

ANNUAL REPORT 2012

GSI

GSI 广船国际

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

IMPORTANT NOTICE

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

All the directors, including the independent non-executive director Mr. Poon Chiu Kwok attended the meeting by means of telephone, and the independent non-executive director Ms. De Lihua acting as proxy of independent non-executive director Mr. Qiu Jiachen, attended the fifteenth meeting of the seventh term of the Board held on Mar 26, 2013, at which, this report was passed by unanimous vote.

Mr. Yu Baoshan, Chairman of the Board, Mr. Chen Liping, Chief Accountant of the Company and Mr. Hou Zengquan, Manager of Financial Center of the Company, declare and confirm the authenticity and completeness of the financial reports included in this report.

The annual report has been audited by Shinewing Certified Public Accountants (special general partnership), which has provided us an audit report with clean opinions.

The Audit Committee of the Company has reviewed and confirmed the annual financial reports for the year 2012 of the Company.

The profit distribution proposal for 2012, as approved by the Board, is as follows: the net profit realized and attributable to the parent company's owners in 2012 was RMB10,327,540.44; after withdrawal of 10% for statutory welfare fund, the accumulative undistributed profit is RMB2,393,852,509.26; the Board of the Company proposed, a cash dividend of RMB1.2 for every 10 shares (tax included) will be paid to all shareholders based on a total of 643,080,854 shares of the Company, representing a distribution of cash dividend of RMB77,169,702.48 in total. This proposal will be implemented after being approved at the 2012 annual general meeting.

The prospective descriptions of future plans and development strategies, etc. involved in the annual report shall not form the Company's substantial commitment to investors. Investors shall please pay attention to investment risks.

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

This annual report is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

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INTERPRETATION AND PROMPT OF MATERIAL RISKS

INTERPRETATION

DWT (deadweight tonnage)	Deadweight capacity with ton as unit
Jiangsu Shenghua	Jiangsu Shenghua Shipbuilding Company Limited
Guangli Company	Guangzhou Guangli Shipbuilding Human Resource Service Company Limited, a subsidiary of the Company
CSSC	China State Shipbuilding Corporation
The Group	Guangzhou Shipyard International Company Limited and its affiliated companies
Yonglian Company	Guangzhou Yonglian Steel Structure Co., Ltd.
Glory Company	Glory Group Developing Company Limited.
Longxue Shipbuilding	Guangzhou CSSC Longxue Shipbuilding Co., Ltd.
Wanda Company	Guangzhou Wanda Ship Engineering Co., Ltd.

PROMPT OF MATERIAL RISKS

In 2013, affected by global slump and excessive shipbuilding capacity, the Company's production task is not full and the ship price is lowered, while the cost of labor remains high. As a result, the Company's profit level is reduced, and the Company's performance has been adversely affected.

OVERVIEW OF THE COMPANY

1.1 GENERAL INFORMATION

1.1.1 **Registered Chinese Name of the Company:** 廣州廣船國際股份有限公司

Abbreviation of Chinese Name of the Company: 廣船國際

Registered English Name of the Company: Guangzhou Shipyard International Company Limited

Abbreviation of English Name of the Company: GSI

1.1.2 **Legal Representative of the Company:** Mr. Yu Baoshan

Secretary of the Board, and Joint Company Secretary: Chen Liping

Tel: (8620) 81891712 ext. 3155

E-mail: chenlpaa@chinagsi.com

Joint Company Secretary: Li Zhidong

Tel:(8620) 81891712 ext. 2962

E-mail: lzd@chinagsi.com

Authorized Securities Representative: Ms. Yang Ping

Tel: (8620) 81891712 ext. 2995

E-mail: yangping@chinagsi.com

1.1.3 **The Company's Registered Address and Office:** 40 South Fangcun Main Road, Liwan District Guangzhou, The People's Republic of China

1.1.4 **Contact Address:** 40 South Fangcun Main Road, Liwan District, Guangzhou, The People's Republic of China

Postal Code: 510382

Tel: (8620) 81891712 ext. 3168

Fax: (8620) 81891575

E-mail Address: gsi@chinagsi.com

International Internet Website: www.chinagsi.com

OVERVIEW OF THE COMPANY

1.1.5 **The Company's Principal Place of Business in Hong Kong:** 28/F, Three Pacific Place 1, Queen's Road East, Hong Kong

1.1.6 **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

1.1.7 **Auditors:** Shinewing Certified Public Accountants (special common partnership)

Office Address: F/8, Tower A, Fuhua Mansion, 8 North Chaoyangmen Street, Dongcheng District, Beijing

Signing Accountants: Chen Gang, Zhao Xueping

1.1.8 **Legal Counsel in Chinese Mainland:** Guangdong Z&T Law Firm

Office Address: 21/F, Yuehai Mansion, 472 East Huanshi Road, Guangzhou

Legal Counsel in Hong Kong: Minter Ellison Lawyers

Office Address: 15/F, Hutchison House, No. 10 Harcourt Road, Central Hong Kong,

The People's Republic of China

1.1.9 **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,

17/F Hopewell Centre

183, Queen's Road East, Hong Kong,

the People's Republic of China

1.1.10 **Newspapers and Websites for Information Disclosure:**

Shanghai Securities News

The website of Shanghai Stock Exchange (www.sse.com.cn)

The website of Stock Exchange of Hong Kong Limited (www.hkex.com.hk)

The website of the Company (www.chinagsi.com)

Annual Report Preparation Place: Office of the Board

OVERVIEW OF THE COMPANY

1.1.11 Registration Documents of the Company:

Alteration of Registration during the Reporting Period: None

Index for Inquiry about First Registration: Brief information on the Company in the Annual Report 2011

1.1.12 ADR Custodian Bank: The Bank of New York Mellon

1.2 BRIEF INTRODUCTION

1.2.1 GENERAL

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

The Company adheres to the quality policy of “Lean Management, Technological Innovation, Continuous Improvement, Sincerity and Mutual Benefit, Customer Satisfaction” and occupational health & safety policy of “Lawful Operation, Cherishing Life, Green Shipbuilding, Continuous Improvement” and has gained ISO9001:2008, and GJB9001B-2009 standard certificate, Occupational Health & Safety Management System Certificate (OHSAS 18001:2007) and Environmental Management System Certificate (ISO14001:2004) issued by British Lloyds Society Quality Assurance Ltd. Moreover, the Company also gained National Confidential Certificate and Weapon Research & Production Certificate by National Defense Science and Technique Bureau.

The Company is based on the core business of shipbuilding, and focuses on building and designing small & middle size vessels with the dead weight tonnages between 30,000dwt to 60,000dwt, involved in the businesses of large-size steel structure, marine shafting and rudder system processing, ship accommodation, anticorrosive coating, marine labor services, electro-machinery and software exploitation, and has entered into the high-tech and high value-added shipbuilding market of Ro/Ro vessels, Ro/Ro passenger vessels and semi-submersible heavy lift vessels. As becoming the No. 1 enterprise in China and No. 3 enterprise in the world in designing and building handy-size tankers, GSI adjusted the development strategy, and engages in the goal of “to be a famous enterprise with advanced technology and excellent service in the segment of small & middle size vessels and an important base of building special vessels in South China”, and wish to form four main operations of shipbuilding; heavy machinery, service industry and offshore engineering.

1.2.2 CHANGES OF MAIN BUSINESSES

When being listed and established, the Company mainly dealt with the businesses such as: shipbuilding, container, ship repair, electromechanical, special ships, pressure vessels, furniture, and fiber glass products, etc. After the Company’s listing, its ship product structure is market-oriented, and has developed towards diversified directions, namely the Company has developed from mainly building bulk carriers to building high-performance multi-purpose ships, product oil tankers, ro-ro ships, sub-submerged ships, and ro-ro passenger ships, etc., gradually transformed from building ships of low technical level and low value added, to building the ships of high technical content and high value added, and formed the pattern of continuous mass production of finished oil tanks.

In 2004, the Company exited from the container market. In 2005, with the approval of the Bureau of Foreign Trade and Economic Cooperation of Guangzhou Municipality, the scope of the Company’s main business extends to: contracting of overseas electromechanical engineering and domestic international bidding engineering, the export of equipment and materials for the abovementioned overseas engineering, and dispatching of labor force for implementing the abovementioned overseas engineering.

1.3 CHANGE OF CONTROLLING SHAREHOLDER

When being listed in 1993, the Company was controlled by the former CSSC (“中國船舶工業總公司”).

On July 1, 1999, for the reform of the former CSSC, the Company’s controlling shareholder was changed to be CSSC (“中國船舶工業集團公司”).

SUMMARY OF ACCOUNTING AND BUSINESS DATA

2.1 MAJOR ACCOUNTING DATA AND FINANCIAL INDEX OF THE LATEST FIVE YEARS

2.1.1 MAJOR FINANCIAL DATA

Unit: RMB

Major accounting data	2012	2011	Changes compared with last year (%)	2010			2009			2008		
				2010	2009	2008	2010	2009	2008	2010	2009	2008
Total operating income/sales turnover	6,424,083,364.01	8,296,431,347.84	-22.57	7,014,224,669.01	6,553,424,803.99	6,984,087,521.27						
Total profit/after deduction of pre-tax profit	27,535,028.17	606,591,265.14	-95.46	835,247,436.63	613,687,828.53	921,285,578.25						
Net profit attributable to shareholders/profit attributable to shareholders	10,327,540.44	518,333,370.07	-98.01	707,736,792.53	514,961,903.36	820,395,655.17						
Net profit attributable to shareholders after deduction of exceptional items	-38,570,558.87	377,584,153.88	Inapplicable	611,713,234.82	499,297,991.27	803,295,845.89						
Net cash flow from operating activities	-147,651,544.82	-1,182,559,975.99	Inapplicable	1,038,885,458.78	-464,920,580.03	-195,267,322.66						
Major accounting data	End of 2012	End of 2011	Change (%)	End of 2010	End of 2009	End of 2008						
Total assets	10,862,086,077.54	11,885,509,370.27	-8.61	12,157,451,995.38	9,805,223,077.98	10,258,230,707.13						
Total liabilities	6,615,509,959.95	7,684,735,148.21	-13.91	8,403,525,396.25	6,548,243,353.48	7,415,365,491.69						
Total owner's equity/shareholders' equity classified under listed companies' shareholders	4,145,114,473.30	4,107,606,378.32	0.91	3,663,019,478.60	3,168,840,358.56	2,747,359,653.70						

2.1.2 MAJOR FINANCIAL INDEX

Unit: RMB

Major financial indicators	2012	2011	Changes compared with last year (%)	2010			2009			2008		
				2010	2009	2008	2010	2009	2008	2010	2009	2008
Basic EPS (RMB/share)	0.02	0.81	-98.01	1.10	0.80	1.28						
Diluted EPS (RMB/share)	0.02	0.81	-98.01	1.10	0.80	1.28						
Basic EPS after deduction of exceptional items (RMB/share)	-0.06	0.59	-110.17	0.95	0.78	1.25						
Weighted average returns on net assets (%)	0.25	13.31	Decreased by 13.06%	20.73	17.42	31.58						
Weighted average returns on net assets after deduction of exceptional items (%)	-0.94	9.70	Decreased by 10.64%	17.91	16.89	30.92						
Major financial index	End of 2012	End of 2011	Change (%)	End of 2010	End of 2009	End of 2008						
Current ratio (current assets/current liabilities)	1.70	1.52	11.84	1.34	1.22	1.22						
Gearing ratio (%)	60.90	64.66	Decreased by 3.76%	69.12	66.78	72.29						

SUMMARY OF ACCOUNTING AND BUSINESS DATA

2.2 THE NATURE AND AMOUNT OF EXCEPTIONAL ITEMS

Unit: RMB

Exceptional Items	2012	Notes	2011	2010
Profits or losses from disposal of non-current assets	2,877,045.13	Mainly resulted from disposal of fixed assets	73,674.14	-1,411,349.43
Including write-offs of asset impairment provisions Government subsidies recognized in the current profits 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	19,005,930.17	Mainly resulted from government subsidy and subsidy from research and development	50,742,914.18	86,244,367.90
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	26,786,862.04	Resulted from fair value changes as due to forward foreign exchange contracts	37,382,805.96	30,754,086.76
Reverse of the provision for receivable impairment which was tested individually	2,747,676.99			521,900.00
Other non-operating profits and losses apart from above items	6,555,516.23	Mainly due to the income from the cancellation of the construction contract of a vessel during the Reporting Period	78,787,957.32	-2,755,915.78
Less: Influence on income tax	8,716,583.51		25,189,776.20	17,002,963.42
Influence on minority interests	358,347.74		1,048,359.21	326,568.32
Total	48,898,099.31		140,749,216.19	96,023,557.71

2.3 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	20,229,536.04	22,862,044.25	2,632,508.21	2,632,508.21
2. Available-for-sale financial assets	238,228,805.50	269,965,187.50	31,736,382.00	7,470,472.00
Financial liabilities				
1. Derivative financial liabilities estimated on fair value and the change recorded in the current profit and loss	1,159,935.94	223,540.75	-936,395.19	936,395.19

REPORT OF THE BOARD

3.1 THE BOARD'S DISCUSSION AND ANALYSIS OF OPERATIONS DURING THE REPORTING PERIOD

In 2012, the global shipbuilding market was weary, main shipbuilding indexes declined comprehensively, the market competition tended to be more drastic, and it was extremely difficult for the business operation of shipbuilding enterprises. In the face of austere experiences, the Company, on the one hand, accelerated "shipbuilding mode conversion and products structure adjustment", made clear the development carriers of non-ship businesses and offshore engineering businesses by adjusting organization structure and optimizing business management and production management, implemented properly related diversified development, and realized new breakthrough in non-ship and offshore engineering. On the other hand, the Company adjusted the structure of shipbuilding products, allocated the structural proportion of export-oriented products and products for meeting domestic demand and the structural proportion of liquid cargo vessel products and high-tech products, and made the structure of shipbuilding products tend to be increasingly reasonable.

The Company focused on "lowering cost and raising efficiency"; reorganized its shipbuilding business, established Shipbuilding Business Department, and raised the efficiency of resources utilization closely surrounding the central task of "ensuring delivery and securing orders"; and developed "lowering cost and raising efficiency" surrounding "shorting shipbuilding cycle, optimizing post setup, improving technical process, saving energy and reducing consumption, and strictly controlling expenses to carry out cost decreasing and benefit increasing", persisted in high quality and orderly & balanced operation, and created a historical new record of shipbuilding output.

In the face of complicated market environment, the Company persisted in market-orientation, and won orders by dint of its advantages in brand and technology, and by means of raising the performance-price ratio of shipbuilding products. In addition, the Company strengthened ship type recommendation and customer developing, tracked the trend of domestic mainstream ship-owners' policies for investment of energy transportation projects in light of the 12th Five-Year Plan, broken through its space restriction through strategic cooperation, began to undertake the building of large vessels, and accelerated the adjustment of industrial structure and product structure.

As at December 31, 2012, the operating income of the Group prepared under the PRC Accounting Standards and Regulations amounted to RMB6.424 billion, representing a fall of 22.57% over that of last year. The audited consolidated net profit attributable to shareholders of the Company amounted to RMB10.3275 million, representing a fall of 98.01% over that of last year. The earnings per share and that after deduction of exceptional items were RMB0.02 and RMB-0.06 respectively.



The diving test of the 50000 DWG semi-submerged ship

3.1.1 MAIN BUSINESS ANALYSIS

3.1.1.1 ANALYTICAL STATEMENT ON CHANGES OF RELATED ITEMS IN INCOME STATEMENT AND CASH FLOW STATEMENT

Unit: RMB

Item	Current year	Last year	Change (%)
Total revenue	6,424,083,364.01	8,296,431,347.84	-22.57
Total costs	5,970,855,522.13	7,369,720,001.85	-18.98
Selling expenses	3,741,482.56	25,824,677.79	-85.51
Administrative expenses	391,004,348.00	402,918,826.01	-2.96
Financial expenses	-101,281,148.23	-238,565,286.18	-57.55
Net cash flows from operating activities	-147,651,544.82	-1,182,559,975.99	inapplicable
Net cash flows from investing activities	1,244,513,316.01	-1,537,438,247.81	inapplicable
Net cash flows from financing activities	-303,931,153.26	683,503,409.84	-144.47
Research and development expenditure	82,085,610.39	96,871,378.59	-15.26

REPORT OF THE BOARD

CHANGES OF INCOME STATEMENT AND EXPLANATION

Unit: RMB

Item	Current year	Last year	Change (%)	Main reasons
Taxes and levies on operations	27,357,520.19	48,434,977.29	-43.52	Resulted from the drop in the price of vessels during the Reporting Period
Selling expenses	3,741,482.56	25,824,677.79	-85.51	Resulted from the cancellation of order for one vessel after negotiating with ship-owner, and the settlement of fee for repair guarantee of related vessels
Financial expenses	-101,281,148.23	-238,565,286.18	Inapplicable	Resulted from the drop of gain on exchange due to the slowing of growth in exchange rate of RMB against USD during the Reporting Period
Gains on changes in fair value	3,568,903.40	-2,158,064.47	Inapplicable	Resulted from that the non-delivered parts were affected by the fluctuation of exchange rate and the delivery after expiration of some forward exchange contracts during the Reporting Period
Investment income	33,706,842.80	49,238,565.61	-31.54	Resulted from the decrease of delivery income after expiration of forward exchange contract
Operating profit	-241,869,246.10	393,766,389.62	-161.42	Resulted from the drop of ship price and the rise of cost
Total profit	27,535,028.17	606,591,265.14	-95.46	Resulted from the drop of ship price and the rise of cost
Income tax	8,913,687.18	84,002,690.86	-89.39	Resulted from the decrease of profit realized during the Reporting Period
Net profit	18,621,340.99	522,588,574.28	-96.44	Resulted from the drop of ship price and the rise of cost
Net profit attributable to the parent company	10,327,540.44	518,333,370.07	-98.01	Resulted from the drop of ship price and the rise of cost
Attributable to minority interests	8,293,800.55	4,255,204.21	94.91	Resulted from the growth in the profit of jointly-run businesses

CHANGES OF CASH FLOW STATEMENT AND EXPLANATION

Unit: RMB

Item	Current year	Last year	Change (%)	Main reasons
Other cash receipts relating to operating activities	227,386,598.86	364,466,999.52	-37.61	Resulted from the decrease of product subsidy received
Net cash flows from operating activities	-147,651,544.82	-1,182,559,975.99	Inapplicable	Resulted from the drop of purchasing expense paid in cash during the Reporting Period
Cash received from return on investment	34,106,710.64	50,037,617.53	-31.84	Resulted from the decrease of cash received from delivery of trading financial assets
Net cash received from the sale of fixed assets, intangible assets and other long-term assets	6,603,485.17	2,474,459.23	166.87	Resulted from the increase of fixed assets disposed during the Reporting Period
Other cash receipts relating to investing activities	2,576,815,966.11	158,948,775.60	1,521.16	Resulted from the increase of loan with mortgage released at maturity
Payments for fixed assets, intangible assets and other long-term assets	194,111,204.56	332,780,318.16	-41.67	Resulted from the drop of cash paid for investment during the Reporting Period
Payments for other investing activities		1,994,481.00	-100.00	Resulted from payment for purchasing some shares of Wanda Company in 2011
Net cash flows from investing activities	1,244,513,316.01	-1,537,438,247.81	Inapplicable	Resulted from the increase of loan with mortgage released at maturity
Proceeds from borrowings	2,140,381,010.57	3,321,644,842.55	-35.56	Resulted from the drop of loan during the Reporting Period
Net cash flows from financing activities	-303,931,153.26	683,503,409.84	-144.47	Resulted from the drop of loan during the Reporting Period
Effect of exchange rate changes on cash	-2,740,675.79	-7,382,809.29	Inapplicable	Resulted from the narrowing of fluctuation ratio of exchange rate
Net increase in cash and cash equivalents	790,189,942.14	-2,043,877,623.25	Inapplicable	Resulted from the increase of loan with mortgage released at maturity

REPORT OF THE BOARD

3.1.1.2 Income

(1) *Analysis on the factors driving the change of business income*

In 2012, the Company realized operating income RMB6.424 billion, representing a fall of 22.57% over that of last year. Wherein, the income from shipbuilding was RMB5.268 billion, representing a fall of 27.09% over that of last year, mainly resulted from the drop in price of ships; the income from non-ship business was RMB1.076 billion, representing an increase of 17.49% over that of last year. Wherein, the income from steel structure business was RMB516 million, representing an increase of 20.40% over that of last year; and the income from mechanical & electrical products was RMB560 million, representing a fall of 14.93% over that of last year. The growth of non-ship business was mainly benefited from actively developing business channels, improving operation management, and transforming sales mode of mechanical & electrical products.

(2) *Analysis on the factors affecting the income of products giving priority to sale of material objects*

In 2012, the Company commenced the building of 15 ships, launched 19 ships, and completed the building of 22 ships, which were of 899,900 DWT in total, representing an increase of 16.67% over that of last year, and creating a new record of work done. However, for the downturn of international shipping market, the price of ships being built in 2012 dropped, and the Company realized shipbuilding output value of RMB5.26 billion, representing a fall of 25.22% over that of last year; and wherein, the output value of offshore engineering was RMB608 million.

Benefited from developing businesses, improving operation management, and transforming sales mode, the Company realized an output value of RMB914 million from non-ship businesses in 2012, representing an increase of 53% over that of last year. Wherein, the Company completed 38600 tons of steel structure products, which realized output value of RMB566 million, representing an increase of 70.48% over that of last year; sold 638 sets of shearing press, representing an increase of 36.32% over that of last year, and creating a historical new record; signed contracts for 656 sets of shearing press, representing an increase of 37.24% over that of last year, and creating a historical new record; and completed the construction of 668 elevators, representing an increase of 22.34% over that of last year, also creating a historical new record.

(3) *Orders analysis*

In 2012, the Company secured orders of RMB6.407 billion, representing an increase of 41.64% over that of last year. Where, the orders covered 18 ships with 1,036,000DWT, and the contract amount of non-ship products was RMB778 million, representing a fall of 30.85% over that of last year. As at December 31, 2012, the Company had orders for 37 ships with 1,830,000DWT, and the contract amount of held orders for non-ship products was RMB410 million.

(4) *Analysis on the impact of new products and new services*

In 2012, after the construction of bulk carriers on and off for 11 years, the Company completed the construction of 50,000DWT bulk carriers smoothly; by means of sub-contracting, the Company completed the construction of two 50,000DWT semi-submerged ships; and by means of strategic cooperation and venue renting, the Company reached an agreement with ship-owner for changing 50,000DWT semi-submerged ship into 70,000DWT semi-submerged ship, and secured orders of building 308,000DWT VLCC. The Company's achievements in terms of bulk carrier, semi-submerged ship and VLCC, etc. will be beneficial for the Company to adjust the structure of shipbuilding products, to strengthen its competitiveness, and to reduce the impact of production place bottleneck on its development. In addition, the Company's wholly-owned subsidiary, Guangzhou GSI Marine Engineering Co., Ltd., undertook the contract for reconstructing one FPSO by cooperating with other shipbuilding enterprise, achieving a breakthrough for the Company in entering offshore engineering market.

(5) *Information of main sales customers*

In 2012, among the Group's income from various businesses, the sales realized from the businesses with top five customers was RMB3.233 billion in total, accounting for 50.33% of the Group's annual total operating income; wherein, the sales realized from the business with the largest customer China Shipping Development Co., Ltd. Was RMB1.186 billion, accounting for 18.46% of the Group's annual total operating income.

The Company's directors, supervisors and their connected parties, etc. had no interest or right in the abovementioned customers; to the knowledge of the directors, no shareholder holding more than 5% stock equity in the Company had any right and interest in the abovementioned customers.

REPORT OF THE BOARD

3.1.1.3 Cost

(1) Cost analysis by product

Unit: RMB'0000

Product	Cost composition	Amount of current period	Proportion among total cost this year (%)	Amount in the same period of last year	Proportion among total cost during the same period of last year (%)	Change of amount of current period compared with that of last year (%)	Description
Shipbuilding business (including offshore engineering)	Direct material	351,129.65	58.81	429,123.99	58.23	-18.18	Resulted from the drop of turnover and purchasing cost
	Processing cost	171,373.27	28.70	221,754.99	30.10	-89.03	Resulted from the rise in production efficiency and drop of business volume
	Depreciation loss	-28,057.09	-4.70	-2,945.50	-0.40	852.54	Resulted from written-off of depreciation provision
Steel structure engineering	Direct material	23,594.54	3.95	18,256.14	2.48	29.24	Resulted from increase of products
	Processing cost	23,479.59	3.94	21,056.95	2.85	111.85	Resulted from increase of products
Mechanical and electrical products and others	Direct material	25,379.40	4.25	22,925.44	3.10	10.70	Resulted from increase of products
	Processing cost	30,732.92	5.14	26,800.01	3.64	106.47	Resulted from increase of products
	Depreciation loss	-546.73	-0.09				Resulted from written-off of depreciation provision
Total		597,085.55	100	736,972.00	100	-18.98	

(2) Information of main suppliers

In 2012, among the Group's purchasing for various businesses, the amount incurred from purchasing the materials and equipment for products from top five material suppliers was RMB936 million in total, accounting for 23.39% of the Group's annual purchasing of materials and equipment for products; and wherein, the amount of purchasing from the largest supplier Chongqing Iron & Steel Company Limited was RMB424 million, accounting for 10.52% of the Group's total purchasing amount.

The Company's directors, supervisors and their connected parties, etc. had no interest or right in the abovementioned suppliers; to the knowledge of the directors, no shareholder holding more than 5% stock equity in the Company had any right and interest in the abovementioned suppliers.

3.1.1.4 Expense

In 2012, the selling expenses were RMB3,741,500, representing a fall of 85.51% over that of last year. This mainly resulted from that the Company cancelled the order for one ship with the ship-owner, and settled the fee for repair guarantee of related ships.

The financial expenses were RMB-101,281,100, representing a fall of 57.55%. This mainly resulted from that, the gain on exchange fell due to the slowing of growth in the exchange rate of RMB against USD during the Reporting Period.

The income tax was RMB8,913,700, representing a fall of 89.39%. This mainly resulted from the decrease of profit realized during the Reporting Period.

REPORT OF THE BOARD

3.1.1.5 Research and development expenditure

(1) List of research and development expenditure

Unit: RMB

Research and development expenditure recorded in expenses during the Reporting Period	82,085,610.39
Capitalized research and development expenditure during the Reporting Period	
Total research and development expenditure	82,085,610.39
Proportion of total research and development expenditure among net assets (%)	1.98
Proportion of total research and development expenditure among operating income (%)	1.28

(2) Description

During the Reporting Period, the basic research and development expenditure listed as administrative expenses was RMB82,085,600 (excluding the expenditure for research of new products), accounting for 1.28% of operating income during the Reporting Period. The research and development expenditure was mainly applied to the building of high-tech vessels and steel structures, and the research and development of shipbuilding information system. For details, please refer to Section 9 "Financial Accounting Report" V, Notes to Consolidated Financial Statements 17. Development Expenditure of the Report.

3.1.1.6 Cash flow

In 2012, the Company's cash flow from operating activities was RMB-148 million, representing an increase of RMB1.035 billion over that of last year, and this mainly resulted from the decrease of cash paid for purchasing during the Reporting Period; the cash flow from investing activities was RMB1.245 billion, representing an increase of RMB2.782 billion over that of last year, and this mainly resulted from the increase of pledge deposits received; and the cash flow from financing activities was RMB-304 million, representing a fall of RMB987 million over that of last year, and this mainly resulted from the drop of loan amount during the Reporting Period.

3.1.1.7 Description of the progress of development strategy and business plan

In 2012, according to the development strategy of "strengthening shipbuilding business, enlarging non-ship business, and developing offshore engineering", the Company completed the construction of 22 ships, with 899,900 DWT in total, representing an increase of 16.67% over that of last year, creating a historical record. The Company realized an output value of RMB5.26 billion (including maritime ships) from shipbuilding business, achieving 86.14% of annual plan; among shipbuilding business, the output value of offshore engineering was RMB608 million, achieving 102% of annual plan; and the output value of non-ship business was RMB914 million, achieving 113% of annual plan, representing an increase of 53% over that of last year.

In terms of shipbuilding business, by means of technical research & development and strategic cooperation, the Company expanded shipbuilding business, completed the construction of bulk carrier, undertook the contracts for 70,000DWT semi-submerged ships and 308,000DWT VLCC, enriched the variety of shipbuilding products, and raised the proportion of ships with high technical content and high value added. In terms of heavy machine business, the Company made greater efforts to develop the electromechanical markets like steel structure and complete-set equipment, etc., meanwhile, complying with the market situations, the Company recombined the institution according to the current production state of non-ship products, realized the overall transformation from the non-ship management mode of "ignoring assets" to the strategy of "paying attention to entities", and stepped into a new development stage in terms of the management mode and resource allocation for non-ship development. In terms of offshore engineering, the Company achieved a breakthrough in maritime products by relying on the newly established wholly-owned subsidiary.

REPORT OF THE BOARD

3.1.2 Analysis on products or regional operation

3.1.2.1 Information of main businesses by product

Unit: RMB

Product	Operating income	Operating cost	Gross profit margin (%)	Change of operating income compared with that of last year (%)	Change of operating cost compared with that of last year (%)	Change of gross profit margin compared with that of last year (%)
Shipbuilding business (including offshore engineering products)	5,267,831,171.79	4,944,458,380.90	6.14	-27.09	-23.69	Decreased by 4.19%
Steel structure engineering	516,311,292.13	470,741,243.97	8.83	20.40	19.74	Increased by 0.5%
Electromechanical products and others	559,748,670.67	489,094,873.63	12.62	14.93	35.08	Decreased by 13.03%

Information of main businesses by product

During the Reporting Period, the Group's income from main businesses was RMB6.344 billion, representing a fall of 22.08% over that of last year; the gross profit margin was 6.93%, representing a fall of 4.21% over that of last year, and the profit affected by the change of gross profit margin was around RMB-267 million.

(1) Shipbuilding business

The income from shipbuilding products decreased by RMB1.958 billion (or by 27.09%), and its proportion among the Company's total income decreased from 88.75% in 2011 to 83.04% during the Reporting Period. In addition, during the Reporting Period, the shipbuilding output of the Company was 19.56 ships, representing an increase of 0.84 ship over that of last year. The decrease of income from shipbuilding, as compared with that of last year, was mainly resulted from the drop of contracted shipbuilding price.

During the Reporting Period, the gross profit margin of shipbuilding dropped by 4.19% (excluding product subsidy income) over that of last year, and the gross profit affected by it was around RMB-221 million. The drop in gross profit margin of shipbuilding was mainly because the low ship price weakened the profitability of shipbuilding products.

(2) Steel structure and other mechanical & electrical products

Benefited from developing non-ship businesses, improving operation management and transforming sales mode, the Company realized an increase of 20.4% in the income from steel structure products, which accounted for 16.96% of income from main businesses, and was higher than that of last year, which was 11.25%; in addition, the Company realized an increase of 14.93% in the income from other electromechanical products.

All shipbuilding products stepped into the low-price shipbuilding stage, and "strengthening shipbuilding business, enlarging non-ship business, and developing offshore engineering" would be an important objective of adjusting structure and realizing sustainable development. Pursuant to this strategy, the Company established Heavy Machine Business Department and Reconstruction Business Department, pushed the reform of business departments, and improved its organization structure, in order to boost the healthy development of its businesses.

REPORT OF THE BOARD

3.1.2.2 Information of main businesses by region

Unit: RMB

Regional name	Income from main businesses Amount of current year	Income from main businesses Amount of last year	Change of operating income compared with last year (±%)
The Netherlands	697,395,069.40	727,783,083.38	-4.18
Greece	449,617,229.92	364,385,336.72	23.39
Denmark	541,405,717.48	2,462,852,434.44	-78.02
Malta	128,210,255.04	184,559,546.96	-30.53
Sweden	266,824,293.40	92,113,557.89	189.67
Columbia	115,407,141.45	199,285,313.81	-42.09
USA	50,695,105.77	4,689,609.71	981.01
Canada	98,415,713.23	8,964,524.47	997.84
Thailand	22,338,172.30		
Australia	244,045,152.52	57,205,238.65	326.61
Hong Kong	134,229,572.54	375,086,912.20	-64.21
Other countries and regions	31,839,211.39	26,716,229.26	19.18
Chinese Mainland	3,563,468,500.15	3,637,719,940.21	-2.04
Total	6,343,891,134.59	8,141,361,727.70	-22.08

Description of products by region

During the Reporting Period, the Group's income from main businesses dropped by 22.08% over that of last year. Wherein, the sales in Chinese Mainland was basically maintained at the same level of last year, but the proportion among total income increased by 11.49% to 56.17% over that of last year; the export of products was RMB2.780 billion, representing a fall of 38.26% over that of last year. The products exported by the Company were mainly distributed in Europe, but affected by economic environment, the sales price and quantity of oil tankers in this region decreased greatly.

REPORT OF THE BOARD

3.1.3 Analysis of assets and liabilities

3.1.3.1 Analytical statement of assets and liabilities

Unit: RMB

Item	Amount at the end of current period	Amount at the end of current period/total assets (%)	Amount at the end of last period	Amount at the end of last period/total assets (%)	Amount at the end of current period/last period (%)	Description
Notes receivables	3,492,665.00	0.03	560,000.00		523.69	Increase of premature notes receivable
Interest receivables	143,581,872.47	1.32	104,002,627.67	0.88	38.06	Increase of interest receivable on the deposits obtained
Dividend receivables	1,043,381.78	0.01				Cash dividend receivable of jointly-run businesses
Other receivables	262,235,880.07	2.41	124,187,542.08	1.04	111.16	Increase of product subsidy receivable due to change of the Company's product structure
Inventories	506,101,222.69	4.66	1,514,217,309.31	12.74	-66.58	Provision for the difference between the estimated cost and the estimated revenue from shipbuilding contracts and the decrease in the number of ships being built
Other current assets	140,571.00					Prepayment of income tax of subsidiaries
Fixed assets	1,660,360,847.50	15.29	1,274,317,899.38	10.72	30.29	The construction in process at Zhongshan Block Manufacturing Centre was completed and converted into assets.
Construction in process	61,201,815.91	0.56	281,562,964.86	2.37	-78.26	The investment in Zhongshan Block Manufacturing Centre was converted into fixed assets.
Liquidation of fixed assets	33,554.52		5,044,668.76	0.04	-99.33	Decrease of fixed assets liquidated at the end of period
Deferred tax assets	90,453,005.81	0.83	69,448,011.72	0.58	30.25	Increase of loss from depreciation reserve withdrawn
Short-term borrowings	92,167,796.47	0.85	1,170,288,811.35	9.85	-92.12	Repayment of USD loan at maturity
Trading financial liabilities	223,540.75		1,159,935.94	0.01	-80.73	Change of fair value due to exchange rate fluctuation and delivery of forward contract
Taxes payable	78,274,385.66	0.72	48,106,774.49	0.40	62.71	Increase of VAT payable due to change of product structure
Non-current liabilities due within 1 year	1,057,958,531.65	9.74	593,796,816.00	5.00	78.17	Increase of long-term borrowings of maturity within 1 year
Other current liabilities	1,345,128,736.33	12.38	2,037,044,941.97	17.14	-33.97	Decrease of settlement money for shipbuilding engineering
Long-term borrowings	1,413,633,335.84	13.01	1,081,390,350.04	9.10	30.72	Increase of USD liabilities held for avoiding exchange rate risk
Other non-current liabilities	69,781,586.79	0.64	46,207,222.94	0.39	51.02	Increase of capital received for infrastructure construction

REPORT OF THE BOARD

3.1.3.2 Description of assets measured with fair value, and change in measurement property of main assets

The forward exchange operation contracts held by the Company are measured with fair value, and defined as trading financial assets. During the Reporting Period, the Company's income from change of fair value of trading financial assets was RMB3,568,900, and the investment yield delivered and confirmed was RMB23,158,700.

The following held by the Company, including golf certificates, and stocks of China Merchants Bank (600036) and China Merchants Energy Shipping Co., Ltd. (601872), are measured with fair value, and defined as available-for-sale financial assets. During the Reporting Period, the Company sold 5 golf certificates, the investment yield was confirmed to be RMB59,300, and the capital reserve transferred out was RMB7,800; the stock dividend obtained from China Merchants Bank was RMB7.31 million, and that obtained from China Merchants Energy Shipping Co., Ltd. was RMB100,000; the Company's income from the fair value fluctuation of stocks of China Merchants and Bank of China Merchants Energy Shipping Co., Ltd. was RMB27,188,400, which was confirmed to be capital reserve. For the details about the Company's external stock equity investment during the Reporting Period, please refer to the notes to financial statements.

3.1.4 Core competitiveness analysis

- (1) Brand advantage: By dint of good reputation, high-quality products and customized services, the Company has enjoyed relatively high brand popularity in the world handy liquid cargo vessel market, semi-submerged ship and ro-ro passenger ship market, as well as the on-land building and large-scale steel structure markets.
- (2) Technology advantage: The Company owns national-level technical center, persists in independent innovation, has successively researched & developed and promoted multiple types of new green, energy-saving and environmental-protection vessels, like oil tanker, chemical cargo ship, ro-ro ship, ro-ro passenger ship, and semi-submerged ship, etc., and raised the comprehensive technical-economic performance and market competitiveness of its ships. The Company has reached the world advanced standard in terms of ship research & development and manufacturing.
- (3) Management advantage: The Company owns abundant and profound production and management experiences, persists in instructing and organizing production with plans, can well complete the production tasks of various products, manage scattered production resources effectively, and realize headquarters' effective management on subordinated business blocks or units.

3.1.5 Analysis of investment status

3.1.5.1 Overall analysis on external stock equity investment

As at the end of Reporting Period, the amount of the Company's equity investment was RMB451 million, representing an increase of RMB68 million over that of last year, mainly due to the following reasons:

- (1) the Company invested RMB50 million to establish the wholly-owned subsidiary Guangzhou GSI Marine Engineering Co., Ltd., in order to develop its offshore engineering business.
- (2) the Company and its wholly-owned subsidiary, Glory Group Developing Co., Ltd., together acquired 49% of shares of its subsidiary, United Steel Structures Limited, from foreign shareholder, among which the Company acquired 24% of shares. After acquisition, the shares held by the Company in United Steel Structures Limited increased from 51% to 75%.

For the details about the Company's external stock equity investment during the Reporting Period, please refer to the "Analysis on main subsidiary companies and companies to which the Company is a shareholder" and notes to financial statements in this financial report.

REPORT OF THE BOARD

3.1.5.2 Information of other listed companies' stock equity held

Unit: RMB

Securities code	Abbreviation	Initial investment cost	Proportion among the company's stock equity (%)	Book value at the end of period	Gain or loss in Reporting Period	Change of owner's equity in Reporting Period	Accounting items	Share source
600036	China Merchants Bank	27,483,602.50	0.081	239,355,187.50	7,311,213.00	27,817,424.70	Available-for-sale financial assets	Purchasing
601872	China Merchants Energy Shipping Co., Ltd	37,100,000.00	0.29	28,160,000.00	100,000.00	-629,000.00	Available-for-sale financial assets	Purchasing
Total		64,583,602.50		267,515,187.50	7,411,213.00	27,188,424.70		

3.1.5.3 Information of entrusted financing and derivatives investment

(1) Entrusted financing

The Company had no entrusted financing during the Reporting Period.

(2) Entrusted loan

In 2012, in order to solve the bottleneck of insufficient production resources, the Company increased an entrusted loan of RMB165 million for Zhongshan Project construction to its wholly-owned subsidiary Zhongshan GSI Marine Engineering Co., Ltd. ("Zhongshan GSI") with China Merchants Bank as the client. The Company has provided entrusted loans of RMB635 million to Zhongshan GSI accumulatively; such entrusted loans are actually applied to the investment in the Company's fixed assets and intangible assets (land use right), which are the future base for the Company's non-ship business, and free of capital risk.

(3) Information of derivatives investment

By the end of 2012, the Company had total 18 USD forward exchange settlement contracts not delivered yet, amounting to USD233.03 million in total, wherein, the longest delivery period is until July 17, 2015, and the income from change of fair value at the end of period was RMB22.6385 million; in addition, the Company had no USD forward exchange purchasing contract not delivered yet at the end of year.

The Company has operated derivative financial businesses strictly according to its regulations on management of derivative financial businesses. Each business will be examined and approved by the Company's business department, legal department, financial department, chief accountant, vice chairman and general manager (with the chairman's authorization), and then be implemented after signing of contract for derivative financial business transaction.

REPORT OF THE BOARD

3.1.5.4 Analysis on main subsidiary companies and companies to which the Company is a shareholder

Unit: RMB1,000

	Enterprise	Main business	Registered capital	Proportion of stock equity held by the Company (%)	Asset scale/ total assets at the end of period	Total net assets at the end of period	Net profit/loss of current period
Shares held directly							
1	Guangdong GSI Elevator Co., Ltd.	Production and sale of elevators	21,000	95	94,278.24	35,398.82	859.81
2	Guangzhou Guangli Marine Human Resource Service Co., Ltd.	Providing labor services, as well as installation, welding, derusting, and painting of ships	500	80	37,922.80	7,887.57	888.57
3	Guangzhou Hongfan Information Technique Co., Ltd.	Developing of computer software, system integration, and hardware sales, etc.	5,000	51	23,727.01	21,725.73	3,404.08
4	Guangzhou Xingshun Shipping Service Co., Ltd.	Installation, welding, fitting, coating, repairing of hull structure	2,000	83.33	71,264.99	34,521.01	3,771.64
5	Guangzhou Wanda Maritime Engineering Co., Ltd.	Designing, manufacturing, installing and repairing: outfitting parts, pipeline, ventilation system and furniture of ships; interior decoration; sales of the enterprise's products	USD600,000	75	27,708.21	12,656.11	1,712.67
6	Guangzhou GSI Large-size Heavy Mechanical Equipment Co., Ltd.	Designing, processing, installing and selling: auxiliary machines of ships, large-scale complete-set electromechanical equipment, wind power generation equipment, shearing press, shield machine, hydraulic machinery, injection molding machine, and metal structure.	188,610	100	297,019.26	166,071.84	-9,580.93
7	Guangzhou Yonglian Steel Structure Co., Ltd.	Large steel structure	USD8,850,000	51	256,358.97	177,917.46	13,504.54
8	Glory Group Developing Co., Ltd.	Trade	HKD30,000,000	100	80,213.54	58,480.38	3,019.67
9	Zhongshan GSI Marine Engineering Co., Ltd.	Designing, processing, installing, manufacturing and selling: ships and auxiliaries (fishing use excluded), metal structures and members, general machines, cast and forged components, fiberglass, marine line, marine pipeline, marine tools, furniture, mechanical equipment, and ocean project equipment	100,000	100	788,499.96	38,364.81	-46,373.85
10	GSI Marine Engineering Co., Ltd.	Designing, constructing, reconstructing, and repairing the ships and platforms for marine projects	50,000	100	60,093.19	50,016.03	16.03
Shares held indirectly							
11	Guangzhou Wanda Maritime Engineering Co., Ltd.	Designing, manufacturing, installing and repairing: outfitting parts, pipelines, ventilation system and furniture of ships; interior decoration; and sale of the enterprise's products	USD600,000	25	27,708.21	12,656.11	1,712.67
12	Guangzhou Hongfan Hotel Co., Ltd.	Tourism and restaurant	10,000	100	10,318.16	6,735.11	598.84
13	Guangdong GSI Elevator Co., Ltd.	Elevator manufacturing	21,000	5	94,278.24	35,398.82	859.81
14	Fonkwang Developing Co., Ltd.	General trade	HKD200,000	70	57,358.17	12,121.88	28.58
15	Guangzhou Guangli Marine Human Resource Service Co., Ltd.	Providing labor services, as well as installation, welding, derusting, and painting of ships	500	20	7,887.57	37,922.80	888.57
16	Guangzhou Xingshun Shipping Service Co., Ltd.	Hull installation, welding, outfitting, painting, and repair	2,000	16.67	71,264.99	34,521.01	3,771.64

Except that Glory Group Developing Co., Ltd. and Fonkwang Developing Co., Ltd. are registered, established and operated in Hong Kong, all the other affiliated companies are registered, established and operated in the Mainland of the People's Republic of China.

REPORT OF THE BOARD

3.1.5.5 Information of non-raised capital investment projects

During the Reporting Period, the Company's total investment with non-raised capital was around RMB278 million, decreased by around RMB72 million, or 20.57% compared with that of 2011. The main investment projects and related information are as shown below:

Item	Project amount	Progress (%)	Unit: RMB		Project benefit
			Amount invested this year	Actual amount invested accumulatively	
Integrated system for load test of marine generators	4,700,000.00	100.00	1,009,886.43	5,231,433.40	Generated profit
One tug boat of shipping department	6,500,000.00	100.00	2,543,230.03	7,033,950.67	Generated profit
One auto-running barge for shipping	4,800,000.00	100.00	3,043,549.67	4,419,653.12	Generated profit
Renovation project of Guangzhou GSI Large-size Heavy Mechanical Equipment Co., Ltd.	188,610,000.00	100.00	6,864,680.03	186,523,414.41	Generated profit
Move of large parts machining workshop	43,000,000.00	100.00	1,383,593.71	13,978,393.96	Generated profit
Construction cost of Zhongshan GSI Marine Engineering Co., Ltd.	839,830,000.00	94.31	192,523,736.12	792,005,101.32	Being put into production
1 set of 200t quay fixed-type crane	11,000,000.00	100.00	10,133,137.79	10,133,137.79	Generated profit
Construction of guarantee conditions for research and development of special ships	14,020,000.00	30.31	4,250,000.00	4,250,000.00	In process
Others	123,554,000.00		56,571,315.43	90,045,634.73	In process
Total	1,236,014,000.00		278,323,129.21	1,113,620,719.40	

3.2 THE BOARD'S DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

3.2.1 Industrial competition pattern and development trend

According to the World Economic Situation and Prospects 2013 of the United Nations, the world economic growth will probably maintain the downturn in 2013, and be faced with the risk of decline again in the coming 2 years. In Chinese shipbuilding market, the supply exceeds demand due to excessive production capacity; coupled with the impact of global financial crisis, the whole shipbuilding has seen the reduction of orders, drop of ship price, and fall of overall benefit. At present, China's shipbuilding industry is mainly confronted with the problems, such as the increase of labor cost and the rise in the price of steel products. According to the Guiding Opinions on Accelerating Advancing the Merger and Recombination of Key Industrial Enterprises issued by the relevant state ministries and commissions on January 22, 2013, China will accelerate advancing the cross-regional, cross-industrial, and cross-ownership merger and recombination of enterprises represented by large-scale backbone shipbuilding enterprises, optimize resources allocation, develop enterprise groups with international competitiveness, and raise industrial concentration degree.

3.2.2 The Company's development strategy

According to the international shipbuilding situation at present, the Company will fulfill the adjustment of industrial structure and product structure actively, strengthen the reform and innovation, explore new business operation modes, intensify the construction of headquarters platform, deepen the construction of business department with profit as center, pay attention to the service and support for and management on subsidiary companies, make efforts to realize the development pattern of "strengthening shipbuilding business, enlarging non-ship business, and developing offshore engineering", and create GSI into a company giving priority to shipbuilding, developing properly related diversified businesses, and enjoying international competitiveness.

REPORT OF THE BOARD

3.2.3 Business plan for the next year

(1) *Securing orders*

In 2013, the Company will give full play to GSI's brand advantage, and secure orders with large oil tanks, large bulk carriers and large high-tech ships as sally port, through strategic cooperation and by combining with national policy of focusing on developing large ships. It plans to secure orders of more than RMB10 billion. Following the change of market development, the Company will adjust product structure timely, give full play to the characteristics of its independent research and development, strengthen social cooperation and developing of special ship market, raise the proportion of special ships with high technical content and value added undertaken, and reduce the impact of low-price competition of common ships.

(2) *Technical research and development*

According to market change and its own requirements on strategic adjustment, the Company will research and develop multiple types of energy-saving, environmental-protection and economical ships with technical indexes reaching international leading level, further consolidate its status in the market, develop large oil tankers and bulk carriers actively, strengthen social cooperation, and carry out research and development of multiple types of ro-ro passenger ships and semi-submerged ships. By making use of its successful experiences in manufacturing complete-set equipment, the Company will constantly command the core technology of heavy steel structures and complete-set equipment.

(3) *Shipbuilding*

The Company will keep carrying out lean shipbuilding, further optimize the resource allocation at production field, improve the quality control, arrange product schedule uniformly, and control production cycle. It's planned to commence the construction of 15 ships, to launch 12 ships, and to complete the construction of 9 ships (386,200DWT in total).

(4) *Cost control*

The Company will strictly execute the system of "reverse transmission of cost", decompose the cost pressure to sale, design, purchasing, and production etc., and strengthen target cost management. In addition, the Company will further compress consumptive expenditure and administrative expenses, strengthen the control of labor cost, lower the cost of labor used, reduce the outsourcing and out-contracted articles, and control the target cost of purchasing. In the precondition of guaranteeing capital turnover, the Company will further lower its financial cost.

(5) *HR management*

The Company will strictly control the total quantity of personnel, arrange fixed personnel for fixed post, carry out employment through competition, allocate human resources reasonably, advance the deep-going reform of personnel system, and optimize the structure of employees' team.

(6) *Risk prevention*

The Company will continuously maintain and perfect its internal control system, and surrounding the objectives of "preventing risks and ensuring delivery", the Company will strengthen risk prevention in implementation of shipbuilding contract, and the management on the contracts for non-ship business and offshore engineering. In addition, the Company will intensify the prevention of exchange rate risk, and raise the comprehensive yield rate of its capital.

(7) *Capital expenditure*

The Group's capital expenditure in 2013 is estimated to be around RMB205 million, mainly to be applied to fixed asset investment. The Group's capital source can meet the demand of capital expenditure and daily operation, etc.

3.2.4 Possible risks

(1) *Financial risk*

The Company's financial risk mainly includes exchange rate risk, interest rate risk, and price risk of available-for-sale financial assets.

Exchange rate risk is sourced from future transactions priced with foreign currencies, and foreign-currency assets and liabilities confirmed. The Company's transactions priced with foreign currencies are mainly settled with USD. When signing new contracts, the Company has considered the influences, and has adopted forward exchange contract and foreign-currency loan to lower the risk. The Company's derivative financial instruments, accounts receivable, monetary fund, accounts payable, short-term borrowings, long-term borrowings, and other payables, etc., which are settled with USD and will be subject to exchange rate risk, have been disclosed in the notes to financial statements respectively.

The Company's interest rate risk is sourced from long-term borrowings. The loans granted at floating interest rate make the Company suffer from the interest rate risk of cash flow, while the loans granted at fixed interest rate make the Company suffer from the interest rate risk of fair value. The payback period of such loans has been disclosed in Note V/22, 32, 34 of financial statements.

The available-for-sale financial assets held by the Company in the consolidated balance sheet suffer from the price risk of stock equity and securities. Such stock equity investment held by the Company can be traded openly at Shanghai Stock Exchange.

As for the influences on the Company of changes in the factors like exchange rate, interest rates, and fluctuation of trading price, etc., please refer to Note XI of the financial statements.

(2) *Employment risk*

Along with the increasingly perfecting of national laws and rules, the requirements on enterprises' implementation of social responsibilities have become higher and higher, and the Company will employ and use labor force in an increasingly standard way; coupled with the influence of domestic cost-driven inflation, the gradual rise in the cost of labor force is an inevitable trend; meanwhile, for the continuous downturn of shipbuilding market and drastic industrial competition, the income of employees has certain distance from that of employees in other industries, so the Company is faced with certain risk of brain drain and difficulty in employee recruitment.

REPORT OF THE BOARD

3.3 PREPLAN FOR PROFIT ALLOCATION OR CAPITAL INCREASE OF CAPITAL RESERVE

3.3.1 Information on the formulation, execution or adjustment of policy for cash dividend distribution

The Company revised the Articles of Association in 2012, perfected the policy for cash dividend, and regulated the procedures of profit distribution policy, etc. The Company will fulfill the policy for cash dividend actively, and return investors reasonably. For the Company's detailed policy for profit distribution, please refer to the Circular to Shareholders for the First Extraordinary Meeting of Shareholders 2012 dated at November 30, 2012 and the Company's Articles of Association at the website of Stock Exchange of Hong Kong Limited, Shanghai Stock Exchange and the Company.

3.3.2 Preplan for profit allocation 2012

The profit distribution proposal for the year 2012 is based on the net profit of the Company of RMB57,162,975.86 prepared in accordance with PRC Accounting Standards and Regulations, from which,

- (1) 10% (being RMB5,716,297.59) will be withdrawn for statutory welfare fund;
- (2) a cash dividend of RMB1.2 for every 10 shares (tax included) will be paid to all shareholders based on a total of 643,080,854 shares of the Company, representing a distribution of cash dividend of RMB77,169,702.48 in total. To the extent that the net profit of year 2012 is insufficient to pay the dividend, the balance will be paid up by applying the Company's accumulated undistributed profit;
- (3) there will not be any conversion of capital reserve fund for year 2012.

The proposal shall be approved by the 2012 annual general before being implemented.

3.3.3 Plan or preplan for allocation of profit in the latest 3 years (including Reporting Period), and plan or preplan for capital increase with capital reserve

Unit: RMB

Dividend distribution year	Number of bonus shares distributed for each 10 shares (share)	Amount of cash dividend paid for each 10 shares (RMB) (tax included)	Number of shares for capital increase among each 10 shares (share)	Amount of cash dividend distributed (tax included)	Net profit attributable to listed companies' shareholders in the consolidated financial statements of dividend distribution year	Proportion among the net profit attributable to listed companies' shareholders in the consolidated financial statements (%)
2012		1.2		77,169,702.48	10,327,540.44	747.22
2011					518,333,370.07	
2010		1	3	49,467,758.00	707,736,792.53	6.78

3.4 INFORMATION OF SOCIAL RESPONSIBILITY IMPLEMENTATION

The Company is not a listed company in heavy pollution industries, as regulated by the national environmental protection department. For the details about the Company's implementation of social responsibilities, please refer to the Corporate Social Responsibility Report 2012. This report was published at the website of Shanghai Stock Exchange (www.sse.com.cn) and the Company (www.chinagsi.com) on Mar 27, 2013.

3.5 OTHER INFORMATION

Financial abstract

The Group's achievements, assets and liabilities over the latest years are stated in the annual report.

Business and allocation

The Group's achievements in the year as at December 31, 2012, and the profit allocation preplan proposed by the Board are stated in the annual report.

