledge.

Note 2. Guaranteed Borrowings is guaranteed by CSSC.

Note 3 The decrease of 80.55% is resulted from the payment of borrowings or break a loan.

30. Other Current Liabilities

Item	Ending Balance	Beginning Balance
Long-term contract settlement	3,368,133,623.01	4,278,333,045.78
Total	3,368,133,623.01	4,278,333,045.78

31. Long-term Borrowings

(1) Details of long-term borrowings are listed as below:

Categories	Ending Balance	Beginning Balance
Pledged borrowings	–	170,865,000.00
Credit Borrowings	–	34,173,000.00
Total	–	205,038,000.00

Pledged borrowings took CD as a pledge.

32. Special purpose payable

Item	Beginning balance	Increase	Decrease	Ending balance	Note
High-speed ro/ro passenger vessels	6,720,000.00			6,720,000.00	Chuan Cai 【2001】13
Semi-submersible heavy lift vessel	17,850,000.00			17,850,000.00	Chuan Gong Ji 【2002】350
Total	24,570,000.00			24,570,000.00	

The above projects have been completed and the special purpose payable belongs to the state exclusively. According to resolution of board of directors, these special purpose payables can be converted into investment of CSSC when the capital to be increased.

33. Provision

Item	Beginning balance	Increase	Decrease	Ending balance
Product quality warranties	87,150,182.48	27,039,770.75	16,250,434.39	97,939,518.84
Unpaid retiree housing subsidy		24,574,755.92	966,930.69	23,607,825.23
Total	87,150,182.48	51,614,526.67	17,217,365.08	121,547,344.07

Note 1: Approved by the twelfth meeting of the sixth term of the board of the directors; withhold the present value of the unpaid retiree housing subsidy over period from January 2001 to June 2009. As at 31December 2009, unpaid retiree housing subsidy amounts to RMB23,607,825.23.

Note 2: The increase of 63.10% in balance compared to the beginning is resulted from the increase of product quality warranties along with the increase of sales revenue and the provision of unpaid retiree subsidy.

34. Other Non-current Liabilities

Item	Ending balance	Beginning balance	Note
Deferred income (CSSC)	3,000,000.00		Chuan Gong Ji【2009】307
Deferred income (CSSC)	265,833.39	192,500.03	Chuan Gong Ke【2007】668
Deferred income (Guangzhou Economic and Commercial Technical Committee)		208,280.24	Hui Jing Mao Ji Shu【2006】106
Deferred income (Guangzhou Economic and Commercial Technical Committee)	1,706,301.36	1,730,000.00	Yue Jing Mao Ji Shu【2004】664
Deferred income (Guangzhou Economic and Commercial Technical Committee)	1,620,000.00	1,800,000.00	Hui Jing Mao Han【2005】484 Yue Jing Mao Ji Shu【2005】1064
Deferred income (Guangzhou Environment Protect Bureau)	1,768,421.04	1,784,210.52	Hui Huan【2006】115
Deferred income (Guangzhou Technical Bureau/Finance Bureau)	5,400,000.00		
Total	13,760,555.79	5,714,990.79	

35. Share Capital

Classification	Beginning Balance: Number of Shares	Beginning Balance: Proportion%	Increase/Decrease: Issue New Shares	Increase/Decrease: Stock Dividend	Increase/Decrease: Capitalization of Capital Reserve	Increase/Decrease: Others	Increase/Decrease: SUM	Ending Balance: Number of Shares	Ending Balance: Proportion%
I. Restrictive-for-sale Stocks									
1. State-owned Shares	176,650,615	35.71%	–	–	–	-176,650,615	-176,650,615	–	–
Subtotals	176,650,615	35.71%	–	–	–	-176,650,615	-176,650,615	–	–
II. Un-restrictive Stocks									
1. RMB Ordinary Shares	160,628,965	32.47%	–	–	–	176,650,615	176,650,615	337,279,580	68.18%
2. Foreign Capital Stocks listed domestically	157,398,000	31.82%	–	–	–	–	–	157,398,000	31.82%
Subtotals	318,026,965	64.29%	–	–	–	176,650,615	176,650,615	494,677,580	100.00%
TOTAL	494,677,580	100.00%	–	–	–	–	–	494,677,580	100.00%

The restrictions of the beginning balance restrictive-for-sale stocks amounted to 176,650,615 was removed at 23 May 2009.

36. Capital Reserves

Movement of capital reserves in current year are listed as below:

Item	Beginning Balance	Increase	Decrease	Ending Balance
Premium of Share Capital	651,385,281.95			651,385,281.95
Others	116,174,303.72	129,123,712.50	–	245,298,016.22
Total	767,559,585.67	129,123,712.50	–	896,683,298.17

Note: The increase of capital reserves is resulted from the increase of fair value of available-for-sale financial assets as 151,910,250.00 and minus the influence of deferred income tax liability as 129,123,712.50.

37. Surplus Reserves

Details of the movement of surplus reserves in current year are listed as below:

Item	Beginning Balance	Increase	Decrease	Ending Balance
Statutory Surplus Reserves	234,097,496.51	51,272,858.06		285,370,354.57
Arbitrary Surplus Reserves	18,926,387.43			18,926,387.43
Total	253,023,883.94	51,272,858.06		304,296,742.00

The Company is required to transfer 10% of the profit after taxation

38. Undistributed Profit

Changes of undistributed profit in current year are listed as below:

Item	Current Year	Last Year
Ending balance of undistributed profit last year	1,232,098,604.09	736,574,570.94
Add: Increase (decrease) in profit due to changes in accounting policies		
Beginning balance of undistributed profit of current year	1,232,098,604.09	736,574,570.94
Add: Current net profit	514,961,903.36	820,395,655.17
Less: Profit appropriation – Statutory surplus Reserves	51,272,858.06	77,532,832.02
Profit appropriation – Ordinary stock dividends	222,604,911.00	247,338,790.00
Ending balance of undistributed profit	1,473,182,738.39	1,232,098,604.09

The Company held the Board Meeting on May 19, 2009, on which the proposal of profit distribution has been passed. That was, the Company released cash dividends RMB222,604,911.00 rated RMB0.45 per share on the base of total shares amounted 494,677,580.

39. Revenue and Cost

(1) Details of revenue and costs are listed below:

Item	Current Year	Last Year
Revenue	6,553,424,803.99	6,984,087,521.27
Including: Income from principal activities	6,458,822,948.20	6,847,670,581.49
Other Operating Income	94,601,855.79	136,416,939.78
Costs	5,757,813,988.47	6,070,463,652.88
Including: Cost of Goods Sold	5,673,655,623.76	5,959,821,749.12
Other Operating Expenses	84,158,364.71	110,641,903.76

(2) Classification of principal activities are listed as below:

	Current Year		Last Year	
Type of Businesses	**Revenue**	**Cost**	**Revenue**	**Cost**
Shipbuilding products	5,718,470,581.05	4,988,803,945.23	5,904,445,106.67	5,090,138,906.66
Steel Structure projects	464,784,364.57	464,494,949.89	659,890,955.31	604,550,304.54
Mechanical & electrical products and others	275,568,002.58	220,356,728.64	283,334,519.51	265,132,537.92
Total	6,458,822,948.20	5,673,655,623.76	6,847,670,581.49	5,959,821,749.12

(3) Operating income from geography

	Current year		Last year	
Area	**Revenue**	**Cost**	**Revenue**	**Cost**
The Republic of Malta	60,997,676.99	49,179,391.51	1,248,505,028.09	997,183,941.40
German	384,022,536.75	351,073,858.23	327,760,861.88	306,058,420.34
Denmark	3,376,132,028.10	2,884,639,863.77	2,114,264,244.03	1,776,267,230.86
Macao			440,950.00	
Italy	366,083,312.51	332,210,541.44	30,144,808.15	25,112,733.29
USA	90,677,389.23	78,211,295.22	357,014,494.29	322,450,818.43
Hongkong	278,261,998.04	242,330,975.95	299,633,532.71	279,231,465.85
Greece	525,417,858.95	440,687,036.66	532,198,804.79	446,808,392.63
Taiwan	1,235,997.40	1,231,025.64	8,189,067.59	8,138,444.47
Sweden	15,248,947.43	10,507,700.48	399,078,654.64	335,330,149.57
India			1,413,858.69	1,591,685.21
Australia	92,239,934.97	78,671,080.94		
Angola	2,098,215.81	1,888,295.08		
China	1,266,407,052.02	1,203,024,558.84	1,529,026,276.63	1,461,648,467.07
Total	6,458,822,948.20	5,673,655,623.76	6,847,670,581.49	5,959,821,749.12

(4) Revenue from top 5 clients and its proportion of total revenue are listed below:

Item	Amount in Current	Proportion
No.1	2,085,456,768.68	31.82%
No.2	561,163,440.09	8.56%
No.3	480,720,213.84	7.34%
No.4	373,924,736.73	5.71%
No.5	366,068,964.22	5.59%
Total	3,867,334,123.56	59.01%

40. Details of Construction Contracts

Contract Item		Total Amount	Accumulated Cost Incurred	Total gross profit that has been confirmed (loss "-")	The amount of the purchase price that have been settled	Estimated Loss	The reasons for estimated loss
Fixed	51800serious	1,923,643,632.95	1,708,208,986.14	213,099,591.54	1,807,778,428.28		
Cost	Zhonghai serious	550,430,385.25	497,699,385.66	52,729,461.21	550,428,846.87		
Contract	38500 serious	1,085,222,937.69	897,310,711.86	127,336,063.79	990,442,283.69		
	50500 serious	9,160,284,571.69	2,512,114,947.36	462,343,065.51	4,112,601,262.09		
	39000 serious	2,010,768,336.00	499,830,527.83	86,959,277.41	724,194,499.80		
	ro-ro serious	2,072,000,000.00	67,092,158.96		518,000,000.00		
	50000 serious	1,679,737,200.00	840,382,107.68	19,855,529.71	1,079,273,340.00		
	52300 serious	2,712,445,093.12	24,124,147.05		612,553,075.25		
	Special	2,710,650,000.00	646,546,742.79	43,437,157.73	1,172,360,000.00		
	Total	23,905,182,156.70	7,693,309,715.33	1,005,760,146.90	11,567,631,735.98		

41. Taxes and levies on operations

Category	Current Year	Last Year	Tax base
Business tax	4,594,773.94	3,928,343.07	Service revenue
City Maintenance and Construction Tax	19,096,195.55	12,839,123.32	Business + Vat tax payable
Education surcharge	8,185,714.02	5,504,187.77	Business + Vat tax payable
TOTAL	31,876,683.51	22,271,654.16	

Note: The increase of 43.13% compared to the beginning balance is resulted from increase of tax item.

42. Financial Expenses

Item	Current Year	Last Year
Interest Expenses	40,959,269.72	199,416,620.47
Less: Interest Income	163,601,042.95	287,503,094.58
Change in exchange rate	7,269,424.96	212,105,472.12
Transaction fees and other charges	6,962,991.79	11,610,447.96
Total	-122,948,206.40	-288,581,498.27

The increase 165,633,291.87 compared to last year, is resulted from movement of exchange rate and decrease of fixed deposit.

43. Impairment

Item	Current Year	Last Year
Bad Debts	3,305,055.20	-257,072.97
Provision for Inventories Impairment	4,242,427.28	-3,702,804.77
Provision for Investment Property Impairment	15,489,388.68	
Total	23,036,871.16	-3,959,877.74

Note: There are several reasons for the increase of 681.76%. Bad debts resulted from the indication of uncollectable of receivable of WHL-FONKWANG project of its subsidiary Guangzhou United Steel Structures Co., Ltd. According to assessment at the year end, there are indications of impairment of inventories. Details of Impairment of investment property refer to note12.

44. Gains/Losses from Fair Value Changes

Sources of change in fair value	Current Year	Last Year
Trading Financial Assets	-93,367,845.98	-136,949,029.23
Inc:derivative	-93,367,845.98	-136,949,029.23
Trading Financial Liabilities	5,199,844.99	6,428,373.99
Inc:derivative	5,199,844.99	6,428,373.99
Total	-88,168,000.99	-130,520,655.24

The decrease of 32.45% in gains/losses from fair value changes results from settlement of some foreign exchange forward contracts, and from the fluctuation of market value on the contracts that are not matured.

45. Investment Income

(1) The sources of investment income are listed as below:

Sources of Investment Income	Current Year	Last Year
The adjustment based on the net profit of investee enterprises under cost method	230,000.00	
The adjustment based on the net profit of investee enterprises under equity method at the end of the year	7,069,170.05	3,810,566.74
Income from holding of available-for-sale financial assets	2,185,000.00	4,112,937.44
Income from holding and disposal of financial assets held for trading and those designated as at fair value through profit or loss	122,140,050.00	144,861,376.24
Income from holding and disposal of financial liabilities held for trading and those designated as at fair value through profit or loss	-11,375,442.41	-23,635,539.50
Income from disposal of available-for-sale financial assets		7,591,075.39
Other Investment Income	80,857.94	-21,664.48
Total	120,329,635.58	136,718,751.83

(2) Investee enterprises under cost method:

Investee	Current year	Last year	Reason for fluctuation
Shenzhen Yuanzhou company	230,000.00		No dividend
Total	230,000.00		

(3) Investee enterprises under equity method:

Investee	Current	Last year	Reason for fluctuation
South China Marine and Industrial Special Coating Co., Ltd	754,143.34	869,047.18	
Zhenjiang Zhongchuan Electricity Power Equipment Co., Ltd.	6,313,825.59	2,915,550.84	Increased profit
Zhanjiang South Ocean Marine Services Co., Ltd.	1,201.12	25,968.72	
Total	7,069,170.05	3,810,566.74	

(4) There are no constraints of investee entities on transferring funds.

46. Non-operating Income

Item	Current Year	Last Year
Sub-total of income from the disposal of non-current asset	6,115,643.57	754,905.44
Including: Income from the disposal of fixed assets	6,115,643.57	754,905.44
Fine Income	120,995.00	154,582.00
Compensate	24,400.00	30,630.00
Government Subsidies	77,544,072.99	66,658,731.06
Other Income	898,045.94	2,775,897.95
Total	84,703,157.50	70,374,746.45

Details of government subsidies

Item	Current Year	Last Year	Note
Product subsidy	75,526,846.95	40,902,348.52	–
New product subsidy	379,508.30	20,223,283.61	–
Exchange subsidy		4,210,000.00	–
Finance subsidy	1,281,258.00	617,119.47	–
Self produced software tax drawback	356,459.74	705,979.46	–
Total	77,544,072.99	66,658,731.06	

47. Non-operating Expenses

Item	Current Year	Last Year
Sub-total of losses from the disposal of non-current asset	14,385,377.12	5,729,400.67
Including: Losses from the disposal of fixed assets	14,385,377.12	5,729,400.67
Donations	1,500.00	2,500.00
Fines	22,225.31	1,035.17
Compensation Expenses	377,863.03	363,118.27
Other expenses	176,318.58	663,299.28
Total	14,963,284.04	6,759,353.39

The increase of 121.37% resulted from the disposal of and outdated product line.

48. Income Tax

(1) Income tax expenses (profits) are consisted of:

Item	Current Year	Last Year
Current income tax expenses	123,894,813.18	112,892,287.04
Deferred tax expenses	-31,023,137.53	-31,779,231.53
Total	92,871,675.65	81,113,055.51

49. Calculation of Basic Earnings Per Share (EPS) and Diluted Basic Earnings Per Share

In accordance with the "Regulations of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No.9 – Calculation and Disclosing of Rate on Net Assets and Earning Per Share (2010 revised)"(China Securities Regulatory Commission Announcement【2010】No.2) and "Standards of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No 1 – Unusual items in Profit and Losses (2008)" (China Securities Regulatory Commission Announcement【2008】No.43). Details are listed as follows:

Calculation results

	Current year		Last year	
Profit for accounting period	**Basic EPS**	**Diluted EPS**	**Basic EPS**	**Diluted EPS**
Net profits belonging to the common shareholders (I)	1.04		1.66	
Net profits belonging to the common shareholders after deducted exceptional profits or losses (II)	1.01		1.62	

Calculation process of earnings per share

Item	Sequence	Current year	Last year
Net profits belonging to the common shareholders	1	514,961,903.36	820,395,655.16
Exceptional profits or losses attributable to the shareholders of parent company deducted the tax	2	15,663,912.09	17,099,809.20
Net profits attributable to the shareholders of the Company after deducted exceptional profits or losses	3=1-2	499,297,991.27	803,295,845.97
Total number of shares for the beginning of the year	4	494,677,580.00	494,677,580.00
Additional number of shares for increasing capital with accumulation fund or the distribution of stock dividends	5		
Additional number of shares for initially issuing shares or debt for equity	6		
	6		
	6		
Months calculated from the next month of initially issuing shares or debt for equity to the last month of the accounting period	7		
	7		
	7		
Decreased number of shares for purchasing back or drawing back stocks for the accounting period	8		

Item	Sequence	Current year	Last year
Months calculated from the next month of decreasing shares to the last month for the accounting period	9		
Number of reductions of capital	10		
Months for the accounting period	11	12	12
Weighted average number of ordinary shares outstanding (I)	12=4+5+6×7 ÷11-8×9÷11-10	494,677,580.00	494,677,580.00
Weighted average number of ordinary shares adjustments because of merger under common control (II)	13	494,677,580.00	494,677,580.00
Basic EPS(I)	14=1÷12	1.04	1.66
Basic EPS(II)	15=3÷13	1.01	1.62
Diluted potential ordinary share interest confirmed as expense	16	–	–
Income tax rate	17	15%	15%
Convert fees	18	–	–
Increased shares because of conversion of convertible debt, certificate of subscription and so on	19	–	–
Diluted EPS(I)	120=[1+(16-18) ×(1-17)] ÷(12+19)	–	–
Diluted EPS(II)	21=[3+(16–18) ×(1-17)] ÷(13+19)	–	–

(1) Basic EPS

Basic EPS =P0÷S
S= S0 + S1 + Si×Mi÷M0- Sj×Mj÷M0-Sk

Inc: P0 Net profits belonging to the common shareholders or Net profits attributable to the shareholders of the Company after deducted exceptional profits or losses
S Weighted average number of ordinary shares outstanding S0 Total number of shares for the beginning of the year
S1 additional number of shares for increasing capital with accumulation fund or the distribution of stock dividends
Si Additional number of shares for initially issuing shares or debt for equity
Sj Decreased number of shares for purchasing back or drawing back stocks for the accounting period
Sk Number of reductions of capital
M0 Months for the accounting period
Mi Months calculated from the next month of initially issuing shares or debt for equity to the last month of the accounting period
Mj Months calculated from the next month of decreasing shares to the last month for the accounting period.

(2) Diluted EPS

Diluted EPS =P1/(S0 + S1 + Si×Mi÷M0-Sj×Mj÷M0-Sk+ Increased Weighted average number of shares because of conversion of convertible debt, certificate of subscription and so on
When calculating Diluted EPS, the influence of each diluted potential ordinary shares on net profits belonging to the common shareholders or Net profits attributable to the shareholders of the Company after deducted
Exceptional profits or losses is considered and included in diluted EPS in the sequence of significant to insignificant, until arrive the min diluted EPS.

