



广州广船国际股份有限公司
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

(A Share Code : 600685 H Share Code : 317)

Interim Report 2006

(A Joint-Stock Company with Liability Incorporated In the People's Republic of China)

I. IMPORTANT NOTICE

The Board of Directors, the Supervisory Committee and Senior Management of Guangzhou Shipyard International Company Limited (“the Company”) declare that there are no false statements, misleading information or material omissions in this report. The directors are jointly and severally responsible for the authenticity, accuracy and integrity of the contents of this report.

All the directors, including independent non-executive director Mr. Wu Fabo acting as proxy of independent non-executive director Mr. Wang Xiaojun, and non-executive director Mr. Li Junfeng acting as proxy of non-executive director Mr. Miao Jian respectively, attended the 14th meeting of the fifth term of the Board of Directors held on 17th August 2006.

Mr. Li Zhushi, Chairman of the Board of Directors, Mr. Zeng Xiangxin, Chief Accountant of the Company and Ms. Yang Rong, Director of Financial Center of the Company, declare and assure the facility and integrity of the financial information of this report.

Unless otherwise stated, financial data contained in this report is extracted from the accounts prepared by the Group in accordance with PRC Accounting Rules and Regulations.

The Audit Committee of the Company has reviewed and confirmed the financial reports in the interim report for the first six months of 2006 of the Company.

The financial reports in this interim report are unaudited.

This report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the condensed consolidated interim financial information prepared in accordance with accounting principles generally accepted in Hong Kong, the Chinese version shall prevail.

II. OVERVIEW OF THE COMPANY

1. REGISTERED CHINESE NAME OF THE COMPANY

廣州廣船國際股份有限公司

ABBREVIATION OF REGISTERED 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

2. PLACE OF LISTING OF THE COMPANY'S SHARES

A Shares – Shanghai Securities Exchange

Share Code: 600685

Abbreviated Name: G Guangzhou Shipyard

H Shares – The Stock Exchange of Hong Kong Limited

Share Code: 317

Abbreviated Name: Guangzhou Shipyard International

3. THE COMPANY'S REGISTERED ADDRESS AND OFFICE

40 South Fangcun Main Road, Guangzhou,

The People's Republic of China

Postal Code: 510382

URL of the Company: <http://www.chinagsi.com>

E-mail Address: gsi@chinagsi.com

4. LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Li Zhushi

5. SECRETARY TO THE BOARD OF DIRECTORS

Mr. Li Zhidong

Tel: (8620) 81891712ext.2962

Fax: (8620) 8189 1575

E-mail Address: lzd@chinagsi.com

Address: 40 South Fangcun Main Road, Guangzhou, P.R.C.

AUTHORIZED SECURITIES REPRESENTATIVE

Ms. Yang Ping

Tel: (8620) 81891712ext.2995

Fax: (8620) 8189 1575

E-mail Address: yangping@chinagsi.com

Address: 40 South Fangcun Main Road, Guangzhou, P.R.C.

6. PUBLICATIONS DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR DISCLOSING INFORMATION

Shanghai Securities News
 Hong Kong Commercial Daily
 China Daily (overseas version)

URL DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR PUBLISHING THE REPORT: <http://www.sse.com.cn>

URL DESIGNATED BY THE STOCK EXCHANGE OF HONG KONG LIMITED: <http://www.hkex.com.hk>

PLACE FOR INSPECTION OF THE INTERIM REPORT: Office of the Secretary to the Board of Directors

7. MAJOR FINANCIAL DATA AND INDICATORS

(1). Prepared under the PRC Accounting Rules and Regulations

| Financial Indicators | Unaudited | Audited | Unit: RMB'000 |
|---|-------------------------|-----------------------------|---------------|
| | As at 30th June 2006 | As at 31st December 2005 | Change (%) |
| Current assets | 2,376,110 | 1,443,976 | 64.55 |
| Current liabilities | 2,532,781 | 1,656,680 | 52.88 |
| Total assets | 3,504,284 | 2,544,604 | 37.71 |
| Shareholders' equity (excluding minority interests) | 883,751 | 808,456 | 9.31 |
| Net assets per share (RMB) | 1.79 | 1.63 | 9.82 |
| Adjusted net assets per share (RMB) | 1.69 | 1.54 | 9.74 |

| Financial Indicators | Unaudited | | Change (%) |
|---|--------------------------------|------------------------|---|
| | For six months ended 30th June | | |
| | 2006 (Consolidated) | 2005 (Consolidated) | |
| Net profit | 75,295 | 20,552 | 266.35 |
| Net profit after deduction of exceptional items | 92,565 | 18,549 | 399.03 |
| Earnings per share (RMB) | 0.1522 | 0.0415 | 266.75 |
| Return on net assets (%) | 8.52 | 2.81 | 5.71 |
| Net cash flow from operating activities | 787,960 | -133,287 | Incomparable as the amount for last period is negative. |

Note: The nature and amount after deduction of exceptional items are as follows:

| Exceptional items | Unit: RMB'000 |
|--|---------------|
| | Amount |
| Government subsidy income | 9,683 |
| Non-operating income | 1,304 |
| Non-operating expenses | 4,866 |
| The lump-sum housing allowance to retirees | 23,391 |
| Total | -17,270 |

(2). Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong (“HK GAAP”)

| Unit: RMB'000 | | | |
|---|----------------------|--------------------------|------------|
| Financial Indicators | Unaudited | Audited | Change (%) |
| | As at 30th June 2006 | As at 31st December 2005 | |
| Current assets | 2,828,771 | 2,251,773 | 25.62 |
| Current liabilities | 3,016,682 | 2,485,799 | 21.36 |
| Total assets | 4,040,132 | 3,432,086 | 17.72 |
| Shareholders' equity (excluding minority interests) | 958,008 | 882,716 | 8.53 |
| Net assets per share (RMB) | 1.9366 | 1.7844 | 8.53 |
| Gearing ratio (%) | 74.92 | 72.83 | 2.09 |

| Financial Indicators | Unaudited | | Change (%) |
|-------------------------------------|--------------------------------|----------------|------------|
| | For six months ended 30th June | | |
| | 2006 | 2005 | |
| Financial Indicators | (Consolidated) | (Consolidated) | (%) |
| Profit attributable to shareholders | 65,203 | 27,235 | 139.41 |
| Earnings per share (RMB) | 0.1318 | 0.0551 | 139.20 |
| Return on net assets (%) | 6.81 | 3.61 | 88.64 |

(3). Statement of the differences due to different accounting principles

| Unit: RMB'000 | | | | |
|--|---|---------|----------------------------|--------------------|
| Item | Net profit for the six months ended 30th June | | Shareholder's equity As at | |
| | 2006 | 2005 | 30th June 2006 | 31st December 2005 |
| Prepared under PRC accounting rules and regulations | 75,295 | 20,552 | 883,751 | 808,456 |
| Prepared under HK GAAP | 65,203 | 27,235 | 958,008 | 882,716 |
| Reconciliation items: | | | | |
| Impairment of investment properties | – | 1,322 | (1,322) | (1,322) |
| Obligation for early retirement scheme | 2,301 | 1,886 | (9,228) | (11,529) |
| Deferred taxation recognised in income statement | (10,055) | (3,941) | 45,341 | 55,396 |
| Fair value adjustment on derivative financial instruments | (2,338) | 7,416 | 186 | 2,524 |
| Fair value adjustment on available-for-sale financial assets | – | – | 39,280 | 29,191 |

III. CHANGES OF SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDINGS

1. CHANGES OF SHARE CAPITAL

| | Before the change | | Changes during the period (+/-) | | | | | Unit: Share After the change | |
|--|-------------------|------------|---------------------------------|----------------|------------------|-------------|-------------|---------------------------------|------------|
| | Amount | Proportion | New Share | Bonus Share | Conversion | Others | Sub-total | Amount | Proportion |
| | | % | | | from reserves | | | | % |
| (I) Shares subject to sale restrictions | | | | | | | | | |
| (1) State-owned shares | 210,800,080 | 42.61 | - | - | - | -34,149,465 | -34,149,465 | 176,650,615 | 35.71 |
| (2) State-owned legal person shares | - | - | - | - | - | - | - | - | - |
| (3) Other domestic shares | - | - | - | - | - | - | - | - | - |
| Including: Domestic legal person shares | - | - | - | - | - | - | - | - | - |
| Domestic natural person shares | - | - | - | - | - | - | - | - | - |
| (4) Foreign shares | - | - | - | - | - | - | - | - | - |
| Including: Foreign legal person shares | - | - | - | - | - | - | - | - | - |
| Foreign natural person shares | - | - | - | - | - | - | - | - | - |
| Total | 210,800,080 | 42.61 | - | - | - | -34,149,465 | -34,149,465 | 176,650,615 | 35.71 |
| (II) Freely transferable shares | | | | | | | | | |
| (1) PRC listed domestic shares | 126,479,500 | 25.57 | - | - | - | 34,149,465 | 34,149,465 | 160,628,965 | 32.47 |
| (2) PRC listed foreign shares | - | - | - | - | - | - | - | - | - |
| (3) Overseas listed foreign shares | 157,398,000 | 31.82 | - | - | - | - | - | 157,398,000 | 31.82 |
| (4) Others | - | - | - | - | - | - | - | - | - |
| Total | 283,877,500 | 57.39 | - | - | - | 34,149,465 | 34,149,465 | 318,026,965 | 64.29 |
| (III) Total number of shares | 494,677,580 | 100 | - | - | - | - | - | 494,677,580 | 100 |

The A share reform of the Company formally commenced on March 27, 2006. Correlative A share reform plan was approved at the A share Market general meeting which was held on April 28, 2006, and was implementation completed on May 24, 2006. The share reform plan offered 2.7 bonus shares for every 10 A shares.

2. SHAREHOLDERS INFORMATION

1. As at 30th June 2006, the total number of shareholders of the Company was 35,247, including a shareholder of A share subject to sale restrictions, 35,092 shareholders of listed freely transferable A shares and 154 shareholders of listed H Shares.

2. Top 10 shareholders of the Company are as follows:

| | | | | | | | Unit: Share |
|---|---|---|-------------------|--|-----------------------------------|--------------------------------|-------------|
| Shareholder | Addition/ Deductions closing the period | Number of shares at the end of the period | Percentage (%) | Number of shares subject to sale restrictions at the end of the period | Shares pledged or congealed | Nature of shareholders | |
| China State Shipbuilding Corporation | -34,149,465 | 176,650,615 | 35.71 | 176,650,615 | None | State-owned Shareholder | |
| HKSCC NOMINEES LIMITED | 2,014,000 | 148,956,999 | 30.11 | – | Unknown | Foreign Capital Shareholder | |
| Tong Qian Security Investment Fund | -1,283,146 | 17,000,000 | 3.44 | – | Unknown | Other | |
| Citic-prudential Sijihong Mixed Security Investment Fund | 9,334,107 | 9,334,107 | 1.89 | – | Unknown | Other | |
| SYWG BNP PARIBAS Shengli Choice Security Investment Fund | 7,599,981 | 7,599,981 | 1.54 | – | Unknown | Other | |
| China International China Advantage Security Investment Fund | 7,418,491 | 7,418,491 | 1.50 | – | Unknown | Other | |
| ABN AMRO Xiang Cai Efficiency Choice Mixed Security Investment Fund | 5,896,939 | 5,896,939 | 1.19 | – | Unknown | Other | |
| HSBC NOMINESS (HONG KONG) LIMITED | 20,000 | 5,014,000 | 1.01 | – | Unknown | Foreign Capital Shareholder | |
| Invesco Great Wall Choice Shares Security Investment Fund | 3,667,139 | 3,667,139 | 0.74 | – | Unknown | Other | |
| Harvest Growth Benefit Security Investment Fund | 3,622,034 | 3,622,034 | 0.73 | – | Unknown | Other | |

3. TOP 10 SHAREHOLDERS OF A SHARES SUBJECT TO SALE RESTRICTIONS AND THE RESTRICTIONS

China State Shipbuilding Corporation (“CSSC”), the only shareholder of A shares subject to sale restrictions of the Company, holds 176,650,615 A shares subject to sale restrictions. The restrictions are as follow:

- (1) The non-tradable shares held by CSSC shall not be listed or traded on any stock exchange within 12 months from the date of implementation of the share reform plan (from May 24, 2006 to May 23, 2007);
- (2) CSSC shall not trade any A shares listed on any stock exchange within 24 months upon the expiry of the aforesaid 12-month period (from May 24, 2007 to May 23, 2009);
- (3) In the event that CSSC disposes of any A Shares which represent 1% or more of the total number of shares of the Company, an announcement shall be made within two business days from the date on which such disposal occurs. However it shall not be necessary for CSSC to stop disposing of the relevant shares in the meantime.

Further, CSSC undertook to offer an additional 0.2 shares for every 10 shares (a total of 2,529,596 additional bonus shares on the basis of 126,479,500 tradable A shares in issue prior to the share reform) in the event that ① the total profits for the fiscal year 2007 increases by less than 100% compared to the total profits for the fiscal year 2005; or ② an annual audit report with “standard unqualified opinion” fails to be produced for any year between the fiscal years 2006 and 2007. Relevant lock-up arrangements have been made in respect of the additional bonus shares prior to implementation of the share reform plan.

4. TOP 10 SHAREHOLDERS OF FREELY TRANSFERABLE SHARES

| Shareholder | Number of shares as at 30th June 2006 (share) | Nature of shares |
|---|--|------------------|
| HKSCC NOMINEES LIMITED | 148,956,999 | H Share |
| Tong Qian Security Investment Fund | 17,000,000 | A Share |
| Citic-prodential Sijihong Mixed Security Investment Fund | 9,334,107 | A Share |
| SYWG BNP PARIBAS Shengli Choice Security Investment Fund | 7,599,981 | A Share |
| China International China Advantage Security Investment Fund | 7,418,491 | A Share |
| ABN AMRO Xiang Cai Efficiency Choice Mixed Security Investment Fund | 5,896,939 | A Share |
| HSBC NOMINESS (HONG KONG) LIMITED | 5,014,000 | H Share |
| Investo Great Wall Choice Shares Security Investment Fund | 3,667,139 | A Share |
| Harvest Growth Benefit Security Investment Fund | 3,622,034 | A Share |
| CITIC Hongli Choice Shares Security Investment Fund | 2,500,000 | A Share |

The Company is not aware of whether the top 10 listed shareholders and the top 10 shareholders of freely transferable shares disclosed above are connected with each other or persons acting in concert as defined in “Information Disclosure Management Procedure relating to Changes of Share-holding of Listed Companies”.

