



Annual Report 2011



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

CONTENTS

	Page
Important Notice	2
Overview of the Company	3
Summary of Accounting and Business Data	6
Share Capital and Shareholders	9
Information of Directors, Supervisors, Senior Management and Employees	12
Corporate Governance	21
Brief Introduction of General Meetings	32
Report of the Board of Directors	33
Report of the Supervisory Committee	47
Significant Events	51
Financial Report	
Auditors' Report	56
Statement of Financial Position	57
Income Statement	61
Statement of Cash Flows	63
Statement of Changes in Equity	65
Notes to the Financial Statements	69
Documents Available for Inspection	164



IMPORTANT NOTICE

The Board of Directors, the Supervisory Committee and Senior Management of Guangzhou Shipyard International Company Limited (“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 eleven directors attended the sixth meeting of the seventh term of the Board of Directors held on March 29, 2012 in person, at which this report was passed by unanimous vote.

Mr. Chen Jingqi, chairman of the Board of Directors, Mr. Chen Liping, chief accountant of the Company and Mr. Hou Zengquan, director of Financial Center of the Company, declare and confirm that authenticity and completeness of the financial reports included in this report.

The Audit Committee of the Company has reviewed and confirmed the financial report contained in this report, which was prepared under Accounting Standards for Enterprises of the PRC.

The Company has no capital appropriated by the controlling shareholder or connected parties, and has not provided any external guarantees which were in breach of the decision including procures requirements during the period under review.

The report was prepared in both English and Chinese. In the event that difference interpretation occurs, the Chinese version shall prevail.

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

The Company, founded in 1993, is an important shipbuilding enterprise in South China parented by China State Shipbuilding Corporation (“CSSC”). The Company is one of the 50 manufacturing enterprises in Guangdong Province and among the top 500 manufacturing enterprises and the biggest shipbuilder in the handy-size tanker segment in China, a national enterprise with outstanding contribution to technical talent cultivation, a national hi-tech enterprise and a national export base of electric-machinery product, 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 obtained Quality Management System ISO9001: 2008, and Weapon Equipment Quality Management System (GJB9001B-2009) standard certificate, Occupational Health & Safety Management System Certificate OHSAS18001:2007 and Environmental Management System Certificate ISO14001:2004. Moreover, the Company also obtained National Confidential Certificate and Weapon Research & Production Certificate by National Defense Science and Technique Bureau as key equipment manufacturing enterprise.

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, involves 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.

After becoming the No. 1 enterprise in China and No. 3 enterprise in the world in designing and building handy-size tankers, the Company adjusted the development strategy, endeavoured 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 ultimately formed four main operations of shipbuilding, heavy machinery, service industry and marine 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

廣州廣船國際股份有限公司
廣船國際
Guangzhou Shipyard International Company Limited
GSI

Legal Representative of the Company

Mr. Chen Jingqi

Secretary to the Board of Directors

Mr. Li Zhidong

Address

40 South Fangcun Main Road, Liwan District, Guangzhou,
the People's Republic of China, 510382

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,
the People's Republic of China, 510382

Tel

(8620) 8189 1712 ext. 2995

Fax

(8620) 8189 1575

E-Mail Address

yangping@chinagsi.com

Company's Registered Address and Office

40 South Fangcun Main Road, Liwan District, Guangzhou,
the People's Republic of China
Postal code: 510382

**Company's Principal Place of Business
in Hong Kong**

28/F, Three Pacific Place

URL of the Company

1 Queen's Road East, Hong Kong

E-Mail Address

www.chinagsi.com

gsi@chinagsi.com

**Newspaper for publications
for Disclosing Information
URL for Publishing the Report**

Shanghai Securities News

www.sse.com.cn

www.hkexnews.hk

www.chinagsi.com

Place for Inspection of the Annual Report

The office to the Board of Directors

Place of Listing of the Company's Shares

A Shares

Shanghai Stock Exchange

Stock Code

600685

Abbreviated Name

Guangzhou Shipyard International

H Shares

The Stock Exchange of Hong Kong Limited

Stock Code

00317

Abbreviated Name

Guangzhou Shipyard International

OVERVIEW OF THE COMPANY

Registration Date and Address

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

Auditors

ShineWing Certified Public Accountants, Ltd
9/F, Block A Fuhua Mansion,
No. 8 ChaoYangMen BeiDajie
Dongcheng District, Beijing,
the People's Republic of China

Lawyers

Guangzhou Z & T Law Firm
21/F, Yuehai Mansion,
472 East Huanshi Road, Guangzhou,
the People's Republic of China

Minter Ellison
15/F, Hutchison House
No. 10 Harcourt Road,
Central Hong Kong,
the People's Republic of China

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,
the People's Republic of China

Share Registered Transfer Agent for H Shares

Computershare Hong Kong Investor Services Limited,
46/F Hopewell Centre
183, Queen's Road East, Hong Kong,
the People's Republic of China

ADR Custodian Bank

The Bank of New York Mellon

SUMMARY OF ACCOUNTING AND BUSINESS DATA

Except as otherwise specified, the accounting and business data contained in this section related to the Company and its subsidiaries (hereinafter collectively called the "Group").

I. MAJOR FINANCIAL DATA

Unit: RMB

Item	Amount
Operating profit	393,766,389.62
Total profit	606,591,265.14
Net profit attributable to shareholders	518,333,370.07
Net profit attributable to shareholders after deduction of exceptional items	377,584,153.88
Net cash flow from operating activities	-1,182,559,975.99

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

Unit: RMB

Major accounting data	2011	2010	Changes compared with last year (%)	2009	2008	2007
Operating income	8,296,431,347.84	7,014,224,669.01	18.28	6,553,424,803.99	6,984,087,521.27	5,952,697,163.61
Operating profit	393,766,389.62	603,873,057.88	-34.79	543,947,955.07	857,670,185.19	1,109,831,246.40
Total profit	606,591,265.14	835,247,436.63	-27.38	613,687,828.53	921,285,578.25	1,343,060,757.80
Net profit attributable to shareholders	518,333,370.07	707,736,792.53	-26.76	514,961,903.36	820,395,655.17	940,656,796.04
Net profit attributable to shareholders after deduction of exceptional items	377,584,153.88	611,713,234.82	-38.27	499,297,991.27	803,295,845.89	697,094,500.58
Net cash flow from operating activities	-1,182,559,975.99	1,038,885,458.78	-213.83	-464,920,580.03	-195,267,322.66	1,818,659,141.44

Major accounting data	As at the end of 2011	As at the end of 2010	Changes at the end of this year compared with the end of last year (%)	As at the end of 2009	As at the end of 2008	As at the end of 2007
Total assets	11,885,509,370.27	12,157,451,995.38	-2.24	9,805,223,077.98	10,258,230,707.13	11,034,433,438.69
Total liabilities	7,684,735,148.21	8,403,525,396.25	-8.55	6,548,243,353.48	7,415,365,491.69	8,507,075,060.14
Net assets per share attributable to shareholders of the Company	4,107,606,378.32	3,663,019,478.60	12.14	3,168,840,358.56	2,747,359,653.70	2,451,509,684.38
Total shares	643,080,854.00	494,677,580.00	30.00	494,677,580.00	494,677,580.00	494,677,580.00

SUMMARY OF ACCOUNTING AND BUSINESS DATA

Major financial index	2011	2010	Changes	2009	2008	2007
			compared with last year (%)			
Basic earnings per share	0.81	1.10	-26.36	0.80	1.28	1.46
Diluted earnings per share	0.81	1.10	-26.36	0.80	1.28	1.46
Basic earnings per share after deduction of exceptional items	0.59	0.95	-37.89	0.78	1.25	1.08
Weighted average returns on net assets (%)	13.31	20.73	Decreased by 7.42 percent	17.42	31.58	52.17
Weighted average returns on net assets after deduction of exceptional items (%)	9.70	17.91	Decreased by 8.21 percent	16.89	30.92	38.66
Net cash flow from operating activities per share	-1.84	2.10	-187.62	-0.94	-0.39	3.68
Major financial index	As at the end of 2011	As at the end of 2010	Change (%)	As at the end of 2009	As at the end of 2008	As at the end of 2007
Net assets per share attributable to shareholders of the Company	6.39	7.4	-13.65	6.41	5.55	4.96
Gearing ratio (%)	64.66	69.12	Decreased by 4.46 percent	66.78	72.29	77.10

III. THE NATURE AND AMOUNT OF EXCEPTIONAL ITEMS

Exceptiond Items	2011	Notes	Unit:RMB	
			2010	2009
Profits or losses from disposal of non-current assets, including write-offs of asset impairment provisions	73,674.14	Mainly resulted from disposal of fixed assets	-1,411,349.43	-7,826,711.14
Government subsidies recognized in the current profits and losses excluding those closely related to the Company's normal operations and granted on an ongoing basis under the State's policies according to certain quota of amount or volume	50,742,914.18	Mainly resulted from government subsidy and subsidy from research and development	86,244,367.90	3,997,891.74
Gains or 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	37,382,805.96	Resulted from fair value changes as due to forward foreign exchange contracts	30,754,086.76	22,596,606.60
Reverse of the provision for receivable impairment which was tested individually	-	-	521,900.00	-
Other non-operating profits and losses apart from above items	78,787,957.32	Mainly due to the income from the cancellation of the construction contract of a vessel during the period under review	-2,755,915.78	465,534.02
Less: influence on income tax	25,189,776.20	-	17,002,963.42	2,884,998.18
Influence on Non-controlling interest	1,048,359.21	-	326,568.32	684,410.95
Total	140,749,216.19	-	96,023,557.71	15,663,912.09

SUMMARY OF ACCOUNTING AND BUSINESS DATA

IV. 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	21,227,664.57	20,229,536.04	-998,128.53	-998,128.53
2. Available-for-sale financial assets	266,791,996.50	238,228,805.50	-28,563,191.00	-
Financial liabilities				
1. Derivative financial liabilities estimated on fair value and the change recorded in the current profit and loss	-	1,159,935.94	1,159,935.94	-1,159,935.94

V. PRINCIPAL BUSINESS DATA

Unit:RMB

Principal operation	Year ended December 31, 2011			Year ended December 31, 2010		
	Turnover		Gross profit (loss) before taxation Amount	Turnover		Gross profit (loss) before taxation Amount
	Amount	Percentage (%)		Amount	Percentage (%)	
Shipbuilding	7,225,493,551.62	88.75	746,158,793.30	6,402,821,761.65	92.69	845,247,770.55
Steel structure	428,841,820.96	5.27	35,710,998.00	152,650,941.70	2.21	12,848,438.62
Mechanical and electrical products and others	487,026,355.12	5.98	124,935,418.07	352,150,278.29	5.10	74,355,087.15
Subtotal	8,141,361,727.70	100.00	906,805,209.37	6,907,622,981.64	100.00	932,451,296.32
Other operating profit			19,906,136.62			4,856,413.69
Operating expenses			190,178,217.62			326,472,313.47
Business tax and surcharge			48,434,977.29			30,710,391.51
Impairment loss			341,412,262.60			16,936,773.02
Gain change from fair value change			-2,158,064.47			-42,732,189.17
Investment income			49,238,565.61			83,417,015.04
Net non-operating income			214,758,184.20			239,117,418.11
Net non-operating expenditure			1,933,308.68			7,743,039.36
Total profit			606,591,265.14			835,247,436.63

SHARE CAPITAL AND SHAREHOLDERS

I. SHARE CAPITAL INFORMATION

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 offer by CSSC of off 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, and the conversion of 3 shares for every 10 shares with capital reserve amounting to 148,403,300 shares in total, which was approved by 2010 annual general meeting and the class meetings of shareholders, 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 or any legal person shareholders holding 10% shares of the Company or above, and the percentage of the shares held by CSSC had not changed during the period under review.

Change of the share capital

Unit: share

Item	Before change		Shares increased Bonus issue shares by conversion capital reverse	After change	
	Number	Percentage (%)		Number	Percentage (%)
1. RMB ordinary shares	337,279,580	68.18	101,183,874	438,463,454	68.18
Incl: state-owned shares	176,650,615	35.71	52,995,185	229,645,800	35.71
2. Overseas listed foreign shares	157,398,000	31.82	47,219,400	204,617,400	31.82
Total shares	494,677,580	100.00	148,403,274	643,080,854	100.00

II INFORMATION OF SHAREHOLDERS AND CONTROLLING SHAREHOLDER

1. Number of shareholders and top ten shareholders

Number of shareholders as at the end of 2011

There were 71,049 shareholders in total, including 70,673 shareholders of listed A-Shares and 376 shareholders of listed H-Shares.

Number of Shareholders as at the end of February 2012

There were 71,719 shareholders in total, including 71,346 shareholders of listed A-Shares and 373 shareholders of listed H-Shares.

SHARE CAPITAL AND SHAREHOLDERS

Top Ten Shareholders' Information as at the end of 2011

Name	Changes in the period under review (share)	Number of shares at the end of the period under review (share)	Percentage (%)	Shares pledged or subject to attachment	Shareholders' Classification	Share Classification
China State Shipbuilding Corporation	52,995,185	229,645,800	35.71	None	State-owned legal entity	A Shares
HKSCC Nominees Limited	44,421,027	191,954,776	29.85	Unknown	Foreign legal entity	H Shares
China Southern Industry Theme Securities Investment Fund	9,599,176	9,599,176	1.49	Unknown	Domestic legal entity	A Shares
E Fund Value Growth Mixed Securities Investment Fund	7,000,286	8,200,000	1.28	Unknown	Domestic legal entity	A Shares
Da Rosa Jose Augusto Maria	900,000	3,900,000	0.61	Unknown	Foreign natural person	H Shares
Chan Kwok Tai Eddie	711,400	2,961,400	0.46	Unknown	Foreign natural person	H Shares
ICBC-Kaiyuan Securities Investment Fund	2,879,931	2,879,931	0.45	Unknown	Domestic legal entity	A Shares
Fang Shaoxia	1,248,000	1,248,000	0.19	Unknown	Domestic natural person	A Shares
CITIC Security Co., Ltd.	1,006,023	1,006,023	0.16	Unknown	Domestic legal entity	A Shares
Li Yongmian	206,362	937,568	0.15	Unknown	Domestic natural person	A Shares

Note of relation or action in concert of shareholders above-mentioned

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

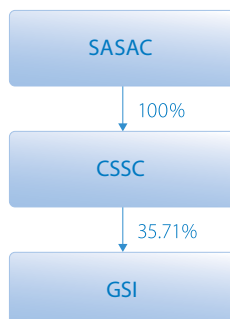
2. Information of the controlling shareholder and actual controller

CSSC is the representative of the state-owned shares of the Company, which represented 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 and 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.

SHARE CAPITAL AND SHAREHOLDERS

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



III. OTHER INFORMATION

(I). Pre-emptive rights

As there is no provision for pre-emptive rights under 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). Public float of H shares

Based on the information that is publicly available to the Company and the directors as at the latest practicable date prior to the issue of this annual report, and 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 EMPLOYEES

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 2011 (RMB)	Whether received any remuneration from shareholders of the Company (yes/no)
Chen Jingqi	Chairman of the Board of Directors	Male	59	2011-05-31	930,039.19	No
Han Guangde	Vice chairman & general manager	Male	50	2011-05-31	953,515.19	No
Chen Ji	Executive director & vice general manager	Male	45	2011-05-31	829,265.19	No
Yu Baoshan	Non-executive director	Male	52	2011-05-31	100,000.00	Yes
Ke Wangjun	Non-executive director	Male	45	2011-05-31	66,667.00	Yes
Pan Zunxian	Non-executive director	Male	58	2011-05-31	100,000.00	Yes
Gao Feng	Non-executive director	Male	51	2011-05-31	66,667.00	Yes
Fu Zhengping	Independent non-executive director	Male	47	2011-05-31	100,000.00	No
Qiu Jiachen	Independent non-executive director	Male	41	2011-05-31	66,667.00	No
De Lihua	Independent non-executive director	Female	50	2011-05-31	66,667.00	No
Poon Chiu Kwok	Independent non-executive director	Male	50	2011-05-31	66,667.00	No
Ou Guangquan	Chairman of the Supervisory Committee	Male	45	2011-05-31	133,333.00	Yes
Fu Xiaosi	External supervisor	Male	53	2011-05-31	80,000.00	No
Richard Z. Zhu	External supervisor	Male	48	2011-05-31	53,333.00	No
Chen Shaolong	Internal supervisor	Male	38	2011-05-31	457,253.19	No
Qin Tinggui	Internal supervisor	Male	46	2011-05-31	491,232.19	No
Yang Li	Vice general manager	Male	44	2011-05-31	824,279.19	No
Jin Lichao	Vice general manager	Male	45	2011-10-27	731,971.19	No
Chen Liping	Chief accountant	Male	45	2011-05-31	824,379.19	No
Li Zhidong	Company secretary	Male	46	2011-05-31	698,179.19	No
Total	-	-	-	-	7,640,114.71	-

The directors, supervisors and senior management of the Company disclosed above will hold office until the next term of the Board of Directors and Supervisory Committee are elected (the date of 2013 annual general meeting).

During the period under review, the number of A-shares of the Company which were held by the director Mr. Chen Jingqi was increased from 2,540 shares to 3,302 shares, which was due to the conversion of capital reserve on the basis of 3 shares for every 10 shares. Except disclosure as above, 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.

For details of the total remuneration received by directors, supervisors and senior management from the Company included basic annual salaries, performance remuneration, special awards, housing pensions, social pensions and other insurance and subsidiaries, please refer to Note 6 item 6.2 (6) "Directors and Supervisors' emoluments" stated in Notes to the Consolidated Financial Statements.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

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

Directors

Mr. Chen Jingqi, aged 59, senior political officer, presently chairman and secretary of Party Committee of the Company, joined Guangzhou Shipyard in 1969, and graduated from Guangzhou Television University in 1987. Mr. Chen served 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. Han Guangde, aged 50, senior engineer (Professional Level), is presently vice chairman of the Board and general manager of the Company, graduated from Huazhong University of Science and Technology in 1983 and joined Guangzhou Shipyard in the same year, and obtained a master degree of industrial engineering administration in 2002. Mr. Han served as section chief and deputy manager of the Second Design Office, deputy section chief, deputy manager, manager of the Shipbuilding Division, and vice general manager of the Company.

Mr. Chen Ji, aged 45, senior engineer, currently the vice general manager of the Company, vice secretary of Party Committee and secretary of the Disciplinary Inspection Committee 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. Mr. Chen served as ship repairing supervisor, assistant to production section chief of Ship Repairing factory of Guangzhou Shipyard, and assistant to production section chief, assistant manager and deputy manager of Ship Repairing Division, and assistant general manager of the Company.

Mr. Yu Baoshan, aged 52, senior engineer (Professional Level), joined Guangzhou Shipyard in 1978, graduated from Guangdong Zhanjiang Aquatic College in 1982, and obtained a master degree of industrial engineering administration in 2002. Mr. Yu served as section chief of the Second Design Office of Guangzhou Shipyard, deputy manager in Shipbuilding Division, vice general manager, general manager and vice chairman of the Company, general manager and member of Party Committee of Guangzhou Shipbuilding Corporation. Mr. Yu is assistant general manager of CSSC, vice chairman Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd., and chairman of Guangzhou CSSC Marine Diesel Engine Co., Ltd., director of Guangzhou Dockyards Co., Ltd. and chairman and member of Party Committee of Guangzhou CSSC Longxue Shipbuilding Co., Ltd. currently.

Mr. Ke Wangjun, aged 45, senior engineer, holding a master degree in Business Administration and a doctor degree in management, joined Marine Systems Engineering Department in 1989, and served as deputy section chief, section chief and assistant manager of Planning Department and Development Management Department, vice dean of Technology Research Development Institute from 2000 to 2003 and deputy manager of Marine Systems Engineering Department from 2003 to 2004, deputy manager of Development and Planning Department of CSSC from 2004 to 2011. Presently Mr. Ke is secretary of Party Committee and vice director of Administration Office of CSSC and Chairman of China Ship News.

Mr. Pan Zunxian, aged 58, senior economist, joined Shanghai Shipyard in 1971, and served as deputy secretary of Party Committee, and vice manager of Shanghai Shipyard, secretary of Party Committee of Chengxi Shipyard secretary of Party Committee of Chengxi Shipyard Co. and deputy manager of the Business and Marketing department and vice general manager of Meterial Purchasing Department of CSSC. Mr. Pan is presently director of Party Committee and Affair Department of CSSC. Mr. Pan joined the Company in 2008.

Mr. Gao Feng, aged 51, senior engineer (Professional Level) joined China Shipbuilding NDRI Engineering Co., Ltd in 1983, served as manager and secretary of Party Committee of the Environmental Engineering Design Research Office, manager of Administration Office, deputy secretary and secretary of Party Committee, vice dean and vice general manager of China Shipbuilding NDRI Engineering Co., Ltd. Mr. Gao has served as secretary of Party Committee and vice general manager of Guangzhou Shipbuilding Corporation, vice general manager of China Shipbuilding NDRI Engineering Co., Ltd. since 2008. Mr. Gao joined the Company in 2011.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Fu Zhengping, aged 47, holding a doctorate in economic. Mr. Fu graduated from International Economic Institute of Nankai University in 1991, and joined Management College of Sun Yat-sen University in July of the same year, mainly engaged in teaching and research on the operation and management of multinational enterprises and enterprise strategy management. Mr. Fu obtained a doctor's degree in economics from Beijing Normal University in 2002, and joined the Company in 2009.

Mr. Qiu Jiachen, aged 41, senior accountant with a master degree in economics, is presently chief accountant of Guangdong Airport Management Corporation. Mr. Qiu served as deputy section chief of Accounting Section of Financial Division and section chief of Information System Section of Guangzhou Baiyun International Airport, assistant to manager of Financial Department of Guangzhou Baiyun International Airport Group, and manager of Financial Department of Guangdong Airport Management Corporation. Mr. Qiu joined the Company in 2011.

Ms. De Lihua, aged 50, holding a bachelor's degree in economic law, is a member of China Lawyers Association, and a member of the Law Society of Hong Kong. Ms. De graduated from Peking University in 1984, and served in the Ministry of Petroleum Industry of China, the Great Wall Foreign Economical Law office, Woo Kwan Lee & Lo and X.J. Wang & Co.,. Ms De joined in Jun He Law Office in 2006, and is presently a partner of Jun He Law Offices.

Mr. Poon Chiu Kwok, aged 50, holds a master degree in international accounting, a bachelor degree in laws and a bachelor degree in business studies. He was awarded the postgraduate diploma in laws by the University of London. He is a member and an Associate Instructor of the Hong Kong Securities Institute and its Professional Education Committee, an associate member of the Institute of Chartered Secretaries, Administrators and the Hong Kong Institute of Chartered Secretaries and currently executive director and company secretary of Huabao International Holdings Limited. Mr. Poon has over 20 years of experience in regulatory affairs, commerce and investment banking. Mr. Poon had worked in the Listing Division of Hong Kong Stock Exchange. He had been an executive director and managing director of several investment banks. From May 2003 to June 2009, Mr. Poon served as an independent non-executive director of CATIC Shenzhen Holdings Limited, an independent non-executive director of Tsingtao Brewery Company Limited from June 2005 to June 2011. He now serves as an independent non-executive director of Ningbo Port Company Limited, Yuanda China Holdings Limited, Sunac China Holdings Limited, China Tianrui Group Gement Company Limited and Chang'an Mingsheng Apll Logistics Company Limied.. Mr. Poon joined the Company in 2011.

Supervisors

Mr. Ou Guangquan, aged 45, senior political officer, is presently deputy manager of Supervision Department of CSSC, and the chairman of supervisory committee of Guangzhou CSSC Marine Diesel Engine Co., Ltd. Mr. Ou graduated from the South China Normal University in 1990, and obtained a postgraduate degree in economics from C.P.C. Guangdong Provincial Party School in 2001. He joined Guangzhou Shipyard in 1990 and served as section chief of Publicity Department, deputy secretary of Youth League, principal of the First Middle School and chairman of the Labour Union of Guangzhou Shipyard, deputy manager of Heavy Industry Division of the Company, vice president of Guangzhou Shipyard, vice secretary and secretary of the Disciplinary Inspection Committee of CSSC Guangzhou Shipbuilding Corporation. Mr. Ou joined the Company in 2011.

Mr. Fu Xiaosi, aged 53, holding a double bachelor's degree in machinery manufacturing and accounting, senior accountant, registered accountant, excellent CFO of Hubei Province, is presently the supervisor of the Company, the chief accountant of Hubei Tri-ring Group Company, an independent director of Guangdong Chigo Air Conditioning Company Limited, vice president of General Accountants Association of Hubei Province. Mr. Fu graduated from Huazhong University of Science and Technology in 1986, and served as deputy manager accountant (senior partner) of Zhongqing Wanxing Public Accountants Limited, chief accountant (executive director) of Hubei Tri-ring Company Limited (listed on Shenzhen Stock Exchange). Mr. Fu joined the Company in 2008.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Richard Z. Zhu, aged 48, senior attorney, is presently the officer and executive partner of Guangdong Kunlun Law Firm, an independent director of Guangdong Advertisement Company Limited and Foshan Huaxin Packaging Company Limited (both listed on Shenzhen Stock Exchange). He graduated from the Law School of Wuhan University in 1987, and obtained a doctor's degree in Laws in the Law School of Wuhan University in 1999. He joined Guangzhou Wanbao Group Import & Export Company in 1987. Since 1994, he had served as officer of the Finance & Property Department in Guangdong Economic and Trade Law Firm, partner of Guangdong Dalu Law Firm; deputy officer of Land Law Advisory Services Center of the Department of Land and Resources of Guangdong Province. He was one of the founders of Guangdong Kunlun Law Firm from 1998. Mr. Zhu joined the Company in 2011.

Mr. Chen Shaolong, aged 38, political official, is presently director of Party Committee and Affair Department of the Company. Mr. Chen graduated from Bohai Shipbuilding Vocational College in 1995 and Correspondence Course Institute of the Party School of the Central Committee of CPC in 2008. Mr. Chen joined the Company in 1995, and served as member, chief, deputy secretary and secretary of Youth League, assistant to chairman of the Labor Union, deputy manager of the Party Committee and Affair Department of the Company.

Mr. Qin Tinggui, aged 46, senior economist, is presently the director of Human Resource Department of the Company. He graduated from Zhenjiang Shipbuilding College in 1988 and obtained postgraduate degree in economics from C.P.C. Guangdong Provincial Party School in 1997. Mr. Qin joined Guangzhou Shipyard in 1988, and served as welding technician in Assembly Department of Guangzhou Shipyard, deputy section chief and section chief of Inspection Section in Quality Department and deputy manager and manager of Safety & Security Department, deputy manager of Purchase Department in Shipbuilding Division of the Company and deputy manager of Human Resource Department of the Company.

Senior Management

Mr. Yang Li, aged 44, engineer, currently vice general manager of the Company, graduated from Harbin Ship Engineering Institute and joined Guangzhou Shipyard in 1991, and obtained a degree of MBA in 2006. He had been the 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 general manager of the Company.

Mr. Jin Lichao, aged 45, senior engineer, currently vice general manager of the Company, graduated from Jiangsu Zhenjiang Shipbuilding University major in thermal energy and power machinery and equipment course in 1989 and joined Guangzhou Shipyard in the same year. Mr. Jin obtained a master degree in Huazhong University of Science and Technology in 2003. Mr. Jin Served as designer, director of Accommodation section of ship design office, vice director of the ship design room of machinery assembly section, vice director and director of construction technology section of Shipbuilding Division, vice manager of Shipbuilding Division, manager of Shipbuilding Administration Department and assistant general manager of the Company.

Mr. Chen Liping, aged 45, senior accountant and currently the chief accountant of the Company. Mr. Chen 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 46, senior engineer, currently company secretary and assistant to general manager of the Company. 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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(III). Positions in holding company

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Yu Baoshan	CSSC	Assistant general manager	Since June 2007	No
	Guangzhou CSSC Longxue Shipbuilding Co., Ltd.	Chairman & secretary of Party Committee	Since April 2011	Yes
	Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	Vice chairman	Since June 2005	No
	Guangzhou CSSC Yuanhang Drydock Co., Ltd.	Director	Since November 2005	No
Ke Wangjun	Guangzhou CSSC Marine Diesel Engine Co., Ltd.	Chairman	Since November 2008	No
	Administration Office of CSSC	Secretary of Party Committee & vice director	Since April 2011	Yes
Pan Zunxian	CSSC Newspaper Office	Chairman	Since April 2011	No
	Party Committee and Affair Department of CSSC	Officer	Since October 2011	Yes
	Zhenjiang CSSC Equipment Co., Ltd.	Director	2007 to February 2012	No
	Shanghai CSSC Mitsui Marine Diesel Engine Co., Ltd.	Director	Since 2007	No
Gao Feng	CSSC Chengxi Shipbuilding and Repairing Co., Ltd.	Director	Since 2006	No
	Guangzhou Shipbuilding Corporation	Secretary of Party Committee & vice general manager	Since December 2008	No
	China Shipbuilding NDRI Engineering Co., Ltd.	Vice general manager	Since December 2008	Yes
Ou Guangquan	Guangzhou CSSC Marine Diesel Engine Co., Ltd.	Chairman of Supervisor Committee	Since November 2008	No
	Guangzhou Shipbuilding Corporation	Chairman of labor union	Since August 2009	No
	Supervision Department of CSSC	Vice officer	Since January 2010	Yes

(IV). Positions in other companies

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Fu Zhengping	Management College of Sun Yet-sen University	Professor, Associate dean	Since September 2005	Yes
Qiu Jilachen	Guangdong Airport Management Corporation	chief accountant	Since October 2009	Yes
De Lihua	Jun He Law Office	Partner & lawyer	Since January 2006	Yes
Poon Chiu Kwok	Huabao International Holdings Limited	executive director	Since May 2006	Yes
		and company secretary		
	Ningbo Port Company Limited	independent non-executive director	Since April 2008	Yes
	Yuanda China Holdings Limited	independent non-executive director	Since April 2011	Yes
	Sunac China Holdings Limited	independent non-executive director	Since June 2011	Yes
	Chang'an Minsheng APLL Logistics Co., Ltd.	independent non-executive director	Since September 2011	Yes
	China Tianrui Group Gement Company Limited	independent non-executive director	Since December 2011	Yes
Fu Xiaosi	Tri-ring Group Company	chief accountant	Since September 2007	Yes
Richard Z. Zhu	Guangdong Kunlun Law Firm	manager & executive partner	Since January 1998	Yes

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

II. REMUNERATION INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

1. The Emolument and Examination Committee of the Board of Directors formulated "the Basic Remuneration Scheme for Senior Management of the Seventh Term of the Board" based on duties and works' experiences of the directors, supervisors and senior management.
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 Appraisal Rules of Senior Management", determines their performance coefficients and performance remunerations, and reported to the Board for consideration and approval.
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, and reported to the Board for consideration.

(II) Determination Basis for the 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 Seventh Term of the Board", "the Basic Remuneration Scheme for Senior Management of the Seventh Term of the Board" and "the Performance Appraisal Rules of Senior Management".

(III) The Remuneration Scheme for the Seventh Term Executive Directors, Internal Supervisors and Senior Management

1. For whom the salaries relationship is with the Company

Basic remuneration: The basic remuneration and the coefficient of Chairman of the Board is RMB300,000 and 1.00 respectively, and the coefficients of other senior management are between 0.60 to 0.95, while the basic remuneration of employees supervisors is based on their positions and the Company's remuneration systems.

Performance Remuneration: The Company may, in the absolute discretion of the Board, pay the executive directors, 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 combined profit after taxation and Non-controlling interests (before payment of the bonus) less any net extraordinary loss of the Group but taking no account of any net extraordinary gain of the Group for each financial year. The coefficient of performance remuneration of the executive directors and senior management will be adjusted from 0.80 to 1.2 by the result of their performance examination. The performance remuneration of the staff supervisors will be formulated by the Chairman and president in accordance with the relative systems of the Company.

Special Award: The Company may pay the special award which determined by the Remuneration and Appraisal Committee to the senior management who make great contributions to the development of the society, industry and the Company.

2. For whom the salaries relationship not in the Company

The remunerations of each independent non-executive director and non-executive director will be RMB100,000; the remunerations of the chairman of Supervisory Committee will be RMB200,000 and the remunerations of each external supervisors will be RMB80,000. However, there are no any performance remuneration and special award.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(IV) 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 and in the last month of one tenure year, normally in April. The special award is paid after approval by the Board of the Directors. The remuneration of the external directors and external supervisors is paid in last month of one tenure year.

(V) 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 6 item 6.2 (6).

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

Name	Position	Status	Reasons
Li Zhushi	Chairman of the Board of Directors	resignation	The tenure of the Board ended
Zhong Jian	Executive director & vice general manager	resignation	Job relocation
Chen Ji	Executive director & vice general manager	appointed as executive director	The new term of the Board commenced
Cui Ming	Non-executive director	resignation	The tenure of the Board ended
Wang Xiaojun	Independent non-executive director	resignation	The tenure of the Board ended
Sun-leung, Sunny	Independent non-executive director	resignation	The tenure of the Board ended
Peng Xiaolei	Independent non-executive director	resignation	The tenure of the Board ended
Wang Shusen	Chairman of the Supervisory Committee	resignation	The tenure of the Supervisor Committee ended
Ye Weiming	Supervisor	resignation	The tenure of the Supervisor Committee ended
Liang Mianhong	Supervisor	resignation	The tenure of the Supervisor Committee ended
Liu Shibai	Supervisor	resignation	The tenure of the Supervisor Committee ended
Zhou Dusheng	Vice general manager	resignation	Job relocation
Jin Lichao	Vice general manager	appointed as vice general manager	Promotion

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 employees", at no time during the year up to December 31, 2011 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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(II). Service contracts of directors and supervisors

None of the service contracts which was entered into between the Company and the seventh 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 this 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.

V. EMPLOYEES OF THE COMPANY

(I) Number of employees and their emoluments

Number of the current employees	3503
Number of retired employees whose expenses were borne by the Company	3305

Professional Structure

Professional Class	Number
Manufacturing Employees	1273
Marketing Employees	28
Technical Employees	1667
Finance Employees	56
Administrative Employees	368

Educational Structure

Educational Class	Number
Vocational Education	133
College Education	520
Bachelor Education	1202
Graduate Education	65

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. As at December 31, 2011, the total number of the Group's employees amounted to 10,603.

(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 2011 was RMB84,603,700 (2010: RMB78,536,900). In addition, during the year the Company had made payments of RMB1,946,000 (2010: RMB1,797,700) as subsidies to retirees.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(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 monthly 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 as housing cash subsidies for the retired employees who had never enjoyed welfare quarters and the employees who had been allocated welfare quarters which have not meet the prescribed standards. Such housing cash subsidies will be paid out after confirmation of the relevant plan.

(IV). Basic medical insurance

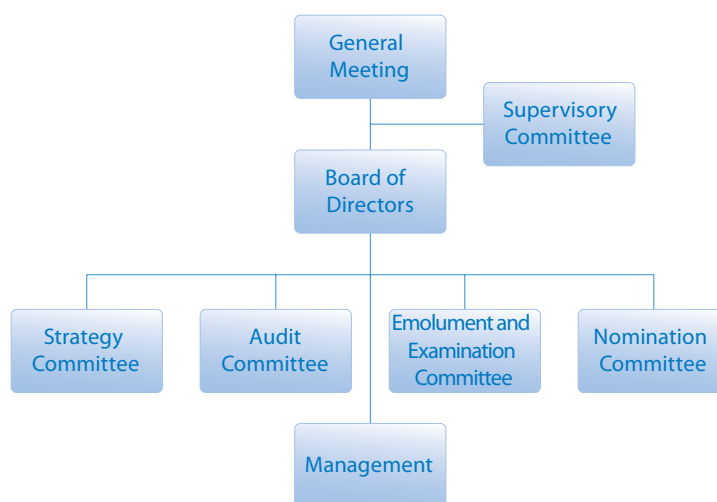
During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance scheme managed by Guangzhou Municipal Labor Protection Administration Department and paid insurance amounting to RMB44.88 million for its employees.

(V). Enterprise annuity

In order to improve the Company's remuneration 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, 2011, the Company had paid into the enterprise annuity amounting to approximately RMB60.738 million in total.

CORPORATE GOVERNANCE

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 2011, 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, for they belong to different segment market.
Personnel independence	The Company established integral independent labour, 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.

CORPORATE GOVERNANCE

2. *Shareholders' general meeting*

The Board endeavours 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 the annual 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 representatives of the 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 please 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 seventh term since the establishment of the Company, and is composed of eleven directors, including three executive directors, four 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. For details of member of the Board refer to "Information of Directors, Supervisors, Senior Management and Employees" in this annual report.

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. Chen Jingji 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 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.

CORPORATE GOVERNANCE

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 external auditors independently.

The Audit Committee of the seventh term of the Board comprises two independent non-executive directors Mr. Qiu Jiachen (chairman) and Mr. Poon Chiu Kwok and a non-executive director Mr. Pan Zunxian. All of them have expertise and experience in finance and management, and none of them is a former partner or external auditors in financial statement.