50. Other Comprehensive Income

Item	Current Year	Last Year
1. Gain/loss from available-for-sale financial assets	151,910,250.00	-319,673,345.74
Less: Income tax effect on available-for-sale financial assets	22,786,537.50	-48,918,863.97
Other comprehensive income item last year		6,452,414.08
Total	129,123,712.50	-277,206,895.85

51. Other item in cash flow statement

(1). Cash receipts relating to other operating activities are listed as below:

Item	Current Year	Last Year
Creative construct appropriation	3,000,000.00	5,950,000.00
Compensate or subsidy	42,395,000.00	83,330,000.00
Other receivable	23,666,115.28	13,198,416.23
Total	69,061,115.28	102,478,416.23

(2) Cash payments relating to other operating activities are listed as below:

Item	Current Year	Last Year
Administration cost	112,904,754.58	126,805,241.52
Operating cost	6,633,050.83	9,011,279.17
Manufacturing expense	89,603,303.01	98,493,876.69
Non-operating expenses	577,906.92	
Total	209,719,015.34	234,310,397.38

(3) Cash receipts relating to other investing activities

Item	Current Year	Last Year
Interest of bank deposit	223,575,175.75	194,354,187.67
Total	223,575,175.75	194,354,187.67

(4) Cash payments relating to other investing activities

Item	Current Year	Last Year
Security deposit	150,595,060.99	822,249,651.01
Total	150,595,060.99	822,249,651.01

(5) Cash payments relating to other financing activities

Item	Current Year	Last Year
Bank service charge and so on	6,962,991.79	14,064,507.77
Total	6,962,991.79	14,064,507.77

52. Supplementary Information of Cash Flow Statement

(1) Reconciliation of net income to cash flows from operating activities based on indirect method:

Supplementary Information	Current Year	Last Year
I. Reconciliation of net income to cash flows from operating activities:		
Net Income	520,816,152.88	840,172,522.74
Add: Provision for fixed assets	23,036,871.16	-3,959,877.74
Depreciation of fixed assets, biological Assets and Depletion of Oil and Nature Gas assets	104,324,190.45	98,662,097.28
Amortization of intangible assets	6,530,609.05	5,843,163.90
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	8,269,733.55	5,369,455.47
Losses on scrapping of fixed assets ("-" for gains)	–	586,573.68
Losses on movement of fair value ("-" for gains)	88,168,000.99	130,520,655.24
Financial expenses ("-" for gains)	-122,948,206.40	-288,263,742.00
Investments losses ("-" for gains)	-120,329,635.58	-136,718,751.83
Decrease in deferred tax assets ("-" for increase)	-5,719,846.30	3,849,593.88
Increase in deferred tax liabilities ("-" for decrease)	-25,303,291.23	-35,628,825.41
Decrease in inventories ("-" for increase)	-242,035,762.79	-156,644,959.22
Decrease in operating receivables ("-" for increase)	319,746,525.17	53,637,762.45
Increase in operating payables ("-" for decrease)	-1,019,475,920.98	-712,692,991.10
Others		
Net cash flows from operating activities	-464,920,580.03	-195,267,322.66
II.Investing and financing activities that do not Involve cash receipts and payments:		
Conversion of debt into capital		
Convertible bonds to be expired within one year		
Fixed assets under finance lease		
III.Net increase in cash and cash equivalents:		
Cash at the end of the period	4,380,328,209.50	5,197,630,827.85
Less: Cash at the beginning of the period	5,197,630,827.85	6,739,631,979.44
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	-817,302,618.35	-1,542,001,151.59

(2) Cash and cash equivalents are listed as below:

Item	Current Year	Last Year
I. Cash	4,380,328,209.50	5,197,630,827.85
Including: Cash in treasury	186,215.05	200,289.50
Available-for-use bank deposit	4,378,169,355.12	5,196,687,451.21
Other available-for-use monetary fund	1,972,639.33	743,087.14
II. Cash Equivalents		
Including: Bond investment mature within 3 months		
III. Ending balance of cash and cash equivalents	4,380,328,209.50	5,197,630,827.85
Including: Restriction on use of cash and cash equivalents belongs to parent company or subsidiaries within the group	1,071,917,828.19	934,963,046.70

VI CONNECTED PARTIES AND CONNECTED-PARTY TRANSACTIONS

1. Connected parties

(1) Parent company

Name of Parent Company	Type of the company	Registered Address	Legal representative	Industry	Registered Capital	Organization Code	Shareholding Percentage of the total balance	Representative Percentage of the total balance
CSSC	State owned business	Shanghai Pudong road No.1	Tan Zuojun	Investment and management of state owned assets	6,374,300,000.00	710924478	35.71%	35.71%

(2) Subsidiary

Information of subsidiaries of the Company refers to Note VII Business Combinations and Consolidated Financial Statements

(3) Joint Ventures and Associate Companies

Information of joint ventures and associate companies refers to Note VIII Joint ventures and Associate Companies.

(4) Connected Parties without controlling relationships

Connected Parties	Relationship	Organization code
Anqing Marine Diesel Factory	Controlled by the same parent company	151306277
Guangzhou Wenchong Shipyard Ltd.	Controlled by the same parent company	190500830
Guangzhou Shipyard Ltd.	Controlled by the same parent company	190440532
CSSC Guangzhou Huangpu Shipyard Ltd.	Controlled by the same parent company	190500419
CSSC Huanan Ship Machinery Co., Ltd.	Controlled by the same parent company	199124798
Jiangxi Chaoyang Mechanical Factory	Controlled by the same parent company	158261489
Jiangxi Marine Valve Factory	Controlled by the same parent company	158261171
CSSC Jiujiang Fire Control Equipment Co., Ltd	Controlled by the same parent company	769750177
CSSC Nanjing Lvzhou Machinery Co., Ltd	Controlled by the same parent company	134905382
Shanghai Navigation Instrument Co., Ltd	Controlled by the same parent company	767236625
CSSC Zhenjiang Equipment Co., Ltd	Controlled by the same parent company	731778430
CSSC No. 9 Marine Design and Research Institute	Controlled by the same parent company	425014619
China Shipping Trading Corporation	Controlled by the same parent company	100001027
Marine Design & Research Institute of China	Controlled by the same parent company	425007603
CSSC Guangzhou Nansha-Longxue	Controlled by the same parent company	759441020
Huudong Zhonghua Shipbuilding (Group) Co., Ltd	Controlled by the same parent company	70326335X
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	Controlled by the same parent company	788925331
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Controlled by the same parent company	400000472
CSSC Guijiang Shipyard	Controlled by the same parent company	199125619
Jiujiang Haitian Equipment Manufacture Co., Ltd	Controlled by the same parent company	769756704
CSSC International Trade Co., Ltd	Controlled by the same parent company	703424416
Guangzhou Marine and Engineering Design & Research Institute	Controlled by the same parent company	717806431
Shanghai Waigaoqiao Shipbuilding Co., Ltd	Controlled by the same parent company	631423632
China United Shipbuilding Co., Ltd	Controlled by the same parent company	
Guangzhou Ship Industry Co.	Controlled by the same parent company	190506722
Shanghai Ship Co.,Ltd	Controlled by the same parent company	132204830
CSSC Guangzhou Diesel Engine Co., Ltd	Controlled by the same parent company	683265787
Shanghai Ship Research Institute	Controlled by the same parent company	717810086
CSSC Ship System engineering department	Controlled by the same parent company	400000675
Huahai Marine Cargo Access Equipment Co.	Controlled by the same parent company	132203280
CSSC Reconnaissance and Research Institute	Controlled by the same parent company	132943529
CSSC Financial CO.	Controlled by the same parent company	100027155
CSSC Jiangnan Heavy Machine Co., Ltd	Controlled by CSSC	132283663
CSSC Beijing IT Co.,Ltd	Controlled by CSSC	802042333
CSSC Chengxi Ship Co.,Ltd	Controlled by CSSC	142243024
CSSC Shanghai Marine Design and Research Institute	Controlled by CSSC	766907124
Shanghai Hudong Ship Electric Device Co.,Ltd	Controlled by CSSC	780563727
Shanghai Jiangnan Shipbuilding Group Co., Ltd	Controlled by CSSC	797013289

2. Connected Party Transactions

(1) Selling goods or rendering services

Name of Connected Parties	Content	Current year Amount	Current year Percentage	Last year Amount	Last year Percentage	Pricing policy
South China Marine and Industrial Special Coating Co., Ltd	Selling	249,164.16	0.00%	236,193.41	0.00%	Agreement
Guangzhou Wenchong Shipyard Ltd.	Selling	878,286.50	0.01%	1,135,970.00	0.02%	Agreement
GUANGZHOU CSSC-OCEANLINE-GWS MARINE ENGINEERING CO., LTD	Selling			11,516,409.51	0.16%	Agreement
Guangzhou Shipyard Ltd.	Selling	6,719,593.51	0.10%	5,358,383.34	0.08%	Agreement
CSSC Guangzhou Huangpu Shipyard Ltd.	Selling	30,426,400.04	0.47%	17,151,274.44	0.25%	Agreement
CSSC Guangzhou Nansha-Longxue	Selling			56,621,440.16	0.81%	Agreement
Guangzhou Marine and Engineering Design & Research Institute	Selling	171,504.79	0.00%	–	–	Agreement
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	Selling	174,029,245.01	2.69%	47,548,318.48	0.68%	Agreement
CSSC Xijiang Ship Building Co.,Ltd	Selling			7,500.00	0.00%	Agreement
China Shipping Trading Corporation	Selling			1,300,744.54	0.02%	Agreement
CSSC Jiangnan Heavy Machine Co., Ltd	Selling	31,100,015.35	0.48%	100,946,122.29	1.45%	Agreement
Shanghai Jiangnan Shipbuilding Group Co., Ltd	Selling			224,358.97	0.00%	Agreement
CSSC Beijing IT Co.,Ltd	Selling	705,692.31	0.01%	358,974.36	0.01%	Agreement
Shanghai Ship Co.,Ltd	Selling	74,786.32	0.00%			Agreement
Jiujiang Haitian Equipment Manufacture Co., Ltd	Selling	550.80	0.00%			Agreement
CSSC Chengxi Ship Co.,Ltd	Selling	307,692.31	0.00%			Agreement
Shanghai Waigaoqiao Shipbuilding Co., Ltd	Selling	400,000.00	0.01%			Agreement
CSSC Guangzhou Diesel Engine Co., Ltd	Selling	116,091.25	0.00%			Agreement
Guangzhou Ship Industry Co.	Selling	25,000.00	0.00%			Agreement
CSSC Marine and Engineering Design & Research Institute		–	–	6,377,504.39	0.10%	Agreement
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Selling	1,000,000.00	0.02%			Agreement
Total		246,204,022.35	3.79%	248,783,193.89	3.58%	

(2) Sales of assets other than goods

The company has arrived agreement with Guangzhou Marine and Engineering Design & Research Institute of selling its building NO.440 with net book value of RMB1,623,199.01at the price of RMB8,509,000.

(3) *Purchasing goods or services*

		Current year		Last year		
Name of Connected Parties	Content	Amount	Percentage	Amount	Percentage	Pricing policy
South China Marine and Industrial Special Coating Co., Ltd	Services	9,324,475.75	0.16%			Agreement
Anqing Marine Diesel Factory	Goods	12,000.00	0.00%			Agreement
Guangzhou Wenchong Shipyard Ltd.	Services			800,400.00	0.01%	Agreement
Guangzhou Shipyard Ltd.	Services	117,307,145.16	2.06%	114,602,832.49	1.89%	Agreement
CSSC Guangzhou Huangpu Shipyard Ltd.	Services	264,302,807.33	4.64%	189,995,511.34	3.13%	Agreement
CSSC Guangzhou Nansha-Longxue	Services	10,721.14	0.00%	1,218,073.10	0.02%	Agreement
CSSC Guangzhou Ship Co.	Goods	2,483,656.97	0.04%			Agreement
CSSC Guangzhou Nansha-Longxue Shipyard Co.,Ltd	Services	1,135,697.10	0.02%			Agreement
CSSC Guijiang Shipyard	Services	3,100,000.00	0.05%			Agreement
CSSC Huanan Ship Machinery Co., Ltd.	Goods	15,865,641.03	0.28%	28,401,688.90	0.47%	Agreement
Jiangxi Marine Valve Factory	Goods	–	–	63,600.00	0.00%	Agreement
Jiangxi Chaoyang Mechanical Factory	Goods	21,230.76	0.00%	10,615.38	0.00%	Agreement
Jiujiang Haitian Equipment Manufacture Co., Ltd	Goods	1,925,829.05	0.03%			Agreement
CSSC Jiujiang Fire Control Equipment Co., Ltd	Goods	10,500.00	0.00%			Agreement
CSSC Nanjing Lvzhou Machinery Co., Ltd	Goods	29,039,867.54	0.51%	20,524,969.08	0.34%	Agreement
Shanghai Ship Research Institute	Services	9,591,500.00	0.17%	11,095,900.00	0.18%	Agreement
Shanghai Navigation Instrument Co., Ltd	Goods	76,500.00	0.00%	69,200.00	0.00%	Agreement
CSSC Shanghai Marine Design and Research Institute	Services	3,800,000.00	0.07%			Agreement
CSSC No. 9 Marine Design and Research Institute	Services	11,467,754.95	0.20%	–	0.00%	Agreement
CSSC Zhenjiang Equipment Co., Ltd	Goods	69,052,264.95	1.21%	86,356,881.20	1.42%	Agreement
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Services			102,088.00	0.00%	Agreement
CSSC Ship System engineering department	Services			35,900,000.00	0.59%	Agreement
Huahai Marine Cargo Access Equipment Co.	Services	4,000.00	0.00%	2,327,500.00	0.04%	Agreement
China United Shipbuilding Co., Ltd	Goods	1,761,960.71	0.03%			Agreement
CSSC Reconnaissance and Research Institute	Services	164,713.00	0.00%			Agreement
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Services	10,000.00	0.00%			Agreement
Marine Design & Research Institute of China	Services	3,880,000.00	0.07%	3,540,000.00	0.05%	Agreement
Total		544,348,265.44	9.54%	495,009,259.49	8.14%	

According to agreement with Guangzhou Shipyard Ltd. the company should pay for comprehensive service fees of 2009 amount to RMB8,181,050.00. In 2008, the service fees amounted to RMB7,823,296.20.

(4) *Financial services*

Name of Connected Parties	Ending balance of deposit		Interest		
	2009	2008	2009	2008	Note
CSSC Financial CO.	54,614,328.13	18,673,571.65	225,585.32	214,428.99	Deposit

(5) *Accepting Guarantee*

Name of Connected Parties	Guaranteed Matters	Guarantee cost	Start Date	Ending Date	Completed (Y/N)
CSSC	USD73,444,000.00	1,738,491.46	2006-9-25	2009-12-31	Y
Guangzhou Ship Industry Co.	USD35,355,000.00	117,354.56	2009-1-1	2009-12-31	Y

(6) *Other significant connected party transactions*

Transactions	Name of Connected Parties	Current Year	Last Year	Price Policy
Act as agent of selling	China Shipping Trading Corporation	32,565,005.03	42,526,369.91	Agreement
Act as agent of selling	CSSC International Trade Co., Ltd	1,133,287.50	8,497,643.75	Agreement
Act as agent of purchase	China Shipping Trading Corporation	10,574.75	47,429.11	Agreement
Act as agent of purchase	China United Shipbuilding Co., Ltd	7,032,187.40	6,296,783.52	Agreement

3. Balance with Connected Parties

Name of Connected Parties	Account	Ending balance		Beginning balance	
		Amount	Proportion (%)	Amount	Proportion (%)
South China Marine and Industrial Special Coating Co., Ltd	Accounts receivable			948.00	
CSSC Beijing IT Co., Ltd.	Accounts receivable			42,000.00	0.01
Guangzhou Marine and Engineering Design & Research Institute	Accounts receivable	10,923.40		9,632.80	
Guangzhou Cssc-oceanline-Gws marine engineering co., Ltd	Accounts receivable			2,448,243.00	0.62
Guangzhou Wenchong Shipyard Ltd.	Accounts receivable	346,000.00	0.10		
Guangzhou Shipyard Ltd.	Accounts receivable	373,309.00	0.11	240,675.39	0.06
CSSC Guangzhou Huangpu Shipyard Ltd.	Accounts receivable	4,347,814.15	1.27	4,044,595.54	1.02
CSSC Guangzhou Nansha-Longxue	Accounts receivable	4,234,824.00	1.24	30,880,000.00	7.77

Name of Connected Parties	Account	Ending balance Amount	Ending balance Proportion (%)	Beginning balance Amount	Beginning balance Proportion (%)
CSSC No. 9 Marine Design and Research Institute	Accounts receivable	250,000.00	0.07		
CSSC Guangzhou Nansha-Longxue Shipyard Co.,Ltd	Accounts receivable	27,765,528.72	8.13	1,192,463.16	0.3
CSSC Chengxi Ship Co.,Ltd	Accounts receivable	180,000.00	0.05		
CSSC Jiangnan Heavy Machine Co., Ltd	Accounts receivable	24,037,169.32	7.04	30,903,248.00	7.78
CSSC Beijing IT Co.,Ltd	Accounts receivable	42,000.00	0.01		
Subtotal		**61,587,568.59**	**18.02**	**69,761,805.89**	**17.56**
CSSC Guijiang Shipyard	Advances to suppliers	390,000.00	0.13		
Guangzhou Shipyard Ltd.	Advances to suppliers	21,000.00	0.01	1,280,000.00	0.26
CSSC Guangzhou Huangpu Shipyard Ltd.	Advances to suppliers			115,387,025.64	23.7
CSSC Huanan Ship Machinery Co., Ltd.	Advances to suppliers	5,040,000.00	1.68	4,285,863.25	0.88
China United Shipbuilding Co., Ltd	Advances to suppliers	7,062,992.31	2.36		
CSSC Zhenjiang Equipment Co., Ltd	Advances to suppliers	42,410,000.00	15.18	31,120,000.00	6.39
CSSC Nanjing Lvzhou Machinery Co., Ltd	Advances to suppliers	855,000.00	0.29		
China Shipping Trading Corporation	Advances to suppliers			704,984.32	0.14
Marine Design & Research Institute of China	Advances to suppliers			582,000.00	0.12
CSSC Guangzhou Nansha-Longxue	Advances to suppliers	102,800.00	0.03	102,800.00	0.02
Subtotal		**55,881,792.31**	**19.68**	**153,462,673.21**	**31.51**
Guangzhou Marine and Engineering Design & Research Institute	Other receivables	4,254,500.00	3.41%		
Subtotal		**4,254,500.00**	**3.41%**		
South China Marine and Industrial Special Coating Co., Ltd	Accounts payable	12,454.50			
CSSC Guijiang Shipyard	Accounts payable	60,000.00	0.01		
Guangzhou Shipyard Ltd.	Accounts payable	20,415,014.10	2.88	7,831,017.91	0.94
Guangzhou Ship Industry Co.	Accounts payable	85,541.20	0.01		
CSSC Huanan Ship Machinery Co., Ltd.	Accounts payable	4,474,140.00	0.63	11,870,500.00	1.43
Jiangxi Marine Valve Factory	Accounts payable	2,875.00		2,875.00	
CSSC Jiujiang Fire Control Equipment Co., Ltd	Accounts payable	304,000.00	0.04		
Jiujiang Haitian Equipment Manufacture Co., Ltd	Accounts payable	1,352,848.00	0.19		
CSSC Nanjing Lvzhou Machinery Co., Ltd	Accounts payable	8,859,625.00	1.25	2,099,325.00	0.25
Shanghai Navigation Instrument Co., Ltd	Accounts payable	48,325.00	0.01	41,025.00	

