



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 2010



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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 non-executive director Mr. Pan Zunxian, independent non-executive directors Messrs. Fu Zhengping and Wang Xiaojun acting as proxies of non-executive director Mr. Yu Baoshan, independent non-executive directors Messrs. Lee Sun-leung, Sunny and Peng Xiaolei respectively, attended the twenty-sixth meeting of the sixth term of the Board of Directors held on March 29, 2011, 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, Manager 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 reviewed and confirmed the annual financial reports for the year 2010 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, the Chinese version shall prevail for the rest of this annual report.

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

OVERVIEW OF THE COMPANY

I. BRIEF INTRODUCTION

Guangzhou Shipyard International Company Limited (the “Company”), founded in 1993, is an important shipbuilding enterprise in South China parented by China State Shipbuilding Corporation (“CSSC”). It is one of the top 50 manufacturing enterprises in Guangdong Province and top 500 manufacturing enterprises and the major player 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 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 has gained ISO9001:2008, and GJB9001A-2001 standard certificate, Occupational Health & Safety Management System Certificate (OHSAS 18001:2007) and Environmental Management System Certificate (ISO14001:2004) 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.

The Company is based on the core business of shipbuilding, and focuses on building and designing small & middle size vessels with the dead weight tonnages between 30,000dwt to 60,000dwt, 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.

As becoming the No. 1 enterprise in China and No. 3 enterprise in the world in designing and building handy-size tankers, GSI adjusted the development strategy, and engages in the goal of “to be a famous enterprise with advanced technology and excellent service in the segment of small & middle size vessels and an important base of building special vessels in South China”, and wish to form four main operations of shipbuilding; heavy machinery, service industry and oceanographic engineering.

OVERVIEW OF THE COMPANY

II. GENERAL INFORMATION

Registered Chinese Name of the Company:
Abbreviation of Chinese Name of the Company:
Registered English Name of the Company:
Abbreviation of English Name of the Company:

广州广船国际股份有限公司
广船国际
Guangzhou Shipyard International Company Limited
GSI

Legal Representative of the Company:

Mr. Li Zhushi

Company Secretary:

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

The Company's Registered Address and Office:

40 South Fangcun Main Road, Liwan District, Guangzhou, P.R.C.

Postal code: 510382

The Company's Principal Place of Business in Hong Kong:

Tricor Services Limited 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:

Office to the Board

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

OVERVIEW OF THE COMPANY

Registration Date and Address

First Registration Date and Address:

Business Registration Number:

Taxation Registration Number:

Organization Number:

June 7, 1993; Guangzhou

19049939-0

440107190499390

19049939-0

First Amended

Registration Date and Address:

Business Registration Number:

October 21, 1994; Guangzhou

QI GU YUE SUI ZONG ZI DI 000264

Second Amended

Registration Date and Address:

Business Registration Number:

December 7, 2009; Guangzhou

440101400025144

Domestic Auditors:

Ascenda Certified Public Accountants, Limited (Beijing)

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 Huanshi 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 & 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, Wanchai, Hong Kong

Bank of ADR

The Bank of New York Mellon

SUMMARY OF ACCOUNTING AND BUSINESS DATA

Except as otherwise noted, the accounting and business data involved in this chapter relate to the Company and its subsidiaries (hereinafter collectively called 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	603,873,057.88
Total profit	835,247,436.63
Net profit attributable to shareholders	707,736,792.53
Net profit attributable to shareholders after deduction of exceptional items	611,713,234.82
Net cash flow from operating activities	1,038,885,458.78

(II). Prepared in accordance with HKFRS

Unit: RMB'000

Item	Amount
Profit before tax	835,248
Profit attributable to shareholders	707,737

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

(I). Prepared under PRC Accounting Standards and Regulations

Unit: RMB

Item	2010	2009	Change (%)	2008
Operating income	7,014,224,669.01	6,553,424,803.99	7.03	6,984,087,521.27
Total profit	835,247,436.63	613,687,828.53	36.10	921,285,578.25
Net profit attributable to shareholders	707,736,792.53	514,961,903.36	37.43	820,395,655.17
Net profit attributable to shareholders after deduction of exceptional items	611,713,234.82	499,297,991.27	22.51	803,295,845.89
Basic earnings per share	1.43	1.04	37.43	1.66
Diluted earnings per share	-	-	-	-
Basic earnings per share after deduction of exceptional items	1.24	1.01	22.51	1.62
Weighted average returns on net assets (%)	20.73	17.42	3.31	31.58
Weighted average returns on net assets after deduction of exceptional items (%)	17.91	16.89	1.02	30.92
Net cash flow from operating activities	1,038,885,458.78	-464,920,580.03	-323.45	-195,267,322.66
Net cash flow from operating activities per share	2.10	-0.94	-323.45	-0.39
Total assets	12,157,451,995.38	9,805,223,077.98	23.99	10,258,230,707.13
Total liabilities	8,403,525,396.25	6,548,243,353.48	28.33	7,415,365,491.69
Shareholders' equity (excluding minority interests)	3,663,019,478.60	3,168,840,358.56	15.59	2,747,359,653.70
Net assets per share attributable to shareholders of the Company	7.40	6.41	15.59	5.55

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(II). Prepared in accordance with HKFRS

Unit: RMB'000

Item	2010	2009	2008	2007	2006
Revenue	7,014,225	6,553,425	6,984,088	5,906,793	3,322,299
Operating profit	667,744	488,255	635,405	1,158,930	288,260
Profit before taxation	835,248	613,688	921,286	1,340,964	310,978
Profit attributable to shareholders	707,737	514,962	820,396	938,560	266,635
Total assets	12,148,708	9,804,407	10,251,665	11,029,129	7,672,237
Total liabilities	8,394,781	6,547,427	7,408,800	8,501,772	6,349,186
Total shareholders' equity (excluding non-controlling interests)	3,663,020	3,168,841	2,747,360	2,451,509	1,261,647
Earnings per share (RMB)					
(Number of shares in issue at the end of the year)	1.4307	1.0410	1.6584	1.8973	0.5390
Earnings per share (RMB)					
(Weighted average number of shares in issue)	1.4307	1.0410	1.6584	1.8973	0.5390
Net assets per share (RMB)					
(Number of shares in issue at the end of the year)	7.40	6.41	5.55	4.96	2.55
Return on net assets (%)					
(Shareholders' equity at the end of the year)	19.32	16.25	29.86	38.28	21.13
Return on net assets (%)	20.72	17.41	31.56	50.55	24.87
(Average of shareholders' equity at the beginning and the end of year)					
Ratio of shareholders' equity (%)					
(Shareholders' equity/Total assets x 100%)	30.15	32.32	26.80	22.23	16.44
Current ratio (Current assets/ Current liabilities)	1.24	1.25	1.20	1.13	1.19
Gearing ratio (%)	69.10	66.78	72.27	77.08	82.76

Notes:

Methods for calculating earnings 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:

(1) 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 x 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 expenses)/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

SUMMARY OF ACCOUNTING AND BUSINESS DATA

- (2) Based on weighted average balances:

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

Return on net assets = $P / (E_o + NP \div 2 + E_i \times M_i \div M_o - E_j \times M_j \div M_o \pm E_k \times M_k \div M_o)$

P: the net profit attributable to shareholders, and that after deduction of exceptional items

NP: the net profit attributable to shareholders

E_o: the operation balance of net assets attributable to shareholders

E_i: the increase of net assets attributable to shareholders arising from new shares issuing or debt transferring to share during the period under review

E_j: the decrease of net assets attributable to shareholders arising from purchasing back share or dividend in cash during the period under review

M_o: the reporting months

M_i: the months that from the next month which the net assets increased to the end of the period under review

M_j: the months that from the next month which the net assets decreased to the end of the period under review

E_k: the change of net assets arising from other business or affairs

M_k: 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

- (3) 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 BETWEEN 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 in accordance with the PRC Accounting Standards and Regulations and the HKFRS.

SUMMARY OF ACCOUNTING AND BUSINESS DATA

IV. THE NATURE AND AMOUNT OF EXCEPTIONAL ITEMS

Unit: RMB

Item	Amount	Notes
Profits or losses from disposal of non-current assets, including write-offs of asset impairment provisions	-1,411,349.43	Mainly resulted from disposal of fixed assets and write-off the provision of impairment.
Government subsidies recognized in the current profits and losses	86,244,367.90	Mainly resulted from local government subsidy and subsidy from research and development
Gains/Losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's main operation	30,754,086.76	Resulted from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets and trading financial liabilities
Reverse of the provision for receivable impairment which was tested individually	521,900.00	Resulted from collection of receivables which was accrued with provision
Apart from above items, other non-operating profits and losses	-2,755,915.78	
Subtotals (effect on income before tax)	113,353,089.45	
Less: influence on income tax	17,002,963.42	
Total influence on net profits	96,350,126.03	
Including: attributable to minority interests	326,568.32	
Influence attributable to common shareholders of parent company	96,023,557.71	
Net profits attributable to common shareholders of parent company after deducting unusual items	611,713,234.82	

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	63,993,056.22	21,227,664.57	-42,765,391.65	-42,732,189.17
2. Available-for-sale financial assets	337,360,250.00	266,791,996.50	-70,568,253.50	-

SUMMARY OF ACCOUNTING AND BUSINESS DATA

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

Principal operation	Year ended December 31, 2010			Year ended December 31, 2009		
	Turnover (note 1)		Gross profit (loss) before taxation	Turnover (note 1)		Gross profit (loss) before taxation
	Amount	Percentage (%)		Amount	Percentage (%)	
Shipbuilding	6,402,822	92.69	845,248	5,718,471	88.54	729,667
Steel structure	152,651	2.21	12,849	464,784	7.20	289
Mechanical and electrical products and others	352,150	5.10	74,355	275,568	4.27	55,211
Subtotal	6,907,623	100.00	932,452	6,458,823	100.00	785,167
Other operating profit			4,856			10,443
Operating expenses (note 2)			326,472			228,911
Business tax and surcharge			30,710			31,877
Impairment loss			16,937			23,037
Gain change from fair value			-42,732			-88,168
Investment income			83,417			120,330
Net non-operating income			239,117			84,703
Net non-operating expenditure			7,743			14,963
Total profit (under PRC Accounting Standards and Regulations)			835,248			613,688
Profit before taxation (under HKFRS)			835,248			613,688

Notes:

1. The definition of turnover, which represents the income from principal operations prepared in accordance with PRC Accounting Standards and Regulations is set out in note II 19 on page 70.
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.

SHARE CAPITAL AND SHAREHOLDERS

I. SHARE CAPITAL

Except that the company was approved to issue 157,398,000 new H shares and 126,479,500 new A shares on August 3, 1993 and September 22, 1993 respectively and 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.

There are no shares of the Company are subject to any sale restrictions and any legal person shareholders holding 10% shares of the Company or above, and the number of the shares held by CSSC had not changed during the period under review.

Information on Share Capital

Unit: share

Category	Amount	Percentage (%)
1. PRC listed domestic shares	337,279,580	68.18
Including: state-owned shares	176,650,615	35.71
2. Overseas listed foreign shares	157,398,000	31.82
Total	494,677,580	100.00

II. SHAREHOLDERS

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

Unit: share

Total Number of Shareholders As at December 31, 2010, there were 69,497 shareholders in total, including 69,130 shareholders of listed A-Shares and 367 shareholders of listed H-Shares.

Top Ten Shareholders' Information

Name	Changes in 2010	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	-3,970,640	147,533,749	29.82	Unknown	Foreign legal entity Shares	H Shares
Da Rosa Jose Augusto Maria	3,000,000	3,000,000	0.61	Unknown	Foreign natural person Shares	H Shares
Chan Kwok Tai Eddie	-	2,250,000	0.45	Unknown	Foreign natural person Shares	H Shares
Harvest Services Value-added Industry Securities Investment Funds	2,043,063	2,043,063	0.41	Unknown	Other	A Shares
Fortune SG Advanced Growth Fund	1,200,000	1,200,000	0.24	Unknown	Other	A Shares
E Fund Value Growth Mixed Securities Investment Fund	1,199,714	1,199,714	0.24	Unknown	Other	A Shares
Northeast Securities Co., Ltd.	1,000,000	1,000,000	0.20	Unknown	Other	A Shares
Sun Xuexin	1,000,000	1,000,000	0.20	Unknown	Natural person Shares	A Shares
China AMC CSI300 Index Fund	872,001	872,001	0.18	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".

SHARE CAPITAL AND SHAREHOLDERS

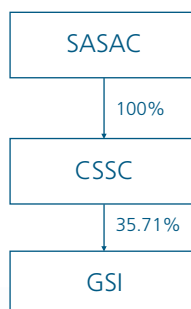
(II). Information of the controlling shareholder and actual controller

CSSC is the controlling shareholder of the State-owned shares, which accounted for 35.71% of the shares of the Company. CSSC was founded on July 1, 1999 through reorganizing China State Shipbuilding Company, and the registered capital of which was RMB6,374,300,000. Mr. Tan Zuojun is the legal representative of CSSC. The business of CSSC includes: shipbuilding, ship-repairing, manufacturing, export/import of marine equipment and some other diversified business such as steel structure manufacturing and international cooperation, joint venture, financing, technology trading and exchange workforce exportation etc. None of the Company's share held by CSSC was pledged during the period under review.

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:



III. OTHER INFORMATION

(I). Pre-emptive rights

As there is no provision for pre-emptive 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 has 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 has 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 prior to the issue 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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I). Basic information

Name	Position	Gender	Age	Commencement date of current tenure	Total remuneration received from the Company in 2010 (RMB)	Whether received any remuneration from shareholders of the Company (yes/no)
Li Zhushi	Chairman	Male	66	2008-05-13	300,000.00	Yes
Han Guangde	Vice chairman & president	Male	49	2008-05-13	1,402,926.00	No
Chen Jingqi	Executive director	Male	58	2008-05-13	1,222,325.00	No
Zhong Jian	Executive director	Male	48	2008-05-13	1,088,283.00	No
Yu Baoshan	Non-executive director	Male	50	2008-05-13	80,000.00	Yes
Pan Zunxian	Non-executive director	Male	57	2008-05-13	80,000.00	Yes
Cui Ming	Non-executive director	Male	31	2010-05-25	53,333.00	Yes
Wang Xiaojun	Independent non-executive director	Male	56	2008-05-13	100,000.00	No
Lee Sun-leung, Sunny	Independent non-executive director	Male	40	2008-05-13	100,000.00	No
Peng Xiaolei	Independent non-executive director	Male	59	2008-05-13	100,000.00	No
Fu Zhengping	Independent non-executive director	Male	46	2009-05-19	100,000.00	No
Wang Shusen	Chairman of the Supervisory Committee	Male	70	2008-05-13	200,000.00	Yes
Liang Mianhong	Staff supervisor	Male	57	2008-05-13	973,476.00	No
Liu Shibai	Staff supervisor	Male	59	2008-05-13	867,082.00	No
Ye Weiming	External supervisor	Male	48	2008-05-13	80,000.00	No
Fu Xiaosi	External supervisor	Male	50	2008-05-13	80,000.00	No
Chen Ji	Vice president	Male	44	2008-05-13	1,097,191.00	No
Yang Li	Vice president	Male	43	2008-05-13	1,162,083.00	No
Zhou Dusheng	Vice president	Male	55	2008-05-13	1,101,583.00	No
Chen Liping	Chief accountant	Male	44	2009-10-27	1,121,335.00	No
Li Zhidong	Company secretary	Male	45	2008-05-13	983,283.00	No
Total	-	-	-	-	12,292,900.00	-

The directors, supervisors and senior management of the Company disclosed above will hold office until the next turn of the Board of Directors and Supervisory Committee are elected (the date of 2010 annual general meeting).

Except the director Mr. Chen Jingqi held 2,540 A shares at the beginning of the year 2010, other directors, supervisors and senior management of the Company do not hold any shares, and such shareholding has not changed 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 35(c), Directors and Supervisors' emoluments stated in Notes to the Consolidated Financial Statements.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(II). General information of directors, supervisors and senior management

Directors

Mr. Li Zhushi, aged 66, 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 includes 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, aged 49, 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, aged 58, 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, aged 48, 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 and 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, aged 50, 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, aged 57, senior economist, presently deputy director of the business & marketing department and vice president of Material Purchasing Department of CSSC. He joined 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. Cui Ming, aged 31, accountant and received his Master degree in Financial Management from Central University of Finance and Economics in 2003 and joined Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. in June of the same year. He has served in the finance department of China State Shipbuilding Corporation since February 2004, and presently is a deputy manager in the first section of the finance department of China State Shipbuilding Corporation.

Mr. Wang Xiaojun, aged 56, 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 one of the copartner of Jun He Law Office. Mr. Wang joined the Company in 2005.

Mr. Lee Sun-leung, Sunny, aged 40, member of ACCA of the UK, and qualifying as Chartered Financial Analyst of the US. He graduated from the Chinese University of Hong Kong in 1993 and has worked for NWS Infrastructure Management Limited in Hong Kong since 2003. Mr. Lee joined the Company in 2006.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Peng Xiaolei, aged 59, senior accountant (Professional Level) and has obtained a master degree. 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, aged 46. He obtained economic master degree from International Economic Institute Nankai University in 1991, and joined Management College of Sun Yat-sen University in July of the same year, and majored in teaching and researching of multinational business and enterprise stratagem management. He obtained economic doctor degree from Beijing Normal University in 2002, and presently is an associate dean, professor and PhD candidates' supervisor of Management College of Sun Yet-sen University. Mr. Fu joined the Company in 2009.

Supervisors

Mr. Wang Shusen, aged 70, 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, and deputy general manager and chief accountant of the CSSC. Presently, he is vice board chairman of CSSC Financial Co., and chairman of the Supervisory Committee of the Company. Mr. Wang joined the Company in 2004.

Mr. Liang Mianhong, aged 57, 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, and 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 the Party Committee.

Mr. Liu Shibai, aged 59, 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, aged 48, 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 and became one of the partners of Guangdong Sanzheng Law Office in September 1994. He was transferred to Economy System Reform Committee of Guangdong Province in 1999. In July 2001, he established Guangdong Xinyang Law Office and presently is the director and senior partner of the office. He joined the Company in 2004.

Mr. Fu Xiaosi, aged 50, Bachelor degree of machinery manufacturing and accounting, senior accountant, registered accountant, excellent CFO of Hubei Province, presently is the supervisor of the Company, the chief accountant of Hubei Tri-ring Group Company, the independent director of Guangdong Chigo Air Conditioning Company Limited, the vice president of General Accountants Association of Hubei Province. Mr. Fu graduated from Huazhong University of Science and Technology in 1986. He had ever experienced as deputy manager accountant and senior partner of Zhongqing Wanxing Public Accountants Limited, chief accountant and executive director of Hubei Tri-ring Company Limited. Mr. Fu joined the Company since 2008.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Senior Management

Mr. Chen Ji, aged 44, 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, aged 43, 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, aged 55, 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.

Mr. Chen Liping, aged 44, 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, aged 45, 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.

(III). 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	No
	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
Cui Ming	CSSC Chengxi Shipbuilding and Repairing Co., Ltd.	Board Director	Since 2006	No
	CSSC	Deputy manager of the finance department	Since Feb. 2004	Yes
Wang Shusen	CSSC Financial Co.	Vice Board Chairman	Since Mar. 2004	No
	China CSSC Holdings Limited	Chairman of the Supervisory Committee	Since Jul. 2007	No

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(IV). Positions in other companies

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Wang Xiaojun	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 Zhongshan 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 Company Limited	Director, Chief Accountant	From Sep. 2006 to Oct. 2010	Yes
	Tri-ring Group Corporation	Chief Accountant	Since Oct. 2010	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.

(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 executive directors, internal supervisors and 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 more than 120% of that in the previous year.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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 Information on Payment of Remuneration of Directors, Supervisors and Senior Management

The basic remuneration of executive directors, internal supervisors and senior management is paid monthly, and the performance remuneration is paid after approval by the Board of the Directors last month of one tenure year, normally in April. And the special award is paid after approval by the Board of the Directors. Moreover, the remuneration of the external directors and external supervisors is paid in last month of one tenure year.

(IV). 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" above-mentioned, and in note 35(d), (Five highest paid individuals) of the Notes to the Consolidated Financial Statements.

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

Name	Position	Status	Reasons
Miao Jian	Non-executive Director	resignation	Job relocation
Cui Ming	Non-executive Director	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, 2010 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 and as at the end of 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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

V. STAFF OF THE COMPANY

(I) The number of employees and their emoluments

The number of the registered employees	3,397
the number of retired employees whose expenses undertaken by the Company	3,263

Professional Structure	
Professional Class	Number
Manufacturing staff	1,299
Marketing staff	29
Technical staff	1,557
Financial staff	49
Administrative staff	369

Educational Structure	
Educational Class	Number
Vocational Education	138
College Education	527
Bachelor Education	1,024
Graduate Education	61

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 2010 was RMB78,536,865.37 (2009: RMB63,238,187.55). In addition, during the year the Company had made payments of RMB1,797,673.10 (2009: RMB1,617,738) 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 he/she was entitled to at the time of retirement, for a period of 25 years.

By the approval of the twenty-fourth meeting of the sixth term of the Board, the Company made a provision in the amount of approximately RMB32,676,268 for the employees as housing cash subsidies without house and/or housing balance cash subsidies without meeting with the requirements of standard.

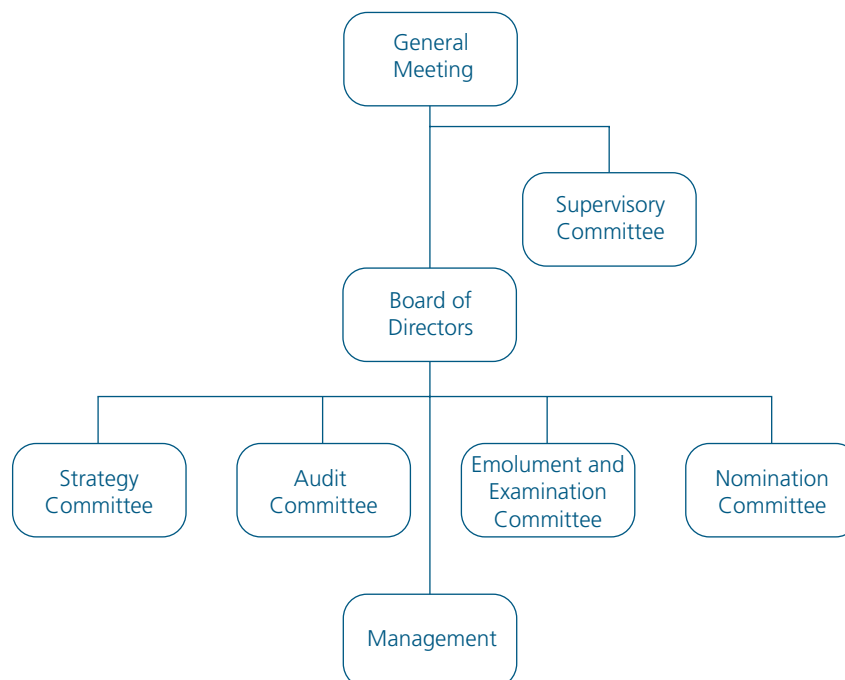
(IV). Basic medical insurance

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 RMB34.99 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, 2010, the Company had paid into the enterprise annuity for the registered employees amounting to approximately RMB50.1873 million in total.

I. 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 related 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. 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.

During the year 2010, 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.

Business independence	The Company operates independently, owns independent and integrated business structure, and has no competition with the controlling shareholder or its subsidiaries.
Personnel independence	The Company established integral 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 producing, purchasing and selling.
Institutional independence	The Company owns perfect organization system, the Board of Directors and Supervisory Committee and other internal organization operate independently without any control or influence from other parties.
Financial independence	The Company has separate financial department, entire independent accounting and financial management system as well as separate bank accounts.

2. *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 with individual shareholders. All shareholders holding shares of the Company are entitled to attend the annual general meeting.

The Company issues the notice and shareholders' circular at least 45 days and 20 business days before a general meeting respectively, which contains 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 meeting.

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

For details of general meetings held in 2010 refer to "Brief Introduction to the General Meeting" in this Annual Report.

(II). **Directors and Board of 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 legal 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 Messrs. Li Zhushi and Han Guangde, whose responsibilities are clearly defined and separated which 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 day-to-day operation management activities.

2. *Functional committees of the Board*

The Board has set up four functional 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 committee's work. For the attendance of directors at meetings of the functional committee of the Board please refer to "Attendance at meetings of the Board and its functional committee" in this chapter.

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. Cui Ming. All of them have expertise and experience in financial management, and none of them is a former partner of the external auditors.

The Company formulated 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 or changing annual auditors.

During 2010, 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 2010, 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 system;
- Providing opinions or reminding the management of related risks in respect of the operation of derivative financial products and significant matters of the Company.

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.

Nomination Committee

The Nomination Committee is principally responsible for selecting the candidates for the directors and the president and 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. Forwards, 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 consider the candidates, or the Board will make a recommendation to the general meeting to elect 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 one meeting in the year 2010 to discuss the nomination of the persons for non-executive director candidate and put forward proposals to the Board of Directors.

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.

CORPORATE GOVERNANCE

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 2010, the Emolument and Examination Committee held two meetings to discuss and determine the performance reward and special reward schemes for executive directors, internal supervisors and senior management for the year 2009.

3. Board meetings

In 2010, the Company held eight Board meetings, which including four regular meetings and four extraordinary meetings, to discuss the Group's investment projects and the operation 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 functional committee (attendance in person/number of meetings):

Name	Board meetings	Audit Committee	Emolument and Examination Committee	Strategy Committee	Nomination Committee
Directors					
Li Zhushi (<i>Chairman</i>)	8/8	–	–	–	–
Han Guangde (<i>President</i>)	8/8	–	–	–	–
Chen Jingqi	8/8	–	–	–	–
Zhong Jian	8/8	–	–	–	1/1
Yu Baoshan	7/8	–	2/2	–	–
Pan Zunxian	8/8	–	–	–	–
Miao Jian	2/3	1/2	–	–	–
Cui Ming	4/5	2/2	–	–	–
Independent Directors					
Wang Xiaojun	6/8	–	–	–	1/1
Lee Sun-leung, Sunny	8/8	4/4	–	–	–
Peng Xiaolei	7/8	3/4	2/2	–	–
Fu Zhengping	8/8	–	2/2	–	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 2009 Annual General Meeting held on May 25, 2010 approved the resignation of Mr. Miao Jian as non-executive director and the election of Mr. Cui Ming as 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 Board committee 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 production and business situation to the Board monthly, and reports the progress of significant events and present operation situation on regular meetings. The directors, as well as the functional committee 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.

4. 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 expired. 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 is no relationship among Board members, including financial, operational, family or other relevant material relations. The individual resume and service term are set out in "Information of 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, supervisors and senior management. During the period under review, the Company revised "the Regulations in Relation to Shareholding and Changes in Shareholding in 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" as set out in appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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.

5. Independent Directors

The independent non-executive directors of the Company are familiar with the rights and obligations as directors and 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 functional committee 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 formulated "Annual Report Work Regulation of Independent Directors". 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 during the year.

6. Directors' Responsibilities in respect of the Financial Reports

The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year end December 31, 2010.

The Directors also confirm that there are no major unexpected events or conditions that would have a significant impact on the continuity of the Company's operations.

(III). 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 two external supervisors, one supervisor representing controlling shareholder 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 size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held four meetings during 2010; 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 "Report of the Supervisory Committee" in this Annual Report.

2. Internal Control System

The Board of Directors is responsible for establishing and maintaining the company's internal control system, is assisted by Audit Committee to evaluate the performed effect of financial reporting procedure, internal control and risk management system, review internal control procedure in relation to finance, operation and supervision, and make sure that the equity of the shareholders and the Group is safe. According to Internal Control Framework of the Company, the Company shall review its internal control once a year and submit the same to the 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 order to conduct management and avoid the running risk, the Company has formed comparatively complete internal control system according its features and management requirements. This control system runs through the whole management structure and business activities within different department, and ensures each working activity has rules to follow.

The performance of internal control 2010

During the year 2010, the Company had reviewed its internal control system according to Internal Control Framework of the Company, the problems found in the internal control reviewed of 2009, and the key issues for the internal control review of 2010, which include promoting the development of the new strategy, improvement of the management systems, launching analysis the shipbuilding efficiency, enhancing and optimizing the style of employment, improving the legal-risk management, implementation of the safe production, quality control of shipbuilding and shipbuilding technical management system and so on.

From the result of the internal control in 2010, the Company's operation is complied with the laws and regulations, and each department has established a comparatively complete management system and implemented efficiently, which ensured the business activities, financial information disclosure, company governance structure optimization and risk control analysis. None of significant mistake found in the internal control system's design and practice. The twenty-sixth meeting of the sixth term of Board of Directors has approved the "Self-evaluation Report on Internal Control of 2010".

Moreover, the Company has also prepared for developing internal control system with the acquirements of the "Basic Principles for Enterprise Internal Control" and "Guide to Enterprise Internal Control" issued by five Departments, including the Ministry of Finance and China Security Regulatory Commission and so on. By the end of 2010, the Company has found a financial internal control developing team and arrange the relevant employees to carry the internal control studies for supporting the further internal control practice.

Plan for Improvement of Internal Control System in 2011

At the beginning of 2011, in order to support the internal control project, the Company has established a practice team and hired external consultant institution to support the internal control work, with the acquirements of "Basic Principles for Enterprise Internal Control" and "Guide to Enterprise Internal Control". The Company's internal control practice is separated into preparation, testing, design, implement, information system completion and self-analysis, as well as being able to establish a complete internal control system and a risk distinguish system.

As at the date of this Annual Report disclosure, the Company has completed the preparation stage and entered into the testing procedure. The testing procedure includes distinguishing the key and risking issue in the company's business and technical flow, organizing the internal defect list and managing the overall situation, evolve a solution plan and implant it into the business operation to frame a relevant business flow diagram, working out with "Internal Control Manual" etc.

The Establishment of Internal Control System and its Performance for the Financial Report

The internal control system in relation to the financial report is composed of accounting internal control system, budget internal control system, fund-related activities internal control system, tax and the other integrate internal control system. The internal control practice for the financial part remains in a good condition during 2010. The establishment of major control systems are as follows:

Budget internal control Referred to the "Implementation Guideline for Enterprise Internal Control" and relevant regulations, the Company has revised "Comprehensive Budgeting Management System", optimized the budget management internal operation, established budget inspection procedure, and further improved the budget inspection system and the key financial task's analysis system

Accounting internal control The Company formulated Finance and Accounting Management System and basic working regulations in relation to basic accounting work, basic regulations, accounting measurement and internal control with the requirements of "Accounting Law", "Enterprise Accounting Standards and Regulations", "Enterprise Financing General Regulations", other relevant regulations and the Articles of Association of the Company.

With the enlarging and expansion of the business activities in 2010, the Company has set up "Management and Measurement Regulations for Shipbuilding Costs and Expenses", which optimized the management of shipbuilding's costs and expenses, lowered the wastes and renewed the calculation method. Furthermore, the Company has also formulated the "Revenue Confirming and Cost Calculating Methods for GSI Subsidiaries and Branches", which concluded the all the calculating methods of relevant subsidiaries, including completed products set, large-scale steel structure, large-scale machinery production, etc., ensured the subsidiaries' practice fulfill with the Company's policy correctly.

Fund-related activities internal control In order to improve the the effect of fund-related activities and decrease the management risk, the Company has strengthened the control of capital payment, worked out "Management Standards for Auditing the Capital Payment and Transfer of GSI", and ensured the capital's security and its efficient operation; edited "Management Standards for Finance Derive Business of GSI", detailed the principles of the finance derive business in real practice, and completed and optimized the defended risk system in financial derive business.

3. Auditors

The Company's domestic and international audit institutions is Ascenda Certified Public Accountants, Limited (Beijing) and auditor PricewaterhouseCoopers, Certified Public Accountants respectively, and has provided its audit services to the Company for five and eighteen years respectively.

Meanwhile, relevant transactions, external guarantee and the like audit services 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).

The financial statements for the year of 2010 were prepared in accordance with PRC Accounting Standards and Regulations and the HKFRS, which have been audited by Ascenda Certified Public Accountants, Limited and PricewaterhouseCoopers, Certified Public Accountants respectively, for which the Company has paid RMB0.78 million and RMB2 million respectively. The certified accountants who signed on the domestic audit report in 2010 Annual Report are Mr. Chen Gang and Mr. Song Yong.

CORPORATE GOVERNANCE

4. 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 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.

II. CORPORATE GOVERNANCE IMPROVEMENT

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 2010, the activities in relation to corporate governance improvement of the Company are as follows:

1. Specific activity for information disclosure inspection

The Company is responsible for examining the establishment and performance of the information disclosure system and internal information management system, abnormal fluctuation of stock of the Company and change of shares hold by the controlling shareholder, Directors, Supervisors and Senior Management. After the investigation, there is no evidence shown that the insider who possesses the internal information has transfer shares before the disclosure of price-sensitive information. Moreover, the Company also improved the problems found during the activity.

- 1) Established an accountability system for significant errors in the annual report disclosures; increased a chapter of an accountability system for significant errors in the annual report disclosures in "Information Disclosure Management System", investigate and peruse accountability of relevant person who is in charge of annual report information disclosure for improving the quality as well as openness of annual report.
- 2) Amended the "Insider Information Confidentiality Agreement", extend the confidentiality obligations of each relevant department's director and each price sensitive information insider, clarifying the duties and responsibilities to each person, and sign the security agreement.
- 3) Amended the "Management System for Holding and Trading the Shares of the Company of Directors, Supervisors and Senior Management", added the terms of trading remind during sensitive period, clarified the supervising requirements in relation to holding and trading the shares of the Company and supplemented the responsibility of changing shares holding by Directors, Supervisors and Senior Management.