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 2011, the Audit Committee held four meetings, at which management, financial report 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 attending the meeting. The chairman of the committee reported to the Board on significant matters discussed. During the annual audit of 2011, 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;
- Appointing auditors for financial report in 2011;
- Reviewing self-assessment report of internal control in 2010;
- Reviewing GSI Internal Control System.

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 of the seventh term of the Board comprises the Chairman of the Board, Mr. Chen Jing qi (chairman), executive directors Mr. Han Guangde and Mr. Chen Ji, and non-executive directors Mr. Yu Baoshan and Mr. Ke Wangjun. All of them have served shipbuilding enterprises for decades, and have rich experience in shipbuilding management, technology, production and marketing.

During 2011, the Strategy Committee held a meeting, to discuss the promotion of heavy machinery industry and 2010 Corporate Social Responsibility Report, etc, and put forward proposals to the Board of Directors.

CORPORATE GOVERNANCE

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, and putting forward proposals.

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 of the seventh term of the Board comprises two independent non-executive directors, Ms. De Lihua (chairman), Mr. Fu Zhengping and a non-executive director Mr. Gao Feng.

During 2011, the Nomination Committee held three meetings, to discuss the nomination of the persons for directors and senior management 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 standards of the directors, supervisors and senior management of the Company, examining them and putting forward proposals, researching and examining remuneration policies and scheme of the directors, supervisors and senior management of the Company.

The Emolument and Examination Committee of the seventh term of the Board comprises two independent non-executive directors Mr. Fu Zhengping (chairman) and Mr. Qiu Jiachen, and a non-executive director Mr. Yu Baoshan.

In 2011, the Emolument and Examination Committee held a meeting to discuss and determine the performance reward and special reward schemes for executive directors, internal supervisors and senior management for the year 2010, and put forward proposals to the Board of Directors.

3. Board meetings

In 2011, the Company held seven Board meetings, which including five on-site meetings and two extraordinary meetings, and regular meetings were held with the form of on-site meeting and extraordinary meetings were held in a way of communication. The Board meetings discussed the Group's investment projects and the operation and financial performance of the Company, and 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.

CORPORATE GOVERNANCE

Attendance at meetings of the Board and its functional committee (attendance in person/number of meetings)

Attendance at the meetings of the sixth term 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>)	3/3	–	–	1/1	–
Han Guangde (<i>General manager</i>)	3/3	–	–	1/1	–
Chen Jingqi	3/3	–	–	1/1	–
Zhong Jian	3/3	–	–	0/1	1/1
Yu Baoshan	2/3	–	0/1	–	–
Pan Zunxian	3/3	–	–	1/1	–
Cui Ming	3/3	2/2	–	–	–
Independent Directors					
Wang Xiaojun	2/3	–	–	–	0/1
Lee Sun-leung, Sunny	2/3	2/2	–	–	–
Peng Xiaolei	1/3	1/2	1/1	–	–
Fu Zhengping	3/3	–	1/1	–	1/1

Attendance at the meetings of the seventh term 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					
Chen Jingqi (<i>Chairman</i>)	4/4	–	–	–	–
Han Guangde (<i>General manager</i>)	4/4	–	–	–	–
Chen Ji	4/4	–	–	–	–
Yu Baoshan	4/4	–	–	–	–
Ke Wangjun	4/4	–	–	–	–
Pan Zunxian	3/4	1/2	–	–	–
Gao Feng	4/4	–	–	–	2/2
Independent Directors					
Fu Zhengping	4/4	–	–	–	2/2
Qiu Jiachen	3/4	2/2	–	–	–
De Lihua	4/4	–	–	–	2/2
Poon Chiu Kwok	4/4	2/2	–	–	–

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 sixth term of the Board expired in 2011. The Company held the 2010 Annual General Meeting of the Company on May 31, 2011 and elected the seventh term of the Board.

CORPORATE GOVERNANCE

The notice of regular Board meeting was 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 committees of the Board, may seek the advice of independent professional institutions in the course of exercising their powers, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

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 Employees" 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 that the directors understand of their duties and assure 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. 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 in 2011.

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.

CORPORATE GOVERNANCE

The nomination, election, change, independence, working requirements, rights and responsibilities of independent directors are specified 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 of 2011.

6. Directors’ responsibilities in respect of the Financial Reports

The Company established internal mechanisms of responsibility, and clearly defined as follows in Information Disclosure Management Systems: the directors should sign a written confirmation of periodic reports; directors should be diligent and responsible, and concern about the status of preparation of the information disclosure documents to ensure that periodic reports, temporary reports disclosed within the prescribed time limit, and coordinate with other persons responsible for information disclosure to perform the obligation; directors take responsibility for ensuring that information disclosed is true, accurate, complete, and that non-existence of false or misleading statements or material omissions, and have a responsibility of strengthening awareness of information disclosure.

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 ended December 31, 2011. During the year 2011, the Company has no significant accounting errors, supplement of material omission and revising of profit warning announcement. 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. Internal Control

General Information

The Board of Directors is responsible for establishing and maintaining the Company’s internal control system, is assisted by Audit Committee to review the internal control of the Company, supervise the efficient performance of internal control and self-evaluation of internal control, and coordinate with the auditing of internal control. The Supervisory Committee supervises on the establishment and implement of internal control by the Board of Directors. The senior management are responsible for the routine work of internal control. In accordance with Rules of Internal Control System, the Company carried out the self-evaluation of internal control once a year, and hires auditors of internal control for auditing to review control procedure in finance, operation and supervision, to ensure that the legality and regulation of operation management of the company, the safety of assets, financial report and involved information is true and complete, to improve operation efficiency and effect and to promote the realisation of developing strategy.

CORPORATE GOVERNANCE

Departments in Internal Control System

Risk Management Department	–	responsible for the implementation and maintaining of internal control
Discipline Inspection and Auditing Department	–	responsible for the implementation of evaluation of internal control
Finance Centre	–	responsible for the perfection of finance internal control procedure management system
All functional departments	–	responsible for the establishment and implementation of internal control in their business scope

The Establishment and Integrity of Internal Control System

In 2011, the Company established a leading group and a practice group in internal control who lead and coordinate with the implementation of the principle for internal control of the Group, held the starting and mobilization meeting of internal control, reinforced the training and promotion and improved the internal control environment; 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, combining with business features of the Company, hired consultant institution to design the overall frame of internal control, to offer assistance in clearance of internal control system and procedure of the Company, to inspect and improve the important business procedure, to optimize internal management system of the Company, to draw up “Internal Control Manual” and “Internal Control Evaluation Manual”, and to revise “Rules of Internal Control System of the Company (promulgated and enforced in 2011)”.

Internal Control Evaluation

According to the Rules of Internal Control System of the Company, the Company organized all departments to make a review and a summary of internal control work, and carried on identification and analysis on the risks in business scope in 2011. On the basis of Internal Control Evaluation Handbook, the Company made a plan of internal control evaluation which included annual inspection evaluation and department self-evaluation, and adopted ways of compliance test, personal inquiry, practise test and so on, and made an inspection and evaluation about the effective of design and operation of internal control. In accordance with the Internal Control Manual and Internal Control Evaluation Manual, the Company took a sampling test for all business process, and then concluded internal control defect through marking based on the test conditions. The internal control evaluation in 2011 covered all businesses and items of the Company, majorly concerned strategic risks, operational risks, financial risks and regular risks.

Through internal control evaluation, the Company holds that there is no major or important defects but several average defects during the period under review. With respect to average defects found in this year, related business departments should formulate practicable rectifying and improving plan, which should be discussed by Discipline Inspection and Auditing Department and internal control auditing institution, and then submit to the senior management, the Board of Directors and the Supervisory Committee for consideration. Risk Management Department and Discipline Inspection and Auditing Department are responsible for tracking and supervising the operation of the rectifying and improving plan of internal control defects, and prodding related business department to complete related management system. In case the internal control system be revised and complete, internal control system shall be operated with the approval of the senior management and the Board of Directors.

Shinewing Certified Public Accountants, Limited, the internal control audit institution of the Company, audited the effectiveness of internal control of the Company, and hold that the Company had an effective internal control of financial report in all major aspects in accordance with the “Basic Principles for Enterprise Internal Control” and related regulations for the year ended December 31, 2011.

CORPORATE GOVERNANCE

For details of internal control evaluation of the Company please refer to Internal Control Self-evaluation Report and Internal Control Auditing Report published on the website of Shanghai Stock Exchange (www.sse.com.cn) and the Company (www.chinagsi.com) on March 30, 2011.

Internal Control of Financial Report

The Company's related internal control system of financial report is composed of budget internal control system, accounting internal control system, fund-related activities internal control system and tax internal control system. In accordance with the "Accounting Law of the People's Republic of China", "Enterprise Accounting Standards", "General Principles of Corporate Finance" and the relevant state laws and regulations and the Articles of Association of the Company, etc., and combining with the actual situation, the Company has formulated and timely revised basic regulations such as the Financial and Accounting Regulations, Accounting Policies, Production Cost and Period Expense Accounting Management Regulations, Overall Budget Management Provisions Funds Management Regulation, and Financial Derivatives Business Management, etc, and a series of supporting management regulations and methods, to ensure that the Company's internal control of financial report is legal, compliant, sound and effective.

During the year 2011, the Company made review and analysis on the above-mentioned rules and regulations, combined the systems with process through the flow chart, critical control points, permissions manuals and other tools, further standardized the operational processes which is the proof of implement of internal control evaluation, and evaluated the effectiveness of design and operation of internal control of financial report based on daily supervision and special supervision.

2. Chief Accountant

The chief accountant oversees all financial matters of the Company, is accountable to the president and responsible for preparing financial statements in accordance with Enterprise Accounting standards 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.

3. Supervisory Committee

The Supervisory Committee is in its seventh term since the establishment of the Company, and was elected by the 2010 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 five meetings during 2011; 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.

4. Auditors

The Company's domestic and international audit institutions is Shinewing Certified Public Accountants, Ltd. ("Shinewing"), and provided its audit services to the Company since 2011 in place of Ascenda Certified Public Accountants, Limited (Beijing) and PricewaterhouseCoopers, Certified Public Accountants as the domestic and international audit institutions of the Company respectively.

CORPORATE GOVERNANCE

During the year, audit services in relation to connected transactions, external guarantee and internal control on respect of the financial statement were provided to the Company by ShineWing (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) but did not provide bib-audit services.

The financial statements for the year of 2011 were prepared in accordance with PRC Accounting Standards and Regulations and the HKFRS, which have been audited by ShineWing, for which the Company has paid RMB1.8 million. The certified accountants who signed on the domestic audit report in 2011 Annual Report are Mr. Chen Gang and Mr. Zhao Xueping.

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 2011, the activities in relation to corporate governance improvement of the Company are as follows:

1. Specific Activity for Inside Information Management

With the requirement of Notice of Specific Joint Inspection for Cracking down and Prevention and Control of Inside Trading issued by Guangdong Securities Regulatory Bureau, the Company examined the establishment and performance of insider information system and internal information management system, abnormal fluctuation of stock of the Company and change of shares in 2011 held by the controlling shareholder, directors, supervisors and senior management. After the self-examination, there is no evidence shown that the insider who possesses the internal information has transfer shares before the disclosure of price-sensitive information, and insider trading exists.

- (1) In accordance with relevant laws and regulations and the actual situation, the Company drawn up for Insiders Registration System of Guangzhou Shipyard International Co., Ltd., in 2011, such system has been effectively implemented, and insiders had completed the registration process before the non-disclosed sensitive information be submitted.
- (2) The Company re-identified and registered the insiders combining adjustment of organization structure and the change of management position, who shall signed insider information confidentiality agreement at the hierarchical level.
- (3) In 2011, the Company carried out insider information management self-examination activities in accordance with the requirements of Guangdong Securities Regulatory Bureau. During the period under review, the Company did not find that any insider who has traded the securities of the Company with insider information before disclosure of significant price-sensitive information.

2 Rectifications of Common Questions of Listed Company's Governance

According to the requirement of "Notice in relation to the local listed company's governance common problems" issued by Guangdong Securities Regulatory Bureau, the Company launched self-check and found that there were two problems:

- 1) The Company did not adopt cumulative voting on selected supervisors;
- 2) The internal audit director does not report to the Board.

On May 31, 2011, the Company adopted cumulative voting on new supervisors in shareholders meeting. On March 29, 2012, in the Board meeting for reviewing the 2011 annual report, the general manager and internal audit director Mr. Han Guangde made specific report of annual internal auditing work for year 2011 to the Board of Directors.

CORPORATE GOVERNANCE

III. OTHERS

1. Investor relationship

The company secretary is directly responsible for investor relationship management. The office to the Board is the implementation department, and offers assistance in investors' relationship management to the company secretary. In order to make convenience to the contact and communicate between the Company and investors, the Company timely renew the content of website, communicate with relevant institutions and persons about business operation, financial situation and the other issues by the ways of one-to-one meet-and-greet event, receiving letter of investors, calling advisory and site visit. There is no alternative disclosure information and providing insider information and so on. In Moreover, the Company records the content in the process of visit and research and fills the registration form of investors' information, and keep the same in the office to the Board according to the rules and regulations of Shanghai Stock Exchange.

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 2011, three independent directors of the Company attended training courses held by Shanghai Stock Exchange, and three directors, supervisors and senior management of the Company attended training courses for directors, supervisors and senior managers held by Guangdong Securities Regulatory Bureau.

3. Examination and motivation of senior management

The Company established "Remuneration Scheme for the Seventh 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, safe production, provides social service, to advance harmonious development of the Company and the society. During 2011, the Company has not involved in serious environment and social safety problem of the Company. For details please refer to the 2011 Corporation Social Responsibility Report as disclosed in Shanghai Stock Exchange (www.sse.com.cn) and the Company's website (www.chinagsi.com).

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 OF GENERAL MEETINGS

The 2010 Annual General Meeting, the First Class Meeting of Domestic Shareholders and the First Class Meeting of Foreign Shareholders were held at the conference room of the Company at 40 South Fangcun Main Road, Liwan District, Guangzhou, the PRC on May 31, 2011, at which the following resolutions were passed:—

I. THE 2010 ANNUAL GENERAL MEETING

By way of ordinary resolution:

1. Approved the annual report for the year 2010.
2. Approved the proposal for profit distribution for 2010—after deduction for purposes of statutory public welfare fund, paid RMB1 (tax-included) for every 10 shares.
3. Elected the directors of the seventh term of the Board of Director and supervisors of the seventh term of the Supervisory Committee.
4. Approved the Remuneration Scheme for the Seventh Term of the Senior Management.
5. Approved the appointment of Shinewing Certified Public Accountants, Ltd. as the Company's domestic and international auditors for the year 2011.

By way of special resolution:

6. Approved the bonus shares issue by conversion of capital reserve, which is 3 new shares for every 10 existing shares.
7. Approved the amendments to the Articles of Association of the Company.

II. THE FIRST CLASS MEETING OF DOMESTIC SHAREHOLDERS

By way of special resolution:

1. Approved the bonus shares issue by conversion of capital reserve, which is 3 new shares for every 10 existing shares.

II. THE FIRST CLASS MEETING OF FOREIGN SHAREHOLDERS

By way of special resolution:

1. Approved the bonus shares issue by conversion of capital reserve, which is 3 new shares for every 10 existing shares.

The above shareholders' resolutions had been published on the Shanghai Securities News on June 1, 2011, the website of the Shanghai Stock Exchange (www.sse.com.cn), the website of The Hong Kong Stock Exchange (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 2011, the external business environment was still difficult and complicated. The European and American debt crisis got worse, global economic recovered very slowly, the shipping industry touched the bottom for the second time and the price of ships fall sharply the sharp fall of price, the operation and order securing of the Company become extremely difficult. Besides, the tanker orders in hands of the Company still suffered such disadvantageous situations as modification of ship-type, the delay of payment, the delay of delivery and so on. The problem of limited production areas, the lack of skilled labor, high cost, the slow pace of production management level and the production efficiency still need to be solved.

Encountering such a stern test, all employees of the Company tightly centred on the policy of ensuring delivery, securing orders, controlling cost, strengthening management, and preventing risk and pursuing development to put forward the work of conversion shipbuilding mode and products structure adjustment. The Company highly focused on research input and treated research work as the motivative power of surmounting crisis and realise adjustment of product and industry structure. The Company actively integrated the resource of shipbuilding, adjusted the structure of product, and has achieved the shipbuilding goal which was determined at the beginning of 2011. In addition, the Company actively put forward the strategy of heavy machinery which improved the competitive power of the Company and the ability to resist risk.

As at December 31, 2011, the operating income of the Group prepared under the PRC Accounting Standards and Regulations amounted to RMB8.296 billion, representing an increase of 18.28% over that of last year. The audited consolidated net profit attributable to shareholders amounted to RMB518 million, representing a fall of 26.76% over that of last year. The earnings per share and that after deduction of exceptional items were RMB0.81 and RMB0.59 respectively.

1. Major work and results

- Strengthened the development & research of products and the development of name-brand type of ship; promoted excellent ship engineering; refined competitive product; strengthened the research of high-tech vessels; promoted high and new-tech vessels engineering, increased the proportion of high-tech and high added-value ship products; expanded new types of ships, to be the leading company in the middle and small vessels market; emphasised on designing of large scale semi-submerged ship, low oil consumption and environment-friendly chemical/product oil vessel, deck cargo ship, and strait Ro/Ro passenger ship and so on, of which energy-saving MR 50,000dwt chemical/product oil vessel and lower oil-consumption 37,500dwt handy-sized chemical/product oil vessel have a good reputation in the market.



REPORT OF THE BOARD OF DIRECTORS

- The Company insists on the business operation policy: obtained orders aggressively according to market demand and price change, and adjusted the strategy of business operation rationally, strengthened development in domestic market, contacted with old owners, developed new customers, and intensified the promotion of special vessels, improved the ability to obtain orders. According to the Company's situation in business and production, the Company satisfied the demand of owners in rectification of ship type and the adjustment of construction plan as much as possible, and actively helped owners to obtain financing in China. In 2011, the Company secured new shipbuilding orders for 12 vessels, with a total tonnage of 477,300dwt. At the end of 2011, on an accumulative basis, there were orders on hand for 42 vessels with total tonnage of 1,730,000dwt.
- Reallocated resources, standardized management, and promoted cost decreasing and efficiency increasing. The Company integrated the two shipbuilding divisions which helped to increase the effectiveness of resources, optimized the organization and process of production, improved work efficiency. Intensified the supervision of labor, efficiency, volume of works, expenditure, perfected date analysis system, intensified the basic management of production management system, effectiveness analysis, and energy conservation and reduction of pollutant emissions; perfected the rules and regulations of management of the Company, promoted the standardization and institutionalization of management. In 2011, the Company achieved the commencement of construction work on 18 vessels, launching 21 vessels and delivering 18 vessels.
- Promoted the implementation of strategy in heavy machinery, adapted the management mode of business team, and formed the development pattern of steel structure, mechanical and electrical product, suit of equipment and marine product under overall planning of heavy machinery division on the whole; through the research and design of major product like hovercraft, motor boating and technology introduction as well as the other ways, promoted the technical power in heavy machinery, which supported the development of heavy machinery business. In 2011, with the strengthening of the project management, improving profitability of heavy machinery and remolding the brand of heavy machinery, the Company delivered the biggest successive ship unloader which has the biggest capacity to unload in China, and obtained the order of the biggest shield machine for export to Thailand in south China, which will exported to Thailand in 2011.

2. Technical innovation

In 2011, the Company increased the input of research and design, and vigorously designed new types of ships and explored new process and polytechnic, which promoted the competitive and stabilized the status of the Company in shipbuilding market, achieved the goal of ensuring orders in such critical situation, and opened a new market. The Company successfully designed energy-saving 37,500dwt and 50,000dwt chemical/product oil vessels in 2011, which reached an international level and obtained orders for 2 vessels.

In addition, the Company declared 17 key scientific research and development projects, which included a national project, 4 ministerial-level projects; and completed and passed the re-examination of corporate tech-centre identified by the state, passed the re-examination of high-tech enterprise, and obtained the honour of innovative corporation in Guangzhou and the second pilot enterprises which first promoted and applied new method of innovation in Guangdong province. As at December 31, 2011, the Company has obtained 80 patents, which included 6 patents for invention, 70 patents for utility model and 4 patents for design, and 17 of which was obtained during the period under review.

3. Energy-saving and environmental protection

In 2011, the Company vigorously advocated energy saving and emission reduction. Mine summary consumption per RMB10,000 of output value was 0.034 ton and electricity consolidated consumption per RMB10,000 of output value was 0.018 KWh, both consumptions were lower than those in 2010. Besides, the emission of wasted gas and wasted water and noise reached the standard in 2011. There was no serious energy waste and environment pollution at the same year.

REPORT OF THE BOARD OF DIRECTORS

(II). Principal operation information

1. Major information by products

Unit: RMB

Products	Operating income	Operating cost	Operating gross margin (%)	Change in operating income over that of 2010 (%)	Change in operating cost over that of 2010 (%)	Change in operating gross margin over that of 2010 (%)
Shipbuilding	7,225,493,551.62	6,479,334,758.32	10.33	12.85	16.59	-2.87
Steel structure	428,841,820.96	393,130,822.96	8.33	180.93	181.20	-0.09
Electrical & mechanical products and others	487,026,355.12	362,090,937.05	25.65	38.30	30.34	4.54

The principal operating income of the Company amounted to RMB8.141 billion, representing an increase of 17.86% which mainly due to that the ships built outside of the Company increased the completed total tonnage of vessels, and benefited from the improvement of business of steel structure and electrical & mechanical products. The comprehensive gross margin was 11.14%, represented a decrease of 2.36% as compared with that of last year. The decrease of profitability of principal operation is mainly due to the appreciation of RMB.

The operating income of shipbuilding operation of the Company in 2011 amounted to RMB7.225 billion, representing an increase of 12.85% compared with that of 2010, which was mainly due to the increase in total tonnage of vessels completed as compared with that of 2010. The gross margin of shipbuilding products in 2011 was 10.33%, representing a decrease of 2.87% compared with that of 2010, which was resulted from increasing cost of shipbuilding, and the lower price of new ships and the appreciation of RMB.

Benefitting from the market improvement and the implementation of strategy of heavy machinery, the operating income of steel structure had a significant rise and the gross margins of electrical & mechanical products and others increased during the period under review.



REPORT OF THE BOARD OF DIRECTORS

2. Geographical analysis of turnover

Unit: RMB

Districts	Operating income		Changes (±%)
	2011	2010	
Denmark	2,462,852,434.44	2,956,767,245.03	-16.70
Holland	727,783,083.38	75,899,797.93	858.87
Hong Kong	375,086,912.20	347,575,984.57	7.92
Greece	364,385,336.72	456,215,787.64	-20.13
Columbia	199,285,313.81	–	–
Malta	184,559,546.96	–	–
Sweden	92,113,557.89	–	–
Australia	57,205,238.65	16,199,625.68	253.13
Philippines	20,847,399.05	–	–
Canada	8,964,524.47	–	–
America	4,689,609.71	41,719,511.96	-88.76
Italy	–	261,997,238.23	-100.00
Other districts	5,868,830.21	29,479,586.86	-80.09
Total of outside borders	4,503,641,787.49	4,185,854,777.90	7.59
China	3,637,719,940.21	2,721,768,203.74	33.65
Total	8,141,361,727.70	6,907,622,981.64	17.86

Principal operating income represented an increase of 17.86% during the period under review of which the operating income in China increased by 33.65%, which was resulted from the increase in the proportion of orders from domestic market increased since international financial crisis.

(III). Major customers and suppliers

In 2011, the turnover attributable to the Group's five largest customers amounted to RMB3.475 billion and accounted for 41.89% of the total turnover of the Group. Of those, the turnover from A.P. MOLLER Maersk Group, Denmark, the Group's largest customer, amounted to RMB832 million, representing 10.03% of the total turnover of the Group.

In 2011, the purchase of raw materials and equipment from the Group's five largest suppliers amounted to RMB1.997 billion and accounted for 37.53% 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 RMB793 million and accounted for 16.56% 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 which to the knowledge of the directors owned more than 5% of the Company's share capital disclosed to the Company that he or she had any interest in the above mentioned 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
Notes receivable	560,000.00	106,957,384.82	-99.48	The commercial acceptance bill with an amount of RMB103.60 million as the shipbuilding installment payments which has been paid on January 22, 2011
Accounts receivable	736,726,644.10	237,930,326.60	209.64	The increase of shipbuilding installment payments
Interest receivable	104,002,627.67	62,875,756.88	65.41	The increase of deposit rate
Dividends receivable	–	5,477,728.60	-100.00	The cash dividend of joint venture received
Others receivable	124,187,542.08	289,882,991.10	-57.16	The decreased export rebates receivable and products subsidies for the change of product structure
Investment property	31,070,557.34	72,237,906.35	-56.99	The selling of investment real housing estate in Xinjiang
Construction in process	281,562,964.86	146,308,227.80	92.45	Increasing input on first term investment project of Zhongshan GSI Marine Engineering Company Limited
Disposal of fixed assets	5,044,668.76	261,149.08	1831.72	Intending to sell a set of old machine and equipment
Deferred tax assets	69,448,011.72	22,068,135.62	214.70	The increased provisions for assets depreciation preparation
Short-term loans	1,170,288,811.35	1,837,321,454.75	-36.30	Payout to due loans
Accrued employee compensation	19,564,521.68	40,603,732.05	-51.82	Payment of prior year provision for the 2010 annual bonus
Taxes payable	48,106,774.49	115,298,251.35	-58.28	The increased deductible input tax
Interest payable	23,593,106.60	13,720,941.14	71.95	The increasing of the long-term loans in foreign currency to avoid the risk of exchange rate
Others payable	27,290,727.01	70,484,717.41	-61.28	Confirming the selling of investment real housing estate in Xinjiang
Dividends payable	157,912.98	67,601.63	133.59	The addition is the remaining of cash dividend in report period
Other current liabilities	2,037,044,941.97	3,295,814,462.46	-38.19	The decrease of settlement account received in advance of contract
Long-term loans	1,081,390,350.04	624,123,248.00	73.27	The increased US dollar loans to avoid the risk of exchange rate
Other non-current liabilities	46,207,222.94	34,205,906.94	35.09	The increased appropriation of research and fundamental projects
Share	643,080,854.00	494,677,580.00	30.00	The increased capital stock result from capital reserve
Capital reserve	648,953,361.73	821,635,348.08	-21.02	The decreased capital reserve result from capital stock

REPORT OF THE BOARD OF DIRECTORS

2. *Income statement items*

Unit: RMB

Item	2011	2010	Change (%)	Main reasons of change
Business tax and surcharge	48,434,977.29	30,710,391.51	57.72	The increase of payment of surtax as affected by the increasing proportion of domestic ships which was due to the adjustment of products structure
Selling expenses	25,824,677.79	58,775,317.66	-56.06	The remaining warranty fees back be turned by the Company according to regulations
Financial expenses	-238,565,286.18	-150,649,702.95	58.36	The increased deposit rate and the increased earnings of US dollar debt hold by the Company, which is caused by the change of exchange rate
Impairment loss	341,412,262.60	16,936,773.02	1,915.80	Mainly due to the price of the ship has been continuously decreasing, the appreciation of RMB against USD and the increase in quality due to the keen competition in market
Gains from fair value changes	-2,158,064.47	-42,732,189.17	-94.95	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	49,238,565.61	83,417,015.04	-40.97	Result from the change of the settlement of matured foreign exchange forward contracts
Operating profit	393,766,389.62	603,873,057.88	-34.79	Mainly influenced by a price decrease of inventory
Non-operating expenses	1,933,308.68	7,743,039.36	-75.03	The decreased disposal of assets
Income tax expenses	84,002,690.86	124,742,889.51	-32.66	The decrease of profit
Profits attributable to non-controlling shareholders	4,255,204.21	2,767,754.59	53.74	The increase of profit of subsidiaries of the Company

REPORT OF THE BOARD OF DIRECTORS

3. Cash flow statement items

Unit: RMB

Item	2011	2010	Changes(%)	Main reason of changes
Net cash flow from operating activities	-1,182,559,975.99	1,038,885,458.78	-213.83	The increase of receivable, purchase payment and taxes
Net cash flow from investing activities	-1,537,438,247.81	-1,057,659,783.37	45.36	The increase of pledge money
Net cash flow from financing activities	683,503,409.84	645,561,987.96	5.88	The increase of US loans

(V). Prospects for the coming year

In 2012, the situation the Company's business and production faced is still very difficult. Under the doubled pressure of over-transportation capacity and over-capacity of production in the shipping market, the situation of shortage of orders and low price of new ships will continue. In addition, although the number of ships which will be delivered will make a new record, the income will decrease as compared with 2011, as the price of ship has a sharp decline and the appreciation of RMB.

In order to enhance competitiveness, the Company will follow the changed trend of the market, put forward the development and optimization of types of ships, and focus on the decreases of oil consumption; further allocates resource and adjusting the structure of products, to properly configure the proportion of domestic and exported ships, liquid tankers and special vessels; improves the process of production, enhance the management of preciseness, and make plan in advance, and do best for the preparation of production and technology, to complete the goal of production; further launch cost decrease and efficiency increase as well as performance evaluation, decrease cost in light of market price, strengthen risk precaution, to keep the capability of the Company to make profit.

1. Plan for the year 2012

- Orders securing: endeavour to obtain 15 orders and keep the market share and become specialized at competitive ships, which make the Company establish the brand and maintain the momentum of development in the market of handy sized tankers, Ro/Ro passenger ship and semi-submersible ships.
- Shipbuilding production: improve the process of production, optimize the resources reallocation of slipways, dry dock and block production center in Zhongshan, make full use of shipbuilding present equipment to improve the efficiency of production, intensify coordinate management and technical advice outside of the Company, and endeavor to achieve the production goal: commencing construction work for 18 vessels, launching 21 vessels, delivering 23 vessels.
- Exchange rate risk precaution: in the risk exposure of the Company, combining with the plan of business operation and production, through increasing low-rate dollar debt and locking the forward exchange settlement of dollar and the forward purchase of exchange of Euro, to decrease the exchange loss.
- Cost control: implement cost decreasing and efficiency increasing, intensify cost control management; promote the integrity of departments and composite work types, strengthen the communication between employees, further promote "cost engineering", qualify the cost reduction index and establish evaluation mechanism; strengthen the management of fund, and control investment strictly.

REPORT OF THE BOARD OF DIRECTORS

- Implementation of strategy: effectively implement shipbuilding strategy step by step, and look for a chance to establish shipbuilding division to improve shipbuilding business; further put forward strategy of heavy machinery to speed up the development of heavy machinery; use subsidiaries of the Company in service industry as platform to actively develop the service business; intensify the stable development of semi-submersible ships, reserve actively technology and human for oceanographic engineering to strive for a new breakthrough of marine engineering business.

2. *The Plan of Capital Expenditures*

The Company estimates that the capital expenditures will be RMB579 million in 2012, which will be mainly used mainly for investment of fixed assets. The fund of the Company can satisfy the need of the capital expenditures and daily operation.

II. INVESTMENTS INFORMATION

During the period under review, the Company had not raised funds during the year nor utilized any proceeds previously raised. In 2011, the investment capital not from share offering of the Company amounted to RMB352 million, increased by RMB158 million and representing an increase of 81.36% compared with that of last year. The investments in 2011 are mainly as follows:

Items	Amount RMB'0000	Progress	Income
Construction fees of Zhongshan GSI Marine Engineering Co., Ltd.	23,945.15	Basically completed	Go into operation at the end of 2011
12.5m CNC double-column vertical turning & boring mill	1,403.50	Under construction	Not yet generate income
The move of large-sized machine workshop	1,188.35	Under construction	Had generated income
Project of Building for work team in new district	450.53	Under construction	Had generated income
The innovated project of GSI Large-size Mechanical Equipment Co., Ltd	247.62	Under construction	Had generated income
One tug in shipping department	379.97	Under construction	Not yet generate income
Others renovated projects	7,038.78	Under construction	Not yet generate income
Digging project in the front of dockyard	301.69	Completed	Had generated income
The purchase of stock of Gurangzhou Masterwood Shipbuilding Co., Ltd.	199.45	Completed	Had generated income
Total	35,155.04	—	—

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	75,847	2,030
2	Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	80	38,257	683
3	Guangzhou Hongfan Information Technique Co., Ltd.	Development of computer software, system integration and sales of hardware	5,000	51	19,936	3,065
4	Guangzhou Xingshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing	2,000	83	62,225	3,875
5	Guangzhou Masterwood Shipbuilding Co., Ltd.	Design, processing, installation and repairing, outfitting, pipelines, ventilation system, furniture manufacturing, internal decoration, sales of the Company's products	3,315	75	23,400	2,947
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	188,610	100	318,053	21,333
7	United Steel Structures Limited	Large-sized steel structure	73,573	51	214,931	4,907
8	Glory Group Development Co., Ltd.	Trading	HKD30,000	100	216,722	8,049
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	566,049	-10,161
Indirect holding subsidiaries						
10	Guangzhou Masterwood Shipbuilding Co., Ltd.	Design, processing, installation and repairing, outfittings, pipelines, ventilation system, furniture manufacturing, internal decoration, sales of the Company's products	3,315	25	23,400	2,947
11	Guangzhou Hongfan Hotel Co., Ltd.	Traveling and catering services	10,000	100	8,731	648
12	Guangdong Guangzhou Shipyard International Elevator Co., Ltd.	Elevator production and sales	21,000	5	75,847	2,030
13	Fonkwang Development Ltd.	General trading	HKD200	70	198,555	1,036
14	Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	20	38,257	1,320
15	Guangzhou Xingshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	17	62,225	3,875

Except that Glory Group Development Co., Ltd. and Fonkwang Development Ltd. were registered and carried their business 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
Real estate in Heshan	Huangyuan, No. 496 Xincheng Road, Shaping Town in Heshan, Guangdong Province	Sale	Yes
Shops in Hengyang	No. 33 Jiefang Road, High-tech Development Zone in Hengyang City, Hunan Province	Rent	Yes

Financial derivative product

As at the end of 2011, the Company had 32 contracts of U.S. dollars forward exchange with an amount of USD121.17 million with their longest settlement delivery date at October 18, 2012, and their close balance of fair value gains amounted to RMB20.23 million. Besides, the Company had one contract of U.S. dollars/Eur undelivered forward purchase, which had worth of EUR 3 million the settlement of which was March 13, 2012, and its close balance of fair value losses amounted to RMB1.16 million.

Financial derivative business operation of the Company was carried out strictly according to the regulations of the Company. In details, when every transaction demand has satisfied the conditions for approval, it must be approved by business department, legal department, financial department, chief accountant, vice chairman and general manger (having authorized by chairman of the Board), and signed the transaction contract of financial derivative business by the financial centre.

Entrust loans

In order to solve the problem of shortage of productive resource in 2011, the Company entrusted ICBC to increase RMB270 million entrust loans to Zhongshan GSI Marine Engineering Co., Limited ("Zhongshan GSI"), a wholly-owned subsidiary of the Company, for construction of Zhongshan GSI. As at the end of 2011, the Company provided the accumulative entrust loans with an amount of RMB470 million for Zhongshan GSI, which was effectively used to invest for fixed assets and intangible assets (land usage right) of the Company. The major risk of the fund was whether Zhongshan GSI can sustain producing revenue, and then recover the investment. Zhongshan GSI began to operate and build block of ships in October 2011.

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.

REPORT OF THE BOARD OF DIRECTORS

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

(I). Meetings of the Board of Directors

During the period under review, the Board had held seven meetings, and the major contents and resolutions as follows:

Meetings	Convening date	Major Publications disclosing information	Date of disclosing information	Note
Twenty fifth meeting of the sixth term of the Board	February 22, 2011	Shanghai Securities News	–	1, 2
Twenty sixth meeting of the sixth term of the Board	March 29, 2011	Shanghai Securities News	March 30, 2011	
Twenty seventh meeting of the sixth term of the Board	April 21, 2011	Shanghai Securities News	April 22, 2011	
First meeting of the seventh term of the Board	May 31, 2011	Shanghai Securities News	June 1, 2011	
Second meeting of the seventh term of the Board	August 23, 2011	Shanghai Securities News	August 24, 2011	
Third meeting of the seventh term of the Board	October 27, 2011	Shanghai Securities News	October 28, 2011	
Fourth meeting of the seventh term of the Board	December 5, 2011	Shanghai Securities News	December 6, 2011	

Notes:

1. Twenty fifth meeting of the sixth term of the Board approved that within the 80% of the exchange earning from exported ships in hand and not exceeding the aggregate amount of USD 800 million (including the other foreign currency of equivalent accounts), to authorize the management to make a decision of the specific transaction items, accounts, stop-loss limit of financial derivative business, and authorize two executive directors to sign agreement of financial derivative business with the relevant banks.
2. Twenty fifth meeting of the sixth term of the Board approved the appointment of Minter Ellison Lawyers as standing Hong Kong legal adviser with the service term from January 1, 2011 to the end of the sixth term of the Board, and authorized the management to settle the service fees and sign the related agreement.