Reserve

The changes of reserves this year are stated in the annual report.

Fixed assets

As at December 31, 2012, the Company had no fixed assets pledged for bank financing. The information about the Group's fixed assets (including property assets or other tangible assets) this year is stated in the annual report.

Bank loans, overdraft and other borrowings

The information of the Group's bank loan, overdraft and other borrowings as at December 31, 2012 is stated in the annual report.

Contingent liabilities

As at December 31, 2012, the Group had no significant contingent liabilities.

Gearing ratio

As at December 31, 2012, the Company's gearing ratio was 60.90%.

Gearing ratio is calculated as: total liabilities/total assets x 100%

Significant litigation

For details, please refer to "SIGNIFICANT EVENTS — SIGNIFICANT LITIGATION, ARBITRATION AND EVENTS GENERALLY QUERIED BY THE MEDIA".

3.6 ACKNOWLEDEMENT

The Board hereby would like to extend gratitude to customers for their trust in the Company, to various shareholders for their great support for the Company, and to employees for their efforts for and contributions to the Company's development.

On behalf of the Board
Yu Baoshan
Chairman

Guangzhou, Mar 26, 2013

REPORT OF THE SUPERVISORY COMMITTEE

The seventh term of the Supervisory Committee of the Company has pleasure to present the 2012 Report of the Supervisory Committee for review and would like to extend our best wishes to every shareholder.

4.1 INFORMATION ABOUT THE OPERATION OF THE SUPERVISORY COMMITTEE

4.1.1 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 favorable 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 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.

4.1.2 Change of supervisors

In August 2012, Mr. Ou Guangquan resigned as a supervisor and the Chairman of Supervisory Committee for his job relocation. In accordance with relevant requirements of the Articles of Association, the Supervisor Committee recommended Mr. Chen Jingqi as the supervisor's candidate. The Change of supervisors was approved at the sixth meeting of the seventh term of the Supervisor Committee and the shareholders' general meeting. In December 2012, Mr. Chen Jingqi was elected to be the Chairman of Supervisory Committee at the eighth meeting of the seventh term of the Supervisor Committee.

4.1.3 Participating in the internal control construction

In the year 2012, the Supervisor Committee monitored the construction and implement of the internal control by the way of participating in improving the internal control. In order to advance the internal control system, the Company amended its "Internal Control Manual" and "Internal Control Evaluation Manual". The Supervisor Committee reviewed the above-mentioned documents as well as the replacement and maintenance of the internal control system, put forward opinions and suggestions, and which were basically adopted.

4.1.4 "Supervisors' Work-day" Meetings

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

REPORT OF THE SUPERVISORY COMMITTEE

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 significant events in relation to the operation and production of the Company and communicated related matters.
5. Reviewed the litigation events and the construction of internal control for the year 2011.

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.

4.1.5 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.

4.1.6 Trainings

During the period under review, the former chairman of the Supervisory Committee Mr. Ou Guangquan and supervisor Mr. Chen Shaolong attended the training of “the Leadership of Modern State-owned enterprise System with Chinese Characteristics”, which organized by CSSC in May 2012. Supervisors Mr. Fu Xiaosi and Mr. Qing Tinggui attended the training of directors, supervisors and senior management of listing companies organized by Guangdong Securities Regulatory Bureau in May 2012 and December 2012 respectively.

4.2 THE INFORMATION MEETINGS SUPERVISORY COMMITTEE

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

- 4.2.1 The fourth meeting of the seventh term of the Supervisory Committee was held on March 29, 2012 in the Company. Four out of the total five supervisors attended the meeting in person, while a supervisor attended the meeting by his proxy. The resolutions passed at the meeting are as follows:
 - (1) Approved the 2011 Report of Supervisory Committee, and submitted the same to the 2011 annual general meeting for consideration.
 - (2) Approved the special resolution that making provision with an amount of RMB 93,848,412.59 for impairment losses on 13 shipbuilding orders in hand which upon approval by the Board of Directors.
 - (3) Approved the special resolution that to write off the provision with an amount of RMB 15,489,388.68 for impairment of the property located in Xinjiang Province which upon approval by the Board of Directors.
 - (4) Approved the 2011 Annual Report of the Company and provided written inspection comments in relation thereto.

REPORT OF THE SUPERVISORY COMMITTEE

- 4.2.2 The fifth meeting of the seventh term of the Supervisory Committee was held on April 26, 2012 in the Company. Four out of the total five supervisors attended the meeting in person, while a supervisor attended the meeting by his proxy. The meeting approved the First Quarterly Report of 2012 and provided written inspection comments in relation thereto.
- 4.2.3 The sixth meeting of the seventh term of the Supervisory Committee was held on August 23, 2012 in the Company. All five supervisors attended the meeting. The resolutions passed at the meeting are as follows:
- (1) Agreed the resignation of MR. Ou Guangquan as a supervisor of the Company due to job relocation, and the same be submitted to shareholders of the Company for consideration at the first extraordinary general meeting of 2012.
 - (2) Approved the recommendation of Mr. Chen Jingqi as candidate of supervisor of the Company, and the same be submitted to shareholders of the Company for consideration at the first extraordinary general meeting of 2012. Mr. Chen's remuneration should be determined in accordance with the "Remuneration Scheme for Senior Management of the Seventh Term of the Board".
 - (3) Approved the special resolution that making provision with an amount of RMB 164,293,780.94 for impairment losses on shipbuilding orders in hand which upon approval by the Board of Directors.
 - (4) Approved the Interim Report of 2012 and provided written inspection comments.
- 4.2.4 The seventh meeting of the seventh term of the Supervisory Committee was held on October 30, 2012 in the Company. Three out of the total five supervisors attended the meeting in person, while two supervisors attended the meeting by their proxies. The resolutions passed at the meeting are as follows:
- (1) Approved the special resolution that making provision with an amount of RMB 53,420,453.26 for impairment losses on shipbuilding orders in hand which upon approval by the Board of Directors.
 - (2) Approved the Third Quarterly Report of 2012 and provided written inspection comments.
- 4.2.5 The eighth meeting of the seventh term of the Supervisory Committee was held on December 19, 2012 in the Company. Four out of the total five supervisors attended the meeting in person, while a supervisor attended the meeting by his proxy. The meeting elected Mr. Chen Jingqi as the chairman of the Supervisory Committee.

4.3 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.

REPORT OF THE SUPERVISORY COMMITTEE

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.

In 2012, under the double pressure of excess capacity of shipping market and shipbuilding, the shipbuilding market became further deterioration. The Board and the Management accelerated to implement the “Twelve-five” strategy pace, adjusted structure, especially the combination of the four businesses, such as the shipbuilding, heavy machinery, service and off-shore engineering, increased efforts to develop the non-shipbuilding business, for the purpose of reducing costs and increasing efficiency, the Company adjusted its organization structure and business management model, improved utilization and allocation of limited resources, improved the product research and development, reduced costs, improved management and productivity. In 2012, the Company’s shipbuilding output and output value created historical new records, and the overall anti-risk capacity and competition of the Company were improved.

4.4 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 2012 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 2012 Annual Report and the profit distribution proposal for the year of 2012.

ShineWing Certified Public Accountants, Ltd. which was appointed to audit the financial report of the Company for the year 2012, 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

Chen Jingqi
Chairman

Guangzhou, March 25, 2013

SIGNIFICANT EVENTS

5.1 SIGNIFICANT LITIGATION, ARBITRATION AND MATTERS COMMONLY DOUBTED BY MEDIA

As concerning the case that the Company complained Jiangsu Shenghua for dispute over technical service contract, and the case that Guangli Company complained Jiangsu Shenghua for dispute over the Contract for Installation Engineering of 1# and 2# 79600DWT bulk carriers (for details, please refer to the "Significant Events (I) Significant Litigation and Arbitration in the Annual Report 2011 of the Company), during the Reporting Period, the assets sealed up of Jiangsu Shenghua were already appraised by the appraisal institution entrusted by executive court, and also, the court announced the appraisal report served, and finished announcing the demurrals at the appraisal report. The sequential work will be executed continuously.

In addition, the Company did not have other significant litigation, arbitration and matters commonly doubted by media during the Reporting Period.

5.2 OCCUPATION OF FUND AND PROGRESS OF DISCHARGING DURING THE REPORTING PERIOD

Inapplicable

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 (special general partnership), audited the cash flows of the Company and its controlling shareholder, CSSC and other connected parties, and certified that as at December 31, 2012, 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".

5.3 BANKRUPTCY OR REORGANIZATION EVENT

Neither bankruptcy nor reorganization events occurred during the Reporting Period.

5.4 PROPERTY TRANSFER AND BUSINESS COMBINATION

The Company's 10th Meeting of the Seventh Board in 2012 passed the proposal that, the Company, together with its sold subsidiary Glory Group Developing Co., Ltd., purchases the 49% stock equity held by foreign party in Yonglian Company, and wherein, the Company purchases 24%, and Glory Group Developing Co., Ltd. purchases 25% stock equity, with the purchasing price determined based on the appraised price of Yonglian Company's assets dated at December 31, 2011. At present, the alteration of industrial and commercial registration is in process.

5.5 THE IMPLEMENTATION OF EQUITY INCENTIVE AND ITS IMPACT

Inapplicable

5.6 SIGNIFICANT CONNECTED TRANSACTIONS

5.6.1 Connected Transactions Related to Daily Operation

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, and it has been disclosed in the Notes to the Accounting Statements in accordance with the trading particulars disclosed in Article 14 A. 45.

The Company's financial report auditor and directors including four independent non-executive directors have reviewed the routine connected transactions and confirm that such transactions are the Company's daily businesses and conducted according to general commercial terms and related contract provisions; the transaction terms are fair and reasonable, and meet shareholders' overall benefits; and the transactions don't exceed the top amount for year 2012, as approved by the stockholders' conference.

The Company's auditor has sent out a letter with clean opinions on the findings and conclusion of the Group's abovementioned continuing connected transactions according to 14A.38 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

5.6.1.1 Framework Agreement for Continuing Operating Connected Transactions

(1) *Revision of framework agreement*

On June 8, 2012, the Company's 2011 annual general meeting approved the supplementary agreement of the Framework Agreement for Continuing Connected Transactions ("Framework Agreement") signed by the Company and CSSC on March 30, 2012, in order to revise the upper limit of maximum deposit and loan balance provided by CSSC to the Company in 2012, and the upper limit of interest on accumulated deposits and loans of relevant years under the Framework Agreement 2010~2012. For details, please refer to the circular of 2011 annual general meeting issued on April 20, 2012, and the announcement on the resolutions of 2011 annual general meeting issued on June 8, 2012.

SIGNIFICANT EVENTS

(2) Amount of transactions in 2012

Unit: RMB

No.	Content and category	The cap amount approved by general meeting	Transaction amount	Proportion in the same type of transactions (%)	Pricing basis
1	Products and services provided by the Group to CSSC Group				
1.1	Electric and mechanical engineering equipment and metallic materials	359,700,000.00	10,436,664.43	0.16	Market price or agreed price
1.2	Energy	6,600,000.00	1,486,617.82	0.02	Cost plus management fee
1.3	Labor supply, design and technology services	313,181,000.00	169,468,934.09	2.67	Not less than the price provided to the third parties
2	Products and services provided by the CSSC Group to the Group				
2.1	Electrical and mechanical engineering equipment and metallic materials, ship-building accessories and equipment for use on ships	1,726,894,000.00	372,643,587.13	6.32	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	352,808,000.00	100,842,646.43	1.71	Cost plus management fee or market price
2.3	Deposits	600,000,000.00	599,458,828.86	17.32	Interest rate on deposits published by the People's Bank of China, no higher than interest rate on loan published by the People's Bank of China
2.4	Aggregate interest on deposits for the year	30,000,000.00	13,938,214.41	6.96	Interest rate on deposits published by the People's Bank of China, no higher than interest rate on loan published by the People's Bank of China
2.5	Loans	600,000,000.00	600,000,000.00	23.44	Interest rate on deposits published by the People's Bank of China, no higher than interest rate on loan published by the People's Bank of China
2.6	Aggregate interest on loans for the year	42,000,000.00	13,916,666.66	14.94	Interest rate on deposits published by the People's Bank of China, no higher than interest rate on loan published by the People's Bank of China
2.7	Supreme amount of guarantee	2,500,000,000.00			Agreed fee, no more than the price offered by the third independent parties
2.8	Guarantee fee	15,000,000.00			Agreed fee, no more than the price offered by the third independent parties
2.9	Total sales agency fees paid by the Group to the CSSC Group	83,820,000.00	35,556,965.25	0.56	No more than 1.0% of contract price in accordance with international practice
2.10	Total purchases agency fees paid by the Group to the CSSC Group	21,120,000.00	1,712,512.16	0.03	1% to 2% of contract price in accordance with international practice

SIGNIFICANT EVENTS

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

The Company signed the Framework Agreement for Connected Transactions 2013~2015 with CSSC on October 30, 2012. This agreement has been deliberated and approved at the 13th Meeting of the Seventh Board, and the 1st Interim Meeting of Shareholders' Conference in 2012. For details about the Framework Agreement, please refer to the shareholders' circular published at the website of Stock Exchange of Hong Kong Limited (www.hkex.com.hk), Shanghai Stock Exchange (www.sse.com.cn) and the Company (www.chinagsi.com) on November 29, 2012.

5.6.1.2 Comprehensive Service Contract

The Company and its connected party Guangzhou Shipyard Company Limited ("Guangzhou Shipyard") entered into a comprehensive services contract (the "Comprehensive Services Contract") on November 23, 2011. Pursuant to the Comprehensive Services Contract, Guangzhou Shipyard agreed to provide the Group, the staff and their family members with medical services, catering services, infant care and nursery, training programs for skilled technical workers and management of staff quarters (the "Comprehensive Services"). Guangzhou Shipyard is an enterprise established in the PRC and wholly controlled by CSSC; its principal business is marine components fabrication, providing services in relation to catering, medical and technician school, etc. The actual transaction amount for the comprehensive services for 2012 and paid to Guangzhou Shipyard was RMB8,400,000.

5.6.2 The financing balance of the Company and CSSC and its subsidiaries during the year 2012

Unit: RMB

Connected parties	Relation	Capital provided to connected parties			Capital provided by connected parties to the Company		
		Opening balance	Accrual	Closing balance	Opening balance	Accrual	Closing balance
Guangzhou Shipyard Company Limited	Controlled by CSSC				14210.00	-1,820.00	12,390.00
Shanghai Shenbo Information System Engineering Co., Ltd.	Controlled by CSSC						
China Shipbuilding Trading Co., Ltd.	Controlled by CSSC						
Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	Controlled by CSSC						
Total					14210.00	-1,820.00	12,390.00
Accrual of capital provided by the Company to its controlling shareholder and subsidiaries during the Reporting Period							
Balance of capital provided by the Company to its controlling shareholder and subsidiaries during the Reporting Period							
Reasons for connected obligatory rights and debts	Business demand						
Information on the discharging of connected obligatory rights and debts	Normal						
Commitment on connected obligatory rights and debts	Inapplicable						
Impact of connected obligatory rights and debts on the Company's result of operation and financial standing	Connected obligatory rights and debts had no material impact on the Company's result of operation and financial standing						

SIGNIFICANT EVENTS

5.7 SIGNIFICANT CONTRACTS AND PERFORMANCE

5.7.1 Trust, Contract or Lease

During the Reporting Period, GIS did not manage any trust, contract or lease assets which brought profits accounting for more than 10% of the Company's total profit in the period.

5.7.2 Guarantee

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 his 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, 2012.

5.7.3 Other Significant Contracts

In order to guarantee the Company's continuous and balanced production, stabilize employee team, further enlarge the space for the Company's survival and development, and strengthen its market competitiveness, on 12 November 2012 the Company undertook the contract for constructing two 308,000DWT VLCC at Guangzhou CSSC Longxue Shipbuilding Co., Ltd. ("Longxue Shipbuilding") for Dalian COSCO Transportation Co., Ltd. The Company's directors consider that, building the ships at Longxue Shipbuilding can not only help GSI to complete the project, but also amortize and lower the Company's cost, and help the Company develop large-size oil tanker business.

5.8 IMPLEMENTATION OF COMMITMENT

During the Reporting Period, the Company, its controlling shareholder, and actual controller made no did not make any commitment.

5.9 EMPLOYMENT OF AUDITORS

It's deliberated and passed at the 2011 annual general meeting that, Shinewing Certified Public Accountants (special general partnership) ("Shinewing") would be continuously employed as the Company's domestic and international financial report auditors. As at December 31, 2012, Shinewing had provided audit service for the Company for 2 years successively. The financial statements in the Company's annual report 2012 were prepared according to China's Accounting Standards for Business Enterprises, and audited by Shinewing; and for this, the Company paid RMB1.80 million to the auditor as reward for its annual audit work. The audit report on the Company's annual report 2012 was signed by CPAs Mr. Chen Gang and Mr. Zhao Xueping. Shinewing Certified Public Accountants (special general partnership) will retire upon expiration of term, and offer themselves for re-appointment.

It's deliberated and passed at the 6th Meeting of the Seventh Board that, the Company employed Shinewing as the CPA Firm for auditing the Company's internal control in 2012. The Company's annual internal control self-evaluation report 2012 has been audited by Shinewing, and for this, the Company has paid RMB380,000 to it as reward for annual audit work.

Besides the abovementioned audit items, 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) still provided the Company with special audit services on connected transactions, connected external guarantee and occupation of fund, etc., during the Reporting Period.

SIGNIFICANT EVENTS

During the Reporting Period, the Company employed Shenyin Wanguo (Hong Kong) Co., Ltd. as independent financial consultant for the supplementary agreement of Framework Agreement for Continuing Connected Transactions 2010-2012 and the Framework Agreement for Continuing Connected Transactions 2013-2015, to issue independent opinions on connected transactions between GSI and CSSC, and for which, the Company paid to it HKD120,000 and HKD350,000 respectively.

In 2010, the Company's domestic auditor was Ascenda Certified Public Accountants, Limited and international auditor was Pricewaterhouse Coopers, Certified Public Accountants.

5.10 PUNISHMENT AND RECTIFICATION OF THE COMPANY, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS HOLDING MORE THAN 5% SHARES, ACTUAL CONTROLLER OF THE COMPANY

During the Reporting Period, there was no inspection, administrative penalty by China Securities Regulatory Commission nor public criticism by any stock exchange of the Company, its directors, supervisors, senior management, shareholders holding more than 5% shares and actual controller.

In 2012, according to the notification on results of on-site examination sent by Guangdong Securities Regulatory Bureau after on-site examination, GSI made rectifications, and the rectification report was deliberated and passed at the 12th Meeting of the Seventh Board held on September 13, 2012. The details are set out at the website of Stock Exchange of Hong Kong Limited (www.hkex.com.hk), Shanghai Stock Exchange (www.sse.com.cn) and the Company (www.chinagsi.com) on September 13, 2012.

INFORMATION ON CHANGE OF SHARES AND SHAREHOLDERS

6.1 INFORMATION ON CHANGE IN SHARE CAPITAL

6.1.1 Form of Change in Shares

Unit: Share

Type	Before the change		New shares issued	Shares issued	Change Shares converted from public reserve	Others	Subtotal	After the change	
	Quantity	Proportion (%)						Quantity	Proportion (%)
1. PRC listed domestic shares	438,463,454	68.18						438,463,454	68.18
(1) State-owned shares	229,645,800	35.71						229,645,800	35.71
(2) RMB ordinary shares	208,817,654	32.47						208,817,654	32.47
2. Overseas listed foreign shares	204,617,400	31.82						204,617,400	31.82
Total	643,080,854	100.00						643,080,854	100.00

6.1.2 Description of Shares

During the Reporting Period, the Company did not arrange further issue of any new shares, derivatives, bonus shares, rights shares or conversion of shares from reserves, etc. By the end of the Reporting Period, the Company had no employee shares or shares subject to any sale restrictions and legal person shareholders holding 10% shares of the Company and above; The number of state-owned shares held by CSSC remained unchanged. The Company implemented capital increase with capital reserve in 2011. Except that, in the three years before the end of the reporting period, the Company did not issue any other securities.

INFORMATION ON CHANGE OF SHARES AND SHAREHOLDERS

6.2 NUMBER OF SHAREHOLDERS AND INFORMATION OF SHAREHOLDING

Unit: share

Total number of shareholders at the end of 2012

There were 65,855 shareholders in total, including 65,536 shareholders of listed A-Shares and 319 shareholders of listed H-Shares.

Total number of shareholders by the end of the 5th market day before the disclosure of the annual report

There were 68,693 shareholders in total, including 68,370 shareholders of listed A-Shares and 323 shareholders of listed H-Shares.

Information of shareholding by top ten shareholders by the end of 2012

Name	Changes in 2012	Number of shares at the end of year	Percentage (%)	Shares pledged or subject to attachment	Shareholders' classification	Share classification
China State Shipbuilding Corporation	0	229,645,800	35.71	None	State-owned shares	A SHARES
HKSCC NOMINEES LIMITED	3,257,728	195,212,504	30.36	Unknown	Foreign legal entity shares	H SHARES
DA ROSA JOSE AUGUSTO MARIA	0	3,900,000	0.60	Unknown	Foreign legal entity shares	H SHARES
Fang Shaoxia	102,000	1,350,000	0.21	Unknown	Domestic natural person shares	A SHARES
Xu Liusheng	993,278	993,278	0.15	Unknown	Domestic natural person shares	A SHARES
Li Yongmian	0	937,568	0.15	Unknown	Domestic natural person shares	A SHARES
Chongqing International Trust Co., Ltd.	270,000	770,000	0.12	Unknown	Domestic legal entity shares	A SHARES
China Southern Fund Management Co., Ltd.	63,002	695,994	0.11	Unknown	Domestic legal entity shares	A SHARES
Ji Shenjin	17,900	635,400	0.10	Unknown	Domestic natural person shares	A SHARES
Ma Lan	0	616,000	0.10	Unknown	Domestic natural person shares	A SHARES

Note of relation or action in concert of shareholders abovementioned 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".

INFORMATION ON CHANGE OF SHARES AND SHAREHOLDERS

6.3 INFORMATION OF THE CONTROLLING SHAREHOLDER AND ACTUAL CONTROLLER

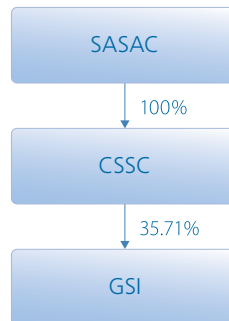
6.3.1 Information of legal person controlling shareholder

Name	CSSC
Legal representative	Hu Wenming
Date of foundation	June 29, 1999
Organization code	710924478
Registered capital	RMB6,374,300,000
Main business	State-owned assets investment, operation and management; investment of shipbuilding and marine projects; research, design, development, manufacturing, repair, lease, and sale of over-water and under-water weapons and equipment on ships and warships, ships for civil use, marine equipment, equipment for marine projects, and mechanical and electronic equipment; technical development for converting the techniques and equipment for marine use into those for land use; repair of foreign ships; property management; self-operation and commission-based operation of the import and export of various commodities and techniques (excluding the commodities and techniques operated with international restrictions or forbidden to import and export); processing with imported materials, and "Three-plus-one" trading-mix (custom manufacturing with materials, designs or samples supplied and compensation trade); foreign trade and entrepot trade; contracting of overseas marine projects and domestic international bidding projects; dispatching laborers for implementing the abovementioned overseas projects; technical development, technical transfer, technical service, and technical consulting.
Operating results	As at September 30, 2012, (non-audited) operating income was RMB56,299,506,100, and total profit was RMB-318,091,400.
Financial standing	As at September 30, 2012, (non-audited) total assets was RMB198,370,286,600, owner's equity attributable to parent company was RMB45,956,858,800, and total liabilities were RMB13,6449,702,500.
Cash flow and future development strategy	As at September 30, 2012, (non-audited) net accrual of cash and cash equivalents was RMB7,270,995,700. China State Shipbuilding Corporation will push overall adjustment and transformation, strengthen and enlarge the major military industry, strengthen and better marine industry, put forth efforts to develop high-end manufacturing industry, accelerate the development of productive modern service industry, make full efforts to create six industrial blocks, and grow into a production-finance integrated innovative enterprise group featured by high civil-military integration, strongest shipbuilding ability, properly relevant diversification, and powerful international competitiveness.
Information on the stock equity in the other domestic and overseas listed companies controlled and equity-participated by the Company during the Reporting Period	Holding 61.06% shares of CSSC, and holding 40% shares of China Shipbuilding indirectly.

INFORMATION ON CHANGE OF SHARES AND SHAREHOLDERS

6.3.2 Information of Actual Controller

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



6.4 OTHER INFORMATION

6.4.1 Pre-emptive rights

As there is no provision for pre-emptive rights according to the Company's Articles of Association, the Company had not arranged any scheme for such right during the year.

6.4.2 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.

6.4.3 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 Reporting Period.

6.4.4 Public float of H-shares

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

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

7.1 BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

7.1.1 Information of the change in shares held and the remuneration of directors, supervisors and senior management

Name	Post	Gender	Age	Starting date	Ending date	Number of shares held at beginning of year (Share)	Number of shares held at end of year (Share)	Total remuneration payable, acquired from the Company during the Reporting Period (RMB'0000) (pre-tax)	Total remuneration payable, acquired from shareholder units (RMB'0000) (pre-tax)
								7	8
Yu Baoshan	Chairman of the Board	Male	53	2012-08-23	2014-05-31			19.87	49.40
	Non-executive director			2011-05-31	2012-08-23				
Han Guangde	Vice chairman, General manager	Male	51	2011-05-31	2014-05-31			64.63	0
Chen Ji	Executive director	Male	46	2011-05-31	2014-05-31			65.32	0
Yang Li	Executive director, Vice general manager	Male	45	2012-12-19	2014-05-31			63.29	0
				2011-05-31	2014-05-31				
Gao Feng	Non-executive director	Male	52	2011-05-31	2014-05-31			10.00	67.50
Zhou Dusheng	Non-executive director	Male	57	2012-06-08	2014-05-31			36.83	29.02
Wang Jun	Non-executive director	Male	41	2012-12-19	2014-05-31			35.10	30.04
Fu Zhengping	Independent non-executive director	Male	48	2011-05-31	2014-05-31			10.00	0
Qiu Jiachen	Independent non-executive director	Male	42	2011-05-31	2014-05-31			10.00	0
De Lihua	Independent non-executive director	Female	51	2011-05-31	2014-05-31			10.00	0
Pan Zhaoguo	Independent non-executive director	Male	51	2011-05-31	2014-05-31			10.00	0
Chen Jingqi	Chairman of the Board of Supervisors	Male	60	2012-12-19	2014-05-31	3,302 (A stock)	3,302 (A stock)	71.20	0
	Chairman			2011-05-31	2012-08-23				
	Executive director			2011-05-31	2012-12-19				
Fu Xiaosi	External supervisor	Male	54	2011-05-31	2014-05-31			8.00	0
Richard Z. Zhu	External supervisor	Male	49	2011-05-31	2014-05-31			8.00	0
Chen Shaolong	Internal supervisor	Male	39	2011-05-31	2014-05-31			53.16	0
Qin Tinggui	Internal supervisor	Male	47	2011-05-31	2014-05-31			55.76	0
Chen Liping	Chief accountant	Male	46	2011-05-31	2014-05-31			65.53	0
	Company secretary			2012-08-23	2014-05-31				
Jin Lichao	Vice general manager	Male	46	2011-10-27	2014-05-31			59.81	0
He Qiuping	Vice general manager	Male	54	2012-08-23	2014-05-31			11.57	38.56
Ke Wangjun	Non-executive director	Male	45	2011-05-31	2012-06-08			4.17	62.69
Pan Zunxian	Non-executive director	Male	59	2011-05-31	2012-12-19			10.00	55.48
Ou Guangquan	Chairman of the Board of Supervisors	Male	46	2011-05-31	2012-12-19			20.00	35.10
Li Zhidong	Company secretary	Male	47	2011-05-31	2012-08-23			58.36	0
Total								760.60	367.79

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

7.1.2 Main working experiences of current directors, supervisors and senior management

Directors

Mr. Yu Baoshan, aged 53, senior engineer (Professional Level), is presently chairman of the Board and secretary of Party Committee of the Company. He joined Guangzhou Shipyard in 1978, graduated from Guangdong Zhanjiang Aquatic College in 1982, and obtained a master degree of industrial engineering administration in 2002. 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; director of Guangzhou CSSC Dockyards Co., Ltd., and director general manager, chairman, secretary of Party Committee of Guangzhou CSSC Longxue Shipbuilding Co., Ltd. Now, he doubles as assistant to general manager of CSSC, vice chairman Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd., and chairman of Guangzhou CSSC Marine Diesel Engine Co., Ltd.

Mr. Han Guangde, aged 51, 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. At present, he doubles as the Chairman of Guangzhou CSSC Longxue Shipbuilding Co., Ltd.

Mr. Chen Ji, aged 46, senior engineer, currently a director of the Company, vice secretary of Party Committee, secretary of the Disciplinary Inspection Committee, and chairman of the Labour Union 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 to manager and deputy manager of Ship Repairing Division, and assistant to general manager and vice general manager of the Company.

Mr. Yang Li, aged 45, engineer, currently director, 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 to general manager of the Company.

Mr. Gao Feng, aged 52, 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 as non-executive director in 2011.

Mr. Zhou Dusheng, aged 57, senior engineer, graduated from Zhenjiang Shipbuilding College in 1980, and joined Guangzhou Shipyard in the same year. Later in 2003, he obtained the MBA degree. He has served as technician and deputy section chief of Design Office of Guangzhou Shipyard; deputy head of Quality Department of Shipbuilding Business Department, deputy head of Engineering Department of the Company; vice manager, director manager, as well as assistant to manager, vice manager, and manager of Shipbuilding Business Department of the Company's subsidiary Guangzhou Xingshun Shipping Service Co., Ltd.; the head of the Shipbuilding Management Department, assistant to general manager, and vice general manager of the Company. Now, he is the chairman of Guangzhou Shipyard Company Limited and the Company's non-executive director.

Mr. Wang Jun, aged 41, economist, graduate from Wuhan University in July 1993, and joined the Company in the same year. He has served as vice director and director of Legal Affairs Office, vice head and head of Risk Management Department, and chief counselor of Guangzhou Shipyard International. In March 2008, he worked at CSSC through exchange. Now, he is the vice director of CSSC's Operation Management Department, and the Company's non-executive director.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Fu Zhengping, aged 48, 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 January 2002, and joined the Company as an independent non-executive director in 2009. He is now a vice president, professor, and doctor supervisor of the School of Management, Zhongshan University.

Mr. Qiu Jiachen, aged 42, 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 as an independent non-executive director in 2011.

Ms. De Lihua, aged 51, 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. She joined the Company as an independent non-executive director in 2011.

Mr. Poon Chiu Kwok, aged 51, 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. Mr. Poon served as an independent non-executive director of CATIC Shenzhen Holdings Limited from May 2003 to June 2009, an independent non-executive director of Tsingtao Brewery Company Limited from June 2005 to June 2011, and an independent non-executive director of Ningbo Port Company Limited from March 2008. He now serves as an independent non-executive director of Huabao International Holdings Limited and the Company's secretary, and doubles as an independent non-executive director of Yuanda China Holdings Limited, Sunac China Holdings Limited, China Tianrui Group Gement Company Limited and Chang'an Minsheng ApLL Logistics Company Limited. Mr. Poon joined the Company in 2011.

Supervisors

Mr. Chen Jingqi, aged 60, 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, secretary of Party Committee, and chairman of the Company.

Mr. Fu Xiaosi, aged 54, holding a double bachelor's degree in machinery manufacturing and accounting, senior accountant, registered accountant, excellent CFO of Hubei Province, is presently the chief accountant of Hubei Tri-ring Group Company, an independent non-executive director of Guangdong Chigo Air Conditioning Company Limited, and 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 Zhongqin Wanxin Public Accountants Limited, chief accountant (executive director) of Hubei Tri-ring Company Limited (listed on Shenzhen Stock Exchange). He joined the Company in 2008.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Richard Z. Zhu, aged 49, doctoral postgraduate and 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 39, 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, and secretary of Shipbuilding Business Department of the Company.

Mr. Qin Tinggui, aged 47, senior economist, is presently the HR director general and head 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. Chen Liping, aged 46, senior accountant and currently the chief accountant and secretary 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. Jin Lichao, aged 46, 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 to general manager of the Company.

Mr. He Qiuping, aged 54, senior engineer (researcher level), currently the Company's vice general manager. Mr. He graduated from Zhenjiang Shipbuilding College in July 1982 and joined Guangzhou Shipyard in the same year; he obtained the master's degree for industrial engineering management of Huazhong University of Science and Technology in 2003. He has served as deputy section chief of External Business Division, Engineering Department, Shipbuilding Department, deputy head, assistant to general and head of Engineering Department, vice manager, standing ice manager, assistant to general manager and head of shipbuilding management department, assistant of manager of CSSC's economic operation department, and vice general manager of Guangzhou CSSC Longxue Shipbuilding Co., Ltd.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

7.2 INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S OTHER POSITIONS

7.2.1 Positions in holding companies

Name	Name of holding companies	Position	Starting-ending date
Yu Baoshan	China State Shipbuilding Corporation	Assistant to general manager	Since 2007.06
	Guangzhou CSSC Longxue Shipbuilding Co., Ltd.	Chairman, and secretary of party committee	2011.04-2012.08
	Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	Vice chairman	Since 2005.06
	Guangzhou CSSC Dockyards Co., Ltd.	Director	2005.11-2012.06
Han Guangde	Guangzhou CSSC Marine Diesel Engine Co., Ltd.	Chairman	Since 2008.11
	Guangzhou CSSC Longxue Shipbuilding Co., Ltd.	Chairman	Since 2012.09
Gao Feng	Guangzhou Shipbuilding Corporation	Secretary of party committee, Vice general manager	Since 2008.12
	China Shipbuilding NDRI Engineering Co., Ltd.	Vice general manager	Since 2008.12
Zhou Dusheng	Guangzhou Shipyard Company Limited	Chairman	Since 2011.03
Wang Jun	Business Plan and Shareholders Affairs Management Department of China State Shipbuilding Corporation	Vice director	Since 2012.03
Ke Wangjun	General Office of China State Shipbuilding Corporation	Secretary of leading party group, Vice director	Since 2011.04
Pan Zunxian	Party-Mass Working Department of China State Shipbuilding Corporation	Director	Since 2011.10
	Zhenjiang CSSC Equipment Co., Ltd.	Director	2007.06-2012.02
	Shanghai CSSC Mitsui Marine Diesel Engine Co., Ltd.	Director	Since 2007.07
	CSSC Chengxi Shipbuilding and Repairing Co., Ltd.	Director	Since 2006.08
Ou Guangquan	Guangzhou CSSC Marine Diesel Engine Co., Ltd.	Chairman of the Board of Supervisors	Since 2008.11
	Guangzhou Shipbuilding Corporation	Chairman of labor union	Since 2009.08
	Guangzhou Shipbuilding Corporation	Deputy Secretary of Party Committee	Since 2012.03
	Guangzhou Shipbuilding Corporation	Secretary of discipline inspection commission	Since 2012.03
	CSSC Huangpu Shipbuilding Co., Ltd.	Secretary of discipline inspection commission	2012.03-2012.10
	CSSC Huangpu Shipbuilding Co., Ltd.	Chairman of the Board of Supervisors	Since 2012.06
	Supervision Department of China State Shipbuilding Corporation	Vice director	2010.01-2012.03

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

7.2.2 Positions in other companies

Name	Name	Position	Starting date	Ending date
Fu Zhengping	School of Management, Zhongshan University	Vice president, Professor	2005.09	Up to now
Qiu Jiachen	Guangzhou Airport Management Corp.	Chief accountant	2009.10	Up to now
De Lihua	Hong Kong Jun He Law Office	Partner, lawyer	2006.01	Up to now
Pan Zhaoguo	Huabao International Holdings Limited	Executive director	2004.04	Up to now
	Huabao International Holdings Limited	Company secretary	2006.05	Up to now
	Ningbo Port Company Limited	Independent non-executive director	2008.03	Up to now
	Yuanda China Holdings Limited	Independent non-executive director	2011.04	Up to now
	Sunac China Holdings Limited	Independent non-executive director	2011.06	Up to now
	Chang'an Mingsheng ApII Logistics Company Limited	Independent non-executive director	2011.09	Up to now
	China Tianrui Group Gement Company Limited	Independent non-executive director	2011.12	2012.12
Fu Xiaosi	Tri-ring Group Company	Chief accountant	2007.09	2012.12
Richard Z. Zhu	Kunlun Law Firm	Director, Executive partner	1998.01	Up to now

7.3 REMUNERATION INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The total remuneration received by directors, supervisors and senior management from the Company during the Reporting Period included basic remuneration, performance remuneration, special awards, housing accumulated fund, social pension and other insurance and subsidiaries. For details, please refer to the financial statements in the report.

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

The Emolument and Examination Committee makes the Basic Remuneration Scheme for Senior Management of the Seventh Term of the Board" according to the "Remuneration Scheme for Senior Management of the Seventh Term of the Board", and by combining with the responsibilities and working experiences of each director, supervisor and senior management personnel. For details, please refer to "Section 4: Information of Directors, Supervisors, Senior Management and Employees" of Annual Report 2011.

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

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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Decision-making Basis of Remuneration of Directors, Supervision and Senior Management	The remuneration of the Company's current directors, supervisors and senior management is determined according to 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 Examination Rules of Senior Management of the Board.
The Information on Payment of Remuneration of Directors, supervisors and senior Management	Please refer to 6.1.1 "Information of the change in shares held and the remuneration of directors, supervisors and senior management" for details.
Total remuneration actually obtained by directors, supervisors and senior management	RMB7.606 million
The highest paid individuals	During the Reporting Period, the five individuals whose emoluments were the highest in the Company for the year include five directors, supervisors or senior management whose emoluments are reflected in "Basic information" above-mentioned and notes to financial statements.

7.4 CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Former post	Change	Descriptions
Chen Jingqi	Chairman	Chairman of the Board of Supervisors	Age
Yu Baoshan	Non-executive director	Chairman	Re-election
Chen Ji	Executive director, Vice general manager	Dismissed from the post of vice general manager	Job relocation
Yang Li	Vice general manager	Employed as executive director	Supplementation
Zhou Dusheng		Employed as non-executive director	Supplementation
Wang Jun		Employed as non-executive director	Supplementation
Chen Liping	Chief accountant	Employed as Company secretary	Supplementation
He Qiuping		Employed as vice general manager	Job relocation
Li Zhidong	Company secretary	Resignation	Job relocation
Ke Wangjun	Non-executive director	Resignation	Job relocation
Pan Zunxian	Non-executive director	Resignation	Job relocation
Ou Guangquan	Chairman of the Board of Supervisors	Resignation	Job relocation

7.5 OTHER INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

7.5.1 Interests of directors, supervisors and senior management

Except as disclosed above under "Information of Directors, supervisors, senior management and staff", at no time during the year up to December 31, 2012 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

7.5.2 Service contracts of directors and supervisors

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

7.5.3 Interests of directors and supervisors in contracts

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

7.6 INFORMATION OF THE COMPANY'S CORE TECHNICAL TEAM OR KEY TECHNICAL PERSONNEL

During the Reporting Period, the Company's core technical team or key technical personnel remained unchanged. Affected by the continuous downturn of shipbuilding market and drastic industrial competition, the salary and welfare treatment of the Company's employees had certain distance from that of employees in other industries, so the Company had the potential risk of the drain of core technical personnel. The Company has made countermeasures in advance to stabilize the income of core technical team and key technical personnel, strengthened the humanistic care, and made them willing to tide over difficulties together with us.

7.7 INFORMATION ON THE EMPLOYEES OF PARENT COMPANY AND MAIN SUBSIDIARIES

7.7.1 Information of employees

Number of on-job employees in parent company	3278 (person)
Number of on-job employees in main subsidiaries	605 (person)
Total number of on-job employees	3883 (person)
Number of retired employees whose expenses undertaken by the Company	3378 (person)

Professional structure

Professional Class	Number (person)
Manufacturing staff	1171
Marketing staff	22
Technical staff	1528
Financial staff	46
Administrative staff	320
Other	796
Total	3883

Educational structure

Educational Class	Number (person)
Vocational Education	2131
College Education	513
Bachelor Education	1151
Graduate Education	88
Total	3883

7.7.2 Remuneration policy

The remuneration of the Company's employees includes salary, reward, and other welfare programs regulated by the Company. In condition of observing national related laws and rules, the Group implements the system of post performance salary according to employees' post and performance, etc. In 2012, the remuneration paid by the Company to employees was RMB301 million in total.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

7.7.3 Training plan

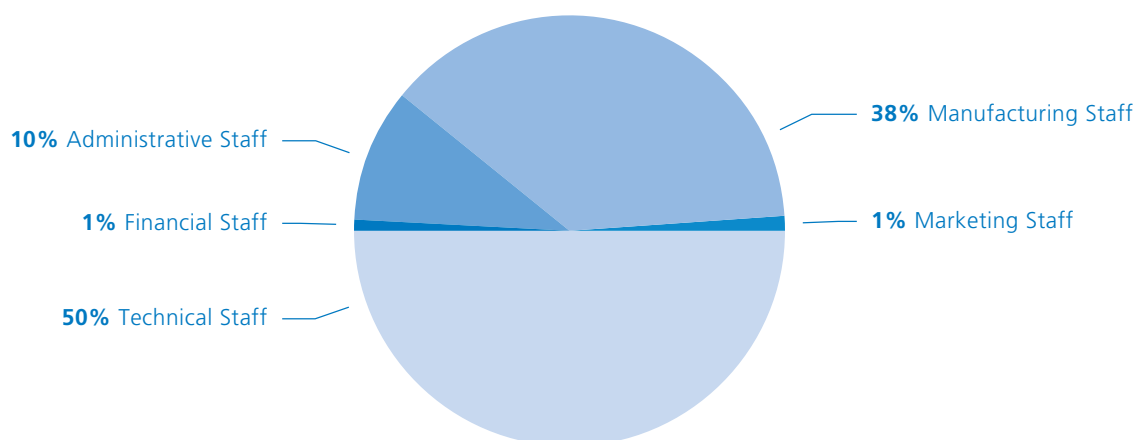
The Company organizes new employees' training and periodic training of professional personnel annually according to each department's personnel and business demand, in order to promote employees' learning, growth, and healthy development.

7.7.4 Employees' pension scheme

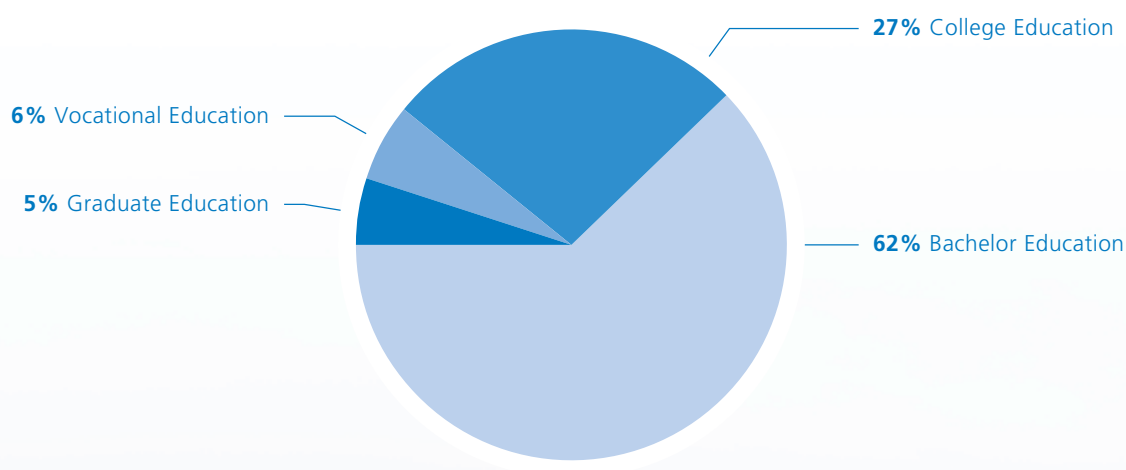
The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since January 1, 1994. Under the scheme, during the Reporting Period, the Company had made contributions to the scheme at the rate of 18% of the total 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 2012 was RMB87,249,800 (2011: RMB84,603,700). In addition, during the year the Company had made payments of RMB2,687,900 (2011: RMB1,946,000) as subsidies to retirees.

7.7.5 Statistical chart of professional structure



7.7.6 Statistical chart of educational structure



7.7.7 Information of labor service outsourcing

Total man-hour of labor service outsourcing
Total remuneration paid for labor service outsourcing

11,209,754 h
RMB302,61 million

8.1 RULES ON CORPORATE GOVERNANCE

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. On April 1, 2012, the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules (“Former Code on Corporate Governance Practices”) was renamed as the Corporate Governance Code and Corporate Governance Report (“New Code on Corporate Governance Practices”). The Company has adopted the clauses of the New Code on Corporate Governance Practices which has taken effect since April 1, 2012 as its code on corporate governance practices to replace the former one, in order to normalize its operation. During the Reporting Period, the Company’s governance had no material difference from the PRC Laws and relevant regulations of China Securities Regulatory Commission. Other than A.6.7 of the New Code on Corporate Governance Rules, the Company has strictly observed the provisions of the Former Code on Corporate Governance Practices and all the other provisions of the New Code on Corporate Governance Practices within the Reporting Period.

According to the A.6.7 of the New Code on Corporate Governance Practices, the independent non-executive directors and other non-executive directors shall attend the shareholders’ meetings. During the reporting period, Mr. Pan Zunxian, Mr. Fu Zhengping, Mr. Ke Wangjun were absent from the shareholders’ meeting for once due to work.

The Board will discuss the Code on Corporate Governance Practices once annually, in order to ensure that the Company always conforms to the Code, to revise the Code and make proper amendments if necessary.

On March 29, 2012, the 6th Meeting of the Seventh Board revised the detailed rules for implementation of Emolument and Examination Committee, Nomination Committee, and Audit Committee, and established the Scope of Authority for Corporate Governance of the Board, and the Policy for Communication of Shareholders; on June 8, 2012, the 9th Meeting of the Seventh Board revised the Articles of Association, which makes clear and regulates the Company’s profit allocation principle, mode and condition, and decision-making procedures, etc.; on November 29, 2012, a circular containing the amendments to Articles of Association was published on the website of Hong Kong Stock Exchange; on December 19, 2012, the revised Articles of Association was disclosed at the websites of Shanghai Stock Exchange and the Company respectively; and on August 23, 2012, the 11th Meeting of the Seventh Board revised the Regulations on Management of Raised Funds and the Working System of Company Secretary, and disclosed them at the website of Shanghai Stock Exchange and Hong Kong Stock Exchange on the same day.

8.2 BOARD

The Board consists of 11 directors, including 4 executive directors, 3 non-executive directors, and 4 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 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, brings forward suggestions for the appointment of directors, and decides important contracts and trading, as well as other important policies and financial matters. The Board has conferred daily responsibilities to executive directors and senior management. The management level takes charge of the Company’s daily operation and management. The Company’s chairman of Board, and general manager are shouldered by different persons, in order to guarantee the independence of the decision making of the Board, and the daily operation and management activities of the management level. The Company’s chairman of Board is Mr. Yu Baoshan, and general manager is Mr. Han Guangde.

The Board holds meetings periodically to discuss the Group’s overall strategy, operation and financial performance, and to examine and approve the Group’s annual, mid-term and quarterly performance. This year, the Board has held 4 periodic meetings and 5 written meetings. For the information of directors’ attending of board meetings, please refer to the “Information of directors’ attending of board meeting and shareholders’ meeting”.

CORPORATE GOVERNANCE

The date of annual periodic board meetings is determined in advance, and the notification of periodic meetings is sent out 15 days ahead of convening, while the notification of interim meetings is sent out in reasonable time, so that more directors can attend the meeting. The Company secretary assists the chairman in preparing agenda of meetings, and ensuring the observance of all applicable rules and regulations. The agenda, and attached documents of the Board are generally sent to all directors at least 7 days before the holding of periodic board meetings (if feasible, it is applicable to other board meetings). The company secretary takes charge of sorting out and filing the minutes and related meeting documents of the Board and its subordinated committees, for the consulting of directors anytime. Minutes reflects the information of review and voting, and directors' opinions at the meeting objectively and in detail, and is confirmed by each attending director by means of signature. When deliberating connected transactions, related directors evade from voting.

Each director has the right to consult the documents and related data of the Board, and to seek for opinions and services from the company secretary. The Board and each director may contact the Company's senior management individually and independently.

The Board discusses internal control once annually, in order to ensure the effectiveness of internal control system. For details of internal control, please refer to "Section 8: Internal Control".

8.3 DIRECTORS

The executive directors are appointed for a term of three years, and may offer themselves for re-election after the serve terms expired. Term of service for non-executive directors (including independent non-executive directors) is three years. 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.

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 adopted *the Model Code for Securities Transactions by Directors of Listed Companies* ("Model Code") as set out in appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code of conduct for the political power trading of the Company's directors. The Company has made specific inquiries of all directors and they have confirmed that they have complied with the standard on directors' securities trading, 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 Reporting Period in 2012.

The Company has received the annual confirmation of Mr. Fu Zhengping, Mr. Qiu Jiachen, Ms. De Lihua and Mr. Pan Zhaoguo on mutual independence, and who considered that they are still mutually independent on the date of report.

Directors have confirmed that they have the responsibility to prepare the annual financial statements as at December 31, 2012, in order to report the Company and the Group's financial standing and operating achievements in an authentic and fair way.

The Company encourages directors, supervisors and senior management to take part in the overall and professional development and learning on related listing rules and code on corporate governance practices held by China Securities Regulatory Commission, Shanghai Stock Exchange, Stock Exchange of Hong Kong Limited, and The Hong Kong Institute of Chartered Secretaries, and establishes training courses inside the Board upon demand, in order to make the directors, supervisors and senior management continuously update and further improve related knowledge and skills.

CORPORATE GOVERNANCE

According to the Company's filing records, the trainings accepted by the directors and company secretary in 2012 focused on directors' role, function and responsibilities, and the training records are as shown below:

Name of directors/ company secretary	Training time (hour)	Remark
Yu Baoshan	10	
Han Guangde	10	
Chen Ji	15.5	
Yang Li	10	
Gao Feng	10	
Zhou Dusheng	15.5	
Wang Jun	1.5	Acting as the Company's director since December 19, 2012
Fu Zhengping	10	
Qiu Jiacheng	10	
De Lihua	10	
Pan Zhaoguo	31	
Chen Jingqi	10	Leaving the post of the Company's director on December 19, 2012
Ke Wangjun	7	Leaving the post of the Company's director on June 8, 2012
Pan Zunxian	8	Leaving the post of the Company's director on December 19, 2012
Chen Liping	27	
Li Zhidong	27	

8.3.1 Information of directors' attending of board meeting and shareholders' meeting

Name of directors	Independent director or not	Times of board meetings to be attended this year	Information of attending board meetings				Times of absence	Failing to attend meeting personally for twice continuously	Information of attending shareholders' meeting Times of attending shareholders' meeting
			Times of personal attendance	Times of attendance by communication	Times of entrusted attendance				
Yu Baoshan	No	9	4	5	0	0	No	2	
Han Guangde	No	9	4	5	0	0	No	2	
Chen Ji	No	9	4	5	0	0	No	1	
Yang Li	No	0	0	0	0	0	No	1	
Gao Feng	No	9	4	5	0	0	No	2	
Zhou Dusheng	No	4	2	2	0	0	No	2	
Wang Jun	No	0	0	0	0	0	No	1	
Fu Zhengping	Yes	9	3	5	1	0	No	1	
Qiu Jiachen	Yes	9	4	5	0	0	No	2	
De Lihua	Yes	9	3	5	1	0	No	2	
Pan Zhaoguo	Yes	9	4	5	0	0	No	2	
Chen Jingqi	No	9	4	5	0	0	No	2	
Ke Wangjun	No	5	1	3	1	0	No	0	
Pan Zunxian	No	9	2	5	2	0	No	1	

CORPORATE GOVERNANCE

During the Reporting Period, the shareholders' meeting passed the proposals on appointing Yang Li and Wang Jun as the Company's non-executive directors on December 19, 2012, so they attended only one shareholders' meeting in 2012; Mr. Pan Zunxian, Mr. Fu Zhengping and Mr. Ke Wangjun were absent from one shareholders' meeting respectively for the reason of work.

Periodic meeting is held in the form of on-site meeting, while interim meeting is held in the form of communication. The meeting is held to discuss the Group's investment program, operation and financial affairs, and can effectively discuss and make decisions earnestly and prudentially. During the Reporting Period, the Company's independent non-executive directors did not demur at the matters decided by the Board.

8.4 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. The Company's directors and functional committees under the Board have the right to employ an independent professional institution to provide services for them upon the demand of authorities exercising, duty performance or business operation, and reasonable expenses arising from hereof shall be undertaken by the Company.

Functional committees	Role	Name of directors	Post	Times of committee meetings to be attended	Times of committee meetings attended personally
Audit Committee	Director member	Qiu Jiachen	Independent non-executive director	4	4
	Member	Pan Zhaoguo	Independent non-executive director	4	4
	Member	Wang Jun	Non-executive director	0	0
	Former member	Pan Zunxian	Former non-executive director	4	2
Nomination Committee	Director member	De Lihua	Independent non-executive director	2	2
	Member	Fu Zhengping	Independent non-executive director	2	2
	Member	Gao Feng	Non-executive director	2	2
Emolument and Examination Committee	Director member	Fu Zhengping	Independent non-executive director	1	1
	Member	Qiu Jiachen	Independent non-executive director	1	1
	Member	Yu Baoshan	Former non-executive director	1	1
Strategy Committee	Director member	Yu Baoshan	Executive director	1	1
	Member	Han Guangde	Executive director	1	1
	Member	Yang Li	Executive director	0	0
	Member	Chen Ji	Executive director	1	1
	Member	Zhou Dusheng	Non-executive director	0	0
	Former director member	Chen Jingqi	Former executive director	1	1
	Former member	Ke Wangjun	Former non-executive director	1	1

8.4.1 Audit Committee

The principal responsibility of the Audit Committee is assisting the Board to review the financial reporting procedure, the performance effect of the internal control and risk management system, inspect the audit program, make normal and transparent arrangements for maintaining proper relationship with the Company's auditor, and communicate with internal accountants and external auditors independently.