2. Self inspection of competition and connected transaction

In accordance with the requirement of "Notice for Actively Transferring the Part Innovate listed State Owned Company into Fully Listed Company by the Province's Office"[2010]119 issued by Guangdong Securities Regulatory Bureau, the Company examined the competition and connected transaction, the result is as follows:-

- 1) Due to the nature of assembly building, the Company and its subsidiaries have engaged in various continuing connected transactions with the controlling shareholder. Furthermore, in order to maintain the social stability and follow the harmonious development principle, the Company has signed "Comprehensive Service Contract" with Guangzhou Shipyard Limited Company, the founder of the Company. For more detail please refer to the section of routine continuing connected transaction of significant connected transaction of "Significant Events" in this report. The connected transaction of the Company is strictly fulfilled with the decision-making procedures and information disclosure obligation in accordance with the Articles of Association of the Company and Internal Disclosure System for Connected Transaction, and the connected directors and shareholder abstained from voting the connected proposals.

The regular management of the continuing connected transaction is contained into budget management and inspected monthly, to ensure that the relevant trading amount would not exceed the quota approved by shareholders in general meeting.

- 2) Since the parent company CSSC and its other subsidiary companies focus on different marketing, there is no competition in the same industry between the Company and the controlling shareholder.

3. Establishment of “the Internal Accountability System”

The Company has formulated the Internal Accountability System, which has clarified the obligation and conduction limitations and responsibility investigation method and procedure when senior management breach or derelict duties, misplay or falsify facts for the individuals or shareholders, which threatened the Company or other shareholder’s interests or management. The Internal Accountability System was approved by the twenty-second meeting of the sixth term of the Board of Directors held on October 25, 2010.

4. Self-check for listed company’s governance common problems

According to the requirement of “Notice in relation to the local listed company’s governance common problems” (No.[2010]155)(the “Notice”), issued by Guangdong Securities Regulatory Bureau, the Company launched self-check activity in accordance with common problems in the Notice.

- 1) Because the Company did not adopt cumulative voting on selected supervisors, the Company will adopt cumulative voting on selected directors and supervisors according to the Article of the Association of the Company strictly.
- 2) Because the internal audit director does not report to the Board, the Company will require the internal audit director to report the performance to the Board from 2011.

III. 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 2010, 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 2010, six 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.

3. Examination and motivation of senior management

The Company established “Remuneration Scheme for the Sixth Term Senior Management” and “Performance Examination Rules of Directors, Supervisors and 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. For details please refer to the 2010 Corporation Social Responsibility Report prepared by the Board of Directors.

IV. CONCLUSION

The corporate governance regime adopted by the Company is an indication of the standard in managing and operating its business. Sound 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 MEETING

2009 ANNUAL GENERAL MEETING

The 2009 annual general meeting was held at the conference room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, the PRC on May 25, 2010 at which the following resolutions were passed:–

1. Approved the annual report for the year 2009.
2. Approved the proposal for profit distribution for 2009: after deduction for purposes of statutory public welfare fund, a dividend of RMB0.28 on each ordinary share to be paid.
3. Amended the Articles of Association of the Company.
4. Approved the resignation of Mr. Miao Jian as non-executive director of the Company and appointed Mr. Cui Ming as non-executive director of the Company.
5. Reappointed the domestic and international auditors for the year 2010.

The announcement in relation to the resolutions passed at annual general meeting had been published on May 26, 2010 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).

REPORT OF THE BOARD OF DIRECTORS

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

(I). General Situation and Result

In 2010, the Company has faced with serious situation in shipbuilding operation due to the depressed state of the shipbuilding market as well as the depressed wish to receive vessels of ship-owners, the strongly influence of the heavy rain in the first half of 2010 on the outside work especially ship coating, and the bottleneck of workspace & resource inefficiency as well as the short supply in labor of some job.

In view of such situation, the Company strengthened the research & development of tankers and special vessels, increased domestic marketing and secured bulk orders; increased shipbuilding capacity through carrying out tandem shipbuilding and searching for the way of shipbuilding outside the Company. Besides, it also strengthened internal coordination and management, promoted the shipbuilding modeling and production management system and shipbuilding duty and efficiency analysis actively, improved accuracy control, enhanced shipbuilding efficiency and achieved the stable growth of shipbuilding operation.

As at December 31, 2010, the operating income (turnover) of the Group prepared under the PRC Accounting Standards and Regulations and HKFRS amounted to RMB7.014 billion (of which the principal operating income amounted to RMB6.908 billion), representing an increase of 7.03% over that of last year. The audited consolidated net profit attributable to shareholders (the profit attributable to shareholders after taxation and minority interests) amounted to RMB708 million, representing an increase of 37.43% over that of last year. The earnings per share and that after deduction of exceptional items were RMB1.43 and RMB1.24 respectively.

1. Main work and results

- Through promoting the shipbuilding modeling, using production management system, strengthening the coordination of production resources and management in slipway cycles, dry dock cycles key blocks and materials delivery date as well as carrying out tandem shipbuilding, the Company achieved the shipbuilding production of commencing construction work on 17 vessels, launching 19 vessels and delivering 18 vessels.
- Carried out the technological breakthrough and improvement in PSPC (Performance Standard for Protective Coatings), and used on the No. 2 vessel of 50,500dwt chemical/product oil tankers, which has obtained the PSPC certificate of DNV and was delivered successfully.
- Strengthened the research of new ship types and new standards and regulations, developed vessels with low cost and high economical benefit, further optimize major ship types, enhanced the competitiveness of the Company in tankers and special vessels market.
- Increased domestic marketing, secured shipbuilding orders for eight 48,000dwt product/crude oil tankers, which was the highest record of civil vessels both in quantity and total tonnage; rendered assistance to ship-owners in seeking financing in China, and secured shipbuilding orders for two semi-submersible vessels. In 2010, the Company secured the shipbuilding orders for 15 vessels. As at December 31, 2010, the Company has shipbuilding orders for construction of 49 vessels, with a total tonnage of 2,102,600dwt in hands.
- Adopted building vessels outside the Company to overcome the work space restriction, which improved the capacity of the Company in the short term and won a priority in insuring and securing orders of the Company.
- Promoted heavy machinery strategy, re-organized heavy machinery assets and operation, adjusted organization structure and established Heavy Machinery Division, and finished the transfer of the heavy machinery operation from operative management to strategic management.

REPORT OF THE BOARD OF DIRECTORS

2. *Technical innovation*

The scientific research and development projects of the Company in 2010 made an increase of 16% compared with that of last year, including a national project, four ministerial-level projects, three provincial-level projects and a municipality-level project. Among those, the project of Ro-ro passenger vessels with unlimited navigation areas gained the finance from the nation; the projects of key technology research and integrated manufacturing of large-size shield machines, self-developed semi-submersible self propelled heavy lift vessels with a total tonnage exceeding 50,000dwt, update development of 50,000 dwt-class large handy-size product oil tankers won the financial support of ministry; the industrialization of intelligent robot for hull steel plate, the research and production development of all-electric bending machines with high power and precision obtained the financial support of Guangdong province.

Moreover, the Company won the special financial support of National Stated-owned Capital of important technology innovation and industrialization funds in budgets for the Use of Stated-owned Capital for the first time, which was used in the national key technology research and important technology innovation and industrialization of the Company. As at December 31, 2010, the Company owned 66 patents, including 4 patents for invention, 59 patents for utility model and 3 patents for design, and 17 of which was obtained during the period under review.

3. *Energy-saving and environment protection*

The Company promoted energy saving and emission reduction through various measures such as replacing high energy-consuming machines, renovating the power supply system, pursuing green illum projects on the slipways and on board, promoting the third phase of sewage network project, building six paint spray booth for ship coating, carrying out noise and welding fume abatement in workshops, as well as harmonized the materials flow and coordination between work teams which avoided the overstocking and waste of materials, and implemented accuracy management to improve the utilization of materials.

(II). **Principal operation information**

1. *Major operation information by products*

Unit: RMB

Products	Operating income	Operating cost	Operating gross margin	Change in	Change in	Change in
				operating income over that of 2009 (%)	operating cost over that of 2009 (%)	operating gross margin over that of 2009 (%)
Shipbuilding	6,402,821,761.65	5,557,573,991.10	13.20	11.97	11.40	0.44
Steel structure	152,650,941.70	139,802,503.08	8.42	-67.16	-69.90	8.35
Electrical & mechanical products and others	352,150,278.29	277,795,191.14	21.11	27.79	26.07	1.08

During the period under review, as benefited from the enhancement of the cost control of the Company and lower raw materials cost of major operations compared with that of 2009, the principal operating income of the Company amounted to RMB6.908 billion, representing an increase of 6.95% and the comprehensive gross margin was 13.5%, which made an increase of 1.34% as compared with that of last year.

REPORT OF THE BOARD OF DIRECTORS

The operating income of shipbuilding operation of the Company in 2010 amounted to RMB6.402 billion, representing an increase of 11.97% compared with that of 2009, which was mainly due to the total tonnage of vessels completed increase with that of 2009. The gross margin of shipbuilding products in 2010 was 13.20%, representing an increase of 0.44% compared with that of 2009, which was resulted from lower cost of raw materials.



The operating income of steel structure made a significant decrease during the period under review, which was mainly due to the shortage of order as affected by global financial crisis and the payments of partial projects were not settled as scheduled.

The gross margins of electrical & mechanical products and others increased during the period under review, which was mainly due to the favorable hydraulic shearing machines and elevators market. However, due to its small proportion in the whole result of the Company, the influence of electrical & mechanical products and others on the operating income was rather limited.



REPORT OF THE BOARD OF DIRECTORS

2. Geographical analysis of turnover

Unit: RMB

Countries or Regions	Operating income		Change (±%)
	For the year 2010	For the year 2009	
Malta	–	60,997,676.99	-100.00
Germany	–	384,022,536.75	-100.00
Denmark	3,162,911,423.02	3,376,132,028.10	-6.32
Italy	261,997,238.23	366,083,312.51	-28.43
U.S.A	32,807,096.41	90,677,389.23	-63.82
Hong Kong	369,276,395.05	278,261,998.04	32.71
Greece	250,071,609.65	525,417,858.95	-52.41
Taiwan	2,073,211.40	1,235,997.40	67.74
Sweden	–	15,248,947.43	-100.00
Australia	27,112,706.20	92,239,934.97	-70.61
Angola	11,351,734.26	2,098,215.81	441.02
Argentina	13,363,209.90	–	100.00
Macao	2,691,431.30	–	100.00
Others	75,899,797.93	–	100.00
Subtotal	4,209,555,853.35	5,192,415,896.18	-18.93
Mainland China	2,698,067,128.29	1,266,407,052.02	113.05
Total	6,907,622,981.64	6,458,822,948.20	6.95

(III). Major customers and suppliers

In 2010, the turnover attributable to the Group's five largest customers amounted to RMB4.224 billion and accounted for 61.15% of the total turnover of the Group. Of those, the turnover from Damna A/S Torm Company, the Group's largest customer, amounted to RMB1.476 billion, representing 21.37% of the total turnover of the Group.

In 2010, the purchase of raw materials and equipment from the Group's five largest suppliers amounted to RMB1.584 billion and accounted for 13.58% 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 RMB689 million and accounted for 5.91% 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 that he or she had any interest in the above mentioned major customers or suppliers.

REPORT OF THE BOARD OF DIRECTORS

(IV). Financial position analysis

1. Balance sheet items

Unit: RMB

Item	Closing balance	Opening balance	Change (%)	Main reasons of change
Cash and cash equivalents	7,216,518,560.26	5,452,246,037.69	32.36	The increased bank loans and received installment payments of products.
Tradable financial assets	21,227,664.57	63,993,056.22	-66.83	The deliveries of partial mature derivative instrument contracts and the change of fair value caused by the fluctuation of exchange rate.
Notes receivable	106,957,384.82	300,000.00	35,552.46	The increased commercial acceptance bill with an amount of RMB103.60 million, which in the shipbuilding installment payments and has been paid on January 22, 2011.
Advances to suppliers	449,624,444.18	299,139,760.51	50.31	The increased advance payment for purchasing materials.
Other receivables	289,882,991.10	115,243,348.09	151.54	The increased export rebates receivable and products subsidies.
Construction in progress	146,308,227.80	295,198,915.22	-50.44	The land of Zhongshan GSI Marine Engineering Company Limited ("Zhongshan Company") has completed purchasing and converted into intangible assets.
Intangible assets	302,439,392.03	88,834,722.65	240.45	The land of Zhongshan GSI Marine Engineering Company Limited ("Zhongshan Company") has completed purchasing and converted into intangible assets.
Deferred tax assets	22,068,135.62	12,530,702.92	76.11	The increased provisions for retired employees' housing subsidy and assets depreciation preparation.
Notes payable	697,610,318.88	360,901,710.85	93.30	The Company adopted the bank accepted bills for settlement in partial project payments and material purchasing to ensure the rational utilization of the capital.
Accounts payable	1,186,424,869.96	709,751,054.23	67.16	The increase in immature payment of the partial projects and some materials and equipments that have been received while their settlement documents have not been received by the Company.
Advances from customers	266,538,440.94	127,281,207.61	109.41	Received the payments of projects that do not commence.
Accrued employee compensation	40,603,732.05	22,201,256.78	82.89	(1) the provision for annual bonus; (2) the provision for employees' welfare and bonus funds of United Steel Structure Limited, a subsidiary of the Company, as made in accordance with its Articles of Association; (3) the unfinished compensations paid by the Company due to termination of employment relationship.
Taxes payable	115,298,251.35	68,690,776.51	67.85	The increased taxable income during the period under review.
Interest payable	13,720,941.14	1,878,526.18	630.41	The increased bank loans and interest rate.
Others payable	70,484,717.41	27,751,512.24	153.99	Received the payments of investment real estate for sale which was being in process of property right transferring.
Dividends payable	67,601.63	12,785,975.61	-99.47	United Steel Structure Limited, a subsidiary of the Company, issued dividend to minority shareholders for the years 2009.
Current portion of long-term liabilities	-	170,705,000.00	-100.00	The repayment of matured bank loans.
Provision	163,616,041.97	121,547,344.07	34.61	(1) the increased provision for the warranty fee as more vessels being delivered; (2) Provisions for retired employees' housing subsidies and housing balance subsidies in accordance with the resolutions of the twenty forth meeting of the sixth term of the Board.
Deferred tax liabilities	33,125,408.77	52,923,326.47	-37.41	The change in fair value of financial derivative and available-for-sale financial assets of the Company.
Other current liabilities	34,205,906.94	13,760,555.79	148.58	The increased appropriation of research projects in 2010.
Undistributed profit	1,969,471,836.12	1,473,182,738.39	33.69	The increased profits of 2010.

REPORT OF THE BOARD OF DIRECTORS

2. Income statement items

Unit: RMB

Item	2010	2009	Change (%)	Main reasons of change
Selling expenses	58,775,317.66	37,873,926.69	55.19	The increased provision for the ship warranty fee.
General and administrative expenses	418,346,698.76	313,985,220.08	33.24	(1) the increased staff salary for better benefit; (2) the increased research & development expenses for promoting originality of the Company. (3) the increased repairs expenses for larger capacity.
Gains from fair value changes	-42,732,189.17	-88,168,000.99	-51.53	The settlement of matured foreign exchange forward contracts, and the change in fair value on the contracts that are not matured for the fluctuation of the exchange rate.
Investment income	83,417,015.04	120,329,635.58	-30.68	The decreased income from the deliveries of matured forward foreign exchange contract.
Non-operating income	239,117,418.11	84,703,157.50	182.30	(1) the increased products subsidy for the change of shipbuilding product structure; (2) the new product subsidy transferred to income for some research and development projects had completed.
Non-operating profits	7,743,039.36	14,963,284.04	-48.25	The decreased disposal of fixed assets.
Income tax	124,742,889.51	92,871,675.65	34.32	The increased profit and the change of deferred income tax.
Profits attributable to non-controlling shareholders	2,767,754.59	5,854,249.52	-52.72	The reduction in profit and loss of subsidiaries of the Company in 2010.

3. Cash flow statement items

Unit: RMB

Item	2010	2009	Change (%)	Main reasons of change
Net cash flow from operating activities	1,038,885,458.78	-464,920,580.03	-323.45	Received the shipbuilding installment payments and financial allocation for research & development projects.
Net cash flow from investing activities	-1,057,659,783.37	-267,263,465.71	295.74	The increased guaranty and pledge money of fixed deposit for ensuring the safe operation of funds.
Net cash flow from financing activities	645,561,987.966	-197,417,795.86	-427.00	The increased bank loans.

(V). Prospects for the coming year

The year 2011 is the first year in the 12th five-year plan, and is also the crucial year for the Company to achieve the goal of "To be a famous enterprise with advanced technology and excellent service in the segment of small & middle size tanker". In 2011, as shipbuilding enters into new phase of implementing PSPC, the Company will confront with more challenges due to work space limited, several types of vessels being built synchronously and shipbuilding outside the Company.

For overcoming those, the Company will accelerate innovation, improve the specialization of ship types and reserve technology; enhance schedule control and examination, continuously promote quality control and accuracy management, optimize production and technical process and promote efficiency and duty analysis aggressively to realize the scientific management; strictly control the cost and strengthen risk prevention, to intensify the market competition; integrate resources, quicken the development step of heavy machinery operation; enhance the management of shipbuilding outside the Company and promote the construction of Zhongshan Company, to create a finer start and overall arrangement of the strategy in the 12th "Five-year plan".

REPORT OF THE BOARD OF DIRECTORS

(1). Plan for the year 2011

- Shipbuilding operation: In 2011, the construction of the semi-submersible vessels in Jiangsu Province has entered into assembly process, the block manufacturing center in Zhongshan will enter into production, several types of specialized vessels and vessels in compliance with requirements of PSPC will be under construction synchronously. The Company will further strengthen the promotion of PSPC, implement delicacy management, enhance production arrangements and blocks manufacturing, control the shipbuilding assembly progress and cycle and adjust quay berth to increase shipbuilding output.
- Organization structure and human resources: to further integrate resources and adjust organization structure properly in accordance with the development strategy and development goal of four main operations of the Company; to refine the human resources plan, achieve the balance of labor supply and enhance reserved talent cultivation and training, to reserve human resource for the development of the Company.
- Technical research and development: to optimize large handy-size tankers continuously and strengthen research of new rules and regulations to accept the higher standard of green environmental protection, pollution prevention, emission reduction, energy saving and low consumption, and to reserve enough technical capacity for the development of the Company.
- Internal Control: to appoint professional consultation organization and start from financial internal control in accordance with the requirements of Basic Standard for Enterprise Internal Control and Implementation Guidelines for Enterprise Internal Control, to promote and improve the construction of internal control of the Company.
- The construction of Zhongshan Company: to promote the construction of Zhongshan Company, the first phrase project will put into the production in the second half of 2011, and organize the approval and application procedure of the second phrase project, to resolve the bottleneck of capacity insufficiency of the Company radically.

(2). Capital expenditure plan

It was expected that the capital expenditure of the Group during 2011 would be approximately RMB744 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 2010, the investment capital not from share offering of the Company amounted to RMB194 million, decreased by RMB164 million and representing a decrease of 45.81% compared with that of last year. The investments in 2010 are mainly as follows:

Unit: RMB'000

Items	Amount	Progress	Income
Coating Workshop Pre-assembled Ground Project	302	100%	Had generated income
Dry-dock Innovation Project	1,334	89%	Have generate income partly
Additional Docking Base in Chanzhou Island	141	64.78%	Not yet generate income
Quay Reinforcement Project in Old District	196	Under construction	Not yet generate income
200/100 cubic air compressor	725	21.74%	Not yet generate income
Phase II Environmental Pollution Control Project	365	78.44%	Not yet generate income
New Coating Workshop	571	78%	Not yet generate income
Cables Around Salt Water Vat	275	100%	Had generated income
Project of Building for Work Team in New District	340	58.47%	Not yet generate income
Construction fees of Zhongshan GSI Large-size Marine Engineering Company Limited	8,178	91.96%	Not yet generate income
Others Renovated Projects	6,957	–	Not yet generate income
Total	19,384	–	–

REPORT OF THE BOARD OF DIRECTORS

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	74,714	1,403
2 Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	80	42,870	980
3 Guangzhou Hongfan Information Technique Co., Ltd.	Development of computer software, system integration and sales of hardware	5,000	51	16,140	2,858
4 Guangzhou Xinshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	83	61,211	3,724
5 Guangzhou Masterwood Shipbuilding Co., Ltd.	Furniture manufacturing	3,315	51	24,188	523
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	291,199	-27,209
7 United Steel Structures Limited	Large-sized steel structure	USD8.85 million	51	206,984	1,955
8 Glory Group Development Co., Ltd.	Trading	HKD30 million	100	258,040	6,270
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	306,269	-4,971
10 Shipbuilding Industrial Special Skill Identification NO. 7 Institute	Identificating the Shipbuilding Vocational Skills	800	100	812	-77
Indirect holding subsidiaries					
11 Guangzhou Masterwood Shipbuilding Co., Ltd.	Furniture manufacturing	3,315	25	24,188	523
12 Guangzhou Hongfan Hotel Co., Ltd.	Traveling and catering services	10,000	89.11	8,319	608
13 Guangdong Guangzhou Shipyard International Elevator Co., Ltd.	Elevator production and sales	21,000	3.8	74,714	1,406
14 Fonkwang Development Ltd.	General trade	HKD0.2 million	70	198,555	1,036
15 Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	15.20	42,870	980
16 Guangzhou Xinshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	16.18	61,210	3,724

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.

REPORT OF THE BOARD OF DIRECTORS

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 Beijing Road, New District, Urumchi, Xinjiang	Sale	No
Real estate in Henshan, Guangdong	Huangyuan, No. 496 Xincheng Road, Shaping Town in Heshan, Guangdong Province	Rent	No
Shops in Hengyang, Hunan	No. 33 Jiefang Road, High-tech Development Zone in Hengyang City, Hunan Province	Rent	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
Seventeenth meeting of the sixth term of the Board	March 17, 2010	–	–	Note 1
Eighteenth meeting of the sixth term of the Board	March 30, 2010	Shanghai Securities News	March 31, 2010	–
Nineteenth meeting of the sixth term of the Board	April 22, 2010	Shanghai Securities News	April 23, 2010	–
Twentieth meeting of the sixth term of the Board	August 26, 2010	Shanghai Securities News	August 27, 2010	–
Twenty first meeting of the sixth term of the Board	October 8, 2010	–	–	Note 2
Twenty second meeting of the sixth term of the Board	October 25, 2010	Shanghai Securities News	October 26, 2010	–
Twenty third meeting of the sixth term of the Board	November 23, 2010	–	–	Note 3
Twenty fourth meeting of the sixth term of the Board	December 24, 2010	–	–	Note 4

Note:

- The seventeenth meeting of the sixth term of the Board approved the change the method of the Company's increasing investment in the registered capital of Guangzhou GSI Large-size Mechanical Equipment Co., Ltd in the form of cash and material objects other than in cash originally with the same total amount of RMB158.61 million for the purpose of reducing expenses. The amount of the object capital will be based on the appraised value amounting RMB121.74 million approximately by professional evaluation institution as at September 30, 2009 and the balance shall be paid in cash. Besides, the Board authorized the senior management to handle relevant procedures.

REPORT OF THE BOARD OF DIRECTORS

2. The twenty-first meeting of the six term of the Board approved the Company to establish a subsidiary in Zhenjiang City, Jiangsu Province with the name of "GSI Zhenjiang Company", with its operating period of 4 years, and the main business of shipbuilding, ship-repairing, metal and steel construction and their components manufacturing, decoration, common machinery installation and products selling, and authorized the senior management to negotiate with industrial and commercial administrations and deal with relevant procedures.
3. The twenty-third meeting of the six term of the Board approved the increase of the annual cap to RMB6 billion, and authorized the executive director or the president to make decision and sign the shipbuilding contract and relevant agreement in the year of 2010.
4. The twenty-fourth meeting of the six term of the Board approved:
 - ① the application to China Beijing Equity Exchange to participate as interested transferee in the public listing of assets for transfer process for the sale of 24% equity interest in Guangzhou Masterwood Shipbuilding Co., Ltd. ("Masterwood") by CSSC Guangzhou Huangpu Shipbuilding Company Limited ("Huangpu Shipyard") (if any), at the price not exceeding the appraised value RMB1,990,500, and authorized the senior management to sign relevant documents.
 - ② the issue of the special award for the year 2009 to executive directors, internal supervisors and senior management with the total amount of RMB2.0167 million, the individual award should be calculated in accordance with individual position coefficient and working period and the highest one not exceeding RMB250,000 as proposed by the Emolument and Examination Committee of the Board.
 - ③ the provision in the amount of RMB32,676,268 approximately as housing cash subsidies for the retired employees who have not bought house and housing balance subsidies for employees whose house area has not meet with the requirements of standard.
 - ④ the extension the period of the branch such as technology center, Shunde Shipyard, Nanhai Electrical Machinery Company to long-term.

(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 2009 annual general meeting.

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

Please refer to the section functional Committees of the Board in the Corporate Governance Report on page 21.

(IV). The establishment of information management system for external user

In order to standardize the information management system for external user of the Company and inside information confidentiality agreement, the Company amended the "information disclosure management system" to regulate the procedures for information external submission. The Company shall not submit the statistical information to the external user without legal basis. If it should be submitted in accordance with laws and regulations, the Company will register an external unit relevant person as insider in book, and make security trading tips of the information confidentiality and prohibition the use of insider information, to prevent the disclosure of information and ensure fair disclosure of information.

(V). The responsibility statement on the internal control of the Board

The Board is responsible for establishing and maintaining the company's internal control system, is assisted by Audit Committee to evaluate the performed effect of financial reporting procedure, internal control and risk management system, review internal control procedure in relation to finance, operation and supervision, and make sure that the equity of the shareholders and the Group is safe.

REPORT OF THE BOARD OF DIRECTORS

(VI). The performance of insider information management system

The Company amended “Information disclosure management system” and “Insider Information Confidentiality Agreement” (the “System”), which were approved by the Board on August 26, 2010 and were put into effect. The Company entered into the insider information confidentiality agreements with the insiders in fourth quarter of 2010, and registered the insiders in book to ensure information safety. The Company will look into insider’s responsibility pursuant the relevant laws and regulations, and the System of the Company as the System was break. After self-check, the Company did not find that any insider who has trade the security of the Company with insider information before disclosure of significant price-sensitive information.

V. PROFIT DISTRIBUTION FOR THE YEAR 2010

For the year 2010, the net profit of the Company prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB729,397,776.60, while that prepared in accordance with HKFRS amounted to RMB729,379,724.01. Pursuant to the regulation 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 2010 should be based on the net profit of the Company prepared in accordance with HKFRS, with proposed details are as follows:

1. To withdraw 10% to the statutory public welfare fund, amounting to RMB72,937,972.40.
2. On the basis of 494,677,580 shares in issue, to pay a dividend of RMB0.1 (tax-included) on each share, the total dividend will amount to RMB49,467,758.00.
3. The conversion of capital reserve. On the basis of 494,677,580 shares in issue, to convert 3 shares on each 10 shares, the total conversion shares will be 148,403,274 shares. After the conversion of capital reserve, the total share of the Company will be 643,080,854.
4. The undistributed earnings will be accumulated and distributed in the future years. The profit distribution plan will be implemented with (i) the approval of the 2010 annual general meeting, the first class meeting of domestic shares of 2011 and the first class meeting of foreign shares of 2011 and (ii) approved by the Chinese Ministry of Commerce.

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 (%)
2007	247,338,790.00	940,656,796.04	26.29
2008	222,604,911.00	820,395,655.17	27.13
2009	138,509,722.40	514,961,903.36	26.90

REPORT OF THE BOARD OF DIRECTORS

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 6 and page 7, respectively.

Results and profit distribution

The results and profit distribution of the Group for the year ended December 31, 2010 prepared under PRC Accounting Standards and Regulations, and the HKFRS, are set out in consolidated statement of changes in Equity on page 56 and consolidated statement of comprehensive income on page 133.

Reserves

The changes to the reserves of the Group prepared under PRC Accounting Standards and Regulations, and the HKFRS, are set out in note V37 to V39 to the financial statements on page 101 and note 22 on page 179 respectively.

Fixed assets

As at December 31, 2010 there was no fixed assets pledged as security for the Group's banking facilities. 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 V13 and V14 to the financial statements on page 87, and note 6 to the notes to the consolidated financial statements on page 160 respectively.

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group as at December 31, 2010 are set out in note V21, V30 to V32 to the financial statements on page 93 to 99 and note 24 to the notes to the consolidated financial statement on page 181, respectively.

Contingent liabilities

Up to December 31, 2010, the Group had no significant contingent liabilities.

Significant litigation

Please refer to item 1 in the section "Significant Events" on page 46.

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 cash flows of the Company and its controlling shareholder, CSSC and other connected parties, and certified that as at December 31, 2010, the cash 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 Cash Flows between Listed Companies and Connected Parties and External Guarantees of Listed Companies".

REPORT OF THE BOARD OF DIRECTORS

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

In accordance with the regulation stated in "Notice of Regulating the Finance Dealing with 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, 2010.

Auditors

The financial statements for the year ended December 31, 2010 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. Due to the acceptance by The Stock Exchange of Hong Kong Limited, Mainland incorporated issuers listed in Hong Kong are allowed to prepare their financial statements using Mainland accounting standards, and Mainland audit firms approved by the China Ministry of Finance and the China Securities Regulatory Commission are allowed to service these issuers using Mainland auditing standards, in order to improve the efficiency of and to reduce the cost of disclosure and the audit expenses, the Board proposes to appoint Shinewing Certified Public Accountants, Ltd. as the Company's domestic and international auditors for 2011, and submission the same to the shareholders of the Company for consideration at the 2010 AGM.

For further information on the auditors of the period under review please refer to the sub-section "Auditors" in the section "Control Mechanisms" in the Corporate Governance Report on page 26.

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
Guangzhou Shipyard International Company Limited
Chairman
Li Zhushi

Guangzhou, March 29, 2011

REPORT OF THE SUPERVISORY COMMITTEE

The sixth term of the Supervisory Committee of the Company has pleasure to present the 2010 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 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 departments, and provide advantages to the prosecution of the duties of Supervisory Committee.

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

All information disclosure above indicates 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 information disclosure of listed company inspection special activities carried out issued by Guangdong Security Regulatory Bureau.
2. Study relative documents issued by Shanghai Stock Exchange.
3. Study relative special report and speaking of the relevant department of China Security Regulatory Commission published in China Securities Journal, etc.
4. Discussing the daily management of the Company and communicating on matters related.

By work-day 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.

REPORT OF THE SUPERVISORY COMMITTEE

II. THE INFORMATION OF THE SUPERVISORY COMMITTEE MEETINGS

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

1. The eighth meeting of the sixth term of the Supervisory Committee was held on March 30, 2010 in the Company. The five supervisors attended the meeting. The resolutions passed at the meeting are as follows:–
 - 1) Approved the 2009 Report of Supervisory Committee, and submitted the same to AGM for consideration.
 - 2) Approved the 2009 Annual Report of the Company and provided written inspection comments.
 - 3) Approved the resolution passed by the Board of Directors of the Company to make provision of impairment for the commercial property located in Urumchi Xinjiang Province in an amount of RMB15,489,388.68.
2. The ninth meeting of the sixth term of the Supervisory Committee was held on April 22, 2010 in the Company. The five supervisors attended the meeting and approved the First Quarterly Report of 2010 and released written inspection comments.
3. The tenth meeting of the sixth term of the Supervisory Committee was held on August 26, 2010 in the Company. The five supervisors attended the meeting and approved the Interim Report of 2010 and released written inspection comments.
4. The eleventh meeting of the sixth term of the Supervisory Committee was held on October 25, 2010 at Biyuyuan Hotel, Runzhou District, Zhenjiang City, Jiangsu Province. The five supervisors attended the meeting and approved the Third Quarterly Report of 2010 and released written inspection comments.

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

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

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

The Company had established necessary internal control system, and it was implemented well.

The Supervisory Committee had reviewed Self-evaluation Report on Internal Control, and there were no any demur about it.

The Committee was of the view that the procedure of decision-making of the Company was complied with Articles of Association of the Company. The directors, president and other senior management had 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 of Association of the Company, nor was there any abuse of power to detriment the interests of the Company, the Shareholders or the staff.

REPORT OF THE SUPERVISORY COMMITTEE

In 2010, the international shipping market was still under the depression since financial crisis. The Board of Directors, senior management and all over the staff had made unremitting efforts to develop the domestic shipbuilding market, and entered into contracts in relation to build eight 48,000dwt product/crude oil tankers with China Shipping Group, made a record on the numbers and tons at one time. The Company successfully delivered high-tech and high value vessels, such as semi-submersible heavy lift vessel and Ro/ro passenger vessel. The Company had consolidated its market share position, made a new record in shipbuilding operation, smoothed the development of heavy machinery business, and improved anti-risk ability continuously.

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

The Supervisory Committee had reviewed the annual report and financial reports for the year 2010 before the submission of them to AGM for consideration in accordance with the Company Law and the Articles of Association of the Company, 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 consented to the 2010 Annual Reports and the profit distribution proposal for the year of 2010.

Ascenda Certified Public Accountants, Limited (Beijing) and PricewaterhouseCoopers, Certified Public Accountants, which were appointed to audit the financial report of the Company for this year, have presented their audit reports with no any comments.

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 of 2010.