(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 2010 annual general meeting, the first class meeting of domestic shareholders of 2011 and the first class meeting of foreign shareholders of 2011.

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

Please refer to the sub-section “Functional Committees of the Board” in the section of Corporate Governance Structure in the Corporate Governance Report.

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

In order to standardize the information management system for user of the external information of the Company and maintaining the confidentiality, the Company established the “insider register regulation” 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 reminders of the information confidentiality and prohibition of the use of insider information, to prevent the disclosure of information and ensure fair disclosure of information.

REPORT OF THE BOARD OF DIRECTORS

(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, and has established Audit Committee to assist the Board to evaluate the effectiveness of financial reporting procedure, internal control and risk management system, review internal control procedure in relation to finance, operation and supervision, to protect the interest of shareholders and the properties of the Group in accordance with the Rules of Internal Control System of the Company, the Company reviews its internal control and report to Audit Committee and the Board once a year.

(VI). The implementation of the management system on informant of inside information

Please refer to the section "Corporate Governance Improvement" in the Corporate Governance Report.

V. PROFIT DISTRIBUTION FOR THE YEAR 2011

(I) The policy of profit distribution and its implementation

Pursuant to the regulation of the Articles of Association of the Company, the Company distributes dividend per year. After shareholders' making a decision of profit distribution plan in general meeting of shareholders, the board of directors must complete the dividend distribution with 2 months. Before making up the deficit and withdrawing the statutory common reserve fund, the Company is prohibited to distribute dividend.

The 2010 cash dividend distribution plan was passed in the general meeting of shareholder held on May 31, 2011. On the basis of 494,677,580 shares, the Company paid a dividend of RMB0.10 (tax-included) on each share, the total dividend amounted to RMB49,467,758.00, which was distributed in July 2011.

(II) Profit distribution plan for the Year 2011

Profit distribution for the year 2011 should be based on the net profit of the Company prepared in accordance with PRC Enterprise Accountant Standard with an amount of RMB490,961,817.77, and the proposed details are as follows:

1. to allocate 10% to the statutory public welfare fund which amounts to RMB49,096,181.78.
2. due to the shipbuilding market slump, it is expected that the numbers of ships from new contracts and the amounts of the pre-payments of prices will fall, and the net cash flows will continue to be negative. Meanwhile, in order to cope with the financial crisis, the Company will adjust the combination of its four major business, namely shipbuilding, heavy machinery, services and marine engineering and it is expected that the Company will maintain capital expenditure to certain extent in the future. To maintain continuous development, the Company does not propose any payment of a final dividend for the year ended 31 December 2011, and the undistributed earnings will be accumulated and distributed in the future years.

The profit distribution plan will be implemented with the approval in the 2011 annual general meeting.

REPORT OF THE BOARD OF DIRECTORS

(III) Dividend information of last three years

Unit: RMB

Year	Stock dividend for each ten shares (share)	Cash dividend for each ten shares (tax-included)	Conversion for each ten shares (share)	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 (%)
2008	–	4.5	–	222,604,911.00	775,502,512.86	28.70
2009	–	2.8	–	138,509,722.40	512,728,580.60	27.01
2010	–	1	3	49,467,758.00	729,397,776.60	6.78

VII. OTHER INFORMATION

Financial summary

A summary of the results, assets and liabilities of the Group for the last several financial years are set out from page 6 to page 7 in the annual report.

Results and profit distribution

The results and profit distribution of the Group for the year ended December 31, 2011 are set out in consolidated income statement on page 61 and consolidated statement of changes in equity on page 65 in the annual report.

Reserves

The changes to the reserves of the Group are set out in notes 5.38 to 5.40 to the financial statements from page 121 to page 122 in the annual report.

Fixed assets

As at December 31, 2011 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 are set out in note 5.12 and note 5.13 on page 102 and page 104 respectively in the annual report.

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group as at December 31, 2011 are set out in note 5.21 on page 110, notes 5.31 to 5.33 from page 115 to page 117 in the annual report.

Contingent liabilities

Up to December 31, 2011, the Group had no significant contingent liabilities.

Significant litigation

Please refer to the annual report in the section "Significant Events Significant Litigation or Arbitration Event".

REPORT OF THE BOARD OF DIRECTORS

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, Shinewing Certified Public Accountants, Limited, the auditor 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, 2011, 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".

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, 2011.

Financial Report Auditors

The financial statements of A share and H share for the year ended December 31, 2011 have been audited by ShineWing Certified Public Accountants, Limited. It shall retired and, being eligible, offer itself for re-appointment at the upcoming annual general meeting. 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 of the annual report.

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
Chen Jingqi
Chairman

Guangzhou, March 29, 2012

REPORT OF THE SUPERVISORY COMMITTEE

The seventh term of the Supervisory Committee of the Company has pleasure to present the 2011 Report of the Supervisory Committee for review and would like to extend our best wishes to every shareholder.

I. INFORMATION ABOUT THE 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 in accordance with the Company Law of the People's Republic of China, the Articles of Association of the Company and the Rules of Proceeding for the Supervisory Committee and faithfully performing its supervising duties within its scope of powers and duties as prescribed by the Company Law and the Articles of Association. During the period under review, with the support of shareholders, the 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 of Association, the members of Supervisory Committee attended general meetings, and attended the meetings of the Board of Directors, meetings of the general managers and other relevant meetings as a observers. Supervisory Committee has obtained the information of significant events and decisions of the Company timely, and exercised its supervising power during the decision-making of significant events. According to relevant regulations, internal supervisors reviewed the draft periodic reports, and at the same time the Supervisory Committee has obtained timely information of the asset and finance through the relevant information and reports provided by related administrative departments, which created favourable conditions for Supervisory Committee to perform its duties. In attending the meetings of the Board, the Supervisors Committee issued their views and suggestions based on the special matters discussed in the meeting for the the Board reference, and the directors and senior management released their opinion according to the supervisors' views and suggestions for explanation and reply.

According to the information disclosure above, it 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) Change of new term of supervisor Committee

The tenure of sixth term of Supervisor Committee was expired in May 2011. In accordance with the relevant provisions of the Articles of Association, taking into account of the actual circumstances and after sufficient study and discussion, the Supervisory Committee recommended the supervisor's candidates of seventh term supervisor committee to the general meeting for shareholders' consideration. The relevant resolutions were made at the twelfth meeting of the sixth term of the Supervisory Committee, and submitted to the general meeting for consideration and were approval.

(III) Participating in the internal control construction

In the year 2011, the Supervisor Committee monitored the construction and implement of the internal control by the way of participating in improving the internal control. The Company formulated and/or revised the internal control regulations such as "Rules of Internal Control System", "Internal Control Manual", "Internal Control Evaluation Manual", "Connected Transactions Internal Control Regulation", "the Insider Information Insider Registration System" in accordance with relevant documents issued by the Shanghai Stock Exchange and five ministries such as the ministry of finance. The Supervisor Committee reviewed each of the documents of systems aforementioned and provided proposed modification, supplemental comments and suggestions to the office to the Board and the management of the Company, and which were basically adopted.

REPORT OF THE SUPERVISORY COMMITTEE

(IV) “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. Studied relative documents issued by China Securities Regulatory Commission and Guangdong Securities Regulatory Bureau of the China Securities Regulatory Commission.
2. Studied relative documents issued by Shanghai Stock Exchange.
3. Studied relative special report published in China Securities Journal, etc.
4. Discussed the operation and production of the Company and communicated related matters.

Through work-day meetings of supervisors, all supervisors of the Company obtained more information of the laws, regulations and requirements and the requirements of the recent policies, and the independent supervisors had obtained the relevant information of the Company timely which facilitated the Supervisory Committee to exercise their policies and discharge their duties.

(V) Special Inspection on Information Disclosure

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 Registration Management System on Personnel with Insider Information, and provided inspection reports and proposals to the office to the Board, executive directors as well as the company secretary, which promoted further standardization of information disclosure management of the Company.

(VI) Coordination of Supervision on the Company

To impose the coordination on the internal supervision organizations, the Supervisory Committee conducted research and inspection the following items on the branch of the Company, Shunde Shipyard, jointly with Disciplinary Inspection Committee of the Company: The establishment and implementation of “decision-making on important issue, dismissal of cadres in important positions, decision-making on investment in important projects, and utilization of large-value funds” system, honesty education, internal control establishment, sub-contract coordination, appointment of agency institutions, as well as production management, development and the existed problems of Shunde Shipyard jointly with Disciplinary Inspection Committee of the Company.

II. THE INFORMATION MEETINGS SUPERVISORY COMMITTEE

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

1. The twelfth meeting of the sixth term of the Supervisory Committee was held on March 29, 2011 in the Company. All five supervisors attended the meeting. The resolutions passed at the meeting are as follows:–
 - 1) Approved the 2010 Report of Supervisory Committee, and submitted the same to the 2010 annual general meeting for consideration.
 - 2) Approved the 2010 Annual Report of the Company and provided written inspection comments in relation thereto.
 - 3) Approved to recommend Messrs. Ou Guangquan, Fu Xiaosi and Richard Z Zhu as supervisor’s candidates for the next term to the annual general meeting, and submitted the same to the 2010 annual general meeting for consideration.

REPORT OF THE SUPERVISORY COMMITTEE

2. The thirteenth meeting of the sixth term of the Supervisory Committee was held on April 21, 2011 in the Company. All five supervisors attended the meeting and approved the First Quarterly Report of 2011 and provided written inspection comments in relation thereto.
3. The first meeting of the seventh term of the Supervisory Committee was held on May 31, 2011 in the Company. All five supervisors attended the meeting and elected Mr. Ou Guangquan as the chairman of the seventh term of Supervisor Committee of the Company.
4. The second meeting of the seventh term of the Supervisory Committee was held on August 23, 2011 in the Company. All five supervisors attended the meeting. The resolutions passed at the meeting are as follows:–
 - (1) Approved the Board's resolution on making a provision for impairment losses with an amount of RMB 179,518,000.00 approximately on shipbuilding orders.
 - (2) Approved the Interim Report of 2011 and provided written inspection comments.
5. The third meeting of the seventh term of the Supervisory Committee was held on October 27, 2011 in the Company. All five supervisors attended the meeting. The resolutions passed at the meeting are as follows:–
 - (1) Approved the Board's resolution on making a provision for impairment losses with an amount of RMB49,800,486.88 on the 50,000dwt bulk-carrier shipbuilding orders of Shenzhen Ocean Shipping Company Limited.
 - (2) Approved the Third Quarterly Report of 2011 and provided written inspection comments.

III. SUPERVISORY COMMITTEE'S INDEPENDENT OPINION ON 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 has established the necessary internal control system, and appointed Shinewing Certified Public Accountant Company Limited to audit the validity of internal control of the Company and issued an audited report according to "The Basic Principles for Enterprise Internal Control " and "Guides to Enterprise Internal Control" issued by Ministry of Finance, China Securities Regulatory Commission, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission. The Company's internal control was executed in good condition. The Supervisor Committee had reviewed the self assessment report on the internal control issued by the Board, and had no contrary view.

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 Board of Directors and its members, manager 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 employees.

REPORT OF THE SUPERVISORY COMMITTEE

In 2011, the external business environment is extremely complex, and the shipping market touched bottom for the second time, the price of ship fell sharply, so that it was difficult to secure shipbuilding contracts. The Board of Directors, senior management and all staff integrated shipbuilding resources, adjusted product structure, promoted strategy of heavy machinery, strengthened the research & development of high-tech ship with efforts jointly, so that the Company reached its new high record in shipbuilding value and obtained operating order for the construction of 12 vessels with a total tonnage of 477,300 tons, which provided strong security for the orders secured and continuity of shipbuilding and improve market competitiveness and ability of the Company to resist risk 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 report for the year 2011 before the submission of them to annual general meeting for consideration in accordance with the Company Law and the Articles of Association of the Company, and was of the view that the financial records met the requirements of PRC Accounting Standards and Regulations, accurately reflected the financial position and business results of the Company.

The Supervisory Committee also consented to the 2011 Annual Report and the profit distribution proposal for the year of 2011.

ShineWing Certified Public Accountants, Ltd. which was appointed to audit the financial report of the Company for the year 2011, have presented their audit reports without any qualifications.

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

On behalf of the Supervisory Committee
Guangzhou Shipyard International Company Limited
Ou Guangquan
Chairman

Guangzhou, March 29, 2012

SIGNIFICANT EVENTS

I. SIGNIFICANT LITIGATION OR ARBITRATION EVENT

On December 31, 2010, the Company and its subsidiary Guangzhou Guangli Shipbuilding Human Resource Service Company Limited ("Guangli Company") filed four suits to Zhenjiang Intermediate People's Court of Jiangsu Province ("Zhenjiang Intermediate Court") and sued Jiangsu Shenghua Shipbuilding Company Limited ("Jiangsu Shenghua") in the return of properties case, technical services contract dispute case and the installation projects contract in relation to 79,600dwt Bulk-Carrier 1# and 2# Vessel Dispute Cases respectively (For more details please refer to significant litigation or arbitration event of significant events in annual report 2010 and interim report 2011). As at December 31, 2011, after the Wuhan Marine Court, Jiangsu Shenghua has returned all materials and equipments. For the other three suits, the Company had applied Wuhan Marine Court for compulsory execution after the mediation by the Wuhan Marine Court and Wuhan Marine Court continued the close down of to the mortgaged properties of Jiangsu Shenghua pending valuating and proceeding to assess and auction.

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

II. BANKRUPTCY OR REORGANIZATION EVENT

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

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

Unit:RMB

Stock Code	Abbreviation	Initial investment cost	Proportion in the interest of the listed company (%)	Book value as at December 31, 2011	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	206,628,805.50	-	-13,908,712.35	Available-for-sale financial assets	Purchasing
601872	Merchants Energy Shipping	37,100,000.00	0.29	28,900,000.00	-	-10,370,000.00	Available-for-sale financial assets	Purchasing
Total	-	64,583,602.50	-	235,528,805.50	-	-24,278,712.35	-	-

IV. PROPERTY AND INTEREST TRANSFER

- As approved by the thirteenth meeting of the sixth term of the 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 at a price not less than the assessment value of RMB40,442,500. The property which belonged to GZITIC for the debt it owed to the Company. For more details please refer to Annual Report 2010. During the period under review, the Company confirmed that gross profit was RMB42,000,000 and the cost was RMB41,450,000 and the trading margin is RMB550,000. The Company wrote off the impairment loss provision, which was for the property, amounting to RMB15,489,400 according to Accounting Standard and Regulations for Enterprises.
- As approved by the second meeting of the seventh term of the Board, the Company signed the compensation agreements for demolition with the Heshan Weili Real Estate Development Company Limited, for the demolition of four sets of villas located at Baodao Village, Shaping Town, Heshan City of Guangdong Province at the evaluation price of RMB5,385,000.00. As at the disclosure of the annual report, the Company has received the first installment of RMB540,000.

SIGNIFICANT EVENTS

Apart from above-mentioned and the connected transaction of sale of real estate stated in “Significant Connected Transactions” in this section, there were no property or interest transfers during the period under review.

V. THE IMPLEMENTATION OF EQUITY INCENTIVE AND ITS IMPACT

The Company does not implement any 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 6 related parties and related party transactions to the financial statements prepared under PRC Enterprise Accountant Standards and Regulations.

1. Continuing connected transactions

Unit: RMB

No.	Content and category	The cap amount approved by general meeting	Actual transaction amount	Proportion in the same type of transactions	Pricing basis
1	Products and services provided by the Company to CSSC Group				
1.1	Electrical and mechanical engineering equipment and metallic materials	299,750,000.00	42,870,245.59	0.52	Market price or agreed price
1.2	Utilities	5,500,000.00	1,860,785.14	0.02	Cost plus management fee
1.3	Labor supply, design and technology services	260,980,000.00	176,044,215.98	2.12	Not less than the price to the third parties
2	Products and services provided by the CSSC Group to the Company				
2.1	Electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	1,409,910,000.00	638,938,477.83	12.59	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	294,010,000.00	121,017,398.62	2.39	Cost plus management fee or market price
2.3	Deposits	500,000,000.00	490,788,535.33	7.12	Interest rate on deposits published by the People’s Bank of China
2.4	Interest on deposits	10,000,000.00	8,682,033.04	4.61	Interest rate on deposits published by the People’s Bank of China
2.5	Loans	500,000,000.00	–	–	
2.6	Interest on loans	30,000,000.00	–	–	
2.7	Highest guarantee	2,500,000,000.00	–	–	Agreed fee, not more than the price offered by the third independent parties
2.8	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
2.9	Total sales agency fees paid by the Group to the CSSC Group	69,850,000.00	38,152,241.90	46.08	Not more than 1% of contract price in accordance with international practice
2.10	Total purchases agency fees paid by the Group to the CSSC Group	17,600,000.00	3,769,375.19	0.05	1% to 2% of contract price in accordance with international practice

SIGNIFICANT EVENTS

Since incorporation of the Company, the Company 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. The Framework Agreement allows the Group to leverage the reputation and bargaining power of the CSSC Group to provide a steady source of materials, labor, design and technology service resources, and such transactions are with flexibilities.

2. Comprehensive Service Contract

The Company and Guangzhou Shipyard Company Limited (“Guangzhou Shipyard”) entered into a comprehensive services contract (the “2008 Contract”) on October 28, 2008. Pursuant to the 2008 Contract, Guangzhou Shipyard agreed to provide the Group, the employees and their family members with medical services, catering services, infant care and nursery, training programs for skilled technical workers and management of staff quarters. 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 2011 was RMB7,721,384.91.

3. Connected transactions of non-operating credits or debts

Unit: RMB

Connected Party	Relationship	Fund provided to connected parties		Fund provided by connected parties	
		Amount	Balance	Amount	Balance
Guangzhou Shipyard Co., Ltd.	Controlled by the same parent company	–	–	13,751,508	14,210.00
Reason for the credit/debt	Business need				
Settlement situation	Normal				
Relevant commitments	Not applicable				

The impact on the operating results and financial position of the Company: No significant impact on the operating results and financial position of the Company

4. Funds appropriated and refund by connected parties in 2011

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

5. Acquisition or sale of assets constituting connected transactions

As approved by the twenty-fourth meeting of the sixth term of the Board of Directors, the Company entered into the Equity Transfer Contract with Guangzhou CSSC Huangpu Shipyard Limited Company, a wholly owned subsidiary of CSSC, on February 15, 2011, to purchase the 24% equity in Guangzhou Masterwood Shipbuilding Co., Ltd. (“Masterwood”) held by Guangzhou CSSC Huangpu Shipyard Limited Company, at appraised value of 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 completed.

6. Others

The auditors and directors including four independent non-executive directors have reviewed the transactions and confirm that such transactions have been entered into in the ordinary and usual course of business of the Company, on normal commercial terms, 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) Since there had been delay in the vessels under construction by Jiangsu Shenghua Shipbuilding Company Limited ("Jiangsu Shenghua"), Jiangsu Shenghua cannot ensure that the dry dock can be delivered to the Company for use on schedule in accordance with the Assets Lease Contract and Jiangsu Shenghua 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. To ensure the shipbuilding projects constructed in Jiangsu Shenghua originally, after negotiation with Jiangsu Shenghua, the Company sent a letter in reply to Jiangsu Shenghua on 25 February 2011 that 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.

With respect to the vessels to be constructed at Jiangsu Shenghua originally, the construction of which 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 on February 28, 2011).

- (2) The Company and Jiangsu Qidong Daoda Heavy Industry Co., Ltd., ("Qidong Daoda") entered into a subcontract on the Construction of Holland 50,000dwt Semi-submerged Vessels, to subcontract partial construction of two semi-submerged vessels which were secured in 2010 on January 28, 2011.
- (3) In November 2011, the Company and A/S Dampskibsselskabet TORM Shipping Company ("TORM"), which is a Danish company, cancelled the construction contract of the Company for one vessels after friendly consultations, and TORM will compensate for the losses.
- (4) As approved by the third meeting of the seventh term of the Board of Directors, the Company and Guangzhou Shipyard Company Limited entered into a comprehensive services contract for 2012 to 2014 on November 23, 2011 (For more details please refer to the announcement issued on November 23, 2011).

Except for disclosed above, the Company does not have any entrust, contract or material lease and does not have 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 material 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 has not changed auditors, for more details please refer to the sub-section "Auditors" in the section "Control Mechanisms" of "Corporate Governance Report" in this annual report.

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 inquiry, administrative penalty or criticism through communication by China Securities Regulatory Commission nor public criticism by any stock exchange on the Company, its directors, supervisors, senior management, controlling shareholders and actual controller.

SIGNIFICANT EVENTS

XI. OTHER SIGNIFICANT EVENTS

During the period under review, in accordance with the strategy and development plan, production and operation condition, organizational structure, operation actual situation, and as approved by the second meeting of the seventh term of the Board of Director held on August 23, 2011, the Company merged Shipbuilding Division I and Shipbuilding Division II into Shipbuilding Division to integrate the shipbuilding resources, optimize the production process and promote the evolutions of shipbuilding mode.

AUDITORS' REPORT



信永中和會計師事務所

ShineWing
certified public accountants

北京市東城區朝陽門北大街
8號富華大廈A座9層

9/F, Block A, Fu Hua Mansion,
No. 8, Chaoyangmen Beidajie,
DongCheng District, Beijing,
100027, P.R. China

聯繫電話： +86 (010) 6554 2288
telephone: +86 (010) 6554 2288

傳真： +86 (010) 6554 7190
facsimile: +86 (010) 6554 7190

XYZH/2011A9037

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 31 December 2011, and the consolidated and the Company's income statement, the consolidated and the Company's cash flow statement, and the consolidated and the Company's statement of changes in equity for the year then ended, and other explanatory notes.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the presentation of these financial statements in accordance with Accounting Standards of Business Enterprises. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation 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.

2. AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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.

3. OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Company as of 31 December 2011 and of their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

SHINEWING CPA Limited

Certified Public Accountant:

Chen Gang

Certified Public Accountant:

Zhao Xueping

Beijing, PRC

29 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

Unit: RMB

	Notes	2011/12/31	2010/12/31
Current assets:			
Cash and cash equivalents	5.1	6,562,746,466.84	7,216,518,560.26
Financial assets held-for-trading	5.2	20,229,536.04	21,227,664.57
Notes receivables	5.3	560,000.00	106,957,384.82
Trade receivables	5.4	736,726,644.10	237,930,326.60
Prepayment	5.5	503,943,783.02	449,624,444.18
Interest receivables	5.6	104,002,627.67	62,875,756.88
Dividend receivables	5.7	–	5,477,728.60
Other receivables	5.8	124,187,542.08	289,882,991.10
Inventories	5.9	1,514,217,309.31	1,655,565,039.07
Current portion of non-current assets			
Other current assets			
Total current assets		9,566,613,909.06	10,046,059,896.08
Non-current assets:			
Available-for-sale financial assets	5.10	238,228,805.50	266,791,996.50
Held-to-maturity investment			
Long-term receivable			
Long-term equity investment	5.11	45,790,860.01	41,588,714.23
Investment properties	5.12	31,070,557.34	72,237,906.35
Fixed assets	5.13	1,274,317,899.38	1,259,696,577.69
Construction-in-progress	5.14	281,562,964.86	146,308,227.80
Project material			
Liquidation of fixed assets	5.15	5,044,668.76	261,149.08
Intangible assets	5.16	367,605,252.58	302,439,392.03
Development cost	5.17		
Goodwill			
Long-term deferred expenses	5.18	5,826,441.06	–
Deferred tax assets	5.19	69,448,011.72	22,068,135.62
Other non-current assets			
Total non-current assets		2,318,895,461.21	2,111,392,099.30
Total assets		11,885,509,370.27	12,157,451,995.38

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

Unit: RMB

	Notes	2011/12/31	2010/12/31
Current liabilities:			
Short-term borrowings	5.21	1,170,288,811.35	1,837,321,454.75
Financial liabilities held-for-trading	5.22	1,159,935.94	–
Notes payables	5.23	688,987,230.48	697,610,318.88
Trade payables	5.24	1,356,264,732.15	1,186,424,869.96
Advances from customers	5.25	341,947,140.04	266,538,440.94
Accrued salaries	5.26	19,564,521.68	40,603,732.05
Tax payables	5.27	48,106,774.49	115,298,251.35
Interest payables	5.28	23,593,106.60	13,720,941.14
Dividend payables	5.29	157,912.98	67,601.63
Others payables	5.30	27,290,727.01	70,484,717.41
Current portion of long-term liabilities	5.31	593,796,816.00	–
Other current liabilities	5.32	2,037,044,941.97	3,295,814,462.46
Total current liabilities		6,308,202,650.69	7,523,884,790.57
Non-current liabilities:			
Long-term borrowings	5.33	1,081,390,350.04	624,123,248.00
Bonds payables			
Long-term payables			
Special purpose payables	5.34	24,570,000.00	24,570,000.00
Estimated liabilities	5.35	195,155,923.71	163,616,041.97
Deferred tax liabilities	5.19	29,209,000.83	33,125,408.77
Other non-current liabilities	5.36	46,207,222.94	34,205,906.94
Total non-current liabilities		1,376,532,497.52	879,640,605.68
Total liabilities		7,684,735,148.21	8,403,525,396.25
Equity:			
Share capital	5.37	643,080,854.00	494,677,580.00
Capital reserve	5.38	648,953,361.73	821,635,348.08
Less: Treasury stock			
Surplus reserves	5.39	426,330,896.18	377,234,714.40
General risk provisions			
Undistributed profit	5.40	2,389,241,266.41	1,969,471,836.12
Translation difference			
Attributable to parent company		4,107,606,378.32	3,663,019,478.60
Non-controlling interest	5.41	93,167,843.74	90,907,120.53
Total equity		4,200,774,222.06	3,753,926,599.13
Total liabilities and equity		11,885,509,370.27	12,157,451,995.38

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2011

Unit: RMB

	Notes	2011/12/31	2010/12/31
Current assets:			
Cash and cash equivalents		6,322,998,008.95	6,983,146,586.93
Financial assets held-for-trading		20,229,536.04	21,227,664.57
Notes receivables		560,000.00	104,596,923.02
Trade receivables	13.1	720,532,379.23	326,215,971.20
Prepayment		527,042,274.34	487,856,028.96
Interest receivables		104,213,877.58	62,804,749.78
Dividend receivables		–	677,728.60
Other receivables	13.2	584,652,005.96	480,364,813.78
Inventories		1,384,554,827.41	1,409,922,126.83
Total current assets		9,664,782,909.51	9,876,812,593.67
Non-current assets:			
Available-for-sale financial assets		238,228,805.50	266,791,996.50
Held-to-maturity investment		–	–
Long-term receivable		–	–
Long-term equity investment	13.3	388,068,280.04	386,398,449.75
Investment properties		31,070,557.34	72,237,906.35
Fixed assets		1,023,650,443.02	1,024,218,394.25
Construction-in-progress		68,054,328.49	65,714,312.84
Project material		–	–
Liquidation of fixed assets		252,871.05	261,149.08
Biological assets		–	–
Oil and gas assets		–	–
Intangible assets		71,045,901.04	76,987,132.29
Development cost		–	–
Goodwill		–	–
Long-term deferred expenses		5,826,441.06	–
Deferred tax assets		61,969,896.30	20,606,233.59
Other non-current assets		–	–
Total non-current assets		1,888,167,523.84	1,913,215,574.65
Total assets		11,552,950,433.35	11,790,028,168.32

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

As at 31 December 2011

Unit: RMB

	Notes	2011/12/31	2010/12/31
Current liabilities:			
Short-term borrowings		1,076,807,503.21	1,778,679,511.00
Financial liabilities held-for-trading		1,159,935.94	–
Notes payables		688,987,230.48	697,610,318.88
Trade payables		1,350,663,840.58	1,182,268,267.83
Advances from customers		333,586,969.11	151,335,572.95
Accrued salaries		9,295,358.19	35,531,310.75
Tax payables		45,025,926.39	116,235,225.70
Interest payables		23,593,106.60	13,720,941.14
Dividend payables		157,912.98	67,601.63
Others payables		22,723,422.22	60,277,070.98
Current portion of long-term liabilities		593,796,816.00	–
Other current liabilities		2,037,044,941.97	3,296,158,939.42
Total current liabilities		6,182,842,963.67	7,331,884,760.28
Non-current liabilities:			
Long-term borrowings		1,081,390,350.04	624,123,248.00
Bonds payables		–	–
Long-term payables		–	–
Special purpose payables		24,570,000.00	24,570,000.00
Estimated Liabilities		195,155,923.71	163,616,041.97
Deferred tax liabilities		28,517,220.46	33,125,408.77
Other non-current liabilities		43,755,825.69	33,205,906.94
Total non-current liabilities		1,373,389,319.90	878,640,605.68
Total liabilities		7,556,232,283.57	8,210,525,365.96
Equity:			
Share capital		643,080,854.00	494,677,580.00
Capital reserve		648,953,361.73	821,635,348.08
Less: Treasury stock		–	–
Special reserve		–	–
Surplus reserves		425,155,084.01	376,058,902.23
General risk provisions		–	–
Undistributed profit		2,279,528,850.04	1,887,130,972.05
Total equity		3,996,718,149.78	3,579,502,802.36
Total liabilities and equity		11,552,950,433.35	11,790,028,168.32

CONSOLIDATED INCOME STATEMENT

31 December 2011

Unit: RMB

Item	Notes	2011/12/31	2010/12/31
1. Total revenue		8,296,431,347.84	7,014,224,669.01
Incl: Revenue	5.42	8,296,431,347.84	7,014,224,669.01
2. Total cost of sales		-7,949,745,459.36	-6,451,036,437.00
Incl: Cost of sales	5.42	7,369,720,001.85	6,076,916,959.00
Taxes and levies on operations	5.43	48,434,977.29	30,710,391.51
Selling and marketing expenses	5.44	25,824,677.79	58,775,317.66
General and administrative expenses	5.45	402,918,826.01	418,346,698.76
Financial expenses	5.46	-238,565,286.18	-150,649,702.95
Impairment loss on assets	5.47	341,412,262.60	16,936,773.02
Loss on changes in fair value ("—" representing loss)	5.48	-2,158,064.47	-42,732,189.17
Investment income ("—" representing loss)	5.49	49,238,565.61	83,417,015.04
Incl: Share of profit in associates and jointly controlled entities		4,202,145.78	5,186,833.93
Exchange gains ("—" representing loss)			
3. Profit from operation ("—" representing loss)		393,766,389.62	603,873,057.88
Plus: Non-operating profits	5.50	214,758,184.20	239,117,418.11
Less: Cost of non-operating profits	5.51	1,933,308.68	7,743,039.36
Incl: Loss on disposal of non-current assets		395,641.94	1,826,631.37
4. Total profit ("—" representing total loss)		606,591,265.14	835,247,436.63
Less: Income tax	5.52	84,002,690.86	124,742,889.51
5. Net profit ("—" representing net loss)		522,588,574.28	710,504,547.12
Net profit attributable to the parent company		518,333,370.07	707,736,792.53
Non-controlling interest		4,255,204.21	2,767,754.59
6. Earnings per share:			
(a) Basic earnings per share	5.53	0.810	1.100
(b) Diluted earnings per share	5.53	0.810	1.100
7. Other comprehensive income	5.55	-24,278,712.35	-75,047,950.09
8. Total comprehensive income		498,309,861.93	635,456,597.03
Total comprehensive income attributable to the parent company		494,054,657.72	632,688,842.44
Non-controlling interest		4,255,204.21	2,767,754.59

INCOME STATEMENT OF THE COMPANY

For the year ended 31 December 2011

Unit: RMB

Item	Notes	2011/12/31	2010/12/31
1. Revenue	13.4	7,591,713,889.21	6,680,304,548.95
Cost of sales	13.4	6,799,565,081.26	5,790,791,584.48
Taxes and levies on operations		37,693,119.46	23,611,617.53
Selling and marketing expenses		17,460,767.17	54,036,140.67
General and administrative expenses		324,710,239.55	361,404,449.35
Financial expenses		-244,853,582.91	-156,793,549.03
Impairment loss on assets		336,637,379.01	15,712,875.37
Fair value loss on available-for-sale financial assets ("—" representing loss)		-2,158,064.47	-33,475,189.25
Investment income ("—" representing loss)	13.5	45,522,569.12	67,679,281.97
Incl: Share of profit in associates and jointly controlled entities		475,349.29	695,781.05
2. Profit from operation ("—" representing loss)		363,865,390.32	625,745,523.30
Non-operating profits		210,104,096.32	233,595,141.01
Cost of non-operating profits		1,300,917.29	7,537,591.53
Incl: Loss on disposal of non-current assets		252,742.15	1,752,905.66
3. Total profit ("—" representing total loss)		572,668,569.35	851,803,072.78
Less: Income tax expenses		81,706,751.58	122,405,296.18
4. Net profit ("—" representing net loss)		490,961,817.77	729,397,776.60
5. Earnings per share			
(a) Basic earnings per share			
(b) Diluted earnings per share			
6. Other comprehensive income		-24,278,712.35	-75,047,950.09
7. Total comprehensive income		466,683,105.42	654,349,826.51

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

Unit: RMB

Item	Notes	2011/12/31	2010/12/31
1. Cash flows from operating activities:			
Cash received from the sale of goods or rendering of services		7,359,068,984.59	8,231,616,597.27
Refunds of taxes		283,373,050.89	332,433,428.06
Other cash receipts relating to operating activities	5.56	364,466,999.52	185,001,170.96
Sub-total of cash inflows from operating activities		8,006,909,035.00	8,749,051,196.29
Cash paid for goods and services		7,619,151,536.79	6,374,635,179.12
Cash paid to and on behalf of employees		1,028,927,913.46	856,540,540.36
Payments of all types of taxes		296,618,194.08	216,676,805.30
Other cash payments relating to operating activities	5.56	244,771,366.66	262,313,212.73
Sub-total of cash outflows from operating activities		9,189,469,010.99	7,710,165,737.51
Net cash (used in) flows from operating activities		-1,182,559,975.99	1,038,885,458.78
2. Cash flows from investing activities:			
Cash received from disposal of investment		–	–
Cash received from return on investments		50,037,617.53	77,401,008.13
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		2,474,459.23	41,907,598.39
Net cash received from disposal of subsidiaries and operations		–	–
Proceeds from other investing activities		158,948,775.60	155,644,874.62
Sub-total of cash inflows from investing activities	5.56	211,460,852.36	274,953,481.14
Payments for fixed assets, intangible assets and other long-term assets		332,780,318.16	157,195,641.85
Payments for investments		1,994,481.00	17,723,452.50
Net cash paid for acquiring subsidiaries and operations		–	–
Payments for other investing activities	5.56	1,414,124,301.01	1,157,694,170.16
Sub-total of cash outflows from investing activities		1,748,899,100.17	1,332,613,264.51
Net cash used in investing activities		-1,537,438,247.81	-1,057,659,783.37
3. Cash flows from financing activities:			
Proceeds from capital contributions		–	800,000.00
Incl: Proceeds from capital contributions from Non-controlling interests		–	–
Proceeds from borrowings		3,321,644,842.55	2,914,288,537.73
Proceeds from issuance of bonds		–	–
Other proceeds relating to financing activities		–	–
Sub-total of cash inflows from financing activities		3,321,644,842.55	2,915,088,537.73
Repayments of borrowings		2,531,970,291.94	2,101,585,939.45
Distribution of dividends or profits and interests payments		106,108,667.92	165,053,997.89
Incl: Dividend and profits paid to Non-controlling interest		–	–
Payments for other financing activities	5.56	62,472.85	2,886,612.43
Sub-total of cash outflows from financing activities		2,638,141,432.71	2,269,526,549.77
Net cash flows from financing activities		683,503,409.84	645,561,987.96
4. Effect of exchange rate changes on cash		-7,382,809.29	-3,219,669.51
5. Net (decrease) increase in cash and cash equivalents		-2,043,877,623.25	623,567,993.86
Add: Cash and cash equivalents at the beginning of the year		5,003,896,203.36	4,380,328,209.50
6. Cash and cash equivalents at the end of the year		2,960,018,580.11	5,003,896,203.36