5. Apart from the shareholders disclosed above, as at 30th June 2006, the Company has received the notices from shareholders of H shares whose shareholding with details as follows reached the level which is required to be disclosed under the Securities and Futures Ordinance of Hong Kong.

| Shareholder | Shareholding (share) | Proportion of total H shares (%) |
|----------------------|----------------------|-------------------------------------|
| JPMorgan Chase & Co. | 10,652,000 | 6.77 |
| Legg Mason Inc. | 15,402,000 | 9.79 |

6. During the period under review, the controlling holder and actual controller of the Company have not changed. The controlling holder and the actual controller of the Company is CSSC and State-owned Assets Supervision and Administration Commission of the State Council respectively.

IV. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES.

As at 30th June 2006, the shares of directors, supervisors and senior management (including individual and individual’s spouses and children under the age of 18) have not changed.

2. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the period under review, Mr. Mak, Kin Kwong, Peter resigned as independent non-executive director of the Company due to work relocation. Mr. Lee Sun-leung, Sunny was nominated as independent non-executive director of the Company by the Nomination Committee and was elected as independent non-executive director of the Company at the 2005 Annual General Meeting and to serve for a term commencing on May 9, 2006 and expiring on the commencing date on which the sixth term Board of Directors is elected.

V. MANAGEMENT DISCUSSION AND ANALYSIS

(I). DISCUSSION AND ANALYSIS OF OPERATION DURING THE PERIOD UNDER REVIEW

During the period under review, the principal operating income of the Company and its subsidiaries (Collectively the "Group") amounted to RMB1,504.71 million representing an increase of 26.48% compared with that of the same period last year. The net profit of the Group amounted to RMB75.29 million representing an increase of 266.35% compared with that of the same period last year. The earnings per share amounted to RMB0.15.

The increase of the principal operating income of the Company is mainly because of the better shipbuilding market, the higher ship price which is due to the increase of shipping material, the increase of shipbuilding output which is due to the improvement of shipbuilding technology, ameliorative management and the shorter shipbuilding cycle. And the increase of net profit is benefit from better shipbuilding market and improving internal governance.

During the first half of 2006, the Group delivered and completed 8 vessels, including three 29,000DWT chemical tankers and two 38,500DWT product oil tankers built for Denmark customers, one 42,000 DWT product oil tanker and two 3000-ton first class oil tankers for domestic customers. Apart from that, the Group commenced construction work on 6 vessels, and launched 6 vessels. Moreover, the Group completed shiprepairing work on 1 vessel and 15,534 ton steel structure, and sold 105 hydraulic shearing machines and 221 elevators.

During the period under review, the Group secured new shipbuilding orders with 490,700DWT and the total contract value amounted to RMB3.6 billion. As at June 30, 2006, the Group has accumulated orders for building 39 vessels with a total tonnage of 1,643,400DWT and delivery dates till the first half of 2009.

For the purpose of strengthening shipbuilding force, the Group adjusted the governance frame to promote the optimum management functions of all departments and the governance mode. Besides, the Company is dedicated to forming new efficient shipbuilding management mode to shorten shipbuilding cycle. Moreover, the Company overcame the longer cycle of first-building when built the first 51800DWT Ice Class tanker, which was launched successfully on July 10, 2006 and created a new land marker of the Company.

During this period under review, due to that the steel structure market took a favourable turn and the Company intensified to develop steel structure, the steel structure turnover of the Company made a big increase compared with that of the same period last year. Besides, the Company tried out project manager responsibility system and budget management in non-shipbuilding operations which made a certain effect on cost control and improving gross profit of the production.

(II). PRINCIPAL OPERATION INFORMATION

1> Major products whose turnover or profit representing more than 10% of the total amount

| Production | Principal operating income | Principal operating costs | Principal operating gross profit % | Change of principal operating income compared with that of the same period last year | Change of principal operating cost compared with that of the same period last year | Unit: RMB |
|-----------------|----------------------------|---------------------------|------------------------------------|--|--|---|
| | | | | | | Change of principal operating gross profit compared with that of the same period of last year |
| Shipbuilding | 1,304,113,391.03 | 1,160,162,583.78 | 11.04 | 22.28 | 14.94 | 5.67 |
| Steel structure | 145,146,370.31 | 131,167,759.84 | 9.63 | 94.81 | 88.49 | 3.03 |

2> Geographical Statement of Principal Operation

Unit: RMB

| Area | Principal operating income | Change (%) |
|---------------------------------|----------------------------|--------------|
| Malta | 141,802,654.29 | 100 |
| Canada | 20,443,752.20 | -37.3 |
| Denmark | 545,929,692.15 | -8.4 |
| Macao | 13,828,028.30 | 100 |
| The Philippines | 1,423,723.16 | 100 |
| USA | 103,908,442.75 | 45,384.81 |
| Hong Kong | 78,411,860.76 | -7.51 |
| The Republic of Marshal Islands | 20,975.71 | -99.99 |
| Liberia | 214,039,092.72 | 100 |
| Sweden | 175,307,116.37 | 100 |
| Subtotal | 1,295,115,338.41 | 48.47 |
| The Mainland China | 209,591,173.65 | 33.96 |
| Total | 1,504,706,512.06 | 26.48 |

3> Reasons of the great change in gross profit of principal operations compared with the same period last year

During the period under review, the principal operating turnover represented an increase of 26.48% compared with that of the same period last year. It is mainly due to the increase in the turnover of shipbuilding and steel structure. The net profit of the Company increased by 132.11% compared with that of the same period last year, while the Company turned the situation of low gross profit for long-term, which is mainly benefit from the Company's recognition of building mature handy-size tankers which ensured the realization of the anticipated marginal profit, and also because that the Company intensified the internal governance.

During the first half of 2006, the gross profit of the Company's principal operations reached 11.94% (the same period last year: 6.51%). The gross profit of shipbuilding was 11.04% (the same period of last year: 5.36%).

4> Other operations of significant influence in the Company's net profit

The 7th meeting of the fifth term of the Board of Directors approved to initiate the policy of lump-sum housing allowance for retirees on January 4th 2006, and authorized the management to implement the policy. During the period under review, the General Management's meeting approved the "Housing Allowance for Retirees Implement" ("the Implement") on March 21st 2006. In accordance with the Implement and reasonable estimation, the Company made a provision amounted to RMB23,391,335 for paying the lump-sum housing allowance which will be paid to retirees within the two years of 2006 and 2007.

5> Problems and difficulties of operation and their solutions

During the period under review, the Company met problems and difficulties principally in talent shortage, work space restriction and the RMB exchange rate risk.

As a result of the development of China shipbuilding industry and the increase demand for shipbuilding talents, the Company was faced with talent shortage. For the purpose of attracting talents and decreasing the impact, the Company implanted several measures such as: pressing performance management, implementing reform of remuneration system, pressing the development and effective utilization of human resource and establishing talents achievements.

Along with the increase of the shipbuilding output of the Company, the work space restriction appeared gradually. The Company is facing strain of work space in block production, block painting, block assembly and re-outfitting. Recently, the Company is planning to invest new space or to search for partners to solve the problem in shipbuilding block supply.

As 70% of shipbuilding contracts of the Company are for export, and these contracts are settled by foreign currency and paid in several installments in accordance with shipbuilding progress, there are two or three years between signing the contract and the delivery, and the appreciation in value of RMB is expected to get higher, so the Company is faced with certain RMB exchange rate risk. In order to reduce the impact of exchange rate change, the Company adopted a series of appropriate measures, such as establishing an exchange rate risk prevention team which was composed of senior management of the Company; raising the ration of first payment of new contracted vessels; promoting the proportion of domestic shipbuilding contracts properly; increasing the debt of U.S. dollar; using derivative financial instruments reasonably to minimize the exchange rate change.

(III). INVESTMENTS INFORMATION

1. Application of proceeds from share offering

The Company had not raised funds during this period nor utilized any proceeds previously raised.

2. Application of other capital

During this period, the Group totally invested RMB 61.16 million, increasing by RMB22.08 million and representing an increase of 43.50% compared with that of the same period last year. The major invested projects are as follows:

| Item | Amount (RMB'0000) | Progress | Income |
|---|-----------------------------|-----------------|-------------------------------------|
| Zhengjiang CSSC Hyundai Generator Equipment Co., Ltd. | 1,210 | – | Hasn't bring out any income |
| Normal reform projects inside the Company | 2,224 | Partly finished | Finished part brings out the income |
| Internal self-support projects of the Company | 1,864 | Partly finished | Finished part brings out the income |
| National debt projects | 818 | Partly finished | Finished part brings out the income |

(IV). THE CHANGE OF THE PROFIT FORECAST OF THE FIRST HALF OF 2006 AND THE THIRD QUARTER OF 2006

Refer to the statement in the First Quarterly Report of 2006, it was anticipated that the net profit as prepared under the PRC accounting rules and regulations for the period of the first half of 2006 would increase over 100% compared with that of the same period of 2005. However, the actual increase of the net profit reached 266.35%, which was mainly because of the increase of shipbuilding turnover benefiting from shorter shipbuilding period through improving shipbuilding technology and management of the Company.

In the view of the production of the Company, it is anticipated that the net profit as prepared under the PRC accounting rules and regulations for the period of the third quarter of 2006 will increase over 100% compared with that of the same period of 2005.

(V). DETAILED INFORMATION ON CHARGES ON ASSETS OF THE GROUP

As at 30th June 2006, no assets of the Group have been charged as security for the Group's bank borrowings.

(VI). STAFF OF THE COMPANY AND THE REMUNERATION POLICY

As at 30th June 2006, the number of employees on the payroll register of the Company was 3,982. The remuneration of the employees of the Group includes their salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

(VII). PROSPECTS FOR THE SECOND HALF OF THE YEAR

In the second half of this year, the Company will be devoted to overcome the pressure of the higher material cost and avoid the RMB exchange rate risk, carry out the performance management and implement reform of remuneration system. Besides, the Company will also concentrate on establishing and improving new efficient shipbuilding management mode, and improve shipbuilding efficiency to achieve the goal of "Commence 12 vessels, launch 13 vessels, and deliver 12 vessels" of the year 2006.

VI. SIGNIFICANT EVENTS

(I). CORPORATE GOVERNANCE INFORMATION

1. Corporate Governance Practices

During the period under review, the Company had complied with the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

In order to improve the internal control system, raise risk management level, and enhance operating result and efficient, the Board of Directors of the Company approved “Internal Control Implementation Framework” on December 1st 2005.

The internal control system of the Company includes a comprehensive review and report system. Each administrative department is in charge of the establishment, improvement and effective implementation of relevant management regulations. Internal control supervisory departments are responsible for review and analysis of the internal control situation of relevant scales. Audit department selectively checks whether the regulations had been implemented effectively or not. The management reports to Audit Committee of the Board of Directors. After research and discussion, the Audit Committee would make conclusion and report to the Board of Directors on the board meeting when discuss interim or annual result of the Company. The Board of Directors reviews the Company’s internal control system once a year.

The Company has finished the 2005 internal control review and analysis in the first quarter of 2006. The report correlated was reviewed by the Audit Committee, and was submitted to the eleventh meeting of the fifth Board on March 23, 2006 for review. All the directors affirmed that the Company has consummate internal control system to ensure the effective implementation of management systems of the Company and avoid operating risk of the Company. Besides, the internal control review and analysis for the first half of 2006 was finished before August 10, 2006, and was submitted to the Audit Committee for review on August 14, 2006.

2. Securities Transactions by Directors

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 and has consistently upheld the principle of complying with the most stringent provisions. The Company has made specific inquiry of all its directors for preparing this report and all directors have confirmed that they have complied with Model Code for Securities Transactions by Directors of Listing Companies during the period under review.

3. Board of Directors

During the period under review, the Board of Directors of the Company held seven meetings, including three meetings by means of written resolutions. All the directors including proxies attended the meetings.

(II). DURING THE PERIOD UNDER REVIEW, THE COMPANY HAD NOT EXECUTED ANY PROFIT DISTRIBUTION SCHEME, SHARES TRANSFERRED FROM ACCUMULATION FUND SCHEME, NEW SHARES ISSUE OR RIGHT ISSUE FOR ADOPTED IN THE PERIOD BEFORE AND CARRIED OUT IN THE PERIOD UNDER REVIEW.

(III). AS THE CUMULATIVE UNALLOCATED PROFIT IS NEGATIVE, SO ACCORDING TO THE ARTICLES OF ASSOCIATION OF THE COMPANY, THE COMPANY DID NOT PUT UP ANY PROFIT DISTRIBUTION, NOR SHARES TRANSFERRED FROM ACCUMULATION FUND.

(IV). SIGNIFICANT LITIGATION OR ARBITRATION EVENT

The agreement reached among United Steel Structures Limited (“United Steel”, a subsidiary of the Company), Havens Steel Company (“Havens”, the other shareholder of United Steel) and St. Paul Fire & Marine Insurance Company (“St. Paul”, the guarantor of Havens) in relation to the payment for work done owing to United Steel by Havens has been approved by the U.S. District Court in the Western District of Missouri. During the period under review, the agreement has been implemented. In accordance with the agreement, United Steel has received partial cash payment and had applied the dividend otherwise payable to Havens to settle the debts owing to United Steel by Havens and St. Paul.

Supreme Court of Guangdong Province issued a “Notice of Rejection of Retrial Application” (2005) *Yue Gao Fa Min-Shen Zi No. 31* stating that the retrial application of Guangdong Changda Road Construction Company Limited (“Changda Company”) was rejected as it did not comply with the conditions for retrial set out in the relevant laws and regulations.

Except for the above-mentioned events, there were no other significant litigation or arbitration events to the Company during the period under review.

(V). ASSETS TRANSACTION

The Company entered into agreements with China Shipbuilding IT Co. Ltd for the transfer of the interest of the Company in the subsidiary on January 6, 2006 and with Guangzhou Marine Engineering Corporation for the sale of real estate on January 13, 2006 respectively. Both of them were connected transactions, and please refer to the item 6 (2) “Property and interest transfer” in this chapter for details.