On behalf of the Supervisory Committee
Guangzhou Shipyard International Company Limited
Chairman
Wang Shusen

Guangzhou, March 29, 2011

I. SIGNIFICANT LITIGATION OR ARBITRATION EVENT

1. GSI Sue Jiangsu Shenghua for Property Restitution Case

For assisting Jiangsu Shenghua Shipbuilding Company Limited (“Jiangsu Shenghua”) to deliver the dry dock to the Company for use on schedule, the Company and Jiangsu Shenghua entered into *Technical Service Contract of 79600dwt Bulk-Carrier Production Management* (“Technical Service Contract”). In 2010 December, due to the requirement of projects construction in other area, the Company need to remove the relevant manufacturing facilities, apparatuses and materials, which belong to the Company, whereas we was prohibited by the obstruction of Jiangsu Shenghua.

On December 31, 2010, the Company has filed suit to Zhanjiang Intermediate People’s Court of Jiangsu Province (“Zhenjiang Intermediate Court”) and claimed:

- (1) To order Jiangsu Shenghua for exclusion of hindrance, and return all the manufacturing facilities, apparatuses and materials which are still in Jiangsu Shenghua and belong to the Company;
- (2) To order Jiangsu shenghua to bear the compensation of the wastage and loss compensation of the manufacturing facilities, apparatuses and materials above-mentioned with an amount of RMB10.46 million approximately.

2. GSI Sue Jiangsu Shenghua for Technical Service Contract Dispute Case

Because Jiangsu Shenghua did not pay the Company for the technical service fees in accordance with Technical Service Contract, the Company has filed suit to Zhenjiang Intermediate Court on December 31, 2010 and claimed for ordering Jiangsu Shenghua to pay for the technical service fees with an amount of RMB2.4 million and the interests in arrears to the Company, as well as bearing the penalty with an amount of RMB2.4 million.

3. Guangli Company Sue Jiangsu Shenghua for Installation Projects Contract in relation to 79600dwt Bulk-Carrier 1# Vessel Dispute Case

For assisting Jiangsu Shenghua to deliver the dry dock and its facilities to the Company for use on schedule, Guangzhou Guangli Shipbuilding Human Resource Service Company Limited (“Guangli Company”), a subsidiary of the Company, entered into Installation Projects Contract in relation to 79600dwt Bulk-Carrier 1# Vessel (“Installation Projects Contract”). Because Jiangsu Shenghua did not pay for the project funds in accordance with the contract on schedule, Guangli Company has filed suit to Zhenjiang Intermediate Court on December 31, 2010 and claimed:

- (1) To order Jiangsu Shenghua to discharge the project funds, penalty and the job ready loss in arrears to Guangli Company in the aggregate of RMB26.876 million, terminate the Installation Projects Contract between Guangli Company and Jiangsu Shenghua, order Jiangsu Shenghua to eliminate the obstruction, and return all the shipbuilding materials and equipments which Guangli Company stored in Jiangsu Shenghua, and to undertake the compensation liability of the loss of the materials and equipments destructed;
- (2) To order Jiangsu Shenghua’s controlling shareholder Nanjing Shenghua Shipbuilding Company Limited (“Nanjing Shenghua”) to undertake the joint liabilities of all the debts which shall be paid by Jiangsu Shenghua to Guangli Company.

4. Guangli Company Sue Jiangsu Shenghua for Installation Projects Contract in relation to 79600dwt Bulk-Carrier 2# Vessel Dispute Case

For assisting Jiangsu Shenghua to deliver the dry dock and its facilities on schedule, Guangli Company and Jiangsu Shenghua entered into Installation Projects Contract in relation to 79600dwt Bulk-Carrier 2# Vessel. Because Jiangsu Shenghua did not pay for the project funds in accordance with the contract on schedule, Guangli Company has filed suit to Zhenjiang Intermediate Court on December 31, 2010 and claimed:

- (1) To order Jiangsu Shenghua to discharge the project funds, penalty and the job ready loss in arrears to Guangli Company in the aggregate of RMB23.4057 million, terminate Installation Projects Contract in relation to 79600dwt Bulk-Carrier 2# Vessel;
- (2) To order Nanjing Shenghua to undertake the joint liabilities of all the debts which shall be paid by Jiangsu Shenghua to Guangli Company.

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

SIGNIFICANT EVENTS

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, 2010	Profit and loss during the period under review	Changes in shareholders of the Company	Accounting Subject	Source of the shareholding
600036	Merchants Bank	27,483,602.50	0.081	222,991,996.50	-	-55,068,253.50	Available-for-sale financial assets	Purchasing
601872	Merchants Energy Shipping	37,100,000.00	0.29	41,100,000.00	-	-15,500,000.00	Available-for-sale financial assets	Purchasing
Total		64,583,602.50	-	264,091,996.50	-	-70,568,253.50	-	-

IV. PROPERTY AND INTEREST TRANSFER

Approved by the thirteenth meeting of the sixth term of Board, the Company had put up for sale the commercial property located in Beijing Road, New District, Urumqi City Xinjiang Province in China Beijing Equity Exchange. The property was sold at the price of RMB42 million in February 2010. During the period under review, the Company had received the accounts of the property, and the transfer procedure is under handling.

Apart from above-mentioned and the connected transaction sale of real estate stated in Significant Connected Transactions in this section on page 49, 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 Governing the Listing of Securities on 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 VI to the financial statements prepared under PRC Enterprise Accountant Standards and Regulations on page 112 and note 44 to the financial statements prepared under the HKFRS on page 196 respectively.

SIGNIFICANT EVENTS

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:	514,759,000.00	192,822,094.67		
1.1	Electrical and mechanical engineering equipment and metallic materials	272,500,000.00	14,628,286.66	0.21	Market price or agreed price
1.2	Utilities	5,000,000.00	2,157,141.42	0.04	Cost plus management fee
1.3	Labor supply, design and technology services	237,260,000.00	176,036,666.59	2.51	Not less than the price to the third parties
2	Products and services provided by the CSSC Group to the Group:	1,339,926,000.00	585,693,419.67	-	
2.1	Electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	1,099,920,000.00	481,076,341.63	7.92	Market price or agreed price, and not more than the price offered by the third independent parties
2.2	Labor supply, design and technology services	240,006,000.00	104,617,078.04	1.72	Cost plus management fee or market price
3	Financial services provided by CSSC Group to the Group	40,000,000.00	3,173,760.14	2.30	
3.1	Deposits	500,000,000.00	313,559,558.65	-	Interest rate on deposits published by the People's Bank of China, not higher than interest rate on loan published by the People's Bank of China
3.2	aggregate interest on deposits for the year	10,000,000.00	3,173,760.14	2.30	
3.3	Loans	500,000,000.00	-	-	
3.4	aggregate interest on loans for the year	30,000,000.00	-	-	
4	Total guarantee fees for guarantee supplied to the Group from CSSC Group	15,000,000.00	-	-	Agreed fee, not more than the price offered by the third independent parties
5	Total sales agency fees paid by the Group to the CSSC Group	63,500,000.00	40,004,329.93	44.15	Not more than 1% of contract price in accordance with international practice
6	Total purchases agency fees paid by the Group to the CSSC Group	16,000,000.00	3,772,452.32	0.05	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 October 27, 2009 which was approved by the first Extraordinary General Meeting of 2009 held on December 29, 2009.

SIGNIFICANT EVENTS

2. Comprehensive Service Contract

The Company and Guangzhou Shipyard Company Limited (“Guangzhou Shipyard”) entered into a comprehensive services contract for 2009 to 2011 (the “Comprehensive Services Contract”) on 29 October 2008. Pursuant to the Comprehensive Services Contract, Guangzhou Shipyard agreed to provide the Group, the staff and their family members with medical services, catering services, infant care and nursery, training programs for skilled technical workers 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 2010 was RMB7,528,473.75.

3. The financing balance of the Company and CSSC and its subsidiaries during the year 2010

Items	As at December 31, 2010	As at December 31, 2009
Accounts receivable	40,528,337.23	61,587,568.59
Other receivable	–	4,254,500.00
Advanced payment	68,458,851.85	55,881,792.31
Accounts payable	119,639,345.92	114,480,622.99
Other payable	11,830.00	8,400.00
Advances from customers	24,893,984.67	33,387,906.67

4. Funds impropriated and refund by connected parties in 2010

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

5. Acquisition or sale of assets constituting connected transactions

- (1) 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), of which 100% equity was hold by CSSC, 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 payment during the period under review.
- (2) Approved by the twenty-fourth meeting of the sixth term of the Board of Directors, the Company entered into the *Equity Transfer Contract* with Huangpu Shipyard, a wholly owned subsidiary of CSSC, on February 15, 2011, to purchase the 24% equity in Masterwood held by Huangpu Shipyard, at the price of appraised value RMB1,990,500. As at the disclosure of the annual report, The Company has paid the transfer price and the transfer of the equity in Masterwood is under the progress. The purchase of the transfer equity is consonant with the development strategy of the Company and is advantageous to the coordination of relevant works in shipbuilding.

6. 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

- (1) In order to alleviate its workspace bottle neck, improve its shipbuilding capacity, secure orders for large-size handy-size tankers, *the Assets Lease Contract* was entered into among the Company as lessee, Jiangsu Shenghua as lessor and Nanjing Shenghua as guarantor on August 27, 2010 with approval of the twentieth meeting of the sixth term of the Board of the Directors of the Company. In accordance with the Assets Lease Contract, the Company will rent *the Leased Assets* from Jiangsu Shenghua for the purpose of the operating activities of shipbuilding and other projects. For more details please refer to the announcement issued by the Company dated August 28, 2010.

Because Jiangsu Shenghua cannot ensure that the dry dock will be delivered to the Company for use on schedule in accordance with the Assets Lease Contract due to the delay of its vessel under construction, and has not obtained all of the permissions for the whole Leased Assets in accordance with the Assets Lease Contract and part of the Leased Assets are still lack of relevant government permission, the Company is of the view that the purpose of the Assets Lease Contract entered into by, among others, the Company and Jiangsu Shenghua cannot be achieved. After negotiation with Jiangsu Shenghua, the Company accepted Jiangsu Shenghua's proposal to terminate the Assets Lease Contract, provided that the Company reserves the right to take legal action against Jiangsu Shenghua pursuant to law and the Assets Lease Contract, after termination of the Assets Lease Contract.

The shipbuilding project constructed in Jiangsu Shenghua originally, has been subcontracted by the Company to Jiangsu Qidong Daoda Heavy Industry Co., Ltd., which is an independent third party. The Company believes that the termination of Assets Lease Contract will not have material adverse effect on the production as well as the operation of the Company. For more details please refer to the announcement issued by the Company dated February 28, 2011.

- (2) The Company entered into Contracts in relation to building eight 48,000dwt product/crude oil tankers with China Shipping Development Company Limited on November 29, 2010, with a total value amounting RMB1.9 billion approximately.

Expect for disclosed above, the Company had not managed any trust, any other contract or significant lease assets of other companies nor other companies had not managed any trust, any other contract or significant lease assets of the Company.

VIII. IMPLEMENTATION OF COMMITMENT

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

During the period under review, the Company did not change auditors, for more details please refer to the sub-section "Auditors" in the section "Control Mechanisms" of "Corporate Governance Report" in this annual report no page 26.

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. 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, paid RMB17.7235 million for allocation of 2,002,650 shares.
2. Approved by the eighteenth meeting of the sixth term of the Board of Directors, the Company has established the Heavy Machine Division in accordance with the strategy of the Company, for promoting heavy machine operations such as steel structures, complete sets of equipments & ship accessories as well as mechanical & electrical products.

DOMESTIC AUDITORS' REPORT

ACPA (2011) GF NO.010033

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, 2010, and the consolidated and the Company's income statement, the consolidated and the Company's cash flow statement, and the consolidated and 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 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 give a true and fair view of the financial position of the Company and its subsidiaries as of December 31, 2010 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 29, 2011

Beijing, the People's Republic of China

BALANCE SHEET

31 December, 2010

Unit: RMB

Item	Note V	Consolidated		Parent	
		End. Balance	Beg. Balance	End. Balance	Beg. Balance
Current assets:					
Cash and cash equivalents	1	7,216,518,560.26	5,452,246,037.69	6,983,146,586.93	5,245,021,720.52
Trading securities	2	21,227,664.57	63,993,056.22	21,227,664.57	54,702,853.82
Notes receivable	3	106,957,384.82	300,000.00	104,596,923.02	50,000.00
Accounts receivable	4	237,930,326.60	334,867,278.77	326,215,971.20	378,803,393.71
Advances to suppliers	5	449,624,444.18	299,139,760.51	487,856,028.96	340,822,635.50
Interest receivable	6	62,875,756.88	82,320,687.20	62,804,749.78	82,419,687.20
Dividend receivable	7	5,477,728.60	–	677,728.60	13,250,055.33
Other receivables	8	289,882,991.10	115,243,348.09	480,364,813.78	241,801,283.19
Inventories	9	1,655,565,039.07	1,354,540,485.87	1,409,922,126.83	1,174,277,741.11
Current portion of Non-current assets		–	–	–	–
Other current assets		–	–	–	–
Total current assets		10,046,059,896.08	7,702,650,654.35	9,876,812,593.67	7,531,149,370.38
Non-current assets:					
Available-for-sale financial assets	10	266,791,996.50	337,360,250.00	266,791,996.50	337,360,250.00
Held-to-maturity Investment		–	–	–	–
Long-term receivable		–	–	–	–
Long-term equity investment	12	41,588,714.23	41,879,608.90	386,398,449.75	226,970,397.30
Investment properties	13	72,237,906.35	74,362,445.37	72,237,906.35	74,362,445.37
Fixed assets	14	1,259,696,577.69	1,252,405,778.57	1,024,218,394.25	1,132,395,747.50
Construction in process	15	146,308,227.80	295,198,915.22	65,714,312.84	72,809,133.41
Project material		–	–	–	–
Liquidation of fixed assets	16	261,149.08	–	261,149.08	–
Intangible assets	17	302,439,392.03	88,834,722.65	76,987,132.29	83,223,531.69
Development expenditure		–	–	–	–
Goodwill		–	–	–	–
Long-term prepayments		–	–	–	–
Deferred tax assets	18	22,068,135.62	12,530,702.92	20,606,233.59	9,909,677.25
Other non-current assets:		–	–	–	–
Total non-current assets		2,111,392,099.30	2,102,572,423.63	1,913,215,574.65	1,937,031,182.52
Total assets		12,157,451,995.38	9,805,223,077.98	11,790,028,168.32	9,468,180,552.90

BALANCE SHEET

31 December, 2010

Item	Note V	Consolidated		Parent	
		End. Balance	Beg. Balance	End. Balance	Beg. Balance
Current liabilities:					
Short-term borrowings	21	1,837,321,454.75	1,465,361,484.13	1,778,679,511.00	1,405,787,762.56
Trading financial liabilities		-	-	-	-
Notes payable	22	697,610,318.88	360,901,710.85	697,610,318.88	360,901,710.85
Accounts payable	23	1,186,424,869.96	709,751,054.23	1,182,268,267.83	692,370,670.80
Advances from customers	24	266,538,440.94	127,281,207.61	151,335,572.95	77,174,971.21
Accrued employee compensation	25	40,603,732.05	22,201,256.78	35,531,310.75	16,108,835.48
Taxes payable	26	115,298,251.35	68,690,776.51	116,235,225.70	70,950,650.82
Interest payable	27	13,720,941.14	1,878,526.18	13,720,941.14	1,877,926.18
Dividend payable	28	67,601.63	12,785,975.61	67,601.63	55,530.29
Other payables	29	70,484,717.41	27,751,512.24	60,277,070.98	20,066,248.98
Current portion of long-term liabilities	30	-	170,705,000.00	-	170,705,000.00
Other current liabilities	31	3,295,814,462.46	3,368,133,623.01	3,296,158,939.42	3,377,250,204.55
Total current liabilities		7,523,884,790.57	6,335,442,127.15	7,331,884,760.28	6,193,249,511.72
Long-term liabilities:					
Long-term borrowings	32	624,123,248.00	-	624,123,248.00	-
Bonds payable		-	-	-	-
Long-term payables		-	-	-	-
Special purpose payables	33	24,570,000.00	24,570,000.00	24,570,000.00	24,570,000.00
Estimated liabilities	34	163,616,041.97	121,547,344.07	163,616,041.97	121,547,344.07
Deferred tax liabilities	18	33,125,408.77	52,923,326.47	33,125,408.77	51,390,443.07
Other long-term liabilities	35	34,205,906.94	13,760,555.79	33,205,906.94	13,760,555.79
Total long-term liabilities		879,640,605.68	212,801,226.33	878,640,605.68	211,268,342.93
Total liabilities		8,403,525,396.25	6,548,243,353.48	8,210,525,365.96	6,404,517,854.65
Shareholders' (Owners') equity:					
Paid-in capital (or Share Capital)	36	494,677,580.00	494,677,580.00	494,677,580.00	494,677,580.00
Capital surplus	37	821,635,348.08	896,683,298.17	821,635,348.08	896,683,298.17
Less: treasury stock		-	-	-	-
Special reserve		-	-	-	-
Surplus reserve	38	377,234,714.40	304,296,742.00	376,058,902.23	303,120,929.83
Undistributed profit	39	1,969,471,836.12	1,473,182,738.39	1,887,130,972.05	1,369,180,890.25
Translation difference		-	-	-	-
Interest belonging to parent		3,663,019,478.60	3,168,840,358.56	3,579,502,802.36	3,063,662,698.25
Non-controlling interest		90,907,120.53	88,139,365.94	-	-
Total shareholders' (Owners') equity		3,753,926,599.13	3,256,979,724.50	3,579,502,802.36	3,063,662,698.25
Total liabilities & shareholders' equity		12,157,451,995.38	9,805,223,077.98	11,790,028,168.32	9,468,180,552.90

INCOME STATEMENT

For the year ended December 31, 2010

Unit: RMB

Item	Note V	Consolidated		Parent	
		Current Year	Last Year	Current Year	Last Year
I. Total revenue	40	7,014,224,669.01	6,553,424,803.99	6,680,304,548.95	6,242,694,549.57
Total costs	40	6,076,916,959.00	5,757,813,988.47	5,790,791,584.48	5,502,493,559.02
Taxes and levies on operations	42	30,710,391.51	31,876,683.51	23,611,617.53	27,549,419.63
Selling expenses	43	58,775,317.66	37,873,926.69	54,036,140.67	31,255,346.51
General and administrative expenses	44	418,346,698.76	313,985,220.08	361,404,449.35	286,812,845.21
Financial expenses	45	-150,649,702.95	-122,948,206.40	-156,793,549.03	-123,272,980.16
Impairment loss	46	16,936,773.02	23,036,871.16	15,712,875.37	19,285,984.24
Plus:gains/Losses from fair value changes	47	-42,732,189.17	-88,168,000.99	-33,475,189.25	-97,458,203.39
Investment income	48	83,417,015.04	120,329,635.58	67,679,281.97	127,695,007.38
Including: Share of profit/loss of associates and jointly controlled entities		5,186,833.93	7,069,170.05	695,781.05	755,344.46
II. Operating Profit		603,873,057.88	543,947,955.07	625,745,523.30	528,807,179.11
Plus:non-operating Profits	49	239,117,418.11	84,703,157.50	233,595,141.01	83,253,614.48
less: Non-operating losses	50	7,743,039.36	14,963,284.04	7,537,591.53	14,692,003.05
Including:losses on disposal of non-current assets		1,826,631.37	14,385,377.12	1,752,905.66	14,313,053.02
III. Profit before tax		835,247,436.63	613,687,828.53	851,803,072.78	597,368,790.54
Less: Income tax	51	124,742,889.51	92,871,675.65	122,405,296.18	84,640,209.94
IV. Net profit/loss		710,504,547.12	520,816,152.88	729,397,776.60	512,728,580.60
Net profit before being consolidated					
Attributable to the parent company		707,736,792.53	514,961,903.36	729,397,776.60	512,728,580.60
Attributable to Non-controlling Interests		2,767,754.59	5,854,249.52	-	-
V. EPS					
Basic EPS	52	1.43	1.04	-	-
Diluted EPS	52	-	-	-	-
VI. Other Comprehensive Income	53	-75,047,950.09	129,123,712.50	-75,047,950.09	129,123,712.50
VII. Total Comprehensive Income		635,456,597.03	649,939,865.38	654,349,826.51	641,852,293.10
Attributable to the parent company		632,688,842.44	644,085,615.86	654,349,826.51	641,852,293.10
Attributable to Non-controlling Interests		2,767,754.59	5,854,249.52	-	-

CASH FLOW STATEMENT

For the year ended December 31, 2010

Unit: RMB

Item	Note V	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		8,231,616,597.27	6,396,316,353.64	6,561,234,464.71	4,761,107,359.20
Refunds of taxes		332,433,428.06	490,204,189.18	327,406,670.21	485,035,312.43
Other cash receipts relating to operating activities	54	185,001,170.96	69,061,115.28	78,836,553.67	50,035,082.35
Sub-total of cash inflows		8,749,051,196.29	6,955,581,658.10	6,967,477,688.59	5,296,177,753.98
Cash paid for goods and services		6,374,635,179.12	6,118,407,094.32	5,220,435,908.01	4,997,271,377.22
Cash paid to and on behalf of employees		856,540,540.36	758,608,638.95	397,464,564.86	384,778,356.40
Payments of all types of taxes		216,676,805.30	333,767,489.52	167,083,490.67	283,035,737.61
Other cash payments relating to operating activities	54	262,313,212.73	209,719,015.34	210,499,701.83	294,497,493.26
Sub-total of cash out flows		7,710,165,737.51	7,420,502,238.13	5,995,483,665.37	5,959,582,964.49
Net cash flows from operating activities		1,038,885,458.78	-464,920,580.03	971,994,023.22	-663,405,210.51
II. Cash flows from investing activities:					
Cash received from disposal of investments		-	797,628.69	-	797,628.69
Cash received from return on investment		77,401,008.13	2,495,857.94	79,505,681.95	7,955,442.33
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		41,907,598.39	26,073,564.06	41,661,391.00	4,700,788.90
Proceeds from disposal of subsidiaries and operations, net		-	-	-	-
Proceeds from other investing activities	54	155,644,874.62	223,575,175.75	155,307,692.75	224,658,177.61
Total cash inflow from investing activities		274,953,481.14	252,942,226.44	276,474,765.70	238,112,037.53
Payments for fixed assets, intangible assets and other long-term assets		157,195,641.85	369,610,631.16	89,390,234.71	142,754,271.70
Payments for investments		17,723,452.50	-	54,590,805.33	100,000,000.00
Payments for acquiring subsidiaries and operations, net		-	-	-	-
Payments for other investing activities	54	1,157,694,170.16	150,595,060.99	1,136,193,336.99	150,596,862.00
Total cash outflow for investing activities		1,332,613,264.51	520,205,692.15	1,280,174,377.03	393,351,133.70
Net cash flows from investing activities		-1,057,659,783.37	-267,263,465.71	-1,003,699,611.33	-155,239,096.17
III. Cash flows from financing activities:					
Proceeds from capital contributions		800,000.00	-	-	-
Incl: proceeds from capital contributions from minority interests		-	-	-	-
Proceeds from borrowings		2,914,288,537.73	2,828,694,931.20	2,557,923,074.00	1,600,676,297.37
Proceeds from debt issue		-	-	-	-
Other proceeds relating to financing activities	54	-	-	-	-
Total cash inflow from financing activities		2,915,088,537.73	2,828,694,931.20	2,557,923,074.00	1,600,676,297.37
Repayments of borrowings		2,101,585,939.45	2,750,794,616.43	1,768,952,970.10	1,533,218,645.40
Distribution of dividends or profits and interests payments		165,053,997.89	268,355,118.84	152,262,089.30	267,684,632.14
Incl: Dividend and profits paid to minority interests		-	-	-	-
Payments for other financing activities	54	2,886,612.43	6,962,991.79	17,372.83	5,669,747.33
Total cash outflow for financing activities		2,269,526,549.77	3,026,112,727.06	1,921,232,432.23	1,806,573,024.87
Net cash flows from financing activities		645,561,987.96	-197,417,795.86	636,690,641.77	-205,896,727.50
IV. Effect of exchange rate changes on cash		-3,219,669.51	112,299,223.25	-3,053,524.24	110,782,542.78
V. Net increase (decrease) in cash and cash equivalents		623,567,993.86	-817,302,618.35	601,931,529.42	-913,758,491.40
Add: Cash and cash equivalents at the beginning of the year		4,380,328,209.50	5,197,630,827.85	4,174,852,057.51	5,088,610,548.91
VI. Cash and cash equivalents at the end of the year		5,003,896,203.36	4,380,328,209.50	4,776,783,586.93	4,174,852,057.51

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

Unit: RMB

Item	Current year							
	Shareholders' (Owners') Equity Attributable to the Parent Company						Non-controlling	
	Paid-in(Share) Capital	Capital Reserves	Less: Treasury Stock	Surplus Reserves	Undistributed Profit	Others	Interest	Total Equity
I. Balance at the end of last 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
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	896,683,298.17	-	304,296,742.00	1,473,182,738.39	-	88,139,365.94	3,256,979,724.50
III. Increase (decrease) in equity in current year	-	-75,047,950.09	-	72,937,972.40	496,289,097.73	-	2,767,754.59	496,946,874.63
(i) Net profit	-	-	-	-	707,736,792.53	-	2,767,754.59	710,504,547.12
(ii) Other comprehensive income	-	-75,047,950.09	-	-	-	-	-	-75,047,950.09
Subtotal of (i) (ii)	-	-75,047,950.09	-	-	707,736,792.53	-	2,767,754.59	635,456,597.03
(iii) Shareholders' contribution and withdrawal	-	-	-	-	-	-	-	-
1. Capital Contributions	-	-	-	-	-	-	-	-
2. Share-based payment	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-
(iv) Profit distribution	-	-	-	72,937,972.40	-211,447,694.80	-	-	-138,509,722.40
1. Provision of surplus reserves	-	-	-	72,937,972.40	-72,937,972.40	-	-	-
2. Provision of Emergency funds	-	-	-	-	-	-	-	-
3. Profit distributed to owners (or shareholders)	-	-	-	-	-138,509,722.40	-	-	-138,509,722.40
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	821,635,348.08	-	377,234,714.40	1,969,471,836.12	-	90,907,120.53	3,753,926,599.13

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

Item	Last year								
	Shareholders' (Owners') Equity Attributable to the Parent Company							Non-controlling Interest	Total Equity
	Paid-in(Share) Capital	Capital Reserves	Less: Treasury Stock	Surplus Reserves	Undistributed Profit	Others			
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) Sprcial 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	

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

Unit: RMB

Item	Current year					Total Equity
	Paid-in(Share) Capital	Capital Reserves	Less: Treasury Stock	Surplus Reserves	Undistributed Profit	
I. Balance at the end of last period	494,677,580.00	896,683,298.17	-	303,120,929.83	1,369,180,890.25	3,063,662,698.25
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	896,683,298.17	-	303,120,929.83	1,369,180,890.25	3,063,662,698.25
III. Increase (decrease) in equity in current year	-	-75,047,950.09	-	72,937,972.40	517,950,081.80	515,840,104.11
(i) Net profit	-	-	-	-	729,397,776.60	729,397,776.60
(ii) Other comprehensive income	-	-75,047,950.09	-	-	-	-75,047,950.09
Subtotal of (i)(ii)	-	-75,047,950.09	-	-	729,397,776.60	654,349,826.51
(iii) Shareholders' contribution and withdrawal	-	-	-	-	-	-
1. Capital Contributions	-	-	-	-	-	-
2. Share-based payment	-	-	-	-	-	-
3. Others	-	-	-	-	-	-
(iv) Profit distribution	-	-	-	72,937,972.40	-211,447,694.80	-138,509,722.40
1. Provision of surplus reserves	-	-	-	72,937,972.40	-72,937,972.40	-
2. Provision of Emergency funds	-	-	-	-	-138,509,722.40	-138,509,722.40
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) Sprcial reserve	-	-	-	-	-	-
1. Current year provision	-	-	-	-	-	-
2. Current year employ	-	-	-	-	-	-
(iv) Balance at the end of this period	494,677,580.00	821,635,348.08	-	376,058,902.23	1,887,130,972.05	3,579,502,802.36

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

Item	Last year					
	Paid-in(Share) Capital	Capital Reserves	Less: Treasury Stock	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) Sprcial reserve	-	-	-	-	-	-
1. Current year provision	-	-	-	-	-	-
2. Current year employ	-	-	-	-	-	-
(iv) Balance at the end of this period	494,677,580.00	896,683,298.17	-	303,120,929.83	1,369,180,890.25	3,063,662,698.25

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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 registration number of the Company was changed to 440101400025144 on 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(2) Business combination not involving enterprises under common control

For a business combination not involving enterprises under common control, 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.

Accounting treatment should be different when comes to individual financial report and consolidated financial report on conditions of combination achieved in stages.

- (a) In individual financial report, the cost should be the aggregate of the book value of the investment on hand and the added cost of investment. If there are other comprehensive incomes arising from the investment on hand before the acquisition, these comprehensive incomes should be turned into investment income.
- (b) In consolidated financial report, the value of the investment on hand before combination should be revalued according to fair value at the acquisition date, the difference between the book value and the fair value should be recognized as investment income of current period. If there are other comprehensive incomes arising from the investment on hand before the acquisition, these comprehensive incomes should be turned into investment income.

The acquiring cost incurred because of receiving services such as auditing, law service, valuation and consultation should be recognized into current period profit when they happened. The trading cost of equity securities or debt securities issued as consideration of the combination should be recorded as the original value of securities.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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:

- (i) If it gives up its control over the financial asset, it shall stop recognizing the financial asset;
- (ii) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

The company divides account receivable into those without provision for impairment or those with provision for impairment. Receivables of companies in the scope of consolidation do not make provision. Those with provision are divided into single significant receivables and single insignificant receivables, and the provision method is shown as follows:

(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) Single insignificant receivables with individual provision

Insignificant receivables aged over 1 year 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) Portfolios with different age

Except individual provision, 0.5% of the receivable balances shall be accounted as impairment amount.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

12. Long-term Equity Investments

(1) Classification, recognition and measurement

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

Investments in subsidiaries

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.

Long-term equity investments 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.

Investments in associate companies and jointly controlled enterprises

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. 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 policies. Where the Company can exercise significant influence over the investee, the investee is its associate.

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.

Other long-term equity investments

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, and follow-up measurement will adopt cost method.

(2) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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:

<u>Classifications</u>	<u>Estimated useful life (Year)</u>	<u>Estimated net salvage value (%)</u>	<u>Annual depreciation rate</u>
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 vice 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.

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, except where the value stipulated in the contract or agreement is not fair.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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

<u>Classifications</u>	<u>Useful life</u>	<u>Estimated residual value rate</u>	<u>Annual depreciation rate (%)</u>
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 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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 recognised 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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.

NOTES TO THE FINANCIAL STATEMENTS

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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 lessor*

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. Hold for Sale Assets

Non-current assets should be recognized as hold for sale assets when meet the following conditions: (a) the company has decided to disposal the non-current asset. (b)The company has signed contract of disposal that can not be cancelled. (c)The disposal can be achieved in one year. Hold for sale assets including signal asset and disposal group. Disposal group is a group assets that would be sold together or other manner.

The company will adjust the predict net value of the hold for sale fixes assets so that the net value can reflect its fair value minus the costs of disposal, but the predict net value should not exceed the book value of the fixed asset when it was recognized as hold for sale. If the book value is higher, the difference between them should be charged into profit.

Other hold for sale assets should following the similar route as shown above but the following should not included: deferred income tax assets, financial assets under CAS22, investment property measured at fair value, biological assets, and rights from insurance contract.

24. 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.

25. Changes in Accounting Policies, and Accounting Estimates

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

26. Changes in Corrections of Errors

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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	Notes
Business Tax	Transportation and construction installation Other services	3% 5%	
Value-added Tax	The sale of goods and provision of processing, repairing, repair services	17%	
Urban Maintenance and Construction Tax	Sales except the oil and gas exports Turnover tax payable during the year	0% 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%
Guangzhou United Steel Structures 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.