STATEMENT OF CASH FLOWS OF THE COMPANY

For the year ended 31 December 2011

Unit: RMB

Item	Note	2011	2010
1. Cash flow from operating activities:			
Cash received from the sale of goods or rendering of services		6,763,806,958.36	6,561,234,464.71
Refunds of taxes		278,028,378.76	327,406,670.21
Other cash receipts relating to operating activities		310,520,867.52	78,836,553.67
Sub-total of cash inflows from operating activities		7,352,356,204.64	6,967,477,688.59
Cash paid for goods and services		7,475,244,104.40	5,220,435,908.01
Cash paid to and on behalf of employees		476,381,401.56	397,464,564.86
Payments of all types of taxes		229,657,576.36	167,083,490.67
Other cash payments relating to operating activities		418,402,404.50	210,499,701.83
Sub-total of cash outflows from operating activities		8,599,685,486.82	5,995,483,665.37
Net cash (used in) flows from operating activities		-1,247,329,282.18	971,994,023.22
2. Cash flows from investing activities:			
Cash received from disposal of investments		794,130.90	—
Cash received from return on investments		45,717,617.53	79,505,681.95
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		1,355,824.05	41,661,391.00
Net cash received from disposal of subsidiaries and operations		—	—
Proceeds from other investing activities		149,220,849.87	155,307,692.75
Sub-total of cash inflows from investing activities		197,088,422.35	276,474,765.70
Payments for fixed assets, intangible assets and other long-term assets		82,829,241.36	89,390,234.71
Payments for investments		1,994,481.00	54,590,805.33
Net cash paid for acquiring subsidiaries and operations		—	—
Payments for other investing activities		1,384,153,259.00	1,136,193,336.99
Sub-total of cash outflows from investing activities		1,468,976,981.36	1,280,174,377.03
Net cash used in investing activities		-1,271,888,559.01	-1,003,699,611.33
3. Cash flows from financing activities:			
Proceeds from capital contributions from Non-controlling interests		—	—
Proceeds from borrowings		3,029,286,821.12	2,557,923,074.00
Proceeds from issuance of bonds		—	—
Other proceeds relating to financing activities		—	—
Sub-total of cash inflows from financing activities		3,029,286,821.12	2,557,923,074.00
Repayments of borrowings		2,445,022,321.25	1,768,952,970.10
Distribution of dividends or profits and interests payments		104,962,190.27	152,262,089.30
Payments for other financing activities		18,040.42	17,372.83
Sub-total of cash outflows from financing activities		2,550,002,551.94	1,921,232,432.23
Net cash flows from financing activities		479,284,269.18	636,690,641.77
4. Effect of exchange rate changes on cash		-6,362,745.97	-3,053,524.24
5. Net (decrease) increase in cash and cash equivalents		-2,046,296,317.98	601,931,529.42
Add: Cash and cash equivalents at the beginning of the year		4,776,783,586.93	4,174,852,057.51
6. Cash and cash equivalents at the end of the year		2,730,487,268.95	4,776,783,586.93

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

Unit: RMB

Item	Current year						Total equity
	Attributable to owners of the Company					Non-Controlling interest	
	Share capital	Capital reserve	Less: treasury stock	Surplus reserves	Undistributed profit		
1. Closing balance of last year	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
Add: Change in accounting policies	-	-	-	-	-	-	-
Prior period errors adjustment	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
2. Opening balance of the current 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
3. Change in the current period ("-" representing decrease)	148,403,274.00	-172,681,986.35	-	49,096,181.78	419,769,430.29	2,260,723.21	446,847,622.93
a) Net profit	-	-	-	-	518,333,370.07	4,255,204.21	522,588,574.28
b) Other comprehensive profit	-	-24,278,712.35	-	-	-	-	-24,278,712.35
subtotal a) and b)	-	-24,278,712.35	-	-	518,333,370.07	4,255,204.21	498,309,861.93
c) Capital added and reduced by owners	-	-	-	-	-	-1,994,481.00	-1,994,481.00
i) Paid-in capital	-	-	-	-	-	-1,994,481.00	-1,994,481.00
ii) Shares paid included in the owners' equity	-	-	-	-	-	-	-
iii) Others	-	-	-	-	-	-	-
d) Profit distribution	-	-	-	49,096,181.78	-98,563,939.78	-	-49,467,758.00
i) Surplus reserves	-	-	-	49,096,181.78	-49,096,181.78	-	-
ii) General risk provisions	-	-	-	-	-	-	-
iii) Distribution to owners	-	-	-	-	-49,467,758.00	-	-49,467,758.00
iv) Others	-	-	-	-	-	-	-
e) Internal transfer of owners' equity	148,403,274.00	-148,403,274.00	-	-	-	-	-
i) Capital reserve transferred into capital	148,403,274.00	-148,403,274.00	-	-	-	-	-
ii) Surplus reserves transferred into capital	-	-	-	-	-	-	-
iii) Surplus reserves to make up for losses	-	-	-	-	-	-	-
iv) Others	-	-	-	-	-	-	-
f) Specific reserve	-	-	-	-	-	-	-
i) Current extraction	-	-	-	-	-	-	-
ii) Current use	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-
4. Closing balance of the current period	643,080,854.00	648,953,361.73	-	426,330,896.18	2,389,241,266.41	93,167,843.74	4,200,774,222.06

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

Unit: RMB

Item	Last year						
	Attributable to owners of the Company					Non-Controlling interest	Total equity
	Share capital	Capital reserve	Less: treasury stock	Surplus reserves	Undistributed profit		
1. Closing balance of last year	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: Change in accounting policies	-	-	-	-	-	-	-
Prior period errors adjustment	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
2. Opening balance of the current 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
3. Change in the current period ("-" representing decrease)	-	-75,047,950.09	-	72,937,972.40	496,289,097.73	2,767,754.59	496,946,874.63
a) Net profit	-	-	-	-	707,736,792.53	2,767,754.59	710,504,547.12
b) Other comprehensive profit	-	-75,047,950.09	-	-	-	-	-75,047,950.09
subtotal a) and b)	-	-75,047,950.09	-	-	707,736,792.53	2,767,754.59	635,456,597.03
c) Capital added and reduced by owners	-	-	-	-	-	-	-
i) Paid-in capital	-	-	-	-	-	-	-
ii) Shares paid included in the owners' equity	-	-	-	-	-	-	-
iii) Others	-	-	-	-	-	-	-
d) Profit distribution	-	-	-	72,937,972.40	-211,447,694.80	-	-138,509,722.40
i) Surplus reserves	-	-	-	72,937,972.40	-72,937,972.40	-	-
ii) General risk provisions	-	-	-	-	-	-	-
iii) Distribution to owners	-	-	-	-	-138,509,722.40	-	-138,509,722.40
iv) Others	-	-	-	-	-	-	-
e) Internal transfer of owners' equity	-	-	-	-	-	-	-
i) Capital reserve transferred into capital	-	-	-	-	-	-	-
ii) Surplus reserves transferred into capital	-	-	-	-	-	-	-
iii) Surplus reserves to make up for losses	-	-	-	-	-	-	-
iv) Others	-	-	-	-	-	-	-
f) Specific reserve	-	-	-	-	-	-	-
i) Current extraction	-	-	-	-	-	-	-
ii) Current use	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-
4. Closing balance of the current 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

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

For the year ended 31 December 2011

Unit: RMB

Item	Current year					
	Share capital	Capital reserve	Less: treasury stock	Surplus reserves	Undistributed profit	Total equity
1. Closing balance of last year	494,677,580.00	821,635,348.08	-	376,058,902.23	1,887,130,972.05	3,579,502,802.36
Add: Change in accounting policies	-	-	-	-	-	-
Prior period errors adjustment	-	-	-	-	-	-
Others	-	-	-	-	-	-
2. Opening balance of the current period	496,677,580.00	821,635,348.08	-	376,058,902.23	1,887,130,972.05	3,579,502,802.36
3. Change in the current period ("-" representing decrease)	148,403,274.00	-172,681,986.35	-	49,096,181.78	392,397,877.99	417,215,347.42
a) Net profit	-	-	-	-	490,961,817.77	490,961,817.77
b) Other comprehensive profit	-	-24,278,712.35	-	-	-	-24,278,712.35
subtotal a) and b)	-	-24,278,712.35	-	-	490,961,817.77	466,683,105.42
c) Capital added and reduced by owners	-	-	-	-	-	-
i) Paid-in capital	-	-	-	-	-	-
ii) Shares paid included in the owners' equity	-	-	-	-	-	-
iii) Others	-	-	-	-	-	-
d) Profit distribution	-	-	-	49,096,181.78	-98,563,939.78	-49,467,758.00
i) Surplus reserves	-	-	-	49,096,181.78	-49,096,181.78	-
ii) General risk provisions	-	-	-	-	-	-
iii) Distribution to owners	-	-	-	-	-49,467,758.00	-49,467,758.00
iv) Others	-	-	-	-	-	-
e) Internal transfer of owners' equity	148,403,274.00	-148,403,274.00	-	-	-	-
i) Capital reserve transferred into capital	148,403,274.00	-148,403,274.00	-	-	-	-
ii) Surplus reserves transferred into capital	-	-	-	-	-	-
iii) Surplus reserves to make up for losses	-	-	-	-	-	-
iv) Others	-	-	-	-	-	-
f) Specific reserve	-	-	-	-	-	-
i) Current extraction	-	-	-	-	-	-
ii) Current use	-	-	-	-	-	-
g) Other	-	-	-	-	-	-
4. Closing balance of the current period	643,080,854.00	648,953,361.73	-	425,155,084.01	2,279,528,850.04	3,996,718,149.78

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

For the year ended 31 December 2011

Unit: RMB

	Last year					
	Share capital	Capital reserve	Less: treasury stock	Surplus reserves	Undistributed profit	Total equity
1. Closing balance of last year	494,677,580.00	896,683,298.17	–	303,120,929.83	1,369,180,890.25	3,063,662,698.25
Add: Change in accounting policies				–		
Prior period errors adjustment				–		
Others				–		
2. Opening balance of the current period	494,677,580.00	896,683,298.17	–	303,120,929.83	1,369,180,890.25	3,063,662,698.25
3. Change in the current period						
(“-” representing decrease)	–	-75,047,950.09	–	72,937,972.40	517,950,081.80	515,840,104.11
a) Net profit				–	729,397,776.60	729,397,776.60
b) Other comprehensive profit subtotal a) and b)	-75,047,950.09	–	–	–	-729,397,776.60	-75,047,950.09
c) Capital added and reduced by owners						
i) Paid-in capital	–	–	–	–	–	–
ii) Shares paid included in the owners' equity	–	–	–	–	–	–
iii) Others	–	–	–	–	–	–
d) Profit distribution						
i) Surplus reserves	–	–	–	72,937,972.40	-211,447,694.80	-138,509,722.40
ii) General risk provisions	–	–	–	72,937,972.40	-72,937,972.40	–
iii) Distribution to owners	–	–	–	–	-138,509,722.40	-138,509,722.40
iv) Others	–	–	–	–	–	–
e) Internal transfer of owners' equity						
i) Capital reserve transferred into capital	–	–	–	–	–	–
ii) Surplus reserves transferred into capital	–	–	–	–	–	–
iii) Surplus reserves to make up for losses	–	–	–	–	–	–
iv) Others	–	–	–	–	–	–
f) Specific reserve						
i) Current extraction	–	–	–	–	–	–
ii) Current use	–	–	–	–	–	–
g) Other						
4. Closing balance of the current period	494,677,580.00	821,635,348.08	–	376,058,902.23	1,887,130,972.05	3,579,502,802.36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BRIEF INTRODUCTION TO THE COMPANY

Guangzhou Shipyard International Company Limited (“the Company”) was reorganised in 1993 from Guangzhou Shipyard, and incorporated in the PRC as a limited liability company. The Company was incorporated on 7 June 1993 and registered in Guangzhou, which was approved by Guojiatigaisheng(1993) Circular 83. The Company changed as a public limited liability company, which was approved by Guojiatigaisheng(1993) Circular 10 on 5 July 1993. Its registered address and principal place of business is No.40, south Fangcun Avenue, Liwan District, Guangzhou.

The Company’s public offering A-shares of 337,279,600 listed on 22 September 1993 was approved by China Securities Regulatory Commission (1993) No.31, China Securities Regulatory Administrator Zheng Jian Fa trial (1993) No.26 and Shanghai Stock Exchange listing application (1993) No.2076. The shares were traded on 28 October 1993. The Company’s public offering H-shares of 157,398,000 listed on 21 July 1993 on Hong Kong Stock Exchange were traded on 6 August 1993 and thereafter, The total amount of company share is 494,677,600.

Pursuant to the Company’s 2010 annual general meeting and revised Articles of Association, the Company applied to increase its registered capital to RMB 148,403,274 and capitalise its capital reserves to increase paid-in capital. The deadline for submitting the documents of transfer of H-shares was 15 July 2011 and the registration date of A-shares was 19 July 2011. The registered capital was therefore increased to RMB 643,080,854.

As at 31 December 2011, the Company’s total amount of company share is 643,080,900, which are all unrestricted shares.

The Company and its subsidiaries (collectively referred to as “the Group”) belong 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 the State-owned Assets Supervision and Administration Commission of the State Council.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

2.1 Basis of financial statements preparation

The financial statements have been prepared on the going concern and accrual basis, and recognised, measured and reported based on actual transactions and events.

The Company had prepared the consolidated financial statements in accordance with the Accounting Standards for Business Enterprises - Basic standard and other specific accounting standards, guidelines and explanations issued on 15 February 2006 and its supplementary rules.

In addition, the financial statements comply with applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2.2 Statement of compliance with accounting standards for business enterprises

The financial statements have been prepared in accordance with the accounting standards for business enterprises, which give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the operating results and cash flows for the year then ended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.3 Accounting period

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

2.4 Functional currency

The consolidated financial statements are prepared in Renminbi (“RMB”).

2.5 Basis of accounting and measurement

Recognition, measurement and reporting are based upon accrual system. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.6 Business combination

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combination divided into enterprises under the common control and not under the same control.

The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. Business combinations in which one entity obtains control of another entity but for which the date of obtaining control (ie the acquisition date) coincide with the date or dates of acquiring an ownership interest (ie the date or dates of exchange).

Business combination involving enterprises under the common control

For a business combination involving enterprises under common control, acquisitions of businesses are accounted for using the acquisition method. 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. The acquiring cost incurred because of receiving services such as auditing, law service, valuation and consultation should be recognised 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. The net of equity securities premium income with the trading cost of equity securities or debt securities shall be adjusted to retained earnings.

Business combinations not under the common control

For a business combination not involving enterprises under common control, it is accounted for using purchase method.

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. Business combinations achieved in stages were accounted for as separate steps. Contingent consideration was recognised if and only if, the contingent consideration was probable and could be measured reliably.

For the enterprises not under the common control, the acquiree’s identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

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 recognised 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 recognise the remaining difference in profit or loss for the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.7 Preparation of consolidated financial statements

The scope of consolidated financial statements is based on control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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. Non-controlling 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 standardise the accounting policies of its subsidiaries so that uniform accounting policies are used.

The consolidated financial statements for a business combination not involving enterprises under common control have been prepared based on the fair values of the identifiable assets, liabilities and contingent liabilities at the date of acquisition and adjusted the individual financial statements. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Adjustments have been made for the consolidated balance sheet and corresponding items in the financial statements. The consolidated financial statements for a business combination involving enterprises under common control have been prepared based on the book values of the identifiable assets, liabilities and contingent liabilities at the beginning of the reporting period.

2.8 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.

2.9 Foreign currency

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 arose from the adjustment should be recognised in the current profit or loss except those that could be capitalised when purchasing or constructing assets. Foreign currency non-monetary item measured at fair value are adjusted in accordance with the spot rate quoted by the People's Bank of China, exchange difference arose from the adjustment should be recognised in the current profit or loss. 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.

2.10 Financial instruments

2.10.1 Types of financial assets and financial liabilities

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), held to maturity financial instruments, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

- (a) Financial assets at FVTPL has two subcategories, including financial assets held for trading and these designated at FVTPL on initial recognition.

Financial assets held for trading refers to the financial assets which are held for short term trading purpose. Unless they are designated as hedging instruments, derivative financial instruments are classified as trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (b) Held to maturity financial instruments refer to the investments which have fixed or determinable recovery amount in the maturity day and management has the positive intention and ability to hold the non-derivative financial assets to maturity.
- (c) Loan and receivables are not quoted in active market, the recoverable amount of non-derivative financial assets with fixed or determinable.
- (d) Available-for-sale financial assets include the initial recognition are designated as available-for-sale are non-derivative financial assets not classified in other classes of financial assets.

The Group's financial liabilities at initial recognition are classified as at fair value through profit or loss financial liabilities and other financial liabilities.

Other financial liabilities comprise non-derivative financial liabilities other than financial liabilities divided by the fair value and its changes through profit or loss.

2.10.2 Financial assets at fair value through profit or loss

Financial assets or financial liabilities of the Group to meet one of the following conditions should be classified as trading financial assets or financial liabilities:

- The main purpose of acquiring the the financial assets or the financial liabilities was to sell or repurchase in the near future;
- Belong to an identifiable part of the portfolio of financial instruments; there is objective evidence that the Group has recently adopted short-term profitability of the portfolio management;
- It is a derivative. However, it is a designated and effective hedging instruments, derivatives, derivatives are financial guarantee contract, investment in equity instruments are not quoted in an active market and whose fair value cannot be reliably measured and which must be through the delivery of the equity instrument except for derivatives.

Financial assets or financial liabilities of the Group fulfilled one of the following conditions, financial assets or financial liabilities designated upon initial recognition as financial assets or financial liabilities at fair value through profit or loss:

- The designation can be eliminated or significantly reduced due to the different basis of measurement of the financial assets or financial liabilities related gains or losses in the measurement or recognition inconsistency;
- The Group's risk management or investment strategy has been stated in a formal written file in the financial asset portfolio, the portfolio of the financial liabilities or financial assets and financial liabilities portfolio, at fair value based management are reported to and evaluated by the key management personnel;
- Hybrid instruments, financial assets or financial liabilities, designated as fair value through profit or loss. However, the following exceptions:
 - (a) Embedded derivatives did not materially change in the cash flow of the hybrid instrument;
 - (b) Similar hybrid instruments embedding derivatives, obviously should not be split from the relevant hybrid instruments.

The Group determines the classification of financial assets and financial liabilities at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 recognised initially at fair value with relevant transaction fees charged to current profit or loss. Considerations that include declared dividends or matured interests are recognised as receivables respectively. Dividends and interest received during the holding period are recognised 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 recognised as investment income, concurrently adjustment made for gain or loss arising from change in fair value.

2.10.3 Classification, recognition and measurement of financial instruments

Derivatives are initially measured at fair value at the date a derivative contract is entered into.

Derivatives are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

2.10.4 Subsequent measurement of financial assets and financial liabilities

The financial assets or financial liabilities of the Group are measured at fair value without deducting the transaction cost of disposing the financial assets or financial liabilities. However, the following exceptions:

- For the held to maturity financial assets, loan payable, trade receivable and others financial liabilities is measured at amortised cost with effective interest rate;
- The financial instruments are not quoted in active market and whose fair value can not be reliably measured investments in equity instruments, as well as the equity instruments and which must be through the delivery of the equity instrument, the derivative financial assets are measured by cost.

The changes in fair value of the Group's financial assets or financial liabilities, other than those related to hedging, are recognised as follows:

- Measured at fair value through profit or loss financial assets or financial liabilities, changes in fair value (excluding accrued interest income and expense) recognise in profit and loss as "profit or loss in fair value change";
- Gain or loss of fair value change of the held-for-sale financial asset, other than the impairment loss and exchange difference, directly recognise in capital reserve, when the financial assets derecognise, the capital reserve will recognise in profit and loss.

2.10.5 Fair value of the financial assets and financial liabilities

The fair value is the amount of fair trade or trading in which all parties trade voluntarily.

To the active market trading financial instrument, the Group quote the fair value of the financial instrument in active trading market without deducting the transaction cost occurred in disposal of the financial instruments. In active market, the fair value of financial instruments of the Group is measured at the current bid price; the fair value of financial instruments which is planned to which is planned to be acquired by the Group is measured at the current asking price. However there is no material change in the economical environment, so the fair value of financial instruments is measure at the quoted market price.

To the non active market trading financial instrument, the Group valuates the financial instrument with the fair value of familiar financial instrument in the current trading price, discounted cash flows method and option pricing model. All the data is quoted in market price as far as possible in evaluating the fair value of the non active market trading financial instrument.

The Group review and test the effectiveness of the valuation method on regular basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.10.6 Derecognition of the financial instrument

The financial assets is derecognise entirely or partially when one of the following conditions are met:

- The contractual rights to cash flows from the financial asset are terminated;
- The most sufficient risk and reward of the financial instrument is transferred, neither no transfer nor retention ownership of the risk and reward of the financial instrument, but the control of the financial instrument has been abandoned.

Current obligations of the financial liabilities have been discharged in whole or in part.

2.10.7 Impairment of financial assets

Apart from the fair value through income statement, the Group perform impairment test to other financial instruments. If there is objective evidence to show impairment of particular assets, impairment loss will be provided. If the fair value of the tradable financial instrument is materially decrease or not temporarily decrease, the originally recorded in the accumulated loss in fair value change in equity will recorded in the impairment loss in income statement. To the impaired financial instrument, if there is objective evidence to show the recovery or increase in fair value of the financial instrument, the impairment loss can be revised and record in the shareholders' equity.

When the impairment loss incur in the amoritsed at cost financial instrument, the book value minus to the discounted future cash flow, the impairment loss will be recorded in the current income statement. If there is objective evidence to show the recovery or increase in fair value of the financial instrument, the impairment loss can be revised and record in the shareholders' equity.

The impairment loss of the financial instrument without quoting price in active market cannot be revised.

Derivative financial instruments

Derivative financial instruments initial recognise at fair value in the contract day, and measured at fair value through income statement. Other than highly effective hedging instrument, the profit or loss of change in fair value of the hedging instrument is in accordance to the hedging accounting period through income statement.

2.10.8 Offset of the financial assets and financial liabilities

When there is legal entitle to offset financial assets and financial liabilities, and the parties involved is agreed to record the net amount, or settling financial assets and financial liabilities aggregately (Other than netting agreement), financial assets and financial liabilities can be offset in statement of financial position.

2.11 Trade receivables

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 recognised 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 recognised 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 profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group divides trade 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:

2.11.1 Single significant receivables with individual provision

Receivables over RMB10 million are recognised as significant.

On balance sheet date, the Company shall assess the significant receivables individually for impairment, and recognise 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.

2.11.2 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.

2.11.3 Portfolios with different age

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

2.12 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. The amount is adjusted for price variance to arrive at actual cost at the end of month;
- (2) Low-value consumables are amortised upon issuance for use;
- (3) Finished products and work-in-progress are stated at actual cost.

At balance sheet date, inventories are stated at the lower of cost and net realisable value. If the carrying amount of inventories exceed their net realisable 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.

The net realisable value of the finished goods, work-in-progress and raw materials represent the estimated selling price for inventories less all estimated costs of completion, related tax and the costs necessary to make the sale.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.13 Long-term equity investments

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

Subsidiaries are the companies of which the Company can exercise control over; joint ventures are the companies of which the Company can exercise joint control with other parties; and associates are the companies of which the Company has significant influence over its financial and operating policies.

2.13.1 Basis of control, jointly control, significant influence

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In determining whether to exercise control over the investees, in which of current convertible corporate bonds and current executable warrants and potential voting rights factors are also be considered.

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.

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. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

2.13.2 Initial measurement

The initial investment cost of a long-term equity investment acquired through a business combination involving an enterprise under common control shall be the absorbing party's share of the owners' equity of the party which being absorbed at the combination date.

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.

The investment cost acquired through a business combination but not involving an enterprise under common control shall be the combination cost which contains assets given, liabilities incurred or assumed and equity securities issued as consideration of business combination on the acquisition date.

Goodwill is measured as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised. When cost of the business combination less than the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised, the difference will be charged to profit or loss for the current period.

The initial investment costs of long-term equity investments are actual cash payment, fair value of the issued equity securities and contract price respectively while the Company use cash, issued equity securities and investment cost to acquire the long-term equity investment.

For an 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.13.3 Subsequent measurement

Long-term equity investment to subsidiaries shall be accounted using the cost method and be adjusted when the Company prepares the consolidated financial statements. Long-term equity investment to joint ventures and associates shall be accounted for using the equity method; Long-term equity, which the Company does not have control, joint control or significant influence over the investee, the investment being not quoted in an active market even its fair value not having been reliably measured, all of them shall be accounted for using the cost method; long-term equity investment for which the Company does not have control, joint control or significant influence, without an investment which quoted in an active market or its fair value has not been reliably measured, shall be accounted as available-for-sale financial assets.

When the company adopts the cost method, long-term equity will be accounted in the initial cost, the invested income arising from current period just limiting the gains which getting from the distribution quota of its accumulative net profit after the investee receiving the investment; the profit or cash dividends exceeds all above details which getting from investee's distribution, of them will be recalled back, then deducting the face value of investment.

When the company adopts the equity method, the current investment gain or loss referring to the net gain or loss distributed quota which the investee should be on the responsibility of sharing or taking in current period. When the company affirms the net profit quota getting from investee, it should base on the investees assets identification in fair value, then according to the company's accounting policies and accounting period, counteracting the parts the inner related dealings gain or loss in the light of holding shares quota arising from combine company and associated company, at last affirming the net profit of investee after adjusting. The share profit in investment is calculated according with the profit or cash dividends declared of the associate company, and corresponding reduction in the carry amount of long-term investment. The Group reduces the book value of the long-term investments limited to zero, except the investment with the unlimited obligation contract, when the investees recognise net loss for the year. In addition, if the Group has investment with unlimited obligation contract, the loss will be recorded in the current income statement and the liabilities is recorded in the statement of financial position. If the investment recorded net profit in subsequent periods, the unrecognised share of loss will be revised, and record the share profit income statement.

Cost amortisation method is adopted in the investment that the company has no neither joint control nor sufficient influence, no quoted price in active market and long-term equity investments without reliable fair value. Equity method is adopted in the investment that the company has joint control and sufficient influence but not constitute control, or after the disposal of investment, the Company no longer have the direct control but remain the joint control and sufficient influence.

2.13.4 Disposal of long-term equity investment

Disposal of long-term equity investment shall be the price actually received the book value of equity investments and long-term difference, recognised as the current profit and loss. In using the equity method, the investment unit due to the net profit or loss other than the owner's equity than the other changes included in the rights of business owners, the disposal of the investment should be included in the original part of the owner's equity into the corresponding current profit and loss, about the original project included the amount transferred to capital reserve account investment income.

2.13.5 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 recognises 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 recognised, it can not be reversed in later accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.14 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 held for receiving rental income or capital appreciation has changed to self use, it shall be converted from the investment property to other assets, and vice versa. The carrying value of the property prior to the conversion shall be the entry value after conversion.

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.

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.

2.15 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 include building, machinery and equipments, vehicles and other equipments.

The cost of an item of fixed assets shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

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. A fixed asset that is obtained under a finance lease is measured at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

Subsequent expenditure incurred on a fixed asset, such as repairs and maintenance cost, dismantlement, removal and restoration costs, is included in the cost of the fixed asset, only if it meets the recognition criteria of a fixed asset. The carrying amount of the replaced part is derecognised. Other subsequent expenditure that fails to meet the recognition criteria of a fixed asset shall be recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

No	Classifications	Useful life	Estimated residual value rate (%)	Annual depreciation rate (%)
1	Buildings	8~50	3-10	1.8~12.13
2	Machinery and equipment	6~20	3-10	4.5~16.17
3	Vehicles	10~15	3-10	6.47~9.7
4	Others	5~50	3-10	2.57~12.13

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

The depreciation policy for assets held under finance bases is consistent with that for owned assets. If there is no reasonable certainty that the lease will obtain ownership at the end of lease, the asset should be depreciated over the shorter of the lease term and the life of the asset.

Fixed assets will be derecognised 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 recognise the amount of any proceeds on disposal deduct the carrying amount and related taxes in profit or loss for the current period.

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 recognised, it cannot be reversed in later accounting period.

2.16 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. Self-construction projects, direct materials, direct labor, direct construction fees measurement; measurement of the package building works shall pay the contract price; equipment installation works by the value of the installed equipment, installation costs, project commissioning, the occurrence expenditures to determine the cost of the project. The cost of Construction-in-progress also included the capitalisation of borrowing costs incurred before the intended use, exchange gains and losses and other related expenses.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.17 Borrowing costs

Borrowing costs includes interest on borrowings, amortisation of discount or premium, transaction costs and the exchange differences arising from the borrowings which is denominated in foreign currencies. 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 capitalised as part of the cost of those assets. Other borrowing costs are recognised as expenses when incurred.

During the capitalisation period, the amount of interest to be capitalised 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 capitalised 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 determine the amount of interest to be capitalised on such borrowings by applying a capitalisation 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 capitalisation rate will be the weighted average of the interest rates applicable to the general-purpose borrowings). The amount of interest capitalised for each accounting period cannot exceed the actual amount of interest incurred on the related borrowings during that accounting period.

During the capitalisation period, all the exchange differences of the specific-purpose borrowings denominated in foreign currencies will be capitalised. The general borrowings denominated in foreign currencies will be recognised in profit or loss immediately.

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.

Capitalisation 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 recognised as an expense for the current period until the acquisition, construction or production is resumed. However, capitalisation 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.

2.18 Intangible assets

Intangible assets include land use 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.

For intangible assets with definite useful lives, the costs are amortised on a straight-line basis over their estimated useful lives or validity period with the amortization recognised in the profit or loss for the current period from the date the asset is available for use. Intangible assets are presented net at acquisition cost less accumulated amortization and impairment. The cost of land use right is amortised evenly over the whole period of the right. The cost of patented technology, non-patented technology and other intangible assets of the Group is amortised evenly over the amortisation period not longer than the shortest of the expected useful life, the beneficial period as specified in the contract or the useful life specified in the law. The amortisation charge shall be recognised as the cost of an intangible asset or profit or loss for the current period by the object of benefit derived from the assets

For an intangible asset with a finite useful life, the Group shall review the useful life and amortisation method at least at each financial year-end. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method shall be changed accordingly.

For an intangible asset with an indefinite useful life, the Group shall reassess the useful life of the asset in each accounting period, irrespective of whether there is any indication that it may be impaired. If there is evidence indicating that the useful life of that intangible asset is finite, the Group shall estimate the useful life of that asset and amortised accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group recognises an impairment loss on intangible assets when evidence indicates that realisable value falls lower than book value. For an intangible asset with an indefinite useful life, the Company shall reassess the useful life of the asset in each accounting period.

If the recoverable amount of an asset is less than its carrying amount, the Group reduces the carrying amount to its recoverable amount. The difference is recognised as an impairment loss and charged to profit or loss for the current period and should not be reversed subsequently after it is recognised.

2.19 Research and development expenditure

The Group's expenditure on research and development shall be classified into expenditure on the research phase and expenditure on the development phase according to its nature and whether there's significant uncertainty that intangible assets will come into being.

Expenditure on the research phase is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- (1) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (2) the intention to complete the intangible asset and use or sell it;
- (3) the existence of a market for the output of the intangible asset or the intangible asset itself;
- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset;
- (5) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Expenditure failed to meet the criteria mentioned above shall be recognised in profit or loss for the period in which it is incurred. Expenditure that was previously recognised as an expense shall not be recognised as an asset at a later date. Expenditure on the development phase that was capitalised is presented as development expenditure in the balance sheet, and transferred to intangible assets when such projects are ready for their intended use.

2.20 Impairment of non-financial assets

The Group assesses at each balance sheet date whether there is any indication that investment properties, fixed assets, construction-in-process and intangible assets with a finite useful life may be impaired. If there is any indication that an asset may be impaired, the recoverable amount is estimated and impairment test is conducted. The following are indications that an asset may be impaired:

- (1) during the period, asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- (2) significant changes with an adverse effect on the Group have taken place during the period, or will take place in the near future, in the technological, economic or legal environment etc, in which the Company operates or in the market to which an asset is dedicated;
- (3) market interest rates or other market rates of return on investments have increased during the period, and those increase are likely to affect the discount rate used in calculating the present value of an asset's expected future cash flows and decrease the assets recoverable amount materially;
- (4) evidence is available of obsolescence or physical damage of an asset;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (5) an asset has become or is becoming idle, the Group discontinues using an asset or plans to dispose of an asset before the previously expected date;
- (6) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected, for example, the net cash flows generated or operating profit realised (or operating loss arising) from the asset are much less (or more) than the budgeted amounts.;
- (7) other factors that indicate an asset may be impaired.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. The recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. Identification of an asset group shall be based on whether major cash inflows generated by the asset group are largely independent from the cash inflows generated by other assets or asset groups.

For the goodwill stated in the statement of financial position, it is subjected to the impairment test in each accounting period, irrespective of whether there is any indication that it may be impaired. In the impairment test, goodwill is amortised to the expected synergies effect to the assets in the consolidation. Impairment loss will be recognised when the recoverable value of the assets including goodwill is lower than the book value. Impairment loss deducts the value of goodwill first. If the impairment loss is excess the value of goodwill, the remaining impairment will reduce the value of assets according to the proportion of the carry value of the assets.

Once an impairment loss on above mentioned assets is recognised, it shall not be reversed in a subsequent period.

2.21 Long-term deferred expenses

Long-term deferred expense is expense incurred and amortised in a period longer than 1 year (excluding 1 year). Long-term deferred expenses should be amortised evenly in the period.

If long-term prepaid expenses cannot benefit in the future accounting periods, the residual cost should be recognised and the profit or loss should be accounted.

2.22 Employee benefits

Employee compensation includes wages, bonuses, allowances and subsidies, employee benefits, social insurance and housing funds, union funds and workers education funding and other expenditures related to the services rendered by employees.

In the accounting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability, and recognises relevant asset or expense for the current period.

2.23 Provision

Provided that the contingent obligation resulted from guarantees to external parties, commercial acceptance bill discount, pending litigation on arbitration, product quality assurance and other business related matters satisfied the following conditions, a provision will be recognised: the obligation is a present obligation of the Company; it is probable that an outflow of economic benefits will be required to settle the obligation; 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 increase of debt amount resulted from the discounted time value of money will be recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group will review the carrying amount of a provision at the balance date, and adjust the book value to the best estimates.

2.24 Revenue

Revenue represents revenue from sale of goods, provision of services, property rental and construction contracts. Revenue recognition principles are as follows:

(1) *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 Group 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 Group and the revenue can be reliably measured.

(2) *Revenue from provision of services*

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

When the Group 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.

(3) *Transfer of asset use rights*

Income derived from transfer of asset use right is calculated in accordance with the relevant contract or agreement, which stated the charging time and method, and when the economic interests associated with the transaction is likely to flow to the Group, the amount of revenue can be reliably measured.

2.25 Construction contracts

When the outcome of a construction contract can be estimated reliably at the balance date, contract revenue and contract expenses will be recognised 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: if contract costs can be recovered, contract revenue will be recognised to the extent of the contract costs that can be recovered; and contract costs will be recognised as contract expenses in the period in which they are incurred; if contract costs cannot be recovered, they will be recognised as contract expenses immediately when incurred and contract revenue will not be recognised. If the estimated total contract costs exceed total contract revenue, the expected loss will be recognised immediately as an expense for the current period.

When the result of construction contract is foreseeable, it is to calculate the business income on basis of the percentage of the construction progress when settle accounts, and to calculated the business cost on basis of the same percentage of scheduled cost. The provision for loss, which consists of the whole cost of construction, will be made when foreseeable loss. Generally, in accordance with the situation of the Group 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 Group could anticipate the result when the construction progress reached 30%. If progress of ship constructions could not be reasonably estimated, construction costs is recognised at the actual amount of incurred expenditure, and equivalent amount as revenue, zero margin as a result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 recognised in previous accounting periods will be recognised 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 recognised in previous accounting periods will be recognised as contract expenses for the current period.

2.26 Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. 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 (RMB 1).

Government grants relating to the purchase of fixed assets, intangible assets and other long-term assets should be presented as deferred income and recognised as income evenly over the useful life of the related assets from the date of use.

Government grants relating to income, which is to compensate future expenditure and losses, are deferred and recognised 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 recognised 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 recognised in profit or loss for the current period; (b) if there is no related deferred income, the repayment will be recognised immediately in profit or loss for the current period.

2.27 Deferred tax assets and deferred tax liabilities

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and deferred tax liabilities are offset when the following conditions are met:

Deferred income tax assets and deferred tax liabilities are changed under the same Group in relation to profits tax under the same tax regulatory.

The Group has the statutory right to offset tax assets against tax liabilities.

2.28 Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

All other leases are classified as operating leases.

(1) *The Group as lessor*

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

(2) *The Group as lessee*

Lease payment under an operating lease shall be recognised by the Group 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 Group shall be charged to profit or loss for the current period.

2.29 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 realised or the liability is settled, according to the requirements of tax laws.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.30 Segment information

The Company identifies the operating segments, in which as reporting segment, and prepares segment information based on internal organisation structure, management requirements and internal reporting system.

An operating segment is a component of an entity: that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. If two or more operating segments have similar economic characteristics and meet certain conditions, then merged into one operating segment.

The price set between segments according to market price, common costs are allocated to different segments based on income ratio, except for those cannot be rational allocated.