On March 29, 2012, the Board adopted a series of revised scope of authority for Audit Committee, including altering the provisions which meet the New Code on Corporate Governance Practices taking effect since April 1, 2012. The revised authority scope, including the powers, duties and responsibilities of Audit Committee, is set out for consulting at the website of the Company and the Stock Exchange of Hong Kong Limited.

Two members of Audit Committee are independent non-executive directors having proper professional qualification or accounting or relevant financial management experiences.

According to its authority scope, the Audit Committee shall hold at least three meetings annually. It held 4 meetings in 2012. For the information on each member's attendance, please refer to the form of information on the members, role, and attending meeting of each functional committee.

Audit Committee finds out the Company's financial standing and important matters concerned with internal monitoring through the report and field survey of the management level, financial report auditor, and its own working group, and examines the Company's achievements and financial report. The main work of Audit Committee in 2012 included:

- Reviewing the annual, interim and quarterly reports and financial statements of the Group;
- Appointing auditors for financial report in 2012;
- Reviewing self-assessment report of internal control in 2011;
- Reviewing GSI Internal Control System.

8.4.2 Nomination Committee

Nomination Committee is a special working body established by the Board according to the resolution of shareholders' conference. It 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.

On March 29, 2012, the Board adopted a series of revised scope of authority for Nomination Committee, including altering the provisions which meet the New Code on Corporate Governance Practices taking effect since April 1, 2012. The revised authority scope, including the powers, duties and responsibilities of Nomination Committee, is set out for consulting at the website of the Company and the Stock Exchange of Hong Kong Limited.

According to its authority scope, the Nomination Committee shall hold at least one meeting annually. It held 2 meetings in 2012. For the information on each member's attendance, please refer to the form of information on the members, role, and attending meeting of each functional committee.

According to the Company's requirements on directors and managers, the Nomination Committee looks for proper candidates from the Company, controlling enterprises, and market, collects the information on the primarily elected personnel's occupation, educational background, job title, and working experiences, etc., and solicits the nominees' opinions. Then, it convenes the meeting of Nomination Committee, and examines the qualifications of the nominees. In case related nominees pass examination, their information will be submitted to the Board for employment deliberation, or be submitted by the Board to shareholders' conference for employment deliberation.

CORPORATE GOVERNANCE

The main work of Nomination Committee in 2012 included:

- Discussing the candidates for 3 directors and 1 senior manager, and bringing forward suggestions to the Board;
- Analyzing the structure, scale and composition (including skills, knowledge, experiences, and service seniority) of the Board;

8.4.3 Emolument and Examination Committee

Emolument and Examination Committee is a special working body established according to the resolutions of the shareholders' conference. It mainly takes charge of researching the assessment standards of senior management, carrying out assessment, and bringing forward suggestions, as well researching and examining the emolument policies and programs for senior management. It is responsible for the Board.

Emolument and Examination Committee has adopted the method under provision B.1.2(c) (ii) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited to bring forward suggestions on the emoluments of individual executive directors and senior management to the Board.

On March 29, 2012, the Board adopted a series of revised scope of authority for Emolument and Examination Committee, including altering the provisions which meet the New Code on Corporate Governance Practices taking effect since April 1, 2012. The revised authority scope, including the powers, duties and responsibilities of Emolument and Examination Committee, is set out for consulting at the website of the Company and the Stock Exchange of Hong Kong Limited.

According to its authority scope, the Emolument and Examination Committee shall hold at least one meeting annually. It held 1 meeting in 2012. For the information on each member's attendance, please refer to the form of information on the members, role, and attending meeting of each functional committee.

The provisions about the Emolument and Examination Committee's execution of directors' emolument policy and evaluation of executive directors' performance are shown in the "Information on the remuneration of directors, supervisors and senior management".

The main work of Emolument and Examination Committee in 2012 included:

- Reviewing the Annual Performance Salary and Special Reward Program 2011 for Executive Directors, Internal Supervisor and Senior Management, and bringing forward suggestions to the Board.

8.4.4 Strategy Committee

Strategy Committee is a working body established according to the resolutions of shareholders' conference. It mainly takes charge of researching and bring forward suggestions on the Company's long-term development strategy and significant investment decisions, and it is responsible for the Board.

According to its authority scope, the Strategy Committee shall hold at least one meeting annually. It held 1 meeting in 2012. For the information on each member's attendance, please refer to the form of information on the members, role, and attending meeting of each functional committee.

The main work of Strategy Committee in 2012 included:

- Discussing the promotion of the Company's heavy machinery business;
- Deliberating the Enterprise's Social Responsibility Report 2011, and bringing forward suggestions to the Board.

8.5 IMPORTANT OPINIONS AND SUGGESTIONS BROUGHT FORWARD BY FUNCTIONAL COMMITTEES UNDER THE BOARD IN THEIR DUTY PERFORMANCE DURING THE REPORTING PERIOD

When reviewing the implementation of the Company's 12th Five-Year Plan strategy on March 29, 2012, the Strategy Committee suggested: (1) dividing the heavy machinery business by organization structure, and making clear the principal of responsibility; (2) unifying the appellation according to industrial specifications in terms of the expression of labor use mode; (3) perfecting the party construction, and adding the contents about employees care and clean government construction.

When reviewing the Company's periodic report, the Audit Committee suggested that: (1) accountants shall audit the asset depreciation reserve withdrawn for construction contracts strictly, and shall not change the withdrawal standard at random; (2) for change of market, the Company shall pay attention to the alteration of accounts; and (3) after signing lease contract with Longxue Shipbuilding, the Company shall strengthen management, ensure the reasonable use of resources, and intensify the control of expenses.

When reviewing the annual performance assessment result and year-end reward program 2011 for executive directors and senior management, the Emolument and Examination Committee suggested revising the Detailed Rules for Implementation of the Emolument and Examination Committee.

8.6 CORPORATE GOVERNANCE FUNCTION

The Board comprehensively executes the responsibility of corporate governance, including:

- Formulating, considering and analyzing the Company's corporate governance policy, principle, convention, practice and process, comparing them with the regulations of all guides ("Guides") formulated by related supervisory institutions now and then, and bringing forward improvement suggestions;
- Suggesting the Board to make necessary changes, in order to respond to and meet the regulations of Guides;
- Auditing and supervising the Company's policies and practices for observing laws and supervisory regulations;
- Analyzing the Company's internal policies annually;
- Examining and supervising the training and sustained professional development of directors and senior management;
- Making, examining and observing the code of conduct and compliance manual (if there are) applicable to employees and directors;
- Auditing the Company's observation of applicable laws and rules for corporate governance, (including but not limited to) New Code on Corporate Governance Practices, as well as the regulations of China Securities Regulatory Commission on corporate governance, and the Company's disclosure on the corporate governance in its annual report and semi-annual report.

CORPORATE GOVERNANCE

8.7 SHAREHOLDERS AND GENERAL MEETINGS

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

The Company issues the notice and shareholders' circular at least 45 days and 20 business days before a general meeting respectively, which contains the matters for consideration at the meeting and the voting procedures in detail. Separate resolutions were proposed at the general meeting and voted on by way of poll on each substantially separate issue, including the election of individual directors. The chairman of the Board attends and presides over the annual general meeting and arranges for representatives of independent directors and the management of the Company to answer questions raised by shareholders at the meeting. The voting format and the voting procedures of shareholders' general meetings has been specified in the "Articles of Association" and "Rules of Proceedings for General Meetings", contained in the shareholders' circular and explained at the meeting. For the information of directors' attending general meetings, please refer to the "Information of directors' attending of board meeting and shareholders' meeting".

8.7.1 Policy on Communicating with Shareholders

In March 2012, the Board adopted a policy on communicating with shareholders, which mainly reflects the Company's present convention of communicating with shareholders. The policy aims to ensure that shareholders and potential investors can obtain the Company's documents which are pertinent and easy to understand anytime and in time. However, the Group will analyze this policy periodically, and thus ensure that the policy is effective and meets the existing rules and other regulations.

The Company has established the following channels to maintain the continuous communication with shareholders:

- (1) The Company's news report published in printed form, and available to consult at the website of Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.chinagsi.com), such as annual report, semi-annual report, and circular;
- (2) Announcement made periodically through the Stock Exchange of Hong Kong Limited, and set out at the website of Stock Exchange of Hong Kong Limited and the Company respectively;
- (3) The Company's data, outline of Articles of Association, and detailed rules, available to browse at the Company's website;
- (4) Board members (especially the director members or their representatives of each functional committee under the Board), proper administrative personnel, and external auditors will attend the annual general meeting and answer shareholders' questions; and
- (5) In case of having any doubt about the shares held by them, shareholders shall bring forward such questions to the Company's share registered transfer agent (H SHARES) or securities business department (A SHARES) making transaction rules.

8.7.2 Shareholders' Rights

Ways for shareholders to hold interim shareholders' meeting

Two or more shareholders holding more than 10% (including 10%) shares with voting power issued by the Company in total shall have the right to propose the convening of interim shareholders' meeting, and shall make the proposal in writing to the Board.

The Board shall give a written feedback opinion on whether to agree with the proposal on convening interim shareholders' meeting or not within 10 days after receiving the request according to the regulations of laws, administrative rules, and its articles of association.

In case of agreeing with the proposal on convening interim shareholders' meeting, the Board shall send out the notification on convening shareholders' meeting within 30 days after receiving the written request, and the alteration of original request in the notification shall be agreed by related shareholders.

In case of not agreeing with the proposal on convening interim shareholders' meeting, or not giving a feedback within 10 days after receiving the request, or not sending out the notification on convening shareholders' meeting within 30 days after receiving the written request, the shareholders making the proposal may convene shareholders' meeting within four months after the Board receives the request, and the convening procedures shall be as possibly the same as that for the Board to convene shareholders' meeting.

In case shareholders convene shareholders' meeting themselves, they shall notify the Board in writing, and shall file the meeting with the agency of China Securities Regulatory Commission, and securities exchange at the Company's place.

The expenses necessary for shareholders to convene shareholders' meeting themselves shall be assumed by the Company.

Procedures for shareholders to request inquiry to the Board, and related information

After making a reasonable payment, shareholders have the right to consult and obtain related information regulated in the Company's articles of association, including:

- (1) Register of all shareholders/shareholders in each part;
- (2) Personal information of the Company's directors, supervisors, managers, and other senior management;
- (3) The Company's share capital and securities counterfoil;
- (4) The report on the total book value, quantity, highest price and lowest price of each type of stocks purchased by the Company from shareholders themselves since the previous fiscal year, and the total expenses paid by the Company for purchasing such stocks;
- (5) Minutes of shareholders' meeting, resolutions at the meeting of the Board, resolutions at the meeting of the board of supervisors, and financial accounting report.

For consulting the aforesaid related information or requesting documents, shareholders shall request inquiry through the Company's address in Chinese Mainland (40 South Fangcun Main Road, Liwan District, Guangzhou, The People's Republic of China) or Hong Kong (28/F, Three Pacific Place 1, Queen's Road East, Hong Kong), and provide the Company with written documents which can prove the variety and quantity of stocks held by them in the Company. After checking and verifying shareholders' identity, the Company will provide related information or documents.

CORPORATE GOVERNANCE

Procedures for bringing forward suggestions at shareholders' meeting

For annual general meeting, shareholders holding more than 5% (including 5%) of the Company's shares with voting power shall have the right to bring forward new proposals in writing to the Company. Within 2 days after receiving the proposal, the Company shall send out supplementary notification on shareholders' meeting, announce the contents of interim proposal, and list the matters within the responsibility scope of shareholders' meeting to the agenda of this meeting.

All shareholders registered on roll on the date of stock equity registration may attend the shareholders' meeting personally, or entrust one or multiple agents (the entrusted may not be shareholders) as their shareholder agent to attend the meeting and take a vote. Shareholders and their agents shall have voice and voting power at shareholders' meeting.

8.7.3 Description of the Company's Independent of Controlling Shareholder

During the year 2012, 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.

Affected by the drop of both quantity and price in shipbuilding market, the market of handy liquid cargo ships has declined quickly. In order to maintain its sustained operation and business scale, stabilize the employees' team, the Company has made use of its own excellent research & development ability to develop shipbuilding market, and undertaken the contracts for building large ships by means of strategic cooperation. In terms of some large ship building, the Company will compete with other enterprises under CSSC. Such horizontal competition is resulted from the Company's survival and development. The Company will strengthen the contact with CSSC, maintain listed companies' interest according to related regulations, and well solve the horizontal competition.

8.7.4 Information on Holding of Stockholders' Meeting

Meeting No.	Date	Name of proposal	Resolutions	Information disclosure newspaper and websites	Date of information disclosure
2011 Annual General Meeting	June 8, 2012	【Note 1】	Agreeing with the proposal	Shanghai Securities News, the website of Shanghai Stock Exchange (www.sse.com.cn), Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.chinagsi.com).	June 8, 2012
First Extraordinary General Meeting of 2012	December 19, 2012	【Note 2】	Agreeing with the proposal	Shanghai Securities News, the website of Shanghai Stock Exchange (www.sse.com.cn), Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.chinagsi.com).	December 19, 2012

【Note 1】: The 2011 Annual general meeting passed: the Annual Report 2011 of the Board; Reviewing the Annual Report 2011 of the Board of Supervisors; Reviewing the Annual Auditor's Report Audited 2011; Reviewing the Full Text of Annual Report 2011; Reviewing the Annual Profit Distribution Preplan 2011; Reviewing the Supplementary Agreement of the "Framework Agreement for Continuing Connected Transactions 2010-2012" Signed by the Company and China State Shipbuilding Corporation and the Annual Transaction Upper Limit 2012 Revised in the Supplementary Agreement; Reviewing the Re-employment of Shinewing Certified Public Accountants Limited as the Company's Financial and Economic Report Auditor for A Shares and H Shares in 2012, and Authorizing the Board to Determine Its Reward; Reviewing the Proposal that on Mr. Ke Wangjun Leaves His Post as Non-executive Director, and Electing Mr. Zhou Dusheng as the Company's Non-executive Director.

CORPORATE GOVERNANCE

【Note 2】: The First Extraordinary Meeting of Shareholders' Conference in 2012 passed: The Framework Agreement 2013-2015 on the Top Amount of Continuing Connected Transactions from January 1, 2013 to December 31, 2015; Reviewing the Proposal on that Mr. Chen Jingqi Leaves His Post at the Company's Executive Director; the Proposal on that Mr. Pan Zunxian Leaves His Post as the Company's Non-executive Director; the Proposal on that Mr. Qu Guangquan Leaves His Post as the Company's Supervisor; the Proposal on Electing Mr. Yang Li as Executive Director of the Seventh Board; the Proposal on Electing Mr. Wang Jun as Non-executive Director of the Seventh Board; the Proposal on Electing Mr. Chen Jingqi as Supervisor of the Seventh Board of Supervisors; and the Proposal on Revising the Company's Articles of Association.

8.8 DESCRIPTION OF INFORMATION ON REGISTRATION AND MANAGEMENT OF INSIDERS

The Company formulated the Insiders Registration and Management System in 2011. According to the notification of Guangdong Securities Regulatory Bureau about the field examination on GSI, GSI has made internal rectifications, mainly including: (1) re-submitting the list of insiders according to institutional adjustment; (2) strengthening the registration and management of insiders delivering information externally, and requiring confidentiality prompt; and (3) developing the registration of insiders who take charge of investors' investigation.

Before the Company's periodic report, such as significant asset recombination, etc., are disclosed, it's not discovered that, the Company's directors, supervisors, senior management, and other insiders made use of inside information for trading of the Company's shares.

8.9 DESCRIPTION OF THE RISKS DISCOVERED BY THE BOARD OF SUPERVISORS IN THE COMPANY

During the Reporting Period, the Company wasn't discovered to have risks in the supervising activities of the board of supervisors.

8.10 ASSESSMENT AND EXCITATION MECHANISM FOR SENIOR MANAGEMENT

During the Reporting Period, the Company assessed senior management by means of annual KPI. The annual assessment was executed according to the Detailed Rules for Performance Assessment of Senior Management of the Seventh Board. The Company has not made long-term excitation mechanism aiming at senior management.

8.11 TAG

The Company's Board consider that, raising the level of corporate governance is not just for applying and observing the Code on Corporate Governance Practices of Stock Exchange of Hong Kong Limited, but also for pushing forward and development moral and sound corporate culture. The Company will constantly analyze and improve at proper time the existing rules according to its own experiences, alteration of governance, and development. In addition, shareholders are welcomed to bring forward any opinion and suggestion, in order to promote and improve the transparency of corporate governance.

INTERNAL CONTROL

9.1 STATEMENT OF RESPONSIBILITY FOR INTERNAL CONTROL AND CONSTRUCTION OF INTERNAL CONTROL SYSTEM

The Board takes charge of the establishment, perfecting, and effective implementation of internal control. The Audit Committee takes charge of examining the enterprise's internal control, supervising the effective implementation and self-evaluation of internal control, and coordinating the audit of internal control. The board of supervisors supervises the Board's establishment and implementation of internal control. The Company's management level takes charge of the daily work of internal control, carries out self-evaluation of internal control once annually according to the Framework for Implementation of Internal Control, and employs internal control auditors to audit internal control, in order to analyze the control procedures for finance, operation and supervision, to ensure the legality and compliance of the Company's operation and management, the safety of assets, the authenticity and completeness of financial report and related information, to raise the operating efficiency and effect, and to promote the realization of the Company's development strategy.

Internal Control System Construction Departments:

Risk Management Department — organizing the implementation and maintenance of internal control

Disciplinary Inspection and Audit Department — organizing the evaluation of internal control

Financial Center — perfecting the management system for financial internal control flow

Each functional department — taking charge of internal control construction and implementation within their own business scope

At the beginning of 2012, the Company made great adjustment to its organization structure. In order to continuously push forward and perfect its internal control system, the Company determined to update and maintain the original internal control system after adjustment of organization structure and based on mid-term test of internal control audit 2012, in order to make it still meet the supervisory requirements of external supervisory institution and meet the Company's internal management demand.

Internal Control Evaluation

According to the Framework for Implementation of Internal Control, the Company organized each department to analyze and summarize their own internal control, and to identify and analyze the risks within their own business scope in 2012. According to the Manual for Evaluation of Internal Control, the Company formulated the programs for evaluation of internal control, implemented the two-level internal control evaluation mechanism, namely annual inspection & evaluation and each department's self-evaluation, and examined and evaluated the effectiveness of internal control design and operation by means of conformity test, individual interview, and walk-through test, etc. In addition, the Company has established evaluation work group, which executes spot test of each business flow according to the Internal Control Manual and the Manual for Evaluation of Internal Control, then carries out overall evaluation according to test result, and determines the defects in internal control. The evaluation of internal control in the present year covered various businesses and matters of the Company's functional departments, production department, branches, subsidiaries, and focused on strategic risk, operating risk, financial risk and compliance risk.

According to evaluation of internal control, the Company had no significant or important deficiency at the end of the Reporting Period, but had four common defects. The Company had adopted corresponding rectification measures for such defects; the Disciplinary Inspection and Audit Department had notified such defects to related departments responsible, which had examined and determined the control points for preventing reoccurrence of such defects, made feasible rectification program, implemented such programs having been examined and approved by the Disciplinary Inspection and Audit Department and the Risk Management Department according to related authorities and procedures, and fed back the rectification results to the Disciplinary Inspection and Audit Department in writing. Meanwhile, the Company had supervised and urged related departments to increase/revise internal control system, and executed updating after obtaining the approval of management level and Board. For the defects (common defects) discovered in evaluation at the end of Reporting Period, the Disciplinary Inspection and Audit Department will discuss with external auditors, and then report them to the Board and board of supervisors for examination and approval. Related departments have been ordered to complete the rectification in 2013 of common defects discovered in evaluation at the end of the Reporting Period.

9.2 DESCRIPTION OF INFORMATION ON INTERNAL CONTROL AUDIT REPORT

The Company's internal control auditor Shinewing Certified Public Accountants (special general partnership) has executed consolidated audit on the effectiveness of the Company's internal control, and considered that, in the year as at December 31, 2012, the Company had maintained effective internal control on financial statements in all significant aspects according to the Basic Standard for Enterprise Internal Control and other relevant regulations.

9.3 DESCRIPTION OF THE SYSTEM OF ACCOUNTABILITY FOR SIGNIFICANT ERRORS IN ANNUAL REPORT AND EXECUTION OF THE SYSTEM

The Company's Information Disclosure Management System normalizes the accountability for significant errors in information disclosure of annual report; requires the accountability aiming at the Company's directors, supervisors, senior management, and other personnel related to the information disclosure of annual report, in case they violate national related laws, rules, normative documents, and the Company's rules and regulations, fail to perform duties diligently or to implement their duties, and thus bring significant errors in the information disclosure of annual report. For details, please refer to the Information Disclosure Management System at the Company's website (www.chinagsi.com).

The Company made no significant error in the annual report during the Reporting Period.

AUDITORS' REPORT



信永中和會計師事務所

ShineWing
certified public accountants

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XYZH/2012A9002-1

To the Shareholders of Guangzhou Shipyard International Company Limited

We have audited the attached financial statements of Guangzhou Shipyard International Company Limited (the Company), including consolidated and parent's balance sheet as at 31 December 2012; consolidated and parent's income statement for the year 2012; consolidated and parent's cash flow statement; and consolidated and parent's statement of changes in equity; and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to ensure that the financial statements are free from material misstatement, whether due to fraud or error.

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 the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors would consider internal control relevant to the Company'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 Company'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 present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and the results of its operations and its cash flow for the year ended in accordance with the requirements of the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

ShineWing Certified Public Accountants

Chinese Certified Public Accountants

Chinese Certified Public Accountants

Beijing, P.R. China

26 March 2013

CONSOLIDATED BALANCE SHEET

31 December 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	31 December 2012	1 January 2012
Current Assets			
Cash and bank deposit	V.1	6,124,741,029.25	6,562,746,466.84
Settlement reserves			
Loans to other banks			
Financial assets held-for-trading	V.2	22,862,044.25	20,229,536.04
Notes receivable	V.3	3,492,665.00	560,000.00
Accounts receivable	V.4	776,755,319.25	736,726,644.10
Prepayments	V.5	503,864,929.68	503,943,783.02
Premiums receivable			
Reinsurance accounts receivable			
Reserves for reinsurance accounts receivable			
Interest receivable	V.6	143,581,872.47	104,002,627.67
Dividend receivable	V.7	1,043,381.78	
Other receivables	V.8	262,235,880.07	124,187,542.08
Financial assets purchased for resale			
Inventories	V.9	506,101,222.69	1,514,217,309.31
Non-current assets due within one year			
Other current assets	V.10	140,571.00	
Total Current Assets		8,344,818,915.44	9,566,613,909.06
Non-current assets			
Grant loans and advances			
Financial assets available-for-sale	V.11	269,965,187.50	238,228,805.50
Held-to-maturity investments			
Long-term receivables			
Long-term equity investment	V.12	43,904,311.39	45,790,860.01
Investment property	V.13	30,319,227.30	31,070,557.34
Fixed assets	V.14	1,660,360,847.50	1,274,317,899.38
Construction in progress	V.15	61,201,815.91	281,562,964.86
Engineering materials and equipments			
Disposal of fixed assets	V.16	33,554.52	5,044,668.76
Productive biological assets			
Oil-and-gas assets			
Intangible assets	V.17	356,368,059.31	367,605,252.58
Research and development expenditures			
Goodwill			
Long-term unamortized assets	V.19	4,661,152.86	5,826,441.06
Deferred tax assets	V.20	90,453,005.81	69,448,011.72
Other non-current assets			
Total non-current assets		2,517,267,162.10	2,318,895,461.21
Total Assets		10,862,086,077.54	11,885,509,370.27

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CONSOLIDATED BALANCE SHEET

31 December 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	31 December 2012	1 January 2012
Current liabilities			
Short-term loans	V.22	92,167,796.47	1,170,288,811.35
Borrowing from central bank			
Accept money deposits and deposits from other banks			
Loans from other banks			
Financial liabilities held-for-trading	V.23	223,540.75	1,159,935.94
Notes payable	V.24	591,450,235.02	688,987,230.48
Accounts payable	V.25	1,245,250,069.88	1,356,264,732.15
Advances from customers	V.26	434,610,806.03	341,947,140.04
Financial assets sold for repurchase			
Fees and commissions payable			
Payroll payable	V.27	19,133,890.46	19,564,521.68
Taxes payable	V.28	78,274,385.66	48,106,774.49
Interest payable	V.29	13,757,226.48	23,593,106.60
Dividend payable	V.30	157,912.98	157,912.98
Other payables	V.31	27,063,287.48	27,290,727.01
Reinsurance accounts payable			
Reserves for insurance contracts			
Brokerage for trading securities			
Brokerage for consigning securities			
Non-current liabilities due within one year	V.32	1,057,958,531.65	593,796,816.00
Other current liabilities	V.33	1,345,128,736.33	2,037,044,941.97
Total current liabilities		4,905,176,419.19	6,308,202,650.69
Non-current liabilities			
Long-term loans	V.34	1,413,633,335.84	1,081,390,350.04
Bonds payable			
Long-term payables			
Special payable	V.35	24,570,000.00	24,570,000.00
Estimated liabilities	V.36	167,892,592.43	195,155,923.71
Deferred tax liabilities	V.20	34,456,025.70	29,209,000.83
Other non-current liabilities	V.37	69,781,586.79	46,207,222.94
Total non-current liabilities		1,710,333,540.76	1,376,532,497.52
Total liabilities		6,615,509,959.95	7,684,735,148.21
Shareholder's equity			
Share capital	V.38	643,080,854.00	643,080,854.00
Capital reserves	V.39	676,133,916.27	648,953,361.73
Less: Treasury stock			
Special reserves			
Surplus reserves	V.41	432,047,193.77	426,330,896.18
General risk reserves			
Undistributed profits	V.42	2,393,852,509.26	2,389,241,266.41
Translation differences in foreign currency statements			
Total shareholder's equity attributable to the parent company		4,145,114,473.30	4,107,606,378.32
Minority shareholder's equity	V.43	101,461,644.29	93,167,843.74
Total shareholder's equity		4,246,576,117.59	4,200,774,222.06
Total liabilities and shareholder's equity		10,862,086,077.54	11,885,509,370.27

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

BALANCE SHEET OF THE PARENT COMPANY

31 December 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	31 December 2012	1 January 2012
Current assets			
Cash and bank deposit		5,810,558,882.84	6,322,998,008.85
Settlement reserves			
Loans to other banks			
Financial assets held-for-trading	XIII.2	22,724,517.26	20,229,536.04
Notes receivable	XIII.3		560,000.00
Accounts receivable	XIII.4	783,090,498.19	720,532,379.23
Prepayments	XIII.5	525,042,147.72	527,042,274.34
Premiums receivable			
Reinsurance accounts receivable			
Reserves for reinsurance accounts receivable			
Interest receivable	XIII.6	143,653,250.24	104,213,877.58
Dividend receivable	XIII.7	1,043,381.78	–
Other receivables	XIII.8	885,551,377.94	584,652,005.96
Financial assets purchased for resale			
Inventories	XIII.9	334,808,155.80	1,384,554,827.41
Non-current assets due within one year			
Other current assets			
Total Current Assets		8,506,472,211.77	9,664,782,909.51
Non-current assets			
Grant loans and advances			
Financial assets available-for-sale	XIII.10	269,965,187.50	238,228,805.50
Held-to-maturity investments			
Long-term receivables			
Long-term equity investment	XIII.11	437,794,000.90	388,068,280.04
Investment property	XIII.12	30,319,227.30	31,070,557.34
Fixed assets	XIII.13	1,021,212,073.85	1,023,650,443.02
Construction in progress	XIII.14	52,906,084.06	68,054,328.49
Engineering materials and equipments			
Disposal of fixed assets	XIII.15	33,554.52	252,871.05
Productive biological assets			
Oil-and-gas assets			
Intangible assets	XIII.16	65,979,737.81	71,045,901.04
Research and development expenditures	XIII.17		
Goodwill			
Long-term unamortized assets	XIII.18	4,661,152.86	5,826,441.06
Deferred tax assets	XIII.19	81,062,866.82	61,969,896.30
Other non-current assets			
Total non-current assets		1,963,933,885.62	1,888,167,523.84
Total Assets		10,470,406,097.39	11,552,950,433.35

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

BALANCE SHEET OF THE PARENT COMPANY

31 December 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	31 December 2012	1 January 2012
Current liabilities			
Short-term loans	XIII.21	87,997,000.00	1,076,807,503.21
Borrowing from central bank			
Accept money deposits and deposits from other banks			
Loans from other banks			
Financial liabilities held-for-trading	XIII.22	223,540.75	1,159,935.94
Notes payable	XIII.23	591,450,235.02	688,987,230.48
Accounts payable	XIII.24	1,108,411,553.69	1,350,663,840.58
Advances from customers	XIII.25	358,580,701.61	333,586,969.11
Financial assets sold for repurchase			
Fees and commissions payable			
Payroll payable	XIII.26	13,351,886.18	9,295,358.19
Taxes payable	XIII.27	83,857,216.06	45,025,926.39
Interest payable	XIII.28	13,757,226.48	23,593,106.60
Dividend payable	XIII.29	157,912.98	157,912.98
Other payables	XIII.30	21,164,549.39	22,723,422.22
Reinsurance accounts payable			
Reserves for insurance contracts			
Brokerage for trading securities			
Brokerage for consigning securities			
Non-current liabilities due within one year	XIII.31	1,057,958,531.65	593,796,816.00
Other current liabilities	XIII.32	1,345,066,553.55	2,037,044,941.97
Total current liabilities		4,681,976,907.36	6,182,842,963.67
Non-current liabilities			
Long-term loans	XIII.33	1,413,633,335.84	1,081,390,350.04
Bonds payable			
Long-term payables			
Special payable	XIII.34	24,570,000.00	24,570,000.00
Estimated liabilities	XIII.35	167,892,592.43	195,155,923.71
Deferred tax liabilities	XIII.19	33,862,026.48	28,517,220.46
Other non-current liabilities	XIII.36	67,409,555.10	43,755,825.69
Total non-current liabilities		1,707,367,509.85	1,373,389,319.90
Total liabilities		6,389,344,417.21	7,556,232,283.57
Shareholder's equity			
Share capital	XIII.37	643,080,854.00	643,080,854.00
Capital reserves	XIII.38	676,133,916.27	648,953,361.73
Less: Treasury stock			
Special reserves			
Surplus reserves	XIII.40	430,871,381.60	425,155,084.01
General risk reserves			
Undistributed profits	XIII.41	2,330,975,528.31	2,279,528,850.04
Total shareholder's equity		4,081,061,680.18	3,996,718,149.78
Total liabilities and shareholder's equity		10,470,406,097.39	11,552,950,433.35

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CONSOLIDATED INCOME STATEMENT

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	Current Year	Last Year
1. Total operating revenue		6,424,083,364.01	8,296,431,347.84
Including: Operating income	V.47	6,424,083,364.01	8,296,431,347.84
Interest income			
Premium income			
Fees and commissions income			
2. Total operating cost		6,703,228,356.31	7,949,745,459.36
Including: Operating cost	V.47	5,970,855,522.13	7,369,720,001.85
Interest expense			
Fees and commissions expense			
Insurance refund expense			
Net payments for insurance claims			
Insurance contract reserves			
Insurance dividend			
Reinsurance expense			
Business tax and surcharges	V.48	27,357,520.19	48,434,977.29
Selling expenses	V.49	3,741,482.56	25,824,677.79
Administrative expense	V.50	391,004,348.00	402,918,826.01
Finance costs	V.51	-101,281,148.23	-238,565,286.18
Loss from asset devaluation	V.52	411,550,631.66	341,412,262.60
Add: Gain on changes in fair value (loss marked "--")	V.53	3,568,903.40	-2,158,064.47
Realized gain on investments (loss marked "--")	V.54	33,706,842.80	49,238,565.61
Including: Realized gain on investments on associates and joint venture		3,077,671.16	4,202,145.78
Exchange gain (loss marked "--")			
3. Operating profit (loss marked "--")		-241,869,246.10	393,766,389.62
Add: Non-operating income	V.55	271,887,155.01	214,758,184.20
Less: Non-operating expense	V.56	2,482,880.74	1,933,308.68
Including: disposal loss of non-current assets		441,335.15	402,905.69
4. Total profit (loss marked "--")		27,535,028.17	606,591,265.14
Less: Income tax expenses	V.57	8,913,687.18	84,002,690.86
5. Net profit (loss marked "--")		18,621,340.99	522,588,574.28
Parent company		10,327,540.44	518,333,370.07
Minority shareholders		8,293,800.55	4,255,204.21
6. Earnings per share	V.59		
(1) Basic EPS		0.02	0.81
(2) Diluted EPS		0.02	0.81
7. Other comprehensive income	V.61	27,180,554.54	-24,278,712.35
8. Total comprehensive income		45,801,895.53	498,309,861.93
Parent company		37,508,094.98	494,054,657.72
Minority shareholders		8,293,800.55	4,255,204.21

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

INCOME STATEMENT OF THE PARENT COMPANY

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	Current Year	Last Year
1. Total operating revenue		5,780,561,869.18	7,591,713,889.21
Including: Operating income	XIII.45	5,780,561,869.18	7,591,713,889.21
Interest income			
Premium income			
Fees and commissions income			
2. Total operating cost		6,020,793,811.53	7,271,213,003.54
Including: Operating cost	XIII.45	5,404,610,429.55	6,799,565,081.26
Interest expense			
Fees and commissions expense			
Insurance refund expense			
Net payments for insurance claims			
Insurance contract reserves			
Insurance dividend			
Reinsurance expense			
Business tax and surcharges	XIII.46	18,893,019.14	37,693,119.46
Selling expenses	XIII.47	-3,595,250.11	17,460,767.17
Administrative expense	XIII.48	295,510,242.50	324,710,239.55
Finance costs	XIII.49	-107,359,936.93	-244,853,582.91
Loss from asset devaluation	XIII.50	412,735,307.38	336,637,379.01
Add: Gain on changes in fair value (loss marked "--")	XIII.51	3,431,376.41	-2,158,064.47
Realized gain on investments (loss marked "--")	XIII.52	31,313,132.28	45,522,569.12
Including: Realized gain on investments on associates and joint venture		849,940.64	475,349.29
Exchange gain (loss marked "--")			
3. Operating profit (loss marked "--")		-205,487,433.66	363,865,390.32
Add: Non-operating income	XIII.53	270,407,743.55	210,104,096.32
Less: Non-operating expense	XIII.54	1,583,668.34	1,300,917.29
Including: disposal loss of non-current assets		406,008.82	252,742.15
4. Total profit (loss marked "--")		63,336,641.55	572,668,569.35
Less: Income tax expenses	XIII.55	6,173,665.69	81,706,751.58
5. Net profit (loss marked "--")		57,162,975.86	490,961,817.77
6. Earnings per share			
(1) Basic EPS			
(2) Diluted EPS			
7. Other comprehensive income	XIII.57	27,180,554.54	-24,278,712.35
8. Total comprehensive income		84,343,530.40	466,683,105.42

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CONSOLIDATED CASH FLOW STATEMENT

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	Current Year	Last Year
1. Cash Flows From Operating Activities:			
Receipts from sale of goods and rendering of services		6,785,663,324.74	7,359,068,984.59
Net increase of deposits from customers and other banks			
Net increase of borrowings from central bank			
Net increase of loans from other financial institutions			
Receipts from insurance premium of original contracts			
Receipts from premium of reinsurance			
Net increase of deposits and investments from insurers			
Net increase of disposal of financial assets held-for-trading			
Receipts from interests, fees and commissions			
Net increase of loans from other banks			
Net increase of repurchase activities			
Taxes refund		344,438,114.23	283,373,050.89
Other cash receipts from operating activities	V.62	227,386,598.86	364,466,999.52
Subtotal Cash Flow-in From Operating Activities		7,357,488,037.83	8,006,909,035.00
Payments to suppliers for goods and services		6,058,498,408.05	7,619,151,536.79
Net increase of loans from customers			
Net increase of deposits in the central bank and other banks			
Payments for insurance claims of original contracts			
Payments for interests, fees and commissions			
Payments for policy dividends			
Payments to and on behalf of employees		942,109,780.76	1,028,927,913.46
Taxes and Fees Paid		233,342,882.97	296,618,194.08
Other cash payments from operating activities	V.62	271,188,510.87	244,771,366.66
Subtotal Cash Flow-out From Operating Activities		7,505,139,582.65	9,189,469,010.99
Net Cash Flow From Operating Activities		-147,651,544.82	-1,182,559,975.99
2. Cash Flow From Investing Activities:			
Proceeds from withdrawing capital			
Cash receipts from realized gain on investments		34,106,710.64	50,037,617.53
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		6,603,485.17	2,474,459.23
Net cash receipts from disposal of subsidiaries and other businesses			
Other cash receipts from investing activities	V.62	2,576,815,966.11	158,948,775.60
Subtotal Cash Flow-in From Investing Activities		2,617,526,161.92	211,460,852.36
Cash payments for purchasing fixed assets, intangible assets and other long-term assets		194,111,204.56	332,780,318.16
Investment payments			1,994,481.00
Net increase of mortgage loans			
Net cash payments for obtaining control of subsidiaries and other businesses			
Other cash payments from investment activities	V.62	1,178,901,641.35	1,414,124,301.01
Subtotal Cash Flow-out From Investing Activities		1,373,012,845.91	1,748,899,100.17
Net Cash Flow From Investing Activities		1,244,513,316.01	-1,537,438,247.81

CONSOLIDATED CASH FLOW STATEMENT

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	Current Year	Last Year
3. Cash Flow From Financing Activities:			
Proceeds from investments			
Including: Cash received by subsidiaries from minority shareholders			
Proceeds from borrowings		2,140,381,010.57	3,321,644,842.55
Proceeds from issuing bonds			
Other cash receipts from financing activities			
Subtotal Cash Flow-in From Financing Activities		2,140,381,010.57	3,321,644,842.55
Payments for debt redemption		2,342,682,179.26	2,531,970,291.94
Payments of dividends, profits and interests		101,581,723.27	106,108,667.92
Including: Dividends or profits paid by subsidiaries to minority shareholders			
Other cash payments from financing activities	V.62	48,261.30	62,472.85
Subtotal Cash Flow-out From Financing Activities		2,444,312,163.83	2,638,141,432.71
Net Cash Flow From Financing Activities		-303,931,153.26	683,503,409.84
4. Effect of exchange rate changes on cash and cash equivalents		-2,740,675.79	-7,382,809.29
5. Net Increase in Cash and Cash Equivalents		790,189,942.14	-2,043,877,623.25
Add: the Beginning Balance of Cash and Cash Equivalents		2,960,018,580.11	5,003,896,203.36
6. The Ending Balance of Cash and Cash Equivalents		3,750,208,522.25	2,960,018,580.11

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CASH FLOW STATEMENT OF THE PARENT COMPANY

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	Current Year	Last Year
1. Cash Flows From Operating Activities:			
Receipts from sale of goods and rendering of services		5,513,904,211.61	6,763,806,958.36
Net increase of deposits from customers and other banks			
Net increase of borrowings from central bank			
Net increase of loans from other financial institutions			
Receipts from insurance premium of original contracts			
Receipts from premium of reinsurance			
Net increase of deposits and investments from insurers			
Net increase of disposal of financial assets held-for-trading			
Receipts from interests, fees and commissions			
Net increase of loans from other banks			
Net increase of repurchase activities			
Taxes refund		326,658,529.99	278,028,378.76
Other cash receipts from operating activities	XIII.58	151,533,630.26	310,520,867.52
Subtotal Cash Flow-in From Operating Activities		5,992,096,371.86	7,352,356,204.64
Payments to suppliers for goods and services		5,428,656,929.44	7,475,244,104.40
Net increase of loans from customers			
Net increase of deposits in the central bank and other banks			
Payments for insurance claims of original contracts			
Payments for interests, fees and commissions			
Payments for policy dividends			
Payments to and on behalf of employees		395,389,857.85	476,381,401.56
Taxes and Fees Paid		162,994,519.32	229,657,576.36
Other cash payments from operating activities	XIII.58	299,053,959.47	418,402,404.50
Subtotal Cash Flow-out From Operating Activities		6,286,095,266.08	8,599,685,486.82
Net Cash Flow From Operating Activities		-293,998,894.22	-1,247,329,282.18
2. Cash Flow From Investing Activities:			
Proceeds from withdrawing capital			794,130.90
Cash receipts from realized gain on investments		30,484,770.64	45,717,617.53
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		6,562,716.01	1,355,824.05
Net cash receipts from disposal of subsidiaries and other businesses			
Other cash receipts from investing activities	XIII.58	2,583,161,692.56	149,220,849.87
Subtotal Cash Flow-in From Investing Activities		2,620,209,179.21	197,088,422.35
Cash payments for purchasing fixed assets, intangible assets and other long-term assets		76,505,239.79	82,829,241.36
Investment payments		50,000,000.00	1,994,481.00
Net increase of mortgage loans			
Net cash payments for obtaining control of subsidiaries and other businesses			
Other cash payments from investment activities	XIII.58	1,172,800,000.00	1,384,153,259.00
Subtotal Cash Flow-out From Investing Activities		1,299,305,239.79	1,468,976,981.36
Net Cash Flow From Investing Activities		1,320,903,939.42	-1,271,888,559.01

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CASH FLOW STATEMENT OF THE PARENT COMPANY

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Notes	Current Year	Last Year
3. Cash Flow From Financing Activities:			
Proceeds from investments			
Proceeds from borrowings		2,074,934,682.46	3,029,286,821.12
Proceeds from issuing bonds			
Other cash receipts from financing activities			
Subtotal Cash Flow-in From Financing Activities		2,074,934,682.46	3,029,286,821.12
Payments for debt redemption		2,267,075,639.21	2,445,022,321.25
Payments of dividends, profits and interests		101,496,919.38	104,962,190.27
Other cash payments from financing activities	XIII.58	18,324.65	18,040.42
Subtotal Cash Flow-out From Financing Activities		2,368,590,883.24	2,550,002,551.94
Net Cash Flow From Financing Activities		-293,656,200.78	479,284,269.18
4. Effect of exchange rate changes on cash and cash equivalents		-2,249,380.53	-6,362,745.97
5. Net Increase in Cash and Cash Equivalents		730,999,463.89	-2,046,296,317.98
Add: the Beginning Balance of Cash and Cash Equivalents		2,730,487,268.95	4,776,783,586.93
6. The Ending Balance of Cash and Cash Equivalents		3,461,486,732.84	2,730,487,268.95

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Current Year										
	Shareholder's equity attributable to the parent company								Minority shareholder's equity	Total shareholder's equity	
	Share Capital	Capital Reserves	Less:		Surplus Reserves	General Risk Reserves	Undistributed Profits	Others			
		Treasury stock	Special Reserves								
I.	Ending Balance of Last Year	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
	Add: changes in accounting policies=										
	Corrections of Prior Period Errors										
	Others										
II.	Beginning Balance of Current Year	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
III.	Change Through Year 2012										
	("-" for losses)		27,180,554.54			5,716,297.59		4,611,242.85		8,293,800.55	45,801,895.53
	1. Net Profit							10,327,540.44		8,293,800.55	18,621,340.99
	2. Other Comprehensive Income		27,180,554.54								27,180,554.54
	Total of 1 and 2		27,180,554.54					10,327,540.44		8,293,800.55	45,801,895.53
	3. Contribution and Withdrawal of Capital by Shareholders										
	(1). Contribution of Capital										
	(2). Amounts of Share-based Payments Recognized in Shareholder's Equity										
	(3). Others										
	4. Profit Distribution					5,716,297.59		-5,716,297.59			
	(1). Appropriation of Surplus Reserves					5,716,297.59		-5,716,297.59			
	(2). Appropriation of General Risk Reserves										
	(3). Dividends to Shareholders										
	(4). Others										
	5. Internal Carry-over of Shareholders' Equity										
	(1). Capitalized Capital Reserves										
	(2). Capitalized Surplus Reserves										
	(3). Surplus Reserves for Covering up Losses										
	(4). Others										
	6. Special Reserves										
	(1). Current Year Appropriation					25,243,913.96					25,243,913.96
	(2). Current Year Write-off					-25,243,913.96					-25,243,913.96
	7. Others										
IV.	Ending Balance of Current Year	643,080,854.00	676,133,916.27			432,047,193.77		2,393,852,509.26		101,461,644.29	4,246,576,117.59

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Last Year											
	Shareholder's equity attributable to the parent company										Minority shareholder's equity	Total shareholder's equity
	Share Capital	Capital Reserves	Less:			General Risk Reserves	Undistributed Profits	Others				
			Treasury stock	Special Reserves	Surplus Reserves							
I.	Ending 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: changes in accounting policies											-
	Corrections of Prior Period Errors											-
	Others											-
II.	Beginning Balance of Current 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
III.	Change Through Year 2012											
	("-" for losses)	148,403,274.00	-172,681,986.35			49,096,181.78		419,769,430.29			2,260,723.21	446,847,622.93
	1. Net Profit							518,333,370.07			4,255,204.21	522,588,574.28
	2. Other Comprehensive Income		-24,278,712.35									-24,278,712.35
	Total of 1 and 2		-24,278,712.35					518,333,370.07			4,255,204.21	498,309,861.93
	3. Contribution and Withdrawal of Capital by Shareholders											
	(1). Contribution of Capital										-1,994,481.00	-1,994,481.00
	(2). Amounts of Share-based Payments Recognized in Shareholder's Equity										-1,994,481.00	-1,994,481.00
	(3). Others											
	4. Profit Distribution					49,096,181.78		-98,563,939.78				-49,467,758.00
	(1). Appropriation of Surplus Reserves				49,096,181.78			-49,096,181.78				
	(2). Appropriation of General Risk Reserves											
	(3). Dividends to Shareholders							-49,467,758.00				-49,467,758.00
	(4). Others											
	5. Internal Carry-over of Shareholders' Equity	148,403,274.00	-148,403,274.00									
	(1). Capitalized Capital Reserves	148,403,274.00	-148,403,274.00									
	(2). Capitalized Surplus Reserves											
	(3). Surplus Reserves for Covering up Losses											
	(4). Others											
	6. Special Reserves											
	(1). Current Year Appropriation											
	(2). Current Year Write-off											
	7. Others											
IV.	Ending Balance of Current Year	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

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

for the year 2012

Unit: RMB

Guangzhou Shipyard International Company Limited

Items	Current Year							
	Share Capital	Capital Reserves	Less: Treasury stock	Special Reserves	Surplus Reserves	General Risk Reserves	Undistributed Profits	Total shareholder's equity
I. Ending Balance of Last Year	643,080,854.00	648,953,361.73			425,155,084.01		2,279,528,850.04	3,996,718,149.78
Add: changes in accounting policies								
Corrections of Prior Period Errors								
Others								
II. Beginning Balance of Current Year	643,080,854.00	648,953,361.73			425,155,084.01		2,279,528,850.04	3,996,718,149.78
III. Change Through Year 2012 ("—" for losses)		27,180,554.54			5,716,297.59		51,446,678.27	84,343,530.40
1. Net Profit							57,162,975.86	57,162,975.86
2. Other Comprehensive Income		27,180,554.54						27,180,554.54
Total of 1 and 2		27,180,554.54					57,162,975.86	84,343,530.40
3. Contribution and Withdrawal of Capital by Shareholders								
(1). Contribution of Capital								
(2). Amounts of Share-based Payments Recognized in Shareholder's Equity								
(3). Others								
4. Profit Distribution					5,716,297.59		-5,716,297.59	
(1). Appropriation of Surplus Reserves					5,716,297.59		-5,716,297.59	
(2). Appropriation of General Risk Reserves								
(3). Dividends to Shareholders								
(4). Others								
5. Internal Carry-over of Shareholders' Equity								
(1). Capitalized Capital Reserves								
(2). Capitalized Surplus Reserves								
(3). Surplus Reserves for Covering up Losses								
(4). Others								
6. Special Reserves								
(1). Current Year Appropriation				20,653,660.44				20,653,660.44
(2). Current Year Write-off				-20,653,660.44				-20,653,660.44
7. Others								
IV. Ending Balance of Current Year	643,080,854.00	676,133,916.27			430,871,381.60		2,330,975,528.31	4,081,061,680.18

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

for the year 2012

Guangzhou Shipyard International Company Limited

Unit: RMB

Items	Last Year							Total shareholder's equity
	Share Capital	Capital Reserves	Less: Treasury stock	Special Reserves	Surplus Reserves	General Risk Reserves	Undistributed Profits	
I. Ending 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: changes in accounting policies								
Corrections of Prior Period Errors								
Others								
II. Beginning Balance of Current Year	494,677,580.00	821,635,348.08			376,058,902.23		1,887,130,972.05	3,579,502,802.36
III. Change Through Year 2011 ("-" for losses)	148,403,274.00	-172,681,986.35			49,096,181.78		392,397,877.99	417,215,347.42
1. Net Profit							490,961,817.77	490,961,817.77
2. Other Comprehensive Income		-24,278,712.35						-24,278,712.35
Total of 1 and 2		-24,278,712.35					490,961,817.77	466,683,105.42
3. Contribution and Withdrawal of Capital by Shareholders								
(1). Contribution of Capital								
(2). Amounts of Share-based Payments Recognized in Shareholder's Equity								
(3). Others								
4. Profit Distribution					49,096,181.78		-98,563,939.78	-49,467,758.00
(1). Appropriation of Surplus Reserves					49,096,181.78		-49,096,181.78	
(2). Appropriation of General Risk Reserves								
(3). Dividends to Shareholders							-49,467,758.00	-49,467,758.00
(4). Others								
5. Internal Carry-over of Shareholders' Equity	148,403,274.00	-148,403,274.00						
(1). Capitalized Capital Reserves	148,403,274.00	-148,403,274.00						
(2). Capitalized Surplus Reserves								
(3). Surplus Reserves for Covering up Losses								
(4). Others								
6. Special Reserves								
(1). Current Year Appropriation								
(2). Current Year Write-off								
7. Others								
IV. Ending Balance of Current Year	643,080,854.00	648,953,361.73			425,155,084.01		2,279,528,850.04	3,996,718,149.78

Legal Representative: Yu Baoshan

Accounting Director: Chen Liping

Accounting Manager: Hou Zengquan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. BACKGROUND INFORMATION

Guangzhou Shipyard International Company Limited (“the Company”, the Company and its subsidiaries collectively referred to as “the Group”) 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 110 on 5 July 1993. Its registered on 7 June, 1993, addressed 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 capital is 494,677,600 shares.

Pursuant to the Company's 2010 annual general meeting and revised Articles of Association, the Company applied to increase its registered capital by RMB148,403,274 and capitalize 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 RMB643,080,900. On 4 September 2011, Corporation Legal Representative Business Licence with registration NO.440101400025144 was reissued by and acquired from Guangzhou Municipal Bureau of Industrial and Commercial Administration, Legal Representative: Yu Baoshan. As of 31 December 2012, the Company's total amount of capital share is 643,080,900 shares, which are all unrestricted shares.

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

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

II. ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis for the preparation of financial statements

Based on going-concern assumption, the consolidated financial statements of the Group have been prepared in accordance with Accounting Standards for Business Enterprises issued on 15 February 2006 by the Ministry of Finance of the PRC, 38 items of specific accounting standards and subsequently issued guidelines of Accounting Standards for Business Enterprises, interpretations to Accounting Standards for Business Enterprises and relevant regulations, (together hereinafter referred to as “Accounting Standards for Business Enterprises”), and NO.15 of regulations on information disclosures of companies that issue public offering shares – General Rules of preparing financial reports (revised in 2010) issued by China Securities Regulatory Commission (CSRC). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. Announcement on complying with accounting standards for business enterprises

The financial statements have been prepared by the Company and the Group in accordance with the accounting standards for business enterprises, and reflect a true and fair view of the Group as of 31 December 2012 and of the operating results and cash flows for the period then ended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Accounting period

The accounting period of the Group is from 1 January to 31 December.

4. Functional currency

The Company and its subsidiaries use Renminbi as the functional currency.

The consolidated financial statements are prepared by Renminbi ("RMB").

5. Basis of accounting and measurement

The accrual basis is adopted for accounting treatment to follow the historical cost method, except that some financial instruments are measured at fair value.

6. Business combination

A business combination is combining more than two separate entities into one reporting entity. The Group recognises consolidated resulted assets and liabilities on consolidated date or on purchase date, which is the date when the control over the net assets and operation or business decisions of the acquiree is transferred to the Group. Business combination is divided into under common control and not under common control.

(1) *Business combination under common control*

A business combination under common control applies the equity combination method. The acquirer shall recognize the identifiable assets acquired and the liabilities at the acquiree's book value on the acquisition date. The difference between the book value of net assets acquired and the contribution amount paid (or the aggregate face value of share issued) shall be adjusted to capital reserve (which is the share capital premium). If the balance of capital reserve (share capital premium) is not sufficient, any excess shall be adjusted to retained earnings.

(2) *Business combination not under common control*

A business combination not under common control applies the purchase method.

The cost of combination is the aggregate of the fair value, at the acquisition date, of the assets transferred, liabilities incurred or assumed, and equity securities issued by the acquirer, and other related expenses incurred during the combination, which is to acquire the acquiree's control right.

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.

When the combination cost exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognised as goodwill. When combination cost is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, after reassessment, if 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.

(3) *Acquiring minority shareholders' equity*

After acquiring control over subsidiaries, after obtaining all or partial equity from minority shareholders, in the consolidated financial statements, the assets and liabilities of subsidiaries are disclosed on the price of acquisition date or consolidation date. Because the Long-term equity investment increased should be calculated based on updated holding rights, the difference of net assets held from subsidiaries since acquisition date or consolidation date should be adjusted to Capital reserves (Share capital premiums); if Capital reserves (Share capital premiums) isn't enough to charge, we should adjust retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control refers to the right that the Group is able to make decisions on financial and operational policies of the invested company, and receiving benefits from the business activities conducted by the invested company. The operation and financial position of the controlled subsidiaries was consolidated through the period of consolidation.

The Company begins to include a subsidiary in the scope of consolidation from the date that the Company acquires the effective control over the subsidiary. A subsidiary is excluded out of the consolidation scope from the date the Company loses effective control over it. The significant balance, transactions and unrealized profits in the consolidation scope are offset when prepare consolidation statements. Shareholders' equity of subsidiary and net profit and loss which are not belonging to the Company will be treated as minority shareholders' equity and profit and loss, which are presented separately under the shareholders' equity and the item below net profit in consolidation statements.

When accounting policy and accounting period that subsidiaries adopt are not in accordance with the Company, Subsidiaries' financial statements should be adjusted based on the Company's accounting policy and accounting period.