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IV BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. As at December 31, 2010, 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 (<i>'000</i>)	Legal representative	Business Scope
Guangzhou Masterwood Shipbuilding Company Limited	Subsidiary of holding company	Guangzhou	Furniture manufacturing	USD600	Jin Lichao	Manufacture and sales of all kind of furniture
Guangzhou Xingshun Shipping Service Co., Ltd.	Subsidiary of holding company	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 Co., Ltd.	Subsidiary of holding company	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 of holding company	Guangzhou	Elevator installation	RMB21,000	Ling Yuan	Installation, welding, fitting of elevator
Guangzhou Hongfan Information Technique Co., Ltd.	Subsidiary of holding company	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 of holding company	Guangzhou	Labor service supply	RMB500	Tan Tinggui	Provincial labor employment introduction, marine installation
Guangzhou Hongfa Hotel Co., Ltd.	Subsidiary of holding company	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	Chen Liping	Trading
Guangzhou GSI Large-size Heavy Mechanical Equipment Co., Ltd.	wholly-owned subsidiary	Guangzhou	Designing, manufacturing and installing	RMB188,610	Zhong Jian	Designing, manufacturing, installing and selling marine auxiliaries, set of heavy machinery
Zhongsan GSI Marine Engineering Co., Ltd	wholly-owned subsidiary	Guangzhou	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
Special Skills of Shipbuilding Industry 007 Evaluation Station	wholly-owned subsidiary	Guangzhou	Evaluation special career skills	RMB800	Tan Tinggui	Evaluation special career skills of shipping industry

NOTES TO THE FINANCIAL STATEMENTS

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(Continued)

Subsidiaries	Holding Ratio		Representative Ratio	Investment As at the Year End	Other item substantially constitute investment	Consolidated (Y/N)
	Direct	Indirect				
Guangzhou Masterwood Shipbuilding Company Limited	51%	25%	76%	1,690,742.00	–	Y
Guangzhou Xingshun Shipping Service Co., Ltd.	83%	16.184%	99.514%	1,666,600.00	–	Y
Guangzhou United Steel Structures Co., 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 Marine Human Resource Service Co., Ltd	80%	15.2%	95.2%	400,000.00	–	Y
Guangzhou Hongfa Hotel Co., Ltd.		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 Heavy Mechanical Equipment Co., Ltd.	100%		100%	188,610,000.00	–	Y
Zhongshan GSI Marine Engineering Co., Ltd	100%		100%	100,000,000.00	–	Y
Special Skills of Shipbuilding Industry 007 Evaluation Station	100%		100%	800,000.00	–	Y

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

<u>Subsidiaries</u>	<u>Type of company</u>	<u>Organization code</u>	<u>Minority interest</u>	<u>Amount of minority interest to offset minority loss</u>	<u>Amount of parent equity to offset extra minority shareholder loss that exceed the proportion minority shareholder should bear</u>
Guangzhou Masterwood Shipbuilding Company Limited	State holding	61841220-X	1,919,093.12	-	-
Guangzhou Xingshun Shipping Service Co., Ltd.	State holding	231249006	21,017.30	-	-
Guangzhou United Steel Structures Co., Ltd.	Sino-foreign joint venture	61843570-0	78,157,908.33	-	-
Guangdong GSI Elevator Co., Ltd.	State holding	23112891-7	390,114.00	-	-
Guangzhou Hongfan Information Technique Co., Ltd.	State holding	70825764-5	7,475,703.63	-	-
Guangzhou Guangli Marine Human Resource Service Co., Ltd	State holding	19047465-2	303,171.26	-	-
Guangzhou Hongfa Hotel Co., Ltd.	State holding	63320352-9	49,000.61	-	-
Glory Group Developing Co., Ltd.	State holding	190445392	-	-	-
Fonkwang Developing Co., Ltd.	State holding	190440559	2,591,112.28	-	-
Guangzhou GSI Large-size Heavy Mechanical Equipment Co., Ltd.	State holding	68132734-X	-	-	-
Zhongshan GSI Marine Engineering Co., Ltd	State holding	684420937	-	-	-
Special Skills of Shipbuilding Industry 007 Evaluation Station	State holding	G3410567-5	-	-	-

2. Changes of Consolidation Scope

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

<u>Name</u>	<u>Reason</u>	<u>Ending balance of net asset</u>	<u>Net profit for current period</u>
Special Skills of Shipbuilding Industry 007 Evaluation Station	Note	811,343.59	-76,871.10

Note: The Company found out that Special Skills of Shipbuilding Industry 007 Evaluation Station is its wholly-owned subsidiary when checking up and the 2010-44 general manager meeting decided to consolidate the company this period.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

V NOTES TO CONSOLIDATED ACCOUNTS

1. Cash and Cash Equivalents

Item	Ending balance			Beginning balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
1. CASH						
RMB	132,377.78	1.0000	132,377.78	118,699.87	1.0000	118,699.87
USD	3,567.80	6.6227	23,628.47	2,417.80	6.8282	16,509.22
HKD	77,068.84	0.8509	65,577.87	35,867.95	0.8805	31,581.73
GBP	917.25	10.2182	9,372.64	917.25	10.9780	10,069.57
EUR	954.84	8.8065	8,408.80	954.84	9.7971	9,354.66
Subtotal			239,365.56			186,215.05
2. BANK						
RMB	4,895,152,854.35	1.0000	4,895,152,854.35	4,204,423,156.46	1.0000	4,204,423,156.46
USD	13,183,550.95	6.6227	87,310,702.88	23,807,463.78	6.8282	162,562,124.16
HKD	13,483,920.88	0.8509	11,473,468.29	10,367,005.02	0.8805	9,128,147.92
EUR	1,083,221.63	8.8065	9,539,391.28	388,471.36	9.7971	3,805,892.77
Subtotal			5,003,476,416.80			4,379,919,321.31
3. Other monetary funds						
RMB	2,212,802,777.90	1.0000	2,212,802,777.90	1,072,140,501.33	1.0000	1,072,140,501.33
Subtotal			2,212,802,777.90			1,072,140,501.33
Total			7,216,518,560.26			5,452,246,037.69

Note 1: The ending balance of other monetary funds include credit card deposit RMB180,421.00 and fixed deposit RMB2,207,358,370.54 as guaranty, guarantee deposits RMB5,263,986.36.

Note 2: As at December 31, 2010, there is no pledge, frozen risk related to the Company's cash except those shown above.

Note 3: As at December 31, 2010, the company Deposit RMB313,559,558.65 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.

Note 4: The increase of 32.36% in balance compared to the beginning is resulted from bank loan and progress payment.

2. Trading Financial Assets

Item	Ending Fair Value	Beginning Fair Value
Financial assets designated as at fair value through current profit or loss	21,227,664.57	63,993,056.22
Total	21,227,664.57	63,993,056.22

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 66.83% 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

3. Notes Receivable

Item	Ending Balance	Beginning Balance
Bank Acceptance	3,357,384.82	300,000.00
Commercial Acceptance	103,600,000.00	—
Total	106,957,384.82	300,000.00

Note: The increase of 35,552.46% in balance compared to the beginning is resulted from the new commercial acceptance note receivable(progress payment), and the note matured on January 22,2011..

4. Accounts Receivable

(1) Classification based on significance:

Classification	Ending Balance				
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	—	—	—	—	—
Individually insignificant but provision individually	8,317,147.74	3.38%	6,632,791.17	79.75%	1,684,356.57
Provision percent of ending balance	237,559,443.15	96.62%	1,313,473.12	0.50%	236,245,970.03
Total	245,876,590.89	100.00%	7,946,264.29	3.23%	237,930,326.60

Classification	Beginning Balance				
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	—	—	—	—	—
Individually insignificant but provision individually	6,295,721.13	1.84%	4,844,009.88	76.94%	1,451,711.25
Provision percent of ending balance	335,070,184.36	98.16%	1,654,616.84	0.50%	333,415,567.52
Total	341,365,905.49	100.00%	6,498,626.72	1.90%	334,867,278.77

Foreign currency included in the balance:

Clients	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	8,076,212.70	6.6227	53,486,333.85	14,515,839.83	6.8282	99,117,057.53
HKD	361,247.34	0.8509	307,385.36	1,263,559.32	0.8805	1,112,563.98
EUR				4,269,536.74	9.7971	41,829,078.40
MOP	1,557,986.79	0.8265	1,287,676.08	5,656,385.17	0.8555	4,839,037.51
Total	—	—	55,081,395.29	—	—	146,897,737.42

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

Classification based on aging:

Aging	Ending Balance			
	Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	196,586,223.68	82.75%	1,108,607.02	195,477,616.66
1-2 year (Inclusive)	39,931,693.65	16.81%	199,658.47	39,732,035.18
2-3 year(Inclusive)	300,039.74	0.13%	1,500.20	298,539.54
3-4 year(Inclusive)	225,045.17	0.09%	1,125.23	223,919.94
4-5 year(Inclusive)	516,440.91	0.22%	2,582.20	513,858.71
Over 5 year				
Total	<u>237,559,443.15</u>	<u>100.00%</u>	<u>1,313,473.12</u>	<u>236,245,970.03</u>

Aging	Beginning Balance			
	Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	321,658,674.02	96.00%	1,587,559.30	320,071,114.72
1-2 year (Inclusive)	5,516,722.83	1.65%	27,583.61	5,489,139.22
2-3 year(Inclusive)	4,633,231.14	1.38%	23,166.15	4,610,064.99
3-4 year(Inclusive)	3,225,791.50	0.96%	16,128.96	3,209,662.54
4-5 year(Inclusive)	35,764.87	0.01%	178.82	35,586.05
Over 5 year				
Total	<u>335,070,184.36</u>	<u>100.00%</u>	<u>1,654,616.84</u>	<u>333,415,567.52</u>

(2) Individually insignificant but provision individually

Item	Book value	Bad Debt Allowance	Ratio	Reason
Macao Ludang Co., ltd	863,566.90	863,566.90	100%	Financial predicament
Federal metal project Co., ltd	407,502.39	407,502.39	100%	Financial predicament
WHL-FONKWANG	4,839,037.51	3,387,326.26	70%	Dispute, promised to pay 30%
Chongqing Yuandong fushi jidian company	940,840.00	740,140.00	100%	Long period and financial predicament
Chongqing nanfang group company	270,874.04	270,874.04	100%	Long period and financial predicament
Chongqing Yicheng zhiye company	306,945.32	275,000.00	100%	Long period and financial predicament
Hunan Lianxiang elevator company	146,537.20	146,537.20	100%	Long period and financial predicament
Hubei Dongfang Yule company	20,000.00	20,000.00	100%	Long period and financial predicament
Chengdu Xingguanghua company	28,694.38	28,694.38	100%	Long period and financial predicament
Kunming chuncheng elevator company	81,400.00	81,400.00	100%	Long period and financial predicament
Guilin Hongyun elevator company	398,250.00	398,250.00	100%	Long period and financial predicament
Wuzhou Public Security Bureau	13,500.00	13,500.00	100%	Refuse to pay on excuse of quality of product
Total	<u>8,317,147.74</u>	<u>6,632,791.17</u>		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(3) Switched back or received

Item	Reason	Basis for provision	Provision before switched back or received	Amount switched or received
Shunde Yucheng Municipal Engineering Company	Improve financial conditions	Financial predicament	937,473.62	500,000.00
Wuzhou Public Security Bureau	Partly solved	Refuse to pay on excuse of quality of product	33,000.00	19,500.00
Lianzhou the sixth civil Engineering Company	Check up	Reorganization without public notice and check up	2,400.00	2,400.00
Total			972,873.62	521,900.00

(4) Write off receivable

Name	Related party	Ending balance	Aging	Amount writing off	Reason
Shunde Yucheng Municipal Engineering Company	N		3-4 years	437,473.62	Amicable settlement and write off the residual decided by the general office meeting
Shenzhen Jinyuan stainless mental company	N		4-5 years	3,228.93	Decided by the court
Total				440,702.55	

(5) Up to December 31, 2010, 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
Zhonghai Ganglian Hangyu Co., Ltd.	External customer	104,664,159.40	Within 1 year	42.57%
Denmark NORDN Co., Ltd.	External customer	46,474,764.14	Within 1 year	18.90%
CSSC Guangzhou Longxue Shipyard Co., Ltd.	Same parent company	17,621,737.45	Within 1 year	7.17%
Asia Aluminum (China) Co., Ltd.	External customer	14,870,541.54	1-2 years	6.05%
CSSC Jiangnan Heavy Industry Co., Ltd.	Ultimate control of CSSC	13,000,861.76	1-2 years	5.29%
Total		196,632,064.29		79.98%

(7) Balance with related party

Balance with related party is 40,528,337.23. Details are shown in Note VI 3.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

5. Advances to Suppliers

(1) Classification based on aging:

Aging	Ending Balance		Beginning Balance	
	Amount	Ratio	Amount	Ratio
Within one year	393,046,147.06	87.42%	236,667,084.65	79.12%
1-2 years (Inclusive)	50,452,880.14	11.22%	61,915,094.92	20.70%
2-3 years (Inclusive)	5,783,836.04	1.29%	557,580.94	0.18%
Over 3 years	341,580.94	0.08%		
Total	<u>449,624,444.18</u>	<u>100.00%</u>	<u>299,139,760.51</u>	<u>100.00%</u>

Foreign currency included in the balance:

Item	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	7,678,185.73	6.7668	51,956,747.19	3,828,159.24	6.7926	26,003,132.21
EUR	22,763,485.20	8.9872	204,578,938.10	4,185,386.28	10.0948	42,250,537.15
Total			<u>256,535,685.29</u>			<u>68,253,669.36</u>

(2) Top 5 balance

Suppliers' Name	Relationship with the company	Ending balance	Proportion	Time of payment	Reason
Dalian Marine Diesel Engine Factory	External	110,665,000.00	24.61%	Within 1 year	Contract undue
CSIC 704 Research Institute	External	60,677,500.00	13.50%	Within 1 year	Contract undue
Chongqing Steel Ltd.	External	55,836,022.04	12.42%	Within 1 year	Contract undue
WARTSILA	External	48,228,858.18	10.73%	1-2 years	Contract undue
Zhenjiang CSSC Equipment Ltd.	Under the Same Control of CSSC	37,200,000.00	8.27%	Within 1 year	Contract undue
Total		<u>312,607,380.22</u>	<u>69.53%</u>		

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

Suppliers	Ending Balance	Aging	Unsettled Reason
WARTSILA Co., Ltd.	48,228,858.18	1-2 years	Unsettled
CSSC Huanan Shipping Machine Co., Ltd.	2,520,000.00	2-3 years	Progress payment
Guangzhou Panyu Yuanhang propeller Co., Ltd.	<u>1,171,856.25</u>	2-3 years	Progress payment
Total	<u>51,920,714.43</u>		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

- (4) Up to December 31, 2010, there is no advances to suppliers of shareholders holding 5% or more than 5% of the voting stocks. As at December 31, 2010, balance of advances to suppliers with related party amounts to RMB68,458,851.85, details refer to Notes VI 3.
- (5) The Reasons for increase of 50.31% in balance compared to the beginning is more orders for material than last year.

6. Interest Receivables

<u>Borrowers</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Fixed deposit interest	82,320,687.20	132,421,540.13	151,866,470.45	62,875,756.88
Total	82,320,687.20	132,421,540.13	151,866,470.45	62,875,756.88

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

7. Dividends Receivables

<u>Borrowers</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Zhenjiang CSSC Power Equipment Ltd.	-	4,800,000.00	-	4,800,000.00
South China Marine and Industrial Special Coating Co., Ltd.	-	677,728.60	-	677,728.60
Total	-	5,477,728.60	-	5,477,728.60

8. Other Receivables

- (1) Classification based on significance:

<u>Classification</u>	<u>Amount</u>	<u>Ratio</u>	<u>Ending Balance</u>		<u>Net Value</u>
			<u>Bad Debt Allowance</u>	<u>Provision Proportion</u>	
Individually significant balance	10,340,232.15	3.43%	10,340,232.15	100.00%	-
Individually insignificant but provision individually	57,600.00	0.02%	57,600.00	100.00%	-
Provision percent of ending balance	291,310,318.71	96.55%	1,427,327.61	0.50%	289,882,991.10
Total	301,708,150.86	100.00%	11,825,159.76	3.92%	289,882,991.10

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

Classification	Beginning Balance				
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	10,340,232.15	8.28%	8,360,252.99	80.85%	1,979,979.16
Individually insignificant but provision individually	-	-	-	-	-
Provision percent of ending balance	114,471,304.77	91.72%	1,207,935.84	0.50%	113,263,368.93
Total	124,811,536.92	100.00%	9,568,188.83	7.67%	115,243,348.09

Foreign currency included in the balance:

Item	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	-	-	-	5,000.00	6.8282	34,141.00
Total	-	-	-	-	-	34,141.00

(2) Classification based on aging:

Aging	Ending Balance			
	Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	288,993,963.12	99.20%	1,415,745.83	287,578,217.29
1-2 year (Inclusive)	2,087,018.00	0.72%	10,435.09	2,076,582.91
2-3 year (Inclusive)	60,937.59	0.02%	304.69	60,632.90
3-4 year (Inclusive)	120,000.00	0.04%	600.00	119,400.00
4-5 year (Inclusive)	2,400.00	0.00%	12.00	2,388.00
Over 5 year	46,000.00	0.02%	230.00	45,770.00
Total	291,310,318.71	100.00%	1,427,327.61	289,882,991.10

Aging	Beginning Balance			
	Amount	Ratio	Bad Debt Allowance	Net Value
Within 1 year	112,329,272.77	98.13%	1,197,225.68	111,132,047.09
1-2 year (Inclusive)	1,509,992.00	1.32%	7,549.96	1,502,442.04
2-3 year (Inclusive)	187,614.00	0.16%	938.07	186,675.93
3-4 year (Inclusive)	344,826.00	0.30%	1,724.13	343,101.87
4-5 year (Inclusive)	30,000.00	0.03%	150.00	29,850.00
Over 5 year	69,600.00	0.06%	348.00	69,252.00
Total	114,471,304.77	100.00%	1,207,935.84	113,263,368.93

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

- (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	10,340,232.15	100%	Note
Guangzhou chengjian Archives	57,000.00	57,000.00	100%	
Total	10,397,232.15	10,397,232.15		

Note: Trusted deposits has been exchanged for some assets with Guangzhou Notional Investment Corp. under Debt Restructuring Agreement. According to the "Delegatio Nominis contract" 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, 2010 The Company had not realized the creditor's rights, and shall pay attention to further following up.

- (4) Up to December 31, 2010, there are no other receivables of shareholders holding 5% or more than 5% of the voting stocks; balance of other receivables with related party amounts to RMB0.00.

- (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	273,451,338.46	Within 1 year	90.63%
Hong Kong Guanghong International Corp	Trust deposit	External customer	10,340,232.15	Over 5 years	3.43%
Jiangsu Shenghua Ship-building Company	Advance for electricity	External customer	1,000,000.00	Within 1 year	0.33%
Foshan weixing investment and development Co.,Ltd	Deposit for rent ground	External customer	960,000.00	Within 6 months	0.32%
Zhongshan Nongcun Power Supply Company	Deposit for electricity	External customer	892,000.00	Within 2 years	0.30%
Total			286,643,570.61		95.01%

- (6) The increase of 151.54% in balance compared to the beginning is mainly resulted from the increase of export rebates.

9. Inventories

- (1) Classification of inventories are listed as below:

Item	Ending Balance			Beginning Balance		
	Book value	Impairment	Net value	Book value	Impairment	Net value
Raw Materials	469,785,775.43	10,990,667.46	458,795,107.97	443,406,536.23	12,454,663.89	430,951,872.34
Work-in-Process	404,837,765.00	10,995,025.20	393,842,739.80	301,080,667.06	276,115.95	300,804,551.11
Commodity/Finished Goods	5,239,129.13	284,253.98	4,954,875.15	4,359,626.59	-	4,359,626.59
Inventories under construction contract	764,019,750.52		764,019,750.52	596,591,244.78	-	596,591,244.78
Goods in transit	33,952,565.63		33,952,565.63	22,042,936.59	209,745.54	21,833,191.05
Total	1,677,834,985.71	22,269,946.64	1,655,565,039.07	1,367,481,011.25	12,940,525.38	1,354,540,485.87

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(2) Movement of provision for impairment:

Categories	Beginning Balance	Increase	Decrease		Ending Balance
			Reverse	Write-off	
Raw Materials	12,454,663.89	2,257,998.74	469,700.00	3,252,295.17	10,990,667.46
Work-in-Process	276,115.95	10,718,909.25	-	-	10,995,025.20
Commodity/Finished Goods	-	284,253.98	-	-	284,253.98
Goods in transit	209,745.54	-	-	209,745.54	-
Total	12,940,525.38	13,261,161.97	469,700.00	3,462,040.71	22,269,946.64

(3) Reasons for movement of provision

Item	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 of taxation)	Market price of TUX materials increase	0.1%
Work-in-Process	Book value is higher than net reliable value (Estimated selling price minus expenses of selling)		
Commodity/Finished Goods	Book value is higher than net reliable value (Estimated selling price minus expenses of taxation)		

Note: The increase of 22.22% in balance compared to the beginning is resulted from the increase of product of steel structure and ships under construction.

10. 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	266,791,996.50	337,360,250.00
Total	266,791,996.50	337,360,250.00
Less: Impairment provisions for available-for-sale financial assets		
Net Value	266,791,996.50	337,360,250.00

(2) Details about bonds available-for-sale:

Item	Ending Fair Value	Beginning Fair Value
China Merchants Bank Co., Ltd.	222,991,996.50	278,060,250.00
China Merchants Energy Shipping Co., Ltd.	41,100,000.00	56,600,000.00
Membership of Wuhan Gold and Silver Golf Club	2,700,000.00	2,700,000.00
Total	266,791,996.50	337,360,250.00

Note: As at December 31, 2010, 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, 2010. The company paid RMB17,723,452.50 as consideration for CMBC allotment of 2,002,650 stocks.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

11. Investment in Joint Venture and Association

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

Investee	Holding Ratio	Representative Ratio	Ending total assets	Ending total liability	Ending total net assets	Current year revenue cumulative	Current year net profit
Association							
South China Marine and Industrial Special Coating Co., Ltd.	25%	25%	20,186,517.41	6,263,275.83	13,923,241.58	34,547,926.29	2,773,986.88
Zhanjiang South Ocean Marine Services Inc.	40%	40%	4,215,345.80	2,186,865.34	2,028,480.46	3,606,193.88	5,710.80
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	32%	32%	189,928,076.23	67,887,128.65	122,040,947.58	182,270,246.26	14,034,540.25

12. 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 Metho	1,722,060.00	3,449,192.62	15,768.13	3,464,960.75
Zhanjiang South Ocean Marine Services Inc.	Equity Metho	800,000.00	812,098.43	2,284.32	814,382.75
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	Equity Metho	15,558,800.00	35,718,317.85	-308,947.12	35,409,370.73
Total		19,980,860.00	41,879,608.90	-290,894.67	41,588,714.23

Investee	Holding ration	Representative Ratio	Impairment	Current year impairment provision	Current year cash bonus
Shenzhen Yuanzhou Science & Technology Industry	7%	7%	-	-	-
CSSC Information Co., Ltd.	15%	15%	-	-	-
South China Marine and Industrial Special Coating Co., Ltd.	25%	25%	-	-	677,728.60
Zhanjiang South Ocean Marine Services Inc.	40%	40%	-	-	-
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	32%	32%	-	-	4,800,000.00
Total	-	-	-	-	5,477,728.60

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

13. Investment Property

(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	99,085,165.29	–	1,517,890.00	97,567,275.29
House and Buildings	99,085,165.29	–	1,517,890.00	97,567,275.29
2. Accumulated Depreciation (Amortization)	7,378,319.65	786,116.67	179,467.65	7,984,968.67
House and Buildings	7,378,319.65	786,116.67	179,467.65	7,984,968.67
3. Net value before impairment	91,706,845.64	–	–	89,582,306.62
House and Buildings	91,706,845.64	–	–	89,582,306.62
4. Provision for Impairment	17,344,400.27	–	–	17,344,400.27
House and Buildings	17,344,400.27	–	–	17,344,400.27
5. Net Value	74,362,445.37	–	–	72,237,906.35
House and Buildings	74,362,445.37	–	–	72,237,906.35

Note 1: Current year amortization is 786,116.67.

Note 2: the decreased amount of investment property is mainly resulted from selling.

14. 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	2,072,989,138.25	226,111,050.97	130,434,793.12	2,168,665,396.10
1. House and Buildings	980,679,722.84	129,995,078.12	120,423,247.01	990,251,553.95
2. Machinery Equipment	1,006,373,387.27	85,395,487.44	7,596,030.66	1,084,172,844.05
3. Transportation Vehicles	33,932,684.94	4,983,674.42	757,943.00	38,158,416.36
4. Other	52,003,343.20	5,736,810.99	1,657,572.45	56,082,581.74
(2) Accumulated depreciation	820,583,359.68	109,427,109.54	21,041,650.81	908,968,818.41
1. House and Buildings	265,862,887.45	34,952,824.45	12,425,151.14	288,390,560.76
2. Machinery Equipment	514,320,557.36	68,307,616.37	6,241,865.59	576,386,308.14
3. Transportation Vehicles	14,004,995.63	2,599,973.43	720,205.85	15,884,763.21
4. Other	26,394,919.24	3,566,695.29	1,654,428.23	28,307,186.30
(3) Net Value before impairment	1,252,405,778.57	–	–	1,259,696,577.69
1. House and Buildings	714,816,835.39	–	–	701,860,993.19
2. Machinery Equipment	492,052,829.91	–	–	507,786,535.91
3. Transportation Vehicles	19,927,689.31	–	–	22,273,653.15
4. Other	25,608,423.96	–	–	27,775,395.44
(4) Accumulated impairment	–	–	–	–
(5) Net value	1,252,405,778.57	–	–	1,259,696,577.69
1. House and Buildings	714,816,835.39	–	–	701,860,993.19
2. Machinery Equipment	492,052,829.91	–	–	507,786,535.91
3. Transportation Vehicles	19,927,689.31	–	–	22,273,653.15
4. Other	25,608,423.96	–	–	27,775,395.44

Note 1: Accumulated depreciation during the year amounted to RMB109,427,109.54.

Note 2: Total fixed asset transferred from construction-in-progress during the year amounted to RMB121,859,806.24.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

- (2) There are no temporary idle fixed assets.
- (3) Assets have not obtain certificate of the title.

Code of the asset	Item	Original cost	Area(m*m)	Reason	Expected time to obtain
A001682	Electro mechanics Room	28,173,539.24	12,404	Checking for acceptance	30 September 2011
A001683-2	The fifth floor of the office building (3-5)	5,005,274.51	2,655	Checking for acceptance	30 September 2011
A001683-1	The fifth floor of the office building (original 2)	3,466,681.49	1,770	Checking for acceptance	30 September 2011

15. Construction-in-Progress

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

Item	Ending balance			Beginning balance		
	Amount	Depreciation	Net value	Amount	Depreciation	Net value
Construction fees of Zhongshang GSI Marine Engineering Co., Ltd.	79,196,426.99		79,196,426.99	223,946,109.81		223,946,109.81
Dock prolong 80T, 400T (1st period)	23,730,853.50		23,730,853.50	11,236,739.72		11,236,739.72
Simple steel shed of Guangchuan International (1-5)	5,713,537.17		5,713,537.17	-		-
Dolphin addition of Changzhou dock	4,663,916.47		4,663,916.47	3,249,601.96		3,249,601.96
2 sets 100 cube air compressor	3,992,218.61		3,992,218.61	-		-
Improvement of huge equipment	3,497,487.97		3,497,487.97	1,779,071.22		1,779,071.22
1 set 200 cube air compressor	2,871,368.15		2,871,368.15	-		-
New area group room	2,757,108.55		2,757,108.55	-		-
Cable for brine crock of general arm 2	2,747,871.76		2,747,871.76	-		-
Improvement of secrecy net	2,631,006.06		2,631,006.06	2,201,744.78		2,201,744.78
Preconstruction cost of zhongshan ship base	2,482,965.21		2,482,965.21	2,340,251.24		2,340,251.24
Old dock reinforcement	1,957,007.02		1,957,007.02	-		-
Prolong of large dock	1,474,465.09		1,474,465.09	1,403,479.01		1,403,479.01
Other project	8,591,995.25		8,591,995.25	21,285,934.10		21,285,934.10
Electric device and road light outside machine progress centre	-		-	10,520,560.89		10,520,560.89
Longxue base work shop	-		-	7,063,185.22		7,063,185.22
Ground around application workshop	-		-	6,227,890.04		6,227,890.04
Preconstruction cost of Longxue base	-		-	3,944,347.23		3,944,347.23
Total	146,308,227.80		146,308,227.80	295,198,915.22		295,198,915.22

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(2) Basic Status and Movements of significant project:

Item	Budget	capital source	Beginning Balance	Increase
			amount	amount
				Including: Capitalized interest
				Including: Capitalized interest
Ground around application workshop	23,210,000.00	Self-finance	6,227,890.04	3,020,403.18
Prolong of large dock	28,320,000.00	Self-finance	1,403,479.01	70,986.08
Dock prolong 80T,400T (1st period)		Self-finance	11,236,739.72	13,274,117.15
Improvement of secrecy net	3,050,000.00	Self-finance	2,201,744.78	871,363.82
Preconstruction for SMship fitting-out project	8,120,000.00	Self-finance	2,340,251.24	
Preconstruction cost of zhongshan ship base	2,700,000.00	Self-finance	2,482,965.21	
Dolphin addition of Changzhou dock	7,200,000.00	Self-finance	3,249,601.96	1,414,314.51
Preconstruction cost of Longxue base	720,000.00	Self-finance	3,944,347.23	
Longxue base work shop	92,720,000.00	Self-finance	7,063,185.22	
Electric device and road light outside machine progress centre	17,000,000.00	Self-finance	10,520,560.89	
Drain out project of road outside machine progress centre	3,000,000.00	Self-finance	1,779,071.22	
Material department office improvement	1,400,000.00	Self-finance	405,861.39	1,084,844.14
Old dock reinforcement	9,000,000.00	Self-finance		1,957,007.02
1 set 200 cube air compressor	4,375,000.00	Self-finance	395,896.23	2,713,242.59
2 sets 100 cube air compressor	4,375,000.00	Self-finance	514,790.25	3,626,180.50
Environment improvement phase 2	2,200,000.00	Self-finance	419,160.54	3,225,906.09
Simple steel shed of Guangchuan International (1-5)	4,920,000.00	Self-finance		5,713,537.17
Cable for brine crock of general arm 2	4,700,000.00	Self-finance		2,747,871.76
New area group room	8,000,000.00	Self-finance		3,404,988.04
Others		Self-finance	17,067,260.48	75,292,240.35
Construction fees of Zhongshang GSI Marine Engineering Co., Ltd.	793,140,000.00	Self-finance	223,946,109.81	81,776,112.05
Total	1,018,150,000.00		295,198,915.22	200,193,114.45

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(Amounts in Renminbi yuan unless otherwise stated)

Item	Budget	capital source	Beginning Balance		Increase	
			amount	Including: Capitalized interest	amount	Including: Capitalized interest
Ground around application workshop	9,248,293.22	9,248,293.22			Completed	
Prolong of large dock			1,474,465.09		In progress	89.00%
Dock prolong 80T,400T (1st period)	780,003.37	780,003.37	23,730,853.50		In progress	
Improvement of secrecy net	442,102.54	442,102.54	2,631,006.06		In progress	86.26%
Preconstruction for SMship fitting-out project	2,340,251.24	2,340,251.24			Completed	
Preconstruction cost of Zhongshan ship base			2,482,965.21		In progress	91.96%
Dolphin addition of Changzhou dock			4,663,916.47		In progress	64.78%
Preconstruction cost of Longxue base	3,944,347.23	3,944,347.23			Completed	
Longxue base work shop	7,063,185.22	7,063,185.22			Completed	
Electric device and road light outside machine progress centre	10,520,560.89	10,520,560.89			Completed	
Drain out project of road outside machine progress centre	1,779,071.22	1,779,071.22			Completed	
Material department office improvement	1,490,705.53	1,490,705.53			Completed	
Old dock reinforcement			1,957,007.02		In progress	21.74%
1 set 200 cube air compressor	237,770.67	237,770.67	2,871,368.15		In progress	65.63%
2 sets 100 cube air compressor	148,752.14	148,752.14	3,992,218.61		In progress	91.25%
Environment improvement phase2	3,645,066.63	3,645,066.63			Completed	80.25%
Simple steel shed of Guangchuan International (1-5)			5,713,537.17		In progress	
Cable for brine crock of general arm 2			2,747,871.76		In progress	58.47%
New area group room	647,879.49	647,879.49	2,757,108.55		In progress	34.46%
Others	80,270,017.61	79,571,816.85	12,089,483.22		In progress	
Construction fees of Zhongshang GSI Marine Engineering Co., Ltd.	226,525,794.87		79,196,426.99		In progress	38.55%
Total	349,083,801.87	121,859,806.24	146,308,227.80			

Note: The decrease of 50.44% in balance compared to the beginning is resulted from the transfer of land using right of Zhongshan Guangchuan International Ship and Ocean Project Co., Ltd to intangible asset.

16. Disposal of Fixed Assets

Item	Ending balance	Beginning balance	Reason for transfer
Machine and equipment	261,149.08		Scrapped
Total	261,149.08		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

17. Intangible Assets and Development Costs

(1) Amortization and impairment of intangible assets:

Item	Beginning Balance	Increase during Current Year	Decrease during Current Year	Ending Balance
(1) Total Costs	140,690,953.86	223,630,647.28		364,321,601.14
1. Land use right	79,395,716.06	222,946,916.52		302,342,632.58
2. Technology without patent	61,295,237.80	683,730.76		61,978,968.56
(2) Total Accumulated Amortization	51,856,231.21	10,025,977.90		61,882,209.11
1. Land use right	21,157,637.97	4,584,304.50		25,741,942.47
2. Technology without patent	30,698,593.24	5,441,673.40		36,140,266.64
(3) Net value before impairment	88,834,722.65	-	-	302,439,392.03
1. Land use right	58,238,078.09	-	-	276,600,690.11
2. Technology without patent	30,596,644.56	-	-	25,838,701.92
(4) Provision for impairment for intangible assets				
(5) Total book value of intangible assets	88,834,722.65	-	-	302,439,392.03
1. Land use right	58,238,078.09	-	-	276,600,690.11
2. Technology without patent	30,596,644.56	-	-	25,838,701.92

Note1: Amortization during the period amounted to RMB10,025,977.90.

Note2: As at December 31, 2010, the subsidiary of the company Guangzhou GSI Large-size Heavy Mechanical Equipment Co., Ltd has its certificate of the title of 59,500 square meter land use right and buildings above in the handle process and related data has been reported to Guangdong Land and Resources Department. The expected progress can not confirmed.