2.31 Changes in accounting policies and accounting estimates

During the reporting period, no change in accounting policies and accounting estimates is to be disclosed

2.32 Corrections of prior year errors

During the reporting period, no correction of errors is to be disclosed

3. TAXATION

3.1 Turnover tax and surcharge

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

3.2 Enterprise Income Tax

Name of Company	Tax Rate	Notes
Guangzhou Shipyard International Company Limited	15%	
Guangzhou Hongfan Information Technology Co., Ltd.	15%	
Guangzhou United Steel Structures Co., Ltd.	15%	
Glory Group Developing Co., Ltd.	16.5%	
Fonkwong Developing Co., Ltd.	16.5%	
Other subsidiary company	25%	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.3 Tax incentives and approvals

The Company and its subsidiary, Guangzhou Hongfan Technology Co., Ltd. ("Guangzhou Hongfan") has been approved to a High-tech Enterprise by relevant authorities (Guangzhou Liwan District, National Tax Bureau, [2009] No.08002; Guangzhou Tianhe District, National Tax Bureau [2008] No.5012). The corporate income tax rate applicable to the Company and Guangzhou Hongfan is reduced to 15% levy, with the corporate income tax relief for three years since January 1, 2008.

According to the regulations, by the application review from the Company and Guangzhou Hongfan High-tech Enterprise, and the approval by the relevant departments of the State, the Company and Guangzhou Hongfan has been approved to a High-tech Enterprise in 2011 (Guangzhou Branch of high character [2012] No.33 is related to the announcement of the first batch of High-tech Enterprises which has been passed the review in Guangzhou Province in 2011). The corporate income tax rate applicable to the Company and Guangzhou Hongfan for 2011 is reduced to 15% levy, with the corporate income tax relief for three years.

The subsidiary of the Company, Guangzhou United Steel Structures Co., Ltd. was authorized as a High-tech Enterprise since 2009; and thereon, reduced to 15% levy, with the corporate income tax relief for three years since January 1, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

4.1 Details of subsidiaries

Name of company	Type of subsidiaries	Registered Place	Industry	Registered capital ('000)	Business scope	Investment as at year end ('000)	Shareholding (%)	Voting rights (%)	Consolidated (Y/N)	Non-controlling interest	The amount used to offset the profit or loss in non-controlling interest	Remaining balance of owner's equity offsetting the share of non-controlling interest exceeding non-controlling interest at the beginning of owner's equity in the enjoyment
Subsidiaries achieved through the establishment or investment etc.												
Guangzhou Masterwood Shipbuilding Company Limited	Subsidiary of holding company	Guangzhou	Ships built	USD600	Designing, production, installation, repairing: Ship outfitting, ship piping, ventilation system, furniture, interior decoration, sales of enterprise products	USD600	75.00	100.00	Y			
Guangzhou Xing Shun Shipping Service Company Limited	Subsidiary of holding company	Guangzhou	Ship Welding, outfitting, painting	RMB2,000	Hull installation, welding, outfitting, painting, repairing	RMB2,000	83.33	100.00	Y			
Guangzhou United Steel Structures Company Limited	Subsidiary of holding company	Guangzhou	Large steel structure	USD8,850	Production, designing of steel products, sales of enterprise products & providing after-sale installation services	USD8,850	51.00	51.00	Y	80,562,329.57		
Guangdong GSI Elevator Co., Ltd.	Subsidiary of holding company	Guangzhou	Elevator installation	RMB21,000	Designing, manufacturing and selling, installation, repairing of various types of elevators	RMB21,000	95.00	100.00	Y			
Guangzhou Hongfan Information Technique Co., Ltd.	Subsidiary of holding company	Guangzhou	Developing of computer software, system integration and sales	RMB5,000	Developing of computer software, system integration and sales	RMB5,000	51.00	51.00	Y	8,977,610.04		
Guangzhou Guangli Marine Human Resource Service Co., Ltd.	Subsidiary of holding company	Guangzhou	Labor service supply	RMB500	Providing labor services, ship installation, welding, copy rusting, painting, etc.	RMB500	80.00	100.00	Y			
Guangzhou Hongfa Hotel Co., Ltd.	Subsidiary of holding company	Guangzhou	Restaurant	RMB10,000	Food and beverage industry, tourist industry, cold drinks, beauty, hairdressing	RMB10,000		100.00	Y			
Glory Group Developing Co., Ltd.	Subsidiary of holding company	Hong Kong	Trading	HKD30,000	Trading	HKD30,000	100.00	100.00	Y		-	
Fonkwang Development Co., Ltd.	Subsidiary of holding company	Hong Kong	Trading	HKD200	Trading	HKD200		70.00	Y	3,627,904.13		
Guangzhou GSI Large-size Heavy Machinery Equipment Co., Ltd.	Subsidiary of holding company	Guangzhou	Designing, manufacturing and installing	RMB188,610	Designing, manufacturing, installing and selling marine auxiliaries, set of heavy machinery	RMB188,610	100.00	100.00	Y			
Zhongshan GSI Marine Engineering Co., Ltd.	Subsidiary of holding company	Guangzhou	Manufacture of hull fitting and ocean project equipment	RMB100,000	Designing, manufacturing, installing and selling marine auxiliaries (fishing use excluded), steel structure, general machine, cast metal components, fiberglass, hull fitting and ocean project equipment	RMB100,000	100.00	100.00	Y			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.2 Explanation of changes in scope of consolidation

(1) *No longer included in the scope of consolidation of the company for the year*

Company name	Reason	Shareholding (%)	20/11/2011 (disposal date) net asset	1/1/2011-20/11/2011 (disposal date) net profit
Special Skills of Shipbuilding Industry 007 Evaluation Station	Disposal	100	807,330.90	-3,886.91

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the disclosure of financial statements information, unless otherwise stated, the “Beginning balance” means 1 January 2011, “Ending balance” means 31 December 2011, “current year” means 1 January 2011 to 31 December 2011, “last year” means 1 January 2010 to 31 December 2010; the unit of currency is RMB.

5.1 Cash and Cash Equivalents

Item	Ending balance			Beginning balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
1. CASH						
RMB			114,598.12			132,377.78
USD	3,567.80	6.3009	22,480.35	3,567.80	6.6227	23,628.47
HKD	32,346.08	0.8107	26,222.97	77,068.84	0.8509	65,577.87
GBP	917.25	9.7116	8,907.97	917.25	10.2182	9,372.64
EUR	954.84	8.1625	7,793.88	954.84	8.8065	8,408.80
Subtotal			<u>180,003.29</u>			<u>239,365.56</u>
2. BANK						
RMB			2,696,975,893.34			4,895,152,854.35
USD	38,952,689.88	6.3009	245,437,003.66	13,183,550.95	6.6227	87,310,702.88
HKD	7,779,783.20	0.8107	6,307,070.22	13,483,920.88	0.8509	11,473,468.29
EUR	1,352,902.60	8.1625	11,043,067.48	1,083,221.63	8.8065	9,539,391.28
Subtotal			<u>2,959,763,034.70</u>			<u>5,003,476,416.80</u>
3. OTHER MONETARY FUNDS						
RMB			3,602,803,428.85			2,212,802,777.90
Subtotal			<u>3,602,803,428.85</u>			<u>2,212,802,777.90</u>
Total			<u>6,562,746,466.84</u>			<u>7,216,518,560.26</u>

Note 1: The ending balance of other monetary funds include credit card deposit of RMB75,541.52, guarantee deposits of RMB6,124,226.79, fixed deposit for pledged 3,596,603,660.54.

Note 2: As at 31 December 2011, there is no pledge, frozen risk related to the Company's cash except those shown above.

Note 3: As at 31 December 2011, the Company deposits RMB490,788,535.33 in CSSC Financial Co. CSSC Financial Co., one of subsidiaries of CSSC, is a non-bank financial institution authorised by People's Bank of China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.2 Financial assets held-for-trading

Item	Ending fair value	Beginning fair value
Financial assets designated as at fair value through current profit or loss	20,229,536.04	21,227,664.57
Total	20,229,536.04	21,227,664.57

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

Note 2: Financial assets' fair value is determined by the banks' public offer with valuation technique.

5.3 Notes receivables

(1) Types of notes receivables

Item	Ending balance	Beginning balance
Bank acceptance	560,000.00	3,357,384.82
Commercial acceptance	–	103,600,000.00
Total	560,000.00	106,957,384.82

Illustration: The decrease of 99.48% in balance compared to the beginning is resulted from the RMB103,600,000 Commercial Acceptance Note which was matured on 22 January 2011.

(2) Notes receivables endorsed but not yet due during the year end

Type	Name of Company	Endorsed date	Due date	Amount	Note
Bank acceptance	Asia Aluminum (China) Company Limited	2011-8-9	2012-2-9	200,000.00	
	Asia Aluminum (China) Company Limited	2011-8-9	2012-2-9	100,000.00	
	Asia Aluminum (China) Company Limited	2011-8-9	2012-2-9	80,000.00	
	Cygnus columbianus (Jingzhou) Electrics Company Limited	2011-8-25	2012-3-25	324,182.30	
	China Construction of the Eighth Industry Equipment Installment Co. Ltd.	2011-9-9	2012-3-2	1,000,000.00	
Total				1,704,182.30	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.4 Trade receivables

(1) Risk classification of trade receivables:

Item	Ending balance				Beginning balance					
	Book value		Bad debt allowance		Book value		Bad debt allowance		Net amount	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)		
Individually significant balance										
Individually insignificant but provision individually	11,177,669.05	1.49	9,532,003.20	85.28	1,645,665.85	8,317,147.74	3.38	6,632,791.17	79.75	1,684,356.57
Provision percent of Ending balance	738,725,558.93	98.51	3,644,580.68	0.50	735,080,978.25	237,559,443.15	96.62	1,313,473.12	0.50	236,245,970.03
Total	749,903,227.98	100.00	13,176,583.88	1.76	736,726,644.10	245,876,590.89	100.00	7,946,264.29	3.23	237,930,326.60

Ageing analysis of trade receivables:

Item	Ending balance				Beginning balance			
	Amount	Ratio (%)	Bad debt allowance		Amount	Ratio (%)	Bad debt allowance	
			allowance	Net amount			allowance	Net amount
Within 1 year	706,525,137.50	94.22	3,480,584.19	703,044,553.31	196,586,223.68	79.95	1,587,559.30	194,998,664.38
1-2 year (Inclusive)	11,410,066.02	1.52	4,840,805.58	6,569,260.44	39,931,693.65	16.24	27,583.61	39,904,110.04
2-3 year (Inclusive)	27,985,229.03	3.73	1,003,368.85	26,981,860.18	300,039.74	0.12	23,166.15	276,873.59
3-4 year (Inclusive)	74,124.00	0.01	370.62	73,753.38	1,214,579.55	0.49	804,963.34	409,616.21
4-5 year (Inclusive)					4,094,573.59	1.67	2,505,012.41	1,589,561.18
Over 5 year	3,908,671.43	0.52	3,851,454.64	57,216.79	3,749,480.68	1.52	2,997,979.48	751,501.20
Total	749,903,227.98	100.00	13,176,583.88	736,726,644.10	245,876,590.89	100.00	7,946,264.29	237,930,326.60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

i) *Individually significant balance or individually insignificant but provision individually*

Name	Book value	Bad debt allowance	Ratio (%)	Reason
WHL - FONKWANG	4,460,625.35	3,387,326.26	75.94	Financial predicament
Chongqing Yuandong Fushi Jidian Company	1,010,140.00	1,010,140.00	100.00	Financial predicament
Macao Ludang Co., Ltd	863,566.90	863,566.90	100.00	Long period and financial predicament
Chongqing Nanfang Group Company	807,884.00	807,884.00	100.00	Long period and financial predicament
Chongqing Guangchuan Elevator Co. Limited	1,110,776.76	613,700.00	55.25	Long period and financial predicament
Hefei Rong Shida Electrc Refrigerator Co. Limited	476,000.00	476,000.00	100.00	Long period and financial predicament
Federal Metal Project Co., Ltd	407,502.39	407,502.39	100.00	Long period and financial predicament
Guilin Hongyun Elevator Company	398,250.00	398,250.00	100.00	Long period and financial predicament
Chongqing Yicheng Zhiye Company	306,945.32	306,945.32	100.00	Long period and financial predicament
Qingdao Haier Special Electrc Refrigerator Co. Ltd.	208,000.00	208,000.00	100.00	Long period and financial predicament
Seven days hotel	112,579.74	39,039.74	34.68	Long period and financial predicament
Hunan Lianxiang Elevator Company	145,787.20	144,037.20	98.80	Refuse to pay on excuse of quality of elevator products
Others	869,611.39	869,611.39	100.00	Accounts receivable from other 14 companies
Total	11,177,669.05	9,532,003.20	85.28	

ii) *Accounts receivables with provision of bad debts, on percentage on ending balances*

Item	Ending balance			Beginning balance		
	Amount	Ratio (%)	Bad debt allowance	Amount	Ratio (%)	Bad debt allowance
Within 1 year	706,449,847.50	95.62	3,480,584.19	196,586,223.68	82.75	1,108,607.02
1-2 year (Inclusive)	5,214,002.49	0.71	27,617.90	39,931,693.65	16.81	199,658.47
2-3 year (Inclusive)	26,930,019.03	3.65	135,658.85	300,039.74	0.13	1,500.20
3-4 year (Inclusive)	74,124.00	0.01	370.62	225,045.17	0.09	1,125.23
4-5 year (Inclusive)	-	-	-	516,440.91	0.22	2,582.20
Over 5 year	57,565.91	0.01	349.12	-	-	-
Total	738,725,558.93	100.00	3,644,580.68	237,559,443.15	100.00	1,313,473.12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) *Up to 31 December 2011, there are no trade receivables of shareholders holding 5% or more than 5% of voting stocks.*

(3) *The five companies with the largest trade receivable balance:*

Name	Relationship with the Company	Ending balance	Aging	Proportion (%)
Holland-FAIRSTAR HEAVY	External customer	197,218,170.00	Within 1 year	26.47
China Shipping Development Co. Ltd.	External customer	142,463,736.00	Within 1 year	19.12
China Shipping Passenger Ship Co. Ltd.	External customer	103,600,000.00	Within 1 year	13.90
REFINERIA DE CARTAGE	External customer	72,372,979.07	Within 1 year	9.71
Greece - Tomasos Brothers	External customer	63,475,770.68	Within 1 year	8.52
Total		579,130,655.75		77.72

(4) *Balance with related parties*

Name	Relationship with the Company	Amount	Proportion (%)	Aging
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	Under the Same Control of CSSC	46,434,213.59	6.23	0-2 years
CSSC Jiangnan Heavy Machine Co., Ltd	Under the Same Control of CSSC	17,308,505.47	2.32	0-3 years
Guangzhou Shipyard Ltd.	Under the Same Control of CSSC	1,178,817.20	0.16	Within 1 year
CSSC Guangzhou Huangpu Shipyard Ltd.	Under the Same Control of CSSC	1,107,262.23	0.15	Within 1 year
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	Under the Same Control of CSSC	656,914.00	0.09	0-4 years
CSSC Beijing IT Co.,Ltd	Under the Same Control of CSSC	655,000.00	0.09	0-2 years
CSSC Huanan Ship Machinery Co., Ltd.	Under the Same Control of CSSC	172,766.12	0.02	Within 1 year
CSSC Guijiang Shipyard	Under the Same Control of CSSC	28,000.00	0.004	Within 1 year
Guangzhou Marine and Engineering Design & Research Institute	Under the Same Control of CSSC	9,101.60	0.001	Within 1 year
Total		67,550,580.21	9.07	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) *Foreign currency included in the balance:*

Currency	Ending balance			Beginning balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	54,412,205.54	6.3009	342,845,865.89	7,678,185.73	6.7668	51,956,747.19
EUR	-	-	-	22,763,485.20	8.9872	204,578,938.10
HKD	7,520,255.46	0.8107	6,096,671.10	-	-	-
MOP	5,656,385.17	0.7886	4,460,625.36	-	-	-
Total	-	-	353,403,162.35	-	-	256,535,685.29

(6) *The credit term for trade receivable of the Company*

Business	Credit Term
Ship building	1 month after issuing invoice
Other business	Generally 1 to 6 months

Ageing analysis on classification based on the invoice date

Ageing	Ending balance	Beginning balance
0 - 120 days	486,088,969.84	171,322,716.80
121 - 365 days	220,436,167.66	25,263,506.88
1 - 2 years	6,193,579.25	39,931,693.65
2 - 3 years	27,985,229.03	300,039.74
Over 3 years	9,199,282.20	9,058,633.82
Total	749,903,227.98	245,876,590.89

Illustration: The increase of 209.64% in balance compared to the beginning is resulted from the increase in the completion of ship building by reaching the receiving point. As at the reporting date, the Company has received RMB142,463,736.00 from China Shipping Development Co. Ltd., RMB103,600,000.00 from China Shipping Passenger Ship Co. Ltd., RMB63,475,770.68 from Greece - Tomasos Brothers Inc. and RMB71,897,577.32 from REFINERIA DE CARTAGE Co.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.5 Prepayment

(1) Ageing analysis of prepayment

Item	Ending balance		Beginning balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within one year	496,123,702.54	98.45	393,046,147.06	87.41
1 - 2 years	6,013,954.32	1.19	50,452,880.14	11.22
2 - 3 years	1,266,826.16	0.25	5,783,836.04	1.29
Over 3 years	539,300.00	0.11	341,580.94	0.08
Total	503,943,783.02	100.00	449,624,444.18	100.00

(2) Main units of prepayment

Name	Relationship with the Company	Amount	Aging	Reason
Dalian Marine Diesel Engine Factory	External	105,425,000.00	Within 1 year	Contract undue
China Shipping Goup International Trading Co. Ltd.	External	70,310,270.87	Within 1 year	Contract undue
Chongqing Steel Ltd	External	27,646,291.89	Within 1 year	Contract undue
Zhenjiang CSSC Equipment Ltd.	Under the Same Control of CSSC	16,655,059.83	Within 1 year	Contract undue
Hudong Heavy Machinery Co. Ltd.	Under the Same Control of CSSC	15,970,000.00	Within 1 year	Contract undue
Total		236,006,622.59		

(3) Up to 31 December 2011, there were no trade receivables of shareholders holding 5% or more than 5% of voting stocks.

(4) Foreign currency balance included in prepayment:

Item	Ending balance			Beginning balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	16,169,400.67	6.3400	102,514,325.65	7,678,185.73	6.7668	51,956,747.19
EUR	11,025,169.59	8.9803	99,009,347.74	22,763,485.20	8.9872	204,578,938.10
HKD	486,586.00	0.8657	421,229.08	-	-	-
Total	-	-	201,944,902.47	-	-	256,535,685.29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.6 Interest receivables

Item	Beginning balance	Increase	Decrease	Ending balance
Fixed deposit interest	62,875,756.88	180,417,614.62	139,290,743.83	104,002,627.67
Total	62,875,756.88	180,417,614.62	139,290,743.83	104,002,627.67

Note: There is no overdue interest at the end of the reporting period.

Illustration: The increase of 65.41% in balance compared to the beginning is resulted from the increase in fixed deposit and deposit interest rate.

5.7 Dividend receivables

Item	Beginning balance	Increase	Decrease	Ending balance	Reason	Impairment (Y/N)
Within one year						
Incl: Zhenjiang CSSC Power Equipment Ltd. Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Co., Ltd	4,800,000.00	-	4,800,000.00	-	-	-
	677,728.60	-	677,728.60	-	-	-
Total	5,477,728.60	-	5,477,728.60	-	-	-

5.8 Other receivables

(1) Classification of risk in other receivables:

Item	Ending balance					Beginning balance				
	Book Value		Bad Debt Allowance		Net amount	Book Value		Bad Debt Allowance		Net amount
	Amount	Ratio (%)	Amount	Ratio (%)		Amount	Ratio (%)	Amount	Ratio (%)	
Individually significant balance with provision	10,340,232.15	7.65	10,340,232.15	100.00	-	10,340,232.15	3.43	10,340,232.15	100.00	-
Individually insignificant but with provision individually	57,600.00	0.04	57,600.00	100.00	-	57,600.00	0.02	57,600.00	100.00	-
Provision based on percent of Ending balance	124,768,102.56	92.31	580,560.48	0.50	124,187,542.08	291,310,318.71	96.55	1,427,327.61	0.50	289,882,991.10
Total	135,165,934.71	100.00	10,978,392.63	8.12	124,187,542.08	301,708,150.86	100.00	11,825,159.76	3.92	289,882,991.10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Ageing analysis of other receivables:

Item	Ending balance				Beginning balance			
	Amount	Ratio (%)	Bad Debt Allowance	Net amount	Amount	Ratio (%)	Bad Debt Allowance	Net amount
Within 1 year	121,494,349.74	89.89	563,367.99	120,930,981.75	288,993,963.12	95.79	1,415,745.83	287,578,217.29
1-2 year (Inclusive)	2,600,906.92	1.92	8,828.97	2,592,077.95	2,087,018.00	0.69	10,435.09	2,076,582.91
2-3 year (Inclusive)	470,165.31	0.35	5,521.96	464,643.35	60,937.59	0.02	304.69	60,632.90
3-4 year (Inclusive)	60,937.59	0.05	832.85	60,104.74	120,000.00	0.04	600.00	119,400.00
4-5 year (Inclusive)	123,343.00	0.09	1,916.71	121,426.29	2,400.00	0.00	12.00	2,388.00
Over 5 year	10,416,232.15	7.71	10,397,924.15	18,308.00	10,443,832.15	3.46	10,398,062.15	45,770.00
Total	135,165,934.71	100.00	10,978,392.63	124,187,542.08	301,708,150.86	100.00	11,825,159.76	289,882,991.10

i) *Significant or individual insignificant but single assess of impairment*

Item	Book Value	Bad Debt Allowance	Ratio (%)	Reason
Hong Kong Guanghong International Corp	10,340,232.15	10,340,232.15	100.00	Note
Guangzhou chengjian Archives	57,600.00	57,600.00	100.00	
Total	10,397,832.15	10,397,832.15	100.00	

Note: Trusted deposits have 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 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. On 21 September 2009, the Guangdong Province Higher People's Court of Final Appeal has made the judgment, Hong Kong Gunghong international Corp. has to settle the debt principal and interest of the Company within 10 days from the legal effective day. As at 31 December 2011, the Company has not received the above mentioned debt principal and interest, and shall pay attention to further follow-up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ii) Other receivables with provision for bad debts based on percentage on ending balances

Item	Ending balance			Beginning balance		
	Amount	Ratio (%)	Bad Debt Allowance	Amount	Ratio (%)	Bad Debt Allowance
Within 1 year	121,494,349.74	97.38	563,367.99	288,993,963.12	99.20	1,415,745.83
1-2 year (Inclusive)	2,600,906.92	2.08	8,828.97	2,087,018.00	0.72	10,435.09
2-3 year (Inclusive)	470,165.31	0.38	5,521.96	60,937.59	0.02	304.69
3-4 year (Inclusive)	60,937.59	0.05	832.85	120,000.00	0.04	600.00
4-5 year (Inclusive)	123,343.00	0.10	1,916.71	2,400.00	0.00	12.00
Over 5 year	18,400.00	0.01	92.00	46,000.00	0.02	230.00
Total	124,768,102.56	100.00	580,560.48	291,310,318.71	100.00	1,427,327.61

(2) Up to 31 December 2011, there were no other receivables of shareholders holding 5% or more than 5% of the voting stocks.

(3) The five companies with the largest other receivables balance

Item	Relationship with the company	Amount	Aging	Porportion	Content
Export Rebates and Product Subsidy	Others	96,405,650.80	Within 1 year	71.32	export rebates and product subsidy
Hong Kong Guanghong International Corp	External customer	10,340,232.15	Over 5 years	7.65	Trust deposit
PRC Yangshan Custom (Bonded)	External customer	3,396,834.43	Within 1 year	2.51	Guarantee fund
PRC Guangzhou Custom	External customer	1,578,431.38	Within 6 months	1.17	Guarantee fund
Baoying Structural Engineering Co. Ltd.	External customer	1,459,154.71	1 - 2 years	1.08	Disbursement of engineering cost
Total		113,180,303.47		83.73	

(4) Foreign currency balance included in other receivables :

Item	Ending balance			Beginning balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
HKD	9,695,544.96	0.8107	7,886,383.30	-	-	-
Total	9,695,544.96	0.8107	7,886,383.30	-	-	-

Illustration: The decrease in other receivables of 57.16% in balance compared to the beginning is resulted from the decrease in refundable import tax and subsidies of products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.9 Inventories

(1) Inventories

Item	Ending balance			Beginning balance		
	Balance	Impairment	Book value	Balance	Impairment	Book value
Raw Materials	428,971,762.09	6,996,709.71	421,975,052.38	469,785,775.43	10,990,667.46	458,795,107.97
Work-in-Process	467,507,215.62	16,219,843.71	451,287,371.91	404,837,765.00	10,995,025.20	393,842,739.80
Commodity/Finished Goods	11,023,779.00	336,553.69	10,687,225.31	5,239,129.13	284,253.98	4,954,875.15
Inventories under Construction Contract	893,624,622.07	293,711,909.40	599,912,712.67	764,019,750.52	-	764,019,750.52
Goods in Transit	30,354,947.04	-	30,354,947.04	33,952,565.63	-	33,952,565.63
Total	1,831,482,325.82	317,265,016.51	1,514,217,309.31	1,677,834,985.71	22,269,946.64	1,655,565,039.07

(2) Impairment on inventories

Item	Beginning balance	Increase	Decrease		Ending balance
			Reverse	Write-off	
Raw Materials	10,990,667.46	547,560.48	-	4,541,518.23	6,996,709.71
Work-in-Process	10,995,025.20	10,320,162.61	-	5,095,344.10	16,219,843.71
Commodity/Finished Goods	284,253.98	52,299.71	-	-	336,553.69
Inventories under construction contract	-	323,166,889.63	-	29,454,980.23	293,711,909.40
Total	22,269,946.64	334,086,912.43	-	39,091,842.56	317,265,016.51

(3) Provision for impairment on inventories

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)		
Work-in-Process	Book value is higher than net reliable value (Estimated selling price minus expenses of selling)		
Inventories under construction contract	The expected contract costs exceeded the expected contract revenue.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.10 Available-for-sale financial assets

Item	Ending balance	Beginning balance
Available-for-sale Equity Instruments		
Of which: China Merchants Bank Co., Ltd.	206,628,805.50	222,991,996.50
China Merchants Energy Shipping Co., Ltd.	28,900,000.00	41,100,000.00
Membership of Wuhan Gold and Silver Golf Club	2,700,000.00	2,700,000.00
Total	238,228,805.50	266,791,996.50

Note: As at 31 December 2011, 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 31 December 2011.

5.11 Long-term equity investment

(1) Long-term equity investment

Item	Ending balance	Beginning balance
Cost Method	1,900,000.00	1,900,000.00
Equity Method	43,890,860.01	39,688,714.23
Total	45,790,860.01	41,588,714.23
Less: Provision for Impairment loss	-	-
Net value	45,790,860.01	41,588,714.23

(2) Measurement on cost method and equity method

Investee	Holding (%)	Voting Right (%)	Initial Investment	Beginning Balance	Increase	Decrease	Adjustment	Current year cash bonus	Ending Balance	Current year impairment provision	
											Impairment
Cost Method											
CSSC Information Co., Ltd.	5.63	5.63	900,000.00	900,000.00	-	-	-	-	900,000.00	-	-
CSSC Heavy IndustryYuanzhou (Beijing) Technology Co. Ltd.	4.05	4.05	1,000,000.00	1,000,000.00	-	-	-	-	1,000,000.00	-	-
Subtotal	-	-	1,900,000.00	1,900,000.00	-	-	-	-	1,900,000.00	-	-
Equity method											
South China Marine and Industrial Special Coating Co., Ltd.	25.00	25.00	1,722,060.00	3,464,960.75	-	-	467,143.86	-	3,932,104.61	-	-
Zhanjiang South Ocean Marine Services Inc.	40.00	40.00	800,000.00	814,382.75	-	-	8,205.43	-	822,588.18	-	-
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	32.00	32.00	15,558,800.00	35,409,370.73	-	-	3,726,796.49	-	39,136,167.22	-	-
Subtotal	-	-	18,080,860.00	39,688,714.23	-	-	4,202,145.78	-	43,890,860.01	-	-
Total	-	-	19,980,860.00	41,588,714.23	-	-	4,202,145.78	-	45,790,860.01	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Investment in Joint venture and Association

Investee	Type of company	Place of register	Legal representative	Business Scope	Registered Capital ('000)	Holding Ratio (%)	Representative Ration (%)
Joint Venture							
South China Special Painting Industry Co. Ltd.	Company with limited liability (the PRC and foreign countries of joint venture)	Guangzhou	Litongan	Developing a special coating technology, undertaking special coating works at home and abroad, setting up scaffolding structures, cleaning cabin	USD1,200	25	25
Association							
Zhanjiang South Ocean Marine Services Inc.	Company with limited liability	Zhanjiang	Chen miaogen	Repairing, debugging, maintenance, training, software development and technical application of ship equipment & system	RMB2,000	40	40
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	Company with limited liability (Taiwan, Hong Kong, Macao and the PRC of joint venture)	Zhenjiang	Wang Wenju	Production and sales of generators, marine and land use generator sets and accessories	RMB85,000	32	32
Total					-	-	-

Investee name	Ending Total Assets	Ending Total Liabilities	Ending Net Assets Value	Current Year Total Revenue	Current Year Net Profits
Joint Venture					
South China Special Painting Industry Co. Ltd.	18,084,770.91	4,749,567.31	13,335,203.60	35,464,097.72	1,868,575.45
Association					
Zhanjiang South Ocean Marine Services Inc.	6,255,550.06	4,206,556.02	2,048,994.04	4,661,290.76	20,513.58
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	221,452,954.67	86,258,134.79	135,194,819.88	228,079,254.91	14,714,053.16
Total	245,793,275.64	95,214,258.12	150,579,017.52	268,204,643.39	16,603,142.19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.12 Investment properties

(1) *Investment properties under cost model are as follows this year:*

Item	Beginning Balance	Increase	Decrease	Ending Balance
Total Original Costs	97,567,275.29	–	60,589,900.00	36,977,375.29
House and Buildings	97,567,275.29	–	60,589,900.00	36,977,375.29
Accumulated Depreciation (Amortisation)	7,984,968.67	783,590.16	4,716,752.47	4,051,806.36
House and Buildings	7,984,968.67	783,590.16	4,716,752.47	4,051,806.36
Net Value Before Impairment	89,582,306.62	–	–	32,925,568.93
House and Buildings	89,582,306.62	–	–	32,925,568.93
Provision for Impairment	17,344,400.27	–	15,489,388.68	1,855,011.59
House and Buildings	17,344,400.27	–	15,489,388.68	1,855,011.59
Net Value	72,237,906.35	–	–	31,070,557.34
House and Buildings	72,237,906.35	–	–	31,070,557.34

The current year accumulated depreciation (amortization) is RMB783,590.16 (last year: RMB786,116.67).

Illustration: The decrease of 56.99% in balance compared to the beginning is resulted from selling of house and buildings in Xinjiang; and reversing its provision for impairment of RMB15,489,388.68 during the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.13 Fixed assets

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

Item	Beginning Balance	Increase	Decrease	Ending Balance
Total cost	2,168,665,396.10	135,043,564.92	58,492,052.22	2,245,216,908.80
Incl: House and Buildings	990,251,553.95	82,393,976.01	1,349,347.01	1,071,296,182.95
Machinery Equipment	1,084,172,844.05	48,781,055.46	55,144,268.93	1,077,809,630.58
Transportation Vehicles	38,158,416.36	2,916,034.47	1,998,436.28	39,076,014.55
Other	56,082,581.74	952,498.98	-	57,035,080.72
Accumulated depreciation	908,968,818.41	109,750,299.42	50,761,906.12	967,957,211.71
Incl: House and Buildings	288,390,560.76	39,572,794.03	41,661.49	327,921,693.30
Machinery Equipment	576,386,308.14	66,249,433.70	48,806,857.77	593,828,884.07
Transportation Vehicles	15,884,763.21	2,649,352.82	1,913,386.86	16,620,729.17
Other	28,307,186.30	1,278,718.87	-	29,585,905.17
Net value before impairment	1,259,696,577.69	-	-	1,277,259,697.09
Incl: House and Buildings	701,860,993.19	-	-	743,374,489.65
Machinery Equipment	507,786,535.91	-	-	483,980,746.51
Transportation Vehicles	22,273,653.15	-	-	22,455,285.38
Other	27,775,395.44	-	-	27,449,175.55
Accumulated impairment	-	2,941,797.71	-	2,941,797.71
Incl: House and Buildings	-	-	-	-
Machinery Equipment	-	2,941,797.71	-	2,941,797.71
Transportation Vehicles	-	-	-	-
Other	-	-	-	-
Carrying values	1,259,696,577.69	-	-	1,274,317,899.38
Incl: House and Buildings	701,860,993.19	-	-	743,374,489.65
Machinery Equipment	507,786,535.91	-	-	481,038,948.80
Transportation Vehicles	22,273,653.15	-	-	22,455,285.38
Other	27,775,395.44	-	-	27,449,175.55

Note 1: Total fixed assets transferred from construction-in-progress during the year amount to RMB131,159,862.44.

Note 2: The accumulated depreciation of fixed assets during the year amounted to RMB109,750,299.42 (last year: RMB109,427,109.54).

(2) *There are no temporary idle fixed assets.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Assets have not obtain certificate of the title

Item	Original Cost	Reason	Expected time to obtain
Electromechanicsroom The fifth floor of the office building (L3-L5)	28,173,539.24	Checking for acceptance	Unpredicted
The fifth floor of the office building (Ground-L2)	5,005,274.51	Checking for acceptance	Unpredicted
	3,466,681.49	Checking for acceptance	Unpredicted
Total	36,645,495.24		

(4) The accumulated impairment of fixed assets during the year amounted to RMB2,941,797.71 (last year: nil). A batch of fully depreciated assets in 2007 were tested for impairment, it carried the residual value of RMB4,791,797.71. The Company classified the scrap assets into 5 types included scrap steel, scrap cables, scrap appliances and miscellaneous, scrap wires and scrap plastic wires; with the bid price of scrap materials as at December 2011. The Company predicted that the realisable value of the above mentioned scrap assets amounted to RMB1,850,000.00, pursuant to which the impairment loss amounted to RMB2,941,797.71.