For subsidiaries acquired through business combination not under common control, their financial statements should be adjusted based on identifiable fair value of net assets at the purchase date. For subsidiaries acquired through business combination under common control, the business combination is treated occurred at the beginning of the earliest reporting period. The assets, liabilities, operation results and cash flow are recorded at the consolidation statements at its book value from the beginning of the earliest reporting period.

8. Cash and cash equivalents

Cash in the cash flow statement indicates the cash on hand and the deposit in bank available for payment at any time. Cash equivalents are short-term (normally matured no more than 3 months), highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

9. Foreign currency transaction

Transactions by foreign currency are translated into RMB at the spot exchange rate of the transaction date. On the balance sheet date, monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance sheet date. Except for from the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized, the exchange difference is accounted into current profit and loss. For non-monetary accounts measured in foreign currency under historical cost method, the exchange rate on the date when the cost is recognized is applied and the amount in RMB kept unchanging. For non-monetary items in foreign currency measured at fair value, the exchange rate on the date when the fair value is recognized is applied and the exchange difference is accounted into current profit and loss as a result of fair value change, or recognized as Other comprehensive income and charged into Capital reserves.

10. Financial instruments

(1) Financial assets

1) Financial assets category

Financial assets can be initially recognized as: Financial assets at fair market value through profit or loss, Held-to-maturity investments, Loans and receivables and Financial assets available-for-sale. The Financial assets category is determined by the Group's holding intention and holding capacity.

Financial assets at fair market value through profit or loss are those held for sale in the short term, those Financial assets at fair market value through profit or loss held for sale in the short term are disclosed as Financial assets held-for-trading in the Balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Held-to-maturity investments are those investments with fixed collectable amounts, or the amounts can be reasonably determined; the non-derivative financial assets which management has a clear intention of holding to maturity.

Loans and receivables are non-derivative financial assets that has no quoted market prices in the active market, and the collectable amount is fixed or reasonably estimated.

Financial assets available-for-sale include initially recognized non-derivative financial assets available-for-sale, or those financial assets that cannot be categorized.

2) *Recognition and measurement of financial assets*

A financial asset is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Loan and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Financial assets at fair market value through profit or loss are recorded as 'Gain or loss from changes in fair value'. Interest or cash dividends received during the period in which such financial assets are held, are recognised as 'Realized gain on investments'. On disposal, the difference between fair value of disposal and initial recorded amount are recognised as 'Gain or loss on Investment' and adjust the gain or loss from changes in fair value accordingly.

Exchange for impairment loss and exchange gain or loss arising from foreign currency monetary financial assets, changes in fair value of available-for-sale financial assets are directly recorded in shareholders' equity. Until such financial assets is derecognised, the differences between the consideration received and the carrying amount of assets after deducting the accumulated fair value adjustments previously recorded in equity are charged to profit or loss for the period as 'Realized gain on investments'. Interests for the period in which the assets are held is calculated using the effective interest method is charge to profit or loss for the period as 'Realized gain on investments'. Cash dividends declared by the investee company relating to available-for-sale equity instruments are charged to profit or loss for the period as 'Realized gain on investments'.

3) *Impairment of financial assets*

The Group assesses the carrying amount of financial assets, other than those at fair value through profit and loss, at the balance sheet date. Impairment of financial assets is provided for when there is objective evidence that a financial asset is impaired.

When an impairment of financial assets carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit loss that have not been incurred). If there is objective evidence indicating that the value of the financial asset is recovered and recovery is related objectively to events occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit and loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

When there is a significant or prolonged decline in the fair value of financial assets available-for-sale, the accumulated losses in fair value that was previously directly recorded in shareholder's equity are transferred out and recognised as impairment losses. For the available-for-sale investment on debt instruments which impairment losses have been recognised, if in subsequent period, its fair value increases and the increase is objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previous recognised impairment loss is reversed into profit or loss for the period. For an investment in an equity instrument classified as available-for-sale equity on which impairment loss has been recognised, the increase in its fair value in a subsequent period is directly charged into shareholders' equity.

4) *Transfer of financial assets*

A financial asset is derecognised when any one of the following conditions is satisfied: i) the rights to receive cash flows from the asset expire, ii) the financial asset has been transferred and the Group transfers substantially all risks and rewards relating to the financial assets to the transferee, iii) the financial asset has been transferred to the transferee, the Group has given up its control of the financial asset although the Group neither transfers nor retains all risks and rewards of the financial asset.

Where an entity neither transfers nor retains substantially all risks and rewards of financial asset and does not give up the control over such financial asset, then the entity recognises such financial asset to the extent of its continuous involvement and recognises the corresponding liabilities. The extent of the continuous involvement represents the extent to which the entity exposes to changes in the value of such financial asset.

In the case where the financial asset as a whole qualifies for the derecognition conditions, the difference between the carrying value of transferred financial asset and the sum of the amount received for transfer and the accumulated amount of changes in fair value that was previously recorded under other comprehensive income is charged into profit or loss for the period.

In the case where only part of the financial asset qualifies for derecognition, the carrying amount of financial asset being transferred is allocated between the portions that to be derecognised and the portion that continued to be recognised according to their relative fair value. The difference between the amount of consideration received for the transfer and the accumulated amount of changes in fair value that was previously recorded in other comprehensive income of the part qualifies for derecognition and the above-mentioned allocated carrying amount is charged to profit or loss for the period.

(2) *Financial liabilities*

Financial liabilities of the Group are classified as "financial liabilities at fair value through profit or loss" and "other financial liabilities" on initial recognition.

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and those designated as fair value through profit or loss on initial recognition. They are subsequently measured at fair value. The net gain or loss arising from changes in fair value, dividends and Interest expenditure related to such financial liabilities are recorded in profit or loss for the period in which they are incurred.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the underlying present obligations (or part of it) are discharged. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Fair value determination of financial assets and financial liabilities

- 1) Where there is active trading market, the fair value of the financial instruments is determined by reference to the quoted price in the active trading market. In the active trading market, the fair value of financial assets already held by the Group or the financial liabilities that the group is proposed to assume is determined by the current bid price of the corresponding assets or liabilities. The fair value of financial assets that the Group is propose to acquired or the liabilities already assumed by the Group is determined by the ask price of the corresponding assets and liabilities. Where the financial assets and financial liabilities do not have bid price or ask price, and there are no significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by reference to the quoted prices of recent transactions. Where there are significant changes in operating environment after the recent transaction date, the fair value of such financial assets or financial liabilities are determined by the quoted price of the most recent transactions as adjusted by reference to the current prices or interest rate. Where there is sufficient evidence to show that the market quoted price of the recent transactions is the fair value of such financial assets or financial liabilities is determined by the quoted price of the recent transaction after making appropriate adjustments.
- 2) Where there is no active trading market for the financial instruments, the fair value of such financial instruments is determined by valuation techniques. Valuation techniques include making reference to the price of recent market transactions by knowledgeable and willing parties; making reference to the current fair value of another financial assets that are the substantially identical with such financial assets; discounting method of cash flows, share option valuation model, etc.

(4) Offsetting 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 balance sheet statement.

11. Receivables

Receivables (including accounts receivables and other receivables) are initially 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 Group financing from bank or other financial institution in transferring claims receivables, pledge or bill discount, according to the agreement, if debtor has not satisfied debts obligation when the debts obligation to financial institution due, the claims receivable is recognized as hypothecate loan; if there is no obligation to any financial institutions, the claims receivables shall be transferred and recognized as gain or loss on obligation rights transferred.

When the accounts receivable is collected, the difference between receivables collected amount and book value of accounts receivables is recognized into current profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company 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:

(1) *Accounts receivable that are individually significant and are provided for bad debts on individual basis*

Receivables over RMB10,000,000.00 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) *Accounts receivable that are individually insignificant but are provided for bad debts on individual basis*

Insignificant individual receivables aged over 1 year or there is indication of impairment, are categorized into provision of individual receivables with insignificant level. For the impaired receivables, the provision of bad debts is made according to the difference between the present value of future cash flows and the book value of receivables. For the receivable which is not impaired, the rate of 0.5% of accounts receivables at balance date is made to the provision.

(3) *Accounts receivable accrued bad debt provision by a certain percentage of the balance*

The provision is made on individual receivables with no provision grouped with other no impairment tested accounts receivables, based upon ratio of 0.5% of the amount at balance date.

12. Inventories

The inventories of the Group include raw material, low-valued consumables, work in process, and finished goods.

The inventory is measured at historical cost which consists of purchase cost, processing cost and other expenditures for the purpose of inventory available for current location and status, when acquired.

Receiving or delivering inventory pricing model is as follows:

- 1) Raw materials are stated at standard costs in daily in-out operating. The amount is adjusted for price variance to arrive at actual cost at the end of month;
- 2) Low-value consumables are amortised by write-off methods;
- 3) Finished products and work-in-progress are stated at historical cost in daily operating.

At the end of period, inventory is measured as the lower of historical cost and net realizable value. If the carrying amount of inventories exceeds their net realisable value, the provision of impairment for inventory will be made. The provision of impairment for finished goods and raw materials in a large amount is made on the basis of the difference of the cost of the individual inventory item over its net realizable value. The provision of impairment for the auxiliary materials with a large quantity and low cost is withdrawn in terms of classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The net realizable value of these inventories, such as finished goods, work in process and materials for sale, is the estimated price after estimated sales expenses and relevant taxes. The net realizable value of materials which are for production is estimated price of relevant finished goods after estimated cost for finished goods, estimated sales expenses and relevant taxes.

The Group 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.

13. Long-term equity investment

Long-term equity investment includes the Company's long-term equity investments in subsidiaries, in associates, in jointly controlled entities, and in investees without control, common control or significant influence, and no quoted price or fair value in active market.

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.

(1) *Basis for determining control, jointly control and 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 polices. The evidence of significant influence is the direct ownership or indirect ownership through subsidiaries of from 20% up to 50% voting rights from investees otherwise there must be solid evidences showing investors cannot be involved in investees' decision making under such conditions.

(2) *Initial measurement for Long-term equity investment*

For the merger of enterprises under the same control, on the date of merger, regard the share of the book value of the owner's equity of the merged enterprise as the initial cost of the long-term equity investment. The difference between the initial cost of the long-term equity investment and the payment in cash, non cash assets transferred as well as the book value of the debts borne by the merging party shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted.

The Long-term equity investment 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 cost of a long-term equity investment obtained by making payment in cash shall be the purchase cost which is actually paid.

The initial cost of a long-term equity investment obtained on the basis of issuing equity securities shall be the fair value of the equity securities issued.

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The initial cost of a long-term equity investment of an investor shall be the value stipulated in the investment contract or agreement.

The initial cost of a long-term equity investment obtained from debt restructuring, non-monetary asset exchanges should be determined according to related accounting principles.

(3) *Subsequent measurement for Long-term equity investment*

Long-term equity investment to subsidiaries shall be accounted using the cost method and be adjusted when the Company prepares the consolidated financial statements. Where the Group obtain control over the investee company as results from such as making additional investment, the long-term equity investments will also be changed to be accounted for using cost method. Where the Group obtain joint control or significant influence over the investee company as results from such as making additional investment or where Group has no longer control but remain joint control or significant influence over the investee company as results from such as partially disposal of the investment, the investment can be recognized as financial assets available-for-sale.

Under the cost method, long-term equity investments are measured initially at its investment cost, and adjusted by the amount of additional investment and the amount recovered. The announced cash dividends or profit should be recognized as Realized gain on investments.

When equity method is adopted, 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, is adjusted to the book value of long-term equity investment; the other change in equity except for the reason of investee's gain or loss, when share percentage maintains unchanged, is adjusted to the book value of long-term equity investment and capital reserve (other capital reserve). 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 investee, 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 financial period. In addition, if the Group has investment with unlimited obligation contract, the loss will be recorded in the current income statement and estimated 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. For the first time adoption of new accounting policy, the long term equity investment of joint ventures and associated companies, if the positive difference related to the equity investment exists, the positive balance by the straight line amortization should be reversed, and recognized as gain or loss on investment.

Where the Group has no longer joint control or significant influence in the investee company as a result of reduction of the investment and there are no quoted prices for the investment in active market and its fair value cannot be measured reliably, it will be changed to be accounted for using cost method. Where the Group obtain control over the investee company as results from such as making additional investment, the long-term equity investments will also be changed to be accounted for using cost method. Where the Group obtain joint control or significant influence over the investee company as results from such as making additional investment or where Group has no longer control but remain joint control or significant influence over the investee company as results from such as partially disposal of the investment, the investment will be changed to be accounted for using equity method.

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(4) Disposal of Long-term equity investment

On disposal of a long-term equity investment, the difference between the carrying value and the consideration actually received is recognised as investment income for the period. For long-term investments accounted for under equity method, the movements of shareholder's equity, other than the net profit or loss, of the investee company, previously recorded in the shareholder's equity of the Company are recycled to investment income for the period on disposal.

(5) Long-term equity investment impairment

At the balance sheet date, the Group estimates the recoverable amounts of long-term equity investments of subsidiaries, joint-ventures and associated enterprise if there is an indication of possibility that impairment may occur, and the amount that recoverable amount less than book value are recorded as long-term equity impairment, and assets losses impairment in current profit and loss as well. If impairment occurs on other investment, the amount that the present value of future cash flow of similar financial assets' market profitability less book value is recognized as long-term impairment and assets losses impairment in current profit and loss as well. The above provision cannot be reversed in the future.

14. Investment property

The investment properties of the Group include leased buildings.

The Investment property is initially recognized at its cost. The cost of an investment real estate by acquisition consists of the acquisition price, relevant taxes, and other expenses directly relegated to the asset. The cost of a self-built investment real estate composes of the necessary expenses for building the asset to the hoped condition for use. The subsequent expenses related to Investment property, when economic benefit would probably flow into and the amount would be reliably measured, are recognized as cost of an investment real estate; otherwise, recognised as a component of income statement when incurred.

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

Classes	Estimated useful life (Year)	Estimated residual percentage (%)	Annual depreciation (amortization) rate (%)
Building	45-70	3	1.39-2.16

The Group will review the useful life, the estimated salvage value and the amortization method of investment property on each balance sheet date, and make an appropriate adjustment when necessary.

When the Investment property is changed for self use, it shall be converted to fixed assets or intangible assets since the conversion date. When the real estate for owner occupied is changed for generating rents or capital appreciation, it is converted to the Investment property since the conversion date. The book value of the real estate prior to the conversion shall be entry value after conversion.

If an Investment property is disposed of, or if it withdraws permanently from use and if no economic benefit will be obtained from the disposal, the recognition of it as an Investment property shall be terminated. When an enterprise sells, transfers, damaged or destroys in investment property, the enterprise shall deduct the book value of the Investment property as well as the relevant taxes from the disposal income, and include the amount in the current profits and losses.

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15. Fixed assets

Fixed assets of the Group are tangible assets that held for production of goods or rendering of services, leasing to others, or for administrative purposes; have useful life over one accounting year.

Fixed assets consist of buildings, machinery, transportation facilities and others.

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 Group 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.

Except for those fixed assets that are fully depreciated but still in use and lands that are separately recorded, depreciation is provided for fixed assets over their estimated useful life using the average life method (or other method). Depreciation charge is included in the cost of fixed assets or expenses for the period according to the usage of the assets. The useful life, estimated residual value and annual depreciation rate of each classification of the Group's fixed assets are as follows:

No.	Classification	Useful life (year)	The rate of salvage value (%)	Depreciation rate (%)
1	Building	8-50	3-10	1.8-12.13
2	Machinery	6-20	3-10	4.5-16.17
3	Transportation Equipment	10-15	3-10	6.47-9.7
4	Others	5-50	3-10	2.57-12.13

The Group reviews the estimated useful life and estimated net residual value of a fixed asset and the depreciation method at the end of each financial year. Any changes are accounted for as a change in an accounting estimate.

For the fixed assets of financial lease nature, if the ownership can be determined reasonably at the end of lease, then same depreciation method as other fixed assets will be adopted during the leased assets' useful life; if the ownership cannot be determined reasonably at the end of lease, the same depreciation method as other fixed assets will be adopted for either useful life of the leased assets or lease term whichever is shorter.

A fixed asset is derecognised when it is disposed or expected not bringing economic benefit from its use or disposal. The net amount of proceeds from disposal, transfer, retirement or damage of the asset after the carrying amount and related taxes is recognised in profit or loss for the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Construction in progress

The cost of construction in progress is measured based on actual construction expenditures incurred. Cost of self-operating construction is measured at such cost as direct materials, direct wages, and direct construction expenditures. Cost of sub-contracting construction is measured at such cost as construction cost payable. Cost of equipment installation work is measured at such cost as cost of equipment being installed, installation cost, and test running cost. Cost of construction in progress also includes capitalised borrowing costs and exchange difference.

Construction in progress is transferred to the fixed assets when the assets are ready for their intended use at an estimated amount based on the project budget or actual cost of construction. Depreciation is provided for as from the next month of the transfer. The cost of the asset is adjusted when the construction finalisation procedures are completed.

17. Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset commence capitalised as part of the cost of assets when expenditures for the asset have been incurred; the borrowing costs have been incurred; and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have been commenced. The capitalisation of borrowing costs ceases when the qualifying assets under acquisition, construction or production become ready for their intended use or sale. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Qualifying assets are assets (fixed assets, investment property, inventories) that necessarily take a substantial period of time (usually more than 1 year) for acquisition, construction or production to become ready for their intended use or sale.

The current actual interest expenses from specific borrowings are capitalized, after deducting interest income as deposit in bank or short-term investment gains. The capitalized amount for the general borrowing is calculated as weighted average of the general borrowing times the weighted average of the interest rate of the general borrowing. The capitalized rate is calculated by weighted average of the interest rate of the general borrowing.

During capitalization period, exchange differences of specific foreign currency borrowing will be capitalized; exchange differences for general foreign currency borrowing will be accounted for the current period profit and loss.

Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally and the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production activities is resumed.

18. Intangible assets

The intangible assets include the land use right and non-patent technology.

Intangible assets are measured at actual cost on acquisition. The cost of intangible assets purchased from outsiders includes purchase prices and other relevant expenditure. The cost of intangible assets injected by investors to the Group is measured at the consideration as specified in the investment contracts or agreements. In the case where the consideration of the contracts or agreements is not a fair value, the assets are measured at its fair value.

For intangible assets with limited useful lives, the Group adopts straight line method at the month of acquisition. The Group amortizes land use right on the basis of its useful life by straight line method since it is acquired. The patent technology, non-patent technology and other intangible assets are amortized on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortization amount is accounted into related assets and current profit and loss.

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The Group makes the assessment on the estimated useful life and amortization method of intangible assets with limited useful life at each financial year end and makes adjustment if needed. If any changes occur, they will be regarded as changes on accounting estimates.

The Group does not amortize intangible assets with uncertain useful life, and make an impairment loss test at each financial year end. The Group would assess the estimated useful life of intangible assets with uncertain useful life during each accounting period. If there are evidences to prove the useful life of intangible assets is limited, the Group will estimate their useful life and amortize the intangible assets within the estimated lifetime.

When there is evidence to indicate impairment loss of intangible assets, the Group will perform impairment test on the intangible assets with certain useful life at the year end. For the intangible assets without certain useful life, Group will perform impairment test regardless whether there is evidence to indicate impairment loss.

19. Research and development expenditure

Research and development expenditures of the Group is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at the end of the project.

Expenditure on the research phase is recognised in profit or loss for the period as incurred.

Expenditure on the development phase is recognised as an intangible asset only if all of the following conditions are satisfied:

- (1) It is technically feasible that the intangible asset can be used or sold upon completion;
- (2) There is intention to complete the intangible asset for use or sale;
- (3) There is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market;
- (4) There is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) The expenses attributable to the development stage of the intangible asset can be measured reliably.

Other expenditures that do not meet the above conditions are expensed in the period as incurred. Development expenditure previously expensed in prior periods is not recognised as an asset in subsequent period. Capitalised expenditure on the development phase are stated in the balance sheet as 'Development Expenditure' and transfer to as 'Intangible assets' when they become ready for their intended use.

20. Long-term unamortized assets

Long-term unamortized assets of the Group are is expense incurred and amortized in a period longer than 1 year (excluding 1 year). Long-term deferred expenses should be amortized evenly in the period.

The expenditures are amortised evenly over the estimated beneficial period. If the long-term prepayments are no longer beneficial to the subsequent accounting periods, the unamortised balance is then transferred to profit or loss for the period.

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21. Impairment of non-financial assets

Assets impairment losses should be recorded by the book value of assets over recoverable amount. 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. Assets' provision for impairment is calculated based on the single asset, if the recoverable amount of single asset is difficult to estimate then the portfolio of which the single asset belonged to should be used as calculation unit. The portfolio is the minimal combination of assets which can generate cash inflow independently.

Impairment test should be made for goodwill, separately listed in the balance sheet, at least once a year regardless of whether there is indication of impairment loss. The book value of goodwill is distributed to assets portfolio or combination of assets portfolio which is expected to benefit from business combination agreement. Loss needs to be recognized when the result of the test indicates that recoverable value of asset portfolio or combination of asset portfolios which contains goodwill is lower than its book value. The provision of impairment amount is offset against the book value of distributed goodwill first, and then offset book value of other assets (assets that don't contain goodwill) based on the proportion of other assets of the asset portfolio or combination of asset portfolios.

The impairment loss of the above assets shall not be reversed in subsequent accounting periods once confirmed.

22. Payroll payable

Payroll payable include salaries, bonus, allowances and subsidies; staff benefits, social security contributions; housing funds; union funds and staff education funds and other expenditure incurred for services rendered by employees.

Payroll payable are recognised as liabilities during the accounting period when the employee renders services to the Group. Payroll payable are allocated to related cost of assets and expense based on different beneficiaries. Compensation for termination of relationship with employees is recognised in the profit or loss for the period.

23. Estimated liabilities

When an external warranty, commercial acceptance discount, pending legal proceedings or arbitration, warranty on quality of goods or other contingent matters meet the following requirements, the Group will recognize them as liabilities. The requirements mentioned above are as follows: the assumed responsibilities are actual and real; the fulfillment of obligations will probably to cause the outflow of economic benefit from the Group; the amount of liabilities can be measured reliably.

Estimated liabilities are initially recognized at the most appropriate estimation of obligations by considering relative risks, uncertainties and time value etc. If the effect from time value of currency is significant, the most appropriate estimation will be discounted into present value. The increase amount of book value of estimated contingent liability due to over time discounted is recognized as interest expenses.

The Group assesses the book value of estimated liabilities on each balance sheet date and adjustments will be made if there are changes, in order to indicate the most appropriate estimation of obligations.

24. Work safety fees

According to the *The regulation for accrued work safety fees and useage* (Caiqi [2012] No.16), the Group's shipbuilding companies and supporting manufacturing enterprises should standardize the work safety fees accrual and usage.

The accrued work safety fees were charged into the product's cost, and Special reserves. When writing off work safety fees within specified range, it should directly write off Special reserves when accounted for as expenses; if capitalizing work safety fees into Fixed assets, it should be pooled in Work in progress and transfer to Fixed assets when the projects reach intended use state, the cost of which should write off Special reserves, and recognize accumulated depreciation at the same amount. This Fixed asset would not be depreciated in the future fiscal years.

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The balance of work safety fees can be transferred to next fiscal year. If the work safety fees is not enough, the difference can be expensed as other costs, and no supplementary work safety fees would be accrued.

25. Recognition of revenue

The revenue of the Group is mainly revenue from sales of goods, provision of services, property rental income and revenue from construction contracts. Revenue recognition principles are as follows:

(1) Sales of goods

The revenue from selling goods shall be realized, when main risks and rewards related to the ownership of goods have been transferred to buyers, and the Group doesn't hold continuing management rights or effective control rights of goods, and the relevant economic benefits may flow into the Group, and the amount of this relevant revenue can be measured reliably.

(2) Provision of services

The revenue from rendering service will be recognized when the total income and cost of service can be measured reliable, relative economic benefits likely flow into the Group, and the percentage of completion of the service can be measured reliably.

As of the balance date, the amount of rendering could be reliably measured, is recognized at percentage of completion, which is determined by the completed actual divided by total costs; The amount of rendering could not be reliably measured, is subject to estimated revenue generated from incurred costs, carry forward same amount into labor costs. If the incurred costs could not generate future benefit, the costs is accounts to current profits and losses, not recognized as services revenue.

(3) Property rental income

The revenue from the property alienation will be recognized at charge rate in the contract or agreement, when the economic benefits related to transactions may flow into the Group, and the amount of this relevant revenue can be measured reliably.

26. Construction contracts

When the outcome of a construction contract can be estimated reliably at the balance date, contract related economic benefits could be probably flow into the Group, the percentage of completion and estimated future costs could be reliably measured, contract revenue and contract expenses will be recognised by using the percentage of completion method. The percentage is calculated by completion contract work load divided by estimated total contract work load.

When the outcome of a construction contract cannot be estimated reliably, 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.

Long term ship construction contract, such as a first-made shipbuilding contract, the contract result is reasonable foreseeable when the construction progress reached 50%; And for the ships of batch production, the Company could anticipate the result when the construction progress reached 30%. If progress of ship constructions could not be reasonably estimated, construction costs is recognised at the actual amount of incurred expenditure, and equivalent amount as revenue, zero margin as a result.

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Foreign currency revenue is recognised base upon contracted currency, and is translated into Renminbi according to No.19 Accounting Standards for Business Enterprises – Foreign Currency Translation. For the foreign currency received when revenue recognized, is subject to the received amount; for the foreign currency not received when revenue recognized, is subject to the amount calculated by spot rate at balance date. The amount of combination is recognized as accumulated RMB revenue. The accumulated RMB revenue less prior accounting period accumulated RMB revenue is recognized as current period RMB revenue.

At the balance sheet date, if estimated total construction contract costs exceed estimated total construction contract revenue, the provision is made and estimated loss is recognized as current period expenses.

27. Government grants

Government grants are monetary or non-monetary assets obtained from the governments, excluding the contributed capital from the government investor. The special grant of investment from government, which should recognized as Capital reserves according to related Federal documents, should also be capitalized in nature, and therefore shouldn't be recognized as government grants.

A government grant of the Group shall be recognized if the Group can meet the conditions for the government grant and also can obtain the government grant.

If a government grant is a monetary asset, it is measured in the light of the received or receivable amount.

If a government grant is a non-monetary asset, it is measured at its fair value. If the fair value of a non-monetary asset cannot be acquired in a reliable way, it is measured at its nominal amount (RMB1).

The government grants pertinent to assets are recognized as deferred revenue, and equally accounted into current profit and loss within the useful life.

The government grants pertinent to incomes are recognized as deferred income, and equally accounted into current profit and loss during the useful life.

When the deferred income exists when the recognized government grant should be returned, reverse the deferred income, the exceed amount is accounts to current profits and losses; if deferred income does not exist, the amount is directly accounts to current profits and losses.

28. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liability are recognized at the differences (temporary tax differences) between the tax base of an asset or liability and its book value. According to Taxation law, the Group recognizes the deferred tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which is most likely to acquire and can be deducted from the deductible temporary difference. For the temporary difference arise from goodwill recognition is not recognized as deferred tax liability. For assets or liabilities arise from non-consolidation transactions which do not give any influence on the temporary difference arise from neither accounting profits nor taxable profits, is not recognized as deferred tax assets or deferred tax liability. On the balance sheet date, deferred tax assets and deferred tax liability are measured at applicable tax rate.

The group probably received deductible temporary difference, is recognized as deferred tax liability. When the Group estimates that there is not sufficient tax loss could recouped, the initial recognized deferred tax assets shall be impaired. When the Group estimates that there is sufficient tax loss could recouped, the initial recognized deferred tax assets shall be reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The taxable temporary differences arise from investments on subsidiaries or joint ventures, is recognized as deferred tax liabilities, unless the Group could control the time of temporary differences reverse and highly probably the temporary difference could not be reversed in the foreseeable future. The deductible temporary difference arise from investments on subsidiaries or joint ventures, the temporary difference is highly probable to be reversed in the foreseeable future and the tax losses could recouped, is recognized as deferred tax assets.

The Group shall offset deferred tax assets and deferred tax liability if, and only if the Group:

- 1) Deferred tax assets and deferred tax liabilities are related to the same tax collection and administration department to the same entity in the Group; and
- 2) Has a legally enforceable right to set-off the recognized amounts.

29. Lease

The Group divided lease by financing lease and operation lease on the start date of the lease. Financing lease refers to the lease that essentially transfers all the risks and compensations related with the ownership of the asset; Operation lease refers to the lease other than financing lease.

(1) *Asset of financing leasee*

From the start date of the lease, comparing the fair value of the lease asset and the present value of the minimum lease payment, the lower one would be the entry value as asset of financing leasee. The unconfirmed financing expenses refers to the balance of the entry value as asset of financing leasee and the minimum lease payment; the amortization applied by effective interest method over the lease term. The minimum lease payment deducts the unconfirmed financing expenses account to long-term liabilities and the long-term liabilities due within one year.

The lease assets accrue depreciation during the working life if the ownership is reasonable confirmed before expiration. Otherwise, the lease assets would accrue depreciation in the shorter term between the lease term and its working life.

(2) *Asset of Financing leaser*

From the start date of the lease, the entry value of receivable financing lease is the sum of the minimum lease payment and the initial direct expenses, and the unguaranteed residual value would be accounted; the balance of the total value of minimum lease payment, initial direct expenses and unguaranteed residual value and the sum of the present value is recognized as unrealized financing income, and distributed during the lease term. The current financing income is calculated by effective interest rate method.

The unguaranteed residual value would be reviewed at the end of each year. There is no adjustment while the unguaranteed residual value increases. If the evidence indicates that unguaranteed residual value has been decreased, the lease implicit interest rate would be recalculated. The caused decrease of net value of lease investment is accounted to the current profit or loss; the financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate. The net value of lease investment refers to the balance of the minimum lease payment and unguaranteed residual value and unrealized financing income.

The recognized loss of unguaranteed residual value that might be recovered, which would be return in the original recognized amount of investment and recalculated lease implicit interest rate. The financing revenue would be recognized according to modified net value of lease investment and the lease implicit interest rate.

It might be accounted to the current profit or loss when the contingent rental actual occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Assets of operating leasee

The rental expenses of assets of operating leasee are recognized as relevant asset cost or current profit or loss due to the straight line method during the period of the lease. The initial direct expenses would be accounted to the current profit or loss. It might be accounted to the current profit or loss when the contingent rental actual occurs.

(4) Assets of operating leaser

The rental income of assets of operating leaser is recognized as revenue due to the straight line method during the period of the lease. The initial direct expenses of assets of the operating leaser. The bigger amount would be capitalization and the whole lease period may accordance with the basic stages that are same as the recognized rental income; the smaller amount would be directly accounted to current profit or loss. It might be accounted to the current profit or loss when the contingent rental actual occurs.

30. Accounting for income tax

Income tax is accounted for using liability method. Income tax expenses represent the sum of current tax and deferred tax. Current tax and deferred tax relating to the transactions or matters that are directly recorded in shareholders' equity are deal with in shareholders' equity. Deferred tax arising from business combination is adjusted to the carrying amount of goodwill. All other current tax and deferred tax are recognised in the profit or loss for the period.

The tax currently payable is the amount of tax payable to taxation bureau by the enterprise in respect of the transactions and matters of the current period calculated according to the taxation regulations. The deferred income tax is the difference between the balances of the deferred tax assets and deferred tax liabilities at the end of period that should be recognised using the balance sheet liabilities approach and their balances originally recognised.

31. Segment report

Business segment is confirmed in accordance with governance structure, management requests, internal reporting system, and the Group confirm the report segment on the basis of business segment.

Business segment is a component of the Group that satisfies the following conditions simultaneously: the component can take revenue and expenses; the management level can appraise the operating performance of the component in order to allocation of resource and appraise the performance; and the Group can acquire the financial position, operating performance and cash flow of the component etc. If two or more than two segments carry similar economic characteristics, and satisfied certain condition, could merger as one operation segment.

32. Changes in accounting policies and accounting estimates

There is no change in accounting policies, accounting estimates and correction of previous errors in 2012.

33. Corrections of prior year errors

There is no correction of previous errors in 2012.

34. Judgement on significant estimates

When preparing financial statements, the management of the Group need to use assumptions and evaluations, which might influence accounting policy application and the amounts of assets, liabilities revenues and expenses. The effective result might have conflicts with these estimates. The management will process continuing evaluation on the uncertain factors and key assumptions that affect estimates. The changes on accounting estimates effects should be recognized in the current period or carry forward.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following accounting estimates and key assumptions would result in significant adjustment of the book value of assets and liabilities for next fiscal year.

(1) Provision for receivables' devaluation

As disclosed in Note II.11, the Group would review the Accounts receivables measured with amortized costs on the balance sheet date to evaluate the existence of impairment, and determine the estimated amount of impairment. The proof for impairment includes data indicated that the future cash flow for individual or combined accounts receivable's significant decrease; data indicated that the debtors for individual or combined accounts receivable negative financial issues. If it's proved that the value of accounts receivable has recovered, and objectively related to the post damage, then the impairment should be reversed.

(2) Impairment for inventories

As stated in Note II.12, the Group would estimate net realizable value of Inventories on a regular basis, and the difference of inventory cost higher than net realizable value would be recognized as loss from inventory devaluation. The estimating net realizable value is based on estimated price of similar goods, net of costs, selling expense and related taxes. If the effective price is different from estimated price, the management would adjust the net realizable value. Therefore the estimation according to current experience would be different from the actual value, resulting in adjustment of book value of Inventories in the Balance sheet. Provision for Inventory impairment could be revised because of the above issues. The adjustment for Provision for Inventory impairment could impact the current profit or loss.

(3) Accounting estimates for Fixed assets impairment

The Group would carry out impairment test for fixed assets such as buildings, machinery and equipments, etc. The higher of collectable value and discounted future cash flow; and fair value net of the disposal costs, the calculation of which needs accounting estimates.

If the management revise the applied gross margin rate for asset group or its future cash flow calculation, and the revised gross margin rate is lower than effective discount rate applied, the Group should increase the accrual the impairment for Fixed assets.

If the management revise the pre-tax cash flow discount rate, and the revised pre-tax discount rate is higher than the effective discount rate applied, the Group should increase the accrual the impairment for Fixed assets.

If the effective gross margin rate or the pre-tax discount rate higher or lower than estimated, the Group would not recover the impairment for Fixed assets accrued.

(4) Accounting estimates for deferred income tax assets recognized

The estimates for deferred income tax assets need include taxable income and applicable tax rate for the future years. The deferred income tax assets' existence depends on whether the Group has enough taxable income in the future. The recover spot time for tax rate change and temporary difference might also influence Income tax expenses (income) and the balance of deferred income tax. The change for above estimates might result in significant adjustment in deferred income tax.

(5) The useful life for Fixed assets and intangible assets

The Group would review the estimated useful life for Fixed assets and Intangible assets at year end for at least once a year. The estimated useful life is determined by the management based on previous experience, and that of the same industry, together with the upgrade of technology. Should the previous experience change significantly, the Group need to adjust the depreciation expense and amortization expense in the future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

III. TAXATION

1. Turnover tax and surcharges

Items	Tax base	Tax rate
Value-Added Tax	The sale of goods and provision of processing, repairing, repair services	17%
	Sales except the oil and gas exports	0%
	Modern services	6%
Business Tax	Transportation and construction installation	3%
	Other services	5%
City Maintenance and Construction Tax	Turnover tax payable	7%
Education Surcharge	Turnover tax payable	3%
Local education Surcharge	Turnover tax payable	2%
Flood control and maintain expenses	Main business income and other incomes	0.09%

2. Corporate income tax

Company name	Tax rate	Note
The Company	15%	
Guangzhou Hongfan Technology Co., Ltd.	15%	
Guangzhou Yonglian Steel Structure Co., Ltd.	15%	
The Rong Guang Development Co., Ltd.	16.5%	
Fanguang Development Co., Ltd.	16.5%	
Other subsidiaries	25%	

3. Tax incentives and approvals

The Company and its subsidiary Guangzhou Hongfan Technology Co., Ltd. are approved to be Hi-tech Enterprises, taxed at 15% since 1 January 2011 to 31 December 2013.

One of the subsidiaries, Guangzhou United Steel Structures Co., Ltd. is approved to be Hi-tech Enterprises, taxed at 15% since 1 January 2009 to 31 December 2011. At present, the subsidiary's Hi-tech Enterprises qualification is in the processing procedures, current period tax rate is 15% temporary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IV. BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1. Subsidiaries

Company name	Type	Registration place	Nature	Registered capital ('000)	Business scope	Investment at year end ('0000)	Other investment in nature	Holding shares %	Voting rights %	Legal representative	Organization code	Whether or not consolidated	Minority shareholder's equity expensed
Subsidiaries acquired through established or investment													
Guangzhou Wanda Marine Engineering Co., Ltd.	Controlled subsidiary	Guangzhou	Ships built	USD600	Designing, production, installation, repairing; ship out-fitting, ship piping, ventilation system, furniture, interior decoration, sales of production	368.52		75.00	100.00	Jin Lichao	61841220X	Yes	
Guangzhou Xingshun Marine Services Co., Ltd.	Controlled subsidiary	Guangzhou	Ship welding, outfitting, painting	RMB2,000	Hull installation, welding, outfitting, painting, repairing.	50.00		83.33	100.00	Jin Lichao	231249006	Yes	
Guangzhou Yonglian Steel Structure Co., Ltd.	Controlled subsidiary	Guangzhou	Large steel structure	USD8,850	Production, designing of steel products, sales of enterprise products & providing after-sale installation services	3,752.21		51.00	51.00	Chen Jianrong	618435700	Yes	
Guangdong GSI elevator Co., Ltd.	Controlled subsidiary	Guangzhou	Production of elevator	RMB21,000	designing, manufacturing & sales, installation & modification, repairing all types of elevators	1,995.00		95.00	100.00	Chen Jianrong	231128917	Yes	
Guangzhou Hongfan Technology Co., Ltd.	Controlled subsidiary	Guangzhou	Computer sales, system integration development	RMB5,000	Computer sales, system integration development	255.00		51.00	51.00	Wang Lijian	708257645	Yes	
Guangzhou Guangli Ship Human Resources Service Co., Ltd.	Controlled subsidiary	Guangzhou	Provide labor service	RMB500	Provide labor service, ship installation, welding, copy rusting, painting etc.	305.25		80.00	100.00	Qin Tinggui	190474652	Yes	
Guangzhou Hongfan hotel Limited	Controlled subsidiary	Guangzhou	Catering service	RMB10,000	Industry of Catering, tourist, beauty, code drinks and hair dressing	1,000.00			100.00	Wang Lijian	633203529	Yes	
The Rong Guang Development Co., Ltd.	Controlled subsidiary	Hong Kong	General business trade	HKD30,000	General business trade	2,644.38		100.00	100.00	Han Guangde	190445392	Yes	
Fanguang Development Co., Ltd.	Controlled subsidiary	Hong Kong	General business trade	HKD200	General business trade	12.35			70.00	Chen Liping	190440559	Yes	
Guangzhou Shipyard Machinery Co., Ltd.	Controlled subsidiary	Guangzhou	Designing, manufacturing and installation.	RMB188,610	Design, manufacture, installation and sales; auxiliary ships, large mechanical and electrical equipments	18,861.00		100.00	100.00	Chen Jianrong	68132734X	Yes	
Zhongshan Guangzhou Shipyard International Ship and Marine Engineering Co., Ltd.	Controlled subsidiary	Zhongshan	Accessories of ship and marine engineering equipment manufacturing	RMB100,000	Design, manufacture, installation, sales of ships and auxiliaries (for fishing purpose excluded) ocean project equipments	10,000.00		100.00	100.00	Wang Lijian	684420937	Yes	
Guangzhou Shipyard International Marine Engineering Co., Ltd.	Controlled subsidiary	Guangzhou	Ship and marine products manufacturing	RMB50,000	Offshore vessels and platform design, construction, alteration, repair	5,000.00		100.00	100.00	Zhou Xuhui	058916716	Yes	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Change of consolidation scope

(1) Explanation of changes in consolidation scope

Company Name	Reasons	Holding shares %	Ending net assets	Net profit
Guangzhou Shipyard International Marine Engineering Co., Ltd.	Newly established	100	50,016,031.75	16,031.75

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following disclosed financial statement data, unless specifically noted, "Beginning Balance" refers to 1 January 2012; and "Ending Balance" refers to 31 December 2012. "Current Year" refers to the period from 1 January 2012 to 31 December 2012; and "Last Year" refers to the period from 1 January 2011 to 31 December 2011. The functional currency is RMB.

1. Cash and bank deposit

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
1. Cash						
RMB			127,328.94			114,598.12
USD	3,567.80	6.2855	22,425.41	3,567.80	6.3009	22,480.35
HKD	50,601.20	0.8109	41,032.51	32,346.08	0.8107	26,222.97
GBP	917.25	10.1611	9,320.27	917.25	9.7116	8,907.97
EUR	954.84	8.3176	7,941.98	954.84	8.1625	7,793.88
Subtotal			208,049.11			180,003.29
2. Bank						
RMB			2,906,952,882.66			2,696,975,893.34
USD	131,097,674.60	6.2855	824,014,433.68	38,952,689.88	6.3009	245,437,003.66
HKD	22,415,555.67	0.8109	18,176,774.11	7,779,783.20	0.8107	6,307,070.22
EUR	90,900.28	8.3176	756,072.16	1,352,902.60	8.1625	11,043,067.48
Subtotal			3,749,900,162.61			2,959,763,034.70
3. Others						
RMB			2,374,632,817.53			3,602,803,428.85
Subtotal			2,374,632,817.53			3,602,803,428.85
Total			6,124,741,029.25			6,562,746,466.84

The ending balances of other monetary fund include credit card deposit of RMB100,310.53 (Beginning Balance: RMB75,541.52); guarantee deposit of RMB25,460,357.00 (Beginning Balance: 6,124,226.79); and fixed deposit for long-term and short-term mortgage loans amounted RMB2,349,072,150.00 (Beginning Balance: 3,596,603,660.54), this guaranteed fixed deposit would be terminated after the debt redemption.

As at 31 December 2012, there is no existence of pledge, frozen or potential risk of recovery except for guarantee and fixed deposit mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012, the Company deposits RMB599,458,828.86 in CSSC Financial Co. (Beginning Balance: RMB490,788,535.33). CSSC Financial Co. is one of subsidiaries of CSSC is a non-bank financial institution and authorised and monitored by People's Bank of China.

2. Financial assets held-for-trading

Items	Ending fair value	Beginning fair value
Financial assets at fair market value through profit or loss	22,862,044.25	20,229,536.04
Total	22,862,044.25	20,229,536.04

The fair value of the financial assets held-for-trading (forward contracts) is determined by banks' public offer and assessment technology.

3. Notes receivable

(1) Classification

Items	Ending Balance	Beginning Balance
Bank acceptance bill	3,492,665.00	560,000.00
Total	3,492,665.00	560,000.00

(2) Notes receivable endorsed but not yet due by the year end (TOP 5)

Item	Name of company	Endorsed date	Due date	Amount	Note
Bank acceptance bill	Guangzhou Sevilla elevator track Limited	2012-11-14	2013-05-14	500,000.00	
	Guangzhou Sevilla elevator track Limited	2012-11-16	2013-05-16	350,541.00	
	Zhaoqing Zhongqiao Electrical Industrial Co., Ltd.	2012-10-30	2013-04-30	300,000.00	
	Asia Aluminum (China) Co., Ltd.	2012-07-17	2013-01-17	250,000.00	
	Asia Aluminum (China) Co., Ltd.	2012-08-01	2013-02-01	230,000.00	
Total				1,630,541.00	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Accounts receivable

Items	Ending Balance	Beginning Balance
Accounts receivable	786,242,618.03	749,903,227.98
Less: provision for bad debts	9,487,298.78	13,176,583.88
Total	776,755,319.25	736,726,644.10

(1) Terms of sales on credit

Items	Credit Term
Shipbuilding	1 month after issuance
Other businesses	1 to 6 months

(2) Aging analysis

Items	Ending Balance				Beginning Balance			
	Amount	%	Bad debt	Net value	Amount	%	Bad debt	Net value
Within 1 year	711,671,717.11	90.52	3,558,358.58	708,113,358.53	706,525,137.50	94.22	3,480,584.19	703,044,553.31
1-2 years	43,243,685.14	5.50	1,211,218.43	42,032,466.71	11,410,066.02	1.52	4,840,805.58	6,569,260.44
2-3 years	2,900,115.77	0.37	778,287.45	2,121,828.32	27,985,229.03	3.73	1,003,368.85	26,981,860.18
3-4 years	25,002,429.29	3.18	514,763.60	24,487,665.69	74,124.00	0.01	370.62	73,753.38
4-5 years								
Over 5 years	3,424,670.72	0.43	3,424,670.72		3,908,671.43	0.52	3,851,454.64	57,216.79
Total	786,242,618.03	100.00	9,487,298.78	776,755,319.25	749,903,227.98	100.00	13,176,583.88	736,726,644.10

(3) Classification by risks

Items	Ending Balance						Beginning Balance					
	Book value		Bad debt		Net value	Book value		Bad debt		Net value		
	Amount	%	Amount	%		Amount	%	Amount	%			
Accounts receivable that are individually significant and are provided for bad debts on individual basis												
Accounts receivable that are individually insignificant but are provided for bad debts on individual basis	5,584,005.72	0.71	5,584,005.72	100.00			11,177,669.05	1.49	9,532,003.20	85.28	1,645,665.85	
Accounts receivable accrued bad debt provision by a certain percentage of the balance	780,658,612.31	99.29	3,903,293.06	0.50	776,755,319.25	738,725,558.93	98.51	3,644,580.68	0.50	735,080,978.25		
Total	786,242,618.03	-	9,487,298.78	-	776,755,319.25	749,903,227.98	-	13,176,583.88	-	736,726,644.10		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- 1) *Accounts receivable that are individually significant, or insignificant but are provided for bad debts on individual basis*

Company Name	Book value	Bad debts	%	Reasons
WHL-FONKWANG	2,557,827.47	2,557,827.47	100.00	Liquidity problem
Chongqing Far East Fuji Electrical Company	670,000.00	670,000.00	100.00	Liquidity problem
Guilin Fortune elevator company	398,250.00	398,250.00	100.00	Long outstanding period, with operational going concern
GSI Elevator Co., Ltd., Chongqing	313,700.00	313,700.00	100.00	Long outstanding period, with operational going concern
Chongqing South Group Company	257,884.00	257,884.00	100.00	Long outstanding period, with operational going concern
Qingdao Haier Special electric freezer Co., Ltd.	208,000.00	208,000.00	100.00	Long outstanding period, with operational going concern
Chengdu JIAXIANG real estate company	187,903.01	187,903.01	100.00	Long outstanding period, with operational going concern
China Refrigeration Industry Co., Ltd.	166,510.00	166,510.00	100.00	Long outstanding period, with operational going concern
Hunan Lian Xiang elevator company	144,037.20	144,037.20	100.00	Long outstanding period, with operational going concern
Chongqing Yi Cheng Real Estate Company	123,465.32	123,465.32	100.00	Long outstanding period, with operational going concern
Hefei Hualing Co., Ltd.	117,000.00	117,000.00	100.00	Long outstanding period, with operational going concern
Miscellaneous	439,428.72	439,428.72	100.00	Other 18 customers receivables
Total	5,584,005.72	5,584,005.72	100.00	

- 2) *Accounts receivable accrued bad debt provision by a certain percentage of the balance*

Items	Book value	%	Bad debts
Within 1 year	711,671,717.11	0.50	3,558,358.58
1-2 years	42,243,685.14	0.50	211,218.43
2-3 years	2,132,490.77	0.50	10,662.45
3-4 years	24,610,719.29	0.50	123,053.60
4-5 years			
Over 5 years			
Total	780,658,612.31	-	3,903,293.06

(4) *Bad debts reversed or recovered*

Company Name	Accounts receivable	%	Bad Debts Before Recovery	Amounts recovered	Reasons
Chongqing Far East Fuji Electrical Company	670,000.00	100%	1,010,140.00	340,140.00	Demand repayment
Chongqing South Group Company	257,884.00	100%	807,884.00	550,000.00	Demand repayment
GSI Elevator Co., Ltd., Chongqing	313,700.00	100%	613,700.00	300,000.00	Demand repayment
Chongqing Yi Cheng Real Estate Company	123,465.32	100%	306,945.32	183,480.00	Demand repayment
WHL-FONKWANG	2,557,827.47	100%	3,387,326.26	802,622.59	Collection under agreement
Hisense Electric Co., Ltd. (Nanjing)	39,100.00	100%	149,100.00	110,000.00	Demand repayment
The Hefei Rongshida refrigerators Co., Ltd.	14,565.60	100%	476,000.00	461,434.40	Demand repayment
Total	3,976,542.39	-	6,751,095.58	2,747,676.99	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) *The accounts receivable balance details exclude shareholders who hold 5% or more of the Company's shares.*

(6) *Top 5 Clients*

Company Name	Relationship	Amount	Aging	Proportion in Accounts Receivable (%)
China Shipping Development Co., Ltd.	External Client	208,161,978.55	Within 1 year	26.48
Dalian Ocean Shipping Company	External Client	106,334,800.00	Within 1 year	13.52
China Shipping liners Ltd.	External Client	54,604,141.40	Within 1 year	6.94
China CNOOC Transportation Co., Ltd.	External Client	54,000,000.00	Within 1 year	6.87
Bechtel International	External Client	49,564,077.16	Within 1 year	6.30
Total		472,664,997.11		60.11

(7) *Receivables from related parties*

Company Name	Relationship	Ending Balance			Beginning Balance		
		Amount	%	Bad debt	Amount	%	Bad debt
The Guangzhou Longxue Shipbuilding Co., Ltd.	Note	40,099,410.51	5.10	200,497.05	46,434,213.59	6.19	232,171.07
CSSC Jiangnan Heavy Industry Co., Ltd.	Note	17,308,505.47	2.20	86,542.53	17,308,505.47	2.31	86,542.53
Guangzhou Huangpu Shipbuilding Co., Ltd.	Note	3,629,482.65	0.46	18,147.41	1,107,262.23	0.15	5,536.31
Guangzhou Shipyard Ltd.	Note	1,976,285.04	0.25	9,881.43	1,178,817.20	0.16	5,894.09
Guangzhou Wenchong Shipyard Co., Ltd.	Note	1,599,676.51	0.2	7,998.38			
CSSC Guangzhou Marine Diesel Engine Co., Ltd.	Note	1,044,596.46	0.13	5,222.98			
Shipbuilding in South China Marine Machinery Co., Ltd.	Note	519,944.44	0.07	2,599.72	172,766.12	0.02	863.83
Shipbuilding Chengxi the Voyage Ship Co., Ltd. (Guangzhou)	Note	425,355.00	0.05	2,126.78			
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	Note	385,534.00	0.05	1,927.67	656,914.00	0.09	3,284.57
Beijing Shipbuilding Information Technology Co., Ltd.	Note	355,000.00	0.05	1,775.00	655,000.00	0.09	3,275.00
Ninth Design and Research Institute of the China Shipbuilding Co., Ltd.	Note	180,000.00	0.02	900.00			
Ships and Ocean Engineering Design and Research Institute of Guangzhou	Note	115,617.36	0.01	578.09	9,101.60		45.51
Shipbuilding Guijiang Shipbuilding Co., Ltd.	Note				28,000.00		140.00
Total		67,639,407.44	8.59	338,197.04	67,550,580.21	9.01	337,752.91

Note: Under the Same Control of CSSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(8) Accounts receivable with foreign currency balance

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange Rate	RMB	Original currency	Exchange Rate	RMB
USD	12,751,299.20	6.2855	80,148,291.12	54,412,205.54	6.3009	342,845,865.89
HKD	3,254,095.82	0.8109	2,638,746.30	7,520,255.46	0.8107	6,096,671.10
MOP				5,656,385.17	0.7886	4,460,625.36
EUR	509,078.50	8.3176	4,234,311.33			
Total			87,021,348.75			353,403,162.35

Note: As at 31 December 2012, the Company has collected RMB106,334,800.00 from Dalian Ocean Transportation Company; RMB54,000,000.00 from Huahai Oil Transportation Company; and RMB37,882,759.57 from Bechtel International.

5. Prepayments

(1) Aging

Items	Ending Balance		Beginning Balance	
	Amount	%	Amount	%
Within 1 year	465,136,534.65	92.31	496,123,702.54	98.45
1-2 years	32,559,724.57	6.46	6,013,954.32	1.19
2-3 years	5,394,379.42	1.07	1,266,826.16	0.25
Over 3 years	774,291.04	0.16	539,300.00	0.11
Total	503,864,929.68	100.00	503,943,783.02	100.00

(2) Major clients

Company Name	Relationship	Amount	%	Aging	Reasons
The Shipbuilding Industry Complete Logistics Co., Ltd. (Guangzhou)	Under common control of CSSC	287,847,686.29	57.13	Within 1 year	Not settled
Dalian Marine Diesel Engine Co., Ltd.	External client	72,835,000.00	14.46	Within 1 year	Not settled
China Shipping Group International Trade Co., Ltd	External client	20,686,004.94	4.11	Within 1 year	Not settled
Frank Mohn	External client	18,260,642.40	3.62	Within 1 year	Not settled
Shanghai Dacheng Venture Capital Co., Ltd.	External client	14,274,297.02	2.83	Within 1 year	Not settled
Total		413,903,630.65	82.15		

(3) The prepayments balance details exclude shareholders who hold 5% or more of the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(4) Prepayments with foreign currency balance

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange Rate	RMB	Original currency	Rate	Exchange RMB
USD	10,830,393.03	6.3269	68,522,318.97	16,169,400.67	6.3400	102,514,325.65
EUR	7,389,793.45	8.6193	63,694,959.62	11,025,169.59	8.9803	99,009,347.74
HKD	502,886.00	0.8789	441,967.44	486,586.00	0.8657	421,229.08
Total			132,659,246.03			201,944,902.47

6. Interest receivable

Items	Beginning Balance	Increase	Decrease	Ending Balance
Interest of fixed deposit	104,002,627.67	201,012,676.47	161,433,431.67	143,581,872.47
Total	104,002,627.67	201,012,676.47	161,433,431.67	143,581,872.47

Note: There is no overdue interest as of the end of Current Year.