The increase of 240.45% in balance compared to the beginning is resulted from the transfer of land using right of Zhongshan GIS Marine Engineering Co.,Ltd to intangible asset.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(2) Development project:

Items	Beginning balance	Increase	Decrease		Ending balance
			Charged into profit	Recognised as intangible assets	
Huge Shield Machine		12,863,230.23	12,863,230.23		
50500t Chemical/oil ship improvement		12,295,840.64	12,295,840.64		
55000t and above Semi-submersible engineering vessel		11,792,675.38	11,792,675.38		
No area limit huge ro-operation passenger ship		10,119,914.24	10,119,914.24		
50000t convenient oil ship		6,883,033.31	6,883,033.31		
River and sea huge convenient oil ship		5,132,133.98	5,132,133.98		
50000t Semi-submersible vessel		4,227,485.87	4,227,485.87		
YF000		3,558,711.09	3,558,711.09		
OA office software		2,862,689.29	2,862,689.29		
Construction of safeguard ship		2,316,241.86	2,316,241.86		
50500t Chemical ship		1,089,463.59	1,089,463.59		
Others		8,319,918.81	8,319,918.81		
Total		81,461,338.29	81,461,338.29		

Note: Development costs takes up 100% of total research&development costs this year.

18. Deferred Tax Assets and Liabilities without Set-off

(1) Details of deferred tax assets are listed as below:

Item	Ending Balance		Beginning Balance	
	Temporary Difference	Deferred Tax Assets	Temporary Difference	Deferred Tax Assets
Impairment Provision	54,192,496.40	8,128,874.46	42,068,108.29	7,358,626.51
Prepaid housing subsidy	6,819,120.00	1,022,868.00	6,236,550.00	935,482.50
Housing allowance for retirees	53,052,876.80	7,957,931.52	23,607,825.20	3,541,173.78
Medical insurance for retirees within 10 years	1,536,774.40	230,516.16	2,327,298.73	349,094.81
Early retiree benefits	1,615,636.53	242,345.48	2,308,835.47	346,325.32
Unpaid salaries	29,904,000.00	4,485,600.00		
Total	147,120,904.13	22,068,135.62	76,548,617.69	12,530,702.92

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(2) Details of deferred tax liabilities are listed as below:

Item	Ending Balance		Beginning Balance	
	Temporary Difference	Deferred Tax Assets	Temporary Difference	Deferred Tax Assets
Derivatives	21,227,664.57	3,184,149.68	56,235,737.20	9,738,311.47
Net movement on fair value of available-for-sale financial assets	199,608,393.96	29,941,259.09	287,900,100.00	43,185,015.00
Total	220,836,058.53	33,125,408.77	344,135,837.20	52,923,326.47

Note: The increase of 76.11% in balance of deferred tax assets compared to the beginning is resulted from the provision of unpaid housing allowance for retirees and impairment; The decrease of 37.41% in balance of deferred tax liabilities compared to the beginning is resulted from float of fair value of derivatives on hand.

19. Provision for Assets Impairment

Item	Beginning Balance	Accruals	Decrease during Current Year		Ending Balance
			Reverse	Write-off	
Bad Debts	16,066,815.55	4,667,211.05	521,900.00	440,702.55	19,771,424.05
Provision for Inventories Impairment	12,940,525.38	13,261,161.97	469,700.00	3,462,040.71	22,269,946.64
Provision for Investment Property Impairment	17,344,400.27				17,344,400.27
Total	46,351,741.20	17,928,373.02	991,600.00	3,902,743.26	59,385,770.96

20. 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	1,070,167,862.00	2,024,018,370.54	886,827,862.00	2,207,358,370.54	Pledge
2. Earnest money for letter of guarantee	1,748,165.18	4,273,084.08	757,262.90	5,263,986.36	Earnest money
Total	1,071,916,027.18	2,028,291,454.62	887,585,124.90	2,212,622,356.90	

21. Short-term Borrowings

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

Categories	Ending Balance	Beginning Balance	Notes
Pledged borrowings	1,345,269,051.00	798,899,400.00	Deposit certificate pledge
Credit Borrowings	492,052,403.75	666,462,084.13	
Total	1,837,321,454.75	1,465,361,484.13	

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

22. Notes Payable

<u>Classification</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Notes</u>
Bank acceptance	697,610,318.88	360,901,710.85	
Total	<u>697,610,318.88</u>	<u>360,901,710.85</u>	

Note 1: The increase of 93.30% compared to the beginning balance is mainly resulted from the degree of settle up of bank acceptance notes payable.

23. Accounts Payable

<u>Item</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Total	1,186,424,869.96	709,751,054.23
Including: Age over 1 year	<u>56,287,720.79</u>	<u>29,851,550.20</u>

(1) As at 31 Dec, 2010, main accounts aged over 1 year are displayed as below:

<u>Suppliers</u>	<u>Amount</u>	<u>Content</u>	<u>Unsettled Reason</u>
CSSC Heavy Research 704 Institute	17,109,500.00	Goods	Material retention money
CSSC Heavy Research 719 Institute	6,905,000.00	Goods	Material retention money
Changshu Red Electric Equipment limited Company	5,242,825.00	Goods	Material retention money
State owned 722 factory	4,565,000.00	Goods	Material retention money
Harbin project university research institute	4,015,250.00	Goods	Material retention money
Shanghai Juntao Machine Equipment Limited company	3,208,500.00	Goods	Material retention money
Lianjian-Fanguang JV Limited Company	2,669,843.10	Goods	Dispute, not settled
Beijing Great wall Radio Factory	2,480,800.00	Goods	Material retention money
Guangzhou Weiye Ship Equipment Limited Company	2,260,000.00	Goods	Material retention money
Shanghai Broadcasting and TV communication technology limited company	2,012,000.00	Goods	Material retention money
Total	<u>50,468,718.10</u>		

(2) Up to December 31, 2010, there are no account payables of shareholders holding 5% or more than 5% of the voting stocks; Balance of accounts payable with related party amounts to RMB119,639,345.92. details refer to Note VI 3.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(3) Foreign currency included in the balance:

Item	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	24,989.50	6.6227	165,497.96	24,989.50	6.8282	170,633.31
EUR				365,655.00	9.7971	3,582,358.60
Total			<u>165,497.96</u>			<u>3,752,991.91</u>

Note: The increase of 67.16% compared to the beginning balance is mainly resulted from the undue payment of some project and estimate warehouse entry because of delay of invoices.

24. Advances from Customers

Item	Ending Balance	Beginning Balance
Total	<u>266,538,440.94</u>	<u>127,281,207.61</u>
Including: Age over 1 year	<u>54,373,527.47</u>	<u>20,945,821.33</u>

(1) As at 31 Dec, 2010, accounts age over 1 year are displayed as below:

Suppliers	Amount	Content	Unsettled Reason
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	12,037,722.67	Progress payment	Uncompleted
Shenzhen Energy Environment Protection Limited Company	4,334,786.32	Progress payment	Uncompleted
China Construction the eighth Industry Equipment Installment Co.,Ltd	1,992,000.00	Progress payment	Uncompleted
Jiantao (Lianzhou) Copper toil Co.,Ltd	1,952,893.00	Progress payment	Uncompleted
Qingdao Haier Special Freezer Co., Ltd	1,613,247.86	Progress payment	Uncompleted
Qingdao Haier Freezer International Co., Ltd	744,000.00	Progress payment	Uncompleted
CSSC Guangzhou Longxue Shipyard Co.,Ltd	625,000.00	Progress payment	Uncompleted
StokesIndustriesInc	<u>1,088,388.54</u>	Project	Engineering delay
Total	<u>24,388,038.39</u>		

(2) Up to December 31, 2010, there are no advances of shareholders holding 5% or more than 5% of the voting stocks; Balance of accounts payable with related party amounts to RMB24,893,984.67. Details refer to note VI 3.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(3) Foreign currency included in the balance:

Item	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	8,192,988.57	6.7066	54,947,499.67	462,856.93	6.8327	3,162,549.54
HKD	142,980.00	0.8811	125,978.87	1,129,880.00	0.8806	994,959.04
EUR	-	-	-	1,574,973.88	10.0370	15,807,992.66
Total	-	-	<u>55,073,478.54</u>	-	-	<u>19,965,501.24</u>

Note: The increase of 109.41% compared to the beginning balance is mainly resulted from projects that have not started.

25. Accrued Employee Benefits

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

Item	Beginning Balance	Increase during Current Year	Decrease during Current Year	Ending Balance
Employee Wages or Salaries, Bonuses, Allowances and Subsidies	14,820,000.00	680,409,228.53	665,325,228.53	29,904,000.00
Employee Welfare	5,072,421.30	40,617,390.12	40,617,390.12	5,072,421.30
Social Security		136,020,726.63	135,672,917.51	347,809.12
Inc: Medical insurance		35,792,086.33	35,792,086.33	
Basic endowment assurance		78,085,233.76	78,006,147.47	79,086.29
Supplementary pension		15,902,650.91	15,902,650.91	
Unemployed insurance		1,108,726.19	840,003.36	268,722.83
Work injury insurance		2,229,986.21	2,229,986.21	
Maternity insurance		2,902,043.23	2,902,043.23	
Public accumulation fund for housing construction		59,077,707.15	59,077,707.15	
Union&Education funds		15,444,144.50	11,780,279.43	3,663,865.07
Compensation for dismiss of labor relationship	<u>2,308,835.48</u>	<u>164,526.63</u>	<u>857,725.55</u>	<u>1,615,636.56</u>
Total	<u>22,201,256.78</u>	<u>931,733,723.56</u>	<u>913,331,248.29</u>	<u>40,603,732.05</u>

Note 1: The mainly constitute of ending balance of employee Wages or Salaries, Bonuses, Allowances and Subsidies is the bonus.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

26. Taxes and Expenses Payable

<u>Categories</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Value-added Tax	-8,721,961.66	3,568,317.99
Business Tax	1,123,628.03	1,068,662.79
Corporate Income Tax	100,374,455.13	48,667,188.84
Individual income tax	7,630,339.16	4,155,555.88
City Maintenance and Construction Tax	5,275,327.10	3,280,489.61
Land Appreciation Tax	448,698.49	282,031.82
Real estate tax	3,350,686.57	2,885,124.07
Education surcharge	2,253,210.00	1,366,097.30
Flood control and maintain expenses	3,563,868.53	3,433,647.10
Others		-16,338.89
Total	<u>115,298,251.35</u>	<u>68,690,776.51</u>

Note: The increase of 67.85% compared to the beginning balance is resulted from the corporate income tax.

27. Interest payable

<u>Item</u>	<u>Ending balance</u>	<u>Beginning balance</u>
Interest on short-term borrowings	9,278,056.68	1,878,526.18
Interest on long-term borrowings	<u>4,442,884.46</u>	<u>—</u>
Total	<u>13,720,941.14</u>	<u>1,878,526.18</u>

Note: The increase of 630.41% compared to the beginning balance is resulted from increased loan and increase interest rate.

28. Dividends Payable

<u>Investors</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>	<u>Unsettled over 1 year Reason</u>
Unpaid A share dividend CANAM STEEL STRUCTURES LIMITED (shareholder of subsidiary of Guangzhou United Steel Structures Limited)	67,601.63	55,530.29	
	<u>—</u>	<u>12,730,445.32</u>	
Total	<u>67,601.63</u>	<u>12,785,975.61</u>	

Note: The decrease of 99.47% compared to the beginning balance is resulted from payment of dividends of Guangzhou United Steel Structures Limited.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

29. Other Payables

Item	Ending Balance	Beginning Balance
Total	70,484,717.41	27,751,512.24
Including: Age over 1 year	11,239,693.73	11,523,681.86

(1) Up to December 31, 2010, there are no other payables of shareholders holding 5% or more than 5% of the voting stocks; Balance of accounts payable with related party amounts to RMB11,830.00. Details refer to note VI3.

(2) Major account balances are displayed as below:

Item	Ending Balance	Nature or Content
Payment for buildings in Xinjiang	40,929,000.00	Housing
Supplementary pension	3,251,393.73	Supplementary pension
Certified public accountants	2,913,696.11	Mediator
Provision tax	1,569,813.60	Stamp tax
Retiree medical insurance	1,536,774.41	Medical insurance
Total	50,200,677.85	

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

Item	Amount	Nature or Content	Unsettled Reason
Supplementary pension	3,251,393.73	Supplementary pension	Leave without draw
Retiree medical insurance	1,536,774.41	Medical insurance	Leave without draw
Monetary retiree housing subsidy	800,000.00	Unpaid portion	Gone abroad
Housing support fund	789,300.00	Housing support fund	Retirement without draw
Renfuwei scientific and technological progress bonus fund	475,960.73	Agency fund	Not delivery
Total	6,853,428.87		

Note: The increase of 153.99% compared to the beginning balance is resulted from received advanced payment of Investment properties which are in the process of transfer of ownership.

30. 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
Total	–	170,705,000.00

Note 1. The decrease of 100% is resulted from the payment of borrowings.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

31. Other Current Liabilities

Item	Ending Balance	Beginning Balance
Construction contract settlement	3,295,814,462.46	3,368,133,623.01
Total	3,295,814,462.46	3,368,133,623.01

32. Long-term Borrowings

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

Categories	Ending Balance	Beginning Balance
Pledged borrowings	624,123,248.00	-
Total	624,123,248.00	-

(2) Five top ending balance

Item	Start date	Ending date	Currency	Year Rate(%)	Ending balance		Beginning balance	
					Foreign currency	RMB	Foreign currency	RMB
France East Huili bank Shanghai branch (104001)	2010/5/25	2012/5/24	USD	2.79%	10,055,018.09	66,591,368.30		
France East Huili bank Shanghai branch (104002)	2010/5/28	2012/5/24	USD	2.79%	19,944,981.91	132,089,631.70		
Germany bank Shanghai branch	2010/9/29	2012/9/29	USD	2.79%	20,000,000.00	132,454,000.00		
Germany bank Shanghai branch	2010/10/27	2012/10/27	USD	3.50%	10,000,000.00	66,227,000.00		
Construction bank Guangzhou Liwan branch	2010/2/3	2012/2/2	USD	2.35%	9,240,000.00	61,193,748.00		
Total					69,240,000.00	458,555,748.00		

Note: The increase of 100% is resulted from the increased holdings of foreign currency to guard against exchange risk.

33. 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] No.13
Semi-submersible vessel 1800t	17,850,000.00	-	-	17,850,000.00	Chuan Gong Ji [2002] No.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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

34. Provision

Item	Beginning balance	Increase	Decrease	Ending balance
Product quality warranties	97,939,518.84	43,147,574.38	30,523,928.03	110,563,165.19
Unpaid retiree housing subsidy	23,607,825.23	31,789,168.99	2,344,117.44	53,052,876.78
Total	121,547,344.07	74,936,743.37	32,868,045.47	163,616,041.97

Note: The increase of 34.61% 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 approved by the 24th meeting of the 6th board of directors.

35. Other Non-current Liabilities

Item	Ending balance	Beginning balance	Note
Deferred income (CSSC)	19,072,329.44	3,000,000.00	Chuan Gong Ji [2009] 307
Deferred income (CSSC)		265,833.39	
Deferred income (Guangdong Economic and Commercial Technical Committee)	2,430,776.08	1,706,301.36	Yue Jing Mao Ji SHu [2004] 664
Deferred income (Guangzhou Economic and Commercial Technical Committee)	2,568,333.43	1,620,000.00	Sui Jing Mao Han [2005] 484 and Yue Jing Mao Ji SHu [2005] 1064
Deferred income (Guangzhou Environment Protect Bureau)	2,154,481.57	1,768,421.04	Sui Huan [2006] 115
Deferred income (Guangzhou Technical Bureau/Finance Bureau)	4,270,000.00	5,400,000.00	
Deferred income (Guangzhou Science Institute)	948,779.95		
Deferred income (Science Technology Department)	119,051.42		
Deferred income (Guangdong Education Department Product Learn and Research Coordination Group)	859,874.08		
Deferred income (Guangzhou Liwan Science Institute)	782,280.97		
Deferred income (Guangdong Economy and Information Committee/Province/Finance Bureau)	1,000,000.00		Yue Jing Xin Ji Gai [2009] 223
Total	34,205,906.94	13,760,555.79	

Note: The increase of 148.58% in balance compared to the beginning is resulted from the increased research appropriation.

36. Share Capital

(1) Movement of share capital in current year are listed as below:

Classification	Beginning Balance		Increase/Decrease				Ending Balance		
	Number of Shares	Proportion %	Issue New Shares	Capitalization		Others	Sum	Number of Shares	Proportion %
				Stock Dividend	Reserve				
1. RMB Ordinary Shares	337,279,580	68.18%					337,279,580	68.18%	
2. Foreign Capital Stocks listed domestically	157,398,000	31.82%					157,398,000	31.82%	
TOTAL	494,677,580	100.00%					494,677,580	100.00%	

(2) All above are un-restrictive Stocks.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

37. Capital Reserves

Item	Beginning Balance	Increase	Decrease	Ending Balance
Premium of Share Capital	651,385,281.95	–	–	651,385,281.95
Others	<u>245,298,016.22</u>	–	<u>75,047,950.09</u>	<u>170,250,066.13</u>
Total	<u>896,683,298.17</u>	–	<u>75,047,950.09</u>	<u>821,635,348.08</u>

Note: The decrease of capital reserves is resulted from change of fair value of available-for-sale financial assets.

38. Surplus Reserves

Item	Beginning Balance	Increase	Decrease	Ending Balance
Statutory Surplus Reserves	285,370,354.57	72,937,972.40	–	358,308,326.97
Arbitrary Surplus Reserves	<u>18,926,387.43</u>	–	–	<u>18,926,387.43</u>
Total	<u>304,296,742.00</u>	<u>72,937,972.40</u>	–	<u>377,234,714.40</u>

Note: Net profit of 2010 accounting period based on PRC Accounting Standards and Regulations amounted to RMB729,397,776.60, but 729,379,724.01 based on HKFRS. Distribution of net profit is based on the less one. Statutory Surplus Reserves of the company takes 10% percent of net profit based on HKFRS.

39. 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	1,473,182,738.39	1,232,098,604.09
Add: Increase (-decrease) in profit due to changes in accounting policies		
Corrections of prior period errors	–	–
Beginning balance of undistributed profit of current year	1,473,182,738.39	1,232,098,604.09
Add: Current net profit belonging to owners of parent company	707,736,792.53	514,961,903.36
Less: Profit appropriation – Statutory surplus Reserves	72,937,972.40	51,272,858.06
Profit appropriation – Ordinary stock dividends	138,509,722.40	222,604,911.00
Ending balance of undistributed profit	<u>1,969,471,836.12</u>	<u>1,473,182,738.39</u>

The Company has hold the Board Meeting on May 25, 2010, on which the proposal of profit distribution has been passed. That is, the Company shall release cash dividends RMB138,509,722.40 rated RMB0.28 per share on the base of total shares amounted 494,677,580.

40. Revenue and Cost

Item	Current Year	Last Year
Revenue	7,014,224,669.01	6,553,424,803.99
Including: Income from principal activities	6,907,622,981.64	6,458,822,948.20
Other Operating Income	106,601,687.37	94,601,855.79
Costs	6,076,916,959.00	5,757,813,988.47
Including: Cost of Goods Sold	5,975,171,685.32	5,673,655,623.76
Other Operating Expenses	<u>101,745,273.68</u>	<u>84,158,364.71</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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

Type of Businesses	Current Year		Last Year	
	Revenue	Cost	Revenue	Cost
Shipbuilding products	6,402,821,761.65	5,557,573,991.10	5,718,470,581.05	4,988,803,945.23
Steel structure projects	152,650,941.70	139,802,503.08	464,784,364.57	464,494,949.89
Mechanical & electrical products and others	352,150,278.29	277,795,191.14	275,568,002.58	220,356,728.64
Total	<u>6,907,622,981.64</u>	<u>5,975,171,685.32</u>	<u>6,458,822,948.20</u>	<u>5,673,655,623.76</u>

(2) Operating income from principal areas

Area	Current year		Last year	
	Revenue	Cost	Revenue	Cost
Denmark	3,162,911,423.02	2,658,768,987.27	3,376,132,028.10	2,884,639,863.77
Hongkong	369,276,395.05	329,136,792.69	278,261,998.04	242,330,975.95
Italy	261,997,238.23	209,585,577.65	366,083,312.51	332,210,541.44
Greece	250,071,609.65	203,034,809.27	525,417,858.95	440,687,036.66
Others	75,899,797.93	75,899,797.93	–	–
USA	32,807,096.41	27,330,079.01	90,677,389.23	78,211,295.22
Australia	27,112,706.20	21,048,006.19	92,239,934.97	78,671,080.94
Argentina	13,363,209.90	11,778,827.05	–	–
Angola	11,351,734.26	10,141,532.87	2,098,215.81	1,888,295.08
Macao	2,691,431.30	2,321,238.30	–	–
Taiwan	2,073,211.40	2,065,384.60	1,235,997.40	1,231,025.64
The Republic of Malta	–	-110,200.00	60,997,676.99	49,179,391.51
German	–	-151,211.55	384,022,536.75	351,073,858.23
Sweden	–	–	15,248,947.43	10,507,700.48
Foreign area Total	4,209,555,853.35	3,550,849,621.28	5,192,415,896.18	4,470,631,064.92
China	<u>2,698,067,128.29</u>	<u>2,424,322,064.04</u>	<u>1,266,407,052.02</u>	<u>1,203,024,558.84</u>
Total	<u>6,907,622,981.64</u>	<u>5,975,171,685.32</u>	<u>6,458,822,948.20</u>	<u>5,673,655,623.76</u>

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

Item	Amount in Current	Proportion
No.1	1,476,142,663.64	21.04%
No.2	727,222,992.95	10.37%
No.3	695,170,149.71	9.91%
No.4	679,010,955.37	9.68%
No.5	646,198,549.84	9.21%
Total	<u>4,223,745,311.51</u>	<u>60.21%</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

41. 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	51800 serious	319,809,747.09	291,506,550.18	29,088,673.04	320,595,223.22	
Cost	390000 serious	2,034,912,142.13	1,075,120,689.86	162,861,763.29	1,450,638,211.14	
Contract	50500 serious	7,835,137,247.22	4,485,465,910.98	818,364,307.04	5,311,163,180.77	
	50000 serious	3,021,744,160.00	1,203,477,978.84	43182269.99	1685548373	
	ro-ro serious	2,072,000,000.00	629,463,657.78	166,343,508.30	1,243,200,000.00	
	52300 serious	3,280,420,880.00	115,551,478.87	-	880,869,071.39	
	Special	3,336,440,000.00	655,937,015.10	19292923.11	790300000	
	55000 serious	476,000,000.00	226,722,249.02	-	228,585,525.00	
	48000 serious	1,937,276,800.00	-	-	389451164.8	
Total		24,313,740,976.44	8,683,245,530.63	1,239,133,444.77	12,300,350,749.32	

42. Taxes and levies on operations

Category	Current Year	Last Year	Tax base
Business tax	6,588,374.70	4,594,773.94	Service revenue
City Maintenance And Construction Tax	16,884,899.75	19,096,195.55	Business+Vat payable
Education surcharge	7,237,117.06	8,185,714.02	Business+Vat payable
TOTAL	30,710,391.51	31,876,683.51	

43. Selling expense

Item	Current year	Last year
Quality assurance for ship	49,775,288.86	28,057,064.26
Employee benefits	2,771,223.65	2,294,009.88
Business expenditure	2,408,020.48	1,907,429.90
Consigned fees	1,462,320.00	1,352,000.00
Advertisement	1,182,992.30	381,746.99
Exhibition	543,632.44	677,467.49
Others	631,839.93	3,204,208.17
TOTAL	58,775,317.66	37,873,926.69

Note: The increase of 55.19% selling expense compared to last year is mainly resulted from the additional quality assurance for ship.

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(Amounts in Renminbi yuan unless otherwise stated)

44. General and administrative expenses

Item	Current year	Last year
Employee benefits	147,480,088.34	115,898,994.28
Research and development	81,461,338.29	56,366,481.93
Repair and maintenance	63,568,980.48	43,462,147.69
Supply of housing subsidy for retirees	30,582,269.90	23,459,271.07
Tax	18,387,264.56	17,921,480.90
Depreciation	13,063,654.93	12,909,959.94
Amortization of intangible assets	6,452,622.88	4,198,252.86
Business entertainment	5,767,262.77	5,381,858.64
Prepare to construct	4,968,056.82	128,793.62
Travel	4,758,324.90	3,670,995.01
Rent	4,404,827.14	4,237,318.81
Agency fees	3,880,053.13	3,334,518.65
Insurance	6,563,580.62	5,801,341.98
Board fees	3,512,770.82	3,270,094.61
Water and power	2,999,053.39	3,055,680.21
Birth control	2,911,916.00	354,855.17
Office expense	3,267,446.84	3,552,445.98
Skill education	1,950,000.00	2,000,000.00
Greening	2,942,508.67	1,714,438.81
Safe guard and fire-fighting	2,797,551.39	1,676,981.23
Others	6,627,126.89	1,589,308.69
Total	418,346,698.76	313,985,220.08

Note: General there are 3 reasons for the increase of 33.24% compared to last year

- (a) Provision of employee benefits depending on efficiency of the company.
- (b) Increased research and development fees.
- (c) Increased repair and maintenance fees.

45. Financial Expenses

Item	Current Year	Last Year
Interest Expenses	35,252,345.27	40,959,269.72
Less: Interest Income	138,107,190.44	163,601,042.95
Change in exchange rate	50,681,470.21	7,269,424.96
Transaction fees and other charges	2,886,612.43	6,962,991.79
Total	-150,649,702.95	-122,948,206.40

46. Impairment

Details of impairment are listed as below:

Item	Current Year	Last Year
Bad Debts	4,145,311.05	3,305,055.20
Provision for Inventories Impairment	12,791,461.97	4,242,427.28
Provision for Investment Property Impairment		15,489,388.68
Total	16,936,773.02	23,036,871.16

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

47. Gains/Losses from fair value changes

<u>Sources of change in fair value</u>	<u>Current Year</u>	<u>Last Year</u>
Trading Financial Assets	-42,732,189.17	-93,367,845.98
Inc: derivative	-42,732,189.17	-93,367,845.98
Trading Financial Liabilities	-	5,199,844.99
Inc: derivative	-	5,199,844.99
Total	<u>-42,732,189.17</u>	<u>-88,168,000.99</u>

The decrease of 51.53 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.

48. Investment Income

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

<u>Sources of Investment Income</u>	<u>Current Year</u>	<u>Last Year</u>
Income from disposal of trading financial assets	74,790,331.51	122,140,050.00
Income from holding of available-for-sale financial assets	3,855,606.50	2,185,000.00
Income from disposal of trading financial liabilities	-1,304,055.58	-11,375,442.41
The adjustment based on the net profit of investee enterprises under equity method	5,275,132.61	7,069,170.05
The adjustment based on the net profit of investee enterprises under cost method	800,000.00	230,000.00
Other Investment Income	-	80,857.94
Total	<u>83,417,015.04</u>	<u>120,329,635.58</u>

(2) Investee enterprises under cost method:

<u>Investee</u>	<u>Current year</u>	<u>Last year</u>	<u>Reason for fluctuation</u>
Special Skills of Shipbuilding Industry 007 Evaluation Station	800,000.00	-	No dividend last year
Shenzhen Yuanzhou company	-	230,000.00	No dividend current year
Total	<u>800,000.00</u>	<u>230,000.00</u>	

NOTES TO THE FINANCIAL STATEMENTS

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(3) Investee enterprises under equity method:

Investee	Current	Last year	Reason for fluctuation
South China Marine and Industrial Special Coating Co., Ltd	693,496.73	754,143.34	Decreased profit
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	4,579,351.56	6,313,825.59	Decreased profit
Zhanjiang South Ocean Marine Services Inc.	2,284.32	1,201.12	Increased profit
Total	<u>5,275,132.61</u>	<u>7,069,170.05</u>	

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

49. Non-operating profits

Item	Current Year	Last Year	Amount accounted into current period profit
Sub-total of income from the disposal of non-current asset	415,281.94	6,115,643.57	415,281.94
Including: Income from the disposal of fixed assets	415,281.94	6,115,643.57	415,281.94
Fine Income	–	120,995.00	–
Compensate	474,526.85	24,400.00	474,526.85
Government Subsidies	235,541,643.96	77,544,072.99	86,244,367.90
Other Income	<u>2,685,965.36</u>	<u>898,045.94</u>	<u>2,685,965.36</u>
Total	<u>239,117,418.11</u>	<u>84,703,157.50</u>	<u>89,820,142.05</u>

Details of government subsidies

Item	Current Year	Last Year	Note
Product subsidy	149,297,276.06	75,526,846.95	–
New product subsidy	68,809,648.85	379,508.30	–
Guangzhou employment subsidy	6,696,922.40	–	–
Exchange subsidy	5,280,000.00	–	–
Finance subsidy	4,439,713.29	1,281,258.00	–
Self produced software tax drawback	<u>1,018,083.36</u>	<u>356,459.74</u>	–
Total	<u>235,541,643.96</u>	<u>77,544,072.99</u>	

Note: The non-operating profits increase of 182.30% this year compared to last year result from subsidies, and increase of product subsidy is mainly due to the structure of its product, new product subsidy is mainly due to achievement of research and development carrying-over.

NOTES TO THE FINANCIAL STATEMENTS

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50. Non-operating losses

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>	<u>Amount charged into current year profit</u>
Sub-total of losses from the disposal of non-current asset	1,826,631.37	14,385,377.12	1,826,631.37
Including: Losses from the disposal of fixed assets	1,826,631.37	14,385,377.12	1,826,631.37
Donations	18,000.00	1,500.00	18,000.00
Fines	303,032.35	22,225.31	303,032.35
TTS project loss	5,282,280.05	–	5,282,280.05
Other expenses	313,095.59	554,181.61	313,095.59
Total	<u>7,743,039.36</u>	<u>14,963,284.04</u>	<u>7,743,039.36</u>

Note: Raw steel depart(now named “Heavy department”) belong to the company has signed contract with TS SHIPS EQUIPMENT GMBH(called “TTS” for short) in 2008,because of bankruptcy of owner Wadan company, TTS can not perform the contract, Heavy department stopped produce TTS hatch covers. In 2010, Heavy department came into agreement with TTS of cancel the contract. TTS abandoned its pre-payment and the company do not require more compensation. Completed hatch covers belongs to the company, and loss from disposal of these covers charged into profit through non-operating loss.

The decrease of 48.25% resulted from the disposal of fixed assets.

51. Income Tax

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

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>
Current income tax expenses	140,834,484.01	123,894,813.18
Deferred tax expenses	-16,091,594.50	-31,023,137.53
Total	<u>124,742,889.51</u>	<u>92,871,675.65</u>

52. Earnings Per Share (EPS)

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

<u>Profit for accounting period</u>	<u>Current year</u>		<u>Last year</u>	
	<u>Basic EPS</u>	<u>Diluted EPS</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>
Net profits belonging to the common shareholders (I)	1.43	1.43	1.04	1.04
Net profits belonging to the common shareholders after deducted exceptional profits or losses (II)	1.24	1.24	1.01	1.01

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(Amounts in Renminbi yuan unless otherwise stated)

Calculation process of earnings per share

Item	Sequence	Current year	Last year
Net profits belonging to the common shareholders	1	707,736,792.53	514,961,903.36
Exceptional profits or losses attributable to the shareholders of parent company deducted the tax	2	96,023,557.71	15,663,912.09
Net profits attributable to the shareholders of the Company after deducted exceptional profits or losses	3=1-2	611,713,234.82	499,297,991.27
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	-	-
Months calculated from the next month of initially issuing shares or debt for equity to the last month of the accounting period	7	-	-
Decreased number of shares for purchasing back or drawing back stocks for the accounting period	8	-	-
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 (II)	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 (I)	13	494,677,580.00	494,677,580.00
Basic EPS (I)	14=1÷13	1.43	1.04
Basic EPS (II)	15=3÷12	1.24	1.01
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)	20=[1+(16-18)× (1-17)]÷(13+19)	1.43	1.04
Diluted EPS (II)	21=[3+(16-18)× (1-17)]÷(12+19)	1.24	1.01

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(1) Basic EPS

Basic EPS = $P0 \div S$

$S = S0 + S1 + Si \times Mi \div M0 - Sj \times Mj \div M0 - Sk$

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 = $P1 / (S0 + S1 + Si \times Mi \div M0 - Sj \times Mj \div M0 - Sk + \text{Increased Weighted average number of shares because of conversion of convertible debt, certificate of subscription and so on})$

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.