		Ending balance		Beginning balance	
Name of Connected Parties	Account	Amount	Proportion (%)	Amount	Proportion (%)
Shanghai Hudong Ship Electric Device Co.,Ltd	Accounts payable	196,500.00	0.03		
CSSC Shanghai Marine Design and Research Institute	Accounts payable	2,850,000.00	0.4		
CSSC Zhenjiang Equipment Co., Ltd	Accounts payable	24,570,430.00	3.46	16,869,231.20	2.03
CSSC No. 9 Marine Design and Research Institute	Accounts payable	1,428,318.00	0.2	26,000.00	
China Shipping Trading Corporation	Accounts payable	-40,575.62	-0.01	-40,429.79	
Marine Design & Research Institute of China	Accounts payable	453,000.00	0.06	259,000.00	0.03
CSSC Guangzhou Nansha-Longxue	Accounts payable	100,000.00	0.01	100,000.00	0.01
CSSC Guangzhou Nansha-Longxue Shipyard Co.,Ltd	Accounts payable	355,409.89	0.05		
Huahai Marine Cargo Access Equipment Co.	Accounts payable	116,375.00	0.02	2,327,500.00	0.28
CSSC Ship System engineering department	Accounts payable	1,795,000.00	0.25	11,665,000.00	1.4
Guangzhou Cssc-oceanline-Gws marine engineering co., Ltd	Accounts payable			217,200.00	0.03
Jiujiang Cssc Electric Device Co.,Ltd	Accounts payable			50,000.00	0.01
China United Shipbuilding Co., Ltd	Accounts payable	47,041,342.92	6.63	23,655,326.44	2.84
Subtotal		**114,480,622.99**	**16.12**	**76,973,570.76**	**9.21**
Guangzhou South China Marine and Industrial Coating Co., Ltd	Other payables			28,142.15	0.09
Guangzhou Shipyard Ltd.	Other payables	8,400.00		5,000.00	0.02
China United Shipbuilding Co., Ltd	Other payables			469,396.39	1.44
CSSC No. 9 Marine Design and Research Institute	Other payables			923,361.05	2.83
Subtotal		**8,400.00**		**1,425,899.59**	**4.38**
Guangzhou Shipyard Ltd.	Advances from customers			1,178,400.00	0.58
CSSC Guangzhou Nansha-Longxue	Advances from customers	22,183,406.67	17.43	63,491,221.07	31.19
Huudong Zhonghua Shipbuilding (Group) Co., Ltd	Advances from customers	10,000,000.00	7.86	7,600,000.00	3.73
Guangzhou Cssc-oceanline-Gws marine engineering co., Ltd	Advances from customers			4,048,500.00	1.99
CSSC Jiangnan Heavy Machine Co., Ltd	Advances from customers	162,000.00	0.13	4,763,949.75	2.34
CSSC No. 9 Marine Design and Research Institute	Advances from customers			1,250,000.00	0.61
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Advances from customers	383,100.00	0.3	1,364,000.00	0.67
CSSC Beijing IT Co.,Ltd	Advances from customers			492,000.00	0.24
CSSC Guangzhou Nansha-Longxue Shipyard Co.,Ltd	Advances from customers	654,400.00	0.51	625,000.00	0.31
CSSC Huanan Ship Machinery Co., Ltd.	Advances from customers	5,000.00			
Subtotal		**33,387,906.67**	**26.23**	**84,813,070.82**	**41.67**

4. Provision for bad debts for receivables with Connected parties

Name of Connected Parties	Account	Ending balance	Beginning balance
South China Marine and Industrial Special Coating Co., Ltd	Accounts receivable		4.74
Guangzhou Marine and Engineering Design & Research Institute	Accounts receivable	54.62	48.16
Guangzhou Wenchong Shipyard Ltd.	Accounts receivable	1,730.00	
Guangzhou Shipyard Ltd.	Accounts receivable	1,866.55	1,203.38
CSSC Guangzhou Huangpu Shipyard Ltd.	Accounts receivable	21,739.07	20,222.98
CSSC Guangzhou Nansha-Longxue	Accounts receivable	21,174.12	154,400.00
Guangzhou Cssc-oceanline-Gws marine engineering co., Ltd	Accounts receivable		12,241.22
CSSC No. 9 Marine Design and Research Institute	Accounts receivable	1,250.00	12,241.22
CSSC Guangzhou Nansha-Longxue	Accounts receivable	138,827.64	5,962.32
CSSC Chengxi Ship Co.,Ltd	Accounts receivable	900.00	
Jiangnan Heavy Machine Co., Ltd	Accounts receivable	120,185.85	154,516.24
CSSC Beijing IT Co.,Ltd	Accounts receivable	210.00	210.00
Subtotal		**307,937.85**	**361,050.26**
Guangzhou Marine and Engineering Design & Research Institute	Other receivable	21,272.50	
Subtotal		**21,272.50**	

VII CONTINGENCIES

Contingent Liabilities

As at 31 December, 2009, the Company has no material contingencies to be disclosed.

VIII COMMITMENTS

1. Mortgage

As at 31 December, 2009, the Company has no other material mortgage to be disclosed except those of fixed deposit

2. Unmatured Forward Contract

(1) To avoid foreign exchange rate risk, the Company signed foreign exchange forward contract with the bank. As at December 31, 2009, the Company accumulated totally 8 unmatured forward contracts, with a transaction amount USD127,000,000.00, and the contracted delivery period from December 31, 2009 to June 30, 2010.

(2) Subsidiary of the company Glory Group Developing Co., Ltd. has signed 9 USD to RMB NDF contract with the bank, and the contracted delivery period from April14, 2010 to May 28, 2010.

In addition to above mentioned matter, as at December 31, 2009, the Company has no other material commitments to be disclosed.

3. Prior Period Fulfillment of Commitments

The company can fulfill its commitments during the last period.

In addition to above mentioned matter, as at December 31, 2009, the Company has no other material commitments to be disclosed.

IX SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

1. Illustration of Profit Distribution after Balance Sheet Date

Resolution of profit distribution

The Board of Directors held its meeting on March 30, 2010, by which the resolution of profit distribution has been passed.

(1) 10% provision of statutory surplus reserves amount to RMB51,272,858.06.

(2) The Company shall release cash dividends rated RMB0.28 per share (A Stock included tax) on the base of total shares amounted 494,677,580, all together the Company shall release cash dividends amounted RMB138,509,722.40.

The resolution should be implied upon the approval by the 2009 Annul General Meeting.

2. In addition to above mentioned matter, as at the financial reporting date, and the Company has no other material subsequent events after the balance sheet date to be disclosed.

X OTHER SIGNIFICANT EVENTS

As at December 31, 2009 the company has no other significant events to be disclosed.

XI MATERIAL NOTES FOR PARENT COMPANY

1. Accounts Receivable

(1) Classification based on significance:

	Ending Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	344,638,168.83	90.43%	1,224,443.21	52.61%	343,413,725.62
Individually insignificant but significant based on credit risk characteristics	6,806,577.57	1.79%	966,819.14	41.54%	5,839,758.43
Other insignificant balances	29,686,088.31	7.79%	136,178.65	5.85%	29,549,909.66
Total	381,130,834.71	100.00%	2,327,441.00	100%	378,803,393.71

	Beginning Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	182,892,755.70	76.61%	914,463.78	43.16%	181,978,291.92
Individually insignificant but significant based on credit risk characteristics	20,973,325.49	8.78%	1,074,272.51	50.70%	19,899,052.98
Other insignificant balances	34,882,931.18	14.61%	129,974.79	6.14%	34,752,956.39
Total	238,749,012.37	100.00%	2,118,711.08	100%	236,630,301.29

Note 1: Individually significant receivables refer to the receivables with the amount more than 10 million. The Company has assessed the significant receivables individually for impairment at the end of the year, 0.5% of the receivable balances shall be accounted as provision in the condition that there is no indication of impairment for the receivables.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

Foreign currency included in the balance:

Item	Ending Balance Original Currency	Ending Balance Exchange Rate	Ending Balance RMB Equivalent	Beginning Balance Original Currency	Beginning Balance Exchange Rate	Beginning Balance RMB Equivalent
USD	9,655,848.37	6.8282	65,932,063.84	1,126,990.08	6.8346	7,702,526.40
HKD	1,311,489.32	0.8805	1,154,766.35	3,208,781.04	0.8819	2,829,824.00
EUR	578,855.00	9.7971	5,671,100.32			
Total			72,757,930.51			10,532,350.40

(2) Classification based on aging:

Aging	Ending Balance Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	374,324,257.14	98.21%	1,360,621.86	372,963,635.28
1-2 year (Inclusive)	2,904,149.12	0.76%	14,520.75	2,889,628.37
2-3 year (Inclusive)	225,045.17	0.06%	1,125.23	223,919.94
Over 3 year	2,739,909.66	0.72%	13,699.54	2,726,210.12
Special	937,473.62	0.25%	937,473.62	
Total	381,130,834.71	100.00%	2,327,441.00	378,803,393.71

Aging	Beginning Balance Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	217,775,686.88	91.22%	1,086,692.18	216,688,994.70
1-2 year (Inclusive)	13,357,500.52	5.59%	61,153.52	13,296,347.00
2-3 year (Inclusive)	5,649,492.20	2.37%	28,247.46	5,621,244.74
Over 3 year	1,028,859.15	0.43%	5,144.30	1,023,714.85
Special	937,473.62	0.39%	937,473.62	
Total	238,749,012.37	100.00%	2,118,711.08	236,630,301.29

(3) Individually insignificant but significant based on credit risk characteristics:

Item	Book value	Bad Debt Allowance	Ratio	Reason
Guangzhou Guangchuan Machine Co.,Ltd	102,139,886.25			Subsidiary
Guangzhou Guangchuan Machine Co.,Ltd Zhongshan Branch	2,450,358.34			Subsidiary
Shunde Yucheng municipal engineering company	937,473.62	937,473.62	100.00%	Financial scrape
Total	105,527,718.21	937,473.62		

For other receivables without indication of impairment but significant based on credit risk characteristics, the allowance is provided based upon ratio of 0.5% of its ending balance.

(4) Top 5 balances:

Name	Relationship with the company	Ending balance	Aging	Proportion
Guangzhou Guangchuan Machine Co.,Ltd	Subsidiary	102,139,886.25	Within 1 year	26.80%
General Armament Department of Chinese navy	External customer	68,535,000.00	Within 1 year	17.98%
Motia Compagnia Di Navigazione	External customer	61,503,645.86	Within 1 year	16.14%
Guangzhou Military representative	External customer	45,450,000.00	Within 1 year	11.93%
Jiangnan Heavy Industry Co., LTD	Ultimate control of CSSC	23,801,569.32	Within 1 year	6.24%
Total		301,430,101.43		79.08%

(5) Balance with connected parties

Name	Relationship	Ending balance	Proportion
Guangzhou Guangchuan Machine Co.,Ltd	Subsidiary	102,139,886.25	26.80%
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	Ultimate	22,984,752.27	6.03%
CSSC Jiangnan Heavy Machine Co., Ltd	Ultimate	23,801,569.32	6.24%
CSSC Guangzhou Docket Co.,Ltd	Ultimate	8,097,000.00	2.12%
Guangzhou Marine and Engineering Design & Research Institute	Ultimate	10,923.40	
Total		157,034,131.24	41.20%

2. Other Receivable

(1) Classification based on significance:

	Ending Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	238,645,501.58	94.94%	9,501,846.94	99.43%	229,143,654.64
Individually insignificant but significant based on credit risk characteristics	3,620,211.23	1.44%	8,601.06	0.09%	3,611,610.17
Other insignificant balances	9,091,475.76	3.62%	45,457.38	0.48%	9,046,018.38
Total	251,357,188.57	100.00%	9,555,905.38	100%	241,801,283.19

	Beginning Balance				
			Bad Debt Allowance		
Classification	Amount	Ratio	Amount	Ratio	Net Value
Individually significant balance	190,458,663.04	95.44%	9,260,845.14	99.61%	181,197,817.90
Individually insignificant but significant based on credit risk characteristics	2,242,509.24	1.12%	1,712.55	0.02%	2,240,796.69
Other insignificant balances	6,865,309.90	3.44%	34,090.55	0.37%	6,831,219.35
Total	199,566,482.18	100.00%	9,296,648.24	100%	190,269,833.94

Note 1: Individually significant receivables refer to the receivables with the amount of more than 10 million. The Company has assessed the significant receivables individually for impairment at the end of the year, and the Receivable of Guangzhou Notional Investment Corp., which amounts to 10,340,232.15, was made a provision of RMB8,360,252.99.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

Foreign currency included in the balance:

	Ending Balance			Beginning Balance		
Item	**Original Currency**	**Exchange Rate**	**RMB Equivalent**	**Original Currency**	**Exchange Rate**	**RMB Equivalent**
USD	1,500.00	6.8346	10,251.90	5,000.00	6.8282	34,141.00
Total			10,251.90			34,141.00

(2) Classification based on aging:

	Ending Balance			
Aging	**Amount**	**Ratio**	**Bad Debt Allowance**	**Net Value**
Within 1 year	237,396,745.19	94.45%	1,187,051.33	236,209,693.86
1-2 year (Inclusive)	1,436,115.70	0.57%	7,180.58	1,428,935.12
2-3 year (Inclusive)	141,169.00	0.06%	705.85	140,463.15
Over 3 year	2,042,926.53	0.81%	714.63	2,042,211.90
Special	10,340,232.15	4.11%	8,360,252.99	1,979,979.16
Total	251,357,188.57	100.00%	9,555,905.38	241,801,283.19

	Beginning Balance			
Aging	**Amount**	**Ratio**	**Bad Debt Allowance**	**Net Value**
Within 1 year	186,983,740.79	93.70%	934,682.71	186,049,058.08
1-2 year (Inclusive)	131,810.80	0.07%	659.05	131,151.75
2-3 year (Inclusive)	68,427.00	0.03%	342.13	68,084.87
Over 3 year	2,042,271.44	1.02%	711.36	2,041,560.08
Special	10,340,232.15	5.18%	8,360,252.99	1,979,979.16
Total	199,566,482.18	100.00%	9,296,648.24	190,269,833.94

(3) Significant or individual insignificant but single assess of impairment:

Name	Ending Balance	Bad Debt Allowance	Ratio	Reason
Guangzhou Notional Investment Corp.	10,340,232.15	8,360,252.99	80.85%	Breach agreement
Guangdong GSI Elevator Co., Ltd.	1,900,000.00			Subsidiary
Total	12,240,232.15	8,360,252.99		

(4) Top 5 balance

Item	Content	Relationship with the company	Ending balance	Aging	Proportion
Bank of Communications Zhongshanhuoju Branch	Entrust loans	External bank	130,000,000.00	Within 1 year	51.72%
Product Subsidy	Subsidy	Others	73,550,642.62	Within 1 year	29.26%
Guangzhou Import and Export Tax Bureau	Export Rebates	Others	24,754,626.81	Within 1 year	9.85%
Guangzhou Notional Investment Corp.	Trust deposit	Others	10,340,232.15	Over 5 years	4.11%
Guangzhou Marine and Engineering Design &Research Institute	House selling	Under control of CSSC	4,254,500.00	Within 1 year	1.69%
Total			242,900,001.58		

Note: The company provide entrust loans amounted to RMB130,000,000.00 to its subsidiary Zhongshan GSI Marine Engineering Co., Ltd. by Zhongshan Torch Development Zone Branch of Communication Bank.

(5) Balance with connected parties

Name	Relationship	Ending balance	Proportion
Guangdong GSI Elevator Co., Ltd	Same parent company	1,900,000.00	0.76%
Guangzhou Marine and Engineering Design & Research Institute	Under control of CSSC	4,254,500.00	1.69%
Total		6,154,500.00	2.45%

3. Long Term Equity Investment

Investee	Method	Initial investment	Beginning balance	Variance	Ending balance
Glory Group Developing Co., Ltd.	Cost	26,443,792.13	26,443,792.13		26,443,792.13
Guangzhou Hongfan Technology Co., Ltd.	Cost	2,550,000.00	2,550,000.00		2,550,000.00
Guangzhou Shipyard Heavy Machinery Co., Ltd.	Cost	30,000,000.00	30,000,000.00		30,000,000.00
Guangdong GSI Elevator Co., Ltd.	Cost	19,950,000.00	19,950,000.00		19,950,000.00
Guangzhou Xinsun Shipping Service Company Co., Ltd.	Cost	500,000.00	500,000.00		500,000.00
Guangzhou United Steel Structures Co., Ltd.	Cost	37,522,079.55	37,522,079.55		37,522,079.55
Guangzhou Masterwood Shipbuilding Company Limited	Cost	1,690,741.80	1,690,741.80		1,690,741.80
Guangzhou Guangli Marine Human Resource Service Co., Ltd	Cost	3,052,492.77	3,052,492.77		3,052,492.77
Zhongshan GSI Marine Engineering Co., Ltd.	Cost	100,000,000.00		100,000,000.00	100,000,000.00
Shenzhen Yuanzhou technical Co.,Ltd	Cost	1,000,000.00	1,000,000.00		1,000,000.00
South China Marine and Industrial Special Coating Co., Ltd	Equity	1,937,780.53	3,492,677.97	-43,485.35	3,449,192.62
Zhanjiang Nanhai Navy Technical Service Co.,Ltd	Equity	800,000.00	810,897.31	1,201.12	812,098.43
Total		225,446,886.78	127,012,681.53	99,957,715.77	226,970,397.30

Investee	Holding ratio (%)	Representative ratio (%)	Impairment	Current year impairment	Monetary bonus
Glory Group Developing Co., Ltd.	100.00%	100.00%			
Guangzhou Hongfan Technology Co., Ltd.	51.00%	51.00%			
Guangzhou Shipyard Heavy Machinery Co., Ltd.	100.00%	100.00%			
Guangdong GSI Elevator Co., Ltd.	95.00%	95.00%			
Guangzhou Xinsun Shipping Service Company Co., Ltd.	83.00%	83.00%			
Guangzhou United Steel Structures Co., Ltd.	51.00%	51.00%			13,250,055.33
Guangzhou Masterwood Shipbuilding Company Limited	51.00%	51.00%			
Guangzhou Guangli Marine Human Resource Service Co., Ltd	80.00%	80.00%			
Zhongshan GSI Marine Engineering Co., Ltd.	100.00%	100.00%			
Shenzhen Yuanzhou technical Co.,Ltd	7.00%	7.00%			
South China Marine and Industrial Special Coating Co., Ltd	25.00%	25.00%			
Zhanjiang Nanhai Navy Technical Service Co.,Ltd	40.00%	40.00%			
Total			–	–	13,250,055.33

4. Revenue and Cost

(1) Details of revenue and cost:

Item	Current year	Last year
Revenue	6,242,694,549.57	6,395,548,634.25
Including: Income from principal activities	6,049,722,804.46	6,255,294,248.28
Other Operating Income	192,971,745.11	140,254,385.97
Costs	5,502,493,559.02	5,545,945,452.67
Including: Cost of Goods Sold	5,343,476,346.45	5,432,611,138.62
Other Operating Expenses	159,017,212.57	113,334,314.05

(2) Classification of principal activities are listed as below:

	Current Year		Last Year	
Type of Businesses	Revenue	Cost	Revenue	Cost
Shipbuilding products	5,718,470,581.05	4,988,803,945.23	5,904,445,106.67	5,090,138,906.66
Steel Structure projects	246,161,684.29	272,047,806.26	308,767,504.63	308,428,149.36
Mechanical & electrical products and others	85,090,539.12	82,624,594.96	42,081,636.98	34,044,082.60
Total	6,049,722,804.46	5,343,476,346.45	6,255,294,248.28	5,432,611,138.62

(3) Revenue from top 5 clients and its proportion of total revenue are listed below:

Item	Amount in Current	Proportion
No.1	2,085,456,768.68	33.41%
No.2	561,163,440.09	8.99%
No.3	480,720,213.84	7.70%
No.4	373,924,736.73	5.99%
No.5	366,068,964.22	5.86%
Total	3,867,334,123.56	61.95%

5. Investment Income

(1) The sources of investment income are listed as below:

Sources of Investment Income	Current Year	Last Year
The adjustment based on the net profit of investee enterprises under cost method	13,990,055.33	255,000.00
The adjustment based on the net profit of investee enterprises under equity method at the end of the year	755,344.46	895,015.90
Disposal of long-term equity investment		-15,905,242.26
Income from holding of available-for-sale financial assets	2,185,000.00	4,112,937.44
Income from holding and disposal of financial assets held for trading and those designated as at fair value through profit or loss	122,140,050.00	144,861,376.24
Income from disposal of available-for-sale financial assets		7,591,075.39
income from holding and disposal of financial liabilities held for trading and those designated as at fair value through profit or loss	-11,375,442.41	-23,635,539.50
Total	127,695,007.38	118,174,623.21

(2) Investee enterprises under cost method:

Investee	Current year	Last year	Reason for fluctuation
Shenzhen Yuanzhou Technical Co.,Ltd	230,000.00		No dividend
Guangzhou Hongfan Technology Co., Ltd.	510,000.00		No dividend
Guangzhou United Steel Structures Co., Ltd.	13,250,055.33		No dividend
Guangzhou Masterwood Shipbuilding Co., Ltd.		255,000.00	No dividend
Total	13,990,055.33	255,000.00	

(3) Investee enterprises under equity method:

Investee	Current	Last year	Reason for fluctuation
South China Marine and Industrial Special Coating Co., Ltd	754,143.34	869,047.18	Decreased
Zhanjiang Nanhai Navy Technical Service Co.,Ltd	1,201.12	25,968.72	Decreased
Total	755,344.46	895,015.90	

6. Supplementary Information of Cash Flow Statement

Supplementary Information	Current Year	Last Year
I. Reconciliation of net income to cash flows from operating activities:		
Net Income	512,728,580.60	775,502,512.86
Add: Provision for impairment of fixed assets	19,285,984.24	-1,586,852.41
Depreciation of fixed assets, biological Assets and Depletion of Oil and Nature Gas assets	96,161,311.34	85,579,045.76
Amortization of intangible assets	6,384,547.69	5,703,949.77
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	7,969,999.59	4,759,700.11
Losses on scrapping of fixed assets ("-" for gains)		
Losses on movement of fair value ("-" for gains)	97,458,203.39	130,520,655.24
Financial expenses ("-" for gains)	-123,272,980.16	-292,421,998.70
Investments losses ("-" for gains)	-127,695,007.38	-118,174,623.21
Decrease in deferred tax assets ("-" for increase)	-5,247,760.10	3,189,354.94
Increase in deferred tax liabilities ("-" for decrease)	-26,836,174.63	-146,163,104.02
Decrease in inventories ("-" for increase)	-136,597,573.37	-470,291,601.72
Decrease in operating receivables ("-" for increase)	-87,536,110.75	-346,256,491.31
Increase in operating payables ("-" for decrease)	-896,208,230.97	184,258,695.08
Others		
Net cash flows from operating activities	-663,405,210.51	-185,380,757.61
II. Investing and financing activities that do not Involve cash receipts and payments:		
Conversion of debt into capital		
Convertible bonds to be expired within one year		
Fixed assets under finance lease		
III. Net increase in cash and cash equivalents:		
Cash at the end of the period	4,174,852,057.51	5,088,610,548.91
Less: Cash at the beginning of the period	5,088,610,548.91	6,698,359,234.53
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	-913,758,491.40	-1,609,748,685.62

XII SUPPLEMENT INFORMATION

1. Current year unusual profit or lost

In accordance with the "Questions and Answers for the Standards of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No 1---Unusual item in Profits and losses" amended by the China Securities Regulatory Commission in【2008】NO.43), the unusual item in profits and losses of the Company are listed as follows:

Item	Current year	Note
Profits or losses from disposal of non-current assets, including write-offs of asset impairment provisions	-7,826,711.14	Including other profit of disposal building amounted to RMB443,022.41
Government subsidies recognized in the current profits and losses	3,997,891.74	
Gains/Losses from fair value changes of trading securities and trading financial liabilities, and investment income from disposal of trading assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's main operation	22,596,606.60	
Apart from above item, other non-operating profits and losses	465,534.02	
Subtotals (effect on income before tax)	19,233,321.22	
Less: influence on income tax	2,884,998.18	
Net influence of unusual item in profits or losses	16,348,323.04	
Less: attributable to minority interests	684,410.95	
Influence attributable to common shareholders of parent company	15,663,912.09	
Net profits attributable to common shareholders of parent company after deducting unusual item in profits or losses	499,297,991.27	

2. The differences between domestic and overseas financial reporting standards

	Net Profit		Net Assets	
Item	Current Year	Last Year	Current Year	Last Year
The financial statements prepared by CAS of China	51,496	82,040	316,884.0	274,736
The financial statements prepared by HK accounting standards:				
No adjustment	–	–	–	–
The financial statements prepared by HK accounting standards	51,496	82,040	316,884.0	274,736

3. Return on Net Assets and Earnings Per Share

In accordance with the "Regulations of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No.9 – Calculation and Disclosing of Rate on Net Assets and Earning Per Share (2010 revised)"(China Securities Regulatory Commission Announcement【2010】No.2) and "Standards of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No 1 – Unusual items in Profit and Losses (2008)" (China Securities Regulatory Commission Announcement【2008】No.43). Details are listed as follows:

	Current year		
	Return on weighted average	EPS	
Profit for accounting period	**net assets**	**Basic EPS**	**Diluted EPS**
Net profits belonging to the common shareholders	17.42%	1.04	–
Net profits belonging to the common shareholders after deducted exceptional profits or losses	16.89%	1.01	–

	Last year		
	Return on weighted average	EPS	
Profit for accounting period	**net assets**	**Basic EPS**	**Diluted EPS**
Net profits belonging to the common shareholders	31.58%	1.66	–
Net profits belonging to the common shareholders after deducted exceptional profits or losses	30.92%	1.62	–

XIII THE AUTHORIZATION OF FINANCIAL STATEMENT

The financial statement has been approved by the Board Meeting held on March 30,2010.

According to the Articles of Association of the Company, the financial statements are going to be submitted to the shareholders' meeting.

Guangzhou Shipyard International Company Limited
30 March, 2010

To the shareholders of Guangzhou Shipyard International Company Limited
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Guangzhou Shipyard International Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 156 to 239, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2010

BALANCE SHEETS

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2009	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	**1,338,820**	1,231,778	**1,207,365**	1,190,793
Investment properties	7	**29,427**	89,137	**29,427**	89,137
Land use rights and leasehold land	8	**283,658**	75,196	**67,103**	69,439
Intangible assets	9	**18,453**	14,950	**18,453**	14,950
Investments in subsidiaries	10	**–**	–	**221,709**	121,709
Interest in associates	11	**39,980**	33,708	**2,522**	2,522
Available-for-sale financial assets	13	**1,900**	1,900	**1,000**	1,000
Derivative financial instruments	14	**–**	44,890	**–**	44,890
Restricted cash	19	**–**	212,000	**–**	212,000
		1,712,238	1,703,559	**1,547,579**	1,746,440
Current assets					
Available-for-sale financial assets	13	**337,360**	185,450	**337,360**	185,450
Inventories	15	**742,775**	832,683	**575,562**	760,024
Amounts due from subsidiaries		**–**	–	**339,457**	45,470
Due from customers on construction contracts	16	**611,765**	283,014	**598,716**	280,438
Trade receivables	17	**335,167**	392,667	**276,713**	235,066
Other receivables	18	**426,026**	678,932	**359,159**	582,394
Derivative financial instruments	14	**64,160**	112,471	**54,870**	112,471
Term deposits with initial term of over three months	19	**4,135,898**	4,855,140	**4,050,100**	4,855,140
Restricted cash	19	**1,071,916**	723,463	**1,070,168**	707,572
Cash and cash equivalents	19	**326,659**	484,286	**206,981**	375,766
Non-current assets held for sale	20	**40,443**	–	**40,443**	–
		8,092,169	8,548,106	**7,909,529**	8,139,791
Total assets		**9,804,407**	10,251,665	**9,457,108**	9,886,231

BALANCE SHEETS

	Note	Group As at 31 December 2009 RMB'000	Group As at 31 December 2008 RMB'000	Company As at 31 December 2009 RMB'000	Company As at 31 December 2008 RMB'000
EQUITY					
Capital and reserves attributable to the shareholders of the Company					
Share capital and premium	21	**1,146,655**	1,146,655	**1,146,655**	1,146,655
Other reserves	22	**549,003**	368,607	**547,827**	367,431
Retained earnings	23	**1,473,183**	1,232,098	**1,367,443**	1,128,547
– Proposed dividend	39	**138,510**	222,605	**138,510**	222,605
– Others		**1,334,673**	1,009,493	**1,228,933**	905,942
		3,168,841	2,747,360	**3,061,925**	2,642,633
Minority interest in equity		**88,139**	95,505	**–**	–
Total equity		**3,256,980**	2,842,865	**3,061,925**	2,642,633
LIABILITIES					
Non-current liabilities					
Borrowings	24	**–**	207,632	**–**	207,632
Retirement benefit obligations	25	**24,134**	4,839	**24,134**	4,839
Deferred income tax liabilities	26	**40,393**	48,629	**41,481**	50,778
		64,527	261,100	**65,615**	263,249
Current liabilities					
Amounts due to subsidiaries		**–**	–	**31,031**	13,595
Due to customers on construction contracts	16	**3,368,134**	4,278,333	**3,377,250**	4,279,122
Trade payables	27	**1,070,653**	976,578	**1,024,316**	929,606
Other payables and accruals	28	**247,101**	323,176	**175,612**	241,167
Dividends payable		**12,786**	35	**56**	35
Current income tax liabilities		**48,997**	105,720	**45,647**	102,175
Borrowings	24	**1,637,123**	1,371,508	**1,577,550**	1,322,299
Derivative financial instruments	14	**167**	5,200	**167**	5,200
Provisions for warranty	29	**97,939**	87,150	**97,939**	87,150
		6,482,900	7,147,700	**6,329,568**	6,980,349
Total liabilities		**6,547,427**	7,408,800	**6,395,183**	7,243,598
Total equity and liabilities		**9,804,407**	10,251,665	**9,457,108**	9,886,231
Net current assets		**1,609,269**	1,400,406	**1,579,961**	1,159,442
Total assets less current liabilities		**3,321,507**	3,103,965	**3,127,540**	2,905,882

The notes on pages 162 to 239 are an integral part of these financial statements.

The financial statements on pages 156 to 239 were approved by the Board of Directors on 30 Mar 2010 and were signed on its behalf.

Li Zhushi
Director

Han Guangde
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Revenue		**6,553,425**	6,984,088
Cost of construction contracts		**(5,046,099)**	(5,164,588)
Cost of goods sold and services rendered		**(781,966)**	(987,759)
Cost of sales	31	**(5,828,065)**	(6,152,347)
Gross profit		**725,360**	831,741
Other gains/(losses) – net	30	**27,181**	(2,784)
Selling and marketing costs	31	**(13,124)**	(8,760)
Administrative expenses	31	**(323,398)**	(260,091)
Other income	32	**80,846**	80,134
Other expenses		**(8,610)**	(4,835)
Operating profit		**488,255**	635,405
Finance income	33	**169,340**	497,049
Finance costs	33	**(50,976)**	(214,979)
Finance income – net	33	**118,364**	282,070
Share of post-tax profits of associates		**7,069**	3,811
Profit before income tax		**613,688**	921,286
Income tax expense	35	**(92,872)**	(81,113)
Profit for the year		**520,816**	840,173
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets, net of tax	13	**129,124**	(266,323)
Disposal of available-for-sale financial assets, net of tax		**–**	(10,883)
Other comprehensive income for the year, net of tax		**129,124**	(277,206)
Total comprehensive income for the year		**649,940**	562,967

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Profit attributable to:			
– Shareholders of the Company		**514,962**	820,396
– Minority interest		**5,854**	19,777
		520,816	840,173
Total comprehensive income attributable to:			
– Shareholders of the Company		**644,086**	543,190
– Minority interest		**5,854**	19,777
		649,940	562,967
Earnings per share for profit attributable to shareholders of the Company during the year			
(expressed in RMB per share)			
– Basic and diluted	38	**1.0410**	1.6584
Dividends	39	**138,510**	222,605

The notes on pages 162 to 239 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to shareholders of the Company					
		Share capital and premium	Other reserves	Retained earnings	Total	Minority interest	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008		1,146,655	568,281	736,573	2,451,509	75,848	2,527,357
Profit for the year		–	–	820,396	820,396	19,777	840,173
Other comprehensive income:							
Fair value losses, net of tax:							
– available-for-sale financial assets	22	–	(266,323)	–	(266,323)	–	(266,323)
Disposal of available-for-sale financial assets, net of tax		–	(10,883)	–	(10,883)	–	(10,883)
Total comprehensive income for 2008		–	(277,206)	820,396	543,190	19,777	562,967
Profit transferred to surplus reserves	22	–	77,532	(77,532)	–	–	–
Dividends relating to 2007		–	–	(247,339)	(247,339)	–	(247,339)
Dividend paid by a subsidiary		–	–	–	–	(120)	(120)
Balance at 31 December 2008		1,146,655	368,607	1,232,098	2,747,360	95,505	2,842,865
Balance at 1 January 2009		1,146,655	368,607	1,232,098	2,747,360	95,505	2,842,865
Profit for the year		–	–	514,962	514,962	5,854	520,816
Other comprehensive income:							
Fair value gains, net of tax:							
– available-for-sale financial assets	22	–	129,124	–	129,124	–	129,124
Total comprehensive income for 2009		–	129,124	514,962	644,086	5,854	649,940
Profit transferred to surplus reserves	22	–	51,272	(51,272)	–	–	–
Dividends relating to 2008		–	–	(222,605)	(222,605)	–	(222,605)
Dividend paid by subsidiaries		–	–	–	–	(13,220)	(13,220)
Balance at 31 December 2009		1,146,655	549,003	1,473,183	3,168,841	88,139	3,256,980

The notes on pages 162 to 239 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	40	**392,421**	71,725
Interest paid		**(57,001)**	(183,045)
Interest received		**226,629**	199,076
PRC enterprise income tax paid		**(180,617)**	(262,822)
Net cash generated from/(used in) operating activities		**381,432**	(175,066)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(194,230)**	(275,516)
Purchase of land use rights and leasehold land		**(210,944)**	(1,837)
Purchase of intangible assets		**(5,536)**	(980)
Proceeds from sale of property, plant and equipment, investment properties and land use rights and leasehold land	40	**15,154**	3,263
Increase in investment in associated company		**–**	(11,200)
Proceeds from sales of available-for-sale financial assets		**–**	9,576
Dividends received from associates		**797**	722
Dividends received from available-for-sale financial assets		**2,415**	4,113
Net cash used in investing activities		**(392,344)**	(271,859)
Cash flows from financing activities			
Proceeds from borrowings		**2,219,820**	3,837,515
Repayments of borrowings		**(2,141,997)**	(4,111,314)
Dividends paid to shareholders of the Company		**(222,584)**	(247,313)
Dividends paid to minority interests		**(490)**	(120)
Net cash used in financing activities		**(145,251)**	(521,232)
Net decrease in cash and cash equivalents		**(156,163)**	(968,157)
Cash and cash equivalents at beginning of the year		**484,286**	1,457,792
Exchange losses on cash and cash equivalents		**(1,464)**	(5,349)
Cash and cash equivalents at end of the year	19	**326,659**	484,286

The notes on pages 162 to 239 are an integral part of these financial statements.

1. GENERAL INFORMATION

Guangzhou Shipyard International Company Limited (the "Company") is a joint stock company established in the People's Republic of China (the "PRC") with limited liability. The address of its registered office is 40 South Fangcun Main Road, Liwan District, Guangzhou, the PRC.

The Company is listed on Shanghai Securities Exchange and The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Renminbi Yuan (RMB'000), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 30 March 2010.

2. SUMMARY OF SIGNIFICANT 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

These consolidated financial statements of the Company and its subsidiaries (together, the "Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS 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 these consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(a) New standards, amendments to standards and interpretations effective in 2009

HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14 "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has applied HKFRS 8 from 1 January 2009 and this has resulted certain changes in the reportable segments presented, as the previously reported segments of shipbuilding, steel structure and other manufacturing, other operations have been changed to shipbuilding and related business, steel structure projects and all other segments, which have impact on the measurement of the Group's segment revenue and segment results. Comparative figures for 2008 have been restated. However, such restatement in note disclosure does not have any impact on the balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(a) New standards, amendments to standards and interpretations effective in 2009 (continued)

HKAS 1 (Revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKAS 23 (Revised), "Borrowing costs". The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Since the Group currently applies a policy of capitalizing borrowing costs, the revised standard does not have any material impact on the Group's or the Company's financial statements.

HKFRS 7 (Amendment), "Financial instruments: disclosures". The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

HKFRS 3 (Revised), "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated statement of comprehensive income. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKAS 24 (Amendment), "Related party disclosures" (effective from 1 January 2011). The amendment simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Management is currently assessing the impact of HKAS 24 (Amendment).

HKFRS 9, "Financial instruments" (effective from 1 January 2013). HKFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. Management is currently assessing the impact of HKFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

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

In May 2009, HKICPA has published certain other improvements to the HKFRS which will be effective for accounting period beginning on or after 1 July 2009. These improvements have not been early adopted by the Group. Amendments have been made to the following standards according to the improvement:

HKFRS	**Subject of amendment**
HKFRS 2 Share-based Payment	Scope of HKFRS 2 and revised HKFRS 3
HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
HKFRS 8 Operating Segments	Disclosure of information about segment assets
HKAS 1 Presentation of Financial Statements	Current/non-current classification of convertible instruments
HKAS 7 Statement of Cash Flows	Classification of expenditures on unrecognised assets
HKAS 17 Leases	Classification of leases of land and buildings
HKAS 18 Revenue	Determining whether an entity is acting as a principal or as an agent
HKAS 36 Impairment of Assets	Unit of accounting for goodwill impairment test
HKAS 38 Intangible Assets	Additional consequential amendments arising from revised HKFRS 3 Measuring the fair value of an intangible asset acquired in a business combination
HKAS 39 Financial Instruments: Recognition and Measurement	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting
HK (IFRIC)-Int 9 Reassessment of Embedded Derivatives	Scope of HK (IFRIC)-Int 9 and revised HKFRS 3
HK (IFRIC)-Int 16 Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity that can hold hedging instruments

The Group is in the process of making an assessment on the impact of these new/revised standards, amendments and interpretations to existing standards and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of comprehensive income.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.9). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

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 Board of Directors ("BOD").