(VI). CONNECTED TRANSACTIONS

1. The contents, amounts and pricing basis of routine connected transactions during the period under review

Unit: RMB

| No. | Content and category | Transaction amount | Proportion in the same type of transactions | Pricing basis |
|----------|---|--------------------|---|---|
| 1 | Total materials and labor services supplied to CSSC Group by the Company | 8,948,593.99 | 29.01% | |
| 1.1 | Steel, material and accessories | 1,413,580.34 | 6.53% | Market price |
| 1.2 | Utilities | 1,098,177.01 | 18.48% | Cost plus management fee of 25% |
| 1.3 | Labor services | 6,436,836.64 | 11.85% | Not less than the price to the third parties |
| 2 | Total materials and labor services supplied to the Company by CSSC Group | 105,757,362.01 | | |
| 2.1 | Steel, material and accessories | 3,508,551.30 | 1.27% | Market price |
| 2.2 | Utilities | 59,637,019.66 | 21.69% | Market price |
| 2.3 | Labor services | 42,611,791.05 | 37.50% | Cost plus management fee of 10% |
| 3 | Total financial services supplied from CSSC Group | | | |
| 3.1 | Deposits | 933,035.95 | 0.07% | |
| 3.2 | Interest from deposits | 4,709.78 | 0.05% | Interest rate on deposits published by the People's Bank of China |
| 3.3 | Loans | – | | |
| 3.4 | Interest from loans | – | | |
| 4 | Total guarantee fees for guarantee supplied to the Company from CSSC Group | – | | Agreed fee for providing guarantee from 0.2% to 0.5% of guaranteed amount |
| 5 | Total sales agency fees | 12,713,663.11 | 30.10% | 1% of contract price in accordance with international practice |
| 6 | Total purchases agency fees | 1,761,063.48 | 0.23% | |
| 6.1 | Steel, metallic accessories | – | | |
| 6.2 | Ship accessories | 48,525.78 | 0.09% | 1% to 1.5% of contract price in accordance with international practice |
| 6.3 | Ship equipment | 1,712,537.70 | 3.11% | |

Since the H-shares of the Company were listed on The Stock Exchange of Hong Kong Limited the Group had engaged in various continuing connected transactions with the CSSC Group due to the nature of assembly building. The transactions including importing raw materials and equipment and handling export through subsidiaries of CSSC, purchasing electrical and mechanical equipment from manufacturers under the supervision of CSSC, provision of testing, design, management and subcontracting services by companies controlled by CSSC, and purchase of marine equipments and steel through the materials procurement department of CSSC with its advantage of bargaining ability.

All the transactions were entered into by bidding or on term no worse than that offered by independent third parties. Moreover, the Company makes clear the responsibilities and obligations of both parties in the relevant contracts. Therefore, the transactions did not make impact on independence of the Company, and nor lead to dependence of the Company on any connected parties.

Matters in relation to connected transactions are set out in Connected Transactions in the note (VI) to the financial statements prepared under PRC accounting rules and regulations contained in this report.

2. Property and interest transfer

The fourth meeting of the fifth term of the Board of Directors held on October 10, 2005 passed a resolution approving transfer of 26% shareholding in Guangzhou Hongfan Information Technique Co., Ltd. ("Hongfan Co."), a subsidiary of the Company in which it has 77% shareholding, to China Shipbuilding IT Co., Ltd., a connected party of the Company. As the shipbuilding industry becomes more information technology-oriented, introducing China Shipbuilding IT Co., Ltd., as shareholder is expected to enable Hongfan Co. to boost its reputation in the shipbuilding field, provide convide convenience for cooperation with China Shipbuilding IT Co., Ltd in respect of shipbuilding material management, shipbuilding production management, group finance management, information security technology and management, etc., and allow opportunities of market expansion through China Shipbuilding IT Co., Ltd. domestic branches and customer relationships. The transfer agreement was signed on January 6, 2006. The consideration amounting to RMB 1,587,540.94 was booked as received on January 24, 2006 and has been recognized in the financial statements for the period under review. All four independent directors are of the opinion that the transfer agreement is fair and reasonable and in the interests of the independent shareholders. The correlated connected transaction announcement was published in Shanghai Securities News, Hong Kong Commercial Daily, and China Daily (overseas version) on January 9, 2006.

The fifth meeting of the fifth term of the Board of Directors held on October 26, 2005 approved the sale by the Company of the real estate located on the fourth and the fifth floors of the office building located at No. 126 Gexin Lu of Haizhu District in Guangzhou City to Guangzhou Marine Engineering Corporation (a connected party of the Company) at evaluation value to be assessed by professional evaluators. Sale of the real estate will reduce the daily overhead expenses of the Company, and will be propitious in improving the assets use efficiency and income of the Company. The transfer agreement was signed on January 13, 2006. The first installment of the consideration amounting to RMB2.79 million was booked as received on March 1, 2006 and has been recognized in the financial statements for the period under review. The transferring procedure of the property right of the real estate is on the march in accordance with the transfer agreement. All four independent directors are of the opinion that the transfer agreement is fair and reasonable and in the interests of the independent shareholders. The correlated connected transaction announcement was published in *Shanghai Securities News*, *Hong Kong Commercial Daily*, and *China Daily* (overseas version) on January 16, 2006.

(VII).SIGNIFICANT CONTRACT AND PERFORMANCES

1. The Company had not managed by trust, by contract or leased the assets of other companies and the other companies had not managed by trust, by contract or leased the assets of the Company, which occurred during the period under review or occurred before but continued into the period under review.
2. As at the period end under review, the Company did not provided any significant guarantee outside the Group.
3. A Framework Agreement was entered into between the Company and Guangzhou International Trust Investment Company ("GZITIC") on February 20, 2006, pursuant to which GZITIC will procure transfer of compensatory assets to the Company in settlement of debts owing to the Company in the principal amount of RMB168,083,134 and interest otherwise accrued thereon. During the period under review, the Company continuously processed the debt restructuring and booked the transferred real estates, automobiles as the Company's assets and cancelled the corresponding debt credit of RMB31.05 million and the bad debt provision for the trust deposit amounted to RMB21,567,300.

Except for trust deposits, the Company had no other significant trust that occurred during the period under review or before but continued to the period under review.

4. During the period under review, the Company or the shareholders who hold over 5% (including 5%) shares of the Company did not give any undertaking that might have a great impact on the business results or financial condition of the Company during the period under review or occurred before but continued to the period under review.

(VIII). IMPLEMENTATION OF COMMITMENT

During the period under review, CSSC, the only shareholder of shares subject to sale restrictions of the Company carried out the commitment to A share reform.

(IX). APPOINTMENT OR DEMISSION OF THE AUDITORS

The 2005 Annual General Meeting approved to re-appoint Guangdong Yangcheng Certified Accountants Company Limited and PricewaterhouseCoopers as the domestic auditor and international auditor of the Company respectively.

(X). PUNISHMENT AND RECTIFICATION OF THE COMPANY, BOARD OF DIRECTOR AND DIRECTORS OF THE COMPANY

During the period under review, there is no punishment or rectification of the Company, Board of Directors or Directors of the Company.

(XI). OTHER SIGNIFICANT EVENTS

1. The fourteenth meeting of the fifth term of the Board of Directors of the Company approved to an additional special bank loan with an aggregate amount of RMB 3.2 billion on 17th August 2006. The aggregate loan amount of RMB 3.5 billion for the year 2006 which has been approved by the eleventh meeting of the fifth term of the Board of Directors on 23rd March 2006 and the 2005 annual general meeting on 9th May 2006 is mainly used for the ordinary operation. The additional special bank loan would only be used for the purpose of hedging against exchange risk of RMB appreciation and by seeking US Dollar loans from appointed bank with aggregate loans amount not exceeding USD 0.4 billion, which is expected to decrease the loss from RMB appreciation of the Company to a certain extent if the loan arrangement could be implement successfully.
2. The Glory Group Development Co., Ltd, a subsidiary of the Company entered into a joint venture agreement with parties (including connected persons to the Company) for the investment in Zhengjiang CSSC Hyundai Generator Equipment Company Limited on April 8, 2006. The investment amount contributed by the Glory Group Development Co., Ltd was equal to RMB16 million which shall be funded by the internal financial resource of the Group. Please refer to the announcement of the Company on Shanghai Securities News, Hong Kong Commercial Daily, and China Daily (oversea version) on April 11, 2006 for details.
3. The Company received the notification of Zhen Jian Li Tong NO. 001 17th November 2003, due to the alleged breaches to securities laws and regulations by the Company, the Company is currently being investigated by the Guangzhou Investigation Bureau of China Securities Regulatory Commission (the "GIB") commencing on 17th November 2003. The matter has been announced in "Shanghai Securities News", "Hong Kong Commercial Daily" and "China Daily" (overseas version) on 17th November 2003. As at the date of the disclosure of this report, the investigation has not any final conclusion.
4. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance managed by Guangzhou Municipal Labor Protection Administration Department and bore insurance amounting to RMB 5.01 million for its employees.
5. During the period under review, in accordance with the housing reform policy of Guangzhou City, the Company paid housing allowance amounted to RMB 3.45 million for the qualified staff.
6. Referring to the liquidation situation report (Kai Guo Tou Che Zi (2006) No. 1) issued by the liquidation team of Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") and the zero repayment situation of GETDZITIC, the tenth meeting of the fifth term of Board of Directors approved to cancel the accounts receivable from GETDZITIC and the accumulative special bad debts provision amounting to RMB47.408 million which has been fully drawn in 1999 and 2000. The accounts receivable and relevant provision has been cancelled during the period under review.
7. **Contingent liabilities**
Up to June 30, 2006, the Group has no significant contingent liabilities.
8. **Bank loans, overdraft and other borrowings**
Details of bank loans, overdraft and other borrowings of the Group as at June 30, 2006 are set out in note V(10) and V(16) to the Financial Statements.
9. The A share reform of the Company formally commenced on March 27, 2006. Correlative A share reform plan was approved at the A share market general meeting which was held on April 28, 2006, and was implementation completed on May 24, 2006. The share reform plan offered 2.7 bonus shares for every 10 shares. Shenyin & Wanguo Securities Co., Ltd and Jun He Law Offices acted as the sponsor and lawyer respectively for the share reform, and CSSC will bear their responsible for the relevant fees and expenses.
10. **Gearing ratio**
Up to June 30, 2006, the gearing ratio of the Company was 73.20%. Compared with 66.27% as at the beginning of 2006, there is no significant adverse change in the gearing ratio.
11. There has been no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the period under review.

VI. FINANCIAL REPORT (UNAUDITED)

A. Prepared under PRC Accounting Rules and Regulations

Balance Sheets

As at June 30th 2006

Unit: RMB

| Assets | Consolidated | | Parent Company | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | Closing balance | Opening balance | Closing balance | Opening balance |
| Current Assets: | | | | |
| Cash and bank balances | 1,267,505,606.99 | 644,429,949.78 | 1,205,006,181.05 | 575,878,068.09 |
| Short-term investment | — | — | — | — |
| Bills receivable | — | 500,000.00 | — | — |
| Interests receivable | — | — | — | — |
| Dividends receivable | 16,751.21 | 16,751.21 | 2,276,213.77 | 2,276,213.77 |
| Accounts receivable | 276,460,427.97 | 220,461,108.24 | 207,979,491.80 | 206,026,974.68 |
| Other receivable | 49,003,161.89 | 56,050,428.55 | 69,642,244.05 | 57,870,319.15 |
| Prepayments to suppliers | 361,847,870.25 | 169,130,166.31 | 380,934,970.15 | 164,412,742.67 |
| Subsidy receivable | -0.06 | 34,472,851.84 | -0.06 | 28,911,485.71 |
| Inventories | 420,878,600.40 | 318,527,875.85 | 361,632,406.02 | 269,718,739.92 |
| Deferred expenses | 397,677.24 | 386,634.98 | 171,739.98 | 340,480.00 |
| Long-term investment in bonds within one year | — | — | — | — |
| Other current assets | — | — | — | — |
| Total current assets | 2,376,110,095.89 | 1,443,975,766.76 | 2,227,643,246.76 | 1,305,435,023.99 |
| Long-term investment | | | | |
| On equity | 27,853,020.53 | 15,735,350.82 | 117,036,264.99 | 113,484,352.44 |
| On bonds | — | — | — | — |
| Total long-term investments | 27,853,020.53 | 15,735,350.82 | 117,036,264.99 | 113,484,352.44 |
| Less: the devalue provision of long-term investments | — | — | — | — |
| Net long-term investments | 27,853,020.53 | 15,735,350.82 | 117,036,264.99 | 113,484,352.44 |
| consolidate difference | — | — | — | — |
| Fixed Assets | | | | |
| Fixed assets-cost | 1,625,219,333.41 | 1,622,716,754.19 | 1,511,137,598.79 | 1,513,740,123.85 |
| Less: accumulated depreciation | 698,743,443.72 | 674,547,479.02 | 619,094,153.64 | 597,282,962.88 |
| Fixed assets-net book value | 926,475,889.69 | 948,169,275.17 | 892,043,445.15 | 916,457,160.97 |
| Less: the devalue provision of fixed assets | — | — | — | — |
| Net fixed assets | 926,475,889.69 | 948,169,275.17 | 892,043,445.15 | 916,457,160.97 |
| Construction materials | — | — | — | — |
| Construction-in-progress | 99,788,181.78 | 56,425,445.50 | 99,788,181.78 | 54,017,660.86 |
| Disposals of fixed assets | — | — | — | — |
| Total fixed assets | 1,026,264,071.47 | 1,004,594,720.67 | 991,831,626.93 | 970,474,821.83 |
| Intangible and other assets | | | | |
| Intangible assets | 73,945,274.35 | 76,718,836.65 | 73,945,274.35 | 76,718,836.65 |
| Long-term deferred expenses | 111,240.85 | 3,579,662.23 | — | 8,291.38 |
| Other long-term assets | — | — | — | — |
| Total intangible and other assets | 74,056,515.20 | 80,298,498.88 | 73,945,274.35 | 76,727,128.03 |
| Deferred taxation | | | | |
| Deferred tax debit | — | — | — | — |
| Total assets | 3,504,283,703.09 | 2,544,604,337.13 | 3,410,456,413.03 | 2,466,121,326.29 |