7. Dividend receivable

Items	Beginning Balance	Increase	Decrease	Ending Balance	Outstanding Reason	Impairment
Aging within 1 year		1,043,381.78		1,043,381.78		
Including: Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.		1,043,381.78		1,043,381.78	Financial strain	No
Total		1,043,381.78		1,043,381.78		

8. Other receivables

Items	Ending Balance	Beginning Balance
Other receivables	273,951,480.46	135,165,934.71
Less: provision for bad debts	11,715,600.39	10,978,392.63
Total	262,235,880.07	124,187,542.08

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Aging analysis

Items	Ending Balance				Beginning Balance			
	Amount	%	Bad debt	Net value	Amount	%	Bad debt	Net value
Within 1 year	255,756,297.77	93.36	1,278,736.67	254,477,561.10	121,494,349.74	89.89	563,367.99	120,930,981.75
1-2 years	5,051,199.03	1.84	25,255.99	5,025,943.04	2,600,906.92	1.92	8,828.97	2,592,077.95
2-3 years	2,300,851.95	0.84	11,449.07	2,289,402.88	470,165.31	0.35	5,521.96	464,643.35
3-4 years	406,055.35	0.15	1,630.28	404,425.07	60,937.59	0.05	832.85	60,104.74
4-5 years	39,244.21	0.01	696.23	38,547.98	123,343.00	0.09	1,916.71	121,426.29
Over 5 years	10,397,832.15	3.80	10,397,832.15	0.00	10,416,232.15	7.70	10,397,924.15	18,308.00
Total	273,951,480.46		11,715,600.39	262,235,880.07	135,165,934.71		10,978,392.63	124,187,542.08

(2) Classification by risks

Items	Ending Balance					Beginning Balance				
	Book value		Bad debt		Net value	Book value		Bad debt		Net value
	Amount	%	Amount	%		Amount	%	Amount	%	
Other receivables that are individually significant and are provided for bad debts on individual basis	10,340,232.15	3.77	10,340,232.15	100.00		10,340,232.15	7.65	10,340,232.15	100.00	
Other receivables that are individually insignificant but are provided for bad debts on individual basis	57,600.00	0.02	57,600.00	100.00		57,600.00	0.04	57,600.00	100.00	
Other receivables accrued bad debt provision by a certain percentage of the balance	263,553,648.31	96.21	1,317,768.24	0.50	262,235,880.07	124,768,102.56	92.31	580,560.48	0.50	124,187,542.08
Total	273,951,480.46		11,715,600.39		262,235,880.07	135,165,934.71		10,978,392.63		124,187,542.08

1) Other receivables that are individually significant or insignificant but are provided for bad debts on individual basis

Company Name	Book value	Bad debts	%	Reasons
Mitsuhiro International Co., Ltd., Hong Kong	10,340,232.15	10,340,232.15	100.00	Note
Guangzhou Urban Construction Archives	57,600.00	57,600.00	100.00	Uncollectable
Total	10,397,832.15	10,397,832.15	100.00	

Note: Trusted deposits have been exchanged for some assets with Guangzhou National Investment Corp. under the Company and Guangzhou National Investment Debt Restructuring Agreement. On 17 August 2005, according to the "Delegatio Nominis contract" signed by the Company and Guangzhou National Investment Corp. and Hong Kong Guanghong international Corp., Guangzhou National Investment Corp. transferred the claim of RMB10,640,000.00 to Hong Kong Guanghong international Corp., which belongs to its subsidiary Guangzhou Guoxin economic developing Corp. to the Company. In the meantime, according to the contract, Hong Kong Guanghong international Corp. shall offset part of the debts with 7 cars, which was due to hand over before September 2005, and pay the rest of debt with interest in Guanghong Optoelectronic Technology Corp., on which Hong Kong Guanghong 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 Guanghong international Corp. has to settle the debt principal and interest of the Company within 10 days from the legal effective day. As of 30 June 2012, 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

2) *Other receivables accrued bad debt provision by a certain percentage of the balance*

Items	Book value	%	Bad debts
Within 1 year	255,656,297.77	0.50	1,278,281.49
1-2 years	5,051,199.03	0.50	25,255.99
2-3 years	2,300,851.95	0.50	11,504.26
3-4 years	406,055.35	0.50	2,030.28
4-5 years	139,244.21	0.50	696.22
Over 5 years			
Total	263,553,648.31		1,317,768.24

(3) *The other receivables balance details exclude shareholders who hold 5% or more of the Company's shares.*

(4) *Top 5 Clients*

Company Name	Relationship	Amount	Aging	Proportion in Accounts Receivable (%)	Nature
Product subsidies receivable	Others	185,942,477.44	Within 1 year	67.87	Allowance
Mitsuhiro International Co., Ltd., Hong Kong	External client	10,340,232.15	Over 5 years	3.77	Trust loans
Export tax rebate	Others	5,524,107.24	Within 1 year	2.02	Taxes refund
Hong Kong J&D Company	External client	4,924,117.54	Within 1 year	1.80	Advances
Bidding center	External client	3,600,000.00	Within 1 year	1.31	Security deposit
Total		210,330,934.37		76.77	

(5) *Other receivables with foreign currency balance*

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange Rate	RMB	Original currency	Exchange Rate	RMB
HKD	10,097,600.19	0.8109	8,188,143.99	9,695,544.96	0.8107	7,886,383.30
Total			8,188,143.99			7,886,383.30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Inventories

(1) Classification

Items	Ending Balance			Beginning Balance		
	Book value	Inventory impairment	Carrying amount	Book value	Inventory impairment	Carrying amount
Raw materials	280,070,206.17	6,727,392.92	273,342,813.25	428,971,762.09	6,996,709.71	421,975,052.38
Work in progress	329,182,330.50	15,094,862.61	314,087,467.89	467,507,215.62	16,219,843.71	451,287,371.91
Merchandise inventories	5,876,867.52	519,865.11	5,357,002.41	11,023,779.00	336,553.69	10,687,225.31
Capitalized construction contracts	293,927,926.79	419,190,388.03	-125,262,461.24	893,624,622.07	293,711,909.40	599,912,712.67
Goods in transit	38,576,400.38		38,576,400.38	30,354,947.04		30,354,947.04
Total	947,633,731.36	441,532,508.67	506,101,222.69	1,831,482,325.82	317,265,016.51	1,514,217,309.31

(2) Inventory impairment

Items	Beginning Balance	Accrued	Decrease		Ending Balance
			Reversal	Transferred out	
Raw materials	6,996,709.71	2,218,896.23		2,488,213.02	6,727,392.92
Work in progress	16,219,843.71	4,927,600.00	248,240.76	5,804,340.34	15,094,862.61
Merchandise inventories	336,553.69	425,500.83	141,453.93	100,735.48	519,865.11
Capitalized construction contracts	293,711,909.40	415,337,568.13	9,288,230.79	280,570,858.71	419,190,388.03
Total	317,265,016.51	422,909,565.19	9,677,925.48	288,964,147.55	441,532,508.67

(3) The methods of provision for inventory impairment

Items	Calculation basis	Reasons	%
Raw materials	Book value higher than NPV (Estimated disposal proceeds less taxes)		
Work in progress	Book value higher than NPV (Estimated disposal proceeds less related expenses)	Sales price higher than net value	1.64
Merchandise inventories	Book value higher than NPV (Estimated disposal proceeds less taxes)	Sales price higher than net value	27.21
Capitalized construction contracts	Estimated total cost higher than estimated total revenue	Estimated total cost is expected to decline.	2.22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Other current assets

Items	Ending Balance	Beginning Balance	Nature
Advance income taxes	140,571.00		Advance income taxes from subsidiaries
Total	140,571.00		

11. Financial assets available-for-sale

Items	Ending fair value	Beginning fair value
Equity instrument available-for-sale		
China Merchants Bank Co., Ltd.	239,355,187.50	206,628,805.50
China Merchants Energy and Transportation Co., Ltd. (CMES)	28,160,000.00	28,900,000.00
Wuhan Jinyinhu Golf Membership	2,450,000.00	2,700,000.00
Total	269,965,187.50	238,228,805.50

Note: As at 31 December 2012, the holding shares of "CMES" and "CMBC" are unrestrained outstanding shares, the fair value is calculated based on the year end closing price of the shares mentioned above.

12. Long-term equity investment

(1) Classification

Items	Ending Balance	Beginning Balance
Cost method	1,900,000.00	1,900,000.00
Equity method	42,004,311.39	43,890,860.01
Total	43,904,311.39	45,790,860.01
Less: Provision for impairment		
Net value	43,904,311.39	45,790,860.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Detailed classification by method

Investee	Share holding %	Voting rights %	Initial investment	Beginning Balance	Increase or decrease	Adjustments	Cash dividends	Ending Balance	Provision for impairment	Provision for impairment
Cost method										
The CSSC Information Technology Co., Ltd.	5.63	5.63	900,000.00	900,000.00				900,000.00		
China Shipbuilding Industry Yuan Zhou (Beijing) Technology Co., Ltd.	4.05	4.05	1,000,000.00	1,000,000.00			80,838.00	1,000,000.00		
Subtotal			1,900,000.00	1,900,000.00			80,838.00	1,900,000.00		
Equity method										
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	25.00	25.00	1,722,060.00	3,932,104.61		753,210.50	1,043,381.78	3,641,933.33		
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	40.00	40.00	800,000.00	822,588.18		15,892.14		838,480.32		
Zhenjiang Shipyard modern power generation equipment Co., Ltd.	32.00	32.00	15,558,800.00	39,136,167.22		2,227,730.52	3,840,000.00	37,523,897.74		
Subtotal			18,080,860.00	43,890,860.01		2,996,833.16	4,883,381.78	42,004,311.39		
Total			19,980,860.00	45,790,860.01		2,996,833.16	4,964,219.78	43,904,311.39		

(3) Investment in associated companies and joint ventures

Investee	Nature	Registration place	Legal representative	Organization Code	Business type	Registered capital ('000)	Share holding %	Voting rights %
Joint ventures								
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	Company with limited liability (the PRC and foreign countries of joint venture)	Guangzhou	Li Tong'an	618428789	Developing a special coating technology, undertaking special coating works at home and abroad, setting up scaffolding structures, cleaning cabin	USD1,200	25	25
Associated companies								
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	Company with limited liability	Zhanjiang	Chen Miaogen	74915066-8	Repairing, debugging, maintenance, training, software development and technical application of ship equipment & system	RMB2,000	40	40
Zhenjiang Shipyard modern power generation equipment Co., Ltd.	Company with limited liability (Taiwan, Hong Kong, Macao and the PRC of joint venture)	Zhenjiang	Wang Wenju	78206731-3	Production and sales of generators, marine and land use generator sets and accessories	RMB85,000	32	32

Investee	The Ending Balance of total assets	The Ending Balance of total liabilities	The Ending Balance of net assets	Total operating revenue	Net profit
Joint ventures					
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	20,570,011.64	5,887,495.07	14,682,516.57	36,882,135.20	3,012,841.99
Associated companies					
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	7,929,280.12	5,840,555.72	2,088,724.40	5,376,882.00	39,730.36
Zhenjiang Shipyard modern power generation equipment Co., Ltd.	238,043,513.49	106,753,109.05	131,290,404.44	193,225,057.42	6,961,657.88
Total	266,542,805.25	118,481,159.84	148,061,645.41	235,484,074.62	10,014,230.23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Investment property

(1) Cost method

Items	Beginning Balance	Increase	Decrease	Ending Balance
Original cost	36,977,375.29			36,977,375.29
Buildings	36,977,375.29			36,977,375.29
Accumulated depreciation and amortization	4,051,806.36	751,330.04		4,803,136.40
Buildings	4,051,806.36	751,330.04		4,803,136.40
Carrying amount	32,925,568.93			32,174,238.89
Buildings	32,925,568.93			32,174,238.89
Provision for impairment	1,855,011.59			1,855,011.59
Buildings	1,855,011.59			1,855,011.59
Net book value	31,070,557.34			30,319,227.30
Buildings	31,070,557.34			30,319,227.30

Note: The depreciation and amortization of Investment Property through profit and loss for Current Year is RMB751,330.04.
(Last Year: RMB783,590.16)

(2) Investment properties analyzed by region and year

Items	Ending Balance	Beginning Balance
Inside China	30,319,227.30	31,070,557.34
Mid-term (10-50 years)	30,319,227.30	31,070,557.34
Total	30,319,227.30	31,070,557.34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. Fixed assets

(1) Fixed assets category

Items	Beginning Balance	Increase	Decrease	Ending Balance
Total original cost	2,245,216,908.80	551,412,514.09	26,552,199.97	2,770,077,222.92
Buildings	1,071,296,182.95	342,101,386.73	5,508,224.35	1,407,889,345.33
Machinery	1,077,809,630.58	196,038,416.04	16,162,752.95	1,257,685,293.67
Transportation facilities	39,076,014.55	5,772,134.76	2,366,941.95	42,481,207.36
Office equipments	57,035,080.72	7,500,576.56	2,514,280.72	62,021,376.56
Total accumulated depreciation	967,957,211.71	160,855,013.78	22,037,647.78	1,106,774,577.71
Buildings	327,921,693.30	39,028,060.04	2,568,369.87	364,381,383.47
Machinery	593,828,884.07	114,988,272.24	15,000,488.81	693,816,667.50
Transportation facilities	16,620,729.17	3,215,799.80	2,266,594.86	17,569,934.11
Office equipments	29,585,905.17	3,622,881.70	2,202,194.24	31,006,592.63
Total carrying amount	1,277,259,697.09			1,663,302,645.21
Buildings	743,374,489.65			1,043,507,961.86
Machinery	483,980,746.51			563,868,626.17
Transportation facilities	22,455,285.38			24,911,273.25
Office equipments	27,449,175.55			31,014,783.93
Total provision for impairment	2,941,797.71			2,941,797.71
Buildings				
Machinery	2,941,797.71			2,941,797.71
Transportation facilities				
Office equipments				
Total net book value	1,274,317,899.38			1,660,360,847.50
Buildings	743,374,489.65			1,043,507,961.86
Machinery	481,038,948.80			560,926,828.46
Transportation facilities	22,455,285.38			24,911,273.25
Office equipments	27,449,175.55			31,014,783.93

- 1) The amortization of Fixed assets recognized through profit or loss is RMB118,233,124.26 for Current Year. (Last Year: RMB109,750,299.42)
- 2) The increased Fixed assets included RMB504,791,650.58 of capitalized Construction in progress transferred-in.
- 3) The profit or loss for disposal of Fixed assets for Current Year is RMB2,877,045.13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) *Buildings analyzed by region and year*

Items	Ending Balance	Beginning Balance
Inside China		
Mid-term (10-50 years)	1,027,844,021.79	727,427,165.94
Outside China		
Long-term (over 50 years)	15,663,940.07	15,947,323.71
Total	1,043,507,961.86	743,374,489.65

(3) *As at 31 December 2012, there are no idle Fixed assets for the Group.*

(4) *Fixed assets with no certificate of title*

Items	Carrying amount	Reasons	Expected time to obtain
Mechanical and electrical suppliers storage	28,173,539.24	Not complete real estate cancellation mortgage registration	Unpredictable
Company 5 floors office building (3-5)	5,005,274.51	Not complete real estate cancellation mortgage registration	Unpredictable
Company 5 floors office building (first 2 floors)	3,466,681.49	Not complete real estate cancellation mortgage registration	Unpredictable
Zhongshan Base B & C dormitory and dining rooms	41,579,488.87	Not settle	Unpredictable
Ship joining workshop	135,689,400.70	Not settle	Unpredictable
Adjacent building to production and living	11,473,172.38	Not settle	Unpredictable
Company's job shop	102,027,160.17	Not gained Land use right, not settled	Unpredictable
Total	327,414,717.36		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Construction in progress

(1) Category

Items	Ending Balance		Beginning Balance			
	Carrying amount	Impairment	Net book value	Carrying amount	Impairment	Net book value
12.5m CNC Double Column Vertical Lathe	12,450,297.65		12,450,297.65	14,035,006.08		14,035,006.08
1 set 200 tons Fixed cranes	10,133,137.79		10,133,137.79			
Preconstruction cost for Zhongshan shipping industry base	7,485,493.40		7,485,493.40	207,027,680.08		207,027,680.08
NO. 1-5 Simple steel shed engineering of Guangchuan International (New paint shed)	6,317,606.64		6,317,606.64	6,201,847.23		6,201,847.23
"1" development the construction of security conditions	4,250,000.00		4,250,000.00			
Ship generator load test integrated system	3,312,054.35		3,312,054.35	2,302,167.92		2,302,167.92
200 tons of fixed pier crane base	2,037,466.56		2,037,466.56			
Shelter	1,836,085.54		1,836,085.54			
Integrated ship building project	1,350,046.56		1,350,046.56	602,226.11		602,226.11
Shunde shipyard 11 roller leveller	1,328,197.48		1,328,197.48			
Preconstruction cost Infrastructure and energy saving transformation	1,088,459.01		1,088,459.01	1,020,170.26		1,020,170.26
Long Island pier fixed tower crane	1,024,350.27		1,024,350.27	700,959.21		700,959.21
Renovation project of Guangchuan large-scale machinery and equipment company	810,238.45		810,238.45	5,973,713.59		5,973,713.59
Movement of large machinery and workshop				11,703,473.91		11,703,473.91
Network reconstruction				2,631,006.06		2,631,006.06
Construction fees of Zhongshan Guangchuan International and Ocean Project Co., Ltd.				2,482,965.21		2,482,965.21
1 tug from Shipping Ministry				4,490,720.64		4,490,720.64
Transformation of team room 3 and surrounding space				2,361,008.29		2,361,008.29
A loaded class outfitting shed and team room				1,422,590.60		1,422,590.60
1 self-motorized barge				1,376,103.45		1,376,103.45
The third stage of environmental anti-pollution engineering 1-2 tender				1,258,074.65		1,258,074.65
Welding fumes governance in the workshop				1,025,072.32		1,025,072.32
Other projects	7,778,382.21		7,778,382.21	14,948,179.25		14,948,179.25
Total	61,201,815.91		61,201,815.91	281,562,964.86		281,562,964.86

(2) The changes in significant Construction in progress

Project Name	Beginning Balance	Increase	Decrease		Ending Balance
			Capitalized in Fixed assets	Decrease	
12.5m CNC Double Column Vertical Lathe	207,027,680.08	192,523,736.12	392,065,922.80		7,485,493.40
NO. 1-5 Simple steel shed engineering of Guangchuan International (New paint shed)	14,035,006.08			1,584,708.43	12,450,297.65
Renovation project of Guangchuan large-scale machinery and equipment company	6,201,847.23	115,759.41			6,317,606.64
Ship generator load test integrated system	5,973,713.59	6,864,680.03	12,028,155.17		810,238.45
1 set 200 tons Fixed cranes	2,302,167.92	1,009,886.43			3,312,054.35
"1" development the construction of security conditions		10,133,137.79			10,133,137.79
200 tons of fixed pier crane base		4,250,000.00			4,250,000.00
12.5m CNC Double Column Vertical Lathe		2,037,466.56			2,037,466.56
Total	235,540,414.90	216,934,666.34	404,094,077.97	1,584,708.43	46,796,294.84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Project Name	Budget	Budget use-up ratio %	Press of work	Accumulated capitalized interest	Capitalized interest for Current Year	Capitalization %	Source of capital
Preconstruction cost for Zhongshan shipping industry base	839,830,000.00	94.31	95				Self financed
12.5m CNC Double Column Vertical Lathe	15,000,000.00	93.57	100				Self financed
NO. 1-5 Simple steel shed engineering of Guangchuan International (New paint shed)	7,000,000.00	90.25	90.25				Self financed
Renovation project of Guangchuan large-scale machinery and equipment company	188,610,000.00	98.89	100				Self financed
Ship generator load test integrated system	4,700,000.00	70.47	100				Self financed
1 set 200 tons Fixed cranes	11,000,000.00	92.12	100				Self financed
"1" development the construction of security conditions	14,020,000.00	30.31	30.31				Self financed
200 tons of fixed pier crane base	1,920,000.00	106.12	100				Self financed
Total	1,082,080,000.00	-	-				

16. Fixed assets disposal

Items	Ending Balance	Beginning Balance	Reasons
Machinery and equipment	33,554.52	5,044,668.76	Scrapped
Total	33,554.52	5,044,668.76	Scrapped

17. Intangible assets

(1) Category

Items	Beginning Balance	Increase	Decrease	Ending Balance
Total original cost	440,956,681.99	921,202.19		441,877,884.18
Land use right	378,085,665.69			378,085,665.69
Non-patent technology	62,871,016.30	921,202.19		63,792,218.49
Total accumulated amortization	73,351,429.41	12,158,395.46		85,509,824.87
Land use right	31,856,340.54	7,649,486.80		39,505,827.34
Non-patent technology	41,495,088.87	4,508,908.66		46,003,997.53
Total carrying amount	367,605,252.58			356,368,059.31
Land use right	346,229,325.15			338,579,838.35
Non-patent technology	21,375,927.43			17,788,220.96
Total provision for impairment				
Total net book value	367,605,252.58			356,368,059.31
Land use right	346,229,325.15			338,579,838.35
Non-patent technology	21,375,927.43			17,788,220.96

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Land use right analyzed by region and year

Items	Ending Balance	Beginning Balance
Inside China		
Mid-term (10-50 years)	338,579,838.30	346,229,325.15
Total	338,579,838.30	346,229,325.15

(3) The amortization of Intangible assets recognized through profit or loss is RMB12,158,395.46 for Current Year. (Last Year: RMB11,469,220.30)

Note: As at 31 December 2012, Guangzhou Guangchuan Heavy machinery and equipment Co., Ltd is the subsidiary which has approximately 59,500 square meters of land in Nansha Longxue Island for shipbuilding base and above-ground buildings that both property rights are being processed. The relevant information has been submitted to the approval of the Guangdong Provincial land and resource department, and the completion date is unclear.

18. Research and development expenditures

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Expensed	Capitalized	
2010 breakthroughs project at key areas in Guangdong and Hong Kong (high technology shipping)		13,832,282.72	13,832,282.72		
4000 Research and development projects		14,785,012.20	14,785,012.20		
6000 tons tank ship development		9,098,281.45	9,098,281.45		
Independent research and development of more than 50,000 dwt semi-submersible self-navigation project boat		7,310,871.07	7,310,871.07		
Development and application of information technology solutions in shipbuilding industry		7,435,506.80	7,435,506.80		
50,000 tons updating development of handymax product for tank ship		6,563,137.02	6,563,137.02		
Collier development		4,406,428.62	4,406,428.62		
Research and development of 48000 tons refined oil and crude oil ship		3,512,023.95	3,512,023.95		
Shipbuilding computer integrated manufacturing system- GSI-SCIMS II		2,142,414.56	2,142,414.56		
Other research and development projects		12,999,652.00	12,999,652.00		
Total		82,085,610.39	82,085,610.39		

19. Long-term unamortized assets

Items	Beginning Balance	Increase	Amortized	Decrease	Ending Balance	Reasons
Long Island Ferry additional Dolphins Engineering	5,826,441.06		1,165,288.20		4,661,152.86	
Total	5,826,441.06		1,165,288.20		4,661,152.86	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Deferred tax assets and Deferred tax liabilities

(1) Recognized Deferred tax assets and Deferred tax liabilities

Items	Ending Balance	Beginning Balance
Deferred tax assets		
Provision for impairment of assets	71,446,615.47	53,177,516.15
Deductible loss	7,353,644.98	4,227,428.33
Prepaid housing subsidy	3,400,465.30	3,262,921.53
Monetary housing allowance for retired employees	7,860,883.45	7,812,132.99
Medical insurance for retired employees within 10 years	129,034.47	157,046.27
Payroll for retiring employees	118,282.91	164,121.20
Accrued expenses	110,548.12	
Payroll balance owing at year end		646,845.25
Financial liabilities held-for-trading	33,531.11	0.00
	90,453,005.81	69,448,011.72
Deferred tax liabilities		
Fair value changes in Financial assets available-for-sale	30,453,348.90	25,656,780.44
Financial instruments held-for-trading	3,429,306.63	2,860,440.02
Realized gain on investments	573,370.17	691,780.37
	34,456,025.70	29,209,000.83

(2) Unrecognized Deferred tax assets

Items	Ending Balance	Beginning Balance
Deductible temporary difference		
Deductible loss	15,278,310.75	3,813,293.74
Provision for impairment of assets	14,431.70	
	15,292,742.45	3,813,293.74

Note: One of the subsidiaries, Zhongshan Guangzhou Shipyard International Ship and Marine Engineering Co., Ltd., is uncertain about whether or not be able to generate enough taxable income, and is judged there's no deductible temporary difference and deductible loss recognized as Deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) *Unrecognized Deferred tax assets, deductible loss carry forward*

Items	Ending Balance	Beginning Balance	Note
2014	32,198.41	32,198.41	
2015	1,242,014.21	1,242,014.21	
2016	2,539,081.12	2,539,081.12	
2017	11,465,017.01		
Total	15,278,310.75	3,813,293.74	

(4) *Taxable differences and deductible differences items*

Items	Ending Balance	Beginning Balance
Deductible temporary difference and deductible loss:		
Provision for impairment of assets	467,532,217.10	346,216,802.32
Deductible loss	29,414,579.93	16,909,713.31
Prepaid housing subsidy	22,020,162.00	20,896,793.53
Monetary housing allowance for retired employees	52,405,889.67	52,080,886.60
Medical insurance for retired employees within 10 years	860,229.80	1,046,975.13
Payroll for retiring employees	788,552.73	1,094,141.33
Accrued expenses	736,987.45	
Financial liabilities held-for-trading	223,540.73	
Payroll balance owing at year end		3,229,469.00
Subtotal	573,982,159.41	441,474,781.22
Taxable temporary difference:		
Fair value changes in Financial assets available-for-sale	203,022,326.00	171,045,202.96
Financial instruments held-for-trading	22,862,044.19	19,069,600.10
Realized gain on investments	3,474,970.73	4,192,608.30
Subtotal	229,359,340.92	194,307,411.36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Provision for impairment of assets

Current Year

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Reverse	Write-off	
Bad debts	24,154,976.51	1,066,668.94	2,747,676.99	1,271,069.29	21,202,899.17
From Accounts receivable	13,176,583.88	329,461.18	2,747,676.99	1,271,069.29	9,487,298.78
Other receivables	10,978,392.63	737,207.76			11,715,600.39
Provision for devaluation of Inventories	317,265,016.51	422,909,565.19	9,677,925.48	288,964,147.55	441,532,508.67
Provision for impairment of Investment property	1,855,011.59				1,855,011.59
Provision for impairment of Fixed assets	2,941,797.71				2,941,797.71
Total	346,216,802.32	423,976,234.13	12,425,602.47	290,235,216.84	467,532,217.14

Last Year

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Reverse	Write-off	
Bad debts	19,771,424.05	5,230,319.59	846,767.13		24,154,976.51
From Accounts receivable	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 devaluation of Inventories	22,269,946.64	334,086,912.43		39,091,842.56	317,265,016.51
Provision for impairment of Investment property	17,344,400.27			15,489,388.68	1,855,011.59
Provision for 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

22. Short-term loans

Type	Currency	Ending Balance			Beginning Balance		
		Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Mortgage loans	USD	7,000,000.00	6.2855	43,998,500.00	136,000,000.00	6.3009	856,922,400.00
Unsecured loans	USD	7,000,000.00	6.2855	43,998,500.00	42,715,665.91	6.3009	269,147,139.33
Unsecured loans	EUR	501,442.30	8.3176	4,170,796.47	5,417,368.70	8.1625	44,219,272.02
Total				92,167,796.47			1,170,288,811.35

Mortgage: As at 31 December 2012, the short-term loans of RMB43,998,500.00 are granted with other cash fund of RMB50,680,000.00 of the Group as the pledge.

Interest rate: As at 31 December 2012, the weighted average annual interest rate of the short-term loans is 2.42%. (1 January 2012: 2.12%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Financial liabilities held-for-trading

Items	Ending fair value	Beginning fair value
Financial liabilities at fair market value through profit or loss	223,540.75	1,159,935.94
Total	223,540.75	1,159,935.94

The fair value of the financial liabilities held-for-trading (forward contracts) is determined by banks' public offer and assessment technology.

24. Notes payable

Items	Ending Balance	Beginning Balance
Bank acceptance bill	591,450,235.02	688,987,230.48
Total	591,450,235.02	688,987,230.48

The amount due until next year is RMB591,450,235.02

25. Accounts payable

(1) Category

Items	Ending Balance	Beginning Balance
Product settlement	92,452,583.15	38,936,218.61
Materials purchased	887,154,234.55	1,155,194,676.98
Settlements for projects	188,954,305.01	81,172,861.45
Warranty	76,688,947.17	80,960,975.11
Total	1,245,250,069.88	1,356,264,732.15

(2) Aging analysis

Items	Ending Balance	Beginning Balance
Within 1 year	1,136,232,351.51	1,330,415,145.15
1-2 years	91,610,228.23	18,424,536.20
2-3 years	10,068,525.10	2,218,016.40
Over 3 years	7,338,965.04	5,207,034.40
Total	1,245,250,069.88	1,356,264,732.15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Large-amount Accounts payable aged more than 1 year

Clients	Amount	Nature	Reasons
A Research Institute of China Shipbuilding Industry Corporation	30,770,244.11	Money owed to suppliers	Not settled
China Academy of Sciences, Shenyang Institute of Automation	7,315,000.00	Money owed to suppliers	Not settled
Zhenjiang CSSC equipment Co., Ltd.	4,765,430.00	Money owed to suppliers	Not settled
China Machinery Industry Construction Corporation	4,416,819.98	Money owed to suppliers	Not settled
China Shipbuilding Industry Corporation, Institute B	3,238,500.00	Money owed to suppliers	Not settled

(4) The accounts payable balance details exclude shareholders who hold 5% or more of the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Accounts payable to related parties

Company Name	Ending Balance	Beginning Balance
Guangzhou Shipyard Ltd.	22,709,029.66	4,186,999.16
CSSC Nanjing Oasis Machine Co., Ltd.	11,351,275.01	17,735,275.01
Zhenjiang CSSC equipment Co., Ltd.	9,691,690.00	17,706,430.00
Survey and Design Institute of the China Shipbuilding Co., Ltd.	9,421,113.54	6,013,153.39
Guangzhou Wenchong Shipyard Co., Ltd.	4,831,000.00	
Anqing CSSC Diesel Engine Co., Ltd.	3,900,000.00	
Shipbuilding in South China Marine Machinery Co., Ltd.	3,294,332.89	13,353,140.00
Shanghai Derui Sihua Ships Equipment Co., Ltd.	3,219,175.00	
The Shanghai Haixun Engineering Co., Ltd.	2,442,500.00	3,155,475.00
Eastern Shanghai Heavy Machinery Co., Ltd.	2,002,500.00	1,995,000.00
The Shanghai Shipbuilding Harbor Ship Equipment Co., China Shipbuilding Industry Corporation Ship Systems Engineering Department	1,410,000.00	705,000.00
Guangzhou Shipbuilding Corporation	1,403,292.39	1,866,661.67
Jiujiang China Shipbuilding Changan Fire Equipment Co., Ltd.	1,136,400.00	964,000.00
Jiujiang Haitian Equipment Manufacture Co., Ltd.	1,010,550.00	2,594,515.00
Shipbuilding International Trading Co., Ltd.	970,402.35	192,500.00
Shipbuilding Guijiang Shipbuilding Co., Ltd.	642,500.00	92,500.00
Design and Research Institute of China Shipbuilding and Marine Engineering	578,000.00	7,760,000.00
Shanghai Ship Research and Design Institute	534,000.00	
National Engineering Research Center of Shanghai ship design technology Co., Ltd.	522,000.00	190,000.00
Ninth Design and Research Institute of the China Shipbuilding Co., Ltd.	454,868.00	647,368.00
Xijiang Shipbuilding Co., Ltd.	375,000.00	
China Ship Power Station Equipment Co., Ltd.	331,500.00	
Jiangxi Chaoyang Machinery Factory	198,898.00	3,080.00
The Jiujiang jingda Detection Technology Co., Ltd.	158,400.00	
Shanghai Zhennan Project Management and Consulting Co., Ltd.	151,500.00	
Huahai Shipbuilding Equipment Co., Ltd.	113,625.00	346,375.00
Guangzhou Longxue Pipe Co., Ltd.	111,332.42	
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	100,000.00	100,000.00
The Jiujiang Shipbuilding Fire Equipment Co.	70,150.00	64,900.00
Guangzhou Huangpu Shipbuilding Co., Ltd.	40,000.00	
Eastern Shanghai Shipbuilding Valve Co., Ltd.	9,920.00	
The Shanghai Navigational Equipment Co. Ltd.	5,310.00	
China Shipbuilding Trading Company	-52,941.99	-52,591.08
Anqing Marine Electric Co., Ltd.		68,000.00
Beijing Shipbuilding Information Technology Co., Ltd.		328,000.00
The Shanghai Navigation Instrument Co. Ltd.		39,000.00
Eastern Shanghai Shipbuilding Electric Co., Ltd.		482,000.00
Guangzhou Shipbuilding the Nansha Longxue shipbuilding Co., Ltd.		855,984.26
Total	84,722,822.27	81,392,765.41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(6) Accounts payable with foreign currency balance

Currency	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
USD	879,227.11	6.2855	5,526,382.00			
HKD	665,550.50	0.8109	539,694.90	393,533.69	0.8107	319,037.76
Total			6,066,076.90			319,037.76

26. Advances from customers

(1) Aging analysis

Items	Ending Balance	Beginning Balance
Within 1 year	311,927,527.57	272,195,709.76
Over 1 year	122,683,278.46	69,751,430.28
Total	434,610,806.03	341,947,140.04

(2) Large-amount Advances from customers aged more than 1 year

Clients	Amount	Nature	Reasons
Guangdong Hydropower Second Board Co., Ltd.	77,788,757.81	Engineering projects	Not settled
Qingyuan Storage Power Generation Co., Ltd.	19,880,151.62	Engineering projects	Not settled
Construction Steel Structure Co., Ltd.	15,329,985.82	Engineering projects	Not settled
Sihui Highway Administration	5,140,368.00	Engineering projects	Not settled
Qingdao Haier Special electric freezer Co., Ltd.	3,119,247.86	Engineering projects	Not settled
Total	121,258,511.11		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) *The Advances from customers balance details exclude shareholders who hold 5% or more of the Company's shares.*

(4) *Advances from customers from related parties*

Company Name	Ending Balance	Beginning Balance
Shanghai Ship Research and Design Institute	1,000,000.00	
Beijing Shipbuilding Information Technology Co., Ltd.	202,500.00	
Shipbuilding in South China Marine Machinery Co., Ltd.	148,000.00	37,000.00
CSSC Jiangnan Heavy Industry Co., Ltd.	90,650.00	
Guangzhou Shipyard Ltd.	57,000.00	2,036,581.20
China Shipbuilding Technology Institute of Economic Research	40,000.00	262,000.00
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	10,450.00	10,450.00
Ships and Ocean Engineering Design and Research Institute of Guangzhou	7,500.00	
The Guangzhou Longxue Shipbuilding Co., Ltd.		3,795,340.00
Total	1,556,100.00	6,141,371.20

(5) *Advances from customers with foreign currency balance*

Currency	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
USD	28,923,569.09	6.3908	184,843,695.26	8,639,309.19	6.7878	58,642,079.19
HKD	167,538.81	0.8471	141,918.46	1,012,775.60	0.8141	824,501.89
Total	29,091,107.90		184,985,613.72			59,466,581.08

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Payroll payable

Items	Beginning Balance	Increase	Decrease	Ending Balance
Wages or salaries, bonuses, allowances and subsidies	4,724,959.00	699,327,435.24	703,099,399.09	952,995.15
Staff welfare	5,072,441.30	44,244,272.36	44,244,292.36	5,072,421.30
Social insurance	471,975.55	152,832,926.55	153,304,902.10	
Basic medical insurance (Note 1)	100,312.62	48,386,511.75	48,486,824.37	
Basic pension (Note 2)	149,660.26	87,249,833.41	87,399,493.67	
Unemployment insurance (Note 3)	222,002.67	10,647,146.49	10,869,149.16	
Work-related injury insurance		3,236,766.95	3,236,766.95	
Maternity insurance		3,312,667.95	3,312,667.95	
Supplementary medical insurance				
Corporate annuity (Note 4)	1,553,863.11	19,821,625.19	19,673,550.61	1,701,937.69
Housing fund (Note 5)	316,094.00	72,122,410.84	72,112,480.84	326,024.00
Union & Education funds	6,331,047.33	14,601,602.00	10,640,689.69	10,291,959.64
Non-monetary benefits				
Severance benefits	1,094,141.39	1,502,303.87	1,807,892.58	788,552.68
Settlement for labor contract dissolution (Note 6)	1,094,141.39	1,502,303.87	1,807,892.58	788,552.68
Outsourcing labour costs and others		552,035,195.65	552,035,195.65	
Share-based payment in cash				
Total	19,564,521.68	1,556,487,771.70	1,556,918,402.92	19,133,890.46

As stipulated by the relevant regulations of the PRC government, the Company and its local subsidiaries had provided existing and upon retiring employees with Basic medical insurance, Basic pension, Unemployment insurance, Work-related injury insurance, Maternity insurance, Supplementary medical insurance, Corporate annuity, Housing fund, etc. Other than those disclosed employee benefit plans, 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: 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: 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: Corporate 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 Group, which was reported to and reviewed by the Guangdong Provincial Labor and Social Security Department. The Group had established the Annuity Council, which is 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 fund: The Company and its local subsidiaries were required to pay housing allowance, based on 12% of total staff salary.

Note 6: Settlement for labor contract dissolution: 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 for termination of labour and compensation can not be accounted into the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Taxes payable

Items	Ending Balance	Beginning Balance
Value-Added Tax	24,331,012.14	-77,996,141.77
Business Tax	385,774.93	882,439.37
Corporate Income Tax	24,751,773.08	111,945,633.31
Individual Income Tax	7,135,644.42	7,603,954.27
City Maintenance and Construction Tax	9,490,735.82	642,928.41
Real Estate Tax	2,415,372.23	774,110.48
Land Appreciation Tax	280,593.80	273,550.80
Education Surcharge	6,783,612.42	490,777.62
Flood control and maintain expenses	2,699,866.82	3,489,522.00
Total	78,274,385.66	48,106,774.49

29. Interest payable

Items	Ending Balance	Beginning Balance
Long-term loans with instalment interest and principal return	13,681,940.14	13,410,394.12
Short-term loans	75,286.34	10,182,712.48
Total	13,757,226.48	23,593,106.60

Interest payable with foreign currency balance

Currency	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
USD	2,042,885.67	6.2855	12,840,557.88	3,362,712.47	6.3009	21,188,115.00
Total	2,042,885.67	6.2855	12,840,557.88	3,362,712.47	6.3009	21,188,115.00

30. Dividend payable

Company Name	Ending Balance	Beginning Balance	Reasons for unsettlement over 1 year
A stock	59,118.75	59,118.75	In progress of confirming rights of individual dividend payable
H stock	98,794.23	98,794.23	In progress of confirming rights of individual dividend payable
Total	157,912.98	157,912.98	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. Other payables

(1) Aging analysis

Items	Ending Balance	Beginning Balance
Within 1 year	17,121,646.63	16,080,755.24
1-2 years	879,993.95	1,794,621.02
2-3 years	238,480.28	1,376,178.33
Over 3 years	8,823,166.62	8,039,172.42
Total	27,063,287.48	27,290,727.01

(2) Large-amount Other payables aged more than 1 year

Client	Amount	Nature
Supplementary pension	3,251,393.73	Supplementary pension
Wuhan Yinhu golf membership	1,210,000.00	Golf membership down payment
Retiring medical insurance	860,229.85	Retiring medical insurance
Hualian Ship Co., Ltd. in Hong Kong	469,396.39	Advanced payment
Total	5,791,019.97	

(3) The Other payables balance details exclude shareholders who hold 5% or more of the Company's shares.

(4) Large-amount Other payables

Items	Amount	Aging	Nature
Employee aid fund for purchasing house	7,890,210.00	0-2 years	Employee aid fund for purchasing house
Wu Han Yinhu Golf club membership	1,210,000.00	Over 3 years	membership due
Foshan Wei Xing Investment Development Co., Ltd.	1,088,000.00	Within 1 year	Rent
Guangxi zongjian building equipment Co., Ltd	965,500.00	Within 1 year	Advances
Retiring medical insurance	860,229.85	Over 3 years	Retiring medical insurance
Total	12,013,939.85		

32. Non-current liabilities due within one year

Items	Ending Balance	Beginning Balance
Non-current liabilities due within one year	1,057,958,531.65	593,796,816.00
Total	1,057,958,531.65	593,796,816.00

See Note V.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Other current liabilities

Items	Ending Balance	Beginning Balance
Long-term project settlement		
Shipbuilding products	1,342,923,102.78	2,034,909,482.66
Deferred income		
Metering scientific instruments for the Group	9,999.96	
Infrastructure construction projects	1,229,502.14	1,231,074.60
150tons self-propelled hydraulic flatbed (Revamp fund)	166,666.68	166,666.68
Technological transformation potential fund-4000tons ship to develop new equipment and technological transformation	142,191.84	142,191.84
Dock adaptive transformation	26,666.64	26,666.64
Noise control engineering for painting workshop	15,789.48	15,789.48
Coating technology and transformation (coating workshop building)	154,313.95	153,698.64
Noise control engineering for new area	10,799.94	7,599.96
Transferring capabilities of regional value integration and upgrading technologies	54,186.78	58,438.11
Innovative capacity-building projects of the Enterprise Technology Centre	300,000.00	300,000.00
Dock adaptive transformation (1)	33,333.36	33,333.36
Initial investment for Zhongshan projects	62,182.78	
Total	1,345,128,736.33	2,037,044,941.97

34. Long-term loans

(1) Category

Classification	Ending Balance	Beginning Balance
Mortgage loans	1,871,591,867.49	1,675,187,166.04
Unsecured loans	600,000,000.00	
Less: Due within 1 year	1,057,958,531.65	593,796,816.00
Total	1,413,633,335.84	1,081,390,350.04

Mortgage: As at 31 December 2012, the long-term loans of RMB1,871,591,867.49 are granted with other monetary funds of RMB2,298,392,150.00 of the Group as the pledge.

Interest rate: As at 31 December 2012, the weighted average annual interest rate of the long-term loans is 3.55%. (1 January 2012: 3.08%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Long-term loans due date

Items	Ending Balance	Beginning Balance
Within 1 year	1,057,958,531.65	593,796,816.00
1-2 years	813,633,335.84	1,081,390,350.04
2-7 years	600,000,000.00	
Total	2,471,591,867.49	1,675,187,166.04

(3) Top 5 clients

Company Name	Start date	Ending date	Currency	%	Ending Balance		Beginning Balance	
					Foreign currency	Functional currency	Foreign currency	Functional currency
Finance Co., CSSC	2012.7.18	2019.7.15	RMB	5.00		600,000,000.00	760,000,000	480,692,400
Bank of Communications Guangzhou Zhuhai Branch	2011.12.30	2013.12.30	USD	3.80	10,000,000.00	68,225,000.00	51,366,557.24	324,888,337.89
	2012.1.31	2014.1.31	USD	3.80	20,000,000.00	136,450,000.00		
	2012.4.25	2014.4.24	USD	3.45	10,000,000.00	68,225,000.00		
	2012.5.17	2014.5.17	USD	3.45	36,000,000.00	245,610,000.00		
JP Morgan Chase Bank Guangzhou Branch	2011.8.19	2013.8.16	USD	3.37	49,777,900.83	312,878,995.67	43,304,476.14	273,896,481.14
Citibank (China) Co., Ltd. Guangzhou Branch	2011.10.11	2013.10.11	USD	4.04675	10,072,224.42	63,308,966.59	31,446,080.00	198,893,311.39
	2011.10.11	2013.10.11	USD	4.04675	20,025,000.00	125,867,137.50		
	2011.10.20	2013.10.21	USD	4.01875	9,665,681.11	60,753,638.62		
	2011.10.27	2013.10.28	USD	4.01325	2,042,500.00	12,838,133.75		
	2011.11.28	2013.11.28	USD	4.1906	1,434,016.31	9,013,509.52		
Shanghai Pudong Development Bank Guangzhou Branch	2012.05.23	2014.5.23	USD	3.50	31,446,080.00	197,654,335.84		

(4) Long-term loans with foreign currency balance

Currency	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
USD	297,763,402.67	6.2855	1,871,591,867.49	265,864,744.09	6.3009	1,675,187,166.04
Total	297,763,402.67	6.2855	1,871,591,867.49	265,864,744.09	6.3009	1,675,187,166.04

35. Special payable

Items	Beginning Balance	Increase	Decrease	Ending Balance	Note
High-speed rolling passenger ships technological transformation projects	6,720,000.00			6,720,000.00	Ship fiscal [2001] NO.13
18000tons Semi-submersible	17,850,000.00			17,850,000.00	Boatman account [2002] NO.350
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Estimated liabilities

Items	Beginning Balance	Increase	Decrease	Ending Balance
Product quality warranties	134,999,283.58	-10,141,431.40	18,698,897.80	106,158,954.38
Unpaid retiree housing subsidy	52,080,886.57	2,329,466.00	2,004,462.93	52,405,889.64
Onerous contract	8,075,753.56	1,091,016.78	-160,978.07	9,327,748.41
Total	195,155,923.71	-6,720,948.62	20,542,382.66	167,892,592.43

37. Other non-current liabilities

(1) Category

Items	Ending Balance	Beginning Balance
Enterprise Technology Center innovative capacity-building projects	1,800,000.00	2,100,000.00
Special funds for innovative enterprises	1,589,725.06	3,000,000.00
Integrated ship building project	18,943,083.81	20,171,013.49
Technological transformation potential fund-4000tons ship to develop new equipment and technological transformation	1,137,534.00	1,279,725.84
Dock adaptive transformation	613,333.52	640,000.16
Dock adaptive transformation (1)	766,666.48	799,999.84
Coating technology and transformation (coating workshop building)	1,254,590.13	1,409,519.39
Noise control engineering for painting workshop	205,263.12	221,052.60
Noise control engineering for new area	203,733.50	166,533.44
Transferring capabilities of regional value integration and upgrading technologies	109,854.93	164,041.71
Upfront fees for comprehensive technology upgrading	35,000,000.00	10,000,000.00
150tons self-propelled hydraulic flatbed	1,374,999.95	1,541,666.63
Enterprise Technology Center innovative capacity-building projects	1,800,000.00	2,100,000.00
Special funds for innovative enterprises	1,589,725.06	3,000,000.00
Upfront fees for infrastructure development of the quality Department metering station	4,368,270.37	2,000,000.00
Upfront fees for infrastructure development of Zhongshan Torch development area	1,872,031.69	1,951,397.25
Metering scientific instruments for the Group	42,500.23	62,500.15
2011's Funding for technology research and development for Lizhi area-Engineering Center	500,000.00	500,000.00
Others		199,772.44
Total	69,781,586.79	46,207,222.94

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Government grants

Items	Beginning balance		Ending balance		Expensed	Refund	Reasons
	Other non-current liabilities	Other current liabilities	Other non-current liabilities	Other current liabilities			
Enterprise Technology Center innovative capacity-building projects	2,100,000.00	300,000.00	1,800,000.00	300,000.00	300,000.00		
Special funds for innovative enterprises	3,000,000.00		1,589,725.06		1,410,274.94		
Integrated ship building project	20,171,013.49	1,231,074.60	18,943,083.81	1,229,502.14	1,229,502.14		
Technological transformation potential fund- 4000 tons ship to develop new equipment and technological transformation	1,279,725.84	142,191.84	1,137,534.00	142,191.84	142,191.84		
Dock adaptive transformation	640,000.16	26,666.64	613,333.52	26,666.64	26,666.64		
Dock adaptive transformation (1)	799,999.84	33,333.36	766,666.48	33,333.36	33,333.36		
Coating technology and transformation (coating workshop building)	1,409,519.39	153,698.64	1,254,590.13	154,313.95	154,313.95		
Noise control engineering for painting workshop	221,052.60	15,789.48	205,263.12	15,789.48	15,789.48		
Noise control engineering for new area	166,533.44	7,599.96	203,733.50	10,799.94	10,799.94		
Transferring capabilities of regional value integration and upgrading technologies	164,041.71	58,438.11	109,854.93	54,186.78	54,186.78		
Upfront fees for comprehensive technology upgrading	10,000,000.00		35,000,000.00				
150tons self-propelled hydraulic flatbed	1,541,666.63	166,666.68	1,374,999.95	166,666.68	166,666.68		
Upfront fees for infrastructure development of the quality Department metering station	2,000,000.00		4,368,270.37				
Upfront fees for infrastructure development of Zhongshan Torch development area	1,951,397.25		1,872,031.69	62,182.78	17,182.78		
Metering scientific instruments for the Group	62,500.15		42,500.23	9,999.96	9,999.96		
2011's Funding for technology research and development for Lizhi area-Engineering Center	500,000.00		500,000.00				
Ocean lifeboat supporting frontline motivation and protection training					600,000.00		
50000 ton semi-submersible self-propelled engineering ship's independent research and development					680,000.00		
The ship board processing automatic-molded robot development					200,823.79		
Others	199,772.44				199,772.44		
Total	46,207,222.94	2,135,459.31	69,781,586.79	2,205,633.55	5,251,504.72		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. Share capital

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

Classification	Beginning Balance		Current Year					Ending Balance	
	Amount	%	Insurance	Stock dividends	Changes		Subtotal	Amount	%
					Capitalized reserves	Others			
Unlimited shares									
Ordinary shares	438,463,454.00	68.18						438,463,454.00	68.18
Foreign shares	204,617,400.00	31.82						204,617,400.00	31.82
Subtotal	643,080,854.00	100.00						643,080,854.00	100.00
Total	643,080,854.00	100.00						643,080,854.00	100.00

Classification	Beginning Balance		Last Year					Ending Balance	
	Amount	%	Insurance	Stock dividends	Changes		Subtotal	Amount	%
					Capitalized reserves	Others			
Unlimited shares									
Ordinary shares	337,279,580.00	68.18			101,183,874.00		101,183,874.00	438,463,454.00	68.18
Foreign shares	157,398,000.00	31.82			47,219,400.00		47,219,400.00	204,617,400.00	31.82
Subtotal	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

39. Capital reserves

Items	Current Year			Ending Balance
	Beginning Balance	Increase	Decrease	
Share capital surplus	502,982,007.95			502,982,007.95
Other capital reserves	145,971,353.78	27,188,424.69	7,870.15	173,151,908.32
Total	648,953,361.73	27,188,424.69	7,870.15	676,133,916.27

Items	Last Year			Ending Balance
	Beginning Balance	Increase	Decrease	
Share capital premium	651,385,281.95		148,403,274.00	502,982,007.95
Other capital reserves	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. Special reserves

Items	Beginning Balance	Increase	Decrease	Ending Balance
Safe production fees		25,243,913.96	25,243,913.96	
Total		25,243,913.96	25,243,913.96	

41. Surplus reserves

Items	Current Year			Ending Balance
	Beginning Balance	Increase	Decrease	
Statutory surplus reserves	407,404,508.75	5,716,297.59		413,120,806.34
Discretionary surplus reserves	18,926,387.43			18,926,387.43
Total	426,330,896.18	5,716,297.59		432,047,193.77

Items	Last Year			Ending Balance
	Beginning Balance	Increase	Decrease	
Statutory surplus reserves	358,308,326.97	49,096,181.78		407,404,508.75
Discretionary surplus reserves	18,926,387.43			18,926,387.43
Total	377,234,714.40	49,096,181.78		426,330,896.18

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. Undistributed profits

Items	Current Year	Last Year	Appropriation %
Ending Balance of Last Year	2,389,241,266.41	1,969,471,836.12	
Add: Beginning undistributed profits adjustment			
Changes in accounting policies			
Corrections of Prior Period Errors			
Change of consolidation scope under common control			
Other adjustments			
Beginning Balance of Current Year	2,389,241,266.41	1,969,471,836.12	
Add: Net profit attributable to Parent Company	10,327,540.44	518,333,370.07	
Less: Provision of statutory surplus reserve	5,716,297.59	49,096,181.78	10% of Parent Company's net profit
Provision of statutory surplus reserve			
Provision of general risk reserve			
Ordinary share dividend payable		49,467,758.00	
Capitalized ordinary share dividend			
Ending Balance of Current Year	2,393,852,509.26	2,389,241,266.41	

Authorized by the Board of Directors on 26 March 2013, the Company, based on the total 643,080,854 shares, issued cash dividend of RMB1.20 (including tax) for every 10 shares to all shareholders, to a total amount of RMB77,169,702.48. If the net profit for 2012 is not enough to issue dividends, the balance would be supplemented by accumulated undistributed profits.