53. Other Comprehensive Income

(1) Details of other comprehensive income display as follows:

Item	Current Year	Last Year
1. Available-for-sale financial assets	-88,291,705.99	151,910,250.00
Income tax effect on other comprehensive income item	-13,243,755.90	22,786,537.50
Total	-75,047,950.09	129,123,712.50

54. Other item in cash flow statement

A. Cash receipts relating to other operating activities are listed as below:

Item	Current Year	Last Year
Foreign trading special fund	5,280,000.00	
Senior technology-fundamental construction	20,000,000.00	3,000,000.00
Compensate and other subsidy		42,395,000.00
Equipment improvement subsidy	2,000,000.00	
Research and development subsidy	38,680,000.00	
Other receivable	119,041,170.96	23,666,115.28
Total	185,001,170.96	69,061,115.28

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(Amounts in Renminbi yuan unless otherwise stated)

B. Cash payments relating to other operating activities are listed as below:

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>
Administration cost	169,831,211.34	112,904,754.58
Operating cost	9,000,028.80	6,633,050.83
Manufacturing expense	81,021,213.28	89,603,303.01
No business expenditure	<u>2,460,759.31</u>	<u>577,906.92</u>
Total	<u>262,313,212.73</u>	<u>209,719,015.34</u>

C. Cash receipts relating to other investing activities

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>
Interest of bank deposit	<u>155,644,874.62</u>	<u>223,575,175.75</u>
Total	<u>155,644,874.62</u>	<u>223,575,175.75</u>

D. Cash payments relating to other investing activities

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>
Security deposit	<u>1,157,694,170.16</u>	<u>150,595,060.99</u>
Total	<u>1,157,694,170.16</u>	<u>150,595,060.99</u>

E. Cash payments relating to other financing activities

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>
Bank service charge and so on	<u>2,886,612.43</u>	<u>6,962,991.79</u>
Total	<u>2,886,612.43</u>	<u>6,962,991.79</u>

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55. Supplementary Information of Cash Flow Statement

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

<u>Supplementary Information</u>	<u>Current Year</u>	<u>Last Year</u>
I. Reconciliation of net income to cash flows from operating activities:		
Net Income	710,504,547.12	520,816,152.88
Add: Provision for fixed assets	16,936,773.02	23,036,871.16
Depreciation of fixed assets, biological Assets and Depletion of Oil and Nature Gas assets	110,213,226.21	104,324,190.45
Amortization of intangible assets	10,025,977.90	6,530,609.05
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	1,411,349.43	8,269,733.55
Losses on scrapping of fixed assets ("-" for gains)		
Losses on movement of fair value ("-" for gains)	42,732,189.17	88,168,000.99
Financial expenses ("-" for gains)	-150,649,702.95	-122,948,206.40
Investments losses ("-" for gains)	-83,417,015.04	-120,329,635.58
Decrease in deferred tax assets ("-" for increase)	-9,537,432.70	-5,719,846.30
Increase in deferred tax liabilities ("-" for decrease)	-6,554,161.79	-25,303,291.23
Decrease in inventories ("-" for increase)	-310,353,974.46	-242,035,762.79
Decrease in operating receivables ("-" for increase)	-245,386,876.99	319,746,525.17
Increase in operating payables ("-" for decrease)	952,960,559.86	-1,019,475,920.98
Others		
Net cash flows from operating activities	1,038,885,458.78	-464,920,580.03
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	5,003,896,203.36	4,380,328,209.50
Less: Cash at the beginning of the period	4,380,328,209.50	5,197,630,827.85
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	<u>623,567,993.86</u>	<u>-817,302,618.35</u>

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

<u>Item</u>	<u>Current Year</u>	<u>Last Year</u>
I. Cash	5,003,896,203.36	4,380,328,209.50
Including: Cash in treasury	239,365.57	186,215.05
Available-for-use bank deposit	4,997,889,945.93	4,378,169,355.12
Other available-for-use monetary fund	5,766,891.86	1,972,639.33
II. Cash Equivalents		
Including: Bond investment mature within 3 months		
III. Ending balance of cash and cash equivalents	<u>5,003,896,203.36</u>	<u>4,380,328,209.50</u>
IV. Restriction on use of cash and cash equivalents belongs to parent company or subsidiaries within the group	<u>2,212,622,356.90</u>	<u>1,071,917,828.19</u>

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VI RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

1. Related 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 enterprise	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 IV1 Business Combinations and Consolidated Financial Statements

(3) Associate Companies

Investee	Type of the company	Registered Address	Legal representative	Industry	Registered Capital	Shareholding Percentage	Representative Percentage	Organization code
Associate South China Marine and Industrial Special Coating Co., Ltd	Limited company	Guangzhou	Gugang	Project coating	6,888,240.00	25%	25%	618428789
Zhanjiang South Ocean Marine Services Inc.	Limited company	Zhanjiang	ChenMiaogen	Ship repair	2,000,000.00	40%	40%	749150668
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	Limited company	Zhenjiang	WangWenqu	Equipment manufacture	85,000,000.00	32%	32%	782067313

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(4) Related Parties without controlling relationships

Related 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 CSSC	631423632
China United Shipbuilding Co., Ltd	Controlled by the same parent company	Off-shore 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

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2. Related Party Transactions

(1) Selling goods or rendering services

Name of Related Parties	Content	Current year		Last year		Pricing policy
		Amount	Percentage	Amount	Percentage	
South China Marine and Industrial Special Coating Co., Ltd.	Selling	242,938.38	0.00%	249,164.16	0.00%	Agreement
Guangzhou Wenchong Shipyard Ltd.	Selling	996,084.45	0.01%	878,286.50	0.01%	Agreement
Guangzhou Shipyard Ltd.	Selling	12,639,538.19	0.18%	6,719,593.51	0.10%	Agreement
CSSC Guangzhou Huangpu Shipyard Ltd.	Selling	22,919,939.34	0.33%	30,426,400.04	0.47%	Agreement
Guangzhou Marine and Engineering Design & Research Institute	Selling	183,625.08	0.00%	171,504.79	0.00%	Agreement
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Selling	140,004,384.80	2.00%	174,029,245.01	2.69%	Agreement
CSSC Guangzhou Diesel Engine Co., Ltd.	Selling	178,043.94	0.00%	116,091.25	0.00%	Agreement
CSSC Guangzhou Nansha-Longxue	Selling	1,736,068.36	0.02%			Agreement
CSSC Jiangnan Heavy Machine Co., Ltd.	Selling			31,100,015.35	0.47%	Agreement
CSSC Guijiang Shipyard	Selling	54,700.85	0.00%			Agreement
Shanghai Jiangnan Shipbuilding Group Co., Ltd.	Selling	59,829.06	0.00%			Agreement
CSSC Beijing IT Co., Ltd.	Selling	2,035,811.94	0.03%	705,692.31	0.01%	Agreement
Shanghai Waigaoqiao Shipbuilding Co., Ltd.	Selling	7,692.31	0.00%	400,000.00	0.01%	Agreement
Guangzhou Ship Industry Co.	Selling	83,888.89	0.00%	25,000.00	0.00%	Agreement
Guangzhou Longxue Vessel Company	Selling	999,461.68	0.01%			Agreement
Shanghai Ship Co., Ltd.	Selling			74,786.32	0.00%	Agreement
Huadong Zhonghua Shipbuilding (Group) Co., Ltd.	Selling	10,000,000.00	0.14%		–	Agreement
Jiangnan Heavy Machine Co., Ltd.	Selling	138,461.54	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
CSSC Huanan Ship Machinery Co., Ltd.	Selling	541,625.86	0.01%		–	Agreement
CSSC Integrate Technical Economy Institute	Selling			1,000,000.00	0.02%	Agreement
Total	Selling	<u>192,822,094.67</u>	<u>2.75%</u>	<u>246,204,022.35</u>	<u>3.76%</u>	Agreement

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(2) Purchasing goods or services

Name of Related Parties	Content	Current year		Last year		Pricing policy
		Amount	Percentage	Amount	Percentage	
Guangzhou Shipyard Ltd.	Services	131,347,848.12	2.16%	117,307,145.16	2.06%	Agreement
CSSC Guangzhou Huangpu Shipyard Ltd.	Services	130,082,862.28	2.14%	264,302,807.33	4.64%	Agreement
CSSC Zhenjiang Equipment Co., Ltd	Goods	99,119,487.20	1.63%	69,052,264.95	1.21%	Agreement
Hudong Heavy Machine Co.,Ltd	Goods	55,900,000.00	0.92%		0.00%	Agreement
CSSC Reconnaissance and Design Institute	Services	44,119,458.97	0.73%	164,713.00	0.00%	Agreement
CSSC Nanjing Lvzhou Machinery Co., Ltd	Goods	35,007,376.02	0.58%	29,039,867.54	0.51%	Agreement
CSSC Huanan Ship Machinery Co., Ltd.	Goods	22,427,008.53	0.37%	15,865,641.03	0.28%	Agreement
Marine Design & Research Institute of China	Services	19,664,500.00	0.33%	3,880,000.00	0.07%	Agreement
South China Marine and Industrial Special Coating Co., Ltd	Services	10,425,389.07	0.17%	9,324,475.75	0.16%	Agreement
CSSC No. 9 Marine Design and Research Institute	Services	8,333,000.00	0.14%	11,467,754.95	0.20%	Agreement
Shanghai Ship Research Institute	Services	8,300,000.00	0.14%	9,591,500.00	0.17%	Agreement
CSSC Jiujiang ChangAn Fire Control Equipment Co., Ltd	Goods	4,757,042.74	0.08%			Agreement
Guangzhou Ship Industry Co.	Goods	3,322,635.70	0.05%	2,483,656.97	0.04%	Agreement
Shanghai Hudong Ship Electric Device Co.,Ltd	Goods	2,800,000.00	0.05%			Agreement
Shanghai CSSC Reconnaissance Rock Project Co.,Ltd	Services	2,646,000.00	0.04%			Agreement
Jiujiang Haitian Equipment Manufacture Co., Ltd	Goods	2,070,923.11	0.03%	1,925,829.05	0.03%	Agreement
China United Shipbuilding Co., Ltd	Goods	1,839,188.35	0.03%	1,761,960.71	0.03%	Agreement
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	Services	1,451,297.16	0.02%	1,135,697.10	0.02%	Agreement
CSSC Guijiang Shipyard	Services	1,111,111.12	0.02%	3,100,000.00	0.05%	Agreement
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Services	462,800.00	0.01%			Agreement
Shanghai Navigation Instrument Co., Ltd	Goods	353,504.27	0.01%	76,500.00	0.00%	Agreement
Jiangxi Chaoyang Mechanical Factory	Goods	66,800.00	0.00%	21,230.76	0.00%	Agreement
CSSC Jiujiang Fire Control Equipment Co., Ltd	Goods	38,499.00	0.00%	10,500.00	0.00%	Agreement
Anqing Marine Diesel Factory	Goods	34,188.03	0.00%	12,000.00	0.00%	Agreement
Huahai Marine Cargo Access Equipment Co.	Services	12,500.00	0.00%	4,000.00	0.00%	Agreement
CSSC Guangzhou Nansha-Longxue	Services			10,721.14	0.00%	Agreement
CSSC Shanghai Marine Design and Research Institute	Services			3,800,000.00	0.07%	Agreement
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	Services			10,000.00	0.00%	Agreement
Total		585,693,419.67	9.64%	544,348,265.44	9.54%	

According to agreement with Guangzhou Shipyard Ltd. the company should pay for comprehensive service fees of 2010 amount to RMB7,528,473.75. In 2009, the service fees amounted to RMB8,181,050.00.

(3) Financial services

Name of Related Parties	Ending balance of deposit		Interest		Note
	2010	2009	2010	2009	
CSSC Financial CO.	313,559,558.65	54,614,328.13	3,173,760.14	225,585.32	Deposit

(4) Other significant related party transactions

Transactions	Name of Related Parties	Current Year	Last Year	Price Policy
Act as agent of selling	China Shipping Trading Corporation	35,700,264.30	32,565,005.03	Agreement
Act as agent of selling	CSSC International Trade Co., Ltd	4,304,065.63	1,133,287.50	Agreement
Act as agent of procurement	China United Shipbuilding Co., Ltd	3,690,932.10	7,032,187.40	Agreement
Act as agent of procurement	China Shipping Trading Corporation	81,520.22	10,574.75	Agreement

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3. Balance with related parties

(1) Receivables

Name of Related Parties	Account	Ending balance		Beginning balance	
		Amount	Proportion (%)	Amount	Proportion (%)
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Accounts receivable	17,621,737.45	88,108.69	27,765,528.72	138,827.64
CSSC Jiangnan Heavy Machine Co., Ltd.	Accounts receivable	13,000,861.76	65,004.31	24,037,169.32	120,185.85
CSSC Guangzhou Nansha-Longxue	Accounts receivable	5,350,664.00	26,753.32	4,234,824.00	21,174.12
Guangzhou Shipyard Ltd.	Accounts receivable	1,397,662.09	6,988.31	373,309.00	1,866.55
South China Marine and Industrial Special Coating Co., Ltd.	Accounts receivable	1,000,000.00	5,000.00		
CSSC Guangzhou Huangpu Shipyard Ltd.	Accounts receivable	754,885.55	3,774.43	4,347,814.15	21,739.07
CSSC Beijing IT Co.,Ltd.	Accounts receivable	639,000.00	3,195.00	42,000.00	210.00
CSSC Huanan Ship Machinery Co., Ltd.	Accounts receivable	449,526.38	2,247.63		
CSSC No. 9 Marine Design and Research Institute	Accounts receivable	250,000.00	1,250.00	250,000.00	1,250.00
CSSC Guijiang Shipyard	Accounts receivable	64,000.00	320.00		
Guangzhou Marine and Engineering Design & Research Institute	Accounts receivable			10,923.40	
Guangzhou Wenchong Shipyard Ltd.	Accounts receivable			346,000.00	
CSSC Chengxi Ship Co.,Ltd.	Accounts receivable			180,000.00	
Subtotal		40,528,337.23	202,641.69	61,587,568.59	305,253.23
CSSC Zhenjiang Equipment Co., Ltd.	Advances to suppliers	37,940,000.00		42,410,000.00	
Hudong Heavy Industry Co.,Ltd.	Advances to suppliers	13,500,000.00			
Subtotal	Advances to suppliers	7,050,000.00			
China Shipping Trading Corporation	Advances to suppliers	3,446,440.20			
CSSC Huanan Ship Machinery Co., Ltd.	Advances to suppliers	2,520,000.00		5,040,000.00	
Jiujiang Haitian Equipment Manufacture Co., Ltd.	Advances to suppliers	1,777,080.00			
Guangzhou Shipyard Ltd.	Advances to suppliers	1,000,000.00		21,000.00	
CSSC Nanjing Lvzhou Machinery Co., Ltd.	Advances to suppliers	855,000.00		855,000.00	
China United Shipbuilding Co., Ltd.	Advances to suppliers	267,531.65		7,062,992.31	
CSSC Guangzhou Nansha-Longxue	Advances to suppliers	102,800.00		102,800.00	
CSSC Guijiang Shipyard	Advances to suppliers			390,000.00	
Subtotal		68,458,851.85		55,881,792.31	
CSSC Financial CO.	Interest receivable	3,027,655.00		3,750.00	
Subtotal		3,027,655.00		3,750.00	
Guangzhou Marine and Engineering Design & Research Institute	Other receivable			4,254,500.00	21,272.50
Subtotal				4,254,500.00	21,272.50

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(2) Payables

Name of Related Parties	Account	Ending balance	Beginning balance
Hudong Heavy Machine Co.,Ltd.	Accounts payable	37,150,000.00	
China United Shipbuilding Co., Ltd.	Accounts payable	14,134,919.94	47,041,342.92
CSSC Zhenjiang Equipment Co., Ltd.	Accounts payable	12,250,430.00	24,570,430.00
Marine Design & Research Institute of China	Accounts payable	11,672,800.00	453,000.00
Guangzhou Shipyard Ltd.	Accounts payable	11,349,421.56	20,415,014.10
Shanghai Ship Research Institute	Accounts payable	8,300,000.00	
CSSC Reconnaissance and Design Institute	Accounts payable	7,832,315.56	
CSSC Nanjing Lvzhou Machinery Co., Ltd.	Accounts payable	6,641,625.00	8,859,625.00
CSSC Huanan Ship Machinery Co., Ltd.	Accounts payable	3,803,740.00	4,474,140.00
CSSC No. 9 Marine Design and Research Institute	Accounts payable	1,311,062.80	1,428,318.00
Jiujiang Haitian Equipment Manufacture Co., Ltd.	Accounts payable	1,014,935.00	1,352,848.00
CSSC Beijing IT Co.,Ltd.	Accounts payable	768,000.00	
CSSC Guijiang Shipyard	Accounts payable	710,000.00	60,000.00
CSSC Ship System engineering department	Accounts payable	705,000.00	1,795,000.00
CSSC Jiujiang Fire Control Equipment Co., Ltd.	Accounts payable	578,200.00	304,000.00
Guangzhou Ship Industry Co.	Accounts payable	410,420.00	85,541.20
Shanghai Hudong Ship Electric Device Co.,Ltd.	Accounts payable	254,000.00	196,500.00
CSSC Shanghai Marine Design and Research Institute	Accounts payable	190,000.00	2,850,000.00
South China Marine and Industrial Special Coating Co., Ltd.	Accounts payable	187,857.36	12,454.50
Huahai Marine Cargo Access Equipment Co.	Accounts payable	116,375.00	116,375.00
Shanghai Navigation Instrument Co., Ltd.	Accounts payable	115,000.00	48,325.00
CSSC Guangzhou Nansha-Longxue	Accounts payable	100,000.00	100,000.00
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Accounts payable	85,422.00	355,409.89
Jiangxi Chaoyang Mechanical Factory	Accounts payable	3,080.00	
China Shipping Trading Corporation	Accounts payable	-45,258.30	-40,575.62
Jiangxi Marine Valve Factory	Accounts payable		2,875.00
Subtotal		119,639,345.92	114,480,622.99
Guangzhou Shipyard Ltd.	Other payable	11,830.00	8,400.00
Subtotal		11,830.00	8,400.00
CSSC Guangzhou Nansha-Longxue	Advances from customers	16,232,746.67	22,183,406.67
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Advances from customers	6,707,338.00	654,400.00
Guangzhou Shipyard Ltd.	Advances from customers	730,800.00	
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd.	Advances from customers	623,100.00	383,100.00
Shanghai Ship Research Institute	Advances from customers	600,000.00	
CSSC Huanan Ship Machinery Co., Ltd.	Advances from customers		5,000.00
Hudong Zhonghua Shipbuilding (Group) Co., Ltd.	Advances from customers		10,000,000.00
CSSC Jiangnan Heavy Machine Co., Ltd.	Advances from customers		162,000.00
Subtotal		24,893,984.67	33,387,906.67

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

VII. CONTINGENCIES

1. On 21 July 2010, the Company signed contract "7600t bulk freighter manufacture management technical service" with Jiangsu Shenghua Ship Building Co., Ltd (JSSH). In December 2010, the Company intended to transport its equipments cost 10,465,000.00 to other location, but blocked by JSSH and JSSH refused to pay the Company service charge according to the contract mentioned above. The Company has sued JSSH on 31 December 2010 through Jiangsu Zhenjiang middle level court and demand: (a) JSSH stop blocking the Company to transport its equipment and JSSH compensate for the loss due to the block. (b) JSSH pay the service charge RMB2,400,000.00 and pay another RMB2,400,000.00 as penalty. The result has not come out until now. The Company considers there is a high possibility of winning the suit.
2. On 25 July 2010, Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd. (GLGS), subsidiary of the Company, signed contract 79600t bulk freighter 1# and 2# installation with JSSH. GLGS has sued JSSH through Jiangsu Zhenjiang middle level court on 31 December 2010 because JSSH refused to paid for the charge according to contract and demand: (a) JSSH pay for the charge and loss related amount to RMB50,281,700(1# 26,876,000, 2# 23,405,700), cancel the contract with JSSH and JSSH return the materials and equipment GLGS has parked. (b) The control company of JSSH, Nanjing Shenghua Ship Building Limited Company undertake related penalty. The result has not come out until now. The Company considers there is a high possibility of winning the suit.

As at 31 December, 2010, the Company has no other material contingencies to be disclosed except mentioned above.

VIII. COMMITMENTS

1. Mortgage

As at 31 December, 2010, the Company has no other material mortgage to be disclosed except those of fixed deposit

2. Inmatured Forward Contract

To avoid foreign exchange rate risk, the Company signed foreign exchange forward contract with the bank. As at December 31, 2010, the Company accumulated totally 10 inmatured forward contracts, with a transaction amount USD0.135 billion, and the contracted delivery period from January 1, 2011 to February 20, 2012.

In addition to above mentioned matter, as at December 31, 2010, 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, 2010, the Company has no other material commitments to be disclosed.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

IX. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

1. Illustration of profit distribution after balance sheet date

Net profit of 2010 accounting period based on CAS amounted to RMB729,397,776.60, but RMB729,379,724.01 based on HK Financial Report Standards. Distribution of net profit is based on the less one according to the constitution of the Company.

The Board of Directors held its meeting on March 29, 2011, by which the resolution of profit distribution has been passed.

- A. 10% provision of statutory surplus reserves amount to RMB72,937,972.40.
- B. The Company shall release cash dividends rated RMB0.10 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 RMB49,467,758.00.
- C. Capital surplus shall transfer into capital, on the base of total shares amounted 494,677,580, 3 shares each 10, all together 148,403,274 shares transferred. The shares amount to 643,080,854 after transfer.

The remain undistributed profit shall be carried forwarded to the next year. The resolution of profit distribution can only applied when 2 conditions are met: (a) Approved by the general meeting of shareholders, the first class meeting of domestic shares of 2011, the first class meeting of foreign shares of 2011. (b) Approved by China Ministry of Commerce.

2. Other subsequent events after the balance sheet date

(a) *Related party transaction: acquisition minority shares of subsidiary*

Approved by the twenty-fourth meeting of the sixth term of the Board of Directors, the Company has signed contract with Guangzhou CSSC Huangpu Shipyard Company Limited (HPZC) for buying 24% shares of Guangzhou Masterwood Shipbuilding Company Limited (WDGS) hold by HPZC on February 15, 2011. After acquisition, the Company hold 75% shares directly and hold 25% shares indirectly through wholly owned subsidiary Rongguang Develop Limited. The acquisition is in line with the development strategy of the Company and will benefit the coordination of ship building operation.

(b) *Cancel rent contract*

Approved by the twentieth meeting of the sixth term of the Board of Directors meeting on August 27, 2010, the Company has signed contract as lessee with JSSH and guarantor, Nanjing Shenghua Company, to rent assets of JSSH to serve operation of ship building and other related activities. Approved by the same board meeting, the Company established branch, Guangzhou Guangchuan International Shipyard Zhenjiang Branch, in Jiangsu Zhenjiang. But due to the delay of ship in construction of JSSH and JSSH can not deliver the dock to the Company on time according to the contract. What's more, JSSH did not complete the process of obtain evidence of leasing assets promised in the contract and part of the leasing assets have not obtain consent by the government department. In an attempt to avoid influence of semi-submersible vessel of the Company which have been planned to build in JSSH, the Company has established agreement with Jiangsu Qidong Daoda Heavy Machine Limited Company to build the semi-submersible in the form of subletting. Based on the above fact and unachievable of the original objective the Company replied to JSSH on February 25, 2011 to cancel the rent agreement but the Company reserves the legal right of looking into the accountability of JSSH for not comply the contract. The building process of the semi-submersible vessel is running smoothly with Jiangsu Qidong Daoda Heavy Machine Limited Company and there's no material negative impact on the operation of the Company.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

X. OTHER SIGNIFICANT EVENTS

As at December 31, 2010 the Company has no other significant events to be disclosed.

XI. MATERIAL NOTES FOR PARENT COMPANY

1. Accounts Receivable

(1) Classification based on significance:

Classification			Ending Balance		
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	-	-	-	-	-
Individually insignificant but provision individually	1,271,069.29	0.39%	1,271,069.29	100.00%	-
Provision on group					
1. No provision	124,923,810.31	38.02%	-	-	124,923,810.31
2. Provision percent of ending balance	202,336,085.55	61.59%	1,043,924.66	0.50%	201,292,160.89
Total	328,530,965.15	100.00%	2,314,993.95	0.70%	326,215,971.20

Classification			Beginning Balance		
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	-	-	-	-	-
Individually insignificant but provision individually	937,473.62	0.25%	937,473.62	100.00%	-
Provision on group					
1. No provision	102,139,886.25	26.80%	-	-	102,139,886.25
2. Provision percent of ending balance	278,053,474.84	72.95%	1,389,967.38	0.50%	276,663,507.46
Total	381,130,834.71	100.00%	2,327,441.00	0.61%	378,803,393.71

Foreign currency included in the balance:

Clients	Ending Balance			Beginning Balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	7,031,372.09	6.6227	46,566,667.94	9,655,848.37	6.8282	65,932,063.84
HKD	1,732,015.41	0.8509	1,473,771.91	1,311,489.32	0.8805	1,154,766.35
EUR				578,855.00	9.7971	5,671,100.32
Total	-	-	48,040,439.85	-	-	72,757,930.51

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

Receivables without provision

Name of the group	Ending balance	Provision	Net value
Receivables of subsidiary	124,923,810.31		124,923,810.31
Total	124,923,810.31		124,923,810.31

Classification based on aging:

Aging	Ending Balance			Net Value
	Amount	Ratio	Bad Debt Allowance	
Within 1 year	171,182,386.62	84.60%	820,655.58	170,361,731.04
1-2 year (Inclusive)	30,412,212.85	15.03%	219,561.64	30,192,651.21
2-3 year (Inclusive)				
3-4 year (Inclusive)	225,045.17	0.11%	1,125.23	223,919.94
4-5 year (Inclusive)	516,440.91	0.26%	2,582.21	513,858.70
Over 5 year				
Total	202,336,085.55	100.00%	1,043,924.66	201,292,160.89

Aging	Beginning Balance			Net Value
	Amount	Ratio	Bad Debt Allowance	
Within 1 year	272,184,370.89	98.46%	1,360,621.86	270,823,749.03
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
3-4 year (Inclusive)	2,704,144.79	0.71%	13,520.72	2,690,624.07
4-5 year (Inclusive)	35,764.87	0.01%	178.82	35,586.05
Over 5 year				
Total	278,053,474.84	100.00%	1,389,967.38	276,663,507.46

(2) Top 5 balances:

Name	Relationship with the company	Ending balance	Aging	Proportion %
Guangzhou GSI Large-size Mechanical Equipment Company Limited	Subsidiary	107,966,601.46	1-2 years	32.86
Zhonghai Ganglian Transport Company Limited	External customer	104,664,159.40	Within 1 year	31.86
Denmark NORDN company	External customer	46,474,764.14	Within 1 year	14.15
Asia aluminum (China) Company	External customer	14,870,541.54	1-2 years	4.53
Guangzhou Xingshun Shipping Service Company Limited	Subsidiary	14,274,526.47	Within 1 year	4.34
Total		288,250,593.01		87.74

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(3) Balance with related party

Name	Relationship with the Company	Ending balance	Proportion %
Fanguang Development Limited Company	Subsidiary	994,542.98	0.30
Guangzhou GSI Large-size Mechanical Equipment Company Limited	Subsidiary	98,773,919.40	30.07
Guangzhou GSI Large-size Mechanical Equipment Company Limited Zhongshan Branch	Subsidiary	9,192,682.06	2.80
Guangzhou Xingshun Shipping Service Company Limited	Subsidiary	14,274,526.47	4.34
Guangzhou United Steel Structures Co., Ltd.	Subsidiary	1,688,139.40	0.51
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Under same control of CSSC	11,349,095.46	3.45
CSSC Jiangnan Heavy Machine Co., Ltd.	Under same control of CSSC	13,000,861.76	3.96
Total		<u>149,273,767.53</u>	<u>45.43</u>

2. Other Receivables

(1) Classification based on significance:

Classification	Ending Balance				
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	10,340,232.15	2.10%	10,340,232.15	100.00%	
Individually insignificant but provision individually	57,600.00	0.01%	57,600.00	100.00%	
Provision on group					
1. No provision	203,171,118.35	41.28%			203,171,118.35
2. Provision percent of ending balance	<u>278,587,364.75</u>	<u>56.61%</u>	<u>1,393,669.32</u>	<u>0.50%</u>	<u>277,193,695.43</u>
Total	<u>492,156,315.25</u>	<u>100.00%</u>	<u>11,791,501.47</u>	<u>2.40%</u>	<u>480,364,813.78</u>
Classification	Beginning Balance				
	Amount	Ratio	Bad Debt Allowance	Provision proportion	Net Value
Individually significant balance	10,340,232.15	4.11%	8,360,252.99	80.85%	1,979,979.16
Individually insignificant but provision individually					
Provision on group					
1. No provision	131,900,000.00	52.48%			131,900,000.00
2. Provision percent of ending balance	<u>109,116,956.42</u>	<u>43.41%</u>	<u>1,195,652.39</u>	<u>0.50%</u>	<u>107,921,304.03</u>
Total	<u>251,357,188.57</u>	<u>100.00%</u>	<u>9,555,905.38</u>	<u>3.80%</u>	<u>241,801,283.19</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

Receivables without provision

<u>Name of the group</u>	<u>Ending balance</u>	<u>Provision</u>	<u>Net value</u>
Bank of Communications Zhongshan Huoju Development Area branch	200,000,000.00		200,000,000.00
Receivables of subsidiary	3,171,118.35		3,171,118.35
Total	<u>203,171,118.35</u>		<u>203,171,118.35</u>

Classification based on aging:

<u>Aging</u>	<u>Ending Balance</u>		<u>Bad Debt Allowance</u>	<u>Net Value</u>
	<u>Amount</u>	<u>Ratio</u>		
Within 1 year	278,289,345.16	99.89%	1,392,179.22	276,897,165.94
1-2 year (Inclusive)	112,425.00	0.04%	562.13	111,862.87
2-3 year (Inclusive)	23,594.59	0.01%	117.97	23,476.62
3-4 year (Inclusive)	120,000.00	0.04%	600.00	119,400.00
4-5 year (Inclusive)				
Over 5 year	42,000.00	0.02%	210.00	41,790.00
Total	<u>278,587,364.75</u>	<u>100.00%</u>	<u>1,393,669.32</u>	<u>277,193,695.43</u>

<u>Aging</u>	<u>Beginning Balance</u>		<u>Bad Debt Allowance</u>	<u>Net Value</u>
	<u>Amount</u>	<u>Ratio</u>		
Within 1 year	107,396,745.19	98.42%	1,187,051.33	106,209,693.86
1-2 year (Inclusive)	1,436,115.70	1.32%	7,180.58	1,428,935.12
2-3 year (Inclusive)	141,169.00	0.13%	705.85	140,463.15
3-4 year (Inclusive)	43,326.53	0.04%	216.63	43,109.90
4-5 year (Inclusive)	30,000.00	0.03%	150.00	29,850.00
Over 5 year	69,600.00	0.06%	348.00	69,252.00
Total	<u>109,116,956.42</u>	<u>100.00%</u>	<u>1,195,652.39</u>	<u>107,921,304.03</u>

Significant balance or insignificant but tested individually

<u>Name</u>	<u>Ending balance</u>	<u>Provision</u>	<u>Provision Portion</u>	<u>Reason</u>
Hong Kong Guanghong International Company Limited	10,340,232.15	10,340,232.15	100%	Not perform rely on predicted debt restructure
Guangzhou City Construction Archives	57,000.00	57,000.00	100%	File lost
Total	<u>10,397,232.15</u>	<u>10,397,232.15</u>		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

(2) Top 5 balances:

Name	Relationship with the Company	Ending balance	Aging	Proportion %
Product Subsidy	Subsidy	Others	222,847,918.68	Within 1 year
Zhongshan Huoju Development Zone Branch of Communication Bank	Entrust loans	External bank	200,000,000.00	1-2 years
Guangzhou Import and Export Tax Bureau	Export Rebates	Others	50,603,419.78	Within 1 year
Hong Kong Guanghong International Limited Company	Trust deposit	Others	10,340,232.15	Over 5 years
Jiangsu Shenghu Shipyard Company	Advanced power charge	Branch	1,000,000.00	Within 1 year
Total			484,791,570.61	

Note: The company provide entrust loans amounted to RMB200,000,000.00 to its subsidiary Zhongshan Guangchuan International Marine and Ocean Project Co., Ltd by Zhongshan Huoju Development Zone Branch of Communication Bank.