Unit: RMB

| Liabilities and shareholders' equity | Consolidated | | Parent Company | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | Closing balance | Opening balance | Closing balance | Opening balance |
| Current liabilities | | | | |
| Short-term loans | 133,000,000.00 | 60,354,500.00 | 120,000,000.00 | 60,354,500.00 |
| Bills payable | – | – | – | – |
| Accounts Payable | 386,093,758.79 | 372,909,627.91 | 376,811,629.47 | 365,548,370.21 |
| Receipts in advance | 19,015,193.63 | 19,546,550.24 | 12,566,663.39 | 9,925,224.33 |
| Salary payable | – | – | – | – |
| Staff welfare payable | 9,486,791.54 | 8,983,338.83 | 7,068,659.73 | 6,819,385.30 |
| Dividends payable | 12,379.38 | 2,184,037.88 | 12,379.38 | 13,181.88 |
| Taxes payable | -16,807,818.24 | -12,436,368.72 | -14,901,635.63 | -14,031,351.58 |
| Other unpaid items | 1,272,017.98 | 1,314,178.29 | 1,063,930.89 | 1,195,218.98 |
| Other payables | 52,080,143.53 | 27,406,848.21 | 45,589,056.19 | 21,927,164.09 |
| Accrued expenses | 95,835,295.49 | 76,010,067.08 | 92,471,580.25 | 75,510,845.99 |
| Established liabilities | – | – | – | – |
| Long-term liabilities within one year | – | 200,150,000.00 | – | 200,150,000.00 |
| Other current liabilities | 1,852,793,469.19 | 900,256,830.83 | 1,855,162,442.78 | 902,124,432.83 |
| Total Current liabilities | 2,532,781,231.29 | 1,656,679,610.55 | 2,495,844,706.45 | 1,629,536,972.03 |
| Long-term liabilities | | | | |
| Long-term loans | – | – | – | – |
| Bonds payables | – | – | – | – |
| Long-term payable | – | – | – | – |
| Special project payable | 32,503,624.17 | 29,748,854.17 | 32,503,624.17 | 29,748,854.17 |
| Other long-term liabilities | – | – | – | – |
| Total long-term liabilities | 32,503,624.17 | 29,748,854.17 | 32,503,624.17 | 29,748,854.17 |
| Deferred taxation | | | | |
| Deferred tax credit | – | – | – | – |
| Total liabilities | 2,565,284,855.46 | 1,686,428,464.72 | 2,528,348,330.62 | 1,659,285,826.20 |
| Minority interests | 55,248,326.13 | 49,719,923.79 | | |
| Shareholders' equity | | | | |
| Share capital | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 |
| Capital reserve | 651,977,481.72 | 651,977,481.72 | 651,977,481.72 | 651,977,481.72 |
| Surplus reserves | 100,147,511.34 | 100,147,511.34 | 99,527,585.23 | 99,527,585.23 |
| Including: public welfare fund | – | 30,526,605.41 | – | 30,526,605.41 |
| Retained earnings | -363,052,051.56 | -438,346,624.44 | 364,074,564.54 | -439,347,146.86 |
| Converted difference | – | – | – | – |
| Total shareholders' equity | 883,750,521.50 | 808,455,948.62 | 882,108,082.41 | 806,835,500.09 |
| Total liabilities and shareholders' equity | 3,504,283,703.09 | 2,544,604,337.13 | 3,410,456,413.03 | 2,466,121,326.29 |

Profit Statement

First half of 2006

Unit: RMB

| Item | Consolidated | | Parent Company | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 |
| 1. Principal operating income | 1,504,706,512.06 | 1,189,675,737.75 | 1,335,110,361.67 | 1,087,976,355.71 |
| Less: principal operating costs | 1,325,078,254.57 | 1,112,285,377.41 | 1,187,323,654.58 | 1,027,019,338.55 |
| Principal operating tax & surcharge | 5,191,850.78 | 355,187.37 | 4,620,507.85 | 67,858.94 |
| 2. Principal operating profit | 174,436,406.71 | 77,035,172.97 | 143,166,199.24 | 60,889,158.22 |
| Add: Profit from other operations | 5,709,703.07 | 8,450,319.65 | 8,457,776.40 | 11,319,073.01 |
| Less: selling expenses | 2,015,111.69 | 1,955,130.86 | 1,052,042.06 | 1,082,275.99 |
| Administrative expenses | 105,430,236.11 | 69,178,339.82 | 89,268,776.27 | 60,430,622.34 |
| Financial expenses | -1,019,647.02 | 11,336,297.59 | -1,816,802.88 | 11,345,764.83 |
| 3. Operating profit | 73,720,409.00 | 3,015,724.35 | 63,119,960.19 | -650,431.93 |
| Add: investment income | 975,570.48 | 1,318,730.39 | 6,111,721.33 | 3,577,821.64 |
| Subsidy income | 9,683,332.95 | 17,485,104.05 | 9,500,000.00 | 17,292,574.33 |
| Non-operating income | 1,303,913.00 | 896,008.66 | 1,238,083.00 | 766,499.04 |
| Less: non-operating expenses | 4,865,966.47 | 584,888.43 | 4,697,182.20 | 454,035.99 |
| 4. Total profit | 80,817,258.96 | 22,130,679.02 | 75,272,582.32 | 20,532,427.09 |
| Less: income tax | 1,590,591.74 | 720,908.79 | – | – |
| Minority interests | 3,932,094.34 | 856,983.01 | – | – |
| Add: unconfirm investment loss | – | – | – | – |
| 5. Net profit | 75,294,572.88 | 20,552,787.22 | 75,272,582.32 | 20,532,427.09 |
| Add: retained earnings at the beginning of the year | -438,346,624.44 | -536,539,884.17 | -439,347,146.86 | -537,077,657.26 |
| Transfer from surplus reserves | – | – | – | – |
| 6. Distributable profit | -363,052,051.56 | -515,987,096.95 | -364,074,564.54 | -516,545,230.17 |
| Appropriation to statutory surplus reserve | – | – | – | – |
| Appropriation to statutory public welfare fund | – | – | – | – |
| Appropriation to staff award and welfare fund | – | – | – | – |
| Appropriation to reserve fund | – | – | – | – |
| Appropriation to development fund | – | – | – | – |
| Profit investment | – | – | – | – |
| 7. Profit distributable to shareholders | -363,052,051.56 | -515,987,096.95 | -364,074,564.54 | -516,545,230.17 |
| Less: preference shares dividends Payable | – | – | – | – |
| Appropriation to discretionary surplus reserve | – | – | – | – |
| Ordinary shares dividends payable | – | – | – | – |
| Ordinary shares dividends | – | – | – | – |
| 8. Retained earnings | -363,052,051.56 | -515,987,096.95 | -364,074,564.54 | -516,545,230.17 |

Cash Flow Statement

| Items | Consolidated | First half of 2006 Unit:RMB Parent company |
|--|------------------------|--|
| 1. Cash flow from operating activities | | |
| Cash received from sales of goods and rendering services | 2,401,414,550.39 | 2,216,250,899.69 |
| Refund of tax paid | 147,827,513.67 | 136,167,358.62 |
| Other cash received relating to operating activities | 69,073,679.37 | 45,986,649.41 |
| Sub-total of cash inflows | 2,618,315,743.43 | 2,398,404,907.72 |
| Cash paid for goods and services | 1,546,156,667.76 | 1,346,729,019.94 |
| Cash paid to and on behalf of employees | 137,858,060.94 | 116,151,943.00 |
| Total tax paid | 28,833,943.43 | 18,993,911.11 |
| Other cash paid relating to operating activities | 117,507,253.71 | 125,234,290.78 |
| Sub-total of cash outflows | 1,830,355,925.84 | 1,607,109,164.83 |
| Net cash flow from operating activities | 787,959,817.59 | 791,295,742.89 |
| 2. Cash flow from investig activities | | |
| Cash received from return of investments | 1,587,540.94 | 1,587,540.94 |
| Include: Cash received from sell of subsidiaries | 1,587,540.94 | 1,587,540.94 |
| Cash received from distribution of investment income | 972,267.84 | 972,267.84 |
| Cash received from disposal of fixed assets, intangible assets, other long-term assets | 965,481.00 | 915,481.00 |
| Other cash received relating to investing activities | - | - |
| Subtotal of cash inflows | 3,525,289.78 | 3,475,289.78 |
| Cash paid to acquire fixed assets, intangible assets, other long-term assets | 33,630,196.34 | 30,395,709.90 |
| Cash paid to investments | 12,105,600.00 | - |
| Other cash paid relating to investing activities | - | - |
| Sub-total of cash outflows | 45,735,796.34 | 30,395,709.90 |
| Net cash flow from investment activities | -42,210,506.56 | -26,920,420.12 |
| 3. Cash flows from financing activities. | | |
| Proceeds from issuing investments | - | - |
| Include: Proceeds from minority interest investments of subsidiaries | | |
| Proceeds from borrowings | 121,070,200.00 | 108,070,200.00 |
| Other proceeds relating to financing activities | 3,773,980.28 | 3,743,434.97 |
| Sub-total of cash inflows | 124,844,180.28 | 111,813,634.97 |
| Cash repayment of amounts borrowed | 246,190,485.83 | 246,190,485.83 |
| Cash Payments for distribution of dividends or profits, interest expenses | 989,340.36 | 989,340.36 |
| Include: Payments for minority dividnets | | |
| Other cash payments relating to financing activities | 580,256.19 | 372,433.77 |
| Include: Subsidiaries cash payments for minority for capital decrease | | |
| Sub-total of cash outflows | 247,760,082.38 | 247,552,259.96 |
| Net cash flows from financing activities | -122,915,902.10 | -135,738,624.99 |
| 4. Effect of foreign exchange rate changes on cash and bank balances | 242,248.28 | 491,415.18 |
| 5. Net increase in cash and cash equivalents | 623,075,657.21 | 629,128,112.96 |

Additional information

| Items | Unit:RMB | |
|--|-----------------------|-----------------------|
| | Consolidated | Parent company |
| 1. Reconciliation of net profit to cash flows from operating activities | | |
| Net Profit | 75,294,572.88 | 75,272,582.32 |
| Add: minority interests | 3,932,094.34 | – |
| Provision for diminution of assets | -27,500.00 | -27,500.00 |
| Depreciation of fixed assets | 39,409,727.57 | 34,491,848.20 |
| Amortization of intangible assets | 2,613,644.96 | 2,613,644.96 |
| Amortization of long-term deferred expenses | 1,493,571.99 | – |
| Decrease of deferred expenses (deduct: increase) | 56,837.74 | 171,740.02 |
| Increase of pre-operating expenses (deduct: decrease) | 18,641,461.19 | 15,776,967.04 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (deduct: decrease) | -95,030.47 | -45,030.47 |
| Losses on write off of fixed assets | 3,943,345.27 | 3,774,709.72 |
| Financial expenses | -1,825,017.45 | -2,237,331.74 |
| Losses from investments (deduct: income) | -975,570.48 | -6,111,721.33 |
| Deferred tax credit (deduct: credit) | – | – |
| Decrease in inventories (deduct: increase) | -70,997,168.23 | -60,058,738.19 |
| Decrease in operating receivables (deduct: increase) | -178,004,946.73 | -156,054,283.73 |
| Increase in operating payables (deduct: decrease) | 919,371,239.53 | 908,786,625.21 |
| Others | -24,871,444.52 | -25,057,769.12 |
| Net cash flows form operating activities | 787,959,817.59 | 791,295,742.89 |
| 2. Investing and financing activities not involving cash flows | | |
| Capital from debts | | |
| Company bonds changeable in one year | – | – |
| Financing or leasing fixed assets | – | – |
| 3. Net increase in cash and cash equivalents | | |
| Closing balance of cash and bank balances | 1,267,505,606.99 | 1,205,006,181.05 |
| Less: Opening balance of cash and bank balances | 644,429,949.78 | 575,878,068.09 |
| Add: Closing balance of cash equivalents | – | – |
| Less: Opening balance of cash equivalents | – | – |
| Net increase of cash or cash equivalents | 623,075,657.21 | 629,128,112.96 |

Notes to the Financial Statements**(I). Overview of the Company**

Guangzhou Shipyard International Company Limited (the “Company” and its subsidiaries) was reorganized in 1993 from Guangzhou Shipyard, and incorporated in the PRC as a joint stock limited company. Upon approval, the Company was registered as a sino-foreign joint stock limited company on October 21st 1994.

Currently, the Company is the largest modernized and comprehensive shipyard in southern China and enjoys the autonomy of operating import and export business.

At present, the Company owns one 40,000dwt and two 60,000dwt shipbuilding berths, shipbuilding and ship-repairing quay, and one 50,000dwt ship-repairing dock under reconstruction. It also owes processing lines for steel plate and large pipe; and production lines for steel structure engineerin and elevator and other electro-mechanic products.

The Company presently has 4 major operations, including shipbuilding, ship-repairing, steel structure engineering, and other mechanical and electrical equipment. In addition to handy-size tankers, 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.

(II). Principal Accounting Policies adopted by the Company (Group)

1. Accounting System

The Company adopts *the Enterprise Accounting Standard and the Enterprise Accounting System* and relevant regulations issued by the PRC Financial Department.

2. Accounting Period

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

3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

4. Basis of Recording and Valuation

Basis of recording adopts accrual system and basis of valuation is cost of acquisition. Devalue provision is made in accordance with the Enterprise Accounting System if there is any devalue of any asset.

5. Foreign Currency Translation

Foreign currency translations during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China on the first day of the month in which the transactions take place. At the end of the month, the monetary balances are adjusted in accordance with the regulations of Accounting System with the differences arising stated as exchange difference.

6. Cash Equivalents

Cash equivalents are defined as investments that are short-term (within three months), highly liquid, and readily convertible to cash and are subject to low risk of changes in value.

7. Short-term Investment and Profit

The short-term investment, including shares, bonds and funds, refers to the investment that can be realized at any moment, and the time of holding the investment does not exceed 1 year (including 1 year). The investment is calculated on basis of the cost of the investment while returning the investment. At the end of the term, short-term investment is valued in accordance with the lower between the cost and market price. When the market price is lower than the cost, provision for diminution is made.