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 Yuan ("RMB"), which is the functional currency of the Company and all group entities and the presentation currency of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

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

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of property, plant and equipment acquired in exchange is measured at fair value.

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 consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives. The principal annual rates of depreciation for various classes of property, plant and equipment are as follows:

	Depreciation rates
– Buildings, developments and structures	2.0% – 12.5%
– Machinery, vehicles, equipment and transmission systems	2.9% – 16.7%
– Instruments, meters and power systems	5.0% – 20.0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses if any. Cost includes the costs of construction of property, plant and equipment. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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 (Note 2.9).

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

2.6 Investment property

Property that is held for long-term rental yields and/or for capital appreciation, and is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is initially recognized at cost, including related transaction costs. The cost of investment property acquired in exchange for assets is measured at fair value. After initial recognition, investment property is subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on investment properties is calculated using the straight-line method to allocate the depreciable amounts over their estimated useful lives. The principal annual rate of depreciation for investment property is 1.4% – 3.2%.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriated, at each balance sheet day.

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 (Note 2.9).

Rental income from investment property is recognized in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

When an investment property becomes owner-occupied, it is reclassified as property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (three to ten years).

2.8 Operating lease as a lessee

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), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Constructions in progress are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period in which 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.

2.10 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial Assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purposes 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 classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, unless for derivative financial instruments, when they are intended to be settled after 12 months.

(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 maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "term deposits with initial term of over three months", "restricted cash", "cash and cash equivalents" (together "cash and bank balances"), "trade receivables", "other receivables" and "amounts due from subsidiaries" in the balance sheet.

(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 management intends to dispose of the investment within 12 months after the reporting period.

2.11.2 Recognition and measurement

Regular 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 carried at amortized cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial Assets (continued)

2.11.2 Recognition and measurement (continued)

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of comprehensive income within "other gains/(losses) – net", in the period in which they arise.

Changes in the fair value of financial assets classified as available-for-sale are recognized in other comprehensive income.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the consolidated statement of comprehensive income as "other income".

Dividends on available-for-sale financial assets are recognized in the consolidated statement of comprehensive income as part of "other income" when the Group's right to receive payments is established.

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- Being becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

- The disappearance of an active market for that financial asset because of financial difficulties; or

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 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 and loss. Changes in the fair value of the Group's derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated statement of comprehensive income within "other gains/(losses) – net".

2.14 Inventories

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

2.15 Trade receivables and other receivables

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

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

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity.

2.18 Trade payables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Borrowings

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

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

2.20 Current and deferred income tax

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

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

Deferred income tax is 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, 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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is 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.

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Construction contracts

Contract costs are recognized when 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 work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage of completion method" to determine the appropriate amount to be recognized in a given period. The stage of completion is determined based on the completion of a physical proportion of the contract work by reference to the standard hours incurred up to the balance sheet date as a percentage of total estimated standard hours for each contract.

The Group presents as an asset the gross amount due from customers for contract work 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 and retention are included within trade receivables.

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

2.22 Provisions

Provisions for warranty 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. Provision is 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits

(a) Retirement obligation

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme are calculated as a percentage of employees' salaries. The retirement scheme costs charged to the consolidated statement of comprehensive income represent contributions payable by the Group to the fund. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions are recognized as employee benefit expense when they are due and are not reduced by contributions forfeited from those employees who leave the scheme prior to vesting fully in the contributions.

(b) Early retirement benefit

Early retirement benefits payable to eligible employees are accrued and expensed on the date of approval for early retirement. Where the obligations do not fall due wholly within twelve months from the balance sheet date, the obligations payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

(c) Housing benefit

The Group's contributions to the housing fund scheme organized by the Guangzhou People's Municipal Government are expensed as incurred.

(d) Medical insurance

The Group's contributions to the medical insurance scheme organized by the Guangzhou People's Municipal Government for existing employees are expensed as incurred when services are rendered by the employees.

Contributions to the medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition

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

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

(a) Contract revenue

Revenue from individual construction contracts is recognized net of value-added tax by using the "percentage of completion method" (Note 2.21).

(b) Sales of goods

Revenue from the sale of mechanical and electrical equipment, steel structure products (except for those with characteristic of construction contracts) and other products is recognized net of value-added tax when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(c) Sales of services

Revenue from rendering of services is recognized net of value-added tax when the services provided to customers are completed.

(d) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

(e) Operating lease rental income

Lease income is recognized over the term of the lease on a straight-line basis.

(f) Dividend income

Dividend income is recognized when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.26 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 relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government subsidy for shipbuilding on individual qualified vessels is recognized on the same basis as that of the respective construction contracts.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Borrowing costs

Borrowing costs incurred for the construction of qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.28 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price 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 Foreign Exchange Risk Management Committee comprising senior management of the Group and financial consultants from financial institutions was set up to advise the Board of Directors to monitor the exchange risk exposure and evaluate the performance of the financial instruments. A treasury team in the Finance Department is dedicated to the day-to-day management of cash flows.

A Contract Risk Management Committee comprising senior management of the Group and in-house legal consul was set up to monitor the credit risk pursuant to the risk management guidelines approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. The Group's foreign currency transactions are mainly denominated in US dollars ("USD"). The Group has considered this risk factor when entering into new business contracts and used forward foreign exchange contracts and foreign currency loans to mitigate such risk. Certain trade receivables, other receivables, cash and bank balances, borrowings, trade payables and other payables which are denominated in USD, are exposed to foreign exchange risk. Details of the Group's trade receivables, other receivables, cash and bank balances, borrowings, trade payables and other payables are disclosed in Notes 17, 18, 19, 24, 27 and 28 respectively.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

At 31 December 2009, if RMB had weakened/strengthened by 1% against the USD with all other variables held constant, post-tax profit for the year would have been RMB20,347,000(2008: RMB11,515,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, other receivables, cash and bank balances, and foreign exchange losses/gains on translation of USD-denominated borrowings, trade payable and other payables.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities other than cash and bank balances and borrowings, the Group's income and operating cash flows are substantively independent of changes in market interest rates. The maturity term of cash and bank balances, together with current borrowings, is within 12 months so there would not have significant interest rate risk for these financial assets and liabilities.

The Group's interest rate risk arises from non-current borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2009, approximately RMB966,190,000 (2008: RMB1,476,621,000) of the Group's borrowings respectively were at variable rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 24.

The Group has not used any financial instrument to hedge its exposure to interest rate risk.

At 31 December 2009, if interest rates on bank borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB8,213,000(2008: RMB12,133,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale. The Group's equity investments are publicly traded in the Shanghai Stock Exchange.

At 31 December 2009, if the price of the listed securities had decreased/increased by 20% with all other variables held constant, other components of equity would decrease/increase by RMB56,892,000 (2008: RMB31,058,000), mainly as a result of losses/gains on equity securities classified as available-for-sale.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations on credit risks. The carrying amount of cash and bank balances, derivative financial assets, trade receivables, other receivables and available-for-sale financial assets (excluding equity securities) represent the Group's maximum exposure to credit risk at the reporting date in relation to financial assets. The Group does not hold any collateral as security.

The Group's cash and bank balances are deposited in those financial institutions without significant credit risk. Management does not expect any losses from non-performance by these financial institutions.

Credit risk related to trade receivables is the risk that the receivables cannot be collected on the due date. The Group has no significant credit risk for ship building business as majority of the payment should be made prior to delivery of vessels to customers. In respect of the non-ship building business and the specific ship building business, the Group will carry out customer credit checks prior to entering business contracts, request progress payments from customers and press for immediate settlement upon delivery of goods to mitigate the risk. The contract Risk Management Committee is responsible for monitoring the collection of receivables over due for more than one year.

(c) Liquidity risk

The Group's liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Management monitors the Group's undrawn borrowing facility (Note 24) on the basis of expected cash flow, which is performed in the operating entities within the Group, to ensure it has sufficient cash to meet operational needs.

Surplus cash held by the operating entities above the balance required for working capital management are transferred to term deposits with appropriate maturities and liquidity as determined by the above-mentioned forecasts. As at 31 December 2009, the Group held term deposits of RMB4,135,898,000 (2008: RMB4,855,140,000) that are expected to readily generate cash inflows for managing liquidity risk. These term deposits will be matured within one year after the balance sheet date.

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 balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**
	RMB'000	RMB'000
Group		
At 31 December 2009		
Borrowings	**1,637,123**	**–**
Derivative financial liabilities	**167**	**–**
Trade payables, other payables and accruals	**1,155,122**	**–**
Dividends payable	**12,786**	**–**
At 31 December 2008		
Borrowings	1,371,508	221,085
Derivative financial liabilities	5,200	–
Trade payables, other payables and accruals	1,057,760	–
Dividends payable	35	–
Company		
At 31 December 2009		
Borrowings	**1,577,550**	**–**
Derivative financial liabilities	**167**	**–**
Trade payables, other payables and accruals	**1,092,932**	**–**
Amounts due to subsidiaries	**31,031**	**–**
Dividends payable	**56**	**–**
At 31 December 2008		
Borrowings	1,322,299	221,085
Derivative financial liabilities	5,200	–
Trade payables, other payables and accruals	993,261	–
Amounts due to subsidiaries	13,595	–
Dividends payable	35	–

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and 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.

Consistent with others in the industry, the Group monitors capital on the basis of the debt/equity ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings, as shown on the consolidated balance sheet. Total capital is calculated as equity attributable to the shareholders of the Company, as shown in the consolidated balance sheet, plus total borrowings.

The debt/equity ratios at 31 December 2009 and 2008 are as follows:

	2009	2008
	RMB'000	RMB'000
Total borrowings (Note 24)	**1,637,123**	1,579,140
Total equity attributable to the shareholders of the Company	**3,168,841**	2,747,360
Total capital	**4,805,964**	4,326,500
Debt/equity ratio	**34%**	36%

The decrease in the debt/equity ratio during 2009 primarily reflected a profitable operation of the year.

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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 and the Company's assets and liabilities that are measured at fair value at 31 December 2009.

Group

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts	–	64,160	–	64,160
Available-for-sale financial assets				
– Securities listed in Shanghai Stock Exchange	334,660	–	–	334,660
– Others	–	–	4,600	4,600
Total assets	334,660	64,160	4,600	403,420
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	167	–	167
Total liabilities	–	167	–	167

Company

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts	–	54,870	–	54,870
Available-for-sale financial assets				
– Securities listed in Shanghai Stock Exchange	334,660	–	–	334,660
– Others	–	–	3,700	3,700
Total assets	334,660	54,870	3,700	393,230
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	167	–	167
Total liabilities	–	167	–	167

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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. Instruments included in level 1 comprise equity securities of companies listed in Shanghai Stock Exchange.

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

4.1 Critical accounting estimates and assumptions

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(a) Budgeted shipbuilding costs

Based on the best information available in market environment, the Group prepares a cost budget for each shipbuilding contract and the budget is used in the Group's financial reporting and revisited on a monthly basis. The key components of the cost budget include material, equipment and sub-contracted service costs. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2009, the Directors have reviewed the shipbuilding contracts and considered that a provision for loss is not necessary. Material adjustments to the budgeted shipbuilding costs may occur in future if there is a significant change in the shipbuilding market environment.

(b) Accrual for warranty

The Group provides warranties on goods sold and services rendered. A warranty provision will be recognised when the ownership and risk of the products or projects are transferred to customers, based on historical information, industry practices and market environment.

Due to the special nature of the Group's products and services, and the uncertainty in accepting warranty obligations, material adjustment for warranties may be required upon final settlement.

(c) Income taxes

The Group is subject to income taxes in two jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Group's income tax expense is disclosed in Note 35.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Critical judgments in applying the entity's accounting policies

(a) Trigger point of profit recognition for individual construction contract

The Group does not recognize profit from individual construction contract, until the percentage of completion is over 50% for a new vessel and 30% for the subsequent vessel of the same batch, given that the outcome of the contract can be reasonably ascertained.

(b) Revenue recognition for steel structure projects

The Group has recognized revenue for sales and installation of steel structure projects, which are normally completed within one year. Such revenue shall be recognized when the steel structure products have been delivered and installed and the final acceptance documents have been obtained, as management of the Group considers that after these stages the economic benefit associated with such transactions will probably flow to the Group.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors ("BOD"). BOD reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The BOD considers the business from a product perspective, from which management assesses the performance of shipbuilding and related business, steel structure projects and other businesses. Other businesses mainly comprised machinery and other manufacturing, painting services, trading of computer and other related services, none of which, both individually and in aggregate, are of a sufficient size to be reported separately.

The BOD assesses the performance of the operating segments based on measures of segment revenue and segment results. Other information provided to the BOD is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out based on terms agreed. The revenue from external parties reported to the BOD is measured in a manner consistent with that in the consolidated statement of comprehensive income.

Turnover consists of sales from shipbuilding and related business, steel structure projects and other businesses, which were RMB5,718,471,000, RMB463,231,000 and RMB371,723,000 for the year ended 31 December 2009 and RMB5,904,449,000, RMB659,854,000 and RMB419,785,000 for the year ended 31 December 2008 respectively.

5. SEGMENT INFORMATION (CONTINUED)

The segment revenue and results for the year ended 31 December 2009 are as follows:

	Shipbuilding and related business RMB'000	Steel structure projects RMB'000	All other segments RMB'000	Combined RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Total revenue	5,718,471	464,784	1,533,806	7,717,061	(1,163,636)	6,553,425
Inter-segment revenue	–	(1,553)	(1,162,083)	(1,163,636)	1,163,636	–
Revenue (from external customers)	5,718,471	463,231	371,723	6,553,425	–	6,553,425
Segment results	471,538	(17,557)	46,498	500,479	(12,224)	488,255
Finance income	170,401	1,543	675	172,619	(3,279)	169,340
Finance costs	(49,174)	(463)	(1,339)	(50,976)	–	(50,976)
Share of post-tax profits of associates	755	–	6,314	7,069	–	7,069
Income tax expense	(84,640)	(3,266)	(4,966)	(92,872)	–	(92,872)
Profit for the year						520,816
Segment results include:						
Depreciation and amortisation	(84,197)	(3,577)	(15,392)	(103,166)	–	(103,166)
Realized gains on derivative financial instruments	110,765	–	–	110,765	–	110,765
Fair value (losses)/gains of derivative financial instruments	(97,458)	–	9,290	(88,168)	–	(88,168)
Impairment for investment property	(15,489)	–	–	(15,489)	–	(15,489)
Impairment for inventories	(2,176)	(1,824)	(242)	(4,242)	–	(4,242)

5. SEGMENT INFORMATION (CONTINUED)

The segment revenue and results for the year ended 31 December 2008 are as follows:

	Shipbuilding and related business RMB'000	Steel structure projects RMB'000	All other segments RMB'000	Combined RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Total revenue	5,904,449	659,891	938,227	7,502,567	(518,479)	6,984,088
Inter-segment revenue	–	(37)	(518,442)	(518,479)	518,479	–
Revenue (from external customers)	5,904,449	659,854	419,785	6,984,088	–	6,984,088
Segment results	547,285	33,167	39,427	619,879	15,526	635,405
Finance income	492,257	558	4,234	497,049	–	497,049
Finance costs	(208,571)	(1,335)	(5,073)	(214,979)	–	(214,979)
Share of post-tax profits of associates	895	–	2,916	3,811	–	3,811
Income tax expense	(81,497)	2,121	(1,737)	(81,113)	–	(81,113)
Profit for the year						840,173
Segment results include:						
Depreciation and amortisation	(83,795)	(5,792)	(11,885)	(101,472)	–	(101,472)
Realized gains on derivative financial instruments	116,666	–	–	116,666	–	116,666
Fair value losses of derivative financial instruments	(130,521)	–	–	(130,521)	–	(130,521)
Impairment (provision)/reversal for inventories	1,308	2,757	(362)	3,703	–	3,703

The segment assets and liabilities at 31 December 2009 are as follows:

	Shipbuilding and related business RMB'000	**Steel structure projects RMB'000**	**All other segments RMB'000**	**Combined RMB'000**	**Inter-segment elimination RMB'000**	**Consolidated RMB'000**
Total segment assets	**9,001,662**	**525,250**	**646,476**	**10,173,388**	**(368,981)**	**9,804,407**
Total segments assets include:						
Interest in associates	**4,262**	**–**	**35,718**	**39,980**	**–**	**39,980**
Total segments liabilities	**6,049,811**	**370,321**	**504,401**	**6,924,533**	**(377,106)**	**6,547,427**

5 SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities at 31 December 2008 are as follows:

	Shipbuilding and related business RMB'000	Steel structure projects RMB'000	All other segments RMB'000	Combined RMB'000	Inter-segment elimination RMB'000	Consolidated RMB'000
Total segment assets	9,223,282	613,366	491,536	10,328,184	(76,519)	10,251,665
Total segments assets include:						
Investments in associates	4,303	–	29,405	33,708	–	33,708
Total segments liabilities	6,693,550	435,517	356,252	7,485,319	(76,519)	7,408,800

The additions to non-current assets (other than financial instruments) are as follows:

	Shipbuilding and related business RMB'000	**Steel structure projects** RMB'000	**All other segments** RMB'000	**Combined** RMB'000	**Inter-segment elimination** RMB'000	**Consolidated** RMB'000
Year ended 31 December 2009	**351,207**	**59**	**89,872**	**441,138**	**–**	**441,138**
Year ended 31 December 2008	280,649	1,744	3,652	286,045	–	286,045

The Group does not have significant reliance on certain major customers. Revenue from major external customers by geographical location are as follows:

	2009 **RMB'000**	2008 RMB'000
Denmark	**3,376,132**	2,114,264
Mainland China	**1,361,009**	1,665,444
Greece	**525,418**	532,199
Germany	**384,023**	327,761
Italy	**366,083**	30,145
Hong Kong	**278,262**	299,634
Malta	**60,998**	1,248,504
Other countries	**201,500**	766,137
	6,553,425	6,984,088

Revenues are allocated based on the places/countries in which customers are located.

5. SEGMENT INFORMATION (CONTINUED)

Non-current assets (other than financial instruments) located by geographical location are as follows:

	2009	2008
	RMB'000	RMB'000
Mainland China	**1,693,498**	1,427,533
Hong Kong	**16,840**	17,236
	1,710,338	1,444,769

The non-current assets are allocated based on where the assets are located.