As at 31 December 2012, the Undistributed profits attributable to the Parent Company consists of Surplus reserves of RMB16,013,138.24 from the subsidiaries (Beginning of the year: RMB14,547,581.79), among which the Surplus reserve attributable to the Parent Company from the subsidiaries is RMB1,465,556.40. (Last Year: RMB1,029,378.69)

43. Minority shareholder's equity

Minority shareholder's equity attributable to each minority shareholder

Subsidiary	Holding rights %	Ending Balance	Beginning Balance
Guangzhou Yonglian Steel Structure Co., Ltd.	49	87,179,555.4800	80,562,329.57
Guangzhou Hongfan Technology Co., Ltd.	49	10,645,609.1800	8,977,610.04
Fanguang Development Co., Ltd.	30	3,636,479.6300	3,627,904.13
Total		101,461,644.2900	93,167,843.74

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

44. Net current assets

Items	Ending Balance	Beginning Balance
Current assets	8,344,818,915.44	9,566,613,909.06
Less: Current liabilities	4,905,176,419.19	6,308,202,650.69
Net current assets	3,439,642,496.25	3,258,411,258.37

45. Total assets less current liabilities

Items	Ending Balance	Beginning Balance
Total assets	10,862,086,077.54	11,885,509,370.27
Less: current liabilities	4,905,176,419.19	6,308,202,650.69
Total assets less current liabilities	5,956,909,658.35	5,577,306,719.58

46. Loans

Detailed information:

Items	Ending Balance	Beginning Balance
Short-term loans	92,167,796.47	1,170,288,811.35
Long-term loans	2,471,591,867.49	1,675,187,166.04
Total	2,563,759,663.96	2,845,475,977.39

(1) Brief analysis

Items	Ending Balance	Beginning Balance
Bank loans	2,563,759,663.96	2,845,475,977.39
– Due within 5 years	1,963,759,663.96	2,845,475,977.39
– Due after 5 years	600,000,000.00	
Subtotal	2,563,759,663.96	2,845,475,977.39
Other loans and payables		
Total	2,563,759,663.96	2,845,475,977.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Due date analysis

Items	Ending Balance	Beginning Balance
Pay back as required or within 1 year	1,057,958,531.65	593,796,816.00
1-2 years	905,801,132.31	2,251,679,161.39
2-5 years		
Over 5 years	600,000,000.00	
Total	2,563,759,663.96	2,845,475,977.39

47. Operating income & Operating cost

Items	Current Year	Last Year
Main business income	6,343,891,134.59	8,141,361,727.70
Other business income	80,192,229.42	155,069,620.14
Total	6,424,083,364.01	8,296,431,347.84
Main business cost	5,904,294,498.50	7,234,556,518.33
Other business cost	66,561,023.63	135,163,483.52
Total	5,970,855,522.13	7,369,720,001.85

(1) Gross margin

Items	Current Year	Last Year
Main business income	6,343,891,134.59	8,141,361,727.70
Main business cost	5,904,294,498.50	7,234,556,518.33
Gross margin	439,596,636.09	906,805,209.37

(2) Main business income – classified by products

Items	Current Year		Last Year	
	Main business income	Main business cost	Main business income	Main business cost
Shipbuilding products	5,267,831,171.79	4,944,458,380.90	7,225,493,551.62	6,479,334,758.32
Steel Structure Engineering	516,311,292.13	470,741,243.97	428,841,820.96	393,130,822.96
Mechanical and electrical products and others	559,748,670.67	489,094,873.63	487,026,355.12	362,090,937.05
Total	6,343,891,134.59	5,904,294,498.50	8,141,361,727.70	7,234,556,518.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Main business income – classified by regions

Region	Current Year		Last Year	
	Main business income	Main business cost	Main business income	Main business cost
Netherlands	697,395,069.40	581,518,037.73	727,783,083.38	680,661,903.82
Greece	449,617,229.92	408,190,424.47	364,385,336.72	299,415,049.97
Denmark	541,405,717.48	464,899,406.65	2,462,852,434.44	2,089,850,588.30
Malta	128,210,255.04	101,545,679.58	184,559,546.96	152,020,229.96
Sweden	266,824,293.40	253,978,931.41	92,113,557.89	92,113,557.89
Columbia	115,407,141.45	97,865,493.39	199,285,313.81	178,892,963.78
America	50,695,105.77	43,790,191.35	4,689,609.71	3,807,810.50
Canada	98,415,713.23	89,879,279.33	8,964,524.47	8,511,994.67
Thailand	22,338,172.30	22,264,349.68		
Australia	244,045,152.52	233,487,110.37	57,205,238.65	47,070,816.68
Hong Kong	134,229,572.54	109,698,943.38	375,086,912.20	328,758,071.16
Other countries and regions	31,839,211.39	27,626,694.18	26,716,229.26	26,907,459.77
China	3,563,468,500.15	3,469,549,956.98	3,637,719,940.21	3,326,546,071.83
Total	6,343,891,134.59	5,904,294,498.50	8,141,361,727.70	7,234,556,518.33

(4) Other business income & Other business cost

Items	Current Year		Last Year	
	Other business income	Other business cost	Other business income	Other business cost
Sales of materials	5,641,383.47	4,173,717.52	14,870,396.18	12,423,956.61
Sales of scrap materials	11,167,543.89	20,275,361.61	37,954,201.92	36,109,950.29
Service income	24,627,178.63	9,306,568.04	64,445,534.45	52,138,055.85
Rental income	11,967,721.48	3,731,415.62	11,111,744.54	3,616,894.14
Energy income	26,788,401.95	29,073,960.84	26,687,743.05	30,874,626.63
Total	80,192,229.42	66,561,023.63	155,069,620.14	135,163,483.52

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Contract revenue

Items	Total amount	Accumulated cost	Accumulated gross margin	Amounts settled
Fixed price contract				
39000 series (tankers for product oil/chemicals)	672,138,340.02	680,142,320.50	-19,558,230.21	672,138,340.02
50500 series (tanks for product oil/chemicals)	2,168,769,553.07	1,177,291,683.86	193,022,805.00	1,469,547,904.57
Ro-ro passenger ship series	1,258,059,529.90	787,002,806.30	251,056,723.60	1,148,059,529.90
52300 series (tankers for product oil/chemicals)	1,514,383,017.03	1,276,092,514.52	178,924,377.77	1,421,395,017.07
37500 series (tankers for product oil/chemicals)	923,224,449.00	126,059,817.72		288,184,448.67
Special ships	4,395,480,000.00	1,797,423,439.24	181,836,673.11	2,598,700,000.00
50000 series (semi-submerged ships)	2,225,917,975.38	1,338,079,739.48	162,998,211.23	1,543,627,975.38
48000 series (tankers for crude oil/chemicals)	2,195,445,966.96	2,230,527,640.92	-398,674,060.95	2,070,094,933.45
50000 series (bulk carrier)	770,000,000.00	595,817,505.45	-67,458,638.96	616,000,000.00
6000 tankers for product oil	65,000,000.00	90,176,871.23	-44,841,171.53	52,000,000.00
308000 series (tankers for crude oil)	1,064,564,800.00			106,334,800.00
50000 series (tankers for product oil/chemicals)	1,334,636,520.00	3,161,633.09		133,730,520.00
40000 series (tankers for product oil/chemicals)	341,244,090.00	3,149,594.58		102,663,088.00
Total	18,928,864,241.36	10,104,925,566.89	437,306,689.06	12,222,476,557.06

Because the declining trend of the ship's price, the estimated total revenue of contracts decrease affected by the appreciation of the RMB against the U.S. dollar; as well as changes of demand-supply relationship in the shipbuilding market higher the construction standard, so that the estimated total cost of contracts increases; the estimated total cost of the Group's ship contracts exceeds the estimated total revenue, resulting in an estimated loss. The estimated loss for contracts for current year is RMB415,337,568.13. (Last year: RMB323,166,889.63)

- (6) The total sales revenue for current year from top 5 clients is RMB3,233,483,013.62, accounting for 50.33% of total sales revenue for the whole year. (Last year: RMB3,475,218,040.66, 41.89%)

Company Name	Operating income	%
China Shipping Development Co., Ltd.	1,185,649,582.16	18.46
Netherlands-FAIRSTAR HEAVY TRANSPORT	697,395,069.40	10.86
Denmark-LAURITAEN TARKERS A/S	493,965,011.19	7.69
Shenzhen Ocean Shipping Co., Ltd.	460,152,409.73	7.16
Greece-Tomasos Brothers Ins	396,320,941.14	6.17
Total	3,233,483,013.62	50.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

48. Business tax and surcharges

Items	Current Year	Last Year	Tax Base
Business Tax	4,415,027.75	5,591,116.32	Service revenue
City Maintenance and Construction Tax	13,356,642.38	24,977,977.04	Turnover tax payable
Education Surcharge	9,585,850.06	17,865,883.93	Turnover tax payable
Total	27,357,520.19	48,434,977.29	

49. Selling expenses

Items	Current Year	Last Year
Ship maintenance fee	-8,891,131.40	12,446,100.27
Salary	4,183,028.27	4,483,724.73
Business expenditure	4,367,331.68	3,898,866.11
Advertisement	694,799.04	816,955.93
Exhibition	498,035.45	584,497.22
Consignment fee		2,070,900.00
Other selling expenses	2,889,419.52	1,523,633.53
Total	3,741,482.56	25,824,677.79

50. Administrative expense

Items	Current Year	Last Year
Entertainment	5,924,396.73	5,999,674.07
Research and development fee	82,085,610.39	96,871,378.59
Salaries	153,253,106.26	135,471,721.46
Repairing expenses	55,518,721.85	73,745,509.05
Taxation	19,851,370.94	16,367,680.18
Depreciation	14,242,631.48	13,576,244.12
Amortisation of intangible assets	11,627,541.82	6,365,771.71
Rental expense	3,643,656.83	3,951,054.05
Agency fee	4,937,868.00	3,454,466.19
Insurance expense	935,023.42	1,055,992.62
Board meeting fee	5,411,806.68	5,651,494.08
Water supply and electricity expense	3,984,986.13	3,737,073.41
Travelling expense	4,686,773.97	5,369,064.88
Security expense	3,291,073.57	2,942,976.90
Office supply	2,753,088.56	2,698,870.39
Labour training	2,200,000.00	2,012,400.00
Environmental protection fee	2,288,853.69	1,847,479.00
Construction cost		10,130,661.69
Others	14,367,837.68	11,669,313.62
Total	391,004,348.00	402,918,826.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. Finance costs

(1) Finance costs category

Items	Current Year	Last Year
Interest expenditure	93,119,670.46	70,231,901.86
Less: Interest income	200,229,551.05	188,130,858.46
Add Exchange loss	1,635,708.65	-123,460,307.38
Add: Other expenditure	4,193,023.71	2,793,977.80
Total	-101,281,148.23	-238,565,286.18

(2) Interest expenditure category

Items	Current Year	Last Year
Bank loan interest	93,119,670.46	70,231,901.86
Other interest due within 5 years		
Other interest due after 5 years		
Subtotal	93,119,670.46	70,231,901.86
Less: Capitalized interest		
Total	93,119,670.46	70,231,901.86

(3) Interest income category

Items	Current Year	Last Year
Interest income from bank deposit	200,229,551.05	188,130,858.46
Total	200,229,551.05	188,130,858.46

52. Loss from asset devaluation

Items	Current Year	Last Year
Bad debts	-1,681,008.05	4,383,552.46
Loss from inventory devaluation	413,231,639.71	334,086,912.43
Fixed assets impairment		2,941,797.71
Total	411,550,631.66	341,412,262.60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53. Gain or loss on changes in fair value

Items	Current Year	Last Year
Financial assets held-for-trading	2,632,508.21	-998,128.53
From: Derivative financial instruments	2,632,508.21	-998,128.53
Financial liabilities held-for-trading	936,395.19	-1,159,935.94
From: Derivative financial instruments	936,395.19	-1,159,935.94
Total	3,568,903.40	-2,158,064.47

54. Realized gain on investments

(1) Source of Realized gain on investments

Items	Current Year	Last Year
Realized gain on Long-term equity investment, equity method	2,996,833.16	4,202,145.78
Realized gain on Long-term equity investment, cost method	80,838.00	
Realized gain on holding Financial assets available-for-sale	7,411,213.00	5,488,218.50
Realized gain on disposal of Financial assets available-for-sale	59,259.00	
Realized gain on disposal of Long-term equity investment		7,330.90
Realized gain on disposal of Financial assets held-for-trading	23,741,670.65	36,927,579.42
Realized gain on disposal of Financial liabilities held-for-trading	-582,971.01	2,613,291.01
Total	33,706,842.80	49,238,565.61

The Realized gain on investments for current year, through listed companies and non-listed companies is RMB7,411,213.00 and RMB26,295,629.80 respectively.

There's no significant limit on Realized gain on investments remittance.

(2) Realized gain on Long-term equity investments, equity method

Items	Current Year	Last Year	Reasons for changes
Total	2,996,833.16	4,202,145.78	
Zhenjiang Shipyard modern power generation equipment Co., Ltd.	2,227,730.52	3,726,796.49	Decrease in investee's profit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55. Non-operating income

(1) Non-operating income category

Items	Current Year	Last Year
Gain on disposal of non-current assets	3,318,380.28	476,579.83
Gain on disposal of Fixed assets	3,318,380.28	476,579.83
Government grants	259,655,559.05	133,963,244.06
Penalty income	133,545.00	247,640.00
Compensation income	7,130,606.53	78,329,819.98
Others	1,649,064.15	1,740,900.33
Total	271,887,155.01	214,758,184.20

The non-operating gains or losses for current year are RMB31,237,526.13. (Last year: RMB131,537,854.32)

(2) Government grants category

Items	Current Year	Last Year	Note
Product subsidy	240,649,628.88	83,220,329.88	
New product subsidy	2,891,098.73	26,849,162.63	
Finance subsidy	11,347,298.56	11,836,325.74	
Finance discount	4,052,030.00	9,456,000.00	
Rebate from sale of self-produced software	715,502.88	2,601,425.81	
Total	259,655,559.05	133,963,244.06	

56. Non-operating expense

Items	Current Year	Last Year
Loss on disposal of non-current assets	441,335.15	402,905.69
Loss on disposal of fixed assets	441,335.15	402,905.69
Donation		11,000.00
Penalties	204,781.12	70,106.45
Compensation	1,751,431.35	837,740.53
Others	85,333.12	611,556.01
Total	2,482,880.74	1,933,308.68

The non-operating gains or losses for current year are RMB2,482,880.74. (Last year: RMB1,933,308.68)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

57. Income tax expenses

(1) Income tax expenses

Items	Current Year	Last Year
Current income tax expenses	29,468,224.86	131,014,496.25
China	28,992,658.30	129,801,171.51
Hong Kong	475,566.56	1,213,324.74
Deferred income tax expenses	-20,554,537.68	-47,011,805.39
Total	8,913,687.18	84,002,690.86

(2) Current income tax

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

Items	Current Year	Last Year
Total profit (Consolidated Income Statement)	27,535,028.17	606,591,265.14
Add: Offset in the consolidated financial statements	10,083,507.24	5,747,938.26
Accounting profit	37,618,535.41	612,339,203.40
Income tax calculated at tax rate of 15% (Last year: 15%)	5,642,780.31	91,850,880.51
Tax-free income effect		
Non-deductible fees effect	26,209,790.29	40,752,119.86
Unrecognised deductible loss and deductible temporary differences effect	-59,451,797.51	-57,028,084.34
Special tax exemption effect	-4,003,879.51	-4,012,925.50
Different tax rates effect	-147,192.51	2,489,464.87
Utilization of unrecognised deductible loss and deductible temporary differences of previous years	40,695,916.67	9,348,680.71
Less than accrued income tax of last year	-31,930.56	602,554.75
Tax rates effect on the beginning balance changes of deferred income tax assets/liabilities		
Total	8,913,687.18	84,002,690.86

58. Audit fees

The audit fees charged in current year is RMB2.18 million. (Last year: 2.2 million)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

59. Earnings per share

Basic earnings per share shall be calculated by profit or loss attributable to ordinary equity holders of the Company (the numerator) divided 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 Company's net profit after adjustment of 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 Company in basic earnings per share; and (2) the weighted average number of shares after conversion of the dilutive potential ordinary shares into ordinary shares

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 previous years are assumed to be converted at the beginning of This Period and the dilutive potential ordinary shares which were converted during This Period are assumed to be converted at the conversion date.

Basic EPS and Diluted EPS are calculated as followed:

Items	No.	Current Year	Last Year
Net profit attributable to shareholders of Parent Company	1	10,327,540.44	518,333,370.07
Non-operating profit and loss attributable to shareholders of Parent Company	2	48,898,099.31	140,749,216.19
Net profit after deducting non-operating profit and loss attributable to shareholders of Parent Company	3=1-2	-38,570,558.87	377,584,153.88
Total number of shares at the beginning of the year	4	643,080,854.00	643,080,854.00
The number of shares increased due to transferring capital reserve into share capital or dividend distribution of shares (I)	5		
The number of shares increased due to issuance of new shares or debt for equity swap (II)	6		
The number of months from next month to the year end regarding the number of shares (II)	7		
The number of shares decreased due to stock repurchase	8		
The number of months from the next month to the year end regarding the decrease of shares	9		
Shares decreased due to share shrinkages	10		
Duration of the period in terms of month	11	12.00	12.00
Weighted average number of ordinary shares issued out	$12=4+5+6 \times 7 \div 11 - 8 \times 9 \div 11 - 10$	643,080,854.00	643,080,854.00
Basic EPS (I)	$13=1 \div 12$	0.02	0.81
Basic EPS (II)	$14=3 \div 12$	-0.06	0.59
Potential diluted interests of ordinary shares recognized as expense	15		
Transfer fee	16		
Income tax rate	17	0.15	0.15
Weighted average amount of ordinary shares increased due to warrant, share options, and convertible bonds, etc.	18		
Diluted EPS (I)	$19=1+(15-16) \times (1-17) \div (12+18)$	0.02	0.81
Diluted EPS (II)	$20=3+(15-16) \times (1-17) \div (12+18)$	-0.06	0.59

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

60. Dividends

As at 31 December 2012, that annual dividends occurred by 31 December 2011 has been announced not to be distributed. (Year 2011: RMB49,467,758.00).

According to the decisions of board of directors stated on 26 March 2013, the Company would distribute dividends totaled RMB77,169,702.48 that occurred for the whole year from 1 January 2012 to 31 December 2012. (12-month period ended on 31 December 2011: None).

61. Other comprehensive income

Items	Current Year	Last Year
Gains and losses from Financial assets available-for-sale	31,977,123.00	-28,563,191.00
Less: Financial assets available-for-sale tax effects	4,796,568.46	-4,284,478.65
Total	27,180,554.54	-24,278,712.35

62. Notes to the Consolidated Cash Flow Statement

(1) Other cash receipts or payments from operating activities, investing activities and financing activities

1) Other cash receipts from operating activities

Items	Current Year	Last Year
Product subsidy	106,096,914.41	257,279,911.92
Infrastructure fund for high-technology research	27,367,270.37	20,070,000.00
Fund for innovation of equipment	18,975,930.17	30,790,000.00
Received from other accounts	74,946,483.91	56,327,087.60
Total	227,386,598.86	364,466,999.52

2) Other cash payments from operating activities

Items	Current Year	Last Year
Administrative expenditure	129,795,458.05	152,761,769.68
Operating expenditure	12,579,608.08	8,894,852.79
Manufacturing overhead	128,813,444.74	81,181,435.51
Non-operating expense		1,933,308.68
Total	271,188,510.87	244,771,366.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3) Other cash receipts from investing activities

Items	Current Year	Last Year
Fixed deposit pledge resolution	2,376,586,415.06	
Interest income from deposit	200,229,551.05	158,948,775.60
Total	2,576,815,966.11	158,948,775.60

4) Other cash payments from investment activities

Items	Current Year	Last Year
Fixed deposit pledge	1,178,901,641.35	1,414,124,301.01
Total	1,178,901,641.35	1,414,124,301.01

5) Other cash payments from financing activities

Items	Current Year	Last Year
Bank charges and others	48,261.30	62,472.85
Total	48,261.30	62,472.85

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Supplemental information for Consolidated Cash Flow Statement

Items	Current Year	Last Year
1. Reconciliation of not profit to cash flows from operating activities		
Net profit	18,621,340.99	522,588,574.28
Add: Provision for impairment	411,550,631.66	341,412,262.60
Fixed assets depreciation	118,233,124.26	110,533,889.58
Oil-and-gas depletion		
Productive biological assets depreciation		
Intangible assets amortization	12,158,395.46	11,469,220.30
Long-term unamortized assets amortization	1,165,288.20	679,751.45
Loss from disposal of Fixed assets, Intangible assets and other long-term assets (gain marked "--")	-2,877,045.13	-73,674.14
Loss from scrapped of Fixed assets		
Loss on changes in fair value (gain marked "--")	-3,568,903.40	2,158,064.47
Finance costs (gain marked "--")	-98,540,472.44	-238,565,286.18
Realized loss on investments (gain marked "--")	-33,706,842.80	-49,238,565.61
Decrease in Deferred tax assets (increase marked "--")	-21,004,994.09	-47,379,876.10
Increase in Deferred tax liabilities (decrease marked "--")	450,456.41	-3,916,407.94
Decrease in Inventories (increase marked "--")	883,848,594.46	141,347,729.76
Decrease in operating receivables (increase marked "--")	-181,071,395.80	-226,703,483.66
Increase in operating payables (decrease marked "--")	-1,252,909,722.60	-1,746,872,174.80
Others		
Net Cash Flow From Operating Activities	-147,651,544.82	-1,182,559,975.99
2. Investing and financing activities that do not involve cash receipts and payments:		
Conversion from debt to capital		
Convertible bonds due within 1 year		
Fixed assets under finance lease		
3. Net changes in cash and cash equivalents		
Ending balance	3,750,208,522.25	2,960,018,580.11
Less: Beginning balance	2,960,018,580.11	5,003,896,203.36
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	790,189,942.14	-2,043,877,623.25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Cash and Cash Equivalents

Items	Current Year	Last Year
Cash	3,750,208,522.25	2,960,018,580.11
Including: Cash	208,049.11	180,003.29
Bank deposit available-for-use	3,749,900,162.61	2,959,763,035.30
Other cash fund available-for-use	100,310.53	75,541.52
Deposits in central bank available-for-use		
Deposits in other banks		
Replacement in other banks		
Cash Equivalents		
Including: Bond investment due within 3 months		
Ending Balance of Cash and Cash Equivalents	3,750,208,522.25	2,960,018,580.11
Including: Restricted Cash and Cash Equivalents available-for-use to Parent Company or Subsidiaries		

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related party relationships

(1) Controlling shareholder and the ultimate controller

Company name	Nature	Registration place	Business type	Legal representative	Organization code
China state shipbuilding corporation	State-owned business	Shanghai	Shipbuilding	Hu Wenming	710924478

Change of capital

Controlling shareholder	Beginning Balance ('000,000)	Increase	Decrease	Ending Balance ('000,000)
China state shipbuilding corporation	6,374.3			6,374.3

Change of holding shares or equity

Controlling shareholder	Holding amounts		Holding rights %	
	Ending Balance	Beginning Balance	Ending Balance	Beginning Balance
China state shipbuilding corporation	252,610,380.00	252,610,380.00	35.71	35.71

(2) Joint ventures and associates

See Note V.12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Other related parties

Type	Company name	Business type	Organization code
Under common control of the controlling shareholder and the ultimate controller			
	Anqing CSSC Diesel Engine Co., Ltd.	Purchasing goods and services	151306277
	Guangzhou Wenchong Shipyard Co., Ltd.	Selling goods and rendering services	190500830
	Guangzhou Shipyard Ltd.	Purchasing goods and services, Selling goods and rendering services	190440532
	Guangzhou Huangpu Shipbuilding Co., Ltd.	Purchasing goods and services, Selling goods and rendering services	190500419
	Shipbuilding in South China Marine Machinery Co., Ltd.	Purchasing goods and services, Selling goods and rendering services	199124798
	Jiangxi Chaoyang Machinery Factory	Purchasing goods and services	158261489
	Jiangxi Marine Valve Factory	Purchasing goods and services	158261171
	The Jiujiang Shipbuilding Fire Equipment Co.	Purchasing goods and services	769750177
	CSSC Nanjing Oasis Machine Co., Ltd.	Purchasing goods and services	134905382
	The Shanghai Navigation Instrument Co. Ltd.	Purchasing goods and services	767236625
	Zhenjiang CSSC equipment Co., Ltd.	Purchasing goods and services	731778430
	9th Design and Research Institute of the China Shipbuilding	Purchasing goods and services	425014619
	China Shipbuilding Trading Company	Purchasing goods and services	100001027
	Design and Research Institute of China Shipbuilding and Marine Engineering	Purchasing goods and services	425007603
	Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	Purchasing goods and services	759441020
	Eastern Shanghai Zhonghua Shipbuilding (Group) Co., Ltd.	Purchasing goods and services	70326335X
	The Guangzhou Longxue Shipbuilding Co., Ltd.	Purchasing goods and services, Selling goods and rendering services	788925331
	China Shipbuilding Technology Institute of Economic Research	Purchasing goods and services	400000472
	Shipbuilding Guijiang Shipbuilding Co., Ltd.	Purchasing goods and services, Selling goods and rendering services	199125619
	Jiujiang Haitian Equipment Manufacture Co., Ltd.	Purchasing goods and services	769756704
	Shipbuilding International Trading Co., Ltd.	Purchasing goods and services	703424416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Type	Company name	Business type	Organization code
Under common control of the controlling shareholder and the ultimate controller			
	Ships and Ocean Engineering Design and Research Institute of Guangzhou	Selling goods and rendering services	717806431
	Shanghai Waigaoqiao Shipbuilding Co., Ltd.	Selling goods and rendering services	631423632
	Hualian Ship Co., Ltd.	Purchasing goods and services	Overseas
	Guangzhou Shipbuilding Corporation	Purchasing goods and services	190506722
	Shanghai Shipbuilding Corporation	Purchasing goods and services	132204830
	CSSC Guangzhou Marine Diesel Engine Co., Ltd.	Purchasing goods and services	683265787
	Shanghai Ship Research and Design Institute	Purchasing goods and services	717810086
	China Shipbuilding Industry Corporation Ship Systems Engineering Department	Purchasing goods and services	400000675
	Huahai Marine cargo access equipment company	Purchasing goods and services	132203280
	Survey and Design Institute of the China Shipbuilding Co., Ltd.	Purchasing goods and services	132943529
	Finance Co., CSSC	Selling goods and rendering services	100027155
	CSSC Jiangnan Heavy Industry Co., Ltd.	Selling goods and rendering services	132283663
	Beijing Shipbuilding Information Technology Co., Ltd.	Selling goods and rendering services	802042333
	CSSC Chengxi Shipbuilding Co., Ltd.	Selling goods and rendering services	142243024
	National Engineering Research Center of Shanghai ship design technology Co., Ltd.	Purchasing goods and services	766907124
	Eastern Shanghai Shipbuilding Electric Co., Ltd.	Purchasing goods and services	780563727
	Shanghai Jiangnan Changxing Shipbuilding Co., Ltd.	Purchasing goods and services	797013289
	China Shipbuilding Industry complete Logistics Co., Ltd. (Guangzhou)	Purchasing goods and services	056586979
	Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	Purchasing goods and services	781228314

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Related party transactions

(1) Consolidated

1) Purchasing goods or services

Company Name	Transactions	Pricing policy	Current Year		Last Year	
			Amount	%	Amount	%
Under common control of the controlling shareholder and the ultimate controller						
Guangzhou Shipyard Ltd.	Marine accessories and Labor technical services	Note	151,000,713.33	2.55	144,229,879.11	2.05
Zhenjiang CSSC equipment Co., Ltd.	Product equipment	Note	72,742,376.07	1.23	94,686,825.01	1.42
CSSC Nanjing Oasis Machine Co., Ltd.	Product equipment	Note	54,661,376.04	0.93	39,211,529.91	0.59
Eastern Shanghai Heavy Machinery Co., Ltd.	Product equipment	Note	40,050,000.00	0.68	16,000,000.00	0.24
China Shipbuilding Industry Corporation Ship Systems Engineering Department	Marine accessories	Note	28,200,000.00	0.48		
Shipbuilding in South China Marine Machinery Co., Ltd.	Marine accessories	Note	24,831,652.04	0.42	30,964,341.87	0.46
Shanghai Ship Research and Design Institute	Labor technical services	Note	15,020,200.00	0.25	7,968,400.00	0.12
The Shipbuilding Industry Complete Logistics Co., Ltd. (Guangzhou)	Purchase materials	Note	12,152,313.71	0.21		
9th Design and Research Institute of the China Shipbuilding	Labor technical services	Note	11,443,034.88	0.19	9,254,500.00	0.14
Anqing CSSC Diesel Engine Co., Ltd.	Product equipment	Note	11,025,641.04	0.19		
Design and Research Institute of China Shipbuilding and Marine Engineering	Marine accessories	Note	9,613,867.93	0.16	32,700,000.00	0.49
Guangzhou Shipbuilding Corporation	Purchase materials	Note	6,836,645.45	0.12	9,247,321.03	0.14
Xijiang Shipbuilding Co., Ltd.	Purchase materials	Note	6,410,256.40	0.11		
Guangzhou Wenchong Shipyard Co., Ltd.	Purchase materials	Note	6,253,008.55	0.11		
Shanghai Derui Sihua Ships Equipment Co., Ltd.	Marine accessories	Note	4,118,952.99	0.07		
Shipbuilding Guijiang Shipbuilding Co., Ltd.	Marine accessories	Note	4,035,897.43	0.07		
The Guangzhou Longxue Shipbuilding Co., Ltd.	Purchase materials and Labor technical services	Note	4,030,813.81	0.07	2,187,052.84	0.03
The Shanghai Lingang ship Equipment Co.,	Labor technical services	Note	3,377,119.72	0.06	495,800.00	0.01
Hualian Ship Co., Ltd.	Purchase materials	Note	2,672,650.14	0.05	1,328,147.66	0.02
Jiujiang China Shipbuilding Changan Fire Equipment Co., Ltd.	Marine accessories	Note	2,604,487.18	0.04	4,994,145.30	0.07
China Ship Power Station Equipment Co., Ltd.	Product equipment	Note	2,085,000.00	0.04	9,124,500.00	0.14
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	Labor technical services	Note	1,741,337.60	0.03		
Jiujiang Haitian Equipment Manufacture Co., Ltd.	Marine accessories	Note	1,088,230.77	0.02	11,150,117.95	0.17
National Engineering Research Center of Shanghai ship design technology Co., Ltd.	Marine accessories	Note	669,230.77	0.01		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company Name	Transactions	Pricing policy	Current Year		Last Year	
			Amount	%	Amount	%
Under common control of the controlling shareholder and the ultimate controller						
Survey and Design Institute of the China Shipbuilding Co., Ltd.	Labor technical services	Note	662,218.86	0.01	35,219,728.70	0.53
China Shipbuilding Technology Institute of Economic Research	Labor technical services	Note	624,981.20	0.01	226,800.00	0.00
Jiangxi Chaoyang Machinery Factory	Marine accessories	Note	396,640.94	0.01		
Guangzhou Huangpu Shipbuilding Co., Ltd.	Labor technical services	Note	202,165.86	0.00	302,668,677.97	4.54
Guangzhou Shipyard Ship Steel Structure Co., Ltd.	Labor technical services	Note	156,584.25	0.00		
The Shanghai Shipbuilding Institute survey Geotechnical Engineering Co., Ltd.	Labor technical services	Note	103,400.00	0.00	277,687.83	0.00
Anqing Marine Electric Co., Ltd.	Purchase materials	Note	61,538.46	0.00	76,239.32	0.00
Huahai Marine cargo access equipment company	Purchase materials	Note	3,200.00	0.00	4,600,000.00	0.07
The Shanghai Navigational Equipment Co. Ltd.	Product equipment	Note			160,000.00	0.00
The Jiujiang Shipbuilding Fire Equipment Co.		Note			1,382,666.00	0.02
Survey and Design Institute of the China Shipbuilding Xiamen Branch	Labor technical services	Note	554,235.75	0.01		
Beijing Shipbuilding Information Technology Co., Ltd.	Purchase materials	Note	170,940.18	0.00		
Joint ventures and associates						
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	Labor technical services	Note	2,285,522.21	0.04	9,522,900.86	0.14
Total			481,886,233.56	8.17	767,677,261.36	11.39

Note: Pricing policy

- Purchase price of electronic appliance, metallic materials and marine complement are based on market price.
- Purchase price of marine equipment, if there are two or more related parties competed as supplier, after consideration of factors such as inventory cycle, quality of products and services of suppliers, are negotiated with basis on market price. If there is only one related party as supplier due to technical specifications or restrictions, the price should be arm's length as that provided by a third independent party.
- 10% increase of labour cost is executed during the peak production period
- Purchase price of cabin-cleaning, ship design and relevant technical services are based on market price.
- Purchase prices of medical care, food and beverage, infant care, training for labours, management fee for residence, etc., are 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, but subject to maximum of adjustment on the annual "price index".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Sell goods or render services

Company name	Related party transactions	Pricing policy	Current Year		Last Year	
			Amount	%	Amount	%
Under common control of the controlling shareholder and the ultimate controller						
The Guangzhou Longxue Shipbuilding Co., Ltd.	Labor technical services	Note	128,436,109.43	2.02	178,051,872.26	2.40
Guangzhou Shipyard Ltd.	Labor technical services	Note	23,320,098.50	0.37	21,592,757.11	0.29
Guangzhou Huangpu Shipbuilding Co., Ltd.	Labor technical services	Note	21,314,078.82	0.34	13,768,734.42	0.19
Guangzhou Wenchong Shipyard Co., Ltd.	Labor technical services and materials	Note	3,234,837.68	0.05	854,936.08	0.01
CSSC Guangzhou Marine Diesel Engine Co., Ltd.	Labor technical services	Note	1,452,310.20	0.02		
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	Labor technical services	Note	1,352,181.64	0.02		
Shipbuilding in South China Marine Machinery Co., Ltd.	Power supply	Note	1,010,702.27	0.02	489,815.40	0.01
Design and Research Institute of China Shipbuilding and Marine Engineering	Labor technical services	Note	228,113.21	0.00		
Beijing Shipbuilding Information Technology Co., Ltd.	材料	Note	175,854.70	0.00	123,076.92	0.00
CSSC Chengxi Shipbuilding Co., Ltd.	Labor technical services	Note	162,393.16	0.00	85,470.09	0.00
Shanghai Waigaoqiao Shipbuilding Co., Ltd.	Labor technical services	Note	150,000.00	0.00	427,350.43	0.01
Xijiang Shipbuilding Co., Ltd.	Labor technical services	Note	102,564.10	0.00		
Ships and Ocean Engineering Design and Research Institute of Guangzhou	Power supply	Note	94,047.15	0.00	161,062.24	0.00
Jiangnan Heavy Industry Co., Ltd.	Labor technical services	Note	92,307.69	0.00	3,681,746.75	0.05
Finance Co., CSSC	Labor technical services	Note	33,018.87	0.00	33,333.33	0.00
Guangzhou yellow boat Marine Engineering Co., Ltd.	材料	Note	21,929.93	0.00		-
Shipbuilding Guijiang Shipbuilding Co., Ltd.	Labor technical services	Note	16,077.26	0.00	28,649.62	0.00
Guangzhou Longxue Pipe Co., Ltd.	Labor technical services	Note	9,140.56	0.00	960,909.98	0.01
Shanghai Derui Sihua Ships Equipment Co., Ltd.	Labor technical services	Note	2,564.10	0.00		
Guangzhou Shipbuilding Corporation	材料	Note	1,196.58	0.00		
Guangzhou Shipyard Human Resources Service Co., Ltd.	Labor technical services	Note	658.12	0.00		
Beijing Haifeng systems engineering technology development company.	Labor technical services	Note			153,846.15	0.00
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	Labor technical services	Note			83,888.89	0.00
Zhenjiang CSSC equipment Co., Ltd.	Labor technical services	Note			2,000.00	0.00
Joint ventures and associates						
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	Labor technical services	Note	182,032.37	0.00	275,797.04	0.00
Total			181,392,216.34	2.84	220,775,246.71	2.97

Note: Pricing policy

- Sale price of electrical and mechanical equipment and metal materials to be based on market price.
- Supply of electricity to be based on cost plus 20% to 25% of administrative expense.
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3) Financial services

(a) Deposits

Company Name	Balance		Interest income		Note
	Ending Balance	Beginning Balance	Current Year	Last Year	
Finance Co., CSSC	599,458,828.86	490,788,535.33	13,938,214.41	8,682,033.04	Deposit

Note: Pricing policies

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.

(b) Loans

Company Name	Balance		Interest income		Note
	Ending Balance	Beginning Balance	Current Year	Last Year	
Finance Co., CSSC	600,000,000.00		13,916,666.66		Loans

Note: The Company has obtained loans of 600 million from Finance Co., CSSC for current year, for a period of 18 July 2012 to 15 July 2019, the interest rate is 5%. Pricing policy: The interest rate is based on the basic interest rate (6.55%) set by People's Bank of China, with some decreasing adjustments.

4) Guarantee by related party

No guarantee was provided by related party for current year.

5) Other related party transactions

Items	Company Name	Current Year	Last Year	Pricing policy
Sales agency fees	China Shipbuilding Trading Co., Ltd.	24,771,298.65	27,773,659.62	Note
Sales agency fees	Shipbuilding International Trading Co., Ltd.	10,785,666.60	10,378,582.28	Note
Purchasing agent fees	Hualian Ship Co., Ltd.	1,587,258.36	3,698,366.52	Note
Purchasing agent fees	China Shipbuilding Trading Co., Ltd.	125,253.80	71,008.67	Note

Note: Pricing policy: the sales agency fees shall not exceed the 1% of pricing basis of contract price; the purchasing agent fees shall range from 1%-2% of the contract price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Parent Company

1) Purchase goods or services

Company Name	Related party transactions	Pricing policy	Current Year		Last Year	
			Amount	%	Amount	%
Under common control of the controlling shareholder and the ultimate controller						
Guangzhou Shipyard Ltd.	Labor technical services	Note	141,370,684.66	2.64	129,043,216.19	1.93
Zhenjiang CSSC equipment Co., Ltd.	Product equipment	Note	72,742,376.07	1.36	94,686,825.01	1.42
CSSC Nanjing Oasis Machine Co., Ltd.	Product equipment	Note	54,661,376.04	1.02	39,211,529.91	0.59
Eastern Shanghai Heavy Machinery Co., Ltd.	Product equipment	Note	40,050,000.00	0.75	16,000,000.00	0.24
China Shipbuilding Industry Corporation Ship Systems Engineering Department	Marine accessories	Note	28,200,000.00	0.53		
Shipbuilding in South China Marine Machinery Co., Ltd.	Marine accessories	Note	21,705,156.30	0.41	30,841,435.89	0.46
Shanghai Ship Research and Design Institute	Labor technical services	Note	15,020,200.00	0.28	7,968,400.00	0.12
The Shipbuilding Industry Complete Logistics Co., Ltd. (Guangzhou)	Purchase materials	Note	12,152,313.71	0.23		
Anqing CSSC Diesel Engine Co., Ltd.	Product equipment	Note	11,025,641.04	0.21		
Design and Research Institute of China Shipbuilding and Marine Engineering	Marine accessories	Note	9,613,867.93	0.18	32,700,000.00	0.49
Guangzhou Shipbuilding Corporation	Purchase materials	Note	6,836,645.45	0.13	9,247,321.03	0.14
Xijiang Shipbuilding Co., Ltd.	Purchase materials	Note	6,410,256.40	0.12		
Guangzhou Wenchong Shipyard Co., Ltd.	Purchase materials	Note	6,253,008.55	0.12		
Shanghai Derui Sihua Ships Equipment Co., Ltd.	Marine accessories	Note	4,118,952.99	0.08		
Shipbuilding Guijiang Shipbuilding Co., Ltd.	Marine accessories	Note	4,035,897.43	0.08		
9th Design and Research Institute of the China Shipbuilding	Labor technical services	Note	3,847,735.86	0.07	247,500.00	0.00
Hualian Ship Co., Ltd.	Purchase materials	Note	2,672,650.14	0.05	1,328,147.66	0.02
The Jiujiang Shipbuilding Fire Equipment Co.	Marine accessories	Note	2,604,487.18	0.05	4,994,145.30	0.07
China Ship Power Station Equipment Co., Ltd.	Product equipment	Note	2,085,000.00	0.04		
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	Labor technical services	Note	1,741,337.60	0.03		
The Guangzhou Longxue Shipbuilding Co., Ltd.	Labor technical services	Note	1,356,687.69	0.03	7,800.00	0.00
The Shanghai Lingang ship Equipment Co.,	Purchase materials	Note	1,258,316.24	0.02		
Jiujiang Haitian Equipment Manufacture Co., Ltd.	Marine accessories	Note	1,088,230.77	0.02	11,150,117.95	0.17
National Engineering Research Center of Shanghai ship design technology Co., Ltd.	Marine accessories	Note	669,230.77	0.01		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company Name	Related party transactions	Pricing policy	Current Year		Last Year	
			Amount	%	Amount	%
Under common control of the controlling shareholder and the ultimate controller						
China Shipbuilding Technology Institute of Economic Research	Labor technical services	Note	624,981.20	0.01	226,800.00	0.00
Survey and Design Institute of the China Shipbuilding Co., Ltd.	Purchase materials	Note	406,603.76	0.01	9,465.00	0.00
Jiangxi Chaoyang Machinery Factory	Marine accessories	Note	396,640.94	0.01		
Guangzhou Huangpu Shipbuilding Co., Ltd.	Purchase materials	Note	202,165.86	0.00	302,668,677.97	4.54
Beijing Shipbuilding Information Technology Co., Ltd.	Purchase materials	Note	170,940.18	0.00		
Guangzhou Shipyard Ship Steel Structure Co., Ltd.	Labor technical services	Note	156,584.25	0.00		
Survey and Design Institute of the China Shipbuilding Xiamen Branch	Purchase materials	Note	86,185.10	0.00		
Anqing Marine Electric Co., Ltd.	Purchase materials	Note	61,538.46	0.00	76,239.32	0.00
Huahai Marine cargo access equipment company	Purchase materials	Note	3,200.00	0.00	4,600,000.00	0.07
Jiujiang Institute of Precision Measurement Technology		Note			1,382,666.00	0.02
Joint ventures and associates						
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	Labor technical services	Note	1,812,159.37	0.03	1,650,000.00	0.02
Total			455,441,051.94	8.52	688,040,287.23	10.30

Note: Pricing policy

- 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 such as inventory cycle, quality of products and services of suppliers, are negotiated with basis on market price. If there is only one related party as supplier due to technical specifications or restrictions, the price should be arm's length as that provided by a third independent party.
- c) 10% increase of labour cost is executed during the peak production period
- d) Purchase price of cabin-cleaning, ship design and relevant technical services are based on market price.
- e) Purchase prices of medical care, food and beverage, infant care, training for labours, management fee for residence, etc., are 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, but subject to maximum of adjustment on the annual "price index".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Sell goods and render services

Company Name	Transactions	Pricing policy	Current Year		Last Year	
			Amount	%	Amount	%
Under common control of the controlling shareholder and the ultimate controller						
The Guangzhou Longxue Shipbuilding Co., Ltd.	Labor technical services	Note	12,836,739.13	0.23	42,819,141.53	0.58
Guangzhou Shipyard Ltd.	Labor technical services	Note	4,734,436.11	0.08	3,392,622.82	0.05
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	Labor technical services	Note	997,739.32	0.02		
Guangzhou Wenchong Shipyard Co., Ltd.	Operating lease	Note	308,610.00	0.01	509,560.00	0.01
CSSC Guangzhou Marine Diesel Engine Co., Ltd.	Labor technical services	Note	200,487.89			
Guangzhou Huangpu Shipbuilding Co., Ltd.	Labor technical services	Note	151,148.85		255,840.00	
Shipbuilding in South China Marine Machinery Co., Ltd.	Labor technical services	Note	92,088.31			
Ships and Ocean Engineering Design and Research Institute of Guangzhou	Power supply	Note	85,910.40		161,062.24	
Shipbuilding Guijiang Shipbuilding Co., Ltd.	Labor technical services	Note	16,077.26		4,718.00	
Shanghai Derui Sihua Ships Equipment Co., Ltd.	Labor technical services	Note	2,564.10			
Jiangnan Heavy Industry Co., Ltd.	Materials	Note			3,615,934.79	0.05
Zhenjiang CSSC equipment Co., Ltd.	Labor technical services	Note			2,000.00	
Joint ventures and associates						
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	Labor technical services	Note	182,032.37		243,220.12	
Total			19,607,833.74	0.34	51,004,099.50	0.69

Note: Pricing policy

- Sale price of electrical and mechanical equipment and metal materials to be based on market price.
- Supply of electricity to be based on cost plus 20% to 25% of administrative expense.
- 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 services

See Note VI.2 (1)/3)

4) Guarantee between related parties

There's no guarantee between related parties occurred current year.

5) Other related party transactions

See Note VI.2 (1)/5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Consolidated and Parent Company

Key management staff

1) Directors and supervisors

Payroll for directors and supervisors for current year

Name	Emoluments	Salaries	Retiring welfare	Total
Directors				
Yu Baoshan	66,667.00	123,937.00	8,100.00	198,704.00
Han Guangde		605,740.00	40,600.00	646,340.00
Chen Ji		612,590.00	40,600.00	653,190.00
Yang Li		592,342.00	40,600.00	632,942.00
Chen Jingqi		671,414.00	40,600.00	712,014.00
Gao Feng	100,000.00			100,000.00
Zhou Dusheng	58,333.00	310,000.00		368,333.00
Wang Jun		321,500.00	29,469.00	350,969.00
Fu Zhengping	100,000.00			100,000.00
Qiu Jiachen	100,000.00			100,000.00
De Lihua	100,000.00			100,000.00
Pan Shaoguo	100,000.00			100,000.00
Ke Wangjun	41,667.00			41,667.00
Pan Zunxian	100,000.00			100,000.00
Supervisors				
Chen Shaolong		490,971.00	40,600.00	531,571.00
Qin Tinggui		517,008.00	40,600.00	557,608.00
Ou Guangquan	200,000.00			200,000.00
Fu Xiaosi	80,000.00			80,000.00
Zhu Zhengfu	80,000.00			80,000.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Payroll for directors and supervisors for last year

Name	Emoluments	Salaries	Retiring welfare	Total
Directors				
Chen Jingqi		894,713.41	35,325.78	930,039.19
Han Guangde		918,189.41	35,325.78	953,515.19
Chen Ji		793,939.41	35,325.78	829,265.19
Zhong Jian		151,775.96	11,036.26	162,812.22
Li Zhushi	100,000.00			100,000.00
Cui Ming	33,333.00			33,333.00
Wang Xiaojun	33,333.00			33,333.00
Li Xinliang	33,333.00			33,333.00
Peng Xiaolei	33,333.00			33,333.00
Yu Baoshan	100,000.00			100,000.00
Pan Zunxian	100,000.00			100,000.00
Fu Zhengping	100,000.00			100,000.00
Ke Wangjun	66,667.00			66,667.00
Gao Feng	66,667.00			66,667.00
Qiu Jiachen	66,667.00			66,667.00
De Lihua	66,667.00			66,667.00
Pan Shaoguo	66,667.00			66,667.00
Supervisors				
Liang Mianhong		151,775.96	11,036.26	162,812.22
Liu Shibo		677,113.41	35,325.78	712,439.19
Chen Shaolong		383,947.41	35,325.78	419,273.19
Qin Tinggui		421,927.41	35,325.78	457,253.19
Wang Shusen	66,667.00			66,667.00
Ye Weiming	26,667.00			26,667.00
Ou Guangquan	133,333.00			133,333.00
Zhu Zhengfu	53,333.00			53,333.00

On 8 June 2012, on the annual meeting of shareholders of 2011, it reached an agreement to approve Mr. Ke Wangjun's resignation, and appointed Mr. Zhou Dusheng as the board member of the 7th Board of Directors. On 23 August 2012, the 11th meeting of the 7th Board of Directors, Mr. Yu Baoshan was elected as the chair of the board. On 19 December 2012, the 1st temporary shareholders' meeting, it reached an agreement to approve Mr. Chen Jingqi's, Mr. Pan Zunxian's resignation, and appointed Mr. Yang Li, Mr. Wang Jun (former company's employees, resigned after appointed as non-executive directors) as the board member of the 7th Board of Directors; approved Mr. Ou Guangquan's resignation, and appoint Mr. Chen Jingqi as the board member of the 7th Board of Supervisors.

No one of the Board of Directors or Board of Supervisors give up any payroll for current year.

There's no motivated monetary funds provided for board members joining or upon-joining the Group, and there's no compensation provided for board members resigning or upon-resigning for giving up the positions.

The payroll for directors and supervisors is determined according to the payroll policy of the Group, and is authorized by the Board's payroll committee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Top 5 staff with highest salaries

The top 5 staff with highest salaries include 3 members of the Board of Directors (last year: 3 members), 1 member of the Board of Supervisors, and the rest is a senior manager (last year: 2 managers). They are listed as followed:

Items	Current Year	Last Year
Salaries and allowances	3,096,743.00	4,200,057.70
Retiring welfare	203,000.00	161,420.25
Total	3,299,743.00	4,361,477.95

There's no motivated monetary funds provided for board members joining or upon-joining the Group, and there's no compensation provided for board members resigning or upon-resigning for giving up the positions.

Highest-paid staff – classified by salaries

Items	Current year	Last year
0-RMB810,900 (0-HKD1,000,000)	3,299,743.00	
RMB810,901-RMB1,216,530 (HKD1,000,001-HKD1,500,000)		4,361,477.95
RMB1,216,531-RMB1,621,800 (HKD1,500,001-HKD2,000,000)		
Total	3,299,743.00	4,361,477.95

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Correspondence account balance between related parties

(1) Consolidated

1) Accounts receivable

Related parties	Ending Balance		Beginning Balance	
	Book value	Bad debt	Book value	Bad debt
The Guangzhou Longxue Shipbuilding Co., Ltd.	40,099,410.51	200,497.05	46,434,213.59	232,171.07
CSSC Jiangnan Heavy Industry Co., Ltd.	17,308,505.47	86,542.53	17,308,505.47	86,542.53
Guangzhou Huangpu Shipbuilding Co., Ltd.	3,629,482.65	18,147.41	1,107,262.23	5,536.31
Guangzhou Shipyard Ltd.	1,976,285.04	9,881.43	1,178,817.20	5,894.09
Guangzhou Wenchong Shipyard Co., Ltd.	1,599,676.51	7,998.38		
CSSC Guangzhou Marine Diesel Engine Co., Ltd.	1,044,596.46	5,222.98		
Shipbuilding in South China Marine Machinery Co., Ltd.	519,944.44	2,599.72	172,766.12	863.83
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	425,355.00	2,126.78		
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	385,534.00	1,927.67	656,914.00	3,284.57
Beijing Shipbuilding Information Technology Co., Ltd.	355,000.00	1,775.00	655,000.00	3,275.00
Ninth Design and Research Institute of the China Shipbuilding Co., Ltd.	180,000.00	900.00		
Ships and Ocean Engineering Design and Research Institute of Guangzhou	115,617.36	578.09	9,101.60	45.51
Shipbuilding Guijiang Shipbuilding Co., Ltd.			28,000.00	140.00
Total	67,639,407.44	338,197.04	67,550,580.21	337,752.91

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) Prepayments

Related parties	Ending Balance	Beginning Balance
Under common control of the controlling shareholder and the ultimate controller		
The Shipbuilding Industry Complete Logistics Co., Ltd. (Guangzhou)	287,847,686.29	
Zhenjiang CSSC equipment Co., Ltd.	14,560,000.00	27,246,000.00
China Shipbuilding Trading Company	6,245,399.28	7,332,116.08
Eastern Shanghai Heavy Machinery Co., Ltd.	4,000,000.00	15,970,000.00
Guangzhou Shipyard Ltd.	1,943,110.00	1,727,588.04
The Shanghai Navigation Instrument Co. Ltd.	980,000.00	
Anqing CSSC Diesel Engine Co., Ltd.	400,000.00	1,600,000.00
Guangzhou Shipyard Ship Steel Structure Co., Ltd.	240,204.80	
Shipbuilding in South China Marine Machinery Co., Ltd.		1,061,400.00
Shipbuilding Guijiang Shipbuilding Co., Ltd.		780,000.00
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,		102,800.00
Hualian Ship Co., Ltd.		191,547.36
Total	316,216,400.37	56,011,451.48

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3) Accounts payable

Related parties	Ending Balance	Beginning Balance
Under common control of the controlling shareholder and the ultimate controller		
Guangzhou Shipyard Ltd.	16,072,785.66	4,186,999.16
CSSC Nanjing Oasis Machine Co., Ltd.	11,351,275.00	17,735,275.00
Zhenjiang CSSC equipment Co., Ltd.	9,691,690.00	17,706,430.00
Survey and Design Institute of the China Shipbuilding Co., Ltd.	9,421,113.54	6,013,153.39
Guangzhou Wenchong Shipyard Co., Ltd.	4,831,000.00	
Anqing CSSC Diesel Engine Co., Ltd.	3,900,000.00	
Shipbuilding in South China Marine Machinery Co., Ltd.	3,294,332.89	13,353,140.00
Shanghai Derui Sihua Ships Equipment Co., Ltd.	3,219,175.00	
Design and Research Institute of China Shipbuilding and Marine Engineering	2,442,500.00	3,155,475.00
Eastern Shanghai Heavy Machinery Co., Ltd.	2,002,500.00	1,995,000.00
The Shanghai Shipbuilding Harbor Ship Equipment Co.,	1,585,500.00	
China Shipbuilding Industry Corporation Ship Systems Engineering Department	1,410,000.00	705,000.00
Guangzhou Shipbuilding Corporation	1,403,292.39	1,866,661.67
Jiujiang China Shipbuilding Changan Fire Equipment Co., Ltd.	1,136,400.00	964,000.00
Jiujiang Haitian Equipment Manufacture Co., Ltd.	1,010,550.00	2,594,515.00
Shipbuilding International Trading Co., Ltd.	970,402.35	192,500.00
Shipbuilding Guijiang Shipbuilding Co., Ltd.	642,500.00	92,500.00
Design and Research Institute of China Shipbuilding and Marine Engineering	578,000.00	7,760,000.00
Shanghai Ship Research and Design Institute	534,000.00	
National Engineering Research Center of Shanghai ship design technology Co., Ltd.	522,000.00	190,000.00
9th Design and Research Institute of the China Shipbuilding	454,868.00	647,368.00
Xijiang Shipbuilding Co., Ltd.	375,000.00	
China Ship Power Station Equipment Co., Ltd.	331,500.00	
Jiangxi Chaoyang Machinery Factory	198,898.00	3,080.00
The Jiujiang jingda Detection Technology Co., Ltd.	158,400.00	
Shanghai Zhennan Project Management and Consulting Co., Ltd.	151,500.00	
Huahai Shipbuilding Equipment Co., Ltd.	113,625.00	346,375.00
Guangzhou Longxue Pipe Co., Ltd.	111,332.42	
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	100,000.00	100,000.00
The Jiujiang Shipbuilding Fire Equipment Co.	70,150.00	64,900.00
Guangzhou Huangpu Shipbuilding Co., Ltd.	40,000.00	
The Guangzhou Longxue Shipbuilding Co., Ltd.		855,984.26
Eastern Shanghai Shipbuilding Electric Co., Ltd.		482,000.00
Beijing Shipbuilding Information Technology Co., Ltd.		328,000.00
Anqing Marine Electric Co., Ltd.		68,000.00
The Shanghai Navigation Instrument Co. Ltd.		39,000.00
China Shipbuilding Trading Company	-52,941.99	-52,591.08
Joint ventures and associates		
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	313,311.12	
Total	78,384,659.38	81,392,765.40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4) Other payables

Related parties	Ending Balance	Beginning Balance
Under common control of the controlling shareholder and the ultimate controller		
Guangzhou Shipyard Ltd.	12,390.00	14,210.00
Total	12,390.00	14,210.00

5) Advances from customers

Related parties	Ending Balance	Beginning Balance
Under common control of the controlling shareholder and the ultimate controller		
Shanghai Ship Research and Design Institute	1,000,000.00	
Beijing Shipbuilding Information Technology Co., Ltd.	202,500.00	
Shipbuilding in South China Marine Machinery Co., Ltd.	148,000.00	37,000.00
CSSC Jiangnan Heavy Industry Co., Ltd.	90,650.00	
Guangzhou Shipyard Ltd.	57,000.00	2,036,581.20
China Shipbuilding Technology Institute of Economic Research	40,000.00	262,000.00
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	10,450.00	10,450.00
Ships and Ocean Engineering Design and Research Institute of Guangzhou	7,500.00	
The Guangzhou Longxue Shipbuilding Co., Ltd.		3,795,340.00
Total	1,556,100.00	6,141,371.20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Parent Company

1) Accounts receivable

Related parties	Ending Balance		Beginning Balance	
	Book value	Bad debts	Book value	Bad debts
The Guangzhou Longxue Shipbuilding Co., Ltd.	9,135,213.61	95,676.07	4,332,214.86	21,661.07
CSSC Jiangnan Heavy Industry Co., Ltd.	7,231,505.47	86,157.53	7,231,505.47	86,157.53
Guangzhou Shipyard Ltd.	810,885.01	4,054.43	204,745.34	1,023.73
Ninth Design and Research Institute of the China Shipbuilding Co., Ltd.	180,000.00	900.00		
Ships and Ocean Engineering Design and Research Institute of Guangzhou	113,117.36	565.59	9,101.60	45.51
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	84,574.00	422.87	84,574.00	422.87
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	67,355.00	336.78		
CSSC Guangzhou Marine Diesel Engine Co., Ltd.	10,073.00	50.37		
Total	17,632,723.45	188,163.64	11,862,141.27	109,310.71

2) Prepayments

Related parties	Ending Balance	Beginning Balance
Under common control of the controlling shareholder and the ultimate controller		
The Shipbuilding Industry Complete Logistics Co., Ltd. (Guangzhou)	287,847,686.29	
Zhenjiang CSSC equipment Co., Ltd.	14,560,000.00	27,246,000.00
China Shipbuilding Trading Company	6,245,399.28	7,332,116.08
Eastern Shanghai Heavy Machinery Co., Ltd.	4,000,000.00	15,970,000.00
Guangzhou Shipyard Ltd.	1,943,110.00	1,727,588.04
The Shanghai Navigation Instrument Co. Ltd.	980,000.00	
Anqing CSSC Diesel Engine Co., Ltd.	400,000.00	1,600,000.00
Guangzhou Shipyard Ship Steel Structure Co., Ltd.	240,204.80	
Shipbuilding Guijiang Shipbuilding Co., Ltd.		780,000.00
Total	316,216,400.37	54,655,704.12

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3) Accounts payable

Related parties	Ending Balance	Beginning Balance
Under common control of the controlling shareholder and the ultimate controller		
Guangzhou Shipyard Ltd.	13,144,827.73	3,563,213.17
CSSC Nanjing Oasis Machine Co., Ltd.	11,351,275.00	17,735,275.00
Zhenjiang CSSC equipment Co., Ltd.	9,691,690.00	17,706,430.00
Guangzhou Wenchong Shipyard Co., Ltd.	4,831,000.00	
Anqing CSSC Diesel Engine Co., Ltd.	3,900,000.00	
Survey and Design Institute of the China Shipbuilding Co., Ltd.	3,425,750.65	17,790.50
Shipbuilding in South China Marine Machinery Co., Ltd.	3,294,332.89	13,341,340.00
Shanghai Derui Sihua Ships Equipment Co., Ltd. Design and Research Institute of China Shipbuilding and Marine Engineering	3,219,175.00	3,155,475.00
Eastern Shanghai Heavy Machinery Co., Ltd.	2,442,500.00	1,995,000.00
China Shipbuilding Industry Corporation Ship Systems Engineering Department	1,410,000.00	705,000.00
Guangzhou Shipbuilding Corporation	1,403,292.39	1,866,661.67
Jiujiang China Shipbuilding Changan Fire Equipment Co., Ltd.	1,136,400.00	964,000.00
Jiujiang Haitian Equipment Manufacture Co., Ltd.	1,010,550.00	2,594,515.00
Shipbuilding International Trading Co., Ltd.	970,402.35	192,500.00
Shipbuilding Guijiang Shipbuilding Co., Ltd. Design and Research Institute of China Shipbuilding and Marine Engineering	642,500.00	7,760,000.00
Shanghai Ship Research and Design Institute	578,000.00	
National Engineering Research Center of Shanghai ship design technology Co., Ltd.	534,000.00	190,000.00
Ninth Design and Research Institute of the China Shipbuilding Co., Ltd.	522,000.00	517,368.00
Xijiang Shipbuilding Co., Ltd.	454,868.00	
The Shanghai Shipbuilding Harbor Ship Equipment Co.,	375,000.00	
China Ship Power Station Equipment Co., Ltd.	346,000.00	
Jiangxi Chaoyang Machinery Factory	331,500.00	3,080.00
The Jiujiang jingda Detection Technology Co., Ltd.	198,898.00	
Shanghai Zhennan Project Management and Consulting Co., Ltd.	158,400.00	
Huahai Marine cargo access equipment company	151,500.00	346,375.00
Guangzhou Longxue Pipe Co., Ltd.	113,625.00	
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	111,332.42	
The Jiujiang Shipbuilding Fire Equipment Co.	100,000.00	100,000.00
Guangzhou Huangpu Shipbuilding Co., Ltd.	70,150.00	64,900.00
Eastern Shanghai Shipbuilding Electric Co., Ltd.	40,000.00	482,000.00
Beijing Shipbuilding Information Technology Co., Ltd.		328,000.00
Anqing Marine Electric Co., Ltd.		68,000.00
The Shanghai Navigation Instrument Co. Ltd.		39,000.00
The Guangzhou Longxue Shipbuilding Co., Ltd.		7,800.00
China Shipbuilding Trading Company	-52,941.99	-52,591.08
Total	67,908,527.44	73,783,632.26

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4) *Advances from customers*

<u>Related parties</u>	<u>Ending Balance</u>	<u>Beginning Balance</u>
Under common control of the controlling shareholder and the ultimate controller		
Shanghai Ship Research and Design Institute	1,000,000.00	
China Shipbuilding Technology Institute of Economic Research	40,000.00	262,000.00
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	10,450.00	10,450.00
The Guangzhou Longxue Shipbuilding Co., Ltd.		3,795,340.00
Guangzhou Shipyard Ltd.		2,036,581.20
	<hr/>	<hr/>
Total	1,050,450.00	6,104,371.20

VII. CONTINGENCIES

1. **Contingent liability derived from pending litigation or 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 of the end of This Period, 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.