(3) Balance with related party

Name	Relationship with the Company	Ending balance	Proportion %
Guangdong GSI Elevator Co., Ltd.	Subsidiary	1,900,000.00	0.38
Guangzhou GSI Large-size Mechanical Equipment Company Limited	Subsidiary	1,271,118.35	0.26
Total		3,171,118.35	0.64

3. Long term equity investment

Investee	Method	Initial investment	Beginning balance	Variance	Ending balance
Guangzhou Xingshun Shipping Service Company Co., Ltd.	Cost	500,000.00	500,000.00		500,000.00
Guangzhou Masterwood Shipbuilding Company Limited	Cost	1,690,741.80	1,690,741.80		1,690,741.80
Guangzhou United Steel Structures Co., Ltd.	Cost	37,522,079.55	37,522,079.55		37,522,079.55
Guangdong GSI Elevator Co., Ltd.	Cost	19,950,000.00	19,950,000.00		19,950,000.00
Guangzhou Hongfan Information Technique Co., Ltd.	Cost	2,550,000.00	2,550,000.00		2,550,000.00
Glory Group Developing Co., Ltd.	Cost	26,443,792.13	26,443,792.13		26,443,792.13
Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd.	Cost	3,052,492.77	3,052,492.77		3,052,492.77
Guangzhou GSI Heavy Mechanical Co., Ltd.	Cost	188,610,000.00	30,000,000.00	158,610,000.00	188,610,000.00
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
Special Skills of Shipbuilding Industry 007 Evaluation Station	Cost			800,000.00	800,000.00
South China Marine and Industrial Special Coating Co., Ltd.	Equity	1,937,780.53	3,449,192.62	15,768.13	3,464,960.75
Zhanjiang Nanhai Navy Technical Service Co.,Ltd.	Equity	800,000.00	812,098.43	2,284.32	814,382.75
Total		384,056,886.78	226,970,397.30	159,428,052.45	386,398,449.75

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

Investee	Holding ratio (%)	Representative ratio (%)	Impairment	Current year impairment	Monetary bonus
Glory Group Developing Co., Ltd.	100.00	100.00			
Guangzhou Hongfan Information Technique Co., Ltd.	51.00	51.00			
Guangzhou GSI Large-size Heavy Mechanical Equipment Co., Ltd.	100.00	100.00			
Guangdong GSI Elevator Co., Ltd.	95.00	95.00			
Guangzhou Xingshun Shipping Service Co., Ltd.	83.00	83.00			
Guangzhou United Steel Structures Co., Ltd.	51.00	51.00			
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			677,728.60
Zhanjiang Nanhai Navy Technical Service Co.,Ltd.	40.00	40.00			
Total			-	-	677,728.60

4. Revenue and Cost

(1) Details of revenue and cost

Item	Current year	Last year
Revenue	6,680,304,548.95	6,242,694,549.57
Including: Income from principal activities	6,538,727,196.38	6,049,722,804.46
Other Operating Income	141,577,352.57	192,971,745.11
Costs	5,790,791,584.48	5,502,493,559.02
Including: Cost of Goods Sold	5,691,087,572.50	5,343,476,346.45
Other Operating Expenses	99,704,011.98	159,017,212.57

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

Type of Businesses	Current Year		Last Year	
	Revenue	Cost	Revenue	Cost
Shipbuilding products	6,402,821,761.65	5,557,573,991.10	5,718,470,581.05	4,988,803,945.23
Steel Structure projects	14,306,614.95	16,087,434.46	246,161,684.29	272,047,806.26
Mechanical & electrical products and others	121,598,819.78	117,426,146.94	85,090,539.12	82,624,594.96
Total	6,538,727,196.38	5,691,087,572.50	6,049,722,804.46	5,343,476,346.45

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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

Item	Amount in Current	Proportion
No.1	1,476,142,663.64	21.04%
No.2	727,222,992.95	10.37%
No.3	695,170,149.71	9.91%
No.4	679,010,955.37	9.68%
No.5	646,198,549.84	9.21%
Total	4,223,745,311.51	60.21%

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	800,000.00	13,990,055.33
The adjustment based on the net profit of investee enterprises under equity method at the end of the year	695,781.05	755,344.46
Income from holding of available-for-sale financial assets	3,855,606.50	2,185,000.00
Income from disposal of trading financial assets	62,327,894.42	122,140,050.00
Income from disposal of trading financial liabilities		-11,375,442.41
Total	67,679,281.97	127,695,007.38

(2) Investee enterprises under cost method:

Investee	Current year	Last year	Reason for fluctuation
Guangzhou Hongfan Information Technique Co., Ltd.		510,000.00	No dividend
Guangzhou United Steel Structures Co., Ltd.		13,250,055.33	No dividend
Special Skills of Shipbuilding Industry 007 Evaluation Station	800,000.00		Recognize prior year profit
Shenzhen Yuanzhou technical Co.,Ltd		230,000.00	No dividend
Total	800,000.00	13,990,055.33	

NOTES TO THE FINANCIAL STATEMENTS

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(3) Investee enterprises under equity method:

Investee	Current	Last year	Reason for fluctuation
South China Marine and Industrial Special Coating Co., Ltd.	693,496.73	754,143.34	Decreased profit
Zhanjiang Nanhai Navy Technical Service Co., Ltd.	2,284.32	1,201.12	Increased profit
Total	<u>695,781.05</u>	<u>755,344.46</u>	

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	729,397,776.60	512,728,580.60
Add: Provision for fixed assets	15,712,875.37	19,285,984.24
Depreciation of fixed assets, biological Assets and Depletion of Oil and Nature Gas assets	90,820,361.15	96,161,311.34
Amortization of intangible assets	6,920,130.16	6,384,547.69
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	1,370,334.20	7,969,999.59
Losses on scrapping of fixed assets ("-" for gains)		
Losses on movement of fair value ("-" for gains)	33,475,189.25	97,458,203.39
Financial expenses ("-" for gains)	-156,793,549.03	-123,272,980.16
Investments losses ("-" for gains)	-67,679,281.97	-127,695,007.38
Decrease in deferred tax assets ("-" for increase)	-10,696,556.34	-5,247,760.10
Increase in deferred tax liabilities ("-" for decrease)	-5,021,278.39	-26,836,174.63
Decrease in inventories ("-" for increase)	-235,644,385.72	-136,597,573.37
Decrease in operating receivables ("-" for increase)	-189,238,502.14	-87,536,110.75
Increase in operating payables ("-" for decrease)	<u>759,370,910.08</u>	<u>-896,208,230.97</u>
Others		
Net cash flows from operating activities	<u>971,994,023.22</u>	<u>-663,405,210.51</u>
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	4,776,783,586.93	4,174,852,057.51
Less: Cash at the beginning of the period	4,174,852,057.51	5,088,610,548.91
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	<u>601,931,529.42</u>	<u>-913,758,491.40</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

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---Exceptional item in Profits and losses” amended by the China Securities Regulatory Commission in [2008] NO.43), the exceptional 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	-1,411,349.43	
Government subsidies recognized in the current profits and losses	86,244,367.90	
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	30,754,086.76	
Switch of receivable provision	521,900.00	
Apart from above item, other non-operating profits and losses	-2,755,915.78	
Subtotals (effect on income before tax)	113,353,089.45	
Less: influence on income tax	17,002,963.42	
Net influence of unusual item in profits or losses	96,350,126.03	
Including: attributable to minority interests	326,568.32	
Influence attributable to common shareholders of parent company	96,023,557.71	
Net profits attributable to common shareholders of parent company after deducting unusual item in profits or losses	611,713,234.82	

2. 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:

Profit for accounting period	Current year		
	Return on weighted average net assets	EPS	
		Basic EPS	Diluted EPS
Net profits belonging to the common shareholders	20.73%	1.43	–
Net profits belonging to the common shareholders after deducted exceptional profits or losses	17.91%	1.24	–

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in Renminbi yuan unless otherwise stated)

<u>Profit for accounting period</u>	<u>Return on weighted average net assets</u>	<u>Last year</u>	
		<u>EPS</u>	
		<u>Basic EPS</u>	<u>Diluted EPS</u>
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	–

XIII. THE AUTHORIZATION OF FINANCIAL STATEMENT

The financial statement has been approved by the Board Meeting held on March 29, 2011.

According to the Articles of Association of the Company, the financial statements will be submitted to the shareholders' meeting for consideration.

Legal representative:
Li Zhushi

Person in charge of
accounting function:
Chen Liping

Person in charge of
accounting department:
Hou Zengquan

Guangzhou Shipyard International Company Limited

29 March, 2011

INTERNATIONAL AUDITOR'S REPORT

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 131 to 199, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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 about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with 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, 29 March 2011

BALANCE SHEETS

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	1,413,345	1,338,820	1,097,273	1,207,365
Investment properties	7	27,377	29,427	27,377	29,427
Land use rights and leasehold land	8	283,229	283,658	57,777	67,103
Intangible assets	9	16,550	18,453	16,550	18,453
Investments in subsidiaries	10	–	–	381,119	221,709
Interest in associates	11	39,689	39,980	2,522	2,522
Available-for-sale financial assets	13	1,900	1,900	1,000	1,000
Derivative financial instruments	14	2,215	–	2,215	–
Restricted cash	19	66,336	–	66,190	–
		1,850,641	1,712,238	1,652,023	1,547,579
Current assets					
Available-for-sale financial assets	13	266,792	337,360	266,792	337,360
Inventories	15	941,495	742,775	702,216	575,562
Amounts due from subsidiaries		–	–	455,100	339,457
Due from customers on construction contracts	16	714,069	611,765	707,706	598,716
Trade receivables	17	344,887	335,167	305,889	276,713
Prepayments and other receivables	18	758,310	426,026	639,040	359,159
Derivative financial instruments	14	19,013	64,160	19,013	54,870
Term deposits with initial term of over three months	19	3,908,079	4,135,898	3,873,811	4,050,100
Restricted cash	19	2,146,286	1,071,916	2,140,173	1,070,168
Cash and cash equivalents	19	1,158,693	326,659	965,777	206,981
Non-current assets held for sale	20	40,443	40,443	40,443	40,443
		10,298,067	8,092,169	10,115,960	7,909,529
Total assets		12,148,708	9,804,407	11,767,983	9,457,108

BALANCE SHEETS

	Note	Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	2010	2009
		RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Equity 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	546,893	549,003	545,717	547,827
Retained earnings	23	1,969,472	1,473,183	1,885,375	1,367,443
– Proposed dividend	40	49,468	138,510	49,468	138,510
– Others		1,920,004	1,334,673	1,835,907	1,228,933
		3,663,020	3,168,841	3,577,747	3,061,925
Non-controlling interest		90,907	88,139	–	–
Total equity		3,753,927	3,256,980	3,577,747	3,061,925
LIABILITIES					
Non-current liabilities					
Borrowings	24	61,194	–	61,194	–
Retirement benefit obligations	25	22,047	24,134	22,047	24,134
Deferred income tax liabilities	26	11,057	40,393	12,519	41,481
Government grant	27	26,226	–	26,226	–
		120,524	64,527	121,986	65,615
Current liabilities					
Amounts due to subsidiaries		–	–	82,043	31,031
Due to customers on construction contracts	16	3,295,814	3,368,134	3,296,159	3,377,250
Trade payables	28	1,884,035	1,070,653	1,801,065	1,024,316
Other payables and accruals	29	483,483	247,101	338,570	175,612
Dividends payable	68	12,786	68	56	–
Current income tax liabilities		100,043	48,997	98,173	45,647
Borrowings	24	2,400,251	1,637,123	2,341,609	1,577,550
Derivative financial instruments	14	–	167	–	167
Provisions for warranty	30	110,563	97,939	110,563	97,939
		8,274,257	6,482,900	8,068,250	6,329,568
Total liabilities		8,394,781	6,547,427	8,190,236	6,395,183
Total equity and liabilities		12,148,708	9,804,407	11,767,983	9,457,108
Net current assets		2,023,810	1,609,269	2,047,710	1,579,961
Total assets less current liabilities		3,874,451	3,321,507	3,699,733	3,127,540

The notes on pages 137 to 199 are an integral part of these financial statements.

The financial statements on pages 131 to 199 were approved by the Board of Directors on 29 Mar 2011 and were signed on its behalf.

Li Zhushi

Director

Han Guangde

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2010	2009
		RMB'000	RMB'000
Revenue		7,014,225	6,553,425
Cost of construction contracts		(5,661,192)	(5,046,099)
Cost of goods sold and services rendered		(543,875)	(781,966)
Cost of sales	32	(6,205,067)	(5,828,065)
Gross profit		809,158	725,360
Other gains – net	31	19,087	27,181
Selling and marketing costs	32	(12,674)	(13,124)
Administrative expenses	32	(383,945)	(323,398)
Other income	33	242,557	80,846
Other expenses		(6,439)	(8,610)
Operating profit		667,744	488,255
Finance income	34	201,101	169,340
Finance costs	34	(38,784)	(50,976)
Finance income – net	34	162,317	118,364
Share of post-tax profits of associates	11	5,187	7,069
Profit before income tax		835,248	613,688
Income tax expense	36	(124,743)	(92,872)
Profit for the year		710,505	520,816
Other comprehensive income:			
Fair value (losses)/gains on available-for-sale financial assets, net of tax	13	(75,048)	129,124
Other comprehensive income for the year, net of tax		(75,048)	129,124
Total comprehensive income for the year		635,457	649,940

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2010	2009
		RMB'000	RMB'000
Profit attributable to:			
– Shareholders of the Company		707,737	514,962
– Non-controlling interests		2,768	5,854
		710,505	520,816
Total comprehensive income attributable to:			
– Shareholders of the Company		632,689	644,086
– Non-controlling interests		2,768	5,854
		635,457	649,940
Earnings per share for profit attributable to shareholders of the Company for the year (expressed in RMB per share)			
– Basic and diluted	39	1.4307	1.0410

The notes on pages 137 to 199 are an integral part of these financial statements.

		Year ended 31 December	
		2010	2009
		RMB'000	RMB'000
Dividends – proposed	40	49,468	138,510

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to shareholders of the Company					Non- controlling interest RMB'000	Total RMB'000
		Share capital and premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000			
Balance at 1 January 2009		1,146,655	368,607	1,232,098	2,747,360	95,505	2,842,865	
Comprehensive income								
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	
Transactions with owners								
Profit transferred to surplus reserves	22	–	51,272	(51,272)	–	–	–	
Dividends relating to 2008		–	–	(222,605)	(222,605)	–	(222,605)	
Dividend paid by a subsidiary		–	–	–	–	(13,220)	(13,220)	
Total transactions with owners for 2009		–	51,272	(273,877)	(222,605)	(13,220)	(235,825)	
Balance at 31 December 2009		1,146,655	549,003	1,473,183	3,168,841	88,139	3,256,980	
Balance at 1 January 2010		1,146,655	549,003	1,473,183	3,168,841	88,139	3,256,980	
Comprehensive income								
Profit for the year		–	–	707,737	707,737	2,768	710,505	
Other comprehensive income:								
Fair value losses, net of tax:								
– available-for-sale financial assets	22	–	(75,048)	–	(75,048)	–	(75,048)	
Total comprehensive income for 2010		–	(75,048)	707,737	632,689	2,768	635,457	
Transactions with owners								
Profit transferred to surplus reserves	22	–	72,938	(72,938)	–	–	–	
Dividends relating to 2009		–	–	(138,510)	(138,510)	–	(138,510)	
Total transactions with owners for 2010		–	72,938	(211,448)	(138,510)	–	(138,510)	
Balance at 31 December 2010		1,146,655	546,893	1,969,472	3,663,020	90,907	3,753,927	

The notes on pages 137 to 199 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	Year ended 31 December	
		2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	41	209,743	392,421
Interest paid		(23,819)	(57,001)
Interest received		154,066	226,629
PRC enterprise income tax paid		(89,790)	(180,617)
Net cash generated from operating activities		250,200	381,432
Cash flows from investing activities			
Purchase of property, plant and equipment		(168,733)	(194,230)
Purchase of land use rights and leasehold land		(12,003)	(210,944)
Purchase of intangible assets		(684)	(5,536)
Purchase of available-for-sale financial assets		(17,723)	–
Proceeds from sale of property, plant and equipment, investment properties and land use rights and leasehold land	41	41,551	15,154
Dividends received from associates		–	797
Dividends received from available-for-sale financial assets		3,856	2,415
Net cash used in investing activities		(153,736)	(392,344)
Cash flows from financing activities			
Proceeds from borrowings		3,029,864	2,219,820
Repayments of borrowings		(2,138,005)	(2,141,997)
Dividends paid to shareholders of the Company		(138,498)	(222,584)
Dividends paid to non-controlling interests		(12,730)	(490)
Net cash generated from/(used in) financing activities		740,631	(145,251)
Net increase/(decrease) in cash and cash equivalents		837,095	(156,163)
Cash and cash equivalents at beginning of the year		326,659	484,286
Exchange losses on cash and cash equivalents		(5,061)	(1,464)
Cash and cash equivalents at end of the year	19	1,158,693	326,659

The notes on pages 137 to 199 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED 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 29 March 2011.

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 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 policies and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

		<u>Effective for the financial year beginning on or after</u>
HKAS 17 (Amendment)	Leases	1 July 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKAS 28 (Revised)	Investment in associates	1 July 2009
HKAS 31 (Revised)	Interests in joint ventures	1 July 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS (Amendments)	Annual improvements to HKFRS issued in October 2008 and May 2009 by the Hong Kong Institute of Certified Public Accountants (“HKICPA”)	1 July 2009
HK-int 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause	Immediate effective from 29 November 2010

The Group has applied the above new standards and amendments to standards from 1 January 2010 and the adoption has not resulted in any material impact on the Group’s results of operation and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

Changes in accounting policies and disclosures (continued)

- (b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted.

		<u>Effective for the financial year beginning on or after</u>
HKAS 24 (Revised)	Related party disclosure	1 January 2011
HKFRS 9	Financial instruments	1 January 2013
HKFRS (Amendments)	Annual improvements to HKFRS issued in May 2010 by HKICPA	1 July 2010

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

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred after January 2010. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any 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.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. 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 for by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 profit and loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. 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 the presentation currency of the Group.

(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 are presented in the consolidated statement of comprehensive income within "finance income – net". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gains – net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 to 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.

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 income.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment property (continued)

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 2.16%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (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.

2.7 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 which is considered highly probable. Such assets are stated at the lower of carrying amount and fair value less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for 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 sheets.

(c) *Available-for-sale financial assets*

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

2.11.2 Recognition and measurement

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

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 – 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets

(a) *Assets carried at amortized 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;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- 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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized 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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized 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 recognized in profit or loss – is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2.16 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.

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax

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

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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is 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 for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

2.21 Construction contracts

A construction contract is defined by HKAS 11 as a contract specifically negotiated for the construction of an asset.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Provisions are not recognized for future operating losses.

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

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

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 when services are rendered by the employees.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 when specific criteria have been met for each of the Group's activities as described below. 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), subject to the trigger point of profit recognition for individual construction contract (Note 4.2(a)).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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.

Government subsidy for shipbuilding on individual qualified vessels is recognized on the same basis as that of the respective construction contracts, subject to the trigger point of profit recognition for individual construction contract as described in Note 4.2(a).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, cash flow interest rate risk, fair value 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 counsel 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 derivative financial instruments, trade receivables, other receivables, cash and bank balances, borrowings, trade payables and other payables and accruals which are denominated in USD, are exposed to foreign exchange risk. Details of the Group's derivative financial instruments, trade receivables, other receivables, cash and bank balances, borrowings, trade payables and other payables and accruals are disclosed in Notes 14, 17, 18, 19, 24, 28 and 29 respectively.

At 31 December 2010, if RMB had weakened/strengthened by 3% against the USD with all other variables held constant, post-tax profit for the year would have been RMB56,209,000 (2009: RMB34,284,000) 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 current 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. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2010, approximately RMB1,837,322,000 (2009: RMB966,190,000) 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 2010, 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 RMB15,617,000 (2009: RMB8,213,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(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 2010, if the price of the equity securities had decreased/increased by 20% with all other variables held constant, other components of equity would decrease/increase by RMB44,896,000 (2009:RMB56,892,000), mainly as a result of losses/gains on equity securities classified as available-for-sale.

(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 2010, the Group held term deposits of RMB3,908,079,000 (2009: RMB4,135,898,000) that are expected to readily generate cash inflows for managing liquidity risk. Most of these term deposits will be matured within one year after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 RMB'000	Between 1 and 2 years RMB'000
Group		
At 31 December 2010		
Borrowings	2,400,251	62,766
Trade payables, other payables and accruals (Note 12)	2,038,243	–
Dividends payable	68	–
	<hr/>	<hr/>
At 31 December 2009		
Borrowings	1,637,123	–
Derivative financial liabilities	167	–
Trade payables, other payables and accruals (Note 12)	1,155,122	–
Dividends payable	12,786	–
	<hr/>	<hr/>
Company		
At 31 December 2010		
Borrowings	2,341,609	62,766
Trade payables, other payables and accruals (Note 12)	1,935,762	–
Amounts due to subsidiaries	82,043	–
Dividends payable	68	–
	<hr/>	<hr/>
At 31 December 2009		
Borrowings	1,577,550	–
Derivative financial liabilities	167	–
Trade payables, other payables and accruals (Note 12)	1,092,932	–
Amounts due to subsidiaries	31,031	–
Dividends payable	56	–
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2010 and 2009 are as follows:

	2010	2009
	RMB'000	RMB'000
Total borrowings (Note 24)	2,461,445	1,637,123
Total equity attributable to the shareholders of the Company	3,663,020	3,168,841
Total capital	6,124,465	4,805,964
Debt/equity ratio	40%	34%

The increase in the debt/equity ratio during 2010 is primarily resulted from increase in total borrowings during the year.

3.3 Fair value estimation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2010.

Group

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts	–	21,228	–	21,228
Available-for-sale financial assets				
– Securities listed in Shanghai				
Stock Exchange	264,092	–	–	264,092
– Others	–	–	4,600	4,600
Total assets	264,092	21,228	4,600	289,920

Company

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative financial instruments				
– Forward foreign exchange contracts	–	21,228	–	21,228
Available-for-sale financial assets				
– Securities listed in Shanghai				
Stock Exchange	264,092	–	–	264,092
– Others	–	–	3,700	3,700
Total assets	264,092	21,228	3,700	289,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of 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.

(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 2010, 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 recognized 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 occurrence of warranty obligations, material adjustment for warranties may be required upon final settlement. The Group's provision for warranty is disclosed in Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(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 current and deferred tax assets and liabilities in the period in which such determination is made. The Group's income tax expense is disclosed in Note 36.

(d) *Useful lives and residual value of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on actual useful lives and residual value of property, plant and equipment of similar nature or function. It could change significantly as a result of maintenance and renewal. Management will adjust the depreciation charge where useful lives and residual value are different from previous estimate.

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*

Sales and installation of steel structure projects are normally completed within one year, the Group recognizes revenue 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 RMB6,402,822,000, RMB110,470,000 and RMB500,933,000 for the year ended 31 December 2010 and RMB5,718,471,000, RMB463,231,000 and RMB371,723,000 for the year ended 31 December 2009 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (CONTINUED)

The segment revenue and results for the year ended 31 December 2010 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	6,402,822	114,074	1,607,815	8,124,711	(1,110,486)	7,014,225
Inter-segment revenue	–	(3,604)	(1,106,882)	(1,110,486)	1,110,486	–
Revenue (from external customers)	6,402,822	110,470	500,933	7,014,225	–	7,014,225
Segment results	595,055	(12,905)	85,765	667,915	(171)	667,744
Finance income	202,561	1,424	1,252	205,237	(4,136)	201,101
Finance costs	(36,942)	(240)	(1,602)	(38,784)	–	(38,784)
Share of post-tax profits of associates	696	–	4,491	5,187	–	5,187
Income tax expense	(122,405)	407	(2,745)	(124,743)	–	(124,743)
Profit for the year						710,505
Segment results include:						
Depreciation and amortization	(89,829)	(2,724)	(26,624)	(119,177)	–	(119,177)
Gains on derivative financial instruments	28,853	–	1,901	30,754	–	30,754
Impairment for inventories	(2,258)	(10,025)	(508)	(12,791)	–	(12,791)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 amortization	(84,197)	(3,577)	(15,392)	(103,166)	–	(103,166)
Gains on derivative financial instruments	13,307	–	9,290	22,597	–	22,597
Impairment for investment property	(15,489)	–	–	(15,489)	–	(15,489)
Impairment for inventories	(2,176)	(1,824)	(242)	(4,242)	–	(4,242)

Revenues from major external customers by geographical location are as follows:

	2010 RMB'000	2009 RMB'000
Denmark	3,162,911	3,376,132
Mainland China	2,804,669	1,361,009
Hong Kong	369,276	278,262
Italy	261,997	366,083
Greece	250,072	525,418
Germany	–	384,023
Malta	–	60,998
Other countries	165,300	201,500
	7,014,225	6,553,425

Revenues are allocated based on the places/countries in which customers are located.

Revenues of approximately RMB1,476,143,000 and RMB727,223,000 are derived from two external customers respectively (2009: approximately RMB2,085,457,000 from a single external customer). These revenues were attributable to the shipbuilding and related business segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION (CONTINUED)

Non-current assets (other than financial instruments) located by geographical location are as follows:

	2010	2009
	RMB'000	RMB'000
Mainland China	1,763,751	1,693,498
Hong Kong	16,439	16,840
	1,780,190	1,710,338

The non-current assets are allocated based on where the assets are located.

A breakdown of the revenue from all services is as follows:

	2010	2009
	RMB'000	RMB'000
Analysis of revenue by category		
Construction contracts	6,402,822	5,718,471
Sales of goods	378,452	663,340
Provision of services	232,951	171,614
	7,014,225	6,553,425

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2009					
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	<u>262,095</u>	<u>526,993</u>	<u>418,054</u>	<u>24,636</u>	<u>1,231,778</u>
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	<u>84,255</u>	<u>709,506</u>	<u>518,316</u>	<u>26,743</u>	<u>1,338,820</u>
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	<u>84,255</u>	<u>709,506</u>	<u>518,316</u>	<u>26,743</u>	<u>1,338,820</u>
Year ended 31 December 2010					
Opening net book amount	84,255	709,506	518,316	26,743	1,338,820
Additions	167,891	6,834	4,338	–	179,063
Transfers	(105,838)	50,337	51,116	4,385	–
Reclassification from land use rights and leasehold land	–	7,428	–	–	7,428
Disposals	–	(397)	(692)	(2)	(1,091)
Depreciation	–	(36,159)	(70,337)	(4,379)	(110,875)
Closing net book amount	<u>146,308</u>	<u>737,549</u>	<u>502,741</u>	<u>26,747</u>	<u>1,413,345</u>
At 31 December 2010					
Cost	146,308	1,032,311	1,121,172	68,755	2,368,546
Accumulated depreciation	–	(294,762)	(618,431)	(42,008)	(955,201)
Net book amount	<u>146,308</u>	<u>737,549</u>	<u>502,741</u>	<u>26,747</u>	<u>1,413,345</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2009					
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	<u>261,914</u>	<u>522,022</u>	<u>382,231</u>	<u>24,626</u>	<u>1,190,793</u>
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	<u>72,809</u>	<u>694,305</u>	<u>413,519</u>	<u>26,732</u>	<u>1,207,365</u>
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	<u>72,809</u>	<u>694,305</u>	<u>413,519</u>	<u>26,732</u>	<u>1,207,365</u>
Year ended 31 December 2010					
Opening net book amount	72,809	694,305	413,519	26,732	1,207,365
Additions	94,795	–	–	–	94,795
Transfers	(76,172)	34,318	37,469	4,385	–
Reclassification from land use rights and leasehold land	–	7,428	–	–	7,428
Disposals	–	–	(320)	(2)	(322)
Transfer to a subsidiary (Note a)	(25,718)	(93,053)	(692)	–	(119,463)
Depreciation	–	(29,668)	(58,483)	(4,379)	(92,530)
Closing net book amount	<u>65,714</u>	<u>613,330</u>	<u>391,493</u>	<u>26,736</u>	<u>1,097,273</u>
At 31 December 2010					
Cost	65,714	893,931	915,409	68,695	1,943,749
Accumulated depreciation	–	(280,601)	(523,916)	(41,959)	(846,476)
Net book amount	<u>65,714</u>	<u>613,330</u>	<u>391,493</u>	<u>26,736</u>	<u>1,097,273</u>

(a) The Company transferred property, plant and equipment amounting to RMB119,463,000 (2009: RMB60,744,000) to a wholly owned subsidiary of the Company at a consideration of RMB122,434,000 (2009: RMB60,744,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENT PROPERTIES

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Beginning of the year	29,427	89,137
Disposal	(1,339)	(1,817)
Depreciation	(711)	(1,961)
Impairment	–	(15,489)
Transferred to non-current assets held for sale (Note 20)	–	(40,443)
End of the year	<u>27,377</u>	<u>29,427</u>
Representing:		
Cost	32,288	38,495
Accumulated depreciation and impairment	<u>(4,911)</u>	<u>(9,068)</u>
Net book amount	<u>27,377</u>	<u>29,427</u>
Fair value of investment properties	<u>45,610</u>	<u>36,869</u>

The fair value of investment properties was determined at 31 December 2010 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:

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Rental income	<u>1,800</u>	<u>1,848</u>

The future minimum lease income receivable under non-cancellable operating leases are as follows:

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>
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	<u>4,650</u>	<u>6,450</u>
	<u>13,650</u>	<u>15,450</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
In Hong Kong:				
Leases with terms between 10 to 50 years	–	7,704	–	7,704
In Mainland China:				
Leases with terms between 10 to 50 years	<u>283,229</u>	<u>275,954</u>	<u>57,777</u>	<u>59,399</u>
	<u>283,229</u>	<u>283,658</u>	<u>57,777</u>	<u>67,103</u>
	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Beginning of the year	283,658	75,196	67,103	69,439
Additions	12,003	210,944	–	–
Reclassification to property, plant and equipment	(7,428)	–	(7,428)	–
Disposal	–	(454)	–	(454)
Amortization	<u>(5,004)</u>	<u>(2,028)</u>	<u>(1,898)</u>	<u>(1,882)</u>
End of the year	<u>283,229</u>	<u>283,658</u>	<u>57,777</u>	<u>67,103</u>

9. INTANGIBLE ASSETS

	Group and Company	
	2010 RMB'000	2009 RMB'000
Computer software		
Beginning of the year	18,453	14,950
Additions	684	5,536
Amortization	<u>(2,587)</u>	<u>(2,033)</u>
End of the year	<u>16,550</u>	<u>18,453</u>
Representing:		
Cost	24,285	23,601
Accumulated amortization	<u>(7,735)</u>	<u>(5,148)</u>
Net book amount	<u>16,550</u>	<u>18,453</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RMB'000	2009 RMB'000
Unlisted shares, at costs	381,119	221,709

The following is a list of the principal subsidiaries at 31 December 2010:

Name	Place of incorporation and legal entity form	Principal activities	Issued and fully paid-up capital	Interest held			
				2010		2009	
				Direct %	Indirect %	Direct %	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	3.80	95	3.80
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
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	RMB100,000,000	100	–	–	–
Shipbuilding Industrial Special Skill Identification NO. 7 Institute	PRC, Institutional organization	Technical appraisal	RMB800,000	100	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. INTEREST IN ASSOCIATES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Unlisted				
Beginning of the year	39,980	33,708	2,522	2,522
Share of profits of associates	5,187	7,069	-	-
Dividend	(5,478)	(797)	-	-
End of the year	39,689	39,980	2,522	2,522

The Group's share of the results of its principal associates, all of which are incorporated in the PRC and unlisted, and share of its aggregated assets, liabilities and revenues are as follows:

Name	Assets RMB'000	Liabilities RMB'000	Revenues RMB'000	Share of Profit attributable to the Group RMB'000	Interest held %
2010					
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited ("South China Special Coating")	5,047	1,566	8,637	694	25
Zhanjiang Nanhai Naval New Technology & Service Company Limited ("Nanhai Naval")	1,686	875	1,442	2	40
Zhenjiang CSSC Hyundai Generator Equipment Company Limited ("Zhengjiang CSSC Hyundai")	56,638	21,241	58,326	4,491	32
	63,371	23,682	68,405	5,187	
2009					
South China Special Coating	3,873	419	7,167	754	25
Nanhai Naval	1,079	271	476	1	40
Zhengjiang CSSC Hyundai	57,462	21,744	43,739	6,314	32
	62,414	22,434	51,382	7,069	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables RMB'000	Derivative financial instruments at fair value through profit or loss RMB'000	Available- for-sale RMB'000	Total RMB'000
Assets as per consolidated balance sheet				
31 December 2010				
Available-for-sale financial assets (Note 13)	–	–	268,692	268,692
Derivative financial instruments (Note 14)	–	21,228	–	21,228
Trade receivables (Note 17)	344,887	–	–	344,887
Other receivables (excluding prepayment and other taxes recoverable) (Note 18)	244,119	–	–	244,119
Cash and bank balances (Note 19)	7,279,394	–	–	7,279,394
Total	7,868,400	21,228	268,692	8,158,320
31 December 2009				
Available-for-sale financial assets (Note 13)	–	–	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group (continued)

	Derivative financial instruments at fair value through profit or loss RMB'000	Other financial liabilities RMB'000	Total RMB'000
Liabilities as per consolidated balance sheet			
31 December 2010			
Borrowings (Note 24)	–	2,461,445	2,461,445
Trade payables (Note 28)	–	1,884,035	1,884,035
Other payables and accruals (excluding advance received, other taxes payable and retirement benefit obligation)	–	154,208	154,208
Dividends payable	–	68	68
Total	–	4,499,756	4,499,756
31 December 2009			
Borrowings (Note 24)	–	1,637,123	1,637,123
Derivative financial instruments (Note 14)	167	–	167
Trade payables (Note 28)	–	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	Loans and receivables RMB'000	Derivative financial instruments at fair value through the profit and loss RMB'000	Available- for-sale RMB'000	Total RMB'000
Assets as per balance sheet				
31 December 2010				
Available-for-sale financial assets (Note 13)	–	–	267,792	267,792
Derivative financial instruments (Note 14)	–	21,228	–	21,228
Amounts due from subsidiaries (Note a)	455,100	–	–	455,100
Trade receivables (Note 17)	305,889	–	–	305,889
Other receivables (excluding prepayment and other taxes recoverable) (Note 18)	227,269	–	–	227,269
Cash and bank balances (Note 19)	7,045,951	–	–	7,045,951
Total	<u>8,034,209</u>	<u>21,228</u>	<u>267,792</u>	<u>8,323,229</u>
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	<u>6,028,691</u>	<u>54,870</u>	<u>338,360</u>	<u>6,421,921</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company (continued)

	Derivative financial instruments at fair value through the profit and loss RMB'000	Other financial liabilities RMB'000	Total RMB'000
Liabilities as per balance sheet			
31 December 2010			
Borrowings (Note 24)	–	2,402,803	2,402,803
Trade payables (Note 28)	–	1,801,065	1,801,065
Other payables and accruals (excluding advance received, other taxes payable and retirement benefit obligation)	–	134,697	134,697
Amounts due to subsidiaries (Note a)	–	82,043	82,043
Dividends payable	–	68	68
Total	–	4,420,676	4,420,676
31 December 2009			
Borrowings (Note 24)	–	1,577,550	1,577,550
Derivative financial instruments (Note 14)	167	–	167
Trade payables (Note 28)	–	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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Beginning of the year	339,260	187,350	338,360	186,450
Addition	17,723	–	17,723	–
Fair value (losses)/gains transferred to other comprehensive income (Note 22)	(88,291)	151,910	(88,291)	151,910
End of the year	268,692	339,260	267,792	338,360
Less non-current portion:	(1,900)	(1,900)	(1,000)	(1,000)
Current portion	266,792	337,360	266,792	337,360

Available-for-sale financial assets include the following:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Securities listed in Shanghai Stock Exchange				
– Corporate shares of China Merchants Bank	222,992	278,060	222,992	278,060
– Corporate shares of China Merchants Energy Shipping Co., Ltd.	41,100	56,600	41,100	56,600
	264,092	334,660	264,092	334,660
Others	4,600	4,600	3,700	3,700
Total	268,692	339,260	267,792	338,360
Market value of listed securities	264,092	334,660	264,092	334,660

In 2010, the Group had not disposed of any available-for-sale financial assets (2009: nil). There were no impairment provisions on available-for-sale financial assets as at 31 December 2010 or 2009.