8. Provisions for Doubtful Debts

- (1) Basis of recognition as of doubtful debts lost: If cases where debtors to bankrupt or is dead, doubtful debts unpaid represent balance after settlement out of liquidation or estate; The debtor do not pay back debt overdue, and certify it is impossible to get back after litigation process.
- (2) Accounting basis of doubtful debts lost: provision way.
- (3) Provision and applicable rate: For the account receivable which there is no bad information of in-receivable, 0.5% of its left will be draw out as provision; For the account receivable which there is special disadvantageous information for the bad debts, the provision will draw in accordance with the difference between the returnable amounts of debts and its book account.

9. Inventories

Inventories of the Company are valued on the basis of cost, including:

- (1) Raw materials and low-value consumables are stated at standard costs. The amount is adjusted for price variance to arrive at actual cost at the end of month.
- (2) Low-value consumables are amortized upon issuance for use.
- (3) Finished products and work-in-progress are stated at actual cost.

Methods of making provision for diminution of value on inventories:

- (1) For materials (excluding those special materials for the products with the support of contract), provision is made on those damaged or rotten materials based on the difference between cost and net realizable value.
- (2) For construction contracts (including products under long-term contracts), provision is made against total impact of foreseeable loss.
- (3) For finished goods covered by contracts, provision is made based on the difference between cost and sales proceeds when the actual cost is more than the foreseeable operating income.

10. Long-term Investments

(1) Long-term equity investments

Long-term equity investments by the Company are stated as the investment cost.

For enterprises in which the Company's investment representing more than 50% of the investee's issued capital, equity method of accounting is adopted and consolidated financial statements are prepared.

For enterprises in which the Company has made an investment representing more than 20% but equal to or less than 50% of the investee's issued capital, equity method of accounting is adopted and no consolidated financial statements are prepared generally except where the Company has control over the investing project.

The Company's investments representing 20% or less of the investee's issued capitals are stated at cost.

- (2) The balance of the equity investment, the term of which is stipulated in the contract, is amortized and included as current income of investment according to the investment term; while those, the term of which is not stipulated in the contract, are amortized and included as current income of investment according to the term that does not exceed 10 years (including 10 years).
- (3) Long-term bond investments: Bonds invested by the Company are regarded as original investment cost according to the exact payment. The interest, included by the exact payment, will be stated dividually as item receivable when the interest is at the expiration but not drawn. The original investment cost of long-term bonds includes the bond interest that is included by the exact payment and does not expire.
- (4) The amortization of premium and discount of long-term bond investment is carried out at the same time with the confirmation of the relevant bond interest in order to adjust the investment income.
- (5) Provision for diminution in long-term investments
 - (i) Provision for diminution in long-term investments that have market price is made according to the following symptom.
 - A. Market price lower than the account price for the continuous 2 years
 - B. The transaction of investment suspended for one year or more
 - C. The company invested have a serious loss in this year
 - D. The loss of the company invested lasted for continuous 2 years
 - E. The company invested is in process of rectification and liquidation or shows any symptoms that cannot operate continually.
 - (ii) Provisions for diminution in long-term investments that have not market price are made according to the following symptom.
 - A. The company invested has a mint loss.
 - B. The financial status of the company invested has deteriorated, such as the rectification and liquidation, etc, because of the change of market and the descent of the competitive ability.
 - C. In other case, for example, it shows evidence that the investment actually did not bring any benefit to the Company.

11. Fixed Assets and Depreciation

Fixed assets refer to the house, building, machinery and the equipment of transportation that have been used for one year or more, including other equipment related to the production and business. Fixed assets are stated at cost.

Depreciation is provided to write off the cost over their useful lives on a straight-line method, after taking into account the estimated residual value of 3% to 10% of the cost. The annual rates of depreciation for various categories of fixed assets are as follows:

| Fixed assets category | Service years | Depreciation rate (%) |
|-------------------------|---------------|-----------------------|
| Machinery and equipment | 6-20 | 5-16.67 |
| Transmission systems | 8-35 | 2.86-12.5 |
| Instrument and meters | 5-10 | 10-20 |
| Vehicles | 10-15 | 6.67-10 |
| Buildings | 8-50 | 2-12.5 |
| Structures | 15-50 | 2-6.67 |

Provision for diminution is made when the fixed assets comply with one of the situations in the following.

- (1) The fixed assets, left unused for a long time, will not be used in the foreseeable future and no any transference value.
- (2) The fixed assets left unused for the sake of the technical advance.
- (3) The fixed assets produced a great number of rejects, although the fixed assets can be used.
- (4) The fixed assets, no any use and transference value because of damage.
- (5) The fixed assets, cannot bring any benefit to the Company actually.

At the end of term, the value of fixed asset is calculated in accordance with the lower between the accounting value and the receivable value. When the receivable sum is lower than the accounting sum, the balance will be regarded as the fixed assets provision for diminution that is stated in accordance with each single asset.

12. Construction-in-process

Construction-in-process is stated at cost. The relevant interests are included as project cost before the project is delivered for use. The project is considered to list into fixed assets as the project is delivered for use. For the project could be delivered for use but not process the final account for completed project, from the date of the project could be delivered, and in accordance with the budget and the construction value of the project, the project could be transferred into fixed assets, and drawn depreciation in accordance with relevant regulations of Enterprise Accounting System. The readjustment will make after the final account for completed project was processed. The Company will made devalue provision on the construction-in-process met following situations:

- (1). Constructions paused for long-term and was not anticipated to re-commence in 3 years.
- (2). Constructions that were enough proved the situation of devaluing.

13. Loan Expenses

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

- (1) The payout (only including cash paid, transferred non-currency assets or holding debt liability) has been occurred.
- (2) The expenses of loan have been occurred.
- (3) The action of buy and construction, which are indispensable in order to reach the scheduled workable condition, has begun.

The loan expenses for buying or constructing fixed assets, fulfilling the condition of capitalization and the fixed assets reaching the scheduled workable condition, can be stated as cost of fixed assets. The loan expenses occurred after the construction was reached the scheduled workable condition would be stated as the current financial expenses.

Method for calculating capitalized interest for each accounting period:

The weighted average of accumulated outlay for buying and constructing fixed assets as to the end of the period capitalization rate.

14. Intangible Assets and Its Amortization

Intangible assets are state at cost. Amortization is provided to write off the cost evenly over the legal or contractual lives or, in the absence of legal or contractual lives, evenly over the useful lives. Where the useful lives of intangible assets cannot be ascertained, amortization is provided evenly over a period of not less than 10 years. The Company will make devalue provision to the balance between the book-value and the anticipated receivable amount of the intangible assets which met following situations:

- (1) An Intangible asset whose profitability was adversely affect significantly to the economic interest of the enterprise, or has no usable value and transferring value.
- (2) An Intangible asset which exceed the legal protection time limited, and wholly or partially lost its usable value and transferring value.
- (3) The market price of an intangible asset decreased in a large degree, and was not anticipated could recover in the rest amortization years.
- (4) Other intangible assets that were enough proved the situation that its use value and transferring value was lost wholly or partially.

15. Long-term Deferred Expenses and Amortization

Long-term deferred expenses are amortized evenly during favorable period of expense items.

16. Income Realizing Principle

Commodity sale: the Company has no any managing and controlling right after the important risk and reward has been transferred to the seller. The evidence of receiving money has been possessed in respect of the relevant income and the cost concerning the commodity sale can be calculated reliably in order to confirm the business income.

Labor services: the contract has been executed and the sum of money in contract or the evidence of receiving money has been received.

When the result of construction contract (long-term contract engineering) is foreseeable, it is to calculate the business income on basis of the percentage of the construction progress when settle accounts, and to calculated the business cost on basis of the same percentage of scheduled cost. The provision for loss, which consists of the whole cost of construction, will be made when foreseeable loss. Generally, in accordance with the situation of the Company could anticipate the result for the contracts of a long-term project such as a first-made shipbuilding contract (or new order) reasonably when the construction progress reached 50%. And for the ships of batch production, the Company could anticipate the result when the construction progress reached 30%.

Unrealized operating income of foreign currency construction contract is to be calculated on basis of recording exchange rate of the period, contract price and the percentage of scheduled cost. Total foreseeable operating income is the sum of unrealizable and realized operating income. When the project is accomplished or at the end of accounting period, the balance of accumulated operating income and scheduled result is considered as exchange profit and loss, and recorded as financial expenses in Profit and Loss Statement.

Income from transferring assets using right was confirm when the relevant economic interest could inflow or the amount received could be accounted reliably.

17. Income Tax

The income tax of the Company is on basis of accrual basis.

18. Basis of Preparation of Consolidated Financial Statements

In accordance with the "Tentative Regulations for Consolidated Financial Statements" issued by Finance Ministry, enterprises that the Company holds over 50% of total equity, or even less than that, but gets the actual holding rights, is consolidated into the accounting statements.

(III). Taxation

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

| Activity Category | Tax category | Tax rate |
|--|-----------------|----------|
| Shipbuilding, Ship-repairing, Steel structures & Mechanical and electrical equipment manufacturing, and sales materials | Value-added tax | 17% |
| Transportation and installation | Sales tax | 3% |
| Other services | Sales tax | 5% |

2. The Company's income tax is calculated at 15% on the assessable profit.

(IV). Principal Subsidiaries and Affiliates**1. Principal Subsidiaries**

| Name | Registered Capital ('000) | Principal Business | Investment Capital ('000) | Interest Attributable to the Company | Indirect interest % |
|--|----------------------------------|---|----------------------------------|---|----------------------------|
| Guangzhou Masterwood Company Limited | RMB3,315 | Manufacture and sales of all kind of material furniture series | RMB9,336 | 51 | 25 |
| Guangzhou Guanglian Container Transportation Company Limited | RMB20,000 | Container transportation | RMB15,000 | 75 | |
| Guangzhou Xinsun Shipping Service Company Limited | RMB2,000 | Installation, welding, fitting, coating, repairing of hull structure | RMB500 | 83 | |
| United Steel Structures Limited | USD 8,850 | Manufacturing, sales and post sales service of steel structure | RMB37,522 | 51 | |
| Guangdong GSI Elevator Limited | RMB21,000 | Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator | RMB19,950 | 95 | 3.8 |
| Guangzhou Hongfan Information Technique Co., Ltd. | RMB5,000 | Developing of computer software, system integration and sales | RMB3,850 | 51 | |
| Glory Group Development Co., Ltd. | HKD10 | Trading | RMB10.44 | 100 | |
| Indirect holding subsidiaries | | | | | |
| Guangzhou Hongfan Hotel | RMB10,000 | Traveling and catering services | RMB10,000 | 86.16 | Yes |
| Guangdong GSI Elevator Limited | RMB21,000 | Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator | RMB350 | 3.8 | Yes |
| Guangzhou Masterwood Company Limited | RMB3,315 | Manufacture and sales of all kind of material furniture series | RMB829 | 25 | Yes |
| Fonkwang Development Ltd. | HKD200 | General trade | HKD140 | 70 | Yes |

Except Fonkwang Development Ltd. and Glory Group Development Co., Ltd. were registered in Hong Kong, other above subsidiaries are established and operated in Mainland China.

2. No holding subsidiary is out of the scope of consolidation in this period.

(V). Notes to Items in the Financial Statements (Unit: RMB, unless special statement)

1. Cash and bank balances

| Item | As at June 30, 2006 | | As at December 31, 2005 | |
|---|---------------------|--------------------------------|-------------------------|------------------------------|
| | Foreign currency | Equivalent RMB | Foreign currency | Equivalent RMB |
| Cash | | | | |
| RMB | | 75,766.79 | | 225,860.75 |
| HKD | 55,040.13 | 57,172.04 | 31,336.93 | 32,590.63 |
| USD | 2,338.28 | 18,695.95 | 2,907.17 | 23,463.48 |
| JPY | – | – | 500.00 | 34.23 |
| EUR | 4,408.84 | 44,667.28 | 4,438.84 | 42,445.96 |
| POUND | 250.00 | 3,650.96 | 250.00 | 3,462.72 |
| Sub-total | | <u>199,953.02</u> | | <u>327,857.77</u> |
| Deposit | | | | |
| RMB | | 1,222,938,847.07 | | 571,690,211.11 |
| HKD | 2,366,375.17 | 2,440,498.75 | 4,676,707.50 | 4,865,433.16 |
| USD | 2,358,907.51 | 18,974,305.46 | 6,997,303.12 | 56,472,090.47 |
| EUR | 1,079,908.07 | 10,919,308.02 | 1,026,184.42 | 9,812,979.07 |
| Sub-total | | <u>1,255,272,959.30</u> | | <u>642,840,713.81</u> |
| Deposit in CSSC Financial Co. (Note) | | <u>933,035.95</u> | | <u>928,326.17</u> |
| Others | | – | | – |
| RMB | | 2,194,550.35 | – | 141,156.13 |
| USD | 1,093,251.11 | 8,905,108.37 | 23,776.27 | 191,895.90 |
| Subtotal | | <u>11,099,658.72</u> | | <u>333,052.03</u> |
| Total | | <u><u>1,267,505,606.99</u></u> | | <u><u>644,429,949.78</u></u> |

Note: CSSC Financial Co., a subsidiary of CSSC, is a non-banking financial corporation approved and supervised by the People's Bank of China.

Cash and Bank Balance increased by 96.69% compared with the beginning of the period, that mainly due to the increase of cash received relating to operating activities.