2. **There's no other significant contingency within the Group, except for the issue mentioned above.**

VIII. COMMITMENTS

1. **Significant commitments**

(1) ***Pledged assets***

Except for the pledged term deposits in bank, the Group has no other pledge assets at the end of This Period.

(2) ***Forward foreign exchange transactions***

To minimize the foreign currency risk, the Group engaged in the forward foreign exchange contract with bank. As of the end of current year, there are 18 forward foreign exchange contracts amounting to USD 233.03 million altogether; the longest settlement date of the contract is 17 July 2015; gain from changes in fair value is RMB2,263.85 million at the end of current year. All forward foreign exchange contracts are settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Strategic cooperation with the Guangzhou Longxue Shipbuilding Co., Ltd.

The Company and The Guangzhou Longxue Shipbuilding Co., Ltd. (under common control of CSSC) have signed an Agreement on Strategic Cooperation in November, 2012.

The goals of cooperation are: As strategic cooperative partners, according to national laws and regulations and listing rules in Shanghai and Hong Kong, under the mutual benefit and win-win principles, without any conflict of interest to the original business, the counterpart has a priority of utilizing the products, services or resources of the Company and its subsidiaries, no worse than those provided by independent third parties.

The scope of cooperation is ship products, non-ship products and marine engineering business projects cooperation, sharing production plants and equipment facilities and human resources.

The agreement has a validation period of 3 years from 1 January 2013 to 31 December 2015. The specific details would be determined in Continuing related party transactions framework agreement, signed by the Company and CSSC.

2. Fulfilments of previous commitments

The pay back of the trusted loans and settlement of forward contracts can be done according to agreement.

3. There's no other significant commitments within the Group, except for the issue mentioned above.

IX. EVENTS AFTER THE BALANCE SHEET DATE

On the 10th board meeting of the 7th Board of Directors in 2012, it is approved that the Company and its wholly owned subsidiary, The Rong Guang Development Co., Ltd. (Rong Guang Company), acquire the 49% of shares of the oversea shareholder's subsidiary, Guangzhou Yonglian Steel Structure Co., Ltd. (Yong Lian Company). The company acquired 24% and Rong Guang Company acquired 25%, the acquisition price was determined referring to the total assets on 31 December 2011. On 31 December 2012, the Company paid 6.61 million US dollars for the acquisition, ie. RMB41,573,700. On 5 February 2013, Rong Guang Company paid 6.89 million US dollars for the acquisition, ie. RMB43,303,700. The registration changes in Trade and Industry Bureau are in progress when the acquisition is done.

As at 31 December 2012, there's no other Events after the balance sheet date that need to be disclosed.

X. SEGMENT INFORMATION

According to the Group's internal organisational structure, management requirements, and internal reporting system, the segments of the operation can be divided into 3 categories based on the different types of main products. The management evaluates operating outcomes of these segments periodically in order to make decisions concerning resource distributions and operating result assessments. The Group is currently organised into a 3 segments in shipbuilding, steel structure projects and others.

Segment reporting information is disclosed according to accounting policies and measurement basis used in reports presented by each segment to the management. These accounting policies and measurement basis are consistent with those adopted in drafting financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2012 Segment information

Items	Shipbuilding	Steel Structure Engineering	Others	Write-off	Total
Operating income	5,267,831,171.79	516,311,292.13	1,639,288,468.75	999,347,568.66	6,424,083,364.01
Including:					
External transaction revenue	5,267,831,171.79	516,311,292.13	639,940,900.09		6,424,083,364.01
Revenue between segments			999,347,568.66	999,347,568.66	
Operating cost	4,944,458,380.90	470,741,243.97	1,532,531,049.37	976,875,152.11	5,970,855,522.13
Period charge	168,185,186.16	35,910,779.25	102,305,561.72	12,936,844.80	293,464,682.33
Segment total profit (total loss)	57,718,737.77	-6,581,613.31	-13,518,589.05	10,083,507.24	27,535,028.17
Total assets	9,541,690,387.44	601,836,569.07	2,111,797,570.61	1,393,238,449.58	10,862,086,077.54
Total liabilities	5,822,615,249.17	390,179,623.59	1,347,637,773.54	944,922,686.35	6,615,509,959.95
Supplementary information					
Capitalized expense	280,239,074.11		6,864,680.03	8,780,624.93	278,323,129.21
Recognized loss of impairment	413,392,965.07	-607,460.33	-1,234,873.08		411,550,631.66
Including:					
Goodwill amortization					
Depreciation and amortization expense	98,349,808.35	7,869,661.84	25,337,337.73		131,556,807.92
Non-cash expenses other than loss of impairment, depreciation and amortization					

2011 Segment information

Items	Shipbuilding	Steel Structure Engineering	Others	Write-off	Total
Operating income	7,225,493,551.62	437,734,569.73	2,205,548,405.03	1,572,345,178.54	8,296,431,347.84
Including:					
External transaction revenue	7,225,493,551.62	437,734,569.73	633,203,226.49		8,296,431,347.84
Revenue between segments			1,572,345,178.54	1,572,345,178.54	
Operating cost	6,479,334,758.32	393,130,822.96	2,051,893,778.47	1,554,639,357.90	7,369,720,001.85
Period charge	92,622,881.80	19,791,199.81	90,588,305.13	12,824,169.12	190,178,217.62
Segment total profit (total loss)	545,043,334.80	7,665,608.00	59,630,260.60	5,747,938.26	606,591,265.14
Total assets	10,995,642,100.92	292,241,024.64	1,801,738,284.56	1,204,112,039.85	11,885,509,370.27
Total liabilities	7,191,723,560.22	179,802,175.53	1,129,089,196.33	815,879,783.87	7,684,735,148.21
Supplementary information					
Capitalized expense	337,697,196.33	1,112,622.95	8,974,130.84		347,783,950.12
Recognized loss of impairment					
Including:					
Goodwill amortization					
Depreciation and amortization expense	94,997,986.81	1,152,386.79	25,069,146.12		121,219,519.72
Non-cash expenses other than loss of impairment, depreciation and amortization					

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The total external transaction revenue from local and other countries or regions; and other non-current assets other than Financial assets and Deferred income tax assets from local and other countries or regions are listed below:

Revenue from external customers	Current Year	Last Year
Inside China (except Hong Kong)	6,289,853,791.47	7,921,239,435.64
Hong Kong	134,229,572.54	375,191,912.20
Overseas		
Total	6,424,083,364.01	8,296,431,347.84

Total non-current assets	Ending Balance	Beginning Balance
Inside China (except Hong Kong)	2,097,113,995.25	1,949,287,928.11
Hong Kong	15,830,662.15	16,139,855.87
Overseas		
Total	2,112,944,657.40	1,965,427,783.98

Note: Total non-current assets exclude Financial assets and total Deferred tax assets.

XI. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's major financial instruments include: Loans, receivables, payables, Financial assets held-for-trading. Financial liabilities held-for-trading. Financial assets available-for-sale, etc., for specific details for each instrument, see Note V. The risks related to these financial instruments, and Group's risk management policies for risk mitigation are stated as below. The management and supervision on the risk exposure is to ensure that these risks mentioned above are controlled within a reasonable range.

1. Risk management objectives and policies

The risk management objectives of this Group are to obtain an appropriate balance between risks and returns, to reduce negative effects caused by operating results to a lowest level, and to maximise interest of shareholders and other equity investors. Based on these objectives, the basic strategies are to confirm and analyze all potential risks related to the Group, to build appropriate risk limitations, to manage and monitor all risks timely and effectively, and to control the risks within a limited scope.

(1) Market risk

1) Foreign currency risk

Foreign currency risk refers to risk caused by losses occurred because of changes in foreign currency rate. The Group's foreign exchange exposure is mainly related to USD. Except for the Company, subsidiary -Rongguang Development Co., Ltd., and Guangzhou Yonglian Steel Structure, three of which owning business with purchases and sales in USD, all other main operating business are settled in RMB. As of the end of This Period, except for assets and liabilities with balances in USD depicted as below, all other assets and liabilities of the Group are reported in RMB. The recognised assets and liabilities in USD shown in the table below and the unrecognised not shown in the table below (ship settlement payment in USD), leading to foreign currency risk, may affect the results of operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Items	Ending Balance			
	USD	HKD	EUR	GBP
Cash and bank deposit (Note V.1)	131,101,242.40	22,466,156.87	91,855.12	917.25
Accounts receivable (Note V.4)	12,751,299.20	3,254,095.82	509,078.50	
Other receivables (Note V.8)		10,097,600.19		
Accounts payable (Note V.25)	879,227.11	665,550.50		
Interest payable (Note V.29)	2,042,885.67			
Short-term loans (Note V.22)	14,000,000.00		501,442.30	
Long-term loans (Note V.34)	297,763,402.67			
Items	Beginning Balance			
	USD	HKD	EUR	GBP
Cash and bank deposit (Note V.1)	38,956,257.68	7,812,129.28	1,353,857.44	917.25
Accounts receivable (Note V.4)	54,412,205.54	7,520,255.46		
Other receivables (Note V.8)		9,695,544.96		
Accounts payable (Note V.25)		393,533.69		
Interest payable (Note V.29)	3,362,712.47			
Short-term loans (Note V.22)	178,715,665.91		5,417,368.70	
Long-term loans (Note V.34)	265,864,744.09			

The Group has paid close attention to the influence generated from exchange rate changes, in which the Group has conducted foreign exchange risk management policy and strategy research. In order to mitigate risks derived from loans in USD and foreign currency interest expenditure risk, the Group has signed several forward foreign exchange contracts with banks. The fair value for foreign exchange contracts recognized as derivative financial instruments on 31 December 2012 is RMB22,638,000. The changes in fair value of derivative financial instruments were charged through profit and loss, see Note 53. With the increasing trend of international market share, if there's uncontrollable risk arisen from RMB appreciation, the Group would adjust its sales policies to mitigate risks.

2) *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 (See Note V.22, V.32 and V.34). Borrowings at fixed rate expose the Group to fair value interest-rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Credit risk

At year end, the Group's potential maximum exposure to credit risk is mainly because of the counterparties' failure to perform their obligations leading to losses or financial guarantee related to the Group, including book value of the recognized financial assets; as for financial instruments measured at fair value, book value reflects their exposures to risks, but not the maximum exposure to risks which shall be changed as changes in fair value occurs.

To reduce credit risk, a team, responsible for confirming credit limitations, reviewing paper work related to credit, and executing supervisory procedures, has been built up within the Group in order to ensure that necessary measures have been taken to retrieve expired claims. Therefore, the Management reckons that credit risks held by this Group have been reduced significantly.

The current funds of this Group are deposited in banks that own high credit evaluations, thus the credit risk of current funds is relatively low.

The Group has engaged necessary policies to ensure that all clients have good credit history. The Group has no other collective credit risk except for the top 5 of Accounts receivable. At year end, the total amount for the top 5 of Accounts receivable is RMB472,664,997.11. (Beginning of the year: RMB579,130,655.75)

(3) Liquidity risk

The Group maintains and monitors adequate cash and cash equivalent to support the daily operation of the Group, and reduce the effect of the fluctuation of cash flow. The Group monitors the usage of bank borrowings and ensures compliance with the borrowing agreements.

The sources of funding of the Group are mainly from bank borrowings. At year end, the unused bank facilities amount is RMB2,163,807,000 (1 January 2012: RMB3,342,200,000)

The analysis of financial assets/liabilities is analyzed as below, in terms of maturity deadline regarding undiscounted remaining contractual obligations.

Current Year:

Items	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash and bank deposit	3,750,208,522.25	231,200,000.00	76,139,997.00	2,067,192,510.00	
Financial assets held-for-trading	1,990,000.00	3,512,460.00	10,321,900.00	8,092,500.00	
Notes receivable	3,492,665.00				
Accounts receivable	567,571,483.51	209,183,835.74			
Other receivables	251,646,202.54	10,589,677.53			
Financial liabilities held-for-trading			260,000.00		
Notes payable	542,198,968.62	49,251,266.40			
Accounts payable	808,674,521.70	436,575,548.18			
Other payables	17,473,070.43	9,590,217.05			
Dividend payable	157,912.98				
Interest payable	5,283,635.38	8,473,591.10			
Payroll payable	19,133,890.46				
Loans			1,150,126,328.12	813,633,335.84	600,000,000.00

The discounted value for Financial assets held-for-trading is RMB22,862,044.25, the discounted value for Financial liabilities held-for-trading is RMB223,540.75.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Last Year:

Items	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash and bank deposit	1,870,477,782.17	769,368,684.67	2,746,630,000.00	1,176,270,000.00	
Financial assets held-for-trading	6,393,600.00	5,561,600.00	8,551,629.22		
Notes receivable	560,000.00				
Accounts receivable	645,025,580.72	91,701,063.38			
Other receivables	49,683,142.76	74,504,399.32			
Financial liabilities					
held-for-trading		1,173,753.99			
Notes payable	487,057,055.75	201,930,174.73			
Accounts payable	1,146,898,153.38	209,366,578.77			
Other payables	5,975,492.29	10,670,667.35	10,644,567.37		
Dividend payable			157,912.98		
Interest payable	7,492,368.08	16,100,738.52			
Payroll payable	19,564,521.68				
Loans	252,036,000.00	434,625,619.39	1,077,453,900.00	1,081,360,458.00	

The discounted value for Financial assets held-for-trading is RMB20,229,536.04, the discounted value for Financial liabilities held-for-trading is RMB1,159,935.94.

2. Fair value

Fair value of financial assets and financial liabilities is measured according to the following policies:

- 1) Financial assets and financial liabilities with standard terms and condition are referred to the quoting price, bidding price and asking price, in active market.
- 2) Fair value of other financial assets and financial liabilities (excluding derivative) is measured at discounting future cash flow or observe the trading price in active market.
- 3) The fair value of the forward currency contract is determined by the bank's public offer combining with valuation techniques.

3. Sensitivity analysis

The Group adopted sensitivity analysis of reasonableness and the probable change effect of risk variables on equity or profit or loss. Since 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Exchange rate sensitivity analysis

With other factors unchanged, the exchange rate might float within a reasonable range, and has the following effect:

Currency	Exchange rate change	Current Year		Last Year	
		Effect on Net profit	Effect on equity	Effect on Net profit	Effect on equity
USD	Against RMB appreciation 3%	-26,698,961.01	-26,698,961.01	-57,579,482.96	-57,579,482.96
USD	Against RMB devaluation 3%	26,698,961.01	26,698,961.01	57,579,482.96	57,579,482.96

The effect on net profit and owner's equity due to reasonable change in foreign exchange rate in HKD and EUR is immaterial.

(2) Interest rate sensitivity analysis

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.
- Change in fair value of Derivative financial instruments and other Financial assets and liabilities, which is calculated using cash flow discount method, with the effective interest rate on the financial statement date.

Based on the above assumption, with other factors unchanged, the interest rate might float within a reasonable range, and has the following effect:

Loans	Interest rate change	Current Year		Last Year	
		Effect on Net profit	Effect on equity	Effect on Net profit	Effect on equity
Loans with floating rate	Increase 1%	-2,844,409.28	-2,844,409.28	-3,393,923.13	-3,393,923.13
Loans with floating rate	Decrease 1%	2,844,409.28	2,844,409.28	3,393,923.13	3,393,923.13

The interest risk rate exposure of the Group is due to the non-current borrowings. The risk of cash outflow is due to the float interest rate of the borrowings. The fair value of the loans with fixed interest rate is suffering interest rate risk. At year end, the Group hold loan with variable interest rate amounting to RMB334,636,386.03 (Beginning of the year: RMB399,285,074.34). The settlement periods of the loan is disclosed in Note V. 22, V. 32, V.34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

XII. OTHER SIGNIFICANT ISSUES

1. Financial assets and liabilities at fair market value

Items	Beginning Balance	Fair value change expensed	Accumulated fair value change charged into equity	Impairment	Ending Balance
Financial assets					
Financial assets at fair market value through profit or loss	20,229,536.04	2,632,508.21			22,862,044.25
Financial assets available-for-sale	238,228,805.50		173,151,410.32		269,965,187.50
Total	258,458,341.54	2,632,508.21	173,151,410.32		292,827,231.75
Financial liabilities					
Financial liabilities at fair market value through profit or loss	1,159,935.94	-936,395.19			223,540.75
Total	1,159,935.94	-936,395.19			223,540.75

2. Financial assets and liabilities in foreign currencies

Items	Beginning Balance	Fair value change expensed	Accumulated fair value change charged into equity	Impairment	Ending Balance
Financial assets					
Accounts receivable	353,403,162.35				87,021,348.75
Other receivables	7,886,383.30				8,188,143.99
Financial assets Subtotal	361,289,545.65				95,209,492.74
Financial liabilities					
Short-term loans	1,170,288,811.35				92,167,796.47
Accounts payable	319,037.76				6,066,076.90
Interest payable	23,593,106.60				12,840,557.88
Non-current liabilities due within one year	593,796,816.00				1,057,958,531.65
Long-term loans	1,081,390,350.04				813,633,335.84
Financial liabilities Subtotal	2,869,388,121.75				1,982,666,298.74

3. Annuity and its significant changes

See Note V.27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

XIII. NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Cash and bank deposit

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	Amount (RMB)	Original currency	Exchange rate	Amount (RMB)
1. Cash						
RMB			46,643.25			27,053.44
USD	159.42	0.8109	129.27	159.42	0.8107	129.24
HKD	3,567.80	6.2855	22,425.41	3,567.80	6.3009	22,480.35
GBP	954.84	8.3176	7,941.98	954.84	8.1625	7,793.88
EUR	917.25	10.1611	9,320.27	917.25	9.7116	8,907.97
Subtotal			86,460.18			66,364.88
2. Bank						
RMB			2,699,830,188.00			2,494,886,168.06
USD	121,137,756.41	6.2855	761,411,367.89	37,126,856.55	6.3009	233,932,610.43
HKD	39,884.86	0.8109	32,342.63	11,002.42	0.8107	8,919.67
EUR	3,133.55	8.3176	26,063.61	185,931.32	8.1625	1,517,664.39
Subtotal			3,461,299,962.13			2,730,345,362.55
3. Others						
RMB			2,349,172,460.53			3,592,586,281.52
Subtotal			2,349,172,460.53			3,592,586,281.52
Total			5,810,558,882.84			6,322,998,008.95

The ending balances of other monetary fund include credit card deposit of RMB100,310.53 (Beginning Balance: RMB75,541.52); and fixed deposit for long-term and short-term mortgage loans amounted RMB2,349,072,150.00 (Beginning Balance: 3,592,510,740.00), this guaranteed fixed deposit would be terminated after the debt redemption.

As at 31 December 2012, there is no existence of pledge, frozen or potential risk of recovery except for guarantee and fixed deposit mentioned above.

As at 31 December 2012, the Company deposits RMB599,458,828.86 in CSSC Financial Co. (Beginning Balance: RMB490,788,535.33). CSSC Financial Co. is one of subsidiaries of CSSC is a non-bank financial institution and authorised and monitored by People's Bank of China.

2. Financial assets held-for-trading

Items	Ending fair value	Beginning fair value
Financial assets at fair market value through profit or loss	22,724,517.26	20,229,536.04
Total	22,724,517.26	20,229,536.04

The fair value of the financial assets held-for-trading (forward contracts) is determined by banks' public offer and assessment technology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Notes receivable

(1) Classification

Items	Ending Balance	Beginning Balance
Bank acceptance bill		560,000.00
Total		560,000.00

(2) Notes receivable endorsed but not yet due by the year end

Items	Name of company	Endorsed date	Due date	Amount	Note
Bank acceptance bill	Asia Aluminum (China) Co., Ltd.	2012-07-17	2013-01-17	250,000.00	
	Asia Aluminum (China) Co., Ltd.	2012-08-01	2013-02-01	230,000.00	
	Asia Aluminum (China) Co., Ltd.	2012-10-30	2013-04-30	200,000.00	
	Asia Aluminum (China) Co., Ltd.	2012-07-06	2013-01-06	100,000.00	
Total				780,000.00	

4. Accounts receivable

Items	Ending Balance	Beginning Balance
Accounts receivable	787,014,962.29	726,094,203.63
Less: provision for bad debts	3,924,464.10	5,561,824.40
Total	783,090,498.19	720,532,379.23

(1) Terms of sales on credit

Items	Credit Term
Shipbuilding	1 month after issuance
Other businesses	1 to 6 months

(2) Aging analysis

Items	Ending Balance				Beginning Balance			
	Amount	%	Bad debt	Net value	Amount	%	Bad debt	Net value
Within 1 year	720,687,126.85	91.57	2,913,843.95	717,773,282.90	596,905,772.77	82.21	2,860,672.12	594,045,100.65
1-2 years	41,561,007.84	5.28	163,938.81	41,397,069.03	99,197,161.29	13.66	15,904.00	99,181,257.29
2-3 years					28,249,727.73	3.89	993,929.87	27,255,797.86
3-4 years	24,426,458.00	3.1	506,311.74	23,920,146.26				
4-5 years								
Over 5 years	340,369.60	0.05	340,369.60		1,741,541.84	0.24	1,691,318.41	50,223.43
Total	787,014,962.29		3,924,464.10	783,090,498.19	726,094,203.63		5,561,824.40	720,532,379.23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Classification by risks

Items	Ending Balance					Beginning Balance				
	Book value		Bad debt		Net value	Book value		Bad debt		Net value
	Amount	%	Amount	%		Amount	%	Amount	%	
Accounts receivable that are individually significant and are provided for bad debts on individual basis										
Accounts receivable that are individually insignificant but are provided for bad debts on individual basis	726,479.60	0.09	726,479.60	100.00			2,568,983.29	0.35	2,568,983.29	100.00
Accounts receivable accrued bad debt provision by a certain percentage of the balance	639,596,901.07	81.27	3,197,984.50	0.50	636,398,916.57		598,548,968.39	82.44	2,992,841.11	0.50
Accounts receivable with no bad debt reserve	146,691,581.62	18.64			146,691,581.62		124,976,251.95	17.21		
Total	787,014,962.29		3,924,464.10		783,090,498.19		726,094,203.63		5,561,824.40	

1) Accounts receivable that are individually significant, or insignificant but are provided for bad debts on individual basis

Company Name	Book value	Bad debts	%	Reasons
Shenzhen Jishang Architectural design engineering company	15,904.00	15,904.00	100	Long outstanding period, with operational going concern
Qingdao Haier specialty plastics development company	44,800.00	44,800.00	100	Long outstanding period, with operational going concern
Hisense Electric Co., Ltd. (Nanjing)	39,100.00	39,100.00	100	Long outstanding period, with operational going concern
China Refrigeration Industry Co., Ltd.	166,510.00	166,510.00	100	Long outstanding period, with operational going concern
The Hefei Haier Refrigerator Co., Ltd.	32,600.00	32,600.00	100	Long-overdue with risk of uncollectibility
The Hefei Rongshida refrigerators Co., Ltd.	14,565.60	14,565.60	100	Long-overdue with risk of uncollectibility
Hefei Hualing Co., Ltd.	117,000.00	117,000.00	100	Long-overdue with risk of uncollectibility
Chengdu Merro steel grating Co., Ltd	70,000.00	70,000.00	100	Long-overdue with risk of uncollectibility
Qingdao Haier Special electric freezer Co., Ltd.	208,000.00	208,000.00	100	Long-overdue with risk of uncollectibility
The Qingdao Haier plastic development Ltd.	18,000.00	18,000.00	100	Long-overdue with risk of uncollectibility
Total	726,479.60	726,479.60		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2) *Accounts receivable accrued bad debt provision by a certain percentage of the balance*

Items	Book value	%	Bad debts
Within 1 year	582,768,791.07	0.50	2,913,843.95
1-2 years	32,787,762.00	0.50	163,938.81
2-3 years			
3-4 years	24,040,348.00	0.50	120,201.74
4-5 years			
Over 5 years			
Total	639,596,901.07	0.50	3,197,984.50

3) *Accounts receivable with no bad debt reserve*

Items	Book value	Bad debts	Net value
Receivables from subsidiaries	146,691,581.62		146,691,581.62
Total	146,691,581.62		146,691,581.62

(4) *Bad debts reversed or recovered*

Company Name	Accounts receivable	%	Bad Debts Before Recovery	Amounts recovered	Reasons
Hisense Electric Co., Ltd. (Nanjing)	39,100.00	100.00	149,100.00	110,000.00	Demand repayment
The Hefei Rongshida refrigerators Co., Ltd.	14,565.60	100.00	476,000.00	461,434.40	Demand repayment
Total	53,665.60	100.00	625,100.00	571,434.40	-

(5) *The accounts receivable balance details exclude shareholders who hold 5% or more of the Company's shares.*

(6) *Top 5 Clients*

Company Name	Relationship	Amount	Aging	Proportion in Accounts Receivable (%)
China Shipping Development Co., Ltd.	External Client	208,161,978.55	Within 1 year	26.45
Dalian Ocean Shipping Company	External Client	106,334,800.00	Within 1 year	13.51
China Shipping liners Ltd.	External Client	54,604,141.40	Within 1 year	6.94
China CNOOC Transportation Co., Ltd.	External Client	54,000,000.00	Within 1 year	6.86
Shenzhen Ocean Shipping Co., Ltd.	External Client	38,500,000.00	Within 1 year	4.89
Total		461,600,919.95		58.65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(7) Receivables from related parties

Company Name	Relationship	Ending Balance			Beginning Balance		
		Amount	%	Bad debt	Amount	%	Bad debt
The Guangzhou Longxue Shipbuilding Co., Ltd.	Note	19,135,213.61	2.43	95,676.07	46,434,213.59	6.40	232,171.07
CSSC Jiangnan Heavy Industry Co., Ltd.	Note	17,231,505.47	2.19	86,157.53	17,308,505.47	2.38	86,542.53
Guangzhou Shipyard Ltd. Panyu hatch cover factory	Note	258,700.44	0.03	1,293.50			
9th Design and Research Institute of the China Shipbuilding	Note	180,000.00	0.02	900.00			
Ships and Ocean Engineering Design and Research Institute of Guangzhou	Note	113,117.36	0.01	565.59	9,101.60		45.51
Guangzhou Shipyard Ltd.	Note	96,815.93	0.01	484.08	1,178,817.20	0.16	5,894.09
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	Note	84,574.00	0.01	422.87	656,914.00	0.09	3,284.57
CSSC Guangzhou Marine Diesel Engine Co., Ltd.	Note	10,073.00		50.37			
Shipbuilding Chengxi the Voyage Ship Co., Ltd.(Guangzhou)	Note	67,355.00	0.01	336.78			
Beijing Shipbuilding Information Technology Co., Ltd.	Note				655,000.00	0.09	3,275.00
Shipbuilding Guijiang Shipbuilding Co., Ltd.	Note				28,000.00		140.00
Guangzhou Huangpu Shipbuilding Co., Ltd.	Note				1,107,262.23	0.15	5,536.31
Shipbuilding in South China Marine Machinery Co., Ltd.	Note				172,766.12	0.02	863.83
Guangzhou Shipyard Machinery Co., Ltd.	Subsidiary	94,852,556.56	12.05		108,560,064.13	14.95	
Zhongshan Guangzhou Shipyard International Ship and Marine Engineering Co., Ltd.	Subsidiary	26,536,524.92	3.37		704,368.42	0.10	
Guangzhou Yonglian Steel Structure Co., Ltd.	Subsidiary	10,238,632.54	1.30		9,149,844.52	1.26	
Guangzhou Shipyard Machinery Co., Ltd. Zhongshan Branch	Subsidiary	8,763,370.11	1.11				
The Guangzhou Xingshun ship service Co., Ltd	Subsidiary	6,300,497.49	0.80		6,419,016.04	0.88	
Fanguang Development Co., Ltd.					142,958.84	0.02	
Total		183,868,936.43	23.34	185,886.79	192,526,832.16	26.50	337,752.91

Note: Under the Same Control of CSSC

(8) Accounts receivable with foreign currency balance

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange Rate	RMB	Original currency	Exchange Rate	RMB
USD	8,427,345.00	6.2855	52,970,077.00	41,408,080.00	6.3009	260,908,171.32
HKD	86,128.82	0.8109	69,841.86	777,096.32	0.8107	629,992.00
Total			53,039,918.86			261,538,163.32

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Prepayments

(1) Aging

Items	Ending Balance		Beginning Balance	
	Amount	%	Amount	%
Within 1 year	477,678,047.72	90.98	502,078,459.94	95.26
1-2 years	23,544,000.00	4.48	5,732,614.40	1.09
2-3 years	5,181,400.00	0.99	4,761,500.00	0.90
Over 3 years	18,638,700.00	3.55	14,469,700.00	2.75
Total	525,042,147.72	100.00	527,042,274.34	100.00

(2) Top 5 clients

Company Name	Relationship	Amount	%	Aging	Reasons
The Shipbuilding Industry Complete Logistics Co., Ltd. (Guangzhou)	External client	287,847,686.29	54.82	Within 1 year	Not settled
Dalian Marine Diesel Engine Co., Ltd.	External client	72,835,000.00	13.87	Within 1 year	Not settled
China Shipping Group International Trade Co., Ltd.	External client	20,686,004.94	3.94	Within 1 year	Not settled
Frank Mohn	External client	18,260,642.40	3.48	Within 1 year	Not settled
Shanghai Dacheng Venture Capital Co., Ltd.	External client	14,274,297.02	2.72	Within 1 year	Not settled
Total		413,903,630.65	78.83		

(3) *The prepayments balance details exclude shareholders who hold 5% or more of the Company's shares.*

(4) Prepayments with foreign currency balance

Items	Ending Balance			Beginning Balance		
	Original currency	Exchange Rate	RMB	Original currency	Exchange Rate	RMB
USD	13,005,713.20	6.3297	82,322,679.05	19,950,742.37	6.3401	126,490,579.84
EUR	18,187,475.48	8.4507	153,696,356.44	523,263,404.00	0.8996	470,734,544.09
Total			236,019,035.49			597,225,123.93

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Interest receivable

Items	Beginning Balance	Increase	Decrease	Ending Balance
Interest of fixed deposit	104,213,877.58	201,084,054.24	161,644,681.58	143,653,250.24
Total	104,213,877.58	201,084,054.24	161,644,681.58	143,653,250.24

Note: There is no overdue interest as of the end of Current Year.

7. Dividend receivable

This section is the same with the Consolidated Financial Statements. See Note V.7.

8. Other receivables

Items	Ending Balance	Beginning Balance
Other receivables	897,176,666.23	595,602,093.22
Less: provision for bad debts	11,625,288.29	10,950,087.26
Total	885,551,377.94	584,652,005.96

(1) Aging analysis

Items	Ending Balance				Beginning Balance			
	Amount	%	Bad debt	Net value	Amount	%	Bad debt	Net value
Within 1 year	412,582,670.44	45.99	1,220,950.32	411,361,720.12	581,769,031.24	97.68	549,553.96	581,219,477.28
1-2 years	471,198,817.74	52.52	5,994.09	471,192,823.65	1,296,356.13	0.22	1,506.78	1,294,849.35
2-3 years	1,075,345.90	0.12	401.73	1,074,944.17	83,279.11	0.01	416.40	82,862.71
3-4 years					63,594.59	0.01	517.97	63,076.62
4-5 years	10,000.00		50.00	9,950.00	80,000.00	0.01	200.00	79,800.00
Over 5 years	12,309,832.15	1.37	10,397,892.15	1,911,940.00	12,309,832.15	2.07	10,397,892.15	1,911,940.00
Total	897,176,666.23		11,625,288.29	885,551,377.94	595,602,093.22		10,950,087.26	584,652,005.96

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Classification by risks

Items	Ending Balance					Beginning Balance				
	Book value		Bad debt		Net value	Book value		Bad debt		Net value
	Amount	%	Amount	%		Amount	%	Amount	%	
Other receivables that are individually significant and are provided for bad debts on individual basis	10,340,232.15	1.15	10,340,232.15	100.00		10,340,232.15	1.74	10,340,232.15	100.00	
Other receivables that are individually insignificant but are provided for bad debts on individual basis	57,600.00	0.01	57,600.00	100.00		57,600.00	0.01	57,600.00	100.00	
Other receivables accrued bad debt provision by a certain percentage of the balance	245,491,228.00	27.36	1,227,456.14	0.50	244,263,771.86	110,451,023.21	18.54	552,255.11	0.50	109,898,768.10
Other receivables with no bad debt reserves	641,287,606.08	71.48			641,287,606.08	474,753,237.86	79.71			474,753,237.86
Total	897,176,666.23	-	11,625,288.29	-	885,551,377.94	595,602,093.22	-	10,950,087.26	-	584,652,005.96

1) Other receivables that are individually significant or insignificant but are provided for bad debts on individual basis

Company Name	Book value	Bad debts	%	Reasons
Mitsuhiro International Co., Ltd., Hong Kong	10,340,232.15	10,340,232.15	100.00	Note
Guangzhou Urban Construction Archives	57,600.00	57,600.00	100.00	Uncollectable
Total	10,397,832.15	10,397,832.15	100.00	

Note: Trusted deposits have been exchanged for some assets with Guangzhou National Investment Corp. under the Company and Guangzhou National Investment Debt Restructuring Agreement. On 17 August 2005, according to the "Delegatio Nominis contract" signed by the Company and Guangzhou National Investment Corp. and Hong Kong Guanghong international Corp., Guangzhou National Investment Corp. transferred the claim of RMB10,640,000.00 to Hong Kong Guanghong international Corp, which belongs to its subsidiary Guangzhou Guoxin economic developing Corp. to the Company. In the meantime, according to the contract, Hong Kong Guanghong international Corp shall offset part of the debts with 7 cars, which was due to hand over before September 2005, and pay the rest of debt with interest in Guanghong Optoelectronic Technology Corp, on which Hong Kong Guanghong 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 Guanghong international Corp. has to settle the debt principal and interest of the Company within 10 days from the legal effective day. As of 30 June 2012, the Company has not received the above mentioned debt principal and interest, and shall pay attention to further follow-up.

2) Other receivables accrued bad debt provision by a certain percentage of the balance

Items	Book value	%	Bad debts
Within 1 year	244,190,064.00	0.50	1,220,950.32
1-2 years	1,198,818.00	0.50	5,994.09
2-3 years	80,346.00	0.50	401.73
3-4 years			
4-5 years	10,000.00	0.50	50.00
Over 5 years	12,000.00	0.50	60.00
Total	245,491,228.00	0.50	1,227,456.14

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3) Other receivables with no bad debt reserves

Items	Book value	Bad debt	Net value
Receivables from subsidiaries	6,287,606.08		6,287,606.08
Trust loans	635,000,000.00		635,000,000.00
Total	641,287,606.08		641,287,606.08

(3) *The other receivables balance details exclude shareholders who hold 5% or more of the Company's shares.*

(4) Top 5 clients

Company Name	Relationship	Amount	Aging	Proportion in Accounts Receivable (%)	Nature
Trust loans	External bank	635,000,000.00	0-2 years	70.78	Entrusted Loan
Receivable subsidies on products	Others	185,942,477.44	Within 1 year	20.73	Subsidies on products
Mitsuhiro International Co., Ltd., Hong Kong	Others	10,340,232.15	Over 5 years	1.15	Credit loans
Guangzhou Shipyard Machinery Co., Ltd. Zhongshan Branch	Subsidiary	4,258,673.14	1-2 years	0.47	Advances
Bidding center	Others	3,600,000.00	Within 1 year	0.40	Secured deposit
Total		839,141,382.73		93.53	

The Company, consigning Bank of Communications Zhongshan Branch and Industrial and Commercial Bank of China Zhongshan Branch, to grant loans of RMB635,000,000.00 to the subsidiary, Zhongshan Guangzhou Shipyard International Ship and Marine Engineering Co., Ltd., for investment and development in the Zhongshan Base.

(5) Receivables from related parties

Company Name	Relationship	Amount	%
Guangzhou Shipyard Machinery Co., Ltd. Zhongshan Branch	Subsidiary	4,346,950.96	0.47
Guangdong GSI elevator Co., Ltd.	Subsidiary	1,900,000.00	0.21
Guangzhou Shipyard International Marine Engineering Co., Ltd.	Subsidiary	40,655.12	0.00
Total		6,287,606.08	0.69

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Inventories

(1) Classification

Items	Ending Balance			Beginning Balance		
	Book value	Inventory impairment	Carrying amount	Book value	Inventory impairment	Carrying amount
Raw materials	250,126,798.79	6,147,946.36	243,978,852.43	411,297,257.12	5,186,295.21	406,110,961.91
Work in progress	227,591,594.90	15,094,862.61	212,496,732.29	383,163,559.76	15,757,362.61	367,406,197.15
Merchandise inventories	4,114,897.43	519,865.11	3,595,032.32	11,461,509.37	336,553.69	11,124,955.68
Capitalized construction contracts	293,927,926.79	419,190,388.03	-125,262,461.24	893,624,622.07	293,711,909.40	599,912,712.67
Total	775,761,217.91	440,953,062.11	334,808,155.80	1,699,546,948.32	314,992,120.91	1,384,554,827.41

(2) Inventory impairment

Items	Beginning Balance	Accrued	Decrease		Ending Balance
			Reversal	Transferred out	
Raw materials	5,186,295.21	1,388,929.25		427,278.10	6,147,946.36
Work in progress	15,757,362.61	4,927,600.00		5,590,100.00	15,094,862.61
Merchandise inventories	336,553.69	343,910.15		160,598.73	519,865.11
Capitalized construction contracts	293,711,909.40	415,337,568.13	9,288,230.79	280,570,858.71	419,190,388.03
Total	314,992,120.91	421,998,007.53	9,288,230.79	286,748,835.54	440,953,062.11

(3) The methods of provision for inventory impairment

Items	Calculation basis	Reasons	%
Raw materials	Book value higher than NPV (Estimated disposal proceeds less taxes)		
Work in progress	Book value higher than NPV (Estimated disposal proceeds less related expenses)	Sales price higher than net value	
Merchandise inventories	Book value higher than NPV (Estimated disposal proceeds less taxes)	Sales price higher than net value	
Capitalized construction contracts	Estimated total cost higher than estimated total revenue	Estimated total cost is expected to decline	2.22

10. Financial assets available-for-sale

This section is the same with the Consolidated Financial Statements. See Note V.11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Long-term equity investment

(1) Classification

Items	Ending Balance	Beginning Balance
Cost method	433,313,587.25	383,313,587.25
Equity method	4,480,413.65	4,754,692.79
Total	437,794,000.90	388,068,280.04
Less: Provision for impairment		
Net value	437,794,000.90	388,068,280.04

(2) Detailed classification by method

Investee	Share holding %	Voting rights %	Initial investment	Beginning Balance	Increase	Decrease	Ending Balance	Cash dividends
Cost method								
The Guangzhou Xingshun ship service Co., Ltd	83	100	500,000.00	500,000.00			500,000.00	
Guangzhou Wanda Marine Engineering Co., Ltd.	75	100	2,486,385.00	3,685,222.80			3,685,222.80	
Guangzhou Yongqian Steel Structure Co., Ltd.	51	51	25,438,698.00	37,522,079.55			37,522,079.55	
Guangdong GSI elevator Co., Ltd.	95	100	19,950,000.00	19,950,000.00			19,950,000.00	
Guangzhou Hongfan Technology Co., Ltd.	51	51	4,500,000.00	2,550,000.00			2,550,000.00	
The Rong Guang Development Co., Ltd.	100	100	10,439.94	26,443,792.13			26,443,792.13	
Guangzhou Guangli Ship Human Resources Service Co., Ltd.	80	100	3,052,492.77	3,052,492.77			3,052,492.77	
Guangzhou Shipyard Machinery Co., Ltd.	100	100	30,000,000.00	188,610,000.00			188,610,000.00	
Zhongshan Guangzhou Shipyard International Ship and Marine Engineering Co., Ltd.	100	100	100,000,000.00	100,000,000.00			100,000,000.00	
Guangzhou Shipyard International Marine Engineering Co., Ltd.	100	100	50,000,000.00	0.00	50,000,000.00		50,000,000.00	
China Shipbuilding Industry Yuan Zhou (Beijing) Technology Co., Ltd.	4.05	4.05	1,000,000.00	1,000,000.00			1,000,000.00	80,838.00
Subtotal			236,938,015.71	383,313,587.25	50,000,000.00		433,313,587.25	80,838.00
Equity method								
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	25	25	1,722,060.00	3,932,104.61	753,210.50	1,043,381.78	838,480.32	1,043,381.78
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	40	40	800,000.00	822,588.18	15,892.14		3,641,933.33	
Subtotal			2,522,060.00	4,754,692.79	769,102.64	1,043,381.78	4,480,413.65	1,043,381.78
Total			239,460,075.71	388,068,280.04	50,769,102.64	1,043,381.78	437,794,000.90	1,124,219.78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Investment in associated companies and joint ventures

Investee	Nature	Registration place	Legal representative	Business type	Registered capital ('000)	Share holding %	Voting rights %
Joint ventures							
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	Company with limited liability (the PRC and foreign countries of joint venture)	Guangzhou	Li Tong'an	Coating business	USD1,200	25	25
Associated companies							
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	Company with limited liability	Zhanjiang	Chen Miaogen	Ship designing	RMB2,000	40	40
Total							

Investee	The Ending Balance of total assets	The Ending Balance of total liabilities	The Ending Balance of net assets	Total operating revenue	Net profit
Joint ventures					
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	20,570,011.64	5,887,495.07	14,682,516.57	36,882,135.20	3,012,841.99
Associated companies					
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	7,929,280.12	5,840,555.72	2,088,724.40	5,376,882.00	39,730.36
Total	28,499,291.76	11,728,050.79	16,771,240.97	42,259,017.20	3,052,572.35

12. Investment property

This section is the same with the Consolidated Financial Statements. See Note V.13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Fixed assets

(1) Fixed assets category

Items	Beginning Balance	Increase	Decrease	Ending Balance
Total original cost	1,922,904,951.80	101,953,407.41	25,612,749.73	1,999,245,609.48
Buildings	942,888,895.32	39,170,315.17	5,508,224.35	976,550,986.14
Machinery	938,781,243.94	50,587,473.45	15,878,011.71	973,490,705.68
Transportation facilities	26,100,280.69	4,853,226.09	2,006,941.95	28,946,564.83
Office equipments	15,134,531.85	7,342,392.70	2,219,571.72	20,257,352.83
Total accumulated depreciation	899,254,508.78	99,912,700.72	21,133,673.87	978,033,535.63
Buildings	309,131,584.76	32,888,561.74	2,568,369.87	339,451,776.63
Machinery	568,112,022.67	61,475,419.80	14,736,488.74	614,850,953.73
Transportation facilities	11,886,615.83	2,080,161.67	1,906,594.86	12,060,182.64
Office equipments	10,124,285.52	3,468,557.51	1,922,220.40	11,670,622.63
Total carrying amount	1,023,650,443.02			1,021,212,073.85
Buildings	633,757,310.56			637,099,209.51
Machinery	370,669,221.27			358,639,751.95
Transportation facilities	14,213,664.86			16,886,382.19
Office equipments	5,010,246.33			8,586,730.20
Total provision for impairment				
Buildings				
Machinery				
Transportation facilities				
Office equipments				
Total net book value	1,023,650,443.02			1,021,212,073.85
Buildings	633,757,310.56			637,099,209.51
Machinery	370,669,221.27			358,639,751.95
Transportation facilities	14,213,664.86			16,886,382.19
Office equipments	5,010,246.33			8,586,730.20

- 1) The amortization of Fixed assets recognized through profit or loss is RMB99,912,700.72 for Current Year. (Last Year: RMB88,164,707.82).
- 2) The increased Fixed assets included RMB101,953,407.41 of capitalized Construction in progress transferred-in.
- 3) The profit or loss for disposal of Fixed assets for Current Year is RMB2,853,548.38.

(2) Buildings analyzed by region and year

Items	Ending Balance	Beginning Balance
Inside China		
Mid-term (10-50 years)	976,550,986.14	942,888,895.32
Total	976,550,986.14	942,888,895.32

- (3) As at 31 December 2012, there are no idle Fixed assets for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(4) Fixed assets with no certificate of title

Items	Carrying amount	Reasons	Expected time to obtain
Mechanical and electrical suppliers storage	28,173,539.24	Not complete real estate cancellation mortgage registration	Unpredictable
Company 5 floors office building (3-5)	5,005,274.51	Not complete real estate cancellation mortgage registration	Unpredictable
Company 5 floors office building (first 2 floors)	3,466,681.49	Not complete real estate cancellation mortgage registration	Unpredictable
Total	36,645,495.24		

14. Construction in progress

(1) Category

Items	Ending Balance			Beginning Balance		
	Carrying amount	Impairment	Net book value	Carrying amount	Impairment	Net book value
12.5m CNC Double Column Vertical Lathe	12,450,297.65		12,450,297.65	14,035,006.08		14,035,006.08
1 set 200 tons Fixed cranes	10,133,137.79		10,133,137.79			
Other projects	7,778,382.21		7,778,382.21	14,440,936.55		14,440,936.55
NO. 1-5 Simple steel shed engineering of Guangchuan International (New paint shed)	6,317,606.64		6,317,606.64	6,201,847.23		6,201,847.23
"1" development the construction of security conditions	4,250,000.00		4,250,000.00			
Ship generator load test integrated system	3,312,054.35		3,312,054.35	2,302,167.92		2,302,167.92
200 tons of fixed pier crane base Shelter	2,037,466.56		2,037,466.56			
Integrated ship building project	1,836,085.54		1,836,085.54			
Shunde shipyard 11 roller leveller	1,350,046.56		1,350,046.56	602,226.11		602,226.11
Preconstruction cost Infrastructure and energy saving transformation	1,328,197.48		1,328,197.48			
Long Island pier fixed tower crane	1,088,459.01		1,088,459.01	1,020,170.26		1,020,170.26
Movement of large machinery and workshop	1,024,350.27		1,024,350.27	700,959.21		700,959.21
Network reconstruction				11,703,473.91		11,703,473.91
Construction fees of Zhongshan Guangchuan International and Ocean Project Co., Ltd.				2,631,006.06		2,631,006.06
1 tug from Shipping Ministry				2,482,965.21		2,482,965.21
Transformation of team room 3 and surrounding space				4,490,720.64		4,490,720.64
A loaded class outfitting shed and team room				2,361,008.29		2,361,008.29
1 self-motorized barge				1,422,590.60		1,422,590.60
The third stage of environmental anti-pollution engineering				1,376,103.45		1,376,103.45
1-2 tender				1,258,074.65		1,258,074.65
Welding fumes governance in the workshop				1,025,072.32		1,025,072.32
Total	52,906,084.06		52,906,084.06	68,054,328.49		68,054,328.49

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) The changes in significant Construction in progress

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Capitalized in Fixed assets	Decrease	
12.5m CNC Double Column Vertical Lathe	14,035,006.08			1,584,708.43	12,450,297.65
1 set 200 tons Fixed cranes		10,133,137.79			10,133,137.79
NO. 1-5 Simple steel shed engineering of Guangchuan International (New paint shed)	6,201,847.23	115,759.41			6,317,606.64
"1" development the construction of security conditions		4,250,000.00			4,250,000.00
Ship generator load test integrated system	2,302,167.92	1,009,886.43			3,312,054.35
200 tons of fixed pier crane base		2,037,466.56			2,037,466.56
Shelter		1,836,085.54			1,836,085.54
Total	22,539,021.23	19,382,335.73		1,584,708.43	40,336,648.53

Items	Budget	Budget use-up ratio %	Press of work	Accumulated capitalized interest	Capitalized interest for Current Year	Capitalization %	Source of capital
12.5m CNC Double Column Vertical Lathe	15,000,000.00	93.57	95				Self financed
1 set 200 tons Fixed cranes	12,000,000.00	84.44	84.44				Self financed
NO. 1-5 Simple steel shed engineering of Guangchuan International (New paint shed)	7,000,000.00	90.25	90.25				Self financed
"1" development the construction of security conditions	4,500,000.00	94.44	94.44				Self financed
Ship generator load test integrated system	3,560,000.00	93.04	93.04				Self financed
200 tons of fixed pier crane base	1,920,000.00	106.12	99				Self financed
Shelter	4,000,000.00	45.90	45.90				Self financed
Total	47,980,000.00						

15. Fixed assets disposal

Items	Ending Balance	Beginning Balance	Reasons
Machinery and equipment	33,554.52	252,871.05	Scrapped
Total	33,554.52	252,871.05	Scrapped

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Intangible assets

(1) Category

Items	Beginning Balance	Increase	Decrease	Ending Balance
Total original cost	136,125,443.86	921,202.19		137,046,646.05
Land use right	73,481,962.38			73,481,962.38
Non-patent technology	62,643,481.48	921,202.19		63,564,683.67
Total accumulated amortization	65,079,542.82	5,987,365.42		71,066,908.24
Land use right	23,811,988.77	1,478,456.76		25,290,445.53
Non-patent technology	41,267,554.05	4,508,908.66		45,776,462.71
Total carrying amount	71,045,901.04			65,979,737.81
Land use right	49,669,973.61			48,191,516.85
Non-patent technology	21,375,927.43			17,788,220.96
Total provision for impairment				
Total net book value	71,045,901.04			65,979,737.81
Land use right	49,669,973.61			48,191,516.85
Non-patent technology	21,375,927.43			17,788,220.96

(2) Land use right analyzed by region and year

Items	Ending Balance	Beginning Balance
Inside China		
Mid-term (10-50 years)	49,669,973.61	48,191,516.85
Total	49,669,973.61	48,191,516.85

(3) The amortization of Intangible assets recognized through profit or loss is RMB5,987,365.42 for Current Year. (Last Year: RMB6,883,278.99)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Research and development expenditures

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Expensed	Capitalized	
2010 breakthroughs project at key areas in Guangdong and Hong Kong (high technology shipping)		13,832,282.72	13,832,282.72		
6000 tons tank ship development		9,098,281.45	9,098,281.45		
Independent research and development of more than 50,000 dwt semi-submersible self-navigation project boat		7,310,871.07	7,310,871.07		
50,000 tons updating development of handy max product for tank ship		6,563,137.02	6,563,137.02		
Collier development		4,406,428.62	4,406,428.62		
Research and development of 48000 tons refined oil and crude oil ship		3,512,023.95	3,512,023.95		
Shipbuilding computer integrated manufacturing system-GSI-SCIMS II		2,142,414.56	2,142,414.56		
Other research and development projects		12,999,652.00	12,999,652.00		
Total		59,865,091.39	59,865,091.39		

18. Long-term unamortized assets

This section is the same with the Consolidated Financial Statements. See Note V.19.