5.14 Construction-in-progress

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

Item	Ending balance			Beginning balance		
	Amount	Impairment	Net value	Amount	Impairment	Net value
Construction fees of Zhongshang Guangchuan International and Ocean Project Co., Ltd	207,027,680.08	-	207,027,680.08	79,196,426.99	-	79,196,426.99
Movement of large machine & workshop	11,703,473.91	-	11,703,473.91	711,327.97	-	711,327.97
Simple steel shed engineering of Guangchuan International (No.1-No.5) (new paint shed)	6,201,847.23	-	6,201,847.23	5,713,537.17	-	5,713,537.17
Guangchuan Large-scale Machinery and Equipment Company Renovation Project	5,973,713.59	-	5,973,713.59	3,497,487.97	-	3,497,487.97
Ship generator load test integrated system	2,302,167.92	-	2,302,167.92	2,747,871.76	-	2,747,871.76
Confidential network reconstruction	2,631,006.06	-	2,631,006.06	2,631,006.06	-	2,631,006.06
Preconstruction cost of zhongshan ship base	2,482,965.21	-	2,482,965.21	2,482,965.21	-	2,482,965.21
A shipping Ministry tug	4,490,720.64	-	4,490,720.64	691,002.56	-	691,002.56
Upfront cost of infrastructure & energy saving	1,020,170.26	-	1,020,170.26	825,387.83	-	825,387.83
The team room 3 & surrounding space transformation	2,361,008.29	-	2,361,008.29	-	-	-
12.5mCNC Double Column Vertical Lathe	14,035,006.08	-	14,035,006.08	-	-	-
A loaded class outfitting shed & team room	1,422,590.60	-	1,422,590.60	-	-	-
A shipped & motorized barge	1,376,103.45	-	1,376,103.45	-	-	-
Environmental Anti-pollution third stage 12 Tender Engineering	1,258,074.65	-	1,258,074.65	432,972.60	-	432,972.60
Control of tube & workshop welding fumes	1,025,072.32	-	1,025,072.32	171,266.24	-	171,266.24
Deepening project at the pier along the waters (shift boat & berthing district)	-	-	-	693,218.88	-	693,218.88
Dock prolong 80T,400T (1st period)	-	-	-	23,730,853.50	-	23,730,853.50
Additional berthing pier project at Cheung Chau Island pier	-	-	-	4,663,916.47	-	4,663,916.47
2 sets 100 cube air compressor	-	-	-	3,992,218.61	-	3,992,218.61
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
Old dock reinforcement	-	-	-	1,957,007.02	-	1,957,007.02
Prolong of large dock	-	-	-	1,474,465.09	-	1,474,465.09
Other projects	16,251,364.57	-	16,251,364.57	5,066,819.17	-	5,066,819.17
Total	281,562,964.86	-	281,562,964.86	146,308,227.80	-	146,308,227.80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Movements of significant construction-in-progress project:

Project name	Beginning balance	Increase	Decrease during the year		Ending balance
			Transfer to Fixed Assets	Others	
Prolong of large dock	1,474,465.09	-	1,474,465.09	-	-
Dock prolong 80T,400T (1st period)	23,730,853.50	1,430,601.38	25,161,454.88	-	-
Confidential network reconstruction	2,631,006.06	4,500.00	4,500.00	-	2,631,006.06
Preconstruction cost of zhongshan ship base	2,482,965.21	-	-	-	2,482,965.21
Additional berthing pier project at Cheung Chau Island pier	4,663,916.47	1,842,276.04	6,506,192.51	-	-
Old dock reinforcement	1,957,007.02	2,140,174.74	4,097,181.76	-	-
1 set 200 cube air compressor	2,871,368.15	1,789,439.55	4,660,807.70	-	-
2 sets 100 cube air compressor	3,992,218.61	-999,742.45	2,992,476.16	-	-
Simple steel shed engineering of Guangchuan International (No.1-No.5) (new paint shed)	5,713,537.17	488,310.06	-	-	6,201,847.23
Ship generator load test integrated system	2,747,871.76	1,473,675.21	1,919,379.05	-	2,302,167.92
New area group room	2,757,108.55	4,393,095.10	7,150,203.65	-	-
Upfront cost of infrastructure & energy saving	825,387.83	194,782.43	-	-	1,020,170.26
Deepening project at the pier along the waters (shift boat & berthing district)	693,218.88	3,016,932.59	3,710,151.47	-	-
A shipping Ministry tug	691,002.56	3,799,718.08	-	-	4,490,720.64
12.5mCNC Double Column Vertical Lathe	-	14,035,006.08	-	-	14,035,006.08
A loaded class outfitting shed & team room	-	1,422,590.60	-	-	1,422,590.60
A shipped & motorized barge	-	1,376,103.45	-	-	1,376,103.45
Guangchuan Large-scale Machinery and Equipment Company Renovation Project	3,497,487.97	2,476,225.62	-	-	5,973,713.59
Movement of large machine & workshop	711,327.97	11,883,472.28	891,326.34	-	11,703,473.91
Construction fees of Zhongshang Guangchuan International and Ocean Project Co., Ltd	79,196,426.99	239,451,505.86	35,877,219.66	75,743,033.11	207,027,680.08
Others	5,671,058.01	59,337,206.24	36,714,504.17	7,398,240.25	20,895,519.83
Total	146,308,227.80	349,555,872.86	131,159,862.44	83,141,273.36	281,562,964.86

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Project name	Budget	Ratio (%)	Progress rate	Accumulated capitalised interest	Including: Current year capitalised interest	Current year capitalised interest (%)	Source of capital
Prolong of large dock	28,320,000.00	94.05	Completed	-	-	-	Self-financing
Dock prolong 80T*B400T (1st period)	28,320,000.00		Completed	-	-	-	Self-financing
Confidential network reconstruction	3,050,000.00	86.41	In progress	-	-	-	Self-financing
Preconstruction cost of zhongshan ship base	2,700,000.00	91.96	In progress	-	-	-	Self-financing
Additional berthing pier project at Cheung Chau Island pier	7,200,000.00	90.36	Completed	-	-	-	Self-financing
Old dock reinforcement	9,000,000.00	45.52	Completed	-	-	-	Self-financing
1 set 200 cube air compressor	4,375,000.00	106.53	Completed	-	-	-	Self-financing
2 sets 100 cube air compressor	4,375,000.00	68.40	Completed	-	-	-	Self-financing
Simple steel shed engineering of Guangchuan International (1-5) (new paint shed)	4,920,000.00	126.05	In progress	-	-	-	Self-financing
Ship generator load test integrated system	4,700,000.00	89.82	In progress	-	-	-	Self-financing
New area group room	8,000,000.00	89.38	Completed	-	-	-	Self-financing
Upfront cost of infrastructure & energy saving	984,000.00	103.68	In progress	-	-	-	Other funds
Deepening project at the pier along the waters (shift boat & berthing district)	3,508,000.00	105.76	In progress	-	-	-	Other funds
A shipping Ministry tug	7,500,000.00	59.88	In progress	-	-	-	Self-financing
12.5mCNC Double Column Vertical Lathe	15,000,000.00	-	In progress	-	-	-	Self-financing
A loaded class outfitting shed & team room	1,500,000.00	-	In progress	-	-	-	Self-financing
A shipped & motorized barge	1,500,000.00	-	In progress	-	-	-	Self-financing
Guangchuan Large-scale Machinery and Equipment Company Renovation Project	6,000,000.00	-	In progress	-	-	-	Self-financing
Movement of large machine & workshop	12,000,000.00	104.96	In progress	-	-	-	Self-financing
Construction fees of Zhongshang Guangchuan International and Ocean Project Co., Ltd	793,140,000.00	40.18	In progress	-	-	-	Self-financing
Others	-	-	In progress	-	-	-	-
Total	917,772,000.00						

Note: The decrease in construction-in-progress during the year is resulted from the processing completion of base soft ground from transferring to intangible assets and the completion of Cheung Chau Island pier project from transferring to long-term prepaid expenses.

Illustration: The increase in construction-in-progress of 92.45% in balance compared to the beginning is resulted from the increase in project investments for Zhongshan Guangchuan International Ship and Ocean Project Co., Ltd.

5.15 Liquidation of fixed assets

Item	Ending balance	Beginning balance	Reason for transfer
Machine and equipment	5,044,668.76	261,149.08	Scrapped
Total	5,044,668.76	261,149.08	Scrapped

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.16 Intangible assets

Item	Beginning balance	Increase		Decrease		Ending balance
		during the year	during the year	during the year	during the year	
Total Costs	364,321,601.14	76,635,080.85	–	–	–	440,956,681.99
Land use right	302,342,632.58	75,743,033.11	–	–	–	378,085,665.69
Technology without patent	61,978,968.56	892,047.74	–	–	–	62,871,016.30
Total Accumulated Amortization	61,882,209.11	11,469,220.30	–	–	–	73,351,429.41
Land use right	25,741,942.47	6,114,398.07	–	–	–	31,856,340.54
Technology without patent	36,140,266.64	5,354,822.23	–	–	–	41,495,088.87
Net Value before Impairment	302,439,392.03	–	–	–	–	367,605,252.58
Land use right	276,600,690.11	–	–	–	–	346,229,325.15
Technology without patent	25,838,701.92	–	–	–	–	21,375,927.43
Provision for Impairment for Intangible Assets						
Total Book Value of Intangible Assets	302,439,392.03	–	–	–	–	367,605,252.58
Land use right	276,600,690.11	–	–	–	–	346,229,325.15
Technology without patent	25,838,701.92	–	–	–	–	21,375,927.43

Note 1: The accumulated amortisation during the year amounted to RMB11,469,220.30.

Note 2: As at 31 December 2011, the subsidiary of the company Guangzhou Guangchuan Heavy Machine 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.

5.17 Development cost:

Item	Beginning balance	Increase	Decrease during the year		Ending balance
			Charged to profit or loss	Recognised as Intangible Assets	
2010 breakthroughs project at key areas in Guangdong and Hong Kong	–	17,904,139.53	17,904,139.53	–	–
50000t and above semi-submersible engineering vessel	–	14,718,114.45	14,718,114.45	–	–
4000 R&D projects	–	10,391,546.02	10,391,546.02	–	–
No area limit huge co-operation passenger ship	–	8,270,039.40	8,270,039.40	–	–
Key technology research and development of large shield machine and machine manufacturing	–	8,242,736.26	8,242,736.26	–	–
Information technology solutions development and application of shipbuilding industry	–	7,073,419.97	7,073,419.97	–	–
48000t refined oil/crude oil round of R&D	–	6,254,514.83	6,254,514.83	–	–
50000t convenient oil ship	–	5,008,956.56	5,008,956.56	–	–
Shipbuilding computer integrated manufacturing system	–	–	–	–	–
– GSI-SCIMS II	–	2,714,321.11	2,714,321.11	–	–
All-electric high-precision CNC bending machine	–	1,912,124.33	1,912,124.33	–	–
Others	–	14,381,466.13	14,381,466.13	–	–
Total	–	96,871,378.59	96,871,378.59	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.18 Long-term deferred expenses

Item	Beginning balance	Increase	Current Year Amortisation	Decrease	Ending balance	Reason
Project of addition of berthing pier at Changzhou Island	-	6,506,192.51	679,751.45	-	5,826,441.06	-
Total	-	6,506,192.51	679,751.45	-	5,826,441.06	-

Illustration: The Company has reinforced the Cheung Chau Island pier due to the needs for ship manufacturing. The reinforcement project was completed in June 2011, with the cumulative cost of RMB6,506,192.51. The company has recognised the project as long term prepaid expenses and amortised over the contract period with the amortisation period of 67 months.

5.19 Deferred tax assets and liabilities

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

Item	Ending balance	Beginning balance
Deferred Tax Assets		
Provision for impairment of Inventories	47,248,818.13	2,337,902.17
Housing allowance for retiree	7,812,132.99	7,957,931.52
Provision for bad debts	4,490,652.50	3,189,312.25
Deductible loss	4,227,428.33	-
Prepaid housing subsidy	3,211,352.28	1,022,868.00
Expected to onerous contracts	1,211,363.03	-
Unpaid salaries	646,845.25	4,485,600.00
Provision for impairment of investment properties	278,251.74	2,601,660.04
Early retired personnel	164,121.20	242,345.48
Medical insurance for retiree (within 10 years)	157,046.27	230,516.16
Total	69,448,011.72	22,068,135.62
Deferred Tax Liabilities		
Net movement on fair value of available-for-sale financial assets	25,656,780.44	29,941,259.09
Financial derivatives	2,860,440.02	3,184,149.68
Investment income	691,780.37	-
Total	29,209,000.83	33,125,408.77

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Temporary difference arisen from assets or liabilities projects

Item	Temporary difference
Ending balance:	
Deductible temporary difference and deductible loss:	
Provision for impairment of inventories	314,992,120.91
Housing allowance for retirees	52,080,886.57
Provision for bad debts	26,764,832.78
Prepaid housing subsidy	20,896,793.53
Deductible loss	16,909,713.31
Expected to onerous contracts	8,075,753.56
Unpaid salaries	3,229,469.00
Provision for impairment of investment properties	1,855,011.59
Early retiree benefits	1,094,141.39
Medical insurance for retirees within 10 years	1,046,975.13
Subtotal	446,945,697.77
Taxable temporary differences:	
Net movement on fair value of available-for-sale financial assets	171,045,202.96
Financial derivatives	19,069,600.10
Investment income	4,192,608.30
Subtotal	194,307,411.36
Item	Temporary difference
Beginning balance:	
Deductible temporary difference and deductible loss:	
Impairment of assets	54,192,496.40
Housing allowance for retirees	53,052,876.80
Unpaid salaries	29,904,000.00
Prepaid housing subsidy	6,819,120.00
Early retiree benefits	1,615,636.53
Medical insurance for retirees within 10 years	1,536,774.40
Subtotal	147,120,904.13
Taxable temporary differences:	
Net movement on fair value of available-for-sale financial assets	199,608,393.96
Financial derivatives	21,227,664.57
Subtotal	220,836,058.53

Illustration: The increase in deferred tax assets of 214.70% in balance compared to the beginning is resulted from the increase in provision for impairment of inventories during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.20 Provision for assets impairment

Item	Current Year				
	Beginning balance	Increase	Decrease during the year		Ending balance
			Reverse	Write-off	
Bad debts	19,771,424.05	5,230,319.59	846,767.13	-	24,154,976.51
Trade receivables	7,946,264.29	5,230,319.59	-	-	13,176,583.88
Other receivables	11,825,159.76		846,767.13	-	10,978,392.63
Provision for impairment of inventories	22,269,946.64	334,086,912.43	-	39,091,842.56	317,265,016.51
Provision for impairment of investment properties	17,344,400.27	-	-	15,489,388.68	1,855,011.59
Impairment of fixed assets	-	2,941,797.71	-	-	2,941,797.71
Total	59,385,770.96	342,259,029.73	846,767.13	54,581,231.24	346,216,802.32

Item	Last Year				
	Beginning balance	Increase	Decrease during the 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
Trade receivables	6,498,626.72	2,410,240.12	521,900.00	440,702.55	7,946,264.29
Other receivables	9,568,188.83	2,256,970.93	-	-	11,825,159.76
Provision for impairment of inventories	12,940,525.38	13,261,161.97	469,700.00	3,462,040.71	22,269,946.64
Provision for impairment of investment properties	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

5.21 Short-term borrowings

Category	Currency	Ending balance			Beginning balance		
		Original Currency	Exchange		Original Currency	Exchange	
			Rate	RMB Equivalent		Rate	RMB Equivalent
Pledged Borrowings	USD	136,000,000.00	6.3009	856,922,400.00	203,130,000.00	6.6227	1,345,269,051.00
Credit Borrowings	USD	42,715,665.91	6.3009	269,147,139.33	74,297,854.92	6.6227	492,052,403.75
Credit Borrowings	EUR	5,417,368.70	8.1625	44,219,272.02	-	-	-
Total		-	-	1,170,288,811.35	-	-	1,837,321,454.75

Note 1: Pledged borrowings are pledged by bank certificates of deposits.

Note 2: All short-term borrowings are denoted in USD with the borrowing interest rate from 1.8% to 3.5%.

Illustration: The decrease in short-term borrowings of 36.30% in balance compared to the beginning is resulted from the repayments of due amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.22 Financial liabilities held-for-trading

Item	Ending fair value	Beginning fair value
Designated as financial liabilities at fair value through profits and loss	1,159,935.94	–
Total	1,159,935.94	–

Note: The fair value of financial liabilities held-for-trading is determined by the market value from the bank with the combination of valuation techniques.

5.23 Notes payable

Classification	Ending balance	Beginning balance
Bank acceptance	688,987,230.48	697,610,318.88
Total	688,987,230.48	697,610,318.88

The above bank acceptance will fall due in 3 months.

5.24 Ageing of trade payables

(1) Trade payables

Item	Ending balance	Beginning balance
Within one year	1,330,415,145.15	1,006,995,664.46
1-2 years	18,424,536.20	172,722,284.66
2-3 years	2,218,016.40	3,237,951.92
Over 3 years	5,207,034.40	3,468,968.92
Total	1,356,264,732.15	1,186,424,869.96

(2) Up to 31 December 2011, there are no trade payables of shareholders holding 5% or more than 5% of the voting stocks.

(3) Foreign currency balance included in trade payables:

Currency	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
HKD	393,533.69	0.8107	319,037.76	–	–	–
Total	–	–	319,037.76	–	–	165,497.96

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.25 Advances from customers

(1) Ageing of advances from customers

Item	Ending balance	Beginning balance
Within one year	272,195,709.76	212,164,913.47
Over 1 year	69,751,430.28	54,373,527.47
Total	341,947,140.04	266,538,440.94

(2) Up to 31 December 2011, there are no advances from customers of shareholders holding 5% or more than 5% of the voting stocks.

(3) Foreign currency balance included in advances from customers:

Currency	Ending balance			Beginning balance		
	Original Currency	Exchange Rate	RMB Equivalent	Original Currency	Exchange Rate	RMB Equivalent
USD	8,639,309.19	6.7878	58,642,079.19	8,192,988.57	6.7066	54,947,499.67
HKD	1,012,775.60	0.8141	824,501.89	142,980.00	0.8811	125,978.87
Total	-	-	59,466,581.08	-	-	55,073,478.54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.26 Accrued salaries

(1) Details of accrued salaries are as below:

Item	Beginning balance	Increase	Decrease	Ending balance
Wages or salaries, bonuses, allowances and subsidies	29,904,000.00	780,902,065.15	806,541,202.15	4,264,863.00
Staff welfare	5,072,421.30	45,349,531.72	45,349,511.72	5,072,441.30
Social insurance fee	347,809.12	166,487,336.74	164,809,307.20	2,025,838.66
Incl: Medical insurance (Note 1)	–	44,222,388.27	44,122,075.65	100,312.62
Basic pension (Note 2)	79,086.29	85,765,432.10	85,694,858.13	149,660.26
Unemployment insurance (Note 3)	268,722.83	10,642,766.67	10,689,486.83	222,002.67
Work injury insurance	–	3,322,327.31	3,322,327.31	–
Maternity insurance	–	3,155,456.20	3,155,456.20	–
Supplementary medical insurance	–	2,270,344.32	2,270,344.32	–
Annuity (Note 4)	–	17,108,621.87	15,554,758.76	1,553,863.11
Housing fund (Note 5)	–	64,782,275.20	64,615,085.20	167,190.00
Union & Education funds	3,663,865.07	16,420,161.72	13,752,979.46	6,331,047.33
Non-monetary benefits				
Termination benefits	1,615,636.56	528,854.74	1,050,349.91	1,094,141.39
Incl: (a) Compensation for cancellation of labor relations (Note 6)	–	528,854.74	528,854.74	–
(b) Estimated retiree fund (Note 7)	1,615,636.56	–	521,495.17	1,094,141.39
Outsourcing labor costs and others	–	709,973,489.82	709,364,489.82	609,000.00
Incl: Cash-settled share-based payment	–	–	–	–
Total	40,603,732.05	1,784,443,715.09	1,805,482,925.46	19,564,521.68

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) *Illustration:*

The decrease in accrued employee benefits of 51.82% in balance compared to the beginning is resulted from distributing annual bonus for 2010 during the reporting date.

As stipulated by the relevant regulations of the PRC government, the Company and its local subsidiaries had provided existing and upon retire personnel with medical insurance, basic pension, unemployment insurance, work injury insurance, maternity insurance, supplementary medical insurance, annuity, housing fund, etc. Other than those disclosed employee benefit schemes, the Group had no other significant legal or constructive obligations for retiring payment to retiree or existing employees.

Note 1: Basic medical insurance: Since 2001, the Company and its local subsidiaries had joined the Guangzhou City scheme of basic medical insurance for workers and paid the basic medical insurance for workers based on 8% of the last year's average salary of the Group or the average salary of Guangzhou City.

Note 2: Basic pension: Since 1994, the Company and its local subsidiaries had joined the pension fund plan proposed by the Guangdong Province and paid the basic medical for workers based on 18% of the last year's average salary of the Group or the average salary of Guangzhou City. Guangzhou Province Social Insurance Fund Management Authority, the underwriting unit, will pay the retired workers monthly.

Note 3: Unemployment insurance: Since 1999, the Company and its local subsidiaries had joined the unemployment insurance plan proposed by the Guangdong Province and paid the unemployment insurance based on 2% of the last year's average salary of the Group or the average salary of Guangzhou City.

Note 4: Annuity: According to the State Regulation, the proposed annuity program of the Group was examined and approved by the representatives of the employees of the General Assembly and board of directors of the the Group, which was reported to and reviewed by the Guangdong Provincial Labour and Social Security Department. The Group had established the Annuity Council, which was responsible for daily management of annuity. Segregation of management of annuity assets and the Group's assets was implemented. Annuity Council had engaged independent third party to act as the annuity account-in-charge and investment management-in-charge. The Group should account the annuity in the profit and loss in the respective period and pay the annuity into the bank account opened by the employees at the annuity account-in-charge on a quarterly basis. No significant changes in the annuity program occurred during the year.

Note 5: Housing allowance: The Company and its local subsidiaries were required to pay housing allowance, based on 12% of total staff salary.

Note 6: Termination benefit: When the Group had formally proposed the plan of termination of labour, either termination of labour before the date stated on the employment contract or compensation proposal of voluntary acceptance of termination, and that the plan will be implemented, the Group could not unilaterally cancel the plan of termination of labour and account the resultd compensation into the profit or loss.

Note 7: Estimated retiree fund: The Company approved several personnel's retirement application. In accordance with the retirement plan, the Company estimated the retiree fund based on the last year's amount required by the retiree, and paid by monthly basis. Retiree possessed the same staff welfare as existing staff (social insurance including basic pension, housing allowance, medical insurance, etc), which was calculated with basis on the monthly payment of retire fund.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.27 Taxes payables

Categories	Ending balance	Beginning balance
Value-added Tax	-77,996,141.77	-8,721,961.66
Business Tax	882,439.37	1,123,628.03
Corporate Income Tax	111,945,633.31	100,374,455.13
Individual income Tax	7,603,954.27	7,630,339.16
City Maintenance and Construction Tax	642,928.41	5,275,327.10
Real Estate Tax	774,110.48	3,350,686.57
Land Appreciation Tax	273,550.80	448,698.49
Education surcharge	490,777.62	2,253,210.00
Flood control and maintain expenses	3,489,522.00	3,563,868.53
Total	48,106,774.49	115,298,251.35

Illustration: The decrease in taxes payable of 58.28% in balance compared to the beginning is resulted from the increase in deductible import tax.

5.28 Interest payables

Item	Ending balance	Beginning balance
Interest on long-term borrowings	13,410,394.12	4,442,884.46
Interest on short-term borrowings	10,182,712.48	9,278,056.68
Total	23,593,106.60	13,720,941.14

Illustration: The increase in interest payable of 71.95% in balance compared to the beginning is resulted from hedging the foreign exchange risk by the increase in long-term borrowings in foreign currencies.

5.29 Dividend payables

Name	Ending balance	Beginning balance	Reason for unpaid over 1 year
Unpaid A share dividend	59,118.75	54,419.75	In progress of confirming the right indeed for the dividend of individual shareholder
Unpaid H share dividend	98,794.23	13,181.88	In progress of confirming the right indeed for the dividend of individual shareholder
Total	157,912.98	67,601.63	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.30 Others payables

(1) Ageing of other payables

Item	Ending balance	Beginning balance
Within one year	16,080,755.24	59,245,023.68
1 - 2 years	1,794,621.02	3,046,469.47
2 - 3 years	1,376,178.33	3,836,468.09
Over 3 years	8,039,172.42	4,356,756.17
Total	27,290,727.01	70,484,717.41

(2) Up to 31 December 2011, there are no other payables of shareholders holding 5% or more than 5% of the voting stocks.

(3) Other payables with significant ending balances:

Item	Amount	Aging	Nature or Content
Housing fund	4,539,300.00	Within 1 year	Housing fund
Supplementary pension insurance	3,251,393.73	Over 3 years	Supplementary pension insurance
Denmark LAURITAEN TARKERS Retirement medical insurance	2,860,783.30	Within 1 year	Fuel costs for engineering
	1,046,974.33	2 - 3 years	Retirement medical insurance
Total	11,698,451.36		

5.31 Current portion of long-term liabilities

Item	Ending balance	Beginning balance
Long-term borrowings mature in 1 year	593,796,816.00	—
Total	593,796,816.00	—

For the status of long-term liabilities mature in 1 year, please refer to Note 5.33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.32 Other current liabilities

Item	Ending balance	Beginning balance
Construction contracts settlement		
Shipbuilding products	2,034,909,482.66	3,295,814,462.46
Deferred income		
Security conditions of construction projects	1,231,074.60	–
Innovative capacity-building projects of the Enterprise Technology Center	300,000.00	–
150t of self-propelled hydraulic flatbed (Revamp funds)	166,666.68	–
Coating technology and transformation (coating workshop building)	153,698.64	–
Technological transformation potential fund - 40000t ship to develop new equipment and technological transformation	142,191.84	–
Transferring capabilities of regional value integration and upgrading technologies	48,438.15	–
Dock adaptive transformation (1)	33,333.36	–
Dock adaptive transformation	26,666.64	–
Noise control engineering for painting workshop	15,789.48	–
Transferring capabilities of regional value integration and upgrading technologies	9,999.96	–
Noise control engineering for new area	7,599.96	–
Total	2,037,044,941.97	3,295,814,462.46

Illustration: The decrease in other current liabilities of 38.19% in balance compared to the beginning is resulted from the decrease in construction contracts settlement during the year.

5.33 Long-term borrowings

(1) Category of long-term borrowings:

Category	Ending balance	Beginning balance
Pledged borrowings	1,675,187,166.04	624,123,248.00
Less: Due within 1 year (Note 5.31)	593,796,816.00	–
Total	1,081,390,350.04	624,123,248.00

(2) Analysis of maturity dates of long-term borrowings

	Ending balance	Beginning balance
Within 1 year	593,796,816.00	–
1 to 2 years	1,081,390,350.04	593,796,816.00
2 to 3 years	–	30,326,432.00
Total	1,675,187,166.04	624,123,248.00

Note 1: Pledged borrowings are used bank deposits to pledge.

Note 2: Short-term borrowings are in USD, annual interest rate is ranged from 2.2% to 4.2%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) The five companies with the largest long-term borrowings balance

Unit	Start date	Ending date	Currency	Year rate (%)	Ending balance		Beginning balance	
					RMB	Foreign currency	Foreign currency	RMB
JP Morgan Chase Bank Guangzhou Branch	2011-8-19	2013-8-16	USD	3.37	46,441,884.21	292,625,668.22	-	-
Citi Bank (China) Limited Guangzhou Branch	2011/10-11	2013-10-11	USD	4.09111	30,097,224.42	189,639,601.35	-	-
Sumitomo Mitsui Bank Guangzhou Branch	2011-5-11	2013-5-10	USD	2.2	20,000,000.00	126,018,000.00	-	-
China CITIC Bank Guangzhou Branch	2011-5-27	2013-5-27	USD	3.65	10,000,000.00	63,009,000.00	-	-
Germany bank Shanghai branch	2011-4-19	2013-4-19	USD	4.15	10,000,000.00	63,009,000.00	30,000,000.00	198,681,000.00
Total					116,539,108.63	734,301,269.57	30,000,000.00	198,681,000.00

Illustration: The increase of 73.27% is resulted from the increased holdings of foreign currency to guard against exchange risk.

5.34 Special purpose payables

Item	Beginning balance	Increase	Decrease	Ending balance	Note
High-speed ro/ro passenger	6,720,000.00	-	-	6,720,000.00	船財[2001]13號
Semi-submersible vessel 18000t	17,850,000.00	-	-	17,850,000.00	船工計[2002]350號
Total	24,570,000.00	-	-	24,570,000.00	

Note: 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.

5.35 Estimated liabilities

Item	Beginning balance	Increase during the year	Decrease during the year	Ending balance during the year
Product quality warranties	110,563,165.19	39,581,877.70	15,145,759.31	134,999,283.58
Unpaid retiree housing subsidy	53,052,876.78	999,084.00	1,971,074.21	52,080,886.57
Contracts with foreseeable losses	-	8,075,753.56	-	8,075,753.56
Total	163,616,041.97	48,656,715.26	17,116,833.52	195,155,923.71

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.36 Other non-current liabilities

Item	Ending balance	Beginning balance
Deferred income (CSSC)	34,271,013.49	19,072,329.44
Deferred income (Guangzhou Finance Bureau)	3,000,000.00	
Deferred income (Guangzhou Economic and Commercial Technical Committee)	2,506,141.59	2,568,333.43
Deferred income (Guangdong Economic and Commercial Technical Committee)	2,255,250.88	2,430,776.08
Deferred income (Guangzhou Environment Protect Bureau)	1,409,519.39	2,154,481.57
Deferred income (Zhongshan Finance Bureau, Development Department)	1,951,397.25	
Deferred income (Others)	813,900.34	7,979,986.42
Total	46,207,222.94	34,205,906.94

(2) Government grant

Item	Ending balance	Increase	Decrease	Reason
Deferred income (CSSC)	34,271,013.49	1,589,512.71	–	–
Deferred income (Guangzhou Finance Bureau)	3,000,000.00	8,690,000.00	–	–
Deferred income (Guangzhou Finance Bureau)	2,506,141.59	193,333.32	–	–
Deferred income (Guangzhou Finance Bureau)	2,255,250.88	175,525.20	–	–
Deferred income (Guangzhou Environment Protect Bureau)	1,409,519.39	177,088.08	–	–
Deferred income (Zhongshan Finance Bureau, Development Department)	1,951,397.25	–	–	–
Deferred income (Others)	813,900.34	–	–	–
Total	46,207,222.94	10,825,459.31	–	–

Illustration: The increase of 35.09% is resulted from the increased research project funding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.37 Share capital

Movement of share capital in current year are listed as below. The Company's shares are ordinary shares of nominal value of RMB1 per share.

Name of shareholder/ Classification	Current year							
	Beginning balance		Increase/decrease during the year				Ending balance	
	Amount	Ratio (%)	Issue New Shares	Stock Dividend	Capitalisation of Capital Reserve	Sub total	Amount	Ratio (%)
Unrestricted shares								
RMB Ordinary shares	337,279,580.00	68.18	-	-	101,183,874.00	101,183,874.00	438,463,454.00	68.18
Foreign capital stocks listed domestically	157,398,000.00	31.82	-	-	47,219,400.00	47,219,400.00	204,617,400.00	31.82
Total unrestricted shares	494,677,580.00	100.00	-	-	148,403,274.00	148,403,274.00	643,080,854.00	100.00
Total	494,677,580.00	100.00	-	-	148,403,274.00	148,403,274.00	643,080,854.00	100.00
Name of shareholder/ Classification	Last year							
	Beginning balance		Increase/decrease during the year				Ending balance	
	Amount	Ratio (%)	Issue New Shares	Stock Dividend	Capitalisation of Capital Reserve	Sub total	Amount	Ratio (%)
Unrestricted shares								
RMB Ordinary Shares	337,279,580.00	68.18	-	-	-	-	337,279,580.00	68.18
Foreign Capital Stocks listed domestically	157,398,000.00	31.82	-	-	-	-	157,398,000.00	31.82
Total unrestricted shares	494,677,580.00	100.00	-	-	-	-	494,677,580.00	100.00
Total	494,677,580.00	100.00	-	-	-	-	494,677,580.00	100.00

Note: The Company's authorised and issued share capital are RMB494,677,580. In accordance with the Company's 2010 annual general meeting and amended Articles of Association, the registered capital was increased to RMB148,403,274 from the capital reserve. The deadline for submitting the documents of transfer of H-shares was July 15, 2011 and the registration date of A-shares was July 19, 2011. The registered capital was RMB643,080,854. As at 31 December 2011, the Company's total share capital amounts to RMB643,080,854 are unrestricted shares. The increase of share capital is verified by SHINEWING (HK) CPA Limited's capital verification report XYZH/2011A9017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.38 Capital reserve

Item	Current Year			
	Beginning balance	Increase	Decrease	Ending balance
Share premium	651,385,281.95	–	148,403,274.00	502,982,007.95
Other reserve	170,250,066.13	–	24,278,712.35	145,971,353.78
Total	821,635,348.08	–	172,681,986.35	648,953,361.73

Item	Prior year			
	Beginning balance	Increase	Decrease	Ending balance
Share premium	651,385,281.95	–	–	651,385,281.95
Other reserve	245,298,016.22	–	75,047,950.09	170,250,066.13
Total	896,683,298.17	–	75,047,950.09	821,635,348.08

Note 1: As per the 2010 annual shareholders' meeting resolution and the revised charter, the Company applied to increase the authorised share capital of RMB148,403,274 and capitalise capital reserve as paid-up capital.

Note 2: During the year, the decrease in other reserve was due to the change in fair value of available-for-sale financial assets.

5.39 Surplus reserves

Item	Current year			
	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserve	358,308,326.97	49,096,181.78	–	407,404,508.75
Discretionary surplus reserve	18,926,387.43	–	–	18,926,387.43
Total	377,234,714.40	49,096,181.78	–	426,330,896.18

Item	Prior year			
	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserve	285,370,354.57	72,937,972.40	–	358,308,326.97
Discretionary surplus reserve	18,926,387.43	–	–	18,926,387.43
Total	304,296,742.00	72,937,972.40	–	377,234,714.40

Note: During the year ended 31 December 2011, a sum of RMB49,096,181.78, which was 10% of the net profit of the holding company, was appropriated to statutory surplus reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.40 Undistributed profit

Item	Current year	
	Amount	Appropriated portion (%)
Last year ending balance	1,969,471,836.12	–
Add: Opening adjusted amount		
– Change in accounting policy	–	–
– Correction of material misstatement in prior years	–	–
– Change in consolidation	–	–
– Other factors	–	–
Current year beginning balance	1,969,471,836.12	–
Add: Attributable profits to owners of holding company for the year	518,333,370.07	–
Less: Appropriation to statutory surplus reserve	49,096,181.78	10% of the Company's net profit
Appropriation to arbitrary surplus reserve	–	–
Appropriation to reserve for general risk	–	–
Ordinary stock dividend payable	49,467,758.00	–
Capitalised ordinary stock dividend	–	–
Current year ending balance	2,389,241,266.41	–
Item	Prior year	
	Amount	Appropriated portion (%)
Last year ending balance	1,473,182,738.39	–
Add: Opening adjusted amount		
– Change in accounting policy	–	–
– Correction of material misstatement in prior years	–	–
– Change in consolidation	–	–
– Other factors	–	–
Current year beginning balance	1,473,182,738.39	–
Add: Attributable profits to owners of holding company for the year	707,736,792.53	–
Less: Appropriation to statutory surplus reserve	72,937,972.40	10% of the Company's net profit
Appropriation to arbitrary surplus reserve	–	–
Appropriation to general risk reserve	–	–
Ordinary stock dividend payable	138,509,722.40	–
Capitalised ordinary stock dividend	–	–
Current year ending balance	1,969,471,836.12	–

Note: Resolved in the 2010 annual shareholders meeting, with Ending balance of 494,677,580 shares, cash dividend of RMB0.1 (including tax) per share shall be distributed, amounted a total of cash dividend of RMB49,467,758.00.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.41 Non-controlling interest

Non-controlling interest of subsidiaries are as follows:

Subsidiary	Percentage of shareholding (%)	Ending balance	Beginning balance
Guangzhou United Steel Structures Co. Ltd.	49	80,562,329.57	78,157,908.57
Guangzhou Hongfan Information Technique Co. Ltd.	49	8,977,610.04	7,475,704.04
Fonkwang Development Limited	30	3,627,904.13	2,591,028.28
Guangzhou Master Marine Engineering Co. Ltd.	0	–	2,682,479.64
Total		93,167,843.74	90,907,120.53

Note: At the beginning of the year, there was non-controlling interest of 24% in Guangzhou Master Marine Engineering Co. Ltd. During the year, the Company signed a sale and purchase agreement with CSSC Guangzhou Huangpu Shipyard Ltd, a wholly-owned subsidiary of CSSC, on 15 February 2011 to purchase the 24% equity shares of Guangzhou Master Marine Engineering Co. Ltd held by CSSC Guangzhou Huangpu Shipyard Ltd at a consideration of RMB 19,905,000.

5.42 Operating income, operating cost

Item	Current year amount	Last year amount
Income from principal activities	8,141,361,727.70	6,907,622,981.64
Other operating income	155,069,620.14	106,601,687.37
Total	8,296,431,347.84	7,014,224,669.01
Cost of goods sold	7,234,556,518.33	5,975,171,685.32
Other operating expenses	135,163,483.52	101,745,273.68
Total	7,369,720,001.85	6,076,916,959.00

(1) Principal activities - by product

Product	Current year amount		Last year amount	
	Revenue	Cost of sales	Revenue	Cost of sales
Shipbuilding product	7,225,493,551.62	6,479,334,758.32	6,402,821,761.65	5,557,573,991.10
Steel Structure Project	428,841,820.96	393,130,822.96	152,650,941.70	139,802,503.08
Mechanical & electrical products & others	487,026,355.12	362,090,937.05	352,150,278.29	277,795,191.14
Total	8,141,361,727.70	7,234,556,518.33	6,907,622,981.64	5,975,171,685.32

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Principal activities - by geographic distribution

Country	Current year amount		Last year amount	
	Income from principal activities	Cost of sales	Income from principal activities	Cost of sales
Denmark	2,462,852,434.44	2,089,850,588.30	2,956,767,245.03	2,483,180,094.23
Holland	727,783,083.38	680,661,903.82	75,899,797.93	75,899,797.93
Hong Kong	375,086,912.20	328,758,071.16	347,575,984.57	329,136,792.69
Greece	364,385,336.72	299,415,049.97	456,215,787.64	378,623,702.31
Columbia	199,285,313.81	178,892,963.78	-	-
Malta	184,559,546.96	152,020,229.96	-	-110,200.00
Sweden	92,113,557.89	92,113,557.89	-	-
Australia	57,205,238.65	47,070,816.68	16,199,625.68	21,048,006.19
The Philippines	20,847,399.05	21,852,224.01	-	-
Canada	8,964,524.47	8,511,994.67	-	-
The United States	4,689,609.71	3,807,810.50	41,719,511.96	27,330,079.01
Italy			261,997,238.23	209,585,577.65
Other	5,868,830.21	5,055,235.76	29,479,586.86	26,155,771.27
People's Republic of China	3,637,719,940.21	3,326,546,071.83	2,721,768,203.74	2,424,322,064.04
Total	8,141,361,727.70	7,234,556,518.33	6,907,622,981.64	5,975,171,685.32

(3) Revenue from construction contracts

Contract	Total amount	Accumulated cost incurred	Total gross profit	Settled amount	Estimated loss	Reason of foreseeable loss
Fixed cost contract						
50500 series	5,036,168,868.88	3,110,231,155.28	540,743,392.76	3,881,608,823.69	-	
39000 series	1,549,014,354.78	1,082,712,218.14	154,309,595.61	1,247,349,423.82	72,106,889.46	Note
50000series (semi-submersible)	3,761,403,490.00	2,515,774,801.43	87,223,058.89	2,565,638,751.12	-	
Ro-ro passenger ship series	1,555,055,388.50	904,899,938.93	278,288,698.27	1,346,800,000.00	-	
52300 series	1,839,077,876.98	864,464,852.84	145,177,376.48	845,691,436.80	28,020,034.94	Note
37500 series	1,104,222,900.00	10,951,210.72	-	251,594,183.48	-	
55000 series	564,793,582.00	568,800,424.47	-4,006,842.47	564,793,582.00	-	
48000 series	2,180,539,290.00	691,447,092.44	-80,844,728.79	1,064,092,682.60	149,055,249.85	Note
50000 series	770,000,000.00	42,049,577.10	-	231,000,000.00	49,800,486.88	Note
specific or others	3,928,840,000.00	1,957,013,007.71	45,068,154.10	2,316,900,000.00	24,184,228.50	Note
Total	22,289,115,751.14	11,748,344,279.06	1,165,958,704.85	14,315,468,883.51	323,166,889.63	

Note 1: Foreseeable loss on construction contract for the year was RMB323,166,889.63. (2010:Nil)

Note 2: The expected loss of the Series 48000 is RMB323,166,889.63. The loss is due to the price of the ship has been continuously decreasing, the appreciation of RMB against USD and the increase in quality due to the keen competition in market.