Breakdown of the revenue from all services is as follows:

	2009	2008
	RMB'000	RMB'000
Analysis of revenue by category		
Construction contracts	**5,718,471**	5,904,445
Sales of goods	**663,340**	904,487
Provision of services	**171,614**	175,156
	6,553,425	6,984,088

6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Construction-in-progress RMB'000	Buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments, meters and power systems RMB'000	Total RMB'000
At 1 January 2008					
Cost	105,089	757,188	874,478	47,321	1,784,076
Accumulated depreciation	–	(221,147)	(486,126)	(26,850)	(734,123)
Net book amount	105,089	536,041	388,352	20,471	1,049,953
Year ended 31 December 2008					
Opening net book amount	105,089	536,041	388,352	20,471	1,049,953
Additions	275,470	2,160	5,598	–	283,228
Transfers	(118,464)	16,254	93,474	8,736	–
Disposals	–	(377)	(4,748)	(332)	(5,457)
Depreciation	–	(27,085)	(64,622)	(4,239)	(95,946)
Closing net book amount	262,095	526,993	418,054	24,636	1,231,778
At 31 December 2008					
Cost	262,095	771,692	937,333	55,725	2,026,845
Accumulated depreciation	–	(244,699)	(519,279)	(31,089)	(795,067)
Net book amount	262,095	526,993	418,054	24,636	1,231,778
Year ended 31 December 2009					
Opening net book amount	**262,095**	**526,993**	**418,054**	**24,636**	**1,231,778**
Additions	**220,817**	**1,872**	**1,961**	**8**	**224,658**
Transfers	**(398,657)**	**216,844**	**173,061**	**8,752**	**–**
Disposals	**–**	**(6,729)**	**(13,675)**	**(68)**	**(20,472)**
Depreciation	**–**	**(29,474)**	**(61,085)**	**(6,585)**	**(97,144)**
Closing net book amount	**84,255**	**709,506**	**518,316**	**26,743**	**1,338,820**
At 31 December 2009					
Cost	**84,255**	**977,255**	**1,058,387**	**64,417**	**2,184,314**
Accumulated depreciation	**–**	**(267,749)**	**(540,071)**	**(37,674)**	**(845,494)**
Net book amount	**84,255**	**709,506**	**518,316**	**26,743**	**1,338,820**

6. PROPERTY, PLANT AND EQUIPMENT – COMPANY

	Construction-in-progress RMB'000	Buildings, developments and structures RMB'000	Machinery, vehicles, equipment and transmission systems RMB'000	Instruments, meters and power systems RMB'000	Total RMB'000
At 1 January 2008					
Cost	100,517	745,204	778,540	47,269	1,671,530
Accumulated depreciation	–	(216,815)	(421,548)	(26,814)	(665,177)
Net book amount	100,517	528,389	356,992	20,455	1,006,353
Year ended 31 December 2008					
Opening net book amount	100,517	528,389	356,992	20,455	1,006,353
Additions	275,288	2,558	3	–	277,849
Transfers	(113,891)	16,254	88,901	8,736	–
Disposals	–	(508)	(4,105)	(332)	(4,945)
Depreciation	–	(24,671)	(59,560)	(4,233)	(88,464)
Closing net book amount	261,914	522,022	382,231	24,626	1,190,793
At 31 December 2008					
Cost	261,914	762,252	838,019	55,674	1,917,859
Accumulated depreciation	–	(240,230)	(455,788)	(31,048)	(727,066)
Net book amount	261,914	522,022	382,231	24,626	1,190,793
Year ended 31 December 2009					
Opening net book amount	**261,914**	**522,022**	**382,231**	**24,626**	**1,190,793**
Additions	**180,320**	**–**	**–**	**–**	**180,320**
Transfers	**(318,812)**	**205,285**	**104,775**	**8,752**	**–**
Disposals	**–**	**(6,729)**	**(9,070)**	**(68)**	**(15,867)**
Transfer to a subsidiary (Note a)	**(50,613)**	**–**	**(10,131)**	**–**	**(60,744)**
Depreciation	**–**	**(26,273)**	**(54,286)**	**(6,578)**	**(87,137)**
Closing net book amount	**72,809**	**694,305**	**413,519**	**26,732**	**1,207,365**
At 31 December 2009					
Cost	**72,809**	**954,384**	**883,958**	**64,357**	**1,975,508**
Accumulated depreciation	**–**	**(260,079)**	**(470,439)**	**(37,625)**	**(768,143)**
Net book amount	**72,809**	**694,305**	**413,519**	**26,732**	**1,207,365**

(a) The Company transferred construction-in-progress of RMB50,613,000 and machinery of RMB10,131,000 to Guangzhou GSI Large-size Mechanical Equipment Co., Ltd., a wholly owned subsidiary of the Company, at net book value.

7. INVESTMENT PROPERTIES

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Beginning of the year	**89,137**	94,161
Disposal	**(1,817)**	(2,939)
Depreciation	**(1,961)**	(2,085)
Impairment	**(15,489)**	–
Transferred to non-current assets held for sale (Note 20)	**(40,443)**	–
End of the year	**29,427**	89,137
Representing:		
Cost	**38,495**	97,151
Accumulated depreciation and impairment	**(9,068)**	(8,014)
Net book amount	**29,427**	89,137
Fair value of investment properties	**36,869**	116,797

The fair value of investment properties was determined at 31 December 2009 by management with reference to the current prices in an active market.

The following amounts have been recognized in the consolidated statement of comprehensive income:

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Rental income	**1,848**	798

The future minimum lease income receivable under non-cancellable operating leases are as follows:

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**1,800**	1,800
1 to 2 years	**1,800**	1,800
2 to 5 years	**5,400**	5,400
Over 5 years	**6,450**	8,250
	15,450	17,250

The Company leased out properties under agreements which will expire in 2018.

8. LAND USE RIGHTS AND LEASEHOLD LAND

The Group's interests in land use rights and leasehold land represent prepaid land use rights payments in terms of operating leases and their net book value is analyzed as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
In Hong Kong:				
Leases with terms between 10 to 50 years	**7,704**	7,980	**7,704**	7,980
In Mainland China:				
Leases with terms between 10 to 50 years	**275,954**	67,216	**59,399**	61,459
	283,658	75,196	**67,103**	69,439

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**75,196**	76,108	**69,439**	66,620
Additions	**210,944**	1,837	**–**	5,370
Disposal	**(454)**	(1,259)	**(454)**	(1,259)
Amortization	**(2,028)**	(1,490)	**(1,882)**	(1,292)
End of the year	**283,658**	75,196	**67,103**	69,439

9. INTANGIBLE ASSETS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Computer software		
Beginning of the year	**14,950**	15,921
Additions	**5,536**	980
Amortization	**(2,033)**	(1,951)
End of the year	**18,453**	14,950
Representing:		
Cost	**23,601**	18,065
Accumulated amortization	**(5,148)**	(3,115)
Net book amount	**18,453**	14,950

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted shares, at costs	**221,709**	121,709

The following is a list of the principal subsidiaries at 31 December 2009:

Name	Place of incorporation and legal entity form	Principal activities	Issued and fully paid-up capital	Interest held 2009 Direct %	Interest held 2009 Indirect %	Interest held 2008 Direct %	Interest held 2008 Indirect %
Guangzhou MasterWood Shipbuilding Company Limited	PRC, Sino-foreign equity joint venture	Manufacture of furniture	RMB3,315,180	**51**	**25**	51	25
United Steel Structures Limited	PRC, Sino-foreign equity joint venture	Large steel structure engineering	USD8,850,000	**51**	**–**	51	–
Guangzhou Xin Sun Shipping Service Company Limited	PRC, Company with limited liability	Fabrication, welding and coating of ships	RMB2,000,000	**83**	**16.18**	83	16.18
Guangdong Guangzhou Shipyard International Elevator Company Limited	PRC, Company with limited liability	Manufacture of elevators	RMB21,000,000	**95**	**3.8**	95	3.8
Guangzhou Hongfan Information Technique Company Limited	PRC, Company with limited liability	Sales of computers, development of computer software, system integration	RMB5,000,000	**51**	**–**	51	–
Guangzhou Guangli Shipbuilding Human Resource Service Company Limited	PRC, Company with limited liability	Fabrication, welding and coating of ships, employment service agent	RMB500,000	**80**	**15.20**	80	15.20
Guangzhou Hongfan Hotel Company Limited	PRC, Company with limited liability	Hotel and catering	RMB10,000,000	**–**	**99.11**	–	99.11

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and legal entity form	Principal activities	Issued and fully paid-up capital	Interest held 2009 Direct %	Interest held 2009 Indirect %	Interest held 2008 Direct %	Interest held 2008 Indirect %
Glory Group Development Company Limited	Hong Kong, Company with limited liability	Intermediate holding company	HKD30,000,000	**100**	**–**	100	–
Fon Kwang Development Limited	Hong Kong, Company with limited liability	Trading of equipment and materials	HKD200,000	**–**	**70**	–	70
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	PRC, Company with limited liability	Large-size mechanical equipment and steel structure	RMB30,000,000	**100**	**–**	100	–
Zhongshan GSI Marine Engineering Company Limited (Note a)	PRC, Company with limited liability	Manufacture of Equipment	RMB 100,000,000	**100**	**–**	–	–

(a) Zhongshan GSI Marine Engineering Company Limited was set up in 2009.

11. INTEREST IN ASSOCIATES

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Unlisted				
Beginning of the year	**33,708**	19,419	**2,522**	2,522
Additions	**–**	11,200	**–**	–
Share of profits of associates	**7,069**	3,811	**–**	–
Dividend	**(797)**	(722)	**–**	–
End of the year	**39,980**	33,708	**2,522**	2,522

11. INTEREST IN ASSOCIATES (CONTINUED)

The Group's share of the results of its principal associates, all of which are incorporated in the PRC and unlisted, and its aggregated assets, liabilities, revenues and profit are as follows:

Name	Assets	Liabilities	Revenues	Profit	Interest held
	RMB'000	RMB'000	RMB'000	RMB'000	%
2009					
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited ("South China Special Coating")	**3,873**	**419**	**7,167**	**754**	**25**
Zhanjiang Nanhai Naval New Technology & Service Company Limited ("Nanhai Naval")	**1,079**	**271**	**476**	**1**	**40**
Zhenjiang CSSC Hyundai Generator Equipment Company Limited ("Zhengjiang CSSC Hyundai")	**57,462**	**21,744**	**43,739**	**6,314**	**32**
	62,414	**22,434**	**51,382**	**7,069**	
2008					
South China Special Coating	4,218	721	6,504	869	25
Nanhai Naval	822	16	1,417	26	40
Zhengjiang CSSC Hyundai	46,146	16,741	31,363	2,916	32
	51,186	17,478	39,284	3,811	

12. FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables	Derivative financial instruments at fair value through profit or loss	Available-for-sale	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets as per consolidated balance sheet				
31 December 2009				
Available-for-sale financial assets (Note13)	**–**	**–**	**339,260**	**339,260**
Derivative financial instruments (Note 14)	**–**	**64,160**	**–**	**64,160**
Trade receivables (Note 17)	**335,167**	**–**	**–**	**335,167**
Other receivables (excluding prepayment and other taxes recoverable) (Note 18)	**90,708**	**–**	**–**	**90,708**
Cash and bank balances (Note 19)	**5,534,473**	**–**	**–**	**5,534,473**
Total	**5,960,348**	**64,160**	**339,260**	**6,363,768**
31 December 2008				
Available-for-sale financial assets (Note13)	–	–	187,350	187,350
Derivative financial instruments (Note 14)	–	157,361	–	157,361
Trade receivables (Note 17)	392,667	–	–	392,667
Other receivables (excluding prepayment and other taxes recoverable) (Note 18)	102,850	–	–	102,850
Cash and bank balances (Note 19)	6,274,889	–	–	6,274,889
Total	6,770,406	157,361	187,350	7,115,117

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group (continued)

	Derivative financial instruments at fair value through profit or loss	Other financial liabilities	Total
	RMB'000	RMB'000	RMB'000
Liabilities as per consolidated balance sheet			
31 December 2009			
Borrowings (Note 24)	**–**	**1,637,123**	**1,637,123**
Derivative financial instruments (Note 14)	**167**	**–**	**167**
Trade payables (Note 27)	**–**	**1,070,653**	**1,070,653**
Other payables and accruals (excluding advance received, other taxes payable and retirement benefit obligation)	**–**	**84,469**	**84,469**
Dividends payable	**–**	**12,786**	**12,786**
Total	**167**	**2,805,031**	**2,805,198**
31 December 2008			
Borrowings (Note 24)	–	1,579,140	1,579,140
Derivative financial instruments (Note 14)	5,200	–	5,200
Trade payables (Note 27)	–	976,578	976,578
Other payables and accruals (excluding advance received, other taxes payable and retirement benefit obligation)	–	81,182	81,182
Dividends payable	–	35	35
Total	5,200	2,636,935	2,642,135

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	Loans and receivables	Derivative financial instruments at fair value through the profit and loss	Available-for-sale	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets as per balance sheet				
31 December 2009				
Available-for-sale financial assets (Note 13)	**–**	**–**	**338,360**	**338,360**
Derivative financial instruments (Note 14)	**–**	**54,870**	**–**	**54,870**
Amounts due from subsidiaries (Note a)	**339,457**	**–**	**–**	**339,457**
Trade receivables (Note 17)	**276,713**	**–**	**–**	**276,713**
Other receivables (excluding prepayment and other taxes recoverable) (Note 18)	**85,272**	**–**	**–**	**85,272**
Cash and bank balances (Note 19)	**5,327,249**	**–**	**–**	**5,327,249**
Total	**6,028,691**	**54,870**	**338,360**	**6,421,921**
31 December 2008				
Available-for-sale financial assets (Note 13)	–	–	186,450	186,450
Derivative financial instruments (Note 14)	–	157,361	–	157,361
Amounts due from subsidiaries (Note a)	45,470	–	–	45,470
Trade receivables (Note 17)	235,066	–	–	235,066
Other receivables (excluding prepayment and other taxes recoverable) (Note 18)	99,512	–	–	99,512
Cash and bank balances (Note 19)	6,150,478	–	–	6,150,478
Total	6,530,526	157,361	186,450	6,874,337

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company (continued)

	Derivative financial instruments at fair value through the profit and loss	Other financial liabilities	Total
	RMB'000	RMB'000	RMB'000
Liabilities as per balance sheet			
31 December 2009			
Borrowings (Note 24)	**–**	**1,577,550**	**1,577,550**
Derivative financial instruments (Note 14)	**167**	**–**	**167**
Trade payables (Note 27)	**–**	**1,024,316**	**1,024,316**
Other payables and accruals (excluding advance received, other taxes payable and retirement benefit obligation)	**–**	**68,616**	**68,616**
Amounts due to subsidiaries (Note a)	**–**	**31,031**	**31,031**
Dividends payable	**–**	**56**	**56**
Total	**167**	**2,701,569**	**2,701,736**
31 December 2008			
Borrowings (Note 24)	–	1,529,931	1,529,931
Derivative financial instruments (Note 14)	5,200	–	5,200
Trade payables (Note 27)	–	929,606	929,606
Other payables and accruals (excluding advance received, other taxes payable and retirement benefit obligation)	–	63,655	63,655
Amounts due to subsidiaries (Note a)	–	13,595	13,595
Dividends payable	–	35	35
Total	5,200	2,536,822	2,542,022

(a) Amounts due from subsidiaries arise mainly from charges of certain expenses which are denominated in RMB. Amounts due from subsidiaries are neither past due nor impaired and the subsidiaries have no default history. Amounts due to subsidiaries arise mainly from charges by the subsidiaries which are denominated in RMB. Amounts due to subsidiaries bear no interest.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**187,350**	577,074	**186,450**	576,174
Disposal	**–**	(12,867)	**–**	(12,867)
Fair value gains/(losses) transferred to other comprehensive income (Note 22)	**151,910**	(376,857)	**151,910**	(376,857)
End of the year	**339,260**	187,350	**338,360**	186,450
Less non-current portion:	**(1,900)**	(1,900)	**(1,000)**	(1,000)
Current portion	**337,360**	185,450	**337,360**	185,450

Available-for-sale financial assets include the following:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Securities listed in Shanghai Stock Exchange				
– Corporate shares of China Merchants Bank	**278,060**	144,096	**278,060**	144,096
– Corporate shares of China Merchants Energy Shipping Co., Ltd.	**56,600**	38,600	**56,600**	38,600
	334,660	182,696	**334,660**	182,696
Others	**4,600**	4,654	**3,700**	3,754
Total	**339,260**	187,350	**338,360**	186,450
Market value of listed securities	**334,660**	182,696	**334,660**	182,696

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

In 2009, the Group had not disposed of any available-for-sale financial assets (2008:RMB12,867,000). There were no impairment provisions on available-for-sale financial assets as at 31 December 2009 or 2008.

The fair value gain, net of tax, amounting to RMB129,124,000 for the year ended 31 December 2009 was credited to the other comprehensive income.

As at 31 December 2009, current portion of the available-for-sale financial assets represented the listed corporate shares and golf club membership to be disposed of within 12 months.

Available-for-sale financial assets are denominated in RMB.

None of the available-for-sale financial assets is either past due or impaired.

14. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	Assets		**Liabilities**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Forward foreign exchange contracts	**64,160**	157,361	**(167)**	(5,200)
Less non-current portion:				
Forward foreign exchange contracts	**–**	44,890	**–**	–
Current portion	**64,160**	112,471	**(167)**	(5,200)

Company

	Assets		**Liabilities**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Forward foreign exchange contracts	**54,870**	157,361	**(167)**	(5,200)
Less non-current portion:				
Forward foreign exchange contracts	**–**	44,890	**–**	–
Current portion	**54,870**	112,471	**(167)**	(5,200)

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2009 are RMB1,556,829,600 (2008:RMB2,189,465,000), which will be matured within 6 months.

14. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The credit quality of derivative financial assets is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
The mega four state-controlled commercial banks	**–**	58,730	**–**	58,730
Nationwide joint-stock commercial banks	**54,870**	83,945	**54,870**	83,945
Foreign invested commercial banks	**9,290**	14,686	**–**	14,686
	64,160	157,361	**54,870**	157,361

15. INVENTORIES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**509,135**	453,891	**421,309**	444,143
Work in progress	**229,280**	373,382	**151,528**	310,723
Finished goods	**4,360**	5,410	**2,725**	5,158
	742,775	832,683	**575,562**	760,024

The cost of inventories recognized as expense and included in "cost of goods sold" amounted to RMB632,550,000 (2008:RMB823,413,000).

16. CONSTRUCTION CONTRACTS IN PROGRESS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contract costs incurred plus attributable profits	**3,847,505**	3,148,054	**3,825,340**	3,144,689
Less: progress billings to date	**(6,603,874)**	(7,143,373)	**(6,603,874)**	(7,143,373)
	(2,756,369)	(3,995,319)	**(2,778,534)**	(3,998,684)
Representing:				
Due from customers on construction contracts	**611,765**	283,014	**598,716**	280,438
Due to customers on construction contracts	**(3,368,134)**	(4,278,333)	**(3,377,250)**	(4,279,122)
	(2,756,369)	(3,995,319)	**(2,778,534)**	(3,998,684)

At 31 December 2009, there were no retention monies held by customers for contract works (2008: nil).

At 31 December 2009, there were advances for construction contracts amounting to RMB5,000,000 (2008:RMB44,355,000) (Note 28).

17. TRADE RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables due from third parties	**149,616**	202,743	**100,647**	49,629
Less: provision for impairment	**(6,508)**	(4,701)	**(2,329)**	(2,119)
Trade receivables – net	**143,108**	198,042	**98,318**	47,510
Amounts due from related parties	**192,059**	194,625	**178,395**	187,556
	335,167	392,667	**276,713**	235,066

The carrying amounts of trade receivables approximate their fair value.