19. Deferred tax assets and Deferred tax liabilities

(1) Recognized Deferred tax assets and Deferred tax liabilities

Items	Ending Balance	Beginning Balance
Deferred tax assets		
Provision for impairment of assets	69,764,272.08	50,826,655.56
Prepaid housing subsidy	3,156,862.80	2,941,915.28
Monetary housing allowance for retired employees	7,860,883.45	7,812,132.99
Medical insurance for retired employees within 10 years	129,034.47	157,046.27
Payroll for retiring employees	118,282.91	164,121.20
Payroll balance owing at year end		68,025.00
Financial liabilities held-for-trading	33,531.11	
Total	81,062,866.82	61,969,896.30
Deferred tax liabilities		
Fair value changes in Financial assets available-for-sale	30,453,348.90	25,656,780.44
Financial instruments held-for-trading	3,408,677.58	2,860,440.02
Total	33,862,026.48	28,517,220.46

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Taxable differences and deductible differences items

Items	Ending Balance	Beginning Balance
Deferred tax assets		
Provision for impairment of assets	473,907,578.48	333,359,044.16
Prepaid housing subsidy	21,045,752.00	19,612,768.53
Monetary housing allowance for retired employees	52,405,889.67	52,080,886.60
Medical insurance for retired employees within 10 years	860,229.80	1,046,975.13
Payroll for retiring employees	788,552.73	1,094,141.33
Payroll balance owing at year end		453,500.00
Financial liabilities held-for-trading	223,540.73	
Total	540,419,112.13	413,132,641.99
Deferred tax liabilities		
Fair value changes in Financial assets available-for-sale	203,022,326.00	171,045,202.93
Financial instruments held-for-trading	22,724,517.20	19,069,600.13
Total	465,095,147.20	338,844,370.40

20. Provision for impairment of assets

Current Year

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Reverse	Write-off	
Bad debts	16,511,911.66	308,910.02		1,271,069.29	15,549,752.39
From Accounts receivable	5,561,824.40	-366,291.01		1,271,069.29	3,924,464.10
From Other receivables	10,950,087.26	675,201.03			11,625,288.29
Provision for devaluation of Inventories	314,992,120.91	421,998,007.53	9,288,230.79	286,748,835.54	440,953,062.11
Provision for impairment of Investment property	1,855,011.59				1,855,011.59
Total	333,359,044.16	422,306,917.55	9,288,230.79	288,019,904.83	458,357,826.09

Last Year

Items	Beginning Balance	Increase	Decrease		Ending Balance
			Reverse	Write-off	
Bad debts	14,105,435.42	2,406,476.24			16,511,911.66
From Accounts receivable	2,314,933.95	3,246,890.45			5,561,824.40
From Other receivables	11,790,501.47	-840,414.21			10,950,087.26
Provision for devaluation of Inventories	15,586,014.44	334,231,962.77		34,825,856.30	314,992,120.91
Provision for impairment of Investment property	17,344,400.27			15,489,388.68	1,855,011.59
Total	47,035,850.13	336,638,439.01		50,315,244.98	333,359,044.16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. Short-term loans

Type	Currency	Ending Balance			Beginning Balance		
		Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Mortgage loans	USD	7,000,000.00	6.2855	43,998,500.00	30,000,000.00	6.3009	189,027,000.00
Unsecured loans	USD	7,000,000.00	6.2855	43,998,500.00	136,000,000.00	6.3009	856,922,400.00
Others (Import bill advance)	USD				4,897,411.99	6.3009	30,858,103.21
Total				87,997,000.00			1,076,807,503.21

Mortgage: As at 31 December 2012, the short-term loans of RMB43,998,500.00 are granted with other cash fund of RMB50,680,000.00 of the Group as the pledge.

Interest rate: As at 31 December 2012, the weighted average annual interest rate of the short-term loans is 2.42%. (1 January 2012: 2.12%)

22. Financial liabilities held-for-trading

This section is the same with the Consolidated Financial Statements. See Note V.23.

23. Notes payable

This section is the same with the Consolidated Financial Statements. See Note V.24.

24. Accounts payable

(1) Category

Items	Ending Balance	Beginning Balance
Product settlement	91,885,383.15	38,831,818.61
Materials purchased	822,598,502.34	1,103,799,617.47
Settlements for projects	120,297,551.79	128,937,188.98
Warranty	73,630,116.41	79,095,215.52
Total	1,108,411,553.69	1,350,663,840.58

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) *Aging analysis*

Items	Ending Balance	Beginning Balance
Within 1 year	1,017,965,586.15	1,323,434,196.11
1-2 years	79,257,207.91	17,869,208.58
2-3 years	6,254,097.96	4,498,750.90
Over 3 years	4,934,661.67	4,861,684.99
Total	1,108,411,553.69	1,350,663,840.58

(3) *Large-amount Accounts payable aged more than 1 year*

Clients	Amount	Nature	Reasons
The A Institute of China Shipbuilding Industry Corporation	30,770,244.11	Money owed to suppliers	Not settled
China Academy of Sciences, Shenyang Institute of Automation	7,315,000.00	Money owed to suppliers	Not settled
Zhenjiang CSSC equipment Co., Ltd.	4,765,430.00	Money owed to suppliers	Not settled
China Machinery Industry Construction Corporation	4,416,819.98	Money owed to suppliers	Not settled
B Institute of China Shipbuilding Industry Corporation	3,238,500.00	Money owed to suppliers	Not settled

(4) *The accounts payable balance details exclude shareholders who hold 5% or more of the Company's shares.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Accounts payable to related parties

Company Name	Ending Balance	Beginning Balance
1. Associated		
South China special coating Industrial Co., Ltd.	313,311.12	
Subtotal	313,311.12	
2. Under common control of CSSC		
Guangzhou Shipyard Ltd.	22,709,029.66	4,186,999.16
CSSC Nanjing Oasis Machine Co., Ltd.	11,351,275.01	17,735,275.01
Zhenjiang CSSC equipment Co., Ltd.	9,691,690.00	17,706,430.00
Survey and Design Institute of the China Shipbuilding Co., Ltd.	9,421,113.54	6,013,153.39
Guangzhou Wenchong Shipyard Co., Ltd.	4,831,000.00	
Anqing CSSC Diesel Engine Co., Ltd.	3,900,000.00	
Shipbuilding in South China Marine Machinery Co., Ltd.	3,294,332.89	13,353,140.00
Shanghai Derui Sihua Ships Equipment Co., Ltd.	3,219,175.00	
Design and Research Institute of China Shipbuilding and Marine Engineering	2,442,500.00	3,155,475.00
Eastern Shanghai Heavy Machinery Co., Ltd.	2,002,500.00	1,995,000.00
The Shanghai Shipbuilding Harbor Ship Equipment Co., China Shipbuilding Industry Corporation Ship Systems Engineering Department	1,410,000.00	705,000.00
Guangzhou Shipbuilding Corporation	1,403,292.39	1,866,661.67
Jiujiang China Shipbuilding Changan Fire Equipment Co., Ltd.	1,136,400.00	964,000.00
Jiujiang Haitian Equipment Manufacture Co., Ltd.	1,010,550.00	2,594,515.00
Shipbuilding International Trading Co., Ltd.	970,402.35	192,500.00
Shipbuilding Guijiang Shipbuilding Co., Ltd.	642,500.00	92,500.00
Design and Research Institute of China Shipbuilding and Marine Engineering	578,000.00	7,760,000.00
Shanghai Ship Research and Design Institute	534,000.00	
National Engineering Research Center of Shanghai ship design technology Co., Ltd.	522,000.00	190,000.00
Ninth Design and Research Institute of the China Shipbuilding Co., Ltd.	454,868.00	647,368.00
Xijiang Shipbuilding Co., Ltd.	375,000.00	
China Ship Power Station Equipment Co., Ltd.	331,500.00	
Jiangxi Chaoyang Machinery Factory	198,898.00	3,080.00
The Jiujiang jingda Detection Technology Co., Ltd.	158,400.00	
Shanghai Zhennan Project Management and Consulting Co., Ltd.	151,500.00	
Huawai Shipbuilding Equipment Co., Ltd.	113,625.00	346,375.00
Guangzhou Longxue Pipe Co., Ltd.	111,332.42	
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	100,000.00	100,000.00
The Jiujiang Shipbuilding Fire Equipment Co.	70,150.00	64,900.00
Guangzhou Huangpu Shipbuilding Co., Ltd.	40,000.00	
Eastern Shanghai Shipbuilding Valve Co., Ltd.	9,920.00	
The Shanghai Navigational Equipment Co. Ltd.	5,310.00	
China Shipbuilding Trading Company	-52,941.99	-52,591.08
Guangzhou Shipbuilding the Nansha Longxue shipbuilding Co., Ltd.		855,984.26
Eastern Shanghai Shipbuilding Electric Co., Ltd.		482,000.00
Beijing Shipbuilding Information Technology Co., Ltd.		328,000.00
Anqing Marine Electric Co., Ltd.		68,000.00
The Shanghai Navigation Instrument Co. Ltd.		39,000.00
Subtotal	84,722,822.27	81,392,765.41

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company Name	Ending Balance	Beginning Balance
3. Subsidiaries		
The Guangzhou Xingshun ship service limited liability company	34,640,624.85	30,966,411.32
Guangzhou Guangli Ship Human Resources Service Co., Ltd.	11,154,379.99	9,958,584.17
Guangzhou Yonglian Steel Structure Co., Ltd.	9,577,052.58	6,172,637.96
Guangzhou Wanda Marine Engineering Co., Ltd.	6,810,551.33	7,237,546.17
Guangzhou Shipyard Machinery Co., Ltd.	5,330,015.45	14,340,364.93
Zhongshan Guangzhou Shipyard International Ship and Marine Engineering Co., Ltd.	3,550,487.86	
Guangzhou Hongfan Technology Co., Ltd.	3,352,027.50	1,355,763.50
Guangdong GSI elevator Co., Ltd.	556,000.00	102,250.00
Subtotal	74,971,139.56	70,133,558.05
Total	160,007,272.95	151,526,323.46

25. Advances from customers

(1) Aging analysis

Items	Ending Balance	Beginning Balance
Within 1 year	224,781,583.83	270,657,663.00
Over 1 year	133,799,117.78	62,929,306.11
Total	358,580,701.61	333,586,969.11

(2) Large-amount Advances from customers aged more than 1 year

Clients	Amount	Nature	Reasons
Guangdong Hydropower Second Board Co., Ltd.	68,253,557.81	Engineering projects	Not settled
Guangdong Hydropower Second Board Co., Ltd.	9,535,200.00	Engineering projects	Not settled
Qingyuan Storage Power Generation Co., Ltd.	19,880,151.62	Engineering projects	Not settled
Construction Steel Structure Co., Ltd.	15,329,985.82	Engineering projects	Not settled
Sihui Highway Administration	5,140,368.00	Engineering projects	Not settled
Qingdao Haier Special electric freezer Co., Ltd.	3,119,247.86	Engineering projects	Not settled
Total	121,258,511.11		

(3) The Advances from customers balance details exclude shareholders who hold 5% or more of the Company's shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(4) Advances from customers from related parties

Company Name	Ending Balance	Beginning Balance
Beijing Shipbuilding Information Technology Co., Ltd.	202,500.00	0.00
Ships and Ocean Engineering Design and Research Institute of Guangzhou	7,500.00	0.00
Guangzhou Shipyard Ltd.	57,000.00	2,036,581.20
Guangzhou Shipbuilding Nansha Longxue construction Development Co., Ltd.,	10,450.00	10,450.00
Shipbuilding in South China Marine Machinery Co., Ltd.	148,000.00	37,000.00
CSSC Jiangnan Heavy Industry Co., Ltd.	90,650.00	0.00
Shanghai Ship Research and Design Institute	1,000,000.00	0.00
The Guangzhou Longxue Shipbuilding Co., Ltd.	0.00	3,795,340.00
China Shipbuilding Technology Institute of Economic Research	40,000.00	262,000.00
Total	1,556,100.00	6,141,371.20

(5) Advances from customers with foreign currency balance

Currency	Ending Balance			Beginning Balance		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
USD	26,426,900.00	6.3187	166,984,768.81	6,756,810.18	6.6469	44,911,985.79
Total			166,984,768.81			44,911,985.79

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Payroll payable

(1) Category

Items	Beginning Balance	Increase	Decrease	Ending Balance
Wages or salaries, bonuses, allowances and subsidies	453,500.00	301,002,517.00	300,503,021.85	952,995.15
Staff welfare		25,035,248.60	25,035,248.60	
Social insurance	237,044.14	70,691,353.11	70,928,397.25	
Basic medical insurance (Note 1)	36,041.34	20,705,727.71	20,741,769.05	
Basic pension (Note 2)	-2,433.05	42,391,244.70	42,388,811.65	
Unemployment insurance (Note 3)	203,435.85	4,566,434.65	4,769,870.50	
Work-related injury insurance		2,018,630.70	2,018,630.70	
Maternity insurance		1,009,315.35	1,009,315.35	
Supplementary medical insurance				
Corporate annuity (Note 4)	1,195,097.68	15,486,678.45	15,363,397.42	1,318,378.71
Housing fund (Note 5)		33,243,031.00	33,243,031.00	
Union & Education funds	6,315,574.98	12,437,138.45	8,460,753.79	10,291,959.64
Non- monetary benefits				
Severance benefits	1,094,141.39	729,959.80	1,035,548.51	788,552.68
Settlement for labor contract dissolution (Note 6)	1,094,141.39	729,959.80	1,035,548.51	788,552.68
Outsourcing labour costs and others		276,108,996.77	276,108,996.77	
Share-based payment in cash				
Total	9,295,358.19	734,734,923.18	730,678,395.19	13,351,886.18

As stipulated by the relevant regulations of the PRC government, the Company and its local subsidiaries had provided existing and upon retiring employees with Basic medical insurance, Basic pension, Unemployment insurance, Work-related injury insurance, Maternity insurance, Supplementary medical insurance, Corporate annuity, Housing fund, etc. Other than those disclosed employee benefit plans, 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: 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: 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: Corporate 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 Group, which was reported to and reviewed by the Guangdong Provincial Labor and Social Security Department. The Group had established the Annuity Council, which is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6: Settlement for labor contract dissolution: 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 for termination of labour and compensation can not be accounted into the profit or loss.

27. Taxes payable

Items	Ending Balance	Beginning Balance
Value-Added Tax	37,552,744.86	-71,508,277.52
Business Tax	41,444.30	284,207.81
Corporate Income Tax	22,750,329.21	106,928,579.88
Individual Income Tax	4,799,696.70	5,357,594.74
City Maintenance and Construction Tax	9,135,493.30	87,589.31
Real Estate Tax	831,534.59	774,014.48
Land Appreciation Tax	280,593.80	273,550.80
Education Surcharge	6,525,352.37	55,747.45
Flood control and maintain expenses	1,940,026.93	2,772,919.44
Total	83,857,216.06	45,025,926.39

28. Interest payable

This section is the same with the Consolidated Financial Statements. See Note V.29.

29. Dividend payable

This section is the same with the Consolidated Financial Statements. See Note V.30.

30. Other payables

(1) Aging analysis

Items	Ending Balance	Beginning Balance
Within 1 year	11,121,447.96	12,378,854.85
1-2 years	636,409.94	720,356.06
2-3 years	200,000.00	1,373,524.33
Over 3 years	9,206,691.49	8,250,686.98
Total	21,164,549.39	22,723,422.22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Large-amount Other payables aged more than 1 year

Items	Amount	Nature
Supplementary pension	3,251,393.73	Supplementary pension
Wuhan Yinhu golf membership	1,210,000.00	Golf membership down payment
Retiring medical insurance	860,229.85	Retiring medical insurance
Hualian Ship Co., Ltd. in Hong Kong	469,396.39	Advanced payment
Total	5,791,019.97	

(3) The Other payables balance details exclude shareholders who hold 5% or more of the Company's shares.

(4) Large-amount Other payables

Items	Amount	Aging	Nature
Employee aid fund for purchasing house	7,890,210.00	0-2 years	Employee aid fund for purchasing house
Wu Han Yinhu Golf club membership	1,210,000.00	Over 3 years	Membership due
Guangxi zongjian building equipment Co., Ltd	965,500.00	Within 1 year	Advances
Retiring medical insurance	860,229.85	Over 3 years	Retiring medical insurance
Accounting firms	720,000.00	Within 1 year	Advance audit fees
Total	11,645,939.85		

31. Non-current liabilities due within one year

This section is the same with the Consolidated Financial Statements. See Note V.32.

32. Other current liabilities

Items	Ending Balance	Beginning Balance
Long-term project settlement		
Shipbuilding products	1,342,923,102.78	2,034,909,482.66
Deferred income		
Infrastructure construction projects	1,229,502.14	1,231,074.60
150tons self-propelled hydraulic flatbed(Revamp fund)	166,666.68	166,666.68
Technological transformation potential fund-4000tons ship to develop new equipment and technological transformation	142,191.84	142,191.84
Dock adaptive transformation	26,666.64	26,666.64
Noise control engineering for painting workshop	15,789.48	15,789.48
Coating technology and transformation (coating workshop building)	154,313.95	153,698.64
Noise control engineering for new area	10,799.94	7,599.96
Transferring capabilities of regional value integration and upgrading technologies	54,186.78	58,438.11
Innovative capacity-building projects of the Enterprise Technology Centre	300,000.00	300,000.00
Dock adaptive transformation (1)	33,333.36	33,333.36
Metering scientific instruments for the Group	9,999.96	
Total:	1,345,066,553.55	2,037,044,941.97

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. Long-term loans

This section is the same with the Consolidated Financial Statements. See Note V.34.

34. Special payable

This section is the same with the Consolidated Financial Statements. See Note V.35.

35. Estimated liabilities

This section is the same with the Consolidated Financial Statements. See Note V.36.

36. Other non-current liabilities

(1) Category

Items	Ending Balance	Beginning Balance
Enterprise Technology Center innovative capacity-building projects	1,800,000.00	2,100,000.00
Special funds for innovative enterprises	1,589,725.06	3,000,000.00
Integrated ship building project	18,943,083.81	20,171,013.49
Technological transformation potential fund-4000tons ship to develop new equipment and technological transformation	1,137,534.00	1,279,725.84
Dock adaptive transformation	613,333.52	640,000.16
Dock adaptive transformation (1)	766,666.48	799,999.84
Coating technology and transformation (coating workshop building)	1,254,590.13	1,409,519.39
Noise control engineering for painting workshop	205,263.12	221,052.6
Noise control engineering for new area	203,733.50	166,533.44
Transferring capabilities of regional value integration and upgrading technologies	109,854.93	164,041.71
Upfront fees for comprehensive technology upgrading 150tons self-propelled hydraulic flatbed	35,000,000.00	10,000,000.00
Upfront fees for infrastructure development of the quality Department metering station	1,374,999.95	1,541,666.63
Metering scientific instruments for the Group	4,368,270.37	2,000,000.00
Others	42,500.23	62,500.15
		199,772.44
Total	67,409,555.10	43,755,825.69

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Government grants

Items	Beginning balance		Ending balance		Expensed	Refund	Reasons
	Other non-current liabilities	Other current liabilities	Other non-current liabilities	Other current liabilities			
Enterprise Technology Center innovative capacity-building projects	2,100,000.00	300,000.00	1,800,000.00	300,000.00	300,000.00		
Special funds for innovative enterprises	3,000,000.00		1,589,725.06		1,410,274.94		
Integrated ship building project	20,171,013.49	1,231,074.60	18,943,083.81	1,229,502.14	1,229,502.14		
Technological transformation potential fund-4000tons ship to develop new equipment and technological transformation	1,279,725.84	142,191.84	1,137,534.00	142,191.84	142,191.84		
Dock adaptive transformation	640,000.16	26,666.64	613,333.52	26,666.64	26,666.64		
Dock adaptive transformation (1)	799,999.84	33,333.36	766,666.48	33,333.36	33,333.36		
Coating technology and transformation (coating workshop building)	1,409,519.39	153,698.64	1,254,590.13	154,313.95	154,313.95		
Noise control engineering for painting workshop	221,052.60	15,789.48	205,263.12	15,789.48	15,789.48		
Noise control engineering for new area	166,533.44	7,599.96	203,733.50	10,799.94	10,799.94		
Transferring capabilities of regional value integration and upgrading technologies	164,041.71	58,438.11	109,854.93	54,186.78	54,186.78		
Upfront fees for comprehensive technology upgrading	10,000,000.00		35,000,000.00				
150tons self-propelled hydraulic flatbed	1,541,666.63	166,666.68	1,374,999.95	166,666.68	166,666.68		
Upfront fees for infrastructure development of the quality Department metering station	2,000,000.00		4,368,270.37				
Metering scientific instruments for the Group	62,500.15		42,500.23	9,999.96	9,999.96		
Ocean lifeboat supporting frontline motivation and protection training					600,000.00		
50000 ton semi-submersible self-propelled engineering ship's independent research and development					680,000.00		
The ship board processing automatic-molded robot development					200,823.79		
Others	199,772.44						
Total	43,755,825.69	2,135,459.31	67,409,555.10	2,143,450.77	5,034,549.50		

37. Share capital

This section is the same with the Consolidated Financial Statements. See Note V.38.

38. Capital reserves

This section is the same with the Consolidated Financial Statements. See Note V.39.

39. Special reserves

Items	Beginning Balance	Increase	Decrease	Ending Balance
Safe production fees		20,653,660.44	20,653,660.44	
Total		20,653,660.44	20,653,660.44	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. Surplus reserves

Current Year

Items	Beginning Balance	Increase	Decrease	Ending Balance
Statutory surplus reserves	406,572,887.58	5,716,297.59		412,289,185.17
Discretionary surplus reserves	18,582,196.43			18,582,196.43
Total	425,155,084.01	5,716,297.59		430,871,381.60

Last Year

Items	Beginning Balance	Increase	Decrease	Ending Balance
Statutory surplus reserves	357,476,705.80	49,096,181.78		406,572,887.58
Discretionary surplus reserves	18,582,196.43			18,582,196.43
Total	376,058,902.23	49,096,181.78		425,155,084.01

According to the Corporate Law of the P.R. China and Articles of the Company, the Surplus reserve is appropriated from 10% of the net profit for current year. If the accumulated Statutory surplus reserves exceed 50% of registered capital, the appropriation shall cease. Statutory surplus reserves, if approved, can be used to cover losses, or transfer to Share capital. As it agreed in the Board of Directors, the Statutory surplus reserve of RMB5,716,297.59 is appropriated from 10% of the net profit for the year 2012. (2011: RMB49,096,181.78)

41. Undistributed profits

Items	Current Year	Last Year	Appropriation %
Ending Balance of Last Year	2,279,528,850.04	1,887,130,972.05	
Add: Beginning undistributed profits adjustment			
Changes in accounting policies			
Corrections of Prior Period Errors			
Change of consolidation scope under common control			
Other adjustments			
Beginning Balance of Current Year	2,279,528,850.04	1,887,130,972.05	
Add: Net profit attributable to Parent Company	57,162,975.86	490,961,817.77	
Less: Provision of statutory surplus reserve	5,716,297.59	49,096,181.78	10% of Net profit
Provision of statutory surplus reserve			
Provision of general risk reserve			
Ordinary share dividend payable		49,467,758.00	
Capitalized ordinary share dividend			
Ending Balance of Current Year	2,330,975,528.31	2,279,528,850.04	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. Net current assets

Items	Ending Balance	Beginning Balance
Current assets	8,506,472,211.77	9,664,782,909.51
Less: Current liabilities	4,681,976,907.36	6,182,842,963.67
Net current assets	3,824,495,304.41	3,481,939,945.84

43. Total assets less current liabilities

Items	Ending Balance	Beginning Balance
Total assets	10,470,406,097.39	11,552,950,433.35
Less: current liabilities	4,681,976,907.36	6,182,842,963.67
Total assets less current liabilities	5,788,429,190.03	5,370,107,469.68

44. Loans

This section is the same with the Consolidated Financial Statements. See Note V.45.

45. Operating income. Operating cost

Items	Current Year	Last Year
Main business income	5,673,954,116.28	7,422,935,805.42
Other business income	106,607,752.90	168,778,083.79
Total	5,780,561,869.18	7,591,713,889.21
Main business cost	5,336,245,608.32	6,669,759,006.99
Other business cost	68,364,821.23	129,806,074.27
Total	5,404,610,429.55	6,799,565,081.26

(1) Gross margin

Items	Current Year	Last Year
Main business income	5,673,954,116.28	7,422,935,805.42
Main business cost	5,336,245,608.32	6,669,759,006.99
Gross margin	337,708,507.96	753,176,798.43

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) Main business income – classified by products

Items	Current Year		Last Year	
	Main business income	Main business cost	Main business income	Main business cost
Shipbuilding products	5,267,831,171.79	4,944,458,380.90	7,225,493,551.62	6,479,334,758.32
Steel Structure Engineering	56,401,886.32	55,171,065.69	3,350,919.27	3,251,930.78
Mechanical and electrical products and others	349,721,058.17	336,616,161.73	194,091,334.53	187,172,317.89
Total	5,673,954,116.28	5,336,245,608.32	7,422,935,805.42	6,669,759,006.99

(3) Main business income – classified by regions

Regions	Current Year		Last Year	
	Main business income	Main business cost	Main business income	Main business cost
Malta	128,210,255.04	101,249,178.53	184,559,546.96	152,020,229.96
Thailand	22,338,172.30	22,264,349.68		
Denmark	541,405,717.48	464,899,406.65	2,462,852,434.44	2,089,850,588.30
Macao			730,662.00	670,244.95
Italy		-2,082,819.89		-249,770.95
America			98,113.12	98,491.09
Hong Kong	119,400,746.29	97,743,967.44	287,080,863.55	245,435,090.93
Greece	449,617,229.92	408,190,424.47	364,385,336.72	299,415,049.97
Taiwan	1,064,938.91	1,058,717.94	2,236,881.22	2,228,376.05
Sweden	266,824,293.40	253,978,931.41	92,113,557.89	92,113,557.89
Australia	116,571,548.25	113,253,109.73		
Netherlands	697,395,069.40	581,518,037.73	727,783,083.38	680,661,903.82
China	3,331,126,145.29	3,294,172,304.63	3,301,095,326.14	3,107,515,244.98
Total	5,673,954,116.28	5,336,245,608.32	7,422,935,805.42	6,669,759,006.99

(4) Other business income & Other business cost

Items	Current Year		Last Year	
	Other business income	Other business cost	Other business income	Other business cost
Sales of materials	3,704,946.89	3,104,461.25	8,431,098.62	6,108,018.03
Sales of scrap materials	41,983,570.62	24,559,628.95	63,232,134.70	40,652,682.55
Service income	24,366,621.35	9,260,503.44	60,788,224.00	49,195,935.50
Rental income	10,953,871.83	3,541,353.33	10,139,218.54	3,475,146.68
Energy income	25,598,742.21	27,898,874.26	26,187,407.93	30,374,291.51
Total	106,607,752.90	68,364,821.23	168,778,083.79	129,806,074.27

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Contract revenue

Items	Total amount	Accumulated cost	Accumulated gross margin	Amounts settled
Fixed price contract				
39000 series				
(tankers for product oil/chemicals)	672,138,340.02	680,142,320.50	-19,558,230.21	672,138,340.02
50500 series (tanks for product oil/chemicals)	2,168,769,553.07	1,177,291,683.86	193,022,805.00	1,469,547,904.57
Ro-ro passenger ship series	1,258,059,529.90	787,002,806.30	251,056,723.60	1,148,059,529.90
52300 series (tankers for product oil/chemicals)	1,514,383,017.03	1,276,092,514.52	178,924,377.77	1,421,395,017.07
37500 series (tankers for product oil/chemicals)	923,224,449.00	126,059,817.72		288,184,448.67
Special ships	4,395,480,000.00	1,797,423,439.24	181,836,673.11	2,598,700,000.00
50000 series (semi-submerged ships)	2,225,917,975.38	1,338,079,739.48	162,998,211.23	1,543,627,975.38
48000 series (tankers for crude oil/chemicals)	2,195,445,966.96	2,230,527,640.92	-398,674,060.95	2,070,094,933.45
50000 series (bulk carrier)	770,000,000.00	595,817,505.45	-67,458,638.96	616,000,000.00
6000 tankers for product oil	65,000,000.00	90,176,871.23	-44,841,171.53	52,000,000.00
308000 series (tankers for crude oil)	1,064,564,800.00			106,334,800.00
50000 series (tankers for product oil/chemicals)	1,334,636,520.00	3,161,633.09		133,730,520.00
40000 series (tankers for product oil/chemicals)	341,244,090.00	3,149,594.58		102,663,088.00
Total	18,928,864,241.36	10,104,925,566.89	437,306,689.06	12,222,476,557.06

Because the declining trend of the ship's price, the estimated total revenue of contracts decrease affected by the appreciation of the RMB against the U.S. dollar; as well as changes of demand-supply relationship in the shipbuilding market higher the construction standard, so that the estimated total cost of contracts increases; the estimated total cost of the Group's ship contracts exceeds the estimated total revenue, resulting in an estimated loss. The estimated loss for contracts for current year is RMB415,337,568.13. (Last year: RMB323,166,889.63)

(6) The total sales revenue for current year from top 5 clients is RMB3,233,483,013.62, accounting for 56.99% of total sales revenue for the whole year. (Last year: RMB3,475,218,040.66, 46.82%)

Company Name	Operating income	%
China Shipping Development Co., Ltd.	1,185,649,582.16	20.90
Netherlands—FAIRSTAR HEAVY TRANSPORT	697,395,069.40	12.29
Denmark LAURITAEN TARKERS A/S	493,965,011.19	8.71
Shenzhen Ocean Shipping Co., Ltd.	460,152,409.73	8.11
Greece-Tomasos Brothers Ins	396,320,941.14	6.98
Total	3,233,483,013.62	56.99

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. Business tax and surcharges

Items	Current Year	Last Year	Tax Base
Business Tax	957,131.53	1,247,320.08	Service revenue
City Maintenance and Construction Tax	10,458,154.70	21,267,347.22	Turnover tax payable
Education Surcharge	7,477,732.91	15,178,452.16	Turnover tax payable
Total	18,893,019.14	37,693,119.46	

47. Selling expenses

Items	Current Year	Last Year
Ship maintenance fee	-8,891,131.40	12,446,100.27
Business expenditure	2,594,762.88	3,283,832.30
Advertisement	576,246.10	636,547.08
Exhibition	479,624.45	584,497.22
Other selling expenses	1,645,247.86	509,790.30
Total	-3,595,250.11	17,460,767.17

48. Administrative expense

Items	Current Year	Last Year
Salaries	101,219,518.53	96,621,135.29
Research and development fee	59,865,091.39	79,271,898.97
Repairing expenses	40,500,222.64	59,211,906.00
Labor transfer fees	14,974,322.87	13,667,853.17
Taxes and surcharges	13,792,861.16	14,597,978.26
Depreciation	13,174,936.20	12,799,383.44
Amortisation of intangible assets	5,519,858.14	6,365,771.71
Board meeting fee	5,349,112.38	5,591,615.79
Water supply and electricity expense	3,759,457.68	3,533,343.65
Entertainment	3,237,882.76	3,560,230.69
Rental expense	2,843,652.78	3,013,775.20
Travelling expense	2,787,609.12	2,335,076.98
Audit fees	2,412,108.29	2,110,288.98
Technical training fees	2,200,000.00	2,012,400.00
Consulting fees	1,863,594.33	1,069,200.00
Labor insurance premiums	1,634,246.83	951,289.47
Environmental protection fee	1,632,983.00	1,784,957.00
Security expense	1,444,294.23	1,766,966.92
Overseas staff expenses	1,218,679.81	733,739.79
Storage fees	1,147,436.29	1,729,444.60
Administrative expenses	1,080,162.70	1,020,976.29
Material consumption	1,069,701.84	822,972.76
Others	12,782,509.53	10,138,034.59
Total	295,510,242.50	324,710,239.55

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. Finance costs

(1) Finance costs category

Items	Current Year	Last Year
Interest expenditure	94,902,488.87	69,210,058.64
Less: Interest income	206,184,348.06	190,465,806.74
Add Exchange loss	692,946.60	-124,718,181.68
Add: Other expenditure	3,228,975.66	1,120,346.87
Total	-107,359,936.93	-244,853,582.91

(2) Interest expenditure category

Items	Current Year	Last Year
Bank loan interest	94,902,488.87	69,210,058.64
Subtotal	94,902,488.87	69,210,058.64
Less: Capitalized interest		
Total	94,902,488.87	69,210,058.64

(3) Interest income category

Items	Current Year	Last Year
Interest income from bank deposit	206,184,348.06	190,465,806.74
Total	206,184,348.06	190,465,806.74

50. Loss from asset devaluation

Items	Current Year	Last Year
Bad debts	308,910.02	2,405,416.24
Loss from inventory devaluation	412,426,397.36	334,231,962.77
Total	412,735,307.38	336,637,379.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. Gain or loss on changes in fair value

Items	Current Year	Last Year
Financial assets held-for-trading	2,494,981.22	-998,128.53
From: Derivative financial instruments	2,494,981.22	-998,128.53
Financial liabilities held-for-trading	936,395.19	-1,159,935.94
From: Derivative financial instruments	936,395.19	-1,159,935.94
Total	3,431,376.41	-2,158,064.47

52. Realized gain on investments

(1) Source of Realized gain on investments

Items	Current Year	Last Year
Realized gain on Long-term equity investment, equity method	769,102.64	486,149.29
Realized gain on Long-term equity investment, cost method		
Realized gain on holding Financial assets available-for-sale	7,411,213.00	5,488,218.50
Realized gain on disposal of Financial assets available-for-sale	59,259.00	
Realized gain on disposal of Long-term equity investment		7,330.90
Realized gain on disposal of Financial assets held-for-trading	23,575,690.65	36,938,379.42
Realized gain on disposal of Financial liabilities held-for-trading	-582,971.01	2,613,291.01
Total	31,313,132.28	45,522,569.12

The Realized gain on investments for current year, through listed companies and non-listed companies is RMB7,411,213.00 and RMB23,901,919.28 respectively.

There's no significant limit on Realized gain on investments remittance.

(2) Realized gain on Long-term equity investments, equity method

Items	Current Year	Last Year	Reasons for changes
Total	769,102.64	475,349.29	
Guangzhou Economic and Technological Development Zone in South China Special Coating Industrial Co., Ltd.	753,210.50	467,143.86	
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	15,892.14	8,205.43	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

53. Non-operating income

(1) Non-operating income category

Items	Current Year	Last Year
Gain on disposal of non-current assets	3,259,557.20	131,527,480.57
Gain on disposal of Fixed assets	3,259,557.20	216,203.75
Government grants	258,880,256.79	131,311,276.82
Penalty income	132,345.00	246,840.00
Compensation income	7,130,606.53	
Others	1,004,978.03	78,329,775.75
Total	270,407,743.55	210,104,096.32

The non-operating gains or losses for current year are RMB29,728,114.67. (Last year: RMB48,090,946.94)

(2) Government grants category

Items	Current Year	Last Year	Note
Product subsidy	240,649,628.88	83,220,329.88	
New product subsidy	2,891,098.73	26,849,162.63	
Finance subsidy	11,287,499.18	11,785,784.31	
Finance discount	4,052,030.00	9,456,000.00	
Total	258,880,256.79	131,311,276.82	

54. Non-operating expense

Items	Current Year	Last Year
Loss on disposal of non-current assets	406,008.82	252,742.15
Loss on disposal of fixed assets	406,008.82	252,742.15
Donation	165,521.60	64,835.00
Penalties	950,654.92	371,784.13
Compensation	61,483.00	611,556.01
Total	1,583,668.34	1,300,917.29

The non-operating gains or losses for current year are RMB1,583,668.34. (Last year: RMB1,300,917.29)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

55. Income tax expenses

(1) Income tax expenses

Items	Current Year	Last Year
Current income tax expenses	24,718,398.65	123,394,123.95
China	24,718,398.65	123,394,123.95
Hong Kong		
Deferred income tax expenses	-18,544,732.96	-41,687,372.37
Total	6,173,665.69	81,706,751.58

(2) Current income tax

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

Items	Current Year	Last Year
Total profit (Consolidated Income Statement)	63,336,641.55	572,668,569.40
Income tax calculated at tax rate of 15%		
(Last year: 15%)	9,500,496.23	85,900,285.41
Tax-free income effect		
Non-deductible fees effect	19,253,712.49	40,752,119.86
Unrecognised deductible loss and deductible temporary differences effect	-59,451,797.51	-49,549,968.92
Special tax exemption effect	-4,003,879.51	-4,012,925.50
Different tax rates effect		
Utilization of unrecognised deductible loss and deductible temporary differences of previous years	40,907,064.55	7,866,961.94
Less than accrued income tax of last year	-31,930.56	750,278.79
Tax rates effect on the beginning balance changes of deferred income tax assets/liabilities		
Income tax expenses	6,173,665.69	81,706,751.58

56. Dividends

This section is the same with the Consolidated Financial Statements. See Note V.60.

57. Other comprehensive income

Items	Current Year	Last Year
Gains and losses from Financial assets available-for-sale	31,977,123.00	-28,563,191.00
Less: Financial assets available-for-sale tax effects	4,796,568.46	-4,284,478.65
Total	27,180,554.54	-24,278,712.35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

58. Notes to the Consolidated Cash Flow Statement

(1) Other cash receipts or payments from operating activities, investing activities and financing activities

1) Other cash receipts from operating activities

Items	Current Year	Last Year
Product subsidy	106,096,914.41	257,279,911.92
Infrastructure fund for high-technology research	27,367,270.37	20,070,000.00
Fund for innovation of equipment	16,975,930.17	30,790,000.00
Received from other accounts	1,093,515.31	2,380,955.60
Total	151,533,630.26	310,520,867.52

2) Other cash payments from operating activities

Items	Current Year	Last Year
Administrative expense	86,963,654.21	101,386,218.71
Operating expenditure	5,295,881.29	5,014,666.90
Manufacturing overhead	205,616,764.45	310,953,343.75
Non-operating expense	1,177,659.52	1,048,175.14
Total	299,053,959.47	418,402,404.50

3) Other cash receipts from investing activities

Items	Current Year	Last Year
Fixed deposit pledge resolution	2,376,977,344.50	
Interest income from deposit	206,184,348.06	149,220,849.87
Total	2,583,161,692.56	149,220,849.87

4) Other cash payments from investment activities

Items	Current Year	Last Year
Fixed deposit pledge	1,172,800,000.00	1,384,153,259.00
Total	1,172,800,000.00	1,384,153,259.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5) *Other cash payments from financing activities*

Items	Current Year	Last Year
Bank charges and others	18,324.65	18,040.42
Total	18,324.65	18,040.42

(2) **Supplemental information for Consolidated Cash Flow Statement**

Items	Current Year	Last Year
1. Reconciliation of not profit to cash flows from operating activities		
Net profit	57,162,975.86	490,961,817.77
Add: Provision for impairment	412,735,307.38	336,637,379.01
Fixed assets depreciation	99,912,700.72	88,164,707.82
Oil-and-gas depletion		
Productive biological assets depreciation		
Intangible assets amortization	5,987,365.42	6,833,278.99
Long-term unamortized assets amortization	1,165,288.20	679,751.45
Loss from disposal of Fixed assets, Intangible assets and other long-term assets (gain marked “-”)	-2,853,548.38	36,538.40
Loss from scrapped of Fixed assets		
Loss on changes in fair value (gain marked “-”)	-3,431,376.41	2,158,064.47
Finance costs (gain marked “-”)	-105,110,556.40	-244,853,582.91
Realized loss on investments (gain marked “-”)	-31,313,132.28	-45,522,569.12
Decrease in Deferred tax assets (increase marked “-”)	-19,092,970.52	-41,363,662.71
Increase in Deferred tax liabilities (decrease marked “-”)	548,237.56	-4,608,188.31
Decrease in Inventories (increase marked “-”)	923,785,730.41	-683,582,821.80
Decrease in operating receivables (increase marked “-”)	-360,897,364.32	-390,284,031.45
Increase in operating payables (decrease marked “-”)	-1,272,597,551.46	-762,585,963.79
Others		
Net Cash Flow From Operating Activities	-293,998,894.22	-1,247,329,282.18
2. Investing and financing activities that do not involve cash receipts and payments:		
Conversion from debt to capital		
Convertible bonds due within 1 year		
Fixed assets under finance lease		
3. Net changes in cash and cash equivalents		
Ending balance	3,461,486,732.84	2,730,487,268.95
Less: Beginning balance	2,730,487,268.95	4,776,783,586.93
Add: Ending balance of cash equivalents		
Less: Beginning balance of cash equivalents		
Net increase in cash and cash equivalents	730,999,463.89	-2,046,296,317.98

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(3) Cash and Cash Equivalents

Items	Current Year	Last Year
Cash	3,461,486,732.84	2,730,487,268.95
Including: Cash	86,460.18	66,364.88
Bank deposit available-for-use	3,461,299,962.13	2,730,345,362.55
Other cash fund available-for-use	100,310.53	75,541.52
Deposits in central bank available-for-use		
Deposits in other banks		
Replacement in other banks		
Cash Equivalents		
Including: Bond investment due within 3 months		
Ending Balance of Cash and Cash Equivalents	3,461,486,732.84	2,730,487,268.95
Including: Restricted Cash and Cash Equivalents available-for-use to Parent Company or Subsidiaries		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

XIV. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The Company's financial statements were issued with the approval of the Board of the directors of the Company on 26 March 2013.

Supplementary information for financial statements

1. Statement of non-operating profit and loss

According to the No. 1 Notice on publicly listed company financial information disclosure – Non-operating gains and losses (2008), issued by China Securities Regulatory Commission, the non-operating gains and losses is disclosed below:

Items	Current Year	Note
Gains and losses from disposal of non-current assets casual tax rebate or tax exemption with ultra vires or without formal approval	2,877,045.13	73,674.14
Government grants expensed	19,005,930.17	50,742,914.18
Funds usage fees from financial institutions expensed		
Gains from the investment lower than the fair value of net identifiable assets of investees during the process of acquiring subsidiaries, joint ventures and associates		
Gains and losses from non-monetary assets exchange		
Gains and losses from commissioned investment or assets management		
Force majeure, provision for impairment of assets due to natural disaster		
Gains and losses from debt restructuring		
Corporate restructuring expenditures		
Gains and losses from the non-arm's length transactions		
Net gains and losses from subsidiaries, consolidated under common control, for the period from beginning of the year to consolidation date		
Gains and losses from non-operating business contingencies		
Gains and losses on changes in fair value from Financial assets/liabilities held-for-trading; and Realized gain on disposal of Financial assets/liabilities held-for-trading, Financial assets available-for-use, except for the operation related hedging transactions	26,786,862.04	37,382,805.96
Provision for impairment reserves from receivables with individual impairment test	2,747,676.99	
Gains and losses from Entrusted loans		
Gains and losses on changes in fair value, arisen from subsequent measurement of Investment property using fair value model		
The impact of one-time adjustment of current profit and loss, according to the laws and regulations of taxation or accounting		
Trustee fee income from entrusted operation		
Other non-operating income and expense except for the above items	6,555,516.23	78,787,957.32
Other non-operating profit and loss defined		
Subtotal	57,973,030.56	166,987,351.60
Income tax impact	8,716,583.51	25,189,776.20
Impact on minority shareholder's equity (after-tax)	358,347.74	1,048,359.21
Total	48,898,099.31	140,749,216.19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Return on net assets and earnings per share

Reported profit	Weighted average return on net assets %		Earnings per share			
			Basic EPS		Diluted EPS	
	Current Year	Last Year	Current Year	Last Year	Current Year	Last Year
Net profit attributable to the parent company	0.25	13.31	0.02	0.81	0.02	0.81
Net profit attributable to the parent company, net of non-operating gains and losses	-0.94	9.70	-0.06	0.59	-0.06	0.59

3. Abnormal issues and explanations

Those significant items which vary 30% or above; account for 5% of total assets on 31 December 2012; or account for 10% of total profit for the year 2012 are listed below:

Assets	Index	Ending balance	Beginning balance	Changes	Change%
Notes receivable	Note 1	3,492,665.00	560,000.00	2,932,665.00	523.69
Interest receivable	Note 2	143,581,872.47	104,002,627.67	39,579,244.80	38.06
Dividend receivable	Note 3	1,043,381.78	0.00	1,043,381.78	
Other receivables	Note 4	262,235,880.07	124,187,542.08	138,048,337.99	111.16
Inventories	Note 5	506,101,222.69	1,514,217,309.31	-1,008,116,086.62	-66.58
Other current assets	Note 6	140,571.00	0.00	140,571.00	
Fixed assets	Note 7	1,660,360,847.50	1,274,317,899.38	386,042,948.12	30.29
Construction in progress	Note 8	61,201,815.91	281,562,964.86	-220,361,148.95	-78.26
Disposal of fixed assets	Note 9	33,554.52	5,044,668.76	-5,011,114.24	-99.33
Deferred tax assets	Note 10	90,453,005.81	69,448,011.72	21,004,994.09	30.25

Note 1: Compared to Beginning balance, the Ending balance of Notes receivable increased by 523.69%, due to increase of Unexpired notes received.

Note 2: Compared to Beginning balance, the Ending balance of Interest receivable increased by 38.06%, due to the increase of interest rate of deposit.

Note 3: The Dividend receivable of RMB1,043,381.78 is the recognized cash dividends receivable, issued by associated companies.

Note 4: Compared to Beginning balance, the Ending balance of Other receivables increased by 111.16%, due to the change of sales mix of the company, and the increase of Subsidies on products receivable.

Note 5: Compared to Beginning balance, the Ending balance of Inventories decreased by 66.58%, due to the increase of provision for impairment for construction contracts, for which estimated total cost exceeds the estimated total revenue; as well as the decrease of ships building in process.

Note 6: the other current asset of RMB140,571.00 is the advanced income tax of subsidiaries.

Note 7: Compared to Beginning balance, the Ending balance of Fixed assets increased by 30.29%, due to the capitalization of Zhongshan Base.

Note 8: Compared to Beginning balance, the Ending balance of Work in progress decreased by 78.26%, due to the capitalization of Zhongshan Base.

Note 9: Compared to Beginning balance, the Ending balance of Disposal of fixed assets decreased by 99.33%, due to the decrease of fixed assets disposed at year end.

Note 10: Compared to Beginning balance, the Ending balance of Deferred tax assets increased by 30.25%, due to the increase of provision for loss from asset devaluation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Liabilities and equity	Index	Ending balance	Beginning balance	Changes	Change%
Short-term loans	Note 1	92,167,796.47	1,170,288,811.35	-1,078,121,014.88	-92.12
Financial liabilities					
held-for-trading	Note 2	223,540.75	1,159,935.94	-936,395.19	-80.73
Taxes payable	Note 3	78,274,385.66	48,106,774.49	30,167,611.17	62.71
Non-current liabilities					
due within one year	Note 4	1,057,958,531.65	593,796,816.00	464,161,715.65	78.17
Other current liabilities	Note 5	1,345,128,736.33	2,037,044,941.97	-691,916,205.64	-33.97
Long-term loans	Note 6	1,413,633,335.84	1,081,390,350.04	332,242,985.80	30.72
Other non-current liabilities	Note 7	69,781,586.79	46,207,222.94	23,574,363.85	51.02

Note 1: Compared to Beginning balance, the Ending balance of Short-term loans decreased by 92.12%, due to the pay back of loans in USD.

Note 2: Compared to Beginning balance, the Ending balance of Financial liabilities held-for-trading decreased by 80.73%, due to the changes in fair value arisen from settlement of forward contracts and exchange rate changes.

Note 3: Compared to Beginning balance, the Ending balance of Taxes payable increased by 62.71%, due to the change of sales mix of the company, and the increase of Value-Added tax payable.

Note 4: Compared to Beginning balance, the Ending balance of Non-current liabilities due within one year increased by 78.17%, due to the increase of Long-term loans due within one year.

Note 5: Compared to Beginning balance, the Ending balance of Other current liabilities decreased by 33.97%, due to the decrease of budget for Shipbuilding product projects.

Note 6: Compared to Beginning balance, the Ending balance of Long-term loans increased by 30.72%, due to the increase of liabilities in USD in order to mitigate exchange rate risks.

Note 7: Compared to Beginning balance, the Ending balance of Other non-current liabilities increased by 51.02%, due to the increase of special grants received.

Profit and loss	Index	Current Year	Last Year	Changes	Change%
Operating income	Note 1	6,424,083,364.01	8,296,431,347.84	-1,872,347,983.83	-22.57
Operating cost	Note 2	5,970,855,522.13	7,369,720,001.85	-1,398,864,479.72	-18.98
Business tax and surcharges	Note 3	27,357,520.19	48,434,977.29	-21,077,457.10	-43.52
Selling expenses	Note 4	3,741,482.56	25,824,677.79	-22,083,195.23	-85.51
Administrative expense	Note 5	391,004,348.00	402,918,826.01	-11,914,478.01	-2.96
Finance costs	Note 6	-101,281,148.23	-238,565,286.18	137,284,137.95	-57.55
Loss from asset devaluation	Note 7	411,550,631.66	341,412,262.60	70,138,369.06	20.54
Gain on changes in fair value	Note 8	3,568,903.40	-2,158,064.47	5,726,967.87	
Realized gain on investments	Note 9	33,706,842.80	49,238,565.61	-15,531,722.81	-31.54
Operating income	Note 10	-241,869,246.10	393,766,389.62	-635,635,635.72	-161.42
Non-operating income	Note 11	271,887,155.01	214,758,184.20	57,128,970.81	26.60
Total income	Note 12	27,535,028.17	606,591,265.14	-579,056,236.97	-95.46
Income tax expenses	Note 13	8,913,687.18	84,002,690.86	-75,089,003.68	-89.39
Net profit	Note 14	18,621,340.99	522,588,574.28	-503,967,233.29	-96.44
Net profit attributable to the parent company	Note 15	10,327,540.44	518,333,370.07	-508,005,829.63	-98.01
Minority shareholders	Note 16	8,293,800.55	4,255,204.21	4,038,596.34	94.91

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- Note 1: The Operating income decreased 22.57% from a year earlier, due to the decrease of ships building in progress and the decrease of shipbuilding products selling price.
- Note 2: The Operating cost decreased 18.98% from a year earlier, due to the decrease of ships building in progress.
- Note 3: The Business tax and surcharges decreased 43.52% from a year earlier, due to the decrease of exporting price of ships and the decrease of the amount of tax exemption, resulting in the decrease of taxes and surcharges for current year.
- Note 4: The Selling expenses decreased 85.51% from a year earlier, due to the cancellation of an order for a ship, and related Ship maintenance fee.
- Note 5: The Administrative expense decreased 2.96% from a year earlier, due to the decrease of research and development fees and maintenance fee.
- Note 6: The Finance costs decreased 57.55% from a year earlier, due to the decrease of gains from exchange, caused by the slow increases of exchange rate RMB against USD.
- Note 7: The Loss from asset devaluation increased 20.54% from a year earlier, due to the increase of provision for impairment for construction contracts, for which estimated total cost exceeds the estimated total revenue.
- Note 8: The Gain on changes in fair value increased RMB5,726,967.87 from a year earlier, due to the decrease of gains from fair value changes arisen from forward contracts settlement and exchange rate fluctuation.
- Note 9: The Realized gain on investments decreased 31.54% from a year earlier, due to the decrease of gains in settlement of forward contract.
- Note 10: The Operating profit decreased 161.42% from a year earlier, due to the decrease of selling price and increase of cost.
- Note 11: The Non-operating income increased 26.60% from a year earlier, due to the change of sales mix of the company, and the increase of Subsidies on products receivable.
- Note 12: The Total profit decreased 95.46% from a year earlier, due to the decrease of selling price and increase of cost.
- Note 13: The Income tax expenses decreased 89.39% from a year earlier, due to the decrease of reported profit.
- Note 14: The Net profit decreased 96.44% from a year earlier, due to the decrease of selling price and increase of cost.
- Note 15: The Net profit attributable to the parent company decreased 98.01% from a year earlier, due to the decrease of selling price and increase of cost.
- Note 16: The Minority shareholder's gains and losses increased 94.91% from a year earlier, due to the increase of income from associated companies from a year earlier.

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 and related company documents published in "Shanghai Securities News", the website of Shanghai Stock Exchange (www.sse.com.cn), the Hong Kong Stock Exchange (www.hkexnews.hk), and the Company (www.chinagsi.com) during the Reporting Period.