(4) The five customers with the largest sales transactions with the Company amounted to RMB3,475,218,040.66, represented 41.89% of total sales. (2010: RMB4,223,745,311.51, represented 60.21%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) *During the year ended 31 December 2011, the Company had other operating income amounted to RMB155,069,620.14 (2010:106,601,687.37), which was generated by selling of materials and scrap metal and earning of rental income in the PRC.*

5.43 Other taxes and surcharges

Item	Current year amount	Last year amount	Tax Base
Business tax	5,591,116.32	6,588,374.70	Service revenue
City maintenance and construction tax	24,977,977.04	16,884,899.75	Tax payables
Educational surcharge	17,865,883.93	7,237,117.06	Tax payables
Total	48,434,977.29	30,710,391.51	

Illustration: Other taxes and surcharges increased by 57.72% which was due to increase in selling of products in the PRC.

5.44 Selling expense

Item	Current year amount	Last year amount
Ship maintenance fee	12,446,100.27	49,775,288.86
Salary	4,483,724.73	2,771,223.65
Business expenditure	3,898,866.11	2,408,020.48
Consignment fee	2,070,900.00	1,462,320.00
Advertisement	816,955.93	1,182,992.30
Exhibition	584,497.22	543,632.44
Other	1,523,633.53	631,839.93
Total	25,824,677.79	58,775,317.66

Illustration: Selling expense decreased by 56.06%, which was due to the refund from the excess ship maintenance fee paid for 29000T and other series.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.45 Administrative expense

Item	Current year amount	Last year amount
Salary	135,471,721.46	147,480,088.34
Research and development fee	96,871,378.59	81,461,338.29
Repair expense	73,745,509.05	63,568,980.48
Taxation	16,367,680.18	18,387,264.56
Depreciation	13,576,244.12	13,063,654.93
Preparation expense	10,130,661.69	4,968,056.82
Amortisation of intangible assets	6,365,771.71	6,452,622.88
Entertainment	5,999,674.07	5,767,262.77
Board of directors running expense	5,651,494.08	3,512,770.82
Travelling	5,369,064.88	4,758,324.90
Rental expense	3,951,054.05	4,404,827.14
Water supply and electricity expense	3,737,073.41	2,999,053.39
Agency fee	3,454,466.19	3,880,053.13
Security expense	2,942,976.90	2,797,551.39
Office supply	2,698,870.39	3,267,446.84
Environmental protection fee	2,188,818.43	2,942,508.67
Labour training	2,012,400.00	1,950,000.00
Insurance	1,055,992.62	6,563,580.62
Retired labour subsidy	–	30,582,269.90
Others	11,327,974.19	9,539,042.89
Total	402,918,826.01	418,346,698.76

5.46 Finance Cost

Item	Current year amount	Last year amount
Interest expense (repayable within 5 years)	70,231,901.86	35,252,345.27
Less: Capitalised interest	0	0
Net interest expense	70,231,901.86	35,252,345.27
Less: Interest income (based on actual interest rate)	188,130,858.46	138,107,190.44
Add: Exchange loss	-123,460,307.38	-50,681,470.21
Add: Others	2,793,977.80	2,886,612.43
Total	-238,565,286.18	-150,649,702.95

Illustration: Finance cost decreased by 58.36% which was due to the exchange gain of USD loan and the increased interest rate.

5.47 Impairment loss of assets

Item	Current year amount	Last year amount
Impairment loss of trade receivables	4,383,552.46	4,145,311.05
Impairment loss of inventory	334,086,912.43	12,791,461.97
Impairment loss of fixed assets	2,941,797.71	–
Total	341,412,262.60	16,936,773.02

Illustration: The expected loss of the construction contract (impairment loss of inventories) is increase due to the price of the ship has been continuously decreasing, the appreciation of RMB against USD and the increase in quality due to the keen competition in market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.48 Loss on changes in fair value

Item	Current year amount	Last year amount
Financial assets held-for-trading		
Incl: Changes in fair value on derivative financial instruments	-998,128.53	-42,732,189.17
Financial liabilities held-for-trading		
Incl: Changes in fair value on derivative financial instruments	-1,159,935.94	-
Total	-2,158,064.47	-42,732,189.17

Illustration: The decrease in loss of changes in 94.95% was due to the settlement of some foreign exchange forward contracts and the fluctuation of fair value of unmatured contracts.

5.49 Investment income

(1) Source of investment income

Item	Current year amount	Last year amount
Long term equity investment under equity method	4,202,145.78	5,275,132.61
Long term equity investment under cost method		800,000.00
Available-for-sale financial assets	5,488,218.50	3,855,606.50
Disposal of long-term equity investment	7,330.90	
Disposal of trading financial assets	36,927,579.42	74,790,331.51
Disposal of trading financial liabilities	2,613,291.01	-1,304,055.58
Total	49,238,565.61	83,417,015.04

Note: No material restriction exists for the Group's generating of investment income.

(2) Long term equity investment under equity method

Item	Current year amount	Last year amount	Reason for the change compared to last years
Total	4,202,145.78	5,275,132.61	
Incl: Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	3,726,796.49	4,579,351.56	Decrease in profit of the investment unit

Illustration: Investment income decreased by 40.09% was due to the decrease in gain from settlement of foreign exchange forward contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.50 Other operating income

(1) Breakdown of other operating income is as follows:

Item	Current year amount	Last year amount
Gain on disposal of non-current assets	476,579.83	415,281.94
Incl: Gain on disposal of fixed assets	476,579.83	415,281.94
Government subsidies	133,963,244.06	235,541,643.96
Penalty income	247,640.00	
Compensation income	78,329,819.98	474,526.85
Other	1,740,900.33	2,685,965.36
Total	214,758,184.20	239,117,418.11

Illustration: The Company signed an agreement with TORM to cancel the construction contract of 52300ton A3# ship for a compensation of RMB 88,751,000, resulted an amount of other operating income of RMB77,367,200.

(2) Government subsidies

Item	Current year amount	Last year amount	Remarks
Product subsidy	83,220,329.88	149,297,276.06	
New product subsidy	26,849,162.63	68,809,648.85	
Finance subsidy	11,836,325.74	4,439,713.29	
Financial discount	9,456,000.00	5,280,000.00	
Rebate from sale of self-produced software	2,601,425.81	1,018,083.36	
Guangzhou Province employment subsidy	–	6,696,922.40	
Total	133,963,244.06	235,541,643.96	

5.51 Other operating expense

Item	Current year amount	Last year amount
Loss on disposal of non-current assets	402,905.69	1,826,631.37
Incl: Loss on disposal of fixed assets	402,905.69	1,826,631.37
Donation	11,000.00	18,000.00
Penalty expense	70,106.45	303,032.35
Compensation	837,740.53	–
Others	611,556.01	313,095.59
Net loss TTS project	–	5,282,280.05
Total	1,933,308.68	7,743,039.36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.52 Income taxes

(1) Breakdown of income taxes is as follows:

Item	Current year amount	Last year amount
Current tax	131,014,496.25	140,834,484.01
PRC	129,801,171.51	140,508,633.29
Hong Kong	1,213,324.74	325,850.72
Deferred tax	-47,011,805.39	-16,091,594.50
Total	84,002,690.86	124,742,889.51

(2) Current tax

Tax expenses based on the profit (loss) in the consolidated income statement and the applicable tax rates:

Item	Current year amount	Last year amount
Total profit (loss) in the consolidated income statement	606,591,265.14	835,247,436.63
Add: set off of profit (loss) in the consolidated statement	5,747,938.26	4,350,576.12
Accounting profit	612,339,203.40	839,598,012.75
Tax at 15% (Last year: 15%)	91,850,880.51	125,939,701.93
Tax effect of income not taxable for tax purpose		
Tax effect of expenses not deductible for tax purpose	40,752,119.86	11,230,501.66
Unrecognised tax loss and deductible temporary difference	-57,028,084.34	-1,225,518.52
Effect of tax exemption granted	-4,012,925.50	1,167,476.24
Effect of different tax rates among the Group	2,489,464.87	-2,301,605.75
Utilisation of tax losses/deductible temporary differences previously not recognised	9,348,680.71	-8,022,358.14
Underprovision of tax in prior years	602,554.75	-2,045,307.91
Increase/decrease in opening deferred tax liability resulting from an increase/decrease in applicable tax rate	-	-
Total	84,002,690.86	124,742,889.51

5.53 Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The numerator of the diluted earnings per share attributable to ordinary shareholders is the Group's net profit after adjusted the following factors: (1) the recognised interest expense of dilutive potential ordinary shares; (2) income or expense that would result from the conversion of dilutive potential ordinary shares; and (3) the related income tax effects of the above adjustments.

The denominator of diluted earnings per share is equal to the sum of: (1) the weighted average number of issued ordinary shares of the parent company; and (2) the weighted average number of shares after conversion of the dilutive potential ordinary shares into ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In calculating the weighted average number of shares after conversion of dilutive potential ordinary shares into ordinary shares, the dilutive potential ordinary shares which were converted in prior years are assumed to be converted at the beginning of the year and the dilutive potential ordinary shares which were converted during the year are assumed to be converted at the conversion date.

Basic earnings per share and diluted earnings per share are calculated as follows:

Item	Reference number	Current year	Last year
Net profit attributable to shareholders of the Company	1	518,333,370.07	707,736,792.53
Non-recurring gain or losses attributable to the Company	2	140,749,216.19	96,023,557.71
Net profit attributable to shareholders after deducting non-recurring gain or losses of the Company	3=1-2	377,584,153.88	611,713,234.82
Number of shares at the beginning of year	4	643,080,854.00	494,677,580.00
Shares from capitalised reserve or stock dividend	5	–	148,403,274.00
Issue of shares or conversion of convertible loan	6	–	–
Number of months from next month to the year end	7	–	–
Repurchase of shares	8	–	–
Number of months of reduction of shares from next month to the year end	9	–	–
Reduction of shares	10	–	–
Number of months during the reporting period	11	12.00	12.00
Weighted average number of ordinary shares outstanding	$12=4+5+6 \times 7 \div 11 - 8 \times 9 \div 11-10$	643,080,854.00	643,080,854.00
Basic earnings per share (I)	$13=1 \div 12$	0.81	1.10
Basic earnings per share (II)	$14=3 \div 12$	0.59	0.95
Recognised interest expense incurred for dilutive potential ordinary shares	15	–	–
Conversion cost	16	–	–
Income tax rate	17	0.15	0.15
Warrants, options exercised, convertible bonds and others which increased the weighted average number of ordinary shares	18	–	–
Diluted earnings per share (I)	$19=[1+(15-16) \times (1-17)] \div (12+18)$	0.81	1.10
Diluted earnings per share (II)	$19=[3+(15-16) \times (1-17)] \div (12+18)$	0.59	0.95

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.54 Dividend

(1) Cash dividend

During the 2011 reporting period, the Company declared final dividend for the year ended 31 December 2010 of RMB0.10 (including tax) per share for the total number of shares of 494,677,580 as at 31 December 2010, which amounted to RMB49,467,758.00. The amount was distributed in July 2011.

During the 2010 reporting period, the Company declared final dividend for the year ended 31 December 2009 of RMB0.28 (including tax) per share for the total number of shares of 494,677,580 as at 31 December 2009, which amounted to RMB138,509,722.40. The amount was distributed in July 2010.

According to the resolution of the Board of Directors on 29 March 2012, the Company proposed not to pay any final dividend of 2011. The proposed dividend is subject to approval in 2011 annual general meeting.

(2) Increase of shares

The Company implemented the capitalisation of capital reserves of the 494,677,580 shares as at 31 December 2010, 3 shares for each 10 shares, to shareholders of A shares and H shares on 21 July 2011 and 26 July 2011 respectively. The total number of shares was thereafter increased to 643,080,854 shares.

5.55 Other comprehensive income

Item	Current year amount	Last year amount
Gain (loss) from available-for-sale financial assets	-28,563,191.00	-70,568,253.50
Less: Income tax attributable to the gain (loss) from available-for-sale financial assets	-4,284,478.65	4,479,696.59
Total	-24,278,712.35	-75,047,950.09

5.56 Notes to the Statement of Cash Flows

(1) Cash from/used in operating/investing/financing activities

i) Cash from operating activities

Item	Current year amount	Last year amount
Product subsidy	257,279,911.92	-
Infrastructure fund for high-technology research	20,070,000.00	20,000,000.00
Fund for innovation of equipment	18,600,000.00	2,000,000.00
Foreign trade development fund		5,280,000.00
Research subsidy	12,190,000.00	38,680,000.00
Others	56,327,087.60	119,041,170.96
Total	364,466,999.52	185,001,170.96

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ii) Cash used in operating activities

<u>Item</u>	<u>Current year amount</u>	<u>Last year amount</u>
Administrative expense	152,761,769.68	169,831,211.34
Selling expense	8,894,852.79	9,000,028.80
Cost of sales	81,181,435.51	81,021,213.28
Other operating expense	1,933,308.68	2,460,759.31
Total	244,771,366.66	262,313,212.73

iii) Cash from investing activities

<u>Item</u>	<u>Current year amount</u>	<u>Last year amount</u>
Bank interest income	158,948,775.60	155,644,874.62
Total	158,948,775.60	155,644,874.62

iv) Cash used in investing activities

<u>Item</u>	<u>Current year amount</u>	<u>Last year amount</u>
Pledged deposit	1,414,124,301.01	1,157,694,170.16
Total	1,414,124,301.01	1,157,694,170.16

v) Cash used in financing activities

<u>Item</u>	<u>Current year amount</u>	<u>Last year amount</u>
Bank charges and others	62,472.85	2,886,612.43
Total	62,472.85	2,886,612.43

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Notes to the Consolidated Statement of Cash Flows

Item	Current year amount	Last year amount
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	522,588,574.28	710,504,547.12
Add: Provisions	341,412,262.60	16,936,773.02
Depreciation of fixed assets	110,533,889.58	110,213,226.21
Depletion of oil and nature gas assets		
Depreciation of biological assets		
Amortisation of intangible assets	11,469,220.30	10,025,977.90
Amortization of long-term deferred expenses	679,751.45	
Amortization of deferred expenses		
Accrued expenses		
Disposal of property, plant and equipment, intangible assets and other non-current assets ("-" for gain)	-73,674.14	1,411,349.43
Loss on disposal of fixed assets ("-" for gain)		
Change in fair value ("-" for gain)	2,158,064.47	42,732,189.17
Finance cost ("-" for gain)	-238,565,286.18	-150,649,702.95
Loss on investment ("-" for gain)	-49,238,565.61	-83,417,015.04
Decrease in deferred tax assets ("-" for gain)	-47,379,876.10	-9,537,432.70
Increase in deferred tax liabilities ("-" for decrease)	-3,916,407.94	-6,554,161.79
Decrease in inventory ("-" for increase)	141,347,729.76	-310,353,974.46
Decrease in operating receivables ("-" for increase)	-226,703,483.66	-245,386,876.99
Increase in operating payables ("-" for decrease)	-1,746,872,174.80	952,960,559.86
Others		
Net cash flows from operating activities	-1,182,559,975.99	1,038,885,458.78
2. 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		
3. Net increase in cash and cash equivalents:		
Cash as at the end of year	2,960,018,580.11	5,003,896,203.36
Less: Cash as at the beginning of the year	5,003,896,203.36	4,380,328,209.50
Add: Cash equivalents at the end of the year		
Less: Cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	-2,043,877,623.25	623,567,993.86

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Cash and cash equivalents:

Item	Current year amount	Last year amount
Cash	2,960,018,580.11	5,003,896,203.36
Incl: Cash in hand	180,003.29	239,365.57
Unrestricted bank deposit	2,959,763,035.30	4,997,889,945.93
Unrestricted cash in other currency	75,541.52	5,766,891.86
Unrestricted central bank deposit	–	–
Deposit in equivalent industry	–	–
Placement in equivalent industry	–	–
Cash equivalent	–	–
Incl: 3-month bond investment	–	–
Cash and cash equivalent as at the end of year	2,960,018,580.11	5,003,896,203.36
Incl: Restricted cash and cash equivalent	3,602,727,886.73	2,212,622,356.90

6. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

6.1 Related parties

(1) Ultimate holding company and actual controlling party

Name of Company	Type of company	Registered office	Industry	Legal representative	Organisation code
CSSC	State-owned business	Shanghai	Ship construction	Tan Zuojun	710924478

Authorised share capital of ultimate holding company

Name of Company	Beginning balance	Addition	Reduction	Ending balance
CSSC	6,374,300,000	–	–	6,374,300,000

Shareholding of ultimate holding company

Name of Company	Shareholding in amount		Shareholding in percent (%)	
	Ending balance	Beginning balance	Ending balance	Beginning balance
CSSC	252,610,380.00	229,645,800.00	35.71%	35.71%

(2) Joint venture and associate

For details of joint venture and associate, refer to Note 5(11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Other related parties

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.2 Related party transactions

(1) Purchase goods and services rendered

Type of relationship and related parties	Current year		Last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Fellow subsidiaries				
Anqing Marine Electronic Appliance Co. Ltd.	76,239.32	0.00		
Guangzhou Shipyard Ltd.	136,508,494.20	2.69	131,347,848.12	2.16
CSSC Guangzhou Huangpu Shipbuilding Co., Ltd.	302,668,677.97	5.96	130,082,862.28	5.14
CSSC Huanan Ship Machinery Co., Ltd.	30,964,341.87	0.61	22,427,008.53	0.37
CSSC Huahai Shipping Equipment Co. Ltd	4,600,000.00	0.09	12,500.00	0.00
China United Shipbuilding Co., Ltd	1,328,147.66	0.03	1,839,188.35	0.03
Jiujiang Haitian Equipment Manufacture Co., Ltd	11,150,117.95	0.22	2,070,923.11	0.03
CSSC Jiujiang Fire Control Equipment Co., Ltd	1,382,666.00	0.03	38,499.00	0.00
CSSC Jiujiang ChangAn Fire Control Equipment Co., Ltd	4,994,145.30	0.10	4,757,042.74	0.08
CSSC Nanjing Lvzhou Machinery Co., Ltd	39,211,529.91	0.77	35,007,376.02	0.58
Shanghai Ship Research Institute	7,968,400.00	0.16	8,300,000.00	0.14
Shanghai Navigation Instrument Co., Ltd	160,000.00	0.00	353,504.27	0.01
Hudong Heavy Industry Co.,Ltd	16,000,000.00	0.32	55,900,000.00	0.92
Shanghai Port Shipping Instrument Co. Ltd	495,800.00	0.01		
Shanghai Hudong Ship Electric Device Co.,Ltd	9,124,500.00	0.18	2,800,000.00	0.05
CSSC Zhenjiang Equipment Co., Ltd	94,686,825.01	1.87	99,119,487.20	1.63
CSSC No. 9 Marine Design and Research Institute	9,254,500.00	0.18	8,333,000.00	0.14
Guangzhou Ship Industry Co.	9,247,321.03	0.18	3,322,635.70	0.05
CSSC Reconnaissance and Design Institute	35,219,728.70	0.69	44,119,458.97	0.73
CSSC Guangzhou Longxue Shipyard Company	2,187,052.84	0.04	1,451,297.16	0.02
Shanghai CSSC Reconnaissance Rock Project Co.,Ltd	277,687.83	0.01	2,646,000.00	0.04
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	226,800.00	0.00	462,800.00	0.01
Marine Design & Research Institute of China	32,700,000.00	0.64	19,664,500.00	0.32
Guangzhou Shipyard Ltd.	7,721,384.91	0.15	7,528,473.75	0.12
Anqing Marine Diesel Factory			34,188.03	0.00
CSSC Guijiang Shipyard			1,111,111.12	0.02
Jiangxi Chaoyang Mechanical Factory			66,800.00	0.00
Joint venture and associate				
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Co., Ltd	9,522,900.86	0.19	10,425,389.07	0.17
Total	767,677,261.36	15.13	593,221,893.42	9.76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Pricing rules:

- (a) Purchase price of electronic appliance, metallic materials and marine complement are based on market price.
- (b) Purchase price of marine equipment, if there are two or more related parties competed as supplier, after consideration of factors like inventory cycle, quality of products and services of suppliers, are negotiated with basis on market price. If due to technical specifications or restrictions, there is only one related party as supplier, the price should be arm's length as that provided by independent third party.
- (c) 10% increase of labour cost during the peak production period.
- (d) Cabin-cleaning, ship design and related technical services to be based on market price.
- (e) Medical care, food and beverage, infant care, training for labours, management fee for residence, etc, to be based on the expense incurred in 2008 and adjusted by the annual "price index"(Guangzhou Municipal Statistics Bureau's announcement of the statistic of the general price index of the living expense of Guangzhou Municipal of the previous year) and further adjusted by the number of employees of the Group, number of household and actual staff welfare, subject to maximum of adjustment on the annual "price index".

(2) Sold goods or services rendered

Type of relationship and related parties	Current year		Last year	
	Amount	Percentage (%)	Amount	Percentage (%)
Fellow subsidiaries				
CSSC Beijing IT Co.,Ltd	123,076.92	0.00	2,035,811.94	0.03
CSSC Guijiang Shipyard	28,649.62	0.00	54,700.85	0.00
Guangzhou Marine and Engineering Design &Research Institute	161,062.24	0.00	183,625.08	0.00
Guangzhou Wenchong Shipyard Ltd.	854,936.08	0.01	996,084.45	0.01
Guangzhou Shipyard Ltd.	21,592,757.11	0.26	12,639,538.19	0.18
CSSC Guangzhou Huangpu Shipyard Ltd.	13,768,734.42	0.17	22,919,939.34	0.33
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	83,888.89	0.00	1,736,068.36	0.02
CSSC Huanan Ship Machinery Co., Ltd.	489,815.40	0.01	541,625.86	0.01
CSSC Jiangnan Heavy Machine Co., Ltd	3,681,746.75	0.04	138,461.54	0.00
CSSC Chengxi Ship Co.,Ltd	85,470.09	0.00		
Shanghai Waigaoqiao Shipbuilding Co., Ltd	427,350.43	0.01	7,692.31	0.00
Guangzhou Longxue Vessel Company	960,909.98	0.01	999,461.68	0.01
CSSC Zhenjiang Equipment Co., Ltd	2,000.00	0.00		
CSSC Financial CO.	33,333.33	0.00		
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	178,051,872.26	2.15	140,004,384.80	2.00
Beijing Haifeng System Engineering Technical Development Co.	153,846.15	0.00		
Huudong Zhonghua Shipbuilding (Group) Co., Ltd			10,000,000.00	0.14
Guangzhou Ship Industry Co.			83,888.89	0.00
Shanghai Jiangnan Changxing Shipbuilding Group Co., Ltd			59,829.06	0.00
CSSC Guangzhou Diesel Engine Co., Ltd			178,043.94	0.00
Joint venture and associate				
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Co., Ltd	275,797.04	0.00	242,938.38	0.00
Total	220,775,246.71	2.66	192,822,094.67	2.75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Pricing rules:

- (a) Sale price of electrical and mechanical equipment and metal materials to be based on market price.
- (b) Supply of electricity to be based on cost plus 20% to 25% of administrative expense.
- (c) Labour service and design and technical services to be based on market price or cost plus 10% to 25% of administrative expense, which will not be lower than the price sold to independent third parties.

(3) *Financial service rendered*

Related party	Ending balance of deposit		Interest income from deposit		Note
	2011	2010	2011	2010	
CSSC Financial CO.	490,788,535.33	313,559,558.65	8,682,033.04	3,173,760.14	Deposit

Pricing rules: Interest income to be based on the basic interest rate set by People's Bank of China, subject to minimum of interest rate provided by CSSC to other third party or the deposit rate provided to the Company by the commercial banks.

(4) *Guarantee by related party*

No guarantee was provided by related party during the year.

(5) *Other related party transactions*

Type of transaction	Related parties	Current year	Last year	Pricing method
Sales agency fee	China Shipping Trading Corporation	27,773,659.62	35,700,264.30	Contract price
Sales agency fee	CSSC International Trade Co., Ltd	10,378,582.28	4,304,065.63	Contract price
Purchase agency fee	China United Shipbuilding Co., Ltd	3,698,366.52	3,690,932.10	Contract price
Purchase agency fee	China Shipping Trading Corporation	71,008.67	81,520.22	Contract price

Pricing rules:

For sales agency fee, price should not exceed 1% of the contract price.

For purchase agency fee, price should be based on 1% to 2% of the contract price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(6) Key management personnel (including: Directors, supervisors, senior management) remuneration

i) Emoluments for non-executive directors and external supervisors

Name	Position	Current year	Last year	Notes
Li Zhushi	Former non-executive director on	100,000.00	300,000.00	Resigned 31 May 2011
Miao Jian	Former non-executive director		27,000.00	Resigned on 25 May 2010
Cui Ming	Former non-executive director	33,333.00	53,000.00	Resigned on 31 May 2011
Wang Xiaojun	Former independent non-executive director	33,333.00	100,000.00	Resigned on 31 May 2011
Li Xin liang	Former independent non-executive director	33,333.00	100,000.00	Resigned on 31 May 2011
Peng Xiaolei	Former independent non-executive director	33,333.00	100,000.00	Resigned on 31 May 2011
Wang Shusen	Former external supervisor	66,667.00	200,000.00	Resigned on 31 May 2011
Ye Weiming	Former external supervisor	26,667.00	80,000.00	Resigned on 31 May 2011
Yu Baoshan	Non-executive director	100,000.00	80,000.00	Re-elected on 31 May 2011
Pan Zunxian	Non-executive director	100,000.00	80,000.00	Re-elected on 31 May 2011
Fu Zhengping	Independent non-executive director	100,000.00	100,000.00	Re-elected on 31 May 2011
Fu Xiaosi	External supervisor	80,000.00	80,000.00	Re-elected on 31 May 2011
Ke Wangjun	Non-executive director	66,667.00		Appointed on 31 May 2011
Gao Feng	Non-executive director	66,667.00		Appointed on 31 May 2011
Qiu Jiachen	Independent non-executive director	66,667.00		Appointed on 31 May 2011
De Lihua	Independent non-executive director	66,667.00		Appointed on 31 May 2011
Poon Chiu Kwok	Independent non-executive director	66,667.00		Appointed on 31 May 2011
Ou Guangquan	External supervisor	133,333.00		Appointed on 31 May 2011
Zhu Zhengfu	External supervisor	53,333.00		Appointed on 31 May 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ii) Emoluments for executive directors and internal supervisors

As at the year ended 31 December 2011

Name	Position	Salary and bonus	Other subsidies, allowances, other social welfare, etc	Pension and annuity (Employer's portion)	Total	Notes
Chen Jingqi	Executive director	815,500.00	79,213.41	35,325.78	930,039.19	Re-elected on 31 May 2011
Han Guangde	Executive director & president	840,000.00	78,189.41	35,325.78	953,515.19	Re-elected on 31 May 2011
Chen Ji	Executive director & vice president	717,100.00	76,839.41	35,325.78	829,265.19	Appointed as director and re-elected as vice president on 31 May 2011
Zhong Jian	Former executive director	136,361.00	15,414.96	11,036.26	162,812.22	Resigned on 31 May 2011
Liang Mianhong	Former external supervisor	600,500.00	76,613.41	35,325.78	712,439.19	Resigned on 31 May 2011
Liu Shibai	Former internal supervisor	316,200.00	67,747.41	35,325.78	419,273.19	Resigned on 31 May 2011
Chen Liping	Internal supervisor	353,000.00	68,927.41	35,325.78	457,253.19	Appointed on 31 May 2011
Tan Tinggui	Internal supervisor	365,042.00	90,864.41	35,325.78	491,232.19	Appointed on 31 May 2011

As at the year ended 31 December 2010

Name	Position	Salary and bonus	Other subsidies, allowances, other social welfare, etc	Pension and annuity (Employer's portion)	Total	Notes
Chen Jingqi	Executive director	1,120,500.00	69,540.72	32,284.05	1,222,324.77	Re-elected on 31 May 2011
Han Guangde	Executive director & president	1,290,000.00	80,641.52	32,284.05	1,402,925.57	Re-elected on 31 May 2011
Chen Ji	Executive director & vice president	996,000.00	68,906.92	32,284.05	1,097,190.97	Appointed as director and re-elected as vice president on 31 May 2011
Zhong Jian	Former executive director	996,000.00	59,998.52	32,284.05	1,088,282.57	Resigned on 31 May 2011
Liang Mianhong	Former external supervisor	870,000.00	71,191.52	32,284.05	973,475.57	Resigned on 31 May 2011
Liu Shibai	Former internal supervisor	777,000.00	57,797.52	32,284.05	867,081.57	Resigned on 31 May 2011
Chen Shaolong	Internal supervisor	302,000.00	76,167.52	32,284.05	410,451.57	Appointed on 31 May 2011
Tan Tinggui	Internal supervisor	318,396.00	94,092.52	32,284.05	444,772.57	Appointed on 31 May 2011

iii) Emolument for senior management

Name	Position	Current year	Last year	Notes
Yang Li	Vice president	824,279.19	1,162,083.00	Reappointed as Senior manager on 31 May 2011
Chen Liping	Accounting manager	824,379.19	1,121,335.00	Reappointed as Senior manager on 31 May 2011
Jin Lichao	Vice president	731,971.19	1,004,325.17	Reappointed as Senior manager on 27 October 2011
Li Zhidong	Company secretary	698,179.19	983,283.00	Reappointed as Senior manager on 31 May 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

iv) *Five individuals with the highest emoluments*

Of the five individuals with the highest emoluments in the Group, three (2010: three) were directors of the Company and the remaining two (2010: two) individuals were senior management of the Company whose emoluments are included in the disclosures in notes above.

v) *During both years, no directors, supervisors or senior management 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 any emoluments.*

6.3 Related party balances

(1) Amounts due from related parties

Related parties (item)	Ending balance	Beginning balance
Fellow subsidiaries and actual controlling party's controlling subsidiaries		
Incl: CSSC Beijing IT Co.,Ltd	655,000.00	639,000.00
CSSC Guijiang Shipyard	28,000.00	64,000.00
Guangzhou Marine and Engineering Design & Research Institute	9,101.60	
Guangzhou Shipyard Ltd	1,178,817.20	1,397,662.09
CSSC Guangzhou Huangpu Shipyard Ltd.	1,107,262.23	754,885.55
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	656,914.00	5,350,664.00
CSSC Huanan Ship Machinery Co., Ltd.	172,766.12	449,526.38
CSSC Jiangnan Heavy Machine Co., Ltd	17,308,505.47	13,000,861.76
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	46,434,213.59	17,621,737.45
CSSC No. 9 Marine Design and Research Institute		250,000.00
Joint venture & associate		
Incl: Guangzhou Economic and Technical Developing Zone South China Marine and Industrial Special Coating Co., Ltd		1,000,000.00
Total	67,550,580.21	40,528,337.23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Prepayment to related parties

Related parties (item)	Ending balance	Beginning balance
Fellow subsidiaries and actual controlling party's controlling subsidiaries		
Incl: CSSCAnqing Marine Diesel Engine Co., Ltd.	1,600,000.00	
CSSC Guijiang Shipyard	780,000.00	
Guangzhou Shipyard Ltd	1,727,588.04	1,000,000.00
CSSC Guangzhou Longxue-Shipbuilding Co., Ltd	102,800.00	102,800.00
CSSC Huanan Ship Machinery Co., Ltd.	1,061,400.00	2,520,000.00
China United Shipbuilding Co., Ltd	191,547.36	267,531.65
Hudong Heavy Machine Co.,Ltd	15,970,000.00	13,500,000.00
CSSC Zhenjiang Equipment Co., Ltd	27,246,000.00	37,940,000.00
China Shipping Trading Corporation	7,332,116.08	3,446,440.20
Jiujiang Haitian Equipment Manufacture Co., Ltd		1,777,080.00
CSSC Nanjing Luhou Machinery Co., Ltd		855,000.00
CSSC Shipping System Engineering Department		7,050,000.00
Total	56,011,451.48	68,458,851.85

(3) Amounts due to related parties

Related parties (item)	Ending balance	Beginning balance
Fellow subsidiaries and actual controlling party's controlling subsidiaries		
Incl: Anqing Marine Electronic Appliance Co. Ltd.	68,000.00	
CSSC Beijing IT Co.,Ltd	328,000.00	768,000.00
CSSC Guijiang Shipyard	92,500.00	710,000.00
Guangzhou Shipyard Ltd	4,186,999.16	11,349,421.56
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	100,000.00	100,000.00
CSSC Huanan Ship Machinery Co., Ltd.	13,353,140.00	3,803,740.00
Huahai Marine Cargo Access Equipment Co.	346,375.00	116,375.00
China United Shipbuilding Co., Ltd		14,134,919.94
Jiangxi Chaoyang Mechanical Factory	3,080.00	3,080.00
Jiujiang Haitian Equipment Manufacture Co., Ltd	2,594,515.00	1,014,935.00
CSSC Jiujiang Fire Control Equipment Co., Ltd	64,900.00	
CSSC Jiujiang ChangAn Fire Control Equipment Co., Ltd	964,000.00	578,200.00
CSSC Nanjing Luzhou Machinery Co., Ltd	15,055,275.00	6,641,625.00
Shanghai Ship Research Institute		8,300,000.00
Shanghai Navigation Instrument Co., Ltd	39,000.00	115,000.00
Hudong Heavy Machine Co.,Ltd	1,995,000.00	37,150,000.00
Shanghai Hudong Ship Electric Device Co.,Ltd	482,000.00	254,000.00
CSSC Shanghai Marine Design and Research Institute	190,000.00	190,000.00
CSSC Zhenjiang Equipment Co., Ltd	17,706,430.00	12,250,430.00
CSSC Jianxi nautical instrument Co. Ltd.	5,000.00	
CSSC No. 9 Marine Design and Research Institute	647,368.00	1,311,062.80
CSSC International Trade Co., Ltd	192,500.00	
Guangzhou Ship Industry Co.	1,866,661.67	410,420.00
CSSC Reconnaissance and Design Institute	6,013,153.39	7,832,315.56
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	855,984.26	85,422.00
CSSC Ship System engineering department	705,000.00	705,000.00
China Shipping Trading Corporation	-1,257,710.17	-45,258.30
CSSC Shanghai Marine Design and Research Institute	7,760,000.00	200,000.00
CSSC Shanghai Marine Design and Research Institute	3,155,475.00	11,472,800.00
Joint venture & associate		
Incl: Guangzhou Economic and Technical Developing Zone South China Marine and Industrial Special Coating Co., Ltd		187,857.36
Total	77,512,646.31	119,639,345.92

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(4) Other payables to related party

Related party (item)	Ending balance	Beginning balance
Fellow subsidiary and actual controlling party's controlling subsidiaries		
Incl:Guangzhou Shipyard Ltd	14,210.00	11,830.00
Total	14,210.00	11,830.00

(5) Prepayment from related parties

Related party (item)	Ending balance	Beginning balance
Fellow subsidiaries and actual controlling party's controlling subsidiaries		
Incl: Guangzhou Shipyard Ltd		730,800.00
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	10,450.00	16,232,746.67
CSSC Huanan Ship Machinery Co., Ltd.	37,000.00	
Shanghai Ship Research Institute		600,000.00
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	3,795,340.00	6,707,338.00
CSSC Integrated Technology Economy Institute Construction & Development Co., Ltd	262,000.00	623,100.00
Total	4,104,790.00	24,893,984.67

7. CONTINGENT LIABILITY

7.1 Pending litigation or contingent liability arising from arbitration

On 31 December 2010, the Company and the subsidiary, Guangzhou Guangli Ship HR Ltd. Co.(GLGS) filed four lawsuits to the Immediate People's Court of Zhenjiang, Jiangsu. The Company sued Jiangsu Shenghua Shipbuilding Co. Ltd (Jiangsu Shenghua) for payment and had a dispute on a technical service contract. GLGS further sued Jiangsu Shenghua for breach of contract of 79600 tons bulk freighter #1 and #2. As at the year ended 31 December 2011, Wuhan Maritime Court mediated the litigation between the Company and Jiangsu Shenghua with the later settled all the overdue payments. For the remaining three lawsuits, the Company had applied to court for compulsory enforcement. Wuhan Maritime Court had frozen the mortgage of Jiangsu Shenghua for the pending of assessment and running of auctions.