2. Accounts receivable

(1). Accounts Receivable

| Bond age | June 30, 2006 | | | | |
|---------------|------------------------------|-----------------------|------------------------------|------------------------------|------------------------------|
| | Amount | Percentage % | Provision for doubtful debts | Percentage of doubtful debts | Net receivable |
| Within 1 year | 250,879,445.38 | 88.61% | 989,184.54 | 0.50% | 249,890,260.84 |
| 1-2 years | 14,444,635.14 | 5.10% | 87,373.55 | 0.50% | 14,357,261.59 |
| 2-3 years | 8,259,618.94 | 2.92% | 17,809.44 | 0.50% | 8,241,809.50 |
| 3-4 years | 2,791,709.51 | 0.99% | 8,858.50 | 0.50% | 2,782,851.01 |
| 4-5 years | 1,192,863.76 | 0.42% | 4,618.73 | 0.50% | 1,188,245.03 |
| Special | 5,554,612.99 | 1.96% | 5,554,612.99 | 100.00% | – |
| Total | <u><u>283,122,885.72</u></u> | <u><u>100.00%</u></u> | <u><u>6,662,457.75</u></u> | <u><u>–</u></u> | <u><u>276,460,427.97</u></u> |

December 31, 2005

| Bond age | Amount | Percentage % | Provision for doubtful debts | Percentage of doubtful debts | Net receivable |
|---------------|-----------------------|--------------|------------------------------|------------------------------|-----------------------|
| Within 1 year | 197,836,908.97 | 87.11% | 989,184.54 | 0.50% | 196,847,724.43 |
| 1-2 years | 17,474,709.70 | 7.69% | 87,373.55 | 0.50% | 17,387,336.15 |
| 2-3 years | 3,561,887.94 | 1.57% | 17,809.44 | 0.50% | 3,544,078.50 |
| 3-4 years | 1,771,699.90 | 0.78% | 8,858.50 | 0.50% | 1,762,841.40 |
| 4-5 years | 923,746.50 | 0.41% | 4,618.73 | 0.50% | 919,127.77 |
| Special | 5,554,612.99 | 2.45% | 5,554,612.99 | 100.00% | – |
| Total | 227,123,566.00 | 100 | 6,662,457.76 | – | 220,461,108.24 |

- (i) Regard to 100% as doubtful debts, the Company has appealed, but the debtors are unable to perform the sentence of the Court to pay. Therefore, under approval with standard program of the Company, the doubtful debts are considered in 100%.
- (ii) Regard to 50% as doubtful debts, some unfavorable situations occurred for taking back the money. 50% as doubtful debts is approved with standard program of the Company.
- (iii) The total debt from the top five debtors, which stated as follows, representing 82.94% of the total account receivable.

| Company | Amount | Reason |
|---------------------------------|-----------------------|--|
| A.P.MOLLER, Denmark | 148,920,320.75 | Before the due date for payment |
| Bulter Manufacturing Co. | 59,034,127.28 | Before the due date for payment |
| Guangzhou Navy Equipment Bureau | 18,560,000.00 | Normal payment procedure |
| WHL-FONKWANG | 4,520,057.15 | Normal payment procedure |
| Havens Steel Company | 3,795,665.15 | Default on project price, under litigation implementation preceeding |
| Total | 234,830,170.33 | |

- (iv) None of account receivable is due from shareholders who hold 5% or above of the Company's interest.

(2) Prepayment to suppliers

| Bond age | June 30, 2006 | | December 31, 2005 | |
|---------------|-----------------------|---------------|-----------------------|---------------|
| | Amount | Percentage % | Amount | Percentage % |
| Within 1 year | 302,894,517.42 | 83.71 | 139,871,685.48 | 38.65 |
| 1-2 years | 54,458,634.00 | 15.05 | 28,263,762.00 | 7.81 |
| 2-3 years | 3,503,318.83 | 0.97 | 953,318.83 | 0.26 |
| Over 3 years | 991,400.00 | 0.27 | 41,400.00 | 0.01 |
| Total | 361,847,870.25 | 100.00 | 169,130,166.31 | 100.00 |

- (i) Prepayment to suppliers increased by 113.95% compared with the beginning of the period, mainly due to the enlarged production scale of the Company and short supply of material which caused the increase of prepayment for equipments and materials.
- (ii) The prepayment to the top five suppliers, which stated as follows, is RMB317.20million representing 87.66% of the total prepayment.

| Company | Amount | Reason |
|---|-----------------------|---|
| Dalian Marine Diesel Works | 167,480,000.00 | The prepayments are advanced subscription and prepayment of certain proportion of the contract value for marine equipments and accessories. |
| Hong Kong China United Shipbuilding Co., Ltd. | 79,197,026.47 | |
| Wuhan Zhonghaitong Marine Material Co. | 33,300,000.00 | |
| Zhenjiang CSSC Equipment Co., Ltd. | 20,400,000.00 | |
| Poly Science & Technology Co., Ltd. | 16,820,000.00 | |
| Total | 317,197,026.47 | |

- (iii) Zhenjiang CSSC Equipment Co., Ltd. and Hong Kong China United Shipbuilding Co., Ltd. are subsidiaries of CSSC, and connected parties of the Company.
- (iv) None of prepayments is due to shareholders who hold 5% or above of the Company's interest.

(3). Other receivables

| June 30, 2006 | | | | | |
|---------------|-----------------------|---------------|------------------------------|------------------------------|----------------------|
| Bond age | Amount | % | Provision for doubtful debts | Percentage of doubtful debts | Net receivable |
| Within 1 year | 4,323,088.76 | 2.96 | 23,712.57 | 0.50% | 4,299,376.19 |
| 1-2 years | 3,136,074.50 | 2.14 | 3,512.89 | 0.50% | 3,132,561.61 |
| 2-3 years | 479,222.17 | 0.33 | 313.10 | 0.50% | 478,909.07 |
| 3-4 years | 15,000.00 | 0.01 | 186.25 | 0.50% | 14,813.75 |
| 4-5 years | 275,415.00 | 0.19 | - | 0.50% | 275,415.00 |
| 5 years | 12,537.40 | 0.01 | 21.57 | 0.50% | 12,515.83 |
| special | 137,033,134.00 | 93.68 | 96,243,563.57 | 70.09% | 40,789,570.43 |
| special | 1,000,000.00 | 0.68 | 1,000,000.00 | 100.00% | - |
| Total | <u>146,274,471.83</u> | <u>100.00</u> | <u>97,271,309.94</u> | <u>-</u> | <u>49,003,161.89</u> |

| December 31, 2005 | | | | | |
|-------------------|-----------------------|---------------|------------------------------|------------------------------|----------------------|
| Bond age | Amount | % | Provision for doubtful debts | Percentage of doubtful debts | Net receivable |
| Within 1 year | 4,742,514.30 | 2.13 | 23,712.57 | 0.50% | 4,718,801.73 |
| 1-2 years | 702,577.35 | 0.32 | 3,512.89 | 0.50% | 699,064.46 |
| 2-3 years | 62,619.60 | 0.03 | 313.10 | 0.50% | 62,306.50 |
| 3-4 years | 37,250.00 | 0.02 | 186.25 | 0.50% | 37,063.75 |
| 4-5 years | 217,815.00 | 0.10 | - | | 217,815.00 |
| 5 years | 43,137.40 | 0.02 | 21.57 | 0.05% | 43,115.83 |
| special | 168,083,134.00 | 75.60 | 117,810,872.73 | 70.09% | 50,272,261.27 |
| special | 48,435,000.00 | 21.79 | 48,435,000.00 | 100.00% | - |
| Total | <u>222,324,047.65</u> | <u>100.00</u> | <u>166,273,619.10</u> | <u>-</u> | <u>56,050,428.55</u> |

(i) The other receivables from the top five companies, which stated as follows, is RMB138.72 million representing 94.84% of the total other receivables.

| Company | Amount | Reason |
|---|-----------------------|--|
| Guangzhou International Trust Investment Company | 137,033,134.00 | Trust deposit, special doubtful debts provision has been made |
| Guangzhou Economic and Technology Development Zone International Trust and Investment Company | 1,000,000.00 | Trust deposit, special as doubtful debts provision has been made |
| Nanhai Dasheng Co. | 300,000.00 | Project settlement |
| Chengdu Xinguanghua Company | 292,070.00 | Project settlement |
| Coordinating Building for Qingdao Liuting Airport | 99,364.00 | Project settlement |
| Total | <u>138,724,568.00</u> | |

(ii) Trust deposits

The trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") remains RMB47,410,000.00 with full provision for doubtful debts in 2000. With consideration of zero repayment of GETDZITIC, the decision has been made to write off in 2006 under approval of the 10th meeting of the the fifth term of the Board of Directors of the Company.

(a) The trust deposits amounting RMB1 million at GETDZITIC belonging to Guangzhou Guanglian Container Transportation Company Limited, a subsidiary of the Company, had been made special provision for doubtful debts and relevant approval procedure for writing off is on the march.

(b) The trust deposits at Guangzhou International Trust Investment Company ("GZITIC") have been changed for some assets according to the restructure agreement between GZITIC and the Company. The Company restructured received real-estate, cars and cash and wrote off creditor's right of RMB31,050,000.00 and special provision for doubtful debts of RMB21,567,309.16. The restructure agreement continues being carried out and the Company will actively follow up.

(iii). None of other receivables is due from shareholders who hold 5% or above of the Company's interest.

(4). Subsidy receivable

| Items | June 30, 2006 | December 31, 2005 |
|------------------------------------|---------------|-------------------|
| Other subsidy | | 0.00 |
| Value-added tax refund for exports | -0.06 | 34,472,851.84 |
| Total | -0.06 | 34,472,851.84 |

Subsidy receivable decreased significantly mainly due to prompt refund for exports by the Government.

3. Inventories and provision for diminution in value

| Item | June 30, 2006 | | | December 31, 2005 | | |
|-----------------------|----------------|-----------------------------------|----------------|-------------------|-----------------------------------|----------------|
| | Amount | Provision for diminution in value | Net amount | Amount | Provision for diminution in value | Net amount |
| Raw material | 326,929,187.54 | 996,540.89 | 325,932,646.65 | 248,487,440.10 | 995,540.89 | 247,491,899.21 |
| Wrappage | - | - | 0.00 | - | - | - |
| Low-value Consumables | 4,583.50 | - | 4,583.50 | 5,009.50 | - | 5,009.50 |
| Work-in-progress | 92,188,921.66 | - | 92,188,921.66 | 66,453,054.24 | - | 66,453,054.24 |
| Inventory | 2,752,448.59 | - | 2,752,448.59 | 4,577,912.90 | - | 4,577,912.90 |
| Total | 421,875,141.29 | 996,540.89 | 420,878,600.40 | 319,523,416.74 | 995,540.89 | 318,527,875.85 |

Inventory increased by 32.13% compared with the beginning of the period mainly due to increased shipbuilding output which caused the increase of reserved materials.

4. Deferred expenses

| Category | Opening balance | Addition in the period | Amortization in the period | Closing balance |
|--------------------------------|-----------------|------------------------|----------------------------|-----------------|
| Road maintenance and insurance | 386,634.98 | 182,782.28 | 171,740.02 | 397,677.24 |
| Others | 0.00 | - | - | 0.00 |
| Total | 386,634.98 | 182,782.28 | 171,740.02 | 397,677.24 |

5. Long-term investment

| Item | Opening balance | | Addition in the period | Deduction in the period | Closing balance | |
|------------------------------|-----------------|--------------------------|------------------------|-------------------------|-----------------|--------------------------|
| | Amount | Provision for diminution | | | Amount | Provision for diminution |
| Long-term equity investments | 15,735,350.82 | - | 12,117,669.71 | - | 27,853,020.53 | |
| Long-term debt investments | - | - | - | - | - | |
| Total | 15,735,350.82 | - | 12,117,669.71 | - | 27,853,020.53 | |

(1). Long-term equity investment – other equity investment

| Name of Investees | Total investment | Percentage holding of investees' capital | Closing balance | Equity method | |
|--|----------------------|--|----------------------|----------------------|---------------------|
| | | | | Change in the period | Accumulated change |
| South China/Marine and Industrial Special Coating Limited | 1,722,060.00 | 25.00% | 2,938,945.47 | – | 1,216,885.47 |
| Zhanjiang Nanhai Naval New Technology & Service Co., Ltd. | 800,000.00 | 40.00% | 762,534.41 | – | -37,465.59 |
| Shenzhen Yuanzhou Science & Technology Industry Company Limited | 1,000,000.00 | 7.00% | 1,000,000.00 | – | – |
| China Merchants Banking Corporation Information and Technology Company Limited of CSSC | 10,010,000.00 | 0.24% | 10,010,000.00 | – | – |
| Guangli Marine Engineering Service Company Limited | 900,000.00 | 15.00% | 900,000.00 | – | – |
| CSSC Zhenjiang Hyundai Generator Co., Ltd. | 100,000.00 | 20.00% | 135,940.65 | 12,069.71 | 35,940.65 |
| | 12,105,600.00 | | 12,105,600.00 | 12,105,600.00 | – |
| Total | 26,637,660.00 | | 27,853,020.53 | 2,117,669.71 | 1,215,360.53 |

Long-term investment increased by 77.01% compared with the beginning of the period mainly due to the 11th meeting of the 5th term of the Board of Directors of the Company held on March 23, 2006 approved Glory Group Development Co., Ltd. to invest USD 2million to CSSC Zhenjiang Hyundai Generator Co., Ltd. During this period, USD 1.5million has been transferred and the rest will be transferred within this year.

6. Original cost, accumulated depreciation and provision for diminution of fixed assets

| Item | Opening balance | Addition | Deduction | Closing balance |
|---------------------------------------|-------------------------|----------------------|----------------------|-------------------------|
| (1). Original Cost | | | | |
| Buildings | 531,897,917.92 | 34,870,164.62 | 22,026,537.52 | 544,741,545.02 |
| Structures | 251,612,199.38 | 0.00 | 0.00 | 251,612,199.38 |
| Vehicles | 49,648,916.99 | 7,543,940.43 | 424,320.00 | 56,768,537.42 |
| Instruments and meters | 6,368,332.71 | 11,020.00 | 13,000.00 | 6,366,352.71 |
| Power system | 38,320,222.51 | 0.00 | 0.00 | 38,320,222.51 |
| Machinery and equipment | 744,869,164.68 | 3,020,229.40 | 20,478,917.63 | 727,410,476.45 |
| Total | 1,622,716,754.19 | 45,445,354.45 | 42,942,775.15 | 1,625,219,333.49 |
| (2). Accumulated depreciation | – | | | – |
| Buildings | 113,828,004.03 | 4,378,071.79 | -3,026,925.76 | 121,233,001.58 |
| Structures | 99,699,255.30 | 5,969,037.96 | 1,103,334.90 | 104,564,958.36 |
| Vehicles | 36,537,532.64 | 1,672,132.60 | 882,688.00 | 37,326,977.24 |
| Instruments and meters | 4,984,414.95 | 200,984.74 | 10,121.22 | 5,175,278.47 |
| Power system | 18,063,198.00 | 978,849.30 | -1,367.26 | 19,043,414.56 |
| Machinery and equipment | 401,435,074.10 | 24,715,831.40 | 14,751,091.91 | 411,399,813.59 |
| Total | 674,547,479.02 | 37,914,907.79 | 13,718,943.01 | 698,743,443.80 |
| (3). Net value of fixed assets | 948,169,275.17 | 7,530,446.66 | 29,223,832.14 | 926,475,889.69 |

7. Construction-in-process

| Category | Opening balance Including: interest | Addition in the period Including: interest | Transfer to fixed assets Including: interest | Other reductions Including: interest | Closing balance Including: interest |
|---|---|---|---|---|--|
| 1. Facilities improvements | 54,017,660.86 | 49,076,232.75 | 3,305,711.83 | – | 99,788,181.78 |
| (1) Capital construction: critical improvement project in national debt | 7,546,684.42 | 8,175,357.42 | – | – | 15,722,041.84 |
| Including: capitalized interests | 86,562.05 | – | – | – | 86,562.05 |
| (2) Others | 46,470,976.44 | 40,900,875.33 | 3,305,711.83 | – | 84,066,139.94 |
| 2. Subsidiaries | 2,407,784.64 | – | 2,407,784.64 | – | – |
| Total | <u>56,425,445.50</u> | <u>49,076,232.75</u> | <u>5,713,496.47</u> | <u>–</u> | <u>99,788,181.78</u> |
| Including: capitalized interests | 208,179.34 | – | – | – | 208,179.34 |

Construction-in-process increased by 76.85% compared with the beginning of the period mainly due to the increase and renew some equipment, such as numerical plasma-cutting machine, high-efficient portal cutting machine, 400t gantry crane, shipbuilding assembly work space and reconstruction of the dry dock for the purpose of enlarging shipbuilding scale.