17. TRADE RECEIVABLES (CONTINUED)

The general credit terms of trade receivables are:

Operations	Credit terms
Shipbuilding	Within one month after issue of invoice
Other operations (including steel structure and other manufacturing)	Normally one to six months

At 31 December 2009 and 2008, the ageing analysis of the trade receivables due from third parties are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not exceeding 1 year	**133,951**	170,991	**95,462**	33,211
More than 1 year but not exceeding 2 years	**491**	21,966	**474**	12,386
More than 2 years but not exceeding 3 years	**7,388**	3,979	**1,623**	1,770
More than 3 years	**1,278**	1,106	**759**	143
	143,108	198,042	**98,318**	47,510

At 31 December 2009 and 2008, the ageing analysis of the trade receivables due from related parties are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not exceeding 1 year	**186,876**	190,397	**175,412**	183,361
More than 1 year but not exceeding 2 years	**4,542**	4,228	**2,375**	4,195
More than 2 years but not exceeding 3 years	**641**	–	**608**	–
	192,059	194,625	**178,395**	187,556

17. TRADE RECEIVABLES (CONTINUED)

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**248,543**	247,339	**209,726**	219,079
USD	**80,672**	130,439	**65,874**	7,703
HKD	**1,113**	2,943	**1,113**	2,693
EURO	**–**	7,060	**–**	5,591
Other currencies	**4,839**	4,886	**–**	–
	335,167	392,667	**276,713**	235,066

The credit quality of trade receivables is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired:				
Existing customers without history of default	**313,242**	362,347	**263,709**	217,380
Past due but not impaired:				
Past due less than 1 year	**12,644**	24,953	**10,098**	15,609
Past due over 1 year	**7,828**	5,296	**2,906**	2,077
	20,472	30,249	**13,004**	17,686
Past due and impaired:				
Past due less than 1 year	**1,665**	3,248	**1,392**	1,182
Past due over 1 year	**6,296**	1,524	**937**	937
	7,961	4,772	**2,329**	2,119
Total trade receivables	**341,675**	397,368	**279,042**	237,185

Trade receivables past due but not impaired relate to a number of customers who have no recent history of default. Trade receivables impaired are mainly due from some customers, which are in unexpected difficult economic situations. It was assessed that only a portion of the receivables is expected to be recovered.

17. TRADE RECEIVABLES (CONTINUED)

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**(4,701)**	(5,081)	**(2,119)**	(2,426)
Provision for receivable impairment	**(3,700)**	(352)	**(318)**	(203)
Receivables written off during the year as uncollectible	**1,226**	–	**–**	–
Unused amounts reversed	**667**	732	**108**	510
End of the year	**(6,508)**	(4,701)	**(2,329)**	(2,119)

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

18. OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments for trading materials, equipment and subcontract fee				
– prepayments to third parties	**91,826**	132,048	**41,844**	39,001
– prepayments to related parties	**207,314**	354,820	**207,004**	354,667
Other taxes recoverable	**36,178**	89,214	**25,039**	89,214
Amounts due from non-banking financial institutions	**10,340**	10,340	**10,340**	10,340
Less: provision for non-recovery	**(8,360)**	(8,360)	**(8,360)**	(8,360)
	1,980	1,980	**1,980**	1,980
Subsidy receivables	**73,551**	40,904	**73,551**	40,904
Deposit for acquisition (Note a)	**–**	50,000	**–**	50,000
Other receivables from third parties	**10,923**	9,966	**9,741**	6,628
Other receivables from related parties	**4,254**	–	**–**	–
	426,026	678,932	**359,159**	582,394

(a) Cash deposit was paid to China Beijing Equity Exchange for the purpose of tendering for the equity interests in Guangzhou Wenchong Shipbuilding Limited. The transaction was terminated and the respective deposit was refunded in 2009.

18. OTHER RECEIVABLES (CONTINUED)

The carrying amounts of other receivables approximate their fair value.

The carrying amounts of other receivables are denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**324,037**	526,425	**306,054**	522,901
USD	**39,581**	45,334	**39,495**	43,617
HKD	**–**	838	**–**	–
EURO	**62,408**	106,335	**13,610**	15,876
	426,026	678,932	**359,159**	582,394

The credit quality of other receivables qualified as financial assets is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired:				
With no history of default	**88,728**	100,870	**83,292**	97,532
Past due and impaired:				
Past due over 3 years	**10,340**	10,340	**10,340**	10,340
Total other receivables	**99,068**	111,210	**93,632**	107,872

Other receivables neither past due nor impaired are mainly subsidy receivables, which have no default history. Other receivables impaired are mainly due from a non-banking financial institution, a state-controlled enterprise, and it was assessed that only a portion of the receivables is expected to be recovered.

19. CASH AND BANK BALANCES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash in bank and in hand	**266,852**	255,166	**156,981**	130,755
Bank deposits (Note a)	**5,267,621**	6,019,723	**5,170,268**	6,019,723
Cash and bank balances	**5,534,473**	6,274,889	**5,327,249**	6,150,478
Less: Restricted balance and cash (Note b)	**(1,071,916)**	(935,463)	**(1,070,168)**	(919,572)
– Current	**(1,071,916)**	(723,463)	**(1,070,168)**	(707,572)
– Non-current	**–**	(212,000)	**–**	(212,000)
Term deposits with initial term of over three months	**(4,135,898)**	(4,855,140)	**(4,050,100)**	(4,855,140)
Cash and cash equivalents	**326,659**	484,286	**206,981**	375,766
Representing:				
Cash in bank and in hand	**265,659**	239,275	**156,981**	130,755
Bank deposits	**61,000**	245,011	**50,000**	245,011
	326,659	484,286	**206,981**	375,766

(a) The average effective annual interest rate on bank deposits was 2.30% (2008:3.93%); These deposits have an average maturity of 192 days (2008:164 days).

(b) The restricted cash was held in bank accounts as guarantee deposits for forward contract transactions and bank borrowings denominated in foreign currency.

19. CASH AND BANK BALANCES (CONTINUED)

The cash and bank balances are denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**5,356,888**	6,202,067	**5,200,941**	6,123,973
USD	**164,600**	48,979	**125,252**	25,960
HKD	**9,160**	16,240	**916**	322
EURO	**3,815**	7,603	**130**	223
GBP	**10**	–	**10**	–
	5,534,473	6,274,889	**5,327,249**	6,150,478

The credit quality of cash and bank balances is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
The mega four state-controlled commercial banks	**1,172,816**	1,497,784	**1,065,929**	1,444,154
Policy banks	**263,010**	253,527	**263,010**	253,527
Nationwide joint-stock commercial banks	**3,283,209**	3,726,247	**3,267,163**	3,690,120
Foreign invested commercial banks	**760,409**	778,214	**676,230**	743,698
A related financial institution	**54,614**	18,674	**54,614**	18,674
Other financial institutions and cash in hand	**415**	443	**303**	305
	5,534,473	6,274,889	**5,327,249**	6,150,478

Cash and bank balances deposited in mega four state-controlled commercial banks, policy banks and nationwide joint-stock commercial banks, most of which are listed in China, are with no history of non-performance. Foreign invested commercial banks are rated by Standard and Poor's within a range from A- to A+.

20. NON-CURRENT ASSETS HELD FOR SALE

Certain investment properties have been presented as held for sale following the approval of board of directors on 27 August 2009 to sell these properties to external parties and the transaction is expected to be completed within 12 months from the balance sheet date.

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Investment properties	**40,443**	–

21. SHARE CAPITAL AND PREMIUM

	As at 1 January 2008 and 1 January 2009		Conversion (Note a)		As at 31 December 2009	
	Number of shares (thousands)	Amount RMB'000	Number of shares (thousands)	Amount RMB'000	Number of shares (thousands)	Amount RMB'000
Share capital registered, issued and fully paid						
Circulating State Shares subject to trading restrictions	176,651	176,651	(176,651)	(176,651)	–	–
Ordinary A Shares	160,629	160,629	176,651	176,651	337,280	337,280
Ordinary H Shares	157,398	157,398	–	–	157,398	157,398
	494,678	494,678	–	–	494,678	494,678
Share premium		651,977				651,977
Total		1,146,655				1,146,655

(a) Following the lapse of three years after the completion of the PRC State Share Reform on 24 May 2006, the restricted circulating State Shares have become tradable at the Shanghai Stock Exchange since 26 May 2009.

22. OTHER RESERVES

	Surplus reserves (Note a)		Fair value reserve for	
	Statutory surplus reserve (Note i)	Discretionary surplus reserve (Note ii)	available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
Balance at 1 January 2008	154,866	20,626	392,789	568,281
Revaluation – gross (Note 13)	–	–	(376,857)	(376,857)
– tax (Note 26)	–	–	110,534	110,534
Disposal of available-for-sale financial assets	–	–	(10,883)	(10,883)
Profit transferred to surplus reserves (Note 23)	77,532	–	–	77,532
Balance at 31 December 2008	232,398	20,626	115,583	368,607
Revaluation – gross (Note 13)	–	–	151,910	151,910
– tax (Note 26)	–	–	(22,786)	(22,786)
Profit transferred to surplus reserves (Note 23)	51,272	–	–	51,272
Balance at 31 December 2009	283,670	20,626	244,707	549,003
Company				
Balance at 1 January 2008	153,690	20,626	392,789	567,105
Revaluation – gross (Note 13)	–	–	(376,857)	(376,857)
– tax (Note 26)	–	–	110,534	110,534
Disposal of available-for-sale financial assets	–	–	(10,883)	(10,883)
Profit transferred to surplus reserves (Note 23)	77,532	–	–	77,532
Balance at 31 December 2008	231,222	20,626	115,583	367,431
Revaluation – gross (Note 13)	–	–	151,910	151,910
– tax (Note 26)	–	–	(22,786)	(22,786)
Profit transferred to surplus reserves (Note 23)	51,272	–	–	51,272
Balance at 31 December 2009	282,494	20,626	244,707	547,827

22. OTHER RESERVES (CONTINUED)

(a) Surplus reserves are part of shareholders' funds which comprise statutory surplus reserve and discretionary surplus reserve.

(i) Statutory surplus reserve

In accordance with the Company Law in the PRC, the Company is required to transfer 10% of the profit after taxation (after setting off accumulated losses of previous years) as determined under the PRC accounting regulations to the statutory surplus reserve until the balance reaches 50% of the registered and paid up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Discretionary surplus reserve

In accordance with the relevant PRC financial regulations, subject to the approval by shareholders in general meetings, discretionary surplus reserve can be used to reduce any losses incurred or to increase share capital.

(b) Profit appropriations

In accordance with the Company's Articles of Association, profit after income tax shall be appropriated in the following sequence:

– Offset accumulated losses;

– Transfer 10% to statutory surplus reserve (Note a(i));

– Transfer to discretionary surplus reserve (Note a(ii)); and

– Distributed to shareholders.

Pursuant to Article 206 of the Company's Articles of Association, where the financial statements prepared in accordance with the PRC accounting standards and regulations differ from those prepared under the Hong Kong Financial Reporting Standards, for the purpose of approving the profit distribution, profit after income tax of the Company for the relevant accounting year shall be deemed to be the lesser of the amounts in the two different financial statements.

23. RETAINED EARNINGS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**1,232,098**	736,573	**1,128,547**	678,090
Profit for the year	**514,962**	820,396	**512,773**	775,328
Profit transferred to surplus reserves	**(51,272)**	(77,532)	**(51,272)**	(77,532)
Dividends relating to prior year	**(222,605)**	(247,339)	**(222,605)**	(247,339)
End of the year	**1,473,183**	1,232,098	**1,367,443**	1,128,547

24. BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Long term bank borrowings				
– secured (Note b)	**–**	172,738	**–**	172,738
– unsecured	**–**	34,894	**–**	34,894
	–	207,632	**–**	207,632
Current				
Short term bank borrowings				
– secured (Note b)	**798,899**	170,865	**798,899**	170,865
– unsecured	**666,462**	307,160	**606,889**	257,951
	1,465,361	478,025	**1,405,788**	428,816
Current portion of long term bank borrowings				
– guaranteed (Note a)	**–**	502,986	**–**	502,986
– secured (Note b)	**171,762**	390,497	**171,762**	390,497
	171,762	893,483	**171,762**	893,483
	1,637,123	1,371,508	**1,577,550**	1,322,299
Total borrowings	**1,637,123**	1,579,140	**1,577,550**	1,529,931

24. BORROWINGS (CONTINUED)

(a) As at 31 December 2009, there is no guaranteed bank borrowings. As at 31 December 2008, RMB502,986,000 bank borrowings were guaranteed by CSSC, the immediate shareholder of the Company.

(b) As at 31 December 2009, bank borrowings of RMB970,661,000 (2008:RMB734,100,000) were secured by restricted cash amounting to RMB1,070,168,000 (2008:RMB837,571,000).

The maturity of borrowings is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,637,123**	1,371,508	**1,577,550**	1,322,299
Between 1 and 2 years	**–**	207,632	**–**	207,632
	1,637,123	1,579,140	**1,577,550**	1,529,931

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
6 months or less	**1,295,713**	1,472,537	**1,236,140**	1,423,328
6 to 12 months	**341,410**	106,603	**341,410**	106,603
	1,637,123	1,579,140	**1,577,550**	1,529,931

The effective interest rates at the balance sheet date are as follows:

	2009			2008		
	EURO	**HKD**	**USD**	EURO	HKD	USD
Current bank borrowings	**1.74%**	**–**	**1.24%**	5.09%	6.05%	5.73%
Non-current bank borrowings	**–**	**–**	**–**	–	–	6.48%

24. BORROWINGS (CONTINUED)

The carrying amounts of borrowings approximate their fair value.

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**–**	52,914	**–**	52,914
USD	**1,595,557**	1,477,017	**1,577,550**	1,477,017
EURO	**41,566**	49,209	**–**	–
	1,637,123	1,579,140	**1,577,550**	1,529,931

The Group has the following undrawn borrowing facilities:

	Group	
	2009	2008
	RMB'000	RMB'000
Expiring within one year	**4,811,682**	11,878,115
Expiring beyond one year	**333,050**	1,000,000
	5,144,732	12,878,115

As at 31 December 2009, no undrawn borrowing facility (2008:RMB159,090,000) was secured by the property, plant and equipment (2008:RMB124,858,000).

25. RETIREMENT BENEFIT OBLIGATIONS

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Balance sheet obligations for:		
– Early retirement scheme (Note a)	**2,309**	3,205
– Medical insurance scheme (Note b)	**2,327**	3,791
– Housing allowance scheme (Note c)	**23,608**	–
	28,244	6,996
Less: current portion included in other payables and accruals	**(4,110)**	(2,157)
	24,134	4,839

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in Guangzhou City have participated in a number of employees benefit plans for its existing and retired employees organized by the government. The Group has no other material legal or constructive obligations for payment of employee benefits to retirees or upon retirement of existing employees beyond the schemes as described below.

(a) Early retirement scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1 January 1994. Under the scheme, the relevant group companies are required to make contributions at 18% of the preceding year's average annual salary of the Group or certain range of the preceding year's average annual salary of the Guangdong province. Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province.

In addition, certain employees of the Company have applied for early retirement and their applications were approved. Pursuant to the early retirement scheme, the retirees were entitled to similar benefits (including the Company's contribution in relation to retirement, housing and medical insurance) as that of a normal employee except that these contributions were calculated based on the monthly compensation to the retirees.

(b) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective 1 December 2001 ("Provisional Rules of Medical Insurance"), it is mandatory for the Company and its subsidiaries in Guangzhou to participate in a medical insurance scheme set up and managed by the government. Employees, including those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(b) Medical insurance scheme (continued)

The Group's annual obligations for payment of this medical insurance contribution is based on 8% of the preceding year's average annual salary of the Group or certain range of the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

Pursuant to the Provisional Rules of Medical Insurance, contributions are also required for the past services rendered by the retired and retiring employees prior to 1 December 2001. Certain of these contributions which do not fall due wholly within twelve months from the balance sheet date are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

(c) Housing allowance scheme

As required by the Provisional Rules of Housing Allowance In The Form of Monetary Subsidy issued by the Guangzhou People's Municipal Government ("Provisional Rules of Housing Allowance"), the Company and its subsidiaries in Guangzhou have participated in a housing allowance scheme set up and managed by the government during the year. The eligible employees will be entitled to the housing allowance in the form of monetary subsidy for 25 years.

Pursuant to the Provisional Rules of Housing Allowance, contributions which do not fall due wholly within twelve months from the balance sheet date are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

(d) The movements in the liabilities recognized in the balance sheet are as follows:

	Group and Company			
	Early retirement scheme RMB'000	Medical insurance RMB'000	Housing subsidy for retirees RMB'000	Total RMB'000
Balance at 1 January 2008	4,754	1,555	–	6,309
Total expense, included in employee benefit expense	–	3,791	–	3,791
Amounts paid	(1,549)	(1,555)	–	(3,104)
Balance at 31 December 2008	3,205	3,791	–	6,996
Total expense, included in employee benefit expense	48	–	24,586	24,634
Amounts paid	(944)	(1,464)	(978)	(3,386)
Balance at 31 December 2009	**2,309**	**2,327**	**23,608**	**28,244**

26. DEFERRED INCOME TAX

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 relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax liabilities:				
– To be settled after more than 12 months	**5,440**	(3,496)	**5,440**	(3,496)
– To be settled within 12 months	**(45,833)**	(45,133)	**(46,921)**	(47,282)
	(40,393)	(48,629)	**(41,481)**	(50,778)

Deferred taxation is provided on temporary differences under the liability method using taxation rate of 15% (2008: 15%).

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**(48,629)**	(190,943)	**(50,778)**	(193,752)
Recognized in income tax expense (Note 35)	**31,022**	31,780	**32,083**	32,440
Charged directly to other comprehensive income (Note 22)	**(22,786)**	110,534	**(22,786)**	110,534
End of the year	**(40,393)**	(48,629)	**(41,481)**	(50,778)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

26. DEFERRED INCOME TAX (CONTINUED)

Deferred tax assets:

Group

	Provision and Impairment of assets	Staff benefit	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	6,820	3,840	10,660
Recognized in income tax expense	(1,427)	(2,422)	(3,849)
At 31 December 2008	5,393	1,418	6,811
Recognized in income tax expense	1,965	3,754	5,719
At 31 December 2009	**7,358**	**5,172**	**12,530**

Company

	Provision and Impairment of assets	Staff benefit	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	4,011	3,840	7,851
Recognized in income tax expense	(767)	(2,422)	(3,189)
At 31 December 2008	3,244	1,418	4,662
Recognized in income tax expense	1,494	3,754	5,248
At 31 December 2009	**4,738**	**5,172**	**9,910**

26. DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities:

Group

	Fair value gains on derivative financial instruments RMB'000	Fair value gains on available-for-sale financial assets RMB'000	Unrealized exchange gain RMB'000	Total RMB'000
At 1 January 2008	(70,671)	(130,932)	–	(201,603)
Recognized in income tax expense	47,847	–	(12,218)	35,629
Charged directly to other comprehensive income (Note 22)	–	110,534	–	110,534
At 31 December 2008	(22,824)	(20,398)	(12,218)	(55,440)
Recognized in income tax expense	13,085	–	12,218	25,303
Charged directly to other comprehensive income (Note 22)	–	(22,786)	–	(22,786)
At 31 December 2009	**(9,739)**	**(43,184)**	**–**	**(52,923)**

Company

	Fair value gains on derivative financial instruments RMB'000	Fair value gains on available-for-sale financial assets RMB'000	Unrealized exchange gain RMB'000	Total RMB'000
At 1 January 2008	(70,671)	(130,932)	–	(201,603)
Recognized in income tax expense	47,847	–	(12,218)	35,629
Charged directly to other comprehensive income (Note 22)	–	110,534	–	110,534
At 31 December 2008	(22,824)	(20,398)	(12,218)	(55,440)
Recognized in income tax expense	14,617	–	12,218	26,835
Charged directly to other comprehensive income (Note 22)	–	(22,786)	–	(22,786)
At 31 December 2009	**(8,207)**	**(43,184)**	**–**	**(51,391)**

27. TRADE PAYABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due to third parties	**485,260**	655,979	**439,606**	609,228
Amounts due to related parties	**585,393**	320,599	**584,710**	320,378
	1,070,653	976,578	**1,024,316**	929,606

The carrying amounts of trade payables approximate their fair value.