7.2 Other than those mentioned above, as at the year ended 31 December 2011, the Group had no other contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. CAPITAL COMMITMENT

8.1 Significant capital commitment

(1) *Pledged assets*

Except the pledge fixed deposits in bank, the Group have no other pledge assets at the end of the year 31 December 2011.

(2) *Transaction of unexpired foreign exchange forward contracts*

To minimise the foreign currency risk, the Group engaged in the forward foreign exchange contract with bank. As at the year ended 31 December 2011, there are 32 forward foreign exchange contract amount to USD121,170,000, the farrest settlement date of the contract is 18 October 2011, the fair value gain is RMB2,0230,000 at the year end. There is 1 forward purchase of foreign exchange contracts amount to EUR3,000,000, the settlement date is 13 March 2012, the fair value loss is RMB1,160,000.

8.2 Status of execution of previous commitment

The Group can fulfill the obligation of settlement of secured borrowing and the foreign exchange forward contracts.

8.3 In addition to the above commitments, there is no other significant commitment as at the year ended 31 December 2011.

9. EVENTS AFTER THE REPORTING PERIOD

9.1 The profit distribution after the balance sheet date

According to the resolution of the board of directors in 29 March 2012, the profit of 2011 is distributed as followings:

- (1) Extract 10% statutory provident fund amounting to RMB49,096,181.78.
- (2) Accumulative undistributed profit of 2011 final phase is not distributed and converted.

The propped dividend above is subject to approval of 2011 annual general meeting, A Shares and H Shares shareholders meeting.

9.2 In addition to the above events, there are no significant events after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. SEGMENT INFORMATION

According to the Group's internal organisational structure, management requirements, and internal reporting system, the segment of the operation can be divided in to 3 categories which based on the different types of products. The Group is currently organised into a 3 segments in shipbuilding, steel structure projects and others.

Segment reporting information based on each segment to the disclosure of accounting policies and standards of measurement used in the management report, and consistent measurement basis in the preparation of financial statements, accounting and measurement basis

2011 annual report

Item	Shipbuilding and related activities	Steel structure projects	Others	Inter-segment elimination	Total
Revenue	7,225,493,551.62	437,734,569.73	2,205,548,405.03	-1,572,345,178.54	8,296,431,347.84
Incl: income from principal activities	7,225,493,551.62	437,734,569.73	633,203,226.49		8,296,431,347.84
Other operating activities			1,572,345,178.54	-1,572,345,178.54	
Operating expenses	6,551,037,570.72	448,597,752.61	2,208,930,595.80	-1,567,333,956.34	7,641,231,962.79
Operating profit (loss)	448,173,485.64	-10,740,741.47	-38,655,132.35	-5,011,222.20	393,766,389.62
Total assets	10,898,598,589.09	624,886,144.84	362,024,636.34		11,885,509,370.27
Total liabilities	6,904,220,225.91	460,473,227.36	320,041,694.94		7,684,735,148.21
Additional information:					
Depreciation and amortisation expenses	94,997,986.81	1,152,386.79	25,069,146.12		121,219,519.72
Capital expenditure	337,697,196.33	1,112,622.95	8,974,130.84		347,783,950.12
Depreciation and amortisation expenses is non-cash nature	-	-	-	-	-

2010 annual report

Item	Shipbuilding and related activities	Steel structure projects	Others	Inter-segment elimination	Total
Revenue	6,402,821,761.65	114,074,000.00	1,607,815,000.00	-1,110,486,092.64	7,014,224,669.01
Incl: income from principal activities	6,402,821,761.65	110,470,000.00	500,932,907.36		7,014,224,669.01
Other operating activities		3,604,000.00	1,106,882,092.64	-1,110,486,092.64	
Operating expenses	5,449,292,687.66	136,758,070.34	1,764,751,503.73	-1,214,927,811.53	6,135,874,450.20
Operating profit (loss)	713,846,856.66	-22,088,101.53	-86,507,553.17	-1,378,144.08	603,873,057.88
Total assets	11,242,093,182.71	502,789,526.48	412,569,286.19		12,157,451,995.38
Total liabilities	7,662,590,380.35	343,283,591.10	397,651,424.80		8,403,525,396.25
Additional information:					
Depreciation and amortisation expenses	96,461,328.42	1,152,386.79	25,069,146.12		122,682,861.33
Capital expenditure	193,263,324.49	261,538.23	6,668,251.73		200,193,114.45
Depreciation and amortisation expenses is non-cash nature	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. OTHER SIGNIFICANT ITEMS

(1) Fair value of the financial assets and financial liabilities

Item	Beginning balance	Fair value change during the year	Equity - fair value change	Impairment loss during the year	Ending balance
Financial assets					
Financial assets - fair value change through income statement	21,227,664.57	-998,128.53			20,229,536.04
Held-for-sale financial assets	266,791,996.50		28,563,191.00		238,228,805.50
Sub - Total	288,019,661.07	-998,128.53	28,563,191.00	-	258,458,341.54
Financial liabilities					
Financial liabilities- fair value change through income statement		-1,159,935.94			1,159,935.94
Sub - Total		-1,159,935.94			1,159,935.94

(2) Financial assets and financial liabilities in foreign currency

Item	Beginning balance	Fair value change during the year	Equity - fair value change	Impairment loss during the year	Ending balance
Financial assets					
Trade receivables	256,535,685.29				192,269,198.73
Other receivables					7,886,383.30
Sub - total	256,535,685.29				200,155,582.03
Financial liabilities					
Short term loan	1,837,321,454.75				1,170,288,811.35
Trade payables	165,497.96				319,037.76
Interest payables	13,720,941.14				23,593,106.60
Current liabilities					593,796,816.00
Long term borrowings	624,123,248.00				1,081,390,350.04
Sub - Total	2,475,331,141.85				2,869,388,121.75

(3) Annuity plan and significant changes

Refer to note 5.26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. CAPITAL RISK MANAGEMENT

The capital structure of the Group consists of debt, which includes obligation under finance leases, convertible notes, bank overdrafts, borrowings and loans from shareholders of a subsidiary. Details of which are disclosed in respective notes. Equity attributable to owners of the Company comprising issued share capital and reserves.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

12.1 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include loan receivables, trade and other receivables, bank balances and cash, derivative financial assets, trade and other payables, obligation under finance leases, loans from shareholders of a subsidiary, bank overdrafts, borrowings and convertible notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures appropriate measures are implemented on a timely and effective manner.

(1) *Market risk*

Foreign currency risk

The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's foreign exchange exposure is mainly related to USD. The Group is using RMB in its daily operation, except of the holding company and 2 subsidiaries are using USD in their daily operation. At 31 December 2011, the following table indicated the USD, EUR and HKD in the assets and liabilities. The foreign currency risk may affect the results of operation.

<u>Item</u>	<u>Ending balance RMB</u>	<u>Beginning balance RMB</u>
Cash and cash equivalent	245,459,484.01	87,334,331.35
Trade receivables	342,845,865.89	51,956,747.19
Trade payables	–	165,497.96
Interest payables	23,593,106.60	13,720,941.14
Borrowings	2,845,475,977.39	2,461,444,702.75
Net liabilities in USD	-2,280,763,734.09	-2,336,040,063.31

The management monitors the risk exposure in foreign exchange, therefore, the company engaged in the forward currency contract to monitor foreign exchange risk.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank balances and bank borrowings with floating interest rates which expose the Group to cash flow interest rate risk (Detail refer to note 21, 31 and 33). Borrowings at fixed rate expose the Group to fair value interest-rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to the loan receivables and trade and other receivables. In order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risks for bank balances are considered minimal as such amounts are placed with banks with good credit ratings.

The Group has concentration of credit risk as 26.3% (2010: 42.57%) and 70.82% (2010: 79.97%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

(3) Liquidity risk

The Group maintain and monitor adequate cash and cash equivalent to support the daily operation of the Group, and reduce the effect of the fluctuation of cash flow. Management of the Group to monitor the usage of bank borrowings and to ensure compliance with the borrowing agreements.

The sources of funding of the Group are mainly from bank borrowings. At year ended, the unused bank facilities amount are RMB3,342,200,000(2010:RMB3,478,810,000)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Item	Within 1 month RMB	1-3months RMB	3-12 months RMB	1-5 years RMB	Above 5 years RMB
Cash and cash equivalent	1,870,477,782.17	769,368,684.67	2,746,630,000.00	1,176,270,000.00	
Trading financial assets	6,393,600.00	5,561,600.00	8,551,629.22		
Bill receivables	560,000.00				
Trade receivables	658,202,164.60	91,701,063.38			
Other receivables	60,661,535.39	74,504,399.32			
Trading financial liabilities		1,173,753.99			
Bill payables	487,057,055.75	201,930,174.73			
Trade payables	1,146,898,153.38	209,366,578.77			
Other payables	5,975,492.29	10,670,667.35	10,644,567.37		
Dividend payables			157,912.98		
Interest payables	7,492,368.08	16,100,738.52			
Accrued salary	19,564,521.68				
Borrowings	252,036,000.00	434,625,619.39	1,077,453,900.00	1,081,360,458.00	
Financial assets less financial liabilities	677,271,490.98	67,268,214.62	1,666,925,248.87	94,909,542.00	

Note: The discounted value of the financial assets and the financial liabilities are RMB20,229,536.04 and RMB1,159,935.94 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12.2 Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid market are determined with reference to quoted market price, bid prices and ask prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is measured at discounting future cash flow or observe the trading price in active market; and
- the fair value of the forward currency contract is determined by the bank's public offer combining with valuation techniques.

12.3 Sensitivity analysis

The Group adopted reasonable sensitivity analysis to recognise the effect on owner's equity in the current income statement. Risk variables rarely change in isolation, the correlation between the variables can bring significant influence to the financial statement. The following sensitivity analysis is assumed the risk variable is independently carried out.

(1) Sensitivity analysis in foreign currency

The impact in post-tax and owner's equity due to the change in exchange rate:

Foreign currency	Change in exchange rate	2011		2010	
		Effect to net profit	Effect to owner's equity	Effect to net profit	Effect to owner's equity
USD	Appreciation against RMB by 3 %	-57,579,482.96	-57,579,482.96	-56,209,000.00	-56,209,000.00
USD	Depreciation against RMB by 3%	57,579,482.96	57,579,482.96	56,209,000.00	56,209,000.00

The effect to net profit of change in foreign exchange rate in HKD and EUR is immaterial.

(2) Sensitivity analysis in interest rate risk

The assumptions of the sensitivity analysis in interest rate are the followings

- Change in interest rate will affect the interest income and expense of the financial instrument which bear variable interest rate;
- The fair value of the financial instrument will be change in the date of the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The impact in post-tax and owner's equity due to the change in interest rate:

Type of borrowings	Change in interest rate	2011		2010	
		Effect to net profit	Effect to owner's equity	Effect to net profit	Effect to owner's equity
Variable-borrowings rate	Increase by 1%	-9,947,454.90	-9,947,454.90.90	-15,617,237.00	-15,617,237.00
Variable-borrowings rate	Decrease by 1%	9,947,454.90	9,947,454.90.90	15,617,237.00	15,617,237.00

Note: The interest risk rate exposure of the Group is due to the non-current borrowings. The risk of cash outflow is due to the variable interest rate of the borrowings. The fair value of the loan receivable with fixed interest rate is suffering interest rate risk. At the year end, the Group held loan payable with variable interest rate amount to RMB1,170,288,811.35 (2010: RMB1,837,322,000.00). The settlement periods of the loan disclosed in note 5.33.

13. NOTES TO THE FINANCIAL STATEMENT OF THE COMPANY

13.1 Trade receivables

(1) Risk classification of trade receivables

Item	Ending balance				Beginning balance					
	Book value		Provision of Bad debts		Book value		Provision of Bad debts		Net amount	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)		
Trade receivable of single material transaction and provision of bad debt										
Trade receivable and provision of bad debt	2,568,983.29	0.35	2,568,983.29	100.00	1,271,069.29	0.39	1,271,069.29	100.00		
Trade receivable and provision for bad debt base on balance percentage	598,548,968.39	82.44	2,992,841.11	0.50	595,556,127.28	202,336,085.55	61.59	1,043,924.66	0.50	201,292,160.89
Other receivable (without provision for bad debt)	124,976,251.95	17.21			124,976,251.95	124,923,810.31	38.02			124,923,810.31
Total	726,094,203.63	100.00	5,561,824.40	0.77	720,532,379.23	328,530,965.15	100.00	2,314,993.95	0.70	326,215,971.20

Ageing analysis of trade receivables:

Item	Ending balance				Beginning balance			
	Amount	Percent (%)	Bad debt allowance	Net amount	Amount	Percent (%)	Bad debt allowance	Net amount
Within 1 year	596,905,772.77	82.21	2,860,672.12	594,045,100.65	188,139,595.47	57.27	820,655.58	187,318,939.89
1-2 years	99,197,161.29	13.66	15,904.00	99,181,257.29	138,378,814.31	42.12	219,561.64	138,159,252.67
2-3years	28,249,727.73	3.89	993,929.87	27,255,797.86				
3-4years					225,045.17	0.07	1,125.23	223,919.94
4-5years					516,440.91	0.16	2,582.21	513,858.70
Over 5 years	1,741,541.84	0.24	1,691,318.41	50,223.43	1,271,069.29	0.39	1,271,069.29	
Total	726,094,203.63	100.00	5,561,824.40	720,532,379.23	328,530,965.15	100.00	2,314,993.95	326,215,971.20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

i) *Trade receivables with significant balance or insignificant balance with impairment test performed*

Name	Book value	Bad debts	Percentage (%)	Reason
Macau Cotai Co. Ltd.	863,566.90	863,566.90	100.00	Long outstanding period, and client suffering operating difficulty
Federal Steel Engineering Co. Ltd.	407,502.39	407,502.39	100.00	Long outstanding period, and client suffering operating difficulty
Hefei Rong Shida Electric Refrigerator Co. Limited	476,000.00	476,000.00	100.00	Long outstanding period, and client suffering operating difficulty
Qingdao Haier Special Electric Refrigerator Co. Limited	208,000.00	208,000.00	100.00	Long outstanding period, and client suffering operating difficulty
China Refrigerator Co, Ltd	166,510.00	166,510.00	100.00	Long outstanding periods
Hisense (Nanjing) Electrical Co. Ltd.	149,100.00	149,100.00	100.00	Long outstanding periods
Hefei Hualing Co. Ltd	117,000.00	117,000.00	100.00	Long outstanding periods
Meiluo Steel Grating Co. Ltd.	70,000.00	70,000.00	100.00	Long outstanding periods
Qingdao Haier Special Plastic Co. Ltd	44,800.00	44,800.00	100.00	Long outstanding periods
Others	66,504.00	66,504.00	100.00	Long outstanding periods
Total	2,568,983.29	2,568,983.29		

ii) *Trade receivables and provision for bad debt base on balance percentage*

Item	Ending balance			Beginning balance		
	Amount	Provision for Ratio (%)	Bad debt	Amount	Provision for Ratio (%)	bad debt
Within 1 year	572,134,422.82	95.20	2,860,672.12	171,182,386.62	84.60	820,655.58
1-2 years				30,412,212.85	15.03	219,561.64
2-3years	26,363,973.02	4.71	131,819.87			
3-4years				225,045.17	0.11	1,125.23
4-5years				516,440.91	0.26	2,582.21
Over 5 years	50,572.55	0.09	349.12			
Total	598,548,968.39	100.00	2,992,841.11	202,336,085.55	100.00	1,043,924.66

iii) *Trade receivables without provision of bad debts:*

Item	Ending balance	Provision of bad debt	Net amount:
Amounts due to subsidiaries	124,976,251.95		124,976,251.95
Total	124,976,251.95		124,976,251.95

(2) *The trade receivables in the year end is excluded the amount due from shareholders who hold 5% and more than 5% of the Group's voting share.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) The five companies with the largest trade receivable balance

Name	Relationship with Company	Amount	Aging	Percentage to total trade receivables (%)
Holland—FAIRSTARHEAVY	External customer	197,218,170.00	Within 1 year	27.16
China Shipping Development Co. Ltd.	External customer	142,463,736.00	Within 1 year	19.62
China Shipping Passenger Ship Co. Ltd.	External customer	103,600,000.00	Within 1 year	14.27
Greece-TomasosBrothers	External customer	63,475,770.68	Within 1 year	8.74
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Fellow subsidiary	24,324,414.86	2-3 years	3.35
Total		531,082,091.54		73.14

(4) Trade receivables from related parties

Name	Relationship with Company	Amount	Percentage to total trade receivables (%)
CSSC Beijing IT Co., Ltd.	Fellow subsidiary	655,000.00	0.09
CSSC Guijiang Shipyard	Fellow subsidiary	28,000.00	0.00
Guangzhou Marine and Engineering Design & Research Institute	Fellow subsidiary	9,101.60	0.00
Guangzhou Shipyard Ltd.	Fellow subsidiary	1,178,817.20	0.16
CSSC Guangzhou Huangpu Shipyard Ltd.	Fellow subsidiary	1,107,262.23	0.15
CSSC Guangzhou Nansha - Longxue	Fellow subsidiary	656,914.00	0.09
CSSC Huanan Ship Machinery Co., Ltd.	Fellow subsidiary	172,766.12	0.02
CSSC Jiangnan Heavy Machine Co., Ltd.	Fellow subsidiary	17,308,505.47	2.38
CSSC Guangzhou Longxue Shipbuilding Co., Ltd.	Fellow subsidiary	46,434,213.59	6.40
Guangzhou Xin Sun Shipping Service Company Limited	Subsidiary	6,419,016.04	0.88
United Steel Structures Limited	Subsidiary	9,149,844.52	1.26
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	Subsidiary	108,560,064.13	14.95
Fonkwang Developing Co., Ltd.	Subsidiary	142,958.84	0.02
Zhongshan GSI Marine Engineering Company Limited.	Subsidiary	704,368.42	0.10
Total		192,526,832.16	26.52

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Foreign currency balances in trade receivables

Foreign currency	Ending balance			Beginning balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
USD	41,408,080.00	6.3009	260,908,171.27	7,031,372.09	6.6227	46,566,667.94
HKD	777,096.32	0.8107	629,992.00	1,732,015.41	0.8509	1,473,771.91
Total			261,538,163.27			48,040,439.85

(6) The normal credit period of the Group's accounts receivable are as follow:

Business types	Credit period
Shipbuilding	One month after invoicing
Others	Generally one to six months

Ageing analysis of trade receivables:

Ageing	Ending balance	Beginning balance
0-120 days	402,472,420.57	156,090,307.09
121-365 days	194,433,352.20	32,049,288.38
1-2 years	99,197,161.29	138,378,814.31
2-3 years	28,249,727.73	
Over 3 years	1,741,541.84	2,012,555.37
Total	726,094,203.63	328,530,965.15

13.2 Other receivables

(1) Risk classification of other receivables

Item	Ending balance				Beginning balance					
	Book value		Provision of Bad debts		Book value		Provision of Bad debts		Net amount	
	Amount	Percent (%)	Amount	Percent (%)	Amount	Percentage (%)	Amount	Percentage (%)		
Trade receivables of single material transaction and provision of bad debt	10,340,232.15	1.74	10,340,232.15	94.43	10,340,232.15	2.10	10,340,232.15	87.69		
Tradet receivables and provision of bad debt	57,600.00	0.01	57,600.00	0.53	57,600.00	0.01	57,600.00	0.49		
Trade receivables and provision for bad debt base on balance percentage	110,451,023.21	18.54	552,255.11	5.04	109,898,768.10	278,587,364.75	56.61	1,393,669.32	11.82	277,193,695.43
Other receivable (without provision for bad debt)	474,753,237.86	79.71			474,753,237.86	203,171,118.35	41.28			203,171,118.35
Total	595,602,093.22	100.00	10,950,087.26	100.00	584,652,005.96	492,156,315.25	100.00	11,791,501.47	100.00	480,364,813.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

i) *Other receivables with significant balance or insignificant balance with impairment test performed*

Name	Ending balance	Provision for bad debt	Ratio (%)	Reason
Hong Kong Guanghong International Corp	10,340,232.15	10,340,232.15	100%	Debt reconstruction, non-implement
Guangzhou chengjian Archives	57,600.00	57,600.00	100%	Lost of data
Total	10,397,232.15	10,397,232.15		

ii) *Ageing analysis of other receivables*

Item	Ending balance		Provision for bad debt	Beginning balance		Provision for bad debt
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	109,990,793.38	99.58	549,953.96	278,289,345.16	99.89	1,392,179.22
1-2 years	301,356.13	0.27	1,506.78	112,425.00	0.04	562.13
2-3 years	83,279.11	0.08	416.40	23,594.59	0.01	117.97
3-4 years	23,594.59	0.02	117.97	120,000.00	0.04	600
4-5 years	40,000.00	0.04	200.00			
Over 5 years	12,000.00	0.01	60.00	42,000.00	0.02	210
Total	110,451,023.21	100.00	552,255.11	278,587,364.75	100.00	1,393,669.32

iii) *Other receivables without provision*

Name	Ending balance	Provision	Net value
Amount due from subsidiaries	4,753,237.86		4,753,237.86
Enterprise entrusted loan payments (Zhongshan GSI)	470,000,000.00		470,000,000.00
Total	474,753,237.86		474,753,237.86

(2) **Amount due from shareholder holdings 5% or more of the Group's share**

No amount due from shareholder holding 5% or more of the Group's share during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) The five companies with largest other receivables balance

Name	Relationship with the Company	Ending balance	Ageing	Proportion (%)	Nature
Enterprise entrusted loan payments (Zhongshan GSI)	External bank	470,000,000.00	1-2 years	78.91	Entrusted loans
Subsidy receivable	Others	51,389,748.56	within 1 year	8.63	Subsidy
Import tax and export tax management branch	Others	45,015,902.24	within 1 year	7.56	Export tax rebate
Guangzhou International Trust and Investment Company	Others	10,340,232.15	over 5 years	1.74	Trust loans
PRC Yangshan Customs (Bonded)	Others	3,396,834.43	within 1 year	0.57	Deposit
Total		580,142,717.38		97.41	

Note: The company provide entrust loans amounted to RMB470,000,000.00 to its subsidiary Zhongshan Guangchuan International Marine and Ocean Project Co., Ltd by Zhongshan Huoju Development Zone Branch of Communication Bank.

(4) Balance with related parties

Name	Relationship with the Company	Ending balance	Proportion(%)
Guangdong GSI Elevator Co., Ltd.	Subsidiary	1,900,000.00	0.32
Guangzhou Guangchuan Huge Machine and Equipment Limited Company	Subsidiary	1,879,470.77	0.32
Guangzhou United Steel Structures Co., Ltd.	Subsidiary	547,482.50	0.09
Zhongshan GSI Marine Engineering Company Limited	Subsidiary	426,284.59	0.07
Total		4,753,237.86	0.80

13.3 Long-term equity investment

Long-term equity investment

	Ending balance	Beginning balance
Amortised at cost method	383,313,587.25	382,119,106.25
Equity method	4,754,692.79	4,279,343.50
Sub-total	388,068,280.04	386,398,449.75
Less: impairment loss		
Total	388,068,280.04	386,398,449.75

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Long - term equity investment using amortised at cost method or equity method

Name	Shareholding (%)	Voting right (%)	Initial investment	Beginning balance	Increase during the year	Decease during the year	Closing balance	Dividend for the year
Amortised at cost method								
Guangzhou Xin Sun Shipping Service Company Limited	83	100	500,000.00	500,000.00			500,000.00	
Guangzhou Masterwood shipbuilding Company Limited	75	100	2,486,385.00	1,690,741.80	1,994,481.00		3,685,222.80	
United Steel Structures Limited	51	51	25,438,698.00	37,522,079.55			37,522,079.55	
Guangdong Guangzhou Shipyard International Elevator Co., Limited	95	100	19,950,000.00	19,950,000.00			19,950,000.00	
Guangzhou Hongfan Information Technique Co., Ltd.	51	51	4,500,000.00	2,550,000.00			2,550,000.00	
Glory Group Development Company Limited	100	100	10,439.94	26,443,792.13			26,443,792.13	
Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd	80	100	3,052,492.77	3,052,492.77			3,052,492.77	
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	100	100	30,000,000.00	188,610,000.00			188,610,000.00	
Zhongshan GSI Marine Engineering Company Limited	100	100	100,000,000.00	100,000,000.00			100,000,000.00	
Shipbuilding Industrial Special Skill Identification No.7 Institute	100	100		800,000.00		800,000.00		
CSSC Heavy IndustryYuanzhou (Beijing) Technology Co., Ltd.	4.05	4.05	1,000,000.00	1,000,000.00			1,000,000.00	
Sub-total			186,938,015.71	382,119,106.25	1,994,481.00	800,000.00	383,313,587.25	
Equity method								
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Co., Ltd.	25	25	1,722,060.00	3,464,960.75	467,143.86		3,932,104.61	
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd	40	40	800,000.00	814,382.75	8,205.43		822,588.18	
Sub-total			2,522,060.00	4,279,343.50	475,349.29		4,754,692.79	
Total			189,460,075.71	386,398,449.75	2,469,830.29	800,000.00	388,068,280.04	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Joint venture and investment in an associate

Investment	Legal form	Place of incorporation	Legal representative	Business nature	Registered Capital	Shareholding (%)	Voting right (%)
Joint venture							
Guangzhou Economic & Technical Development Zone South China Marine & Industrial Special Coating Co., Ltd.	Company with limited liabilities (Joint venture will foreign company)	Guangzhou	Li tongan	Coating business	120,000,000 USD	25	25
Associate							
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	Company with limited liabilities	Zhanjiang	Chen miaogen	Ship design	200,000,000 RMB	40	40
Total							

Investment	Assets	Liabilities	Net assets	Revenue	Net profit
Joint venture					
Guangzhou Economic & Technical Development Zone South China Marine & Industrial Special Coating Co., Ltd.	18,084,770.91	4,749,567.31	13,335,203.60	35,464,097.72	1,868,575.45
Associate					
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	6,255,550.06	4,206,556.02	2,048,994.04	4,661,290.76	20,513.58
Total	24,340,320.97	8,956,123.33	15,384,197.64	40,125,388.48	1,889,089.03

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13.4 Revenue and cost of sales

(1) Details of revenue and cost of sales

Item	Current year amount	Last year amount
Income from principal activities	7,422,935,805.42	6,538,727,196.38
Other operating income	168,778,083.79	141,577,352.57
Total	7,591,713,889.21	6,680,304,548.95
Cost of goods sold	6,669,759,006.99	5,691,087,572.50
Other operating expenses	129,806,074.27	99,704,011.98
Total	6,799,565,081.26	5,790,791,584.48

Classifications of principal activities are listed as below:

Type of businesses	Current year amount		Last year amount	
	Revenue	Cost of sales	Revenue	Cost of sales
Shipbuilding products	7,225,493,551.62	6,479,334,758.32	6,402,821,761.65	5,557,573,991.10
Steel Structure projects	3,350,919.27	3,251,930.78	14,306,614.95	16,087,434.46
Mechanical & electrical products and others	194,091,334.53	187,172,317.89	121,598,819.78	117,426,146.94
Total	7,422,935,805.42	6,669,759,006.99	6,538,727,196.38	5,691,087,572.50

Principal activities-by country

Country	Current year amount		Last year amount	
	Revenue	Cost of sales	Revenue	Cost of sales
Denmark	2,462,852,434.44	2,089,850,588.30	2,946,522,000.78	2,474,697,583.55
Holland	727,783,083.38	680,661,903.82	75,899,797.93	75,899,797.93
Greece	364,385,336.72	299,415,049.97	456,215,787.64	378,623,702.31
Hong Kong	287,080,863.55	245,435,090.93	345,786,946.38	307,242,522.68
Malta	184,559,546.96	152,020,229.96		-110,200.00
Sweden	92,113,557.89	92,113,557.89		
Taiwan	2,236,881.22	2,228,376.05	2,073,211.40	2,065,384.60
Macau	730,662.00	670,244.95	937,382.90	818,606.93
The United States	98,113.12	98,491.09	23,339,421.33	21,976,721.44
Germany				-151,211.55
Italy		-249,770.95	261,997,238.23	209,585,577.65
China	3,301,095,326.14	3,107,515,244.98	2,425,955,409.79	2,220,439,086.96
Total	7,422,935,805.42	6,669,759,006.99	6,538,727,196.38	5,691,087,572.50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contract revenue

Contract	Total amount	Accumulated cost incurred	Total gross profit	Settled amount	Estimated loss	Remark
Fixed cost contract						
50500 series	5,036,168,868.88	3,110,231,155.28	540,743,392.76	3,881,608,823.69		
39000 series	1,549,014,354.78	1,082,712,218.14	154,309,595.61	1,247,349,423.82	72,106,889.46	Note
50000 series (semi-submersible)	3,761,403,490.00	2,515,774,801.43	87,223,058.89	2,565,638,751.12		
Ro-ro passenger ship series	1,555,055,388.50	904,899,938.93	278,288,698.27	1,346,800,000.00		
52300 series	1,839,077,876.98	864,464,852.84	145,177,376.48	845,691,436.80	28,020,034.94	Note
37500 series	1,104,222,900.00	10,951,210.72		251,594,183.48		
55000 series	564,793,582.00	568,800,424.47	-4,006,842.47	564,793,582.00		
48000 series	2,180,539,290.00	691,447,092.44	-80,844,728.79	1,064,092,682.60	149,055,249.85	Note
50000 series	770,000,000.00	42,049,577.10		231,000,000.00	49,800,486.88	Note
specific or others	3,928,840,000.00	1,957,013,007.71	45,068,154.10	2,316,900,000.00	24,184,228.50	Note
Total	22,289,115,751.14	11,748,344,279.06	1,165,958,704.85	14,315,468,883.51	323,166,889.63	

Note 1: Estimated loss on construction contract for the year was RMB323,166,889.63 (2010: nil).

Note 2: The expected loss of the Series 48000 is RMB323,166,889.63. The loss is due to the price of the ship has been continuously decreasing, the appreciation of RMB against USD and the increase in quality due to the keen competition in market.

13.5 Investment income

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

Item	Current Year amount	Last Year amount
The adjustment based on the net profit of investee enterprises under cost method		800,000.00
The adjustment based on the net profit of investee enterprises under equity method at the end of the year	475,349.29	695,781.05
Income from disposal of trading financial liabilities	7,330.90	
Income from disposal of trading financial assets	39,551,670.43	62,327,894.42
Income from holding of available-for-sale financial assets	5,488,218.50	3,855,606.50
Total	45,522,569.12	67,679,281.97

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Supplementary information of Statement of Cash Flows

Item	Current year amount	Last year amount
I. Reconciliation of net income to cash flows from operating activities:		
Net income	490,961,817.77	729,397,776.60
Add: Provision for fixed assets	336,637,379.01	15,712,875.37
Depreciation of fixed assets, depletion of oil and nature gas assets and biological assets	88,164,707.82	90,820,361.15
Amortisation of intangible assets	6,833,278.99	6,920,130.16
Amortisation of long-term deferred expenses	679,751.45	
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	36,538.40	1,370,334.20
Losses on scrapping of fixed assets ("-" for gains)		
Losses on movement of fair value ("-" for gains)	2,158,064.47	33,475,189.25
Financial expenses ("-" for gains)	-244,853,582.91	-156,793,549.03
Investments losses ("-" for gains)	-45,522,569.12	-67,679,281.97
Decrease in deferred tax assets ("-" for increase)	-41,363,662.71	-10,696,556.34
Increase in deferred tax liabilities ("-" for decrease)	-4,608,188.31	-5,021,278.39
Decrease in inventories ("-" for increase)	-683,582,821.80	-235,644,385.72
Decrease in operating receivables ("-" for increase)	-390,284,031.45	-189,238,502.14
Increase in operating payables ("-" for decrease)	-762,585,963.79	759,370,910.08
Others		
Net cash flows from operating activities	-1,247,329,282.18	971,994,023.22
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 decrease/increase in cash and cash equivalents		
Cash at the end of the period	2,730,487,268.95	4,776,783,586.93
Less: Cash at the beginning of the period	4,776,783,586.93	4,174,852,057.51
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net decrease/increase in cash and cash equivalents	-2,046,296,317.98	601,931,529.42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 NET CURRENT ASSETS

Item	Consolidated financial statements		Holding's financial statements	
	Current year	Last year	Current year	Last year
Current assets	9,566,613,909.06	10,046,059,896.08	9,664,782,909.51	9,876,812,593.67
Less: current liabilities	6,308,202,650.69	7,523,884,790.57	6,182,842,963.67	7,331,884,760.28
Net current assets	3,258,411,258.37	2,522,175,105.51	3,481,939,945.84	2,544,927,833.39

15 TOTAL ASSETS LESS CURRENT LIABILITIES

Item	Consolidated financial statements		Holding's financial statements	
	Current year	Last year	Current year	Last year
Total assets	11,885,509,370.27	12,157,451,995.38	11,552,950,433.35	11,790,028,168.32
Less: current liabilities	6,308,202,650.69	7,523,884,790.57	6,182,842,963.67	7,331,884,760.28
Total assets less current liabilities	5,577,306,719.58	4,633,567,204.81	5,370,107,469.68	4,458,143,408.04

16 NON-CURRENT ASSETS (EXCLUDING FINANCIAL INSTRUMENTS)-BY GEOGRAPHIC DISTRIBUTION

Region	Current year amount	Last year amount
PRC	1,949,287,928.11	1,764,504,554.64
Hong Kong	16,139,855.87	16,438,698.31
Total	1,965,427,783.98	1,780,943,252.95

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 SUPPLEMENT INFORMATION

17.1 Current year non-operating profit or loss

Item	Current year amount	Notes
Gains or losses from disposal of non-current assets	73,674.14	Disposal of non-current assets
Ultra vires approval or without the formal approval documents or non-recurring tax return, relief		
Government subsidies recognised in current profits and losses	50,742,914.18	Government subsidy and research and development subsidy
Fund occupation fee charged by non-financial enterprises through profit or loss		
Investment costs in acquiring subsidiaries, associates and joint ventures are less than the enjoyment on the share of identifiable net assets of investees at the times of acquisition		
Gains or losses on the exchange of non-monetary assets		
Commissioned by others to invest or manage assets through profit or loss		
Unavoidable factors, such as victims of natural disasters and provision for the impairment of assets		
Gains or losses on debt reorganization		
Corporate restructuring charges		
Exceeds of changes in fair values arisen from transactions without fairly transaction prices		
The net profit or loss arisen from the beginning to the merging date from subsidiaries by merging the enterprises under the same control		
Profits or losses arisen from matters not related to normal operations of the Company		
Gains or losses from fair value changes in financial assets held-for-trading and financial liabilities held-for-trading, gains or losses from disposal of financial assets held-for-trading and financial liabilities held-for-trading, and investment income from disposal of available-for-sale financial assets; except effective hedging activities related to the Company's main operation	37,382,805.96	Changes in fair value on forward foreign exchange contract
Reversal of provision for impairment of trade receivables by impairment test		
Gains or losses on trusted loans		
Gains or losses arising from changes in fair value of investment properties by the subsequent measurement on the fair value method		
Effect on gains or losses from an one-off adjustment in according to requirements of tax, accounting and other laws		
Hosting income arising from the entrusted operations		
Other non-operating profits and losses apart from above items	78,787,957.32	Mainly represented income from cancellation of a shipping contract
Other profits and losses items which defined as non-recurring profits or losses		
Subtotal	166,987,351.60	
Less: Effect on income tax	25,189,776.20	
Attributable to non-controlling interest (after tax)	1,048,359.21	
Total	140,749,216.19	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17.2 Return on net assets and earnings per share

Profit for accounting period	Return on weighted average net assets	EPS	
		Basic EPS	Diluted EPS
Net profits belonging to the common shareholders	13.31	0.81	0.81
Net profits belonging to the common shareholders after deducted exceptional profits or losses	9.70	0.59	0.59

18 APPROVAL OF FINANCIAL STATEMENTS

The financial statement has been approved by the Board Meeting held on 29 March 2012.

According to the Company's Article, the financial statements are going to be submitted to the shareholders' meeting.

Legal representative:
Chen Jingqi

*Person in charge
of accounting function:*
Chen Liping

*Person in charge of
accounting department:*
Hou Zengquan

Guangzhou Shipyard International Company Limited
March 29, 2012

DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements with signatures and stamps of legal representative, chief accountant and accounting department director.
2. The original auditor's 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.