- (1) Capital construction: critical improvement project in national debt including the technical center building, numerical plasma-cutting machine and high-efficient portal cutting machine.
- (2) Capitalizing rate is the actual corresponding bank loan rate.

8. Intangible assets

| Category | Initial cost | Opening balance | Addition | Transfer out | Amortization | Closing balance | Remained term |
|----------------|-----------------------|----------------------|----------|--------------|---------------------|----------------------|---------------|
| Land use right | 107,695,527.12 | 51,646,673.74 | – | – | 858,408.36 | 50,788,265.38 | 37 years |
| Know-how | 10,332,076.00 | 25,072,162.91 | – | – | 1,915,153.94 | 23,157,008.97 | 10-1 years |
| Total | <u>118,027,603.12</u> | <u>76,718,836.65</u> | <u>–</u> | <u>–</u> | <u>2,773,562.30</u> | <u>73,945,274.35</u> | |

Land use right is amortized evenly over the useful lives of 50 years. Know-how is amortized evenly over a period of 10 years.

9. Long-term deferred expenses

| Category | Opening balance | Addition | Amortization | Closing balance |
|---------------------------------------|---------------------|----------------------|---------------------|-------------------|
| Modification expenses of fixed assets | 2,221,496.23 | -2,059,964.00 | 50,291.38 | 111,240.85 |
| Others | 1,358,166.00 | – | 1,358,166.00 | – |
| Total | <u>3,579,662.23</u> | <u>-2,059,964.00</u> | <u>1,408,457.38</u> | <u>111,240.85</u> |

Long-term deferred expenses decreased by 96.89% compared with the beginning of the period mainly due to amortization of modification expenses of fixed assets listed into fixed assets.

10. Short-term loans and long-term loans within one year

(1). Short-term loans

| Loans category | June 30, 2006 | December 31, 2005 | Loans term | Annual interest |
|-----------------|-----------------------|----------------------|---------------------|-----------------|
| Mortgage loans | – | – | – | – |
| Guarantee loans | – | – | – | – |
| Credit loans | <u>133,000,000.00</u> | <u>60,354,500.00</u> | 2005.12.1-2006.3.28 | 5.32~5.42063 |
| Total | <u>133,000,000.00</u> | <u>60,354,500.00</u> | | |

Short-term loans increased by 120.36% compared with the beginning of the period mainly due to the increase in current capital temporary loans and new current capital loans by United Steel Structures Ltd., a subsidiary of the Company for production scale enlargement.

(2). Long-term loans within one year

| Loans category | June 30, 2006 | December 31, 2005 | Note | |
|-----------------|---------------|-------------------|---------------------|-----------------|
| | | | Loans term | Annual interest |
| Mortgage loans | - | 200,150,000.00 | 2004.8.23~2006.5.31 | 2.70 |
| Guarantee loans | - | - | | |
| Other | - | - | | |
| Total | - | 200,150,000.00 | | |

Loans decreased due to sufficient operating capital.

11. Accounts payable

(1). Bills payable

| Category | Amount | Expired within one year | Note |
|--------------------------|--------|-------------------------|------|
| Bank honored draft | - | | |
| Commercial honored draft | - | | |
| Total | - | - | |

(2). Accounts payable

| Bond age | June 30, 2006 | | December 31, 2005 | |
|---------------|----------------|-------------|-------------------|-------------|
| | Amount | Percentage% | Amount | Percentage% |
| Within 1 year | 383,382,647.45 | 99.30 | 371,858,554.78 | 99.72 |
| 1-2 years | 1,751,609.77 | 0.45 | 70,274.16 | 0.02 |
| 2-3 years | 420,085.96 | 0.11 | 446,635.96 | 0.12 |
| Over 3 years | 539,415.61 | 0.14 | 534,163.01 | 0.14 |
| Total | 386,093,758.79 | 100.00 | 372,909,627.91 | 100.00 |

In the period, the Company had no accounts payable to the shareholders with equity holding at 5% or above of share capital.

(3). Advanced payment from customers

| Category | June 30, 2006 | December 31, 2005 |
|---------------|---------------|-------------------|
| Within 1 year | 16,649,564.67 | 17,378,974.84 |
| 1-2 years | 1,860,170.70 | 1,636,198.99 |
| 2-3 years | 31,961.11 | 515,046.41 |
| Over 3 years | 473,497.15 | 16,330.00 |
| Total | 19,015,193.63 | 19,546,550.24 |

In the period, the Company had no advanced payment from shareholders with equity holding at 5% or above of share capital.

(4). Other payables

| Category | June 30, 2006 | December 31, 2005 |
|--|----------------------|----------------------|
| Staff check off | 587,697.70 | 1,046,283.49 |
| Auditing expenses to accountants | 754,336.75 | 1,624,365.66 |
| Guangzhou Marine Affaires Bureau | 2,404,238.23 | 637,406.04 |
| Guangzhou Shipyard | 22,072.40 | – |
| Emolument to non-executive directors | – | 540,860.00 |
| Medicare for retirees | 6,013,425.90 | 7,299,980.62 |
| Deposit | 15,000.00 | 596,036.80 |
| Special singleton treatment for retirees | 4,326,699.60 | 4,326,699.60 |
| Housing subsidy for retirees | 23,391,335.00 | – |
| Other payables | 14,565,337.95 | 11,335,216.00 |
| Total | <u>52,080,143.53</u> | <u>27,406,848.21</u> |
| Including: balance with over 3-year's bond | 6,133,813.30 | 7,421,868.02 |

- (1) The 7th meeting of the fifth term of the Board of Directors approved to initiate the policy of lump-sum housing allowance for retired employees on January 4th 2006, and authorized the management to implement the policy. During the period under review, the General Management's meeting approved the "Housing allowance for retired employees Implement" ("the Implement") on March 21st 2006. In accordance with the Implement and reasonable estimation, the Company made a provision amounted to RMB23, 391,335 for paying the lump-sum housing allowance which will be paid to retirees within the two years of 2006 and 2007.

The fifth meeting of the fifth term of the Board of Directors held on October 26, 2005 approved the sale by the Company of the real estate located on the fourth and the fifth floors of the office building located at No. 126 Gexin Lu of Haizhu District in Guangzhou City to Guangzhou Marine Engineering Corporation. The first instalment of the consideration amounting to RMB2.79 million was booked as received on March 1, 2006. The transferring procedure of the property right of the real estate is on the march.

- (2) The balance with over 3-year's bond mainly is the medicare paid to retirees who has retired in recent 10 years.
- (3) In the period, the Company had no other payables to shareholders with equity holding at 5% or above of share capital.

12. Payable dividends

| Category | June 30, 2006 | December 31, 2005 |
|-----------|------------------|---------------------|
| Dividends | 12,379.38 | 2,184,037.88 |
| Total | <u>12,379.38</u> | <u>2,184,037.88</u> |

Payable dividends was decreased by 99.43% compared with the beginning of the period mainly due to United Steel Structures Limited declared dispatch dividends for year 2005 to minority interest USA Haves Steel Company.

13. Taxes payable

| Category | June 30, 2006 | December 31, 2005 |
|-----------------------|-----------------------|-----------------------|
| Value-added tax | -20,141,248.97 | -14,807,789.99 |
| Sales tax | -100,599.38 | 331,072.63 |
| City construction tax | 80,947.12 | 96,723.25 |
| Income tax | 181,559.04 | 1,138,698.51 |
| Property tax | 1,438,962.09 | 87,831.80 |
| Land tax | 760,375.35 | 8,480.57 |
| Vehicle tax | 318,477.59 | – |
| Tax of staff income | 653,708.92 | 708,614.51 |
| Total | <u>-16,807,818.24</u> | <u>-12,436,368.72</u> |

14. Accrued expenses

| <u>Category</u> | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|--|----------------------|--------------------------|
| Product warranty provision | 48,022,639.14 | 38,760,919.62 |
| Costs for outstanding projects | 35,221,313.14 | 27,226,240.39 |
| Loan interest | – | 62,691.39 |
| Accured water & power cost of this month | 8,746,588.59 | 4,493,092.85 |
| Others | 1,286,520.42 | 5,467,122.83 |
| Accured tax | 2,558,234.20 | |
| Total | <u>95,835,295.49</u> | <u>76,010,067.08</u> |

Product guarantee provision is intended to cover product maintenance costs incurred within maintain date was stated from date of delivery.

Accured tax is intended to cover payable tax for auditing by Tax Bureau not finished.

15. Other current liabilities

| <u>Category</u> | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|--|-------------------------|--------------------------|
| Settlement for long-term contractual project | 1,852,793,469.19 | 900,256,830.83 |
| Total | <u>1,852,793,469.19</u> | <u>900,256,830.83</u> |

Other current liabilities increased by 105.81% mainly due to the increased reception of shipbuilding progress payment arising from more securing of new shipbuilding contracts.

16. Long-term bank loans

| <u>Name of Bank</u> | <u>Amount</u> | <u>Loan's term</u> | <u>Annual interest</u> | <u>Items of loans</u> |
|------------------------------|---------------|--------------------|------------------------|-----------------------|
| China Import and Export Bank | – | | | |
| Total | <u>–</u> | | | |

No new long-term bank loans occurred during the period under review.

17. Special project payable

| <u>Category</u> | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|-----------------|----------------------|--------------------------|
| National fund | 29,518,854.17 | 27,218,854.17 |
| Provincial fund | 2,984,770.00 | 2,530,000.00 |
| Total | <u>32,503,624.17</u> | <u>29,748,854.17</u> |

- (1) National fund of special project payable is central subsidy for High Value-added Ro/Pax vessel Technology renovation project allotted in accordance with the regulations [2001]1271 issued by National Economic and Trading Committee.
- (2) Provincial fund is fund for technical reform and NO.1 dock reconstruction in accordance with the document [2004]664 issued by Guangdong Economic and Trading Committee.

18. Capital share

| Item | Before the change | | Changes during the year (+/-) | | | | | Unit: share After the change | |
|---|-------------------|-----------------|-------------------------------|----------------|------------------|-------------|-------------|---------------------------------|-----------------|
| | Amount | Proportion % | New Share | Bonus Share | Conversion | | Sub-total | Amount | Proportion % |
| | | | | | from reserves | Others | | | |
| (I) Shares subject to sale restrictions | | | | | | | | | |
| (1) State-owned shares | 210,800,080 | 42.61 | - | - | - | -34,149,465 | -34,149,465 | 176,650,615 | 35.71 |
| (2) State-owned legal person shares | - | - | - | - | - | - | - | - | - |
| (3) Other domestic shares | - | - | - | - | - | - | - | - | - |
| Including: Domestic legal person shares | - | - | - | - | - | - | - | - | - |
| Domestic natural person shares | - | - | - | - | - | - | - | - | - |
| (4) Foreign shares | - | - | - | - | - | - | - | - | - |
| Including: foreign legal person shares | - | - | - | - | - | - | - | - | - |
| Foreign natural person shares | - | - | - | - | - | - | - | - | - |
| Total | 210,800,080 | 42.61 | - | - | - | -34,149,465 | -34,149,465 | 176,650,615 | 35.71 |
| (II) Freely transferable shares | | | | | | | | | |
| (1) PRC listed domestic shares | 126,479,500 | 25.57 | - | - | - | 34,149,465 | 34,149,465 | 160,628,965 | 32.47 |
| (2) PRC listed foreign shares | - | - | - | - | - | - | - | - | - |
| (3) Overseas listed foreign shares | 157,398,000 | 31.82 | - | - | - | - | - | 157,398,000 | 31.82 |
| (4) Others | - | - | - | - | - | - | - | - | - |
| Total | 283,877,500 | 57.39 | - | - | - | 34,149,465 | 34,149,465 | 318,026,965 | 64.29 |
| (III) Total number of shares | 494,677,580 | 100 | - | - | - | - | - | 494,677,580 | 100 |

The State Ministry of Commerce approved the share reform of the Company in Shang Zi Pi [2006]1027. CSSC, non-listed shareholder of the Company, has conveyed its 34,149,465 shares to public market of A Shares.

After the share reform, the registered capital of the Company remains RMB494,677,580.00, and the total share remains 494,677,580 shares, including 176,650,615 stated-owned shares holding by CSSC, 160,628,965 A shares, and 157,398,000 H shares, representing 35.71%, 32.47% and 31.82% respectively of the total shares.