The fair value loss, net of tax, amounting to RMB75,048,000 for the year ended 31 December 2010 was charged to the other comprehensive income (2009: gain of RMB129,124,000 was credited to the other comprehensive income).

As at 31 December 2010, the current portion of the available-for-sale financial assets represented the listed corporate shares and golf club membership which management intended to dispose 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	Assets		Liabilities	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Forward foreign exchange contracts	21,228	64,160	–	(167)
Less non-current portion:				
Forward foreign exchange contracts	(2,215)	–	–	–
Current portion	19,013	64,160	–	(167)

Company

	Assets		Liabilities	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Forward foreign exchange contracts	21,228	54,870	–	(167)
Less non-current portion:				
Forward foreign exchange contracts	(2,215)	–	–	–
Current portion	19,013	54,870	–	(167)

The Group's notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 are RMB134,800,000 (2009: RMB1,556,829,600).

The credit quality of derivative financial assets is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Nationwide joint-stock commercial banks	19,013	54,870	19,013	54,870
Foreign invested commercial banks	2,215	9,290	2,215	–
	21,228	64,160	21,228	54,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INVENTORIES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Raw materials	520,695	509,135	445,054	421,309
Work in progress	415,846	229,280	252,770	151,528
Finished goods	4,954	4,360	4,392	2,725
	941,495	742,775	702,216	575,562

The cost of inventories recognized as expense and included in "cost of goods sold" for the year amounted to RMB374,021,000 (2009:RMB632,550,000).

16. CONSTRUCTION CONTRACTS IN PROGRESS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Contract costs incurred plus attributable profits	5,003,063	3,847,505	4,996,355	3,825,340
Less: progress billings to date	(7,584,808)	(6,603,874)	(7,584,808)	(6,603,874)
	(2,581,745)	(2,756,369)	(2,588,453)	(2,778,534)
Representing:				
Due from customers on construction contracts	714,069	611,765	707,706	598,716
Due to customers on construction contracts	(3,295,814)	(3,368,134)	(3,296,159)	(3,377,250)
	(2,581,745)	(2,756,369)	(2,588,453)	(2,778,534)

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

At 31 December 2010, there were advances for construction contracts amounting to RMB30,005,000 (2009:RMB5,000,000) (Note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. TRADE RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade receivables due from third parties	92,725	149,616	61,617	100,647
Less: provision for impairment	(7,946)	(6,508)	(2,315)	(2,329)
Trade receivables – net	84,779	143,108	59,302	98,318
Amounts due from related parties	260,108	192,059	246,587	178,395
	344,887	335,167	305,889	276,713

The carrying amounts of trade receivables approximate their fair value.

The general credit terms of trade receivables are:

Operations

Shipbuilding
Other operations
(including steel structure and other manufacturing)

Credit terms

Within one month after issue of invoice
Normally one to six months

At 31 December 2010 and 2009, the ageing analysis of the trade receivables due from third parties are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Not exceeding 1 year	70,941	133,951	48,787	95,462
More than 1 year but not exceeding 2 years	11,587	491	9,927	474
More than 2 years but not exceeding 3 years	299	7,388	–	1,623
More than 3 years	1,952	1,278	588	759
	84,779	143,108	59,302	98,318

At 31 December 2010 and 2009, the ageing analysis of the trade receivables due from related parties are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Not exceeding 1 year	231,494	186,876	218,452	175,412
More than 1 year but not exceeding 2 years	28,145	4,542	27,986	2,375
More than 2 years but not exceeding 3 years	–	641	–	608
More than 3 years	469	–	149	–
	260,108	192,059	246,587	178,395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. TRADE RECEIVABLES (CONTINUED)

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	289,807	248,543	258,236	209,726
USD	53,486	80,672	46,586	65,874
HKD	306	1,113	1,067	1,113
Other currencies	1,288	4,839	—	—
	344,887	335,167	305,889	276,713

The credit quality of trade receivables is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Neither past due nor impaired:				
Existing customers without history of default	300,338	313,242	267,608	263,709
Past due but not impaired:				
Past due less than 1 year	40,308	12,644	37,800	10,098
Past due over 1 year	3,576	7,828	481	2,906
	43,884	20,472	38,281	13,004
Past due and impaired:				
Past due less than 1 year	1,244	1,665	1,044	1,392
Past due over 1 year	7,367	6,296	1,271	937
	8,611	7,961	2,315	2,329
Total gross trade receivables	352,833	341,675	308,204	279,042

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, who are in unexpected difficult economic situations. It has been assessed that only a portion of the receivables is expected to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. TRADE RECEIVABLES (CONTINUED)

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Beginning of the year	(6,508)	(4,701)	(2,329)	(2,119)
Provision for receivable impairment	(2,822)	(3,700)	(1,304)	(318)
Receivables written off during the year as uncollectible	452	1,226	452	–
Unused amounts reversed	932	667	866	108
End of the year	(7,946)	(6,508)	(2,315)	(2,329)

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

18. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Prepayments for trading materials and equipment				
– prepayments to third parties	124,934	91,826	36,263	41,844
– prepayments to related parties	324,691	207,314	324,588	207,004
Other taxes recoverable	64,566	36,178	50,920	25,039
Amounts due from non-banking financial institutions	10,340	10,340	10,340	10,340
Less: provision for non-recovery	(10,340)	(8,360)	(10,340)	(8,360)
	–	1,980	–	1,980
Subsidy receivables for shipbuilding	222,848	73,551	222,848	73,551
Other receivables from third parties	12,579	10,923	3,486	9,741
Other receivables from related parties	8,692	4,254	935	–
	758,310	426,026	639,040	359,159

The carrying amounts of prepayments and other receivables approximate their fair value.

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	564,808	324,037	624,642	306,054
USD	20,180	39,581	8,637	39,495
HKD	6,126	–	–	–
EURO	167,196	62,408	5,761	13,610
	758,310	426,026	639,040	359,159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

The credit quality of other receivables qualified as financial assets is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Neither past due nor impaired:				
With no history of default	244,119	88,728	227,269	83,292
Past due and impaired:				
Past due over 3 years	10,340	10,340	10,340	10,340
Total gross other receivables	254,459	99,068	237,609	93,632

Other receivables neither past due nor impaired are mainly subsidy receivables, which have no default history and are expected to be collected upon delivery of the vessels. Other receivables impaired are mainly due from a non-banking financial institution, a state-controlled enterprise, and it was assessed that none of the receivables is expected to be recovered and a further provision of RMB1,980,000 was made for the year.

19. CASH AND BANK BALANCES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash in bank and in hand	292,964	266,852	138,664	156,981
Bank deposits (Note a)	6,986,430	5,267,621	6,907,287	5,170,268
Cash and bank balances	7,279,394	5,534,473	7,045,951	5,327,249
Less: Restricted balance and cash (Note b)	(2,212,622)	(1,071,916)	(2,206,363)	(1,070,168)
– Current	(2,146,286)	(1,071,916)	(2,140,173)	(1,070,168)
– Non-current	(66,336)	–	(66,190)	–
Term deposits with initial term of over three months	(3,908,079)	(4,135,898)	(3,873,811)	(4,050,100)
Cash and cash equivalents	1,158,693	326,659	965,777	206,981
Representing:				
Cash in bank and in hand	288,080	265,659	138,664	156,981
Bank deposits	870,613	61,000	827,113	50,000
	1,158,693	326,659	965,777	206,981

(a) The average effective annual interest rate on bank deposits was 2.28% (2009: 2.30%). These deposits have an average maturity of 213 days (2009: 192 days).

(b) The restricted cash was held in bank accounts as guarantee deposits mainly for bank borrowings denominated in foreign currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. CASH AND BANK BALANCES (CONTINUED)

The cash and bank balances are denominated in the following currencies:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	7,170,953	5,356,888	6,969,307	5,200,941
USD	87,345	164,600	73,161	125,252
HKD	11,540	9,160	3,314	916
EURO	9,547	3,815	160	130
Other currencies	9	10	9	10
	7,279,394	5,534,473	7,045,951	5,327,249

The credit quality of cash and bank balances is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
The mega four state-controlled commercial banks	750,841	1,172,816	585,465	1,065,929
Policy banks	393	263,010	393	263,010
Nationwide joint-stock commercial banks	4,489,226	3,283,209	4,459,905	3,267,163
Other foreign invested commercial banks	1,721,983	760,409	1,683,382	676,230
A related financial institution	316,588	54,614	316,588	54,614
Other financial institutions and cash in hand	363	415	218	303
	7,279,394	5,534,473	7,045,951	5,327,249

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+.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. NON-CURRENT ASSETS HELD FOR SALE

Certain investment properties have been presented as being held for sale following the approval of board of directors on 27 August 2009 to sell these properties to external parties.

	<u>Group and Company</u>	
	<u>2010</u>	2009
	<u>RMB'000</u>	<u>RMB'000</u>
Investment properties	<u>40,443</u>	<u>40,443</u>

21. SHARE CAPITAL AND PREMIUM

	<u>As at 1 January 2009</u>		<u>Conversion (Note a)</u>		<u>As at 31 December 2009 and 31 December 2010</u>	
	<u>Number of shares (thousands)</u>	<u>Amount RMB'000</u>	<u>Number of shares (thousands)</u>	<u>Amount RMB'000</u>	<u>Number of shares (thousands)</u>	<u>Amount RMB'000</u>
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
	<u>494,678</u>	<u>494,678</u>	<u>–</u>	<u>–</u>	<u>494,678</u>	<u>494,678</u>
Share premium		<u>651,977</u>				<u>651,977</u>
Total		<u>1,146,655</u>				<u>1,146,655</u>

(a) Three years after the completion of the PRC State Share Reform on 24 May 2006, these circulating state shares were converted into Ordinary A shares.

(b) The total registered number of ordinary shares is 494,677,580 shares (2009:494,677,580 shares) with a par value of RMB1 per share (2009: RMB1 per share). All issued shares are fully paid. Ordinary A shares and ordinary H shares rank equally in all material aspects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. OTHER RESERVES

	Surplus reserves (Note a)		Fair value reserve for available- for-sale financial assets	Total
	Statutory surplus reserve (Note i) RMB'000	Discretionary surplus reserve (Note ii) RMB'000		
Group				
Balance at 1 January 2009	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 from retained earnings (Note 23)	51,272	–	–	51,272
Balance at 31 December 2009	283,670	20,626	244,707	549,003
Revaluation – gross (Note 13)	–	–	(88,291)	(88,291)
– tax (Note 26)	–	–	13,243	13,243
Profit transferred from retained earnings (Note 23)	72,938	–	–	72,938
Balance at 31 December 2010	356,608	20,626	169,659	546,893
Company				
Balance at 1 January 2009	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
Revaluation – gross (Note 13)	–	–	(88,291)	(88,291)
– tax (Note 26)	–	–	13,243	13,243
Profit transferred from retained earnings (Note 23)	72,938	–	–	72,938
Balance at 31 December 2010	355,432	20,626	169,659	545,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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) above);
- Transfer to discretionary surplus reserve (Note a(ii) above); and
- Distribute 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Beginning of the year	1,473,183	1,232,098	1,367,443	1,128,547
Profit for the year	707,737	514,962	729,380	512,773
Profit transferred to surplus reserves (Note 22)	(72,938)	(51,272)	(72,938)	(51,272)
Dividends relating to prior year	(138,510)	(222,605)	(138,510)	(222,605)
End of the year	1,969,472	1,473,183	1,885,375	1,367,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BORROWINGS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Non-current				
Long term bank borrowings – secured (Note a)	<u>61,194</u>	<u>–</u>	<u>61,194</u>	<u>–</u>
Current				
Short term bank borrowings – secured (Note a)	<u>1,908,199</u>	<u>798,899</u>	<u>1,908,198</u>	<u>798,899</u>
– unsecured	<u>492,052</u>	<u>666,462</u>	<u>433,411</u>	<u>606,889</u>
	<u>2,400,251</u>	<u>1,465,361</u>	<u>2,341,609</u>	<u>1,405,788</u>
Current portion of long term bank borrowings – secured (Note a)	<u>–</u>	<u>171,762</u>	<u>–</u>	<u>171,762</u>
	<u>2,400,251</u>	<u>1,637,123</u>	<u>2,341,609</u>	<u>1,577,550</u>
Total borrowings	<u>2,461,445</u>	<u>1,637,123</u>	<u>2,402,803</u>	<u>1,577,550</u>

(a) As at 31 December 2010, bank borrowings of RMB1,969,393,000 (2009:RMB970,661,000) were secured by restricted cash amounting to RMB2,062,763,000 (2009: RMB1,070,168,000).

The maturity of borrowings which are all wholly repayable within 5 years, is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 1 year	<u>2,400,251</u>	<u>1,637,123</u>	<u>2,341,609</u>	<u>1,577,550</u>
Between 1 and 2 years	<u>61,194</u>	<u>–</u>	<u>61,194</u>	<u>–</u>
	<u>2,461,445</u>	<u>1,637,123</u>	<u>2,402,803</u>	<u>1,577,550</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. BORROWINGS (CONTINUED)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or the maturity date, whichever are earlier, are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 6 months or less	1,924,741	1,295,713	1,866,099	1,236,140
Between 6 and 12 months	475,510	341,410	475,510	341,410
Between 1 and 2 years	61,194	–	61,194	–
	2,461,445	1,637,123	2,402,803	1,577,550

The effective interest rates at the balance sheet date are as follows:

	2010			2009		
	EURO	HKD	USD	EURO	HKD	USD
Current bank borrowings	2.69%	2.32%	1.81%	1.74%	–	1.24%
Non-current bank borrowings	–	–	2.81%	–	–	–

The carrying amounts of the borrowings approximate their fair value.

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	103,600	–	103,600	–
HKD	239	–	–	–
USD	2,307,574	1,595,557	2,299,203	1,577,550
EURO	50,032	41,566	–	–
	2,461,445	1,637,123	2,402,803	1,577,550

The Group has the following undrawn borrowing facilities:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Expiring within one year	5,826,642	4,811,682	5,493,842	4,811,682
Expiring beyond one year	72,850	333,050	72,850	333,050
	5,899,492	5,144,732	5,566,692	5,144,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. RETIREMENT BENEFIT OBLIGATIONS

	<u>Group and Company</u>	
	<u>2010</u>	2009
	<u>RMB'000</u>	<u>RMB'000</u>
Balance sheet obligations for:		
– Early retirement scheme (Note a)	1,616	2,309
– Medical insurance scheme (Note b)	1,536	2,327
– Housing allowance scheme (Note c)	<u>22,471</u>	<u>23,608</u>
	25,623	28,244
Less: current portion included in other payables and accruals	<u>(3,576)</u>	<u>(4,110)</u>
	<u>22,047</u>	<u>24,134</u>

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

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.

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 by the government. The eligible retirees will be entitled to the housing allowance in the form of monetary subsidy for 25 years.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(d) The movements in the liabilities recognized in the balance sheet are as follows:

	Group and Company			Total RMB'000
	Early retirement scheme RMB'000	Medical insurance scheme RMB'000	Housing allowance scheme RMB'000	
Balance at 1 January 2009	3,205	3,791	–	6,996
Additional provisions	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
Additional provisions	31	–	1,207	1,238
Amounts paid	(724)	(791)	(2,344)	(3,859)
Balance at 31 December 2010	1,616	1,536	22,471	25,623

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Deferred tax assets/(liabilities):				
– To be settled after more than 12 months	3,657	5,440	3,657	5,440
– To be settled within 12 months	(14,714)	(45,833)	(16,176)	(46,921)
	(11,057)	(40,393)	(12,519)	(41,481)

Deferred taxation is provided on temporary differences under the liability method using taxation rate of 15% (2009: 15%).

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Beginning of the year	(40,393)	(48,629)	(41,481)	(50,778)
Recognized in income tax expense (Note 36)	16,093	31,022	15,719	32,083
Charged directly to other comprehensive income (Note 22)	13,243	(22,786)	13,243	(22,786)
End of the year	(11,057)	(40,393)	(12,519)	(41,481)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. DEFERRED INCOME TAX (CONTINUED)

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:

Deferred tax assets:

Group

	Provision and Impairment of assets	Staff benefit	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2009	5,393	1,418	6,811
Recognized in income tax expense	<u>1,965</u>	<u>3,754</u>	<u>5,719</u>
At 31 December 2009	7,358	5,172	12,530
Recognized in income tax expense	<u>771</u>	<u>8,767</u>	<u>9,538</u>
At 31 December 2010	<u>8,129</u>	<u>13,939</u>	<u>22,068</u>

	Provision and Impairment of assets	Staff benefit	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2009	3,244	1,418	4,662
Recognized in income tax expense	<u>1,494</u>	<u>3,754</u>	<u>5,248</u>
At 31 December 2009	4,738	5,172	9,910
Recognized in income tax expense	<u>1,929</u>	<u>8,767</u>	<u>10,696</u>
At 31 December 2010	<u>6,667</u>	<u>13,939</u>	<u>20,606</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2009	(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)
Recognized in income tax expense	6,555	–	–	6,555
Charged directly to other comprehensive income (Note 22)	–	13,243	–	13,243
At 31 December 2010	(3,184)	(29,941)	–	(33,125)

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 2009	(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)
Recognized in income tax expense	5,023	–	–	5,023
Charged directly to other comprehensive income (Note 22)	–	13,243	–	13,243
At 31 December 2010	(3,184)	(29,941)	–	(33,125)

27. GOVERNMENT GRANT

	Group and Company	
	2010 RMB'000	2009 RMB'000
Beginning of the year	–	–
Additions	101,791	–
Recognized in other income (Note 33)	(68,585)	–
Reclassification to current liabilities	(6,980)	–
End of the year	26,226	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. TRADE PAYABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Amounts due to third parties	985,096	485,260	912,765	439,606
Amounts due to related parties	898,939	585,393	888,300	584,710
	1,884,035	1,070,653	1,801,065	1,024,316

The carrying amounts of trade payables approximate their fair value.

At 31 December 2010 and 2009, the ageing analysis of the trade payables due to third parties are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Not exceeding 1 year	962,299	473,032	891,331	427,782
More than 1 year but not exceeding 2 years	11,754	8,450	10,723	8,450
More than 2 years but not exceeding 3 years	7,386	3,405	7,386	3,282
More than 3 years	3,657	373	3,325	92
	985,096	485,260	912,765	439,606

At 31 December 2010 and 2009, the ageing analysis of the trade payables due to related parties are as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Not exceeding 1 year	872,617	577,660	861,978	576,977
More than 1 year but not exceeding 2 years	23,030	7,697	23,030	7,697
More than 2 years but not exceeding 3 years	3,292	36	3,292	36
	898,939	585,393	888,300	584,710

The carrying amounts of the trade payables are denominated in the following currencies:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	1,883,870	1,049,168	1,800,900	1,003,581
EUR	–	3,582	–	3,582
USD	165	17,657	165	17,153
HKD	–	246	–	–
	1,884,035	1,070,653	1,801,065	1,024,316

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Payables and accruals to third parties	216,604	119,220	186,905	97,845
Payables and accruals to related parties	341	600	329	592
Advances from third parties for construction contract	30,005	–	30,005	–
Advances from related parties for construction contract	–	5,000	–	5,000
Advances from third parties for other projects	136,425	70,935	24,904	28,391
Advances from related parties for other projects	100,108	51,346	96,427	43,784
	483,483	247,101	338,570	175,612

The carrying amounts of the other payables and accruals approximate their fair value.

The carrying amounts of the other payables and accruals are denominated in the following currencies:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
RMB	401,566	202,744	308,400	145,562
USD	36,018	16,124	30,044	7,581
HKD	45,899	6,838	126	1,064
EURO	–	21,395	–	21,405
	483,483	247,101	338,570	175,612

30. PROVISIONS FOR WARRANTY

	Group and Company	
	2010 RMB'000	2009 RMB'000
Beginning of the year	97,939	87,150
Additional provisions	43,151	43,618
Surplus amounts written-back	(3)	(16,579)
Used during the year	(30,524)	(16,250)
End of the year	110,563	97,939

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. OTHER GAINS – NET

	2010 RMB'000	2009 RMB'000
Net foreign exchange transaction (losses)/gains – net (Note 37)	(11,667)	4,584
Forward foreign exchange contracts not qualified for hedge accounting – gains on derivative financial instruments	30,754	22,597
	19,087	27,181

32. EXPENSES BY NATURE

	2010 RMB'000	2009 RMB'000
Depreciation and amortization charges (Notes 6, 7, 8 and 9)	119,177	103,166
Impairment for investment properties (Note 7)	–	15,489
Provision of impairment for trade receivables	1,890	3,033
Provision of impairment for inventories	12,791	4,242
Loss of sale of properties, plant and equipment and investment properties, land used rights and leasehold land	616	7,589
Raw materials and consumables used	3,906,635	3,611,369
Changes in inventories of finished goods and work in progress	(187,160)	145,152
Change in construction contracts in progress relating to cost recognition variance	315,636	(9,675)
Employee benefit expense, include directors' emoluments (Note 35)	929,033	802,336
Provisions for warranty (Note 30)	43,151	43,618
Surplus warranty written-back (Note 30)	(3)	(16,579)
Auditors' remuneration	3,160	3,335
Research and development cost	81,461	54,038
Subcontract cost	974,699	1,089,201
Vessel inspection fee	70,858	77,769
Commission and agent fee	130,779	115,063
Non-deductible value added tax ("VAT")	39,775	30,928
Taxes and duty	49,351	18,003
Repair and maintenance expenditure	65,112	37,953
Other expenses	51,164	37,167
Total cost of sales, selling and marketing costs, administrative expenses and other expenses	6,608,125	6,173,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. OTHER INCOME

	2010 <u>RMB'000</u>	2009 <u>RMB'000</u>
Dividend income from available-for-sale financial assets	3,856	2,415
Subsidy income for shipbuilding	149,297	73,546
Government grant (Note 27)	68,585	–
Other subsidy	17,659	3,998
Others	3,160	887
	<u>242,557</u>	<u>80,846</u>

34. FINANCE INCOME – NET

	2010 <u>RMB'000</u>	2009 <u>RMB'000</u>
Financial income		
Interest income from bank deposits	134,621	166,655
Net foreign exchange gains arising from borrowings (Note 37)	66,480	2,685
	<u>201,101</u>	<u>169,340</u>
Financial costs		
Interest expense for bank borrowings	(35,662)	(40,959)
Other incidental borrowing costs	(3,122)	(10,017)
	<u>(38,784)</u>	<u>(50,976)</u>
Finance income – net	<u>162,317</u>	<u>118,364</u>

35. EMPLOYEE BENEFIT EXPENSE

	2010 <u>RMB'000</u>	2009 <u>RMB'000</u>
Wages and salaries	653,260	558,490
Pension cost (Note a)	82,499	74,301
Housing fund (Note b)	58,800	51,111
Medical insurance and other welfare (Note 25(b))	83,597	66,668
Other staff costs	50,877	51,766
	<u>929,033</u>	<u>802,336</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(a) Pension cost

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.

(b) 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.

(c) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2010 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	300	–	–	300
Director Mr. Yu Baoshan	80	–	–	80
Director Mr. Han Guangde	1,290	95	18	1,403
Director Mr. Chen Jingqi	1,121	84	18	1,223
Director Mr. Zhong Jian	996	74	18	1,088
Director Mr. Pan Zunxian	80	–	–	80
Director Mr. Miao Jian (ii)	27	–	–	27
Director Mr. Wang Xiaojun	100	–	–	100
Director Mr. Li Xinliang	100	–	–	100
Director Mr. Cui Ming (iii)	53	–	–	53
Director Mr. Peng Xiaolei	100	–	–	100
Director Mr. Fu Zhengping	100	–	–	100
Supervisor Mr. Wang Shusen	200	–	–	200
Supervisor Mr. Liang Mianhong	870	86	18	974
Supervisor Mr. Fu Xiaosi	80	–	–	80
Supervisor Mr. Ye Weiming	80	–	–	80
Supervisor Mr. Liu Shibai	777	72	18	867

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(c) Directors' and supervisors' emoluments (continued)

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 RMB'000	Other benefits (i) RMB'000	Employer's contribution to pension scheme RMB'000	Total 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	33	–	–	33
Director Mr. Peng Xiaolei	100	–	–	100
Director Mr. Fu Zhengping	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

(i) Other benefits include various subsidies, allowance, housing fund and other social insurance.

(ii) Resigned on 25 May 2010.

(iii) Appointed on 25 May 2010.

During 2010, 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. (2009: nil)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 (2009:2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2009:3) individuals during the year are as follows:

	2010 RMB'000	2009 RMB'000
Salary and bonus	3,096	2,207
Other benefits	235	220
Employer's contribution to pension scheme	54	50
	3,385	2,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(d) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emolument bands		
RMB nil – RMB850,000 (equal to HK\$ nil – HK\$1,000,000)	–	3
RMB850,001 – RMB1,275,000 (equal to HK\$1,000,001 – HK\$1,500,000)	3	–

36. 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.

	2010 RMB'000	2009 RMB'000
Current income tax – the PRC enterprise income tax	140,836	123,894
Deferred income tax (Note 26)	(16,093)	(31,022)
	124,743	92,872

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:

	2010 RMB'000	2009 RMB'000
Profit before income tax	835,248	613,688
Tax calculated at domestic tax rates applicable to profits in the respective areas	123,694	95,673
Tax effect of:		
– Income not subject to tax	(4,565)	(2,539)
– Expenses not deductible for tax purposes	1,363	881
– Tax losses for which no deferred income tax assets was recognized	8,045	1,803
– Tax refund in a subsidiary	(1,749)	–
– Others	(2,045)	(2,946)
Income tax expense	124,743	92,872

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 and two subsidiaries are qualified as Guangdong New/High Tech Enterprise ("NHTE"), and are entitled to the 15% preferential income tax rate in 2009 and 2010.

The weighted average applicable tax rate was 14.8% (2009: 15.6%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. NET FOREIGN EXCHANGE GAINS

The exchange differences recognized in the consolidated statement of comprehensive income are included as follows:

	2010 RMB'000	2009 RMB'000
Other (losses)/gains – net (Note 31)	(11,667)	4,584
Finance income (Note 34)	66,480	2,685
	54,813	7,269

38. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB729,380,000 (2009:RMB512,771,000).

39. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB707,737,000 (2009:RMB514,962,000) and the number of 494,677,580 (2009:494,677,580) ordinary shares in issue during the year.

40. DIVIDENDS

A dividend in respect of the year ended 31 December 2010 of RMB0.10 per share, amounting to RMB49,468,000, is to be proposed at the Annual General Meeting of 2011. These financial statements do not reflect this dividend as payable as at 31 December 2010.

In addition, an increase of share to all shareholders by 148,403,274 is to be proposed on the basis of 3 new ordinary shares for every 10 ordinary shares held based on the total number of 494,677,580 ordinary shares currently in issue. The total number of shares after the issue would be 643,080,854 and the proposal would be effective after the approval from Annual General Meeting and relevant government authorities.

	Group and Company	
	2010 RMB'000	2009 RMB'000
Proposed final dividend of RMB0.10 (2009: RMB0.28) per ordinary share	49,468	138,510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. CASH GENERATED FROM OPERATIONS

	2010 RMB'000	2009 RMB'000
Profit for the year	710,505	520,816
Adjustments for:		
– Income taxation expense (Note 36)	124,743	92,872
– Depreciation and amortization (Note 32)	119,177	103,166
– Impairment of investment properties (Note 32)	–	15,489
– Loss on sales of property, plant and equipment, investment properties, land use rights and leasehold land (Note a)	616	7,589
– Provision for amount due from non-bank institution	1,980	–
– Interest income from bank deposits (Note 34)	(134,621)	(166,655)
– Dividend income from available-for-sale financial assets (Note 33)	(3,856)	(2,415)
– Interest expense (Note 34)	35,662	40,959
– Share of profits of associates (Note 11)	(5,187)	(7,069)
– Exchange gains on borrowings (Note 34)	(66,480)	(2,685)
– Exchange losses on cash and cash equivalent	5,061	1,464
Changes in working capital:		
– Inventories	(198,720)	89,908
– Derivatives financial instruments	42,732	88,168
– Construction contracts in progress	(174,624)	(1,238,950)
– Trade receivables, prepayments and other receivables, restricted cash, and term deposits with initial term of over three months	(1,270,805)	833,221
– Trade payables, other payables and accruals, provision for warranties and legal claims and current income tax liability	1,023,560	16,543
Cash generated from operations	<u>209,743</u>	<u>392,421</u>

- (a) In the cash flow statement, proceeds from sales of property, plant and equipment, investment properties and land use rights and leasehold land comprise:

	2010 RMB'000	2009 RMB'000
Net book amount	2,430	22,743
Loss on sale of property, plant and equipment, investment properties and land use rights and leasehold land	(616)	(7,589)
Increase in receivables in sale of property, plant and equipment, investment properties and land use rights and leasehold land	(1,192)	–
Received in advance for sale of investment properties	40,929	–
Proceeds from sale of property, plant and equipment and investment properties	<u>41,551</u>	<u>15,154</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. CONTINGENCY

The Group entered into a technical service contract and two construction contracts with Jiangsu Shenghua Shipbuilding Co., Ltd. ("Jiangsu Shenghua") in July 2010, providing technical service and construction service to Jiangsu Shenghua. The Group filed several litigations with Jiangsu Shenghua as Jiangsu Shenghua had not pay for the technical service and construction service in accordance with the contracts, claiming that Jiangsu Shenghua shall settle the overdue payment of RMB55,082,000 and return the shipbuilding materials of RMB10,465,000 kept in the plant of Jiangsu Shenghua. Up to the reporting signing date, above litigations are in progress. The Group considered it is highly probable to win the litigations and above litigations shall not result in material unfavorable impact over the Group's consolidated financial statements.

43. CAPITAL COMMITMENTS

Capital expenditure of the Group and Company at the balance sheet date but not yet incurred are as follows:

	2010 RMB'000	2009 RMB'000
Contracted but not provided for	91,035	7,309
Authorized but not contracted for	338,777	119,213
Total commitments of property, plant and equipment, land use rights and leasehold land	<u>429,812</u>	<u>126,522</u>

44. SIGNIFICANT RELATED-PARTY TRANSACTIONS

China State Shipbuilding Corporation ("CSSC"), the immediate shareholder of the Company which owns 35.71% (2009:35.71%) 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.

The following significant transactions were carried out with related parties:

(i) Sales of goods and services

	2010 RMB'000	2009 RMB'000
Sales of goods		
– to companies controlled by CSSC (Note a)	16,785	119,116
– to other state-controlled enterprises (Note a)	2,128,429	1,061,149
	<u>2,145,214</u>	<u>1,180,265</u>
Sales of services		
– to companies controlled by CSSC (Note b)	176,037	127,088

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%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Purchases of goods and services

	2010 RMB'000	2009 RMB'000
Purchases of goods:		
– from companies controlled by CSSC (Note a)	481,076	475,940
– from other state-controlled enterprises (Note a)	1,105,425	1,182,239
	1,586,501	1,658,179
Purchase of services:		
– from companies controlled by CSSC (Note b)	104,617	68,408
– from other state-controlled enterprises (Note a)	46,077	46,800
	150,694	115,208

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

	2010 RMB'000	2009 RMB'000
Vessel sales commissions payable:		
– to companies controlled by CSSC (Note a)	40,004	33,698
– to other state-controlled enterprises (Note b)	2,795	5,259
Other expenses payable:		
– to companies controlled by CSSC (Note c)	11,301	17,080
Interest expense payable:		
– to state-controlled banks (Note d)	10,597	21,939
	64,697	77,976

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 RMB7,528,000 (2009: RMB8,181,000) for the provision of staff welfare services (including the provision of staff quarters and other benefits) by GZS.
- (d) Interests were charged at market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(iv) Sales of property, plant and equipment

	2010 RMB'000	2009 RMB'000
Sale of property to a company controlled by CSSC	–	8,509

(v) Interest income and other income

	2010 RMB'000	2009 RMB'000
Interest income from cash and bank balances		
– from state-controlled banks (Note a)	80,581	128,218
– from companies controlled by CSSC (Note a)	3,174	226
Realized income from forward foreign exchange contracts		
– from state-controlled banks (Note a)	61,402	105,492
	145,157	233,936

(a) Interest income and other income were calculated at market price.

(vi) Key management compensation

	2010 RMB'000	2009 RMB'000
Emolument, salaries and other short-term employee benefits	12,141	8,556
Post-employment benefits	179	155
	12,320	8,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(vii) Year-end balances

	2010 RMB'000	2009 RMB'000
Receivables from related parties (Note 17 & Note 18):		
– CSSC and companies controlled by CSSC	112,015	121,724
– other state-controlled enterprises	481,476	283,883
	593,491	405,607
Payables to related parties (Note 28 & Note 29):		
– CSSC and companies controlled by CSSC	291,156	197,428
– other state-controlled enterprises	708,232	444,911
	999,388	642,339

The receivables from related parties were unsecured in nature and non interest bearing. The payables to related parties were non interest bearing.

	2010 RMB'000	2009 RMB'000
Other financial instruments		
Financial derivatives – forward foreign exchange contracts		
– with state-controlled banks	19,013	54,870
Cash and bank balances		
– with financial institution controlled by CSSC	313,559	54,614
– with state-controlled banks	4,486,763	4,055,230
Borrowings		
– with state-controlled banks	549,465	932,762

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.