At 31 December 2009 and 2008, the ageing analysis of the trade payables due to third parties are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not exceeding 1 year	**473,032**	646,998	**427,782**	602,283
More than 1 year but not exceeding 2 years	**8,450**	7,884	**8,450**	6,130
More than 2 years but not exceeding 3 years	**3,405**	759	**3,282**	478
More than 3 years	**373**	338	**92**	337
	485,260	655,979	**439,606**	609,228

At 31 December 2009 and 2008, the ageing analysis of the trade payables due to related parties are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not exceeding 1 year	**577,660**	320,070	**576,977**	319,849
More than 1 year but not exceeding 2 years	**7,697**	529	**7,697**	529
More than 2 years but not exceeding 3 years	**36**	–	**36**	–
	585,393	320,599	**584,710**	320,378

27. TRADE PAYABLES (CONTINUED)

The carrying amounts of the trade payables are denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**1,049,168**	945,616	**1,003,581**	898,890
EUR	**3,582**	–	**3,582**	–
USD	**17,657**	30,716	**17,153**	30,716
HKD	**246**	246	**–**	–
	1,070,653	976,578	**1,024,316**	929,606

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payables and accruals to third parties	**119,220**	98,990	**97,845**	78,785
Payables and accruals to related parties	**600**	5,410	**592**	3,265
Advances from third parties for construction contract	**–**	40,755	**–**	40,755
Advances from related parties for construction contract	**5,000**	3,600	**5,000**	3,600
Advances from third parties for other projects	**70,935**	76,165	**28,391**	18,430
Advances from related parties for other projects	**51,346**	98,256	**43,784**	96,332
	247,101	323,176	**175,612**	241,167

The carrying amounts of the other payables and accruals approximate their fair value.

28. OTHER PAYABLES AND ACCRUALS (CONTINUED)

The carrying amounts of the other payables and accruals are denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**202,744**	217,469	**145,562**	189,534
USD	**16,124**	71,627	**7,581**	47,711
EURO	**21,395**	28,255	**21,405**	3,882
HKD	**6,838**	5,825	**1,064**	40
	247,101	323,176	**175,612**	241,167

29. PROVISIONS FOR WARRANTY

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Beginning of the year	**87,150**	61,652
Additional provisions	**43,618**	45,520
Surplus amounts written-back	**(16,579)**	(6,842)
Used during the year	**(16,250)**	(13,180)
End of the year	**97,939**	87,150

The Group mainly provides a one-year warranty on shipbuilding and other machine products and undertakes to repair or replace items that fail to perform satisfactorily. The provision was made based on the historical data of the level of repairs and replacement.

30. OTHER GAINS/(LOSSES) – NET

	2009	2008
	RMB'000	RMB'000
Net foreign exchange transaction gains – net (Note 36)	**4,584**	6,511
Forward foreign exchange contracts not qualified for hedge accounting		
– realized gains on derivative financial instruments	**110,765**	116,666
– fair value losses on derivative financial instruments	**(88,168)**	(130,521)
Other financial assets at fair value through profit or loss:		
– realized fair value gains on listed securities	**–**	4,560
	27,181	(2,784)

31. EXPENSES BY NATURE

	2009 RMB'000	2008 RMB'000
Change in construction contracts in progress relating to cost recognition variance	**(9,675)**	(21,720)
Changes in inventories of finished goods and work in progress	**145,152**	(87,350)
Depreciation and amortization charges (Notes 6, 7, 8 and 9)	**103,166**	101,472
Impairment for investment properties (Note 7)	**15,489**	–
Provision/(reversal) of impairment for trade receivables	**3,033**	(380)
Provision/(reversal) of impairment for inventories	**4,242**	(3,703)
Raw materials and consumables used	**3,611,369**	4,064,793
Employee benefit expense, include directors' emoluments (Note 34)	**802,336**	708,659
Provisions for warranty (Note 29)	**43,618**	45,520
Surplus warranty written-back (Note 29)	**(16,579)**	(6,842)
Auditors' remuneration	**3,335**	3,674
Research and development cost	**54,038**	45,178
Subcontract cost	**1,089,201**	1,081,266
Vessel design fee	**2,185**	9,476
Vessel inspection fee	**77,769**	57,764
Commission and agent fee	**115,063**	153,553
Non-deductible value added tax ("VAT")	**30,928**	72,648
Taxes and duty	**18,003**	23,357
Other expenses	**71,914**	173,833
Total cost of sales, selling and marketing costs and administrative expenses	**6,164,587**	6,421,198

32. OTHER INCOME

	2009 RMB'000	2008 RMB'000
Dividend income from available-for-sale financial assets	**2,415**	4,113
Subsidy income for shipbuilding	**73,546**	40,902
Other Subsidy income	**3,998**	25,050
Gain on disposal of available-for-sale financial assets	**–**	7,592
Others	**887**	2,477
	80,846	80,134

33. FINANCE INCOME – NET

	2009 RMB'000	2008 RMB'000
Financial income		
Interest income from bank deposits	**166,655**	291,455
Net foreign exchange gains arising from borrowings (Note 36)	**2,685**	205,594
	169,340	497,049
Financial costs		
Interest expense for bank borrowings	**(40,959)**	(199,162)
Other incidental borrowing costs	**(10,017)**	(15,817)
	(50,976)	(214,979)
Finance income – net	**118,364**	282,070

34. EMPLOYEE BENEFIT EXPENSE

	2009 RMB'000	2008 RMB'000
Wages and salaries	**558,490**	500,629
Pension cost	**74,301**	63,662
Housing fund (Note a)	**51,111**	36,971
Medical insurance and other welfare	**66,668**	48,344
Other staff costs	**51,766**	59,053
	802,336	708,659

34. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(a) Housing fund

The Company and its subsidiaries in the PRC are obliged to make contribution to a housing fund scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit has been calculated at a rate of 12% based on the standard salaries of its employees since July 2007.

(b) Directors' and supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2009 is set out below:

Name of Director and Supervisor	Salary and bonus	Other benefits (i)	Employer's contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Director Mr. Li Zhushi	300	–	–	300
Director Mr. Yu Baoshan	80	–	–	80
Director Mr. Han Guangde	895	66	16	977
Director Mr. Chen Jingqi	822	63	17	902
Director Mr. Zhong Jian	729	61	17	807
Director Mr. Pan Zunxian	80	–	–	80
Director Mr. Miao Jian	80	–	–	80
Director Mr. Wang Xiaojun	100	–	–	100
Director Mr. Li Xinliang	100	–	–	100
Director Mr. Chen Xin (ii)	33	–	–	33
Director Mr. Peng Xiaolei	100	–	–	100
Director Mr. Fu Zhengping (iii)	67	–	–	67
Supervisor Mr. Wang Shusen	200	–	–	200
Supervisor Mr. Liang Mianhong	633	61	17	711
Supervisor Mr. Fu Xiaosi	80	–	–	80
Supervisor Mr. Ye Weiming	80	–	–	80
Supervisor Mr. Liu Shibai	600	58	17	675

34. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(b) Directors' and supervisors' emoluments (continued)

The remuneration of every Director and Supervisor for the year ended 31 December 2008 is set out below:

Name of Director and Supervisor	Salary and bonus RMB'000	Other benefits (i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Director Mr. Li Zhushi	260	–	–	260
Director Mr. Yu Baoshan	67	–	–	67
Director Mr. Han Guangde	1,246	71	15	1,332
Director Mr. Chen Jingqi	1,141	64	15	1,220
Director Mr. Zhong Jian	995	60	15	1,070
Director Mr. Pan Zunxian	53	–	–	53
Director Mr. Miao Jian	67	–	–	67
Director Mr. Wang Xiaojun	87	–	–	87
Director Mr. Li Xinliang	87	–	–	87
Director Mr. Chen Xin	67	–	–	67
Director Mr. Peng Xiaolei	67	–	–	67
Director Mr. Wu Fabo	20	–	–	20
Director Mr. Bo Miaojin	20	–	–	20
Director Mr. Li Junfeng	13	–	–	13
Supervisor Mr. Wang Shusen	165	–	–	165
Supervisor Mr. Liang Mianhong	898	61	15	974
Supervisor Mr. Fu Xiaosi	53	–	–	53
Supervisor Mr. Ye Weiming	67	–	–	67
Supervisor Mr. Liu Shibai	831	61	15	907
Supervisor Mr. Wang Shiming	13	–	–	13

(i) Other benefits include various subsidies, allowance, housing fund and other social insurance.

(ii) Resigned on 19 May 2009.

(iii) Appointed on 19 May 2009.

During 2009, no director of the Company (1) received any emolument from the Group as an inducement to join or upon joining the Group; or (2) received any compensation for loss of office as a director or management of any member of the Group; or (3) waived or agreed to waive any emoluments. (2008: nil)

34. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 (2008:2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2008:3) individuals during the year are as follows:

	2009 **RMB'000**	2008 RMB'000
Salary and bonus	**2,207**	3,062
Other benefits	**220**	184
Employer's contribution to pension scheme	**50**	45
	2,477	3,291

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands		
RMBnil – RMB880,000 (equal to HK$nil – HK$1,000,000)	**3**	–
RMB880,001 – RMB1,320,000 (equal to HK$1,000,001 – HK$1,500,000)	**–**	3

35. INCOME TAX EXPENSE

Taxation on the PRC profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

	2009 **RMB'000**	2008 RMB'000
Current income tax – the PRC enterprise income tax	**123,894**	112,893
Deferred income tax (Note 26)	**(31,022)**	(31,780)
	92,872	81,113

35. INCOME TAX EXPENSE (CONTINUED)

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

	2009	2008
	RMB'000	RMB'000
Profit before income tax	**613,688**	921,286
Tax calculated at domestic tax rates applicable to profits in the respective areas	**95,673**	139,769
Tax effect of:		
– Income not subject to tax	**(2,539)**	(1,912)
– Expenses not deductible for tax purposes	**881**	527
– Tax losses for which no deferred income tax assets was recognized	**1,803**	146
– Tax refund in a subsidiary	**–**	(10,238)
– Effect of deferred tax – being entitled to preferential tax rate arising from qualification as New/High Tech Enterprise	**–**	(47,179)
– Others	**(2,946)**	–
Income tax expense	**92,872**	81,113

Since 1993, being the first batch of mainland entities listed on the Hong Kong stock exchange, nine entities including the Company have been granted by the Ministry of Finance and the State Administration of Taxation to be taxed at the preferential income tax rate of 15%. Accordingly, the Company was subject to income tax at the rate of 15% up to year 2006. On 19 June 2007, the State Administration of Taxation ordered local tax authorities to terminate the above preferential income tax rate arrangement with immediate effect. In accordance with the advice of the in-charge tax authority, the Company's income tax rate for year 2007 was 33%. Management of the Company has assessed the implication of prior year income tax and considers that there should not be material financial impact arising from this tax matter to the Company.

Effective 1 January 2008, the Company and the subsidiaries established in the PRC have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of PRC (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable to the Company and the subsidiaries is 25% from 1 January 2008.

Pursuant to an approval granted by the local tax authorities, the Company is qualified as Guangdong New/High Tech Enterprise ("NHTE"), and is entitled to the 15% preferential income tax rate from 2008 to 2010.

The weighted average applicable tax rate was 15.6% (2008: 15.2%).

36. NET FOREIGN EXCHANGE GAINS

The exchange differences recognized in the consolidated statement of comprehensive income are included as follows:

	2009	2008
	RMB'000	RMB'000
Other gains/(losses)-net (Note 30)	**4,584**	6,511
Finance income (Note 33)	**2,685**	205,594
	7,269	212,105

37. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB512,771,000 (2008:RMB775,328,000).

38. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB514,962,000 (2008:RMB820,396,000) and the weighted average number of 494,677,580 (2008:494,677,580) ordinary shares in issue during the year.

39. DIVIDENDS

A dividend in respect of the year ended 31 December 2009 of RMB0.28 per share, amounting to RMB138,510,000 is to be proposed at the Annual General Meeting of 2010. These financial statements do not reflect this dividend as payable.

	Group and Company	
	2009	2008
	RMB'000	RMB'000
Proposed final dividend of RMB0.28 (2008:RMB0.45) per ordinary share	**138,510**	222,605

40. CASH GENERATED FROM OPERATIONS

	2009 RMB'000	2008 RMB'000
Profit for the year	**520,816**	840,173
Adjustments for:		
– Income taxation expense (Note 35)	**92,872**	81,113
– Depreciation and amortization (Note 31)	**103,166**	101,472
– Impairment of investment properties (Note 31)	**15,489**	–
– Loss on sales of property, plant and equipment, investment properties, land use rights and leasehold land (Note a)	**7,589**	6,392
– Reversal of provision for amount due from non-bank institution	**–**	(388)
– Fair value losses on derivative financial instruments (Note 30)	**88,168**	130,521
– Interest income from bank deposits (Note 33)	**(166,655)**	(291,455)
– Dividend income from available-for-sale financial assets (Note 32)	**(2,415)**	(4,113)
– Interest expense (Note 33)	**40,959**	199,162
– Gain on disposal of available-for-sale financial assets (Note 32)	**–**	(7,592)
– Share of profits of associates (Note 11)	**(7,069)**	(3,811)
– Exchange gains on borrowings (Note 33)	**(2,685)**	(205,594)
– Exchange losses on cash and cash equivalent	**1,464**	5,349
Changes in working capital:		
– Inventories	**89,908**	(107,260)
– Construction contracts in progress	**(1,238,950)**	(646,579)
– Trade and other receivables, restricted cash, and term deposits with initial term of over three months	**833,221**	(280,394)
– Trade and other payables and accruals, provision for warranties and legal claims and current income tax liability	**16,543**	254,729
Cash generated from operations	**392,421**	71,725

(a) In the cash flow statement, proceeds from sales of property, plant and equipment, investment properties and land use rights and leasehold land comprise:

	2009 RMB'000	2008 RMB'000
Net book amount	**22,743**	9,655
Loss on sale of property, plant and equipment, investment properties and land use rights and leasehold land	**(7,589)**	(6,392)
Proceeds from sale of property, plant and equipment, investment properties and land use right and leasehold land	**15,154**	3,263

41. CAPITAL COMMITMENTS

Capital expenditure of the Group and Company at the balance sheet date but not yet incurred are as follows:

	2009 RMB'000	2008 RMB'000
Contracted but not provided for	**7,309**	102,381
Authorized but not contracted for	**119,213**	31,944
Total commitments of property, plant and equipment	**126,522**	134,325

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS

CSSC, the immediate shareholder of the Company which owns 35.71% (2008:35.71%) of the Company's shares, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CSSC group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither CSSC nor the PRC government publishes financial statements available for public use.

The following significant transactions were carried out with related parties:

(i) Sales of goods and services

	2009 RMB'000	2008 RMB'000
Sales of goods		
– to companies controlled by CSSC (Note a)	**119,116**	165,416
– to other state-controlled enterprises (Note a)	**1,061,149**	1,103,503
	1,180,265	1,268,919
Sales of services		
– to companies controlled by CSSC (Note b)	**127,088**	83,367

Note:

(a) Goods were sold at market price.

(b) Income from provision of service represents provision of vessel-related processing services and other services. Services were provided either on the basis of the price in force with non-related parties or on a cost-plus basis, allowing a margin of around 25%.

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Purchases of goods and services

	2009 RMB'000	2008 RMB'000
Purchases of goods:		
– from companies controlled by CSSC (Note a)	**475,940**	441,960
– from other state-controlled enterprises (Note a)	**1,182,239**	1,488,776
	1,658,179	1,930,736
Purchase of services:		
– from companies controlled by CSSC (Note b)	**68,408**	53,049
– from other state-controlled enterprises (Note a)	**46,800**	33,967
	115,208	87,016

Note:

(a) Goods and services were purchased at market price.

(b) Services were purchased on a cost-plus basis, allowing a margin of around 10%.

(iii) Payment of expenses and other charges

	2009 RMB'000	2008 RMB'000
Vessel sales commissions payable:		
– to companies controlled by CSSC (Note a)	**33,698**	51,024
– to other state-controlled enterprises (Note b)	**5,259**	10,401
Other expenses payable:		
– to companies controlled by CSSC (Note c)	**16,854**	21,452
Interest expense payable:		
– to state-controlled banks (Note d)	**21,939**	160,237
	77,750	243,114

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(vii) Year-end balances (continued)

Note:

(a) Vessel sales commission payable was computed based on 1% of the contract price of relevant vessels.

(b) Vessel sales commission payable to other state-controlled enterprises was computed based on 1% ~ 3% of the contract price of relevant vessels.

(c) Pursuant to the comprehensive service agreement dated 28 October 2008 entered into between the Company and Guangzhou Shipyard ("GZS"), a subsidiary of CSSC, the Group incurred service fees amounting to RMB8,181,000 (2008: RMB7,823,000) for the provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS.

(d) Interest were charged at market price.

(iv) Sales of property, plant and equipment

	2009	2008
	RMB'000	RMB'000
Sales of property to company controlled by CSSC	**8,509**	–

(v) Interest income and other income

	2009	2008
	RMB'000	RMB'000
Interest income from cash and bank balances		
– from state-controlled banks (Note a)	**128,218**	227,774
Realized income from forward foreign exchange contracts		
– from state-controlled banks (Note a)	**105,492**	97,668
	233,710	325,442

(a) Interest income and other income were calculated at market price.

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(vi) Key management compensation

	2009 RMB'000	2008 RMB'000
Emolument, salaries and other short-term employee benefits	**8,556**	11,765
Post-employment benefits	**155**	150
	8,711	11,915

(vii) Year-end balances

	2009 RMB'000	2008 RMB'000
Receivables from related parties (Note 17 & Note 18):		
– CSSC and companies controlled by CSSC	**121,724**	222,520
– other state-controlled enterprises	**283,883**	378,905
	405,607	601,425
Payables to related parties (Note 27 & Note 28):		
– CSSC and companies controlled by CSSC	**197,428**	175,867
– other state-controlled enterprises	**444,911**	251,998
	642,339	427,865

The receivables from related parties were unsecured in nature and non interest bearing. The payables to related parties were non interest bearing.

	2009 RMB'000	2008 RMB'000
Other financial instruments		
Financial derivatives – forward foreign exchange contracts		
– with state-controlled banks	**54,870**	142,675
Cash and bank balances		
– with financial institution controlled by CSSC	**54,614**	18,674
– with state-controlled banks	**4,055,230**	4,705,444
Borrowings		
– with state-controlled banks	**932,762**	928,098

DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements with signatures and stamps of legal representative, chief accountant and accounting department heads.

2. The original auditors' reports with the stamps of Certified Public Accountants Firms and signatures of the certified public accountants.

3. The originals of announcements published in "Shanghai Securities News", the website of Shanghai Stock Exchange (www.sse.com.cn), the Stock Exchange of Hong Kong Limited (www.hkexnews.hk), and the Company (www.chinagsi.com) during the period under review and related company documents.