19. Capital reserve

| Item | Opening Balance | Addition | Deduction | Closing Balance |
|---------------|-----------------|----------|-----------|-----------------|
| Share premium | 651,977,481.72 | - | - | 651,977,481.72 |
| Total | 651,977,481.72 | - | - | 651,977,481.72 |

20. Surplus reserve

| Item | Opening Balance | Addition | Deduction | Closing Balance |
|----------------------------|-----------------|---------------|---------------|-----------------|
| Statutory surplus reserve | 48,998,046.01 | 30,526,605.41 | - | 79,524,651.42 |
| Public welfare fund | 30,526,605.41 | - | 30,526,605.41 | - |
| Discretionary surplus fund | 20,622,859.92 | - | - | 20,622,859.92 |
| Total | 100,147,511.34 | 30,526,605.41 | 30,526,605.41 | 100,147,511.34 |

The Company has transformed the remained public welfare fund to statutory surplus reserve since January 1, 2006 according to "Notice of Enterprise Financial Treatment Related to the Implementation of Revised Company Law" (Cai Qi [2006]67) issued by Ministry of Finance.

21. Retained Profit

| Item | June 30, 2006 | December 31, 2005 |
|--------------------------------------|-----------------|-------------------|
| Balance at the beginning of the year | -438,346,624.44 | -536,539,884.17 |
| Balance adjustment of previous years | - | - |
| Profit this year | 75,508,472.88 | 98,193,259.73 |
| Statutory reserve | - | - |
| Statutory public welfare fund | - | - |
| Workers welfare fund | - | - |
| Prior share dividend distributed | - | - |
| Discretionary public reserve | - | - |
| Share dividend distributed | - | - |
| Balance at the end of the year | -362,838,151.56 | -438,346,624.44 |

22. Geographical distribution to turnover

| Area | Principal operating incomes | | Gross profit | | Changes in income |
|------------------|-----------------------------|--------------------|--------------------|--------------------|-------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 | (%) |
| Malta | 141,802,654.29 | - | 21,500,650.29 | 1,082,779.38 | 100.00 |
| Canada | 20,443,752.20 | 32,604,456.93 | 1,681,039.91 | 2,407,288.15 | -37.30 |
| Denmark | 545,929,692.15 | 595,996,616.50 | 30,399,002.58 | 31,846,650.41 | -8.40 |
| Macao | 13,828,028.30 | - | 1,146,298.04 | - | 100.00 |
| Philippine | 1,423,723.16 | - | 43,774.26 | - | 100.00 |
| United States | 103,908,442.75 | 228,431.40 | 10,579,719.31 | 37,847.35 | 45,387.81 |
| Hong Kong | 78,411,860.76 | 84,778,472.67 | 900,955.99 | 12,069,009.89 | -7.51 |
| Marshall Islands | 20,975.71 | 153,389,130.48 | -166,909.90 | 71,860.48 | -99.99 |
| Taiwan | - | 550,387.25 | - | 24,511.18 | -100.00 |
| Liberia | 214,039,092.72 | - | 41,640,008.72 | - | 100.00 |
| Sweden | 175,307,116.37 | - | 16,290,796.37 | - | 100.00 |
| Others | - | 4,760,295.19 | -171,510.46 | 259,775.27 | -100.00 |
| Sub-total | 1,295,115,338.41 | 872,307,790.42 | 123,843,825.11 | 47,799,722.11 | 48.47 |
| China | 209,591,173.65 | 317,367,947.33 | 55,784,432.38 | 29,590,638.23 | -33.96 |
| Total | 1,504,706,512.06 | 1,189,675,737.5 | 179,628,257.49 | 77,390,360.34 | 26.48 |

The top five clients of the Company:

| No. | Client | Operating income | Percentage of principal operating income |
|-----|---------------------------------|------------------|--|
| 1 | A.P.MOLLER-MAERSK | 322,063,790.96 | 21.46 |
| 2 | Nortide Shipping Ltd. | 220,179,157.84 | 14.67 |
| 3 | Seaarland Shipping Management | 214,039,092.72 | 19.73 |
| 4 | China Shipping Co., Ltd. | 175,307,116.37 | 11.68 |
| 5 | Guangzhou Navy Equipment Bureau | 153,120,000.00 | 10.20 |
| | Total | 1,084,709,157.89 | 72.26 |

23. Principal operating incomes, cost and gross profit

| Item | Operating income | | Operating cost | | Operating gross profit | |
|---|-------------------------|--------------------|-------------------------|--------------------|------------------------|--------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 |
| Shipbuilding products | 1,304,113,391.03 | 1,066,536,410.29 | 1,160,162,583.78 | 1,009,334,208.77 | 143,950,807.25 | 57,202,201.52 |
| Steel structure | 145,146,370.31 | 74,507,769.69 | 131,167,759.84 | 69,590,022.42 | 13,978,610.47 | 4,917,747.27 |
| Electrical & mechanical products and others | 54,317,394.31 | 43,934,595.12 | 32,780,100.43 | 28,943,216.81 | 21,537,293.88 | 14,991,378.31 |
| Ship-repairing products | 1,129,356.41 | 4,696,962.65 | 967,810.52 | 4,417,929.41 | 161,545.89 | 279,033.24 |
| Total | 1,504,706,512.06 | 1,189,675,737.75 | 1,325,078,254.57 | 1,112,285,377.41 | 179,628,257.49 | 77,390,360.34 |

During this period under review, the principal operation turnover represented an increase of 26.48% compared with the same period of last year. That mainly due to the increase in turnover of shipbuilding and steel structure. The net profit of the Company increased by 132.11% compared with that of the same period last year, while the Company turned the situation of low gross profit for long-term, which is mainly benefit from the Company's recognition of building mature handy-size tankers which ensured the realization of the anticipated marginal profit, and also because that the Company intensified the internal governance.

During the first half of 2006, the gross profit of the Company's principal operations reached 11.94% (the same period last year: 6.51%). The gross profit of shipbuilding was 11.04% (the same period of last year: 5.68%).

24. Principal operating tax and additional tax

| Category | First half of 2006 | First half of 2005 |
|--------------------------|---------------------|--------------------|
| Sales tax | 383,815.91 | 219,655.37 |
| City construction tax | 3,365,683.28 | 95,304.96 |
| Education additional tax | 1,442,351.59 | 40,227.04 |
| Total | 5,191,850.78 | 355,187.37 |

25. Financial expenses

| Category | First half of 2006 | First half of 2005 |
|-----------------------|----------------------|--------------------|
| Interest expense | 1,294,900.54 | 11,917,614.16 |
| Less: interest income | 3,694,612.45 | 2,065,918.80 |
| exchange loss | 793,664.82 | 749,482.66 |
| Others | 586,400.07 | 735,119.57 |
| Total | -1,019,647.02 | 11,336,297.59 |

The financial expenses decreased by 108.99% compared with that of the corresponding period of last year mainly due to better cash flow, less bank loans and decreased capital cost causing by increased shipbuilding orders.

26. Operation and management expenses

| Item | First half of 2006 | First half of 2005 |
|------------------------|-----------------------|--------------------|
| 1. Operation expenses | 2,015,111.69 | 1,955,130.86 |
| 2. Management expenses | 105,430,236.11 | 69,178,339.82 |

Operation expense was increased by 52.40% compared with that of the corresponding period of last year mainly due to the provision amounting RMB23,391,335.00 has been made for the housing subsidy for retirees which approved by the 7th meeting of the 5th term of the Board of Directors on January 4, 2006 during the period under review.

27. Profit from other operations

| Item | Operating income | | Operating cost | | Operating gross profit | |
|--------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|---------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 |
| Sales of raw materials | 6,409,738.13 | 701,214.39 | 5,167,090.83 | 4,793,456.38 | 1,242,647.30 | -4,092,241.99 |
| Sales of scrap materials | 15,224,078.19 | 15,580,543.73 | 9,915,728.08 | 8,345,176.60 | 5,308,350.11 | 7,235,367.13 |
| Transportation service | 2,848.00 | 5,276.00 | 66.00 | - | 2,782.00 | 5,276.00 |
| Leasehold | 3,265,298.16 | 0.00 | 486,700.50 | - | 2,778,597.66 | - |
| Others | 5,943,226.78 | 14,810,089.64 | 9,565,900.78 | 9,508,171.13 | -3,622,674.00 | 5,301,918.51 |
| Total | 30,845,189.26 | 31,097,123.76 | 25,135,486.19 | 22,646,804.11 | 5,709,703.07 | 8,450,319.65 |

Profit from other operations was decreased by 32.43% mainly due to decreased income from other operations.

28. Investment income

| Item | Bond investment income | Equity investment income | | Total income |
|------------------------|------------------------|--------------------------|-------------------|-------------------|
| | | At equity | At cost | |
| Short-term investments | - | - | - | - |
| Long-term investments | - | 3,302.64 | 972,267.84 | 975,570.48 |
| Total | - | 3,302.64 | 972,267.84 | 975,570.48 |

29. Subsidy income

| Item | First half of 2006 | First half of 2005 |
|------------------------------|---------------------|----------------------|
| Subsidy for sea going liners | - | 15,791,661.33 |
| Others | 9,683,332.95 | 1,693,442.72 |
| Total | 9,683,332.95 | 17,485,104.05 |

- (1) There was no subsidy for sea going liners mainly due to the Company has not built such ship during the period.
- (2) Other subsidies consist of RMB9.5 million for special subsidies and RMB1.833 million for refund tax of self-developed software in 2006 according to relevant regulations of the Government.

30. Non-operating income and expenses

(1) Non-operating income

| Item | First half of 2006 | First half of 2005 |
|--|---------------------|--------------------|
| Net income from disposal of fixed assets | 962,093.00 | 531,354.54 |
| Penalty received | 22,664.00 | 850.00 |
| Income of fixed assets | - | - |
| Compensation | 26,683.00 | 3,911.00 |
| Bad debt income | - | - |
| Others | 292,473.00 | 359,893.12 |
| Total | 1,303,913.00 | 896,008.66 |

Non-operating income increased by 45.52% compared with the same period of last year mainly due to increased income from disposal of fixed assets.

(2) **Non-operating expenses**

| <u>Category</u> | <u>First half of 2006</u> | <u>First half of 2005</u> |
|--------------------------------------|---------------------------|---------------------------|
| Expenses on disposal of fixed assets | 4,855,438.27 | 435,355.89 |
| Penalty expenses | 269.48 | 20,968.50 |
| Loss on fixed assets | - | - |
| Compensation | 10,110.00 | 12,189.40 |
| Non-commonweal sponsor | - | 110,300.00 |
| Others | 148.72 | 6,074.64 |
| Total | <u>4,865,966.47</u> | <u>584,888.43</u> |

Non-operating income increased by 731.95% compared with the same period of last year mainly due to the increased loss on disposal of fixed assets causing by dismantling some facilities for reconstruction of the dry dock.

31. Exceptional items

| <u>Category</u> | <u>Amount</u> |
|---|-----------------------|
| Subsidy income (excluding the subsidy income of domestical sea going liner) | 9,683,332.95 |
| Non-operating income | 1,303,913.00 |
| Housing subsidy for retirees (note) | 23,391,335.00 |
| Non-operating expenses | 4,865,966.47 |
| Total | <u>-17,270,055.52</u> |

Note: The Company made provision amounting RMB23,391,335.00 for housing subsidy for retirees in accordance with relevant regulations on Guangzhou housing subsidy and under approval of the Board of Directors.

32. Other main expenses related to business

| <u>Item</u> | <u>Amount</u> |
|----------------------|----------------------|
| Management expenses | 9,008,592.73 |
| Operating expenses | 2,015,111.69 |
| Manufacture expenses | 77,055,572.47 |
| Total | <u>88,079,276.89</u> |

33. Notes to the major items of financial statements of the parent company

(1) Accounts receivable

June 30, 2006

| <u>Bond age</u> | <u>Original cost</u> | <u>Percentage%</u> | <u>Provision for doubtful debts</u> | <u>Record value</u> |
|-----------------|-----------------------|--------------------|-------------------------------------|-----------------------|
| Within one year | 187,657,298.45 | 87.84 | 916,239.51 | 186,741,058.94 |
| 1-2 years | 9,703,988.06 | 4.54 | 4,590.77 | 9,699,397.29 |
| 2-3 years | 8,903,883.23 | 4.17 | 100,719.85 | 8,803,163.38 |
| 3-4 years | 2,659,663.51 | 1.24 | 13,311.32 | 2,646,352.19 |
| 4-5 years | 90,000.00 | 0.04 | 450.00 | 89,550.00 |
| special | 4,628,635.79 | 2.17 | 4,628,635.79 | — |
| Total | <u>213,643,469.04</u> | <u>100.00</u> | <u>5,663,947.24</u> | <u>207,979,491.80</u> |

December 31, 2005

| <u>Bond age</u> | <u>Original cost</u> | <u>Percentage%</u> | <u>Provision for doubtful debts</u> | <u>Record value</u> |
|-----------------|-----------------------|--------------------|-------------------------------------|-----------------------|
| Within one year | 183,247,898.52 | 86.56 | 916,239.51 | 182,331,659.01 |
| 1-2 years | 918,153.75 | 0.43 | 4,590.77 | 913,562.98 |
| 2-3 years | 20,143,970.35 | 9.52 | 100,719.85 | 20,043,250.50 |
| 3-4 years | 2,662,263.51 | 1.26 | 13,311.32 | 2,648,952.19 |
| 4-5 years | 90,000.00 | 0.04 | 450.00 | 89,550.00 |
| special | 4,628,635.79 | 2.19 | 4,628,635.79 | — |
| Total | <u>211,690,921.92</u> | <u>100.00</u> | <u>5,663,947.24</u> | <u>206,026,974.68</u> |

Refer to the notes of "Accounts receivable".

None of accounts receivables is due from shareholders who hold 5% or above of the Company's shares.

(2) Other accounts receivable

June 30, 2006

| <u>Bond age</u> | <u>Amount</u> | <u>Percentage%</u> | <u>Provision for doubtful debts</u> | <u>Record value</u> |
|-----------------|-----------------------|--------------------|-------------------------------------|----------------------|
| Within one year | 25,572,888.52 | 15.41 | 7,892.04 | 25,564,996.48 |
| 1-2 years | 2,582,071.44 | 1.56 | 12,826.78 | 2,569,244.66 |
| 2-3 years | 431,602.57 | 0.26 | 2,133.01 | 429,469.56 |
| 3-4 years | 15,000.00 | 0.01 | 75.00 | 14,925.00 |
| 4-5 years | 137,308,549.00 | 82.76 | 96,244,940.65 | 41,063,608.35 |
| special | 0.00 | — | — | — |
| Total | <u>165,910,111.53</u> | <u>100.00</u> | <u>96,267,867.48</u> | <u>69,642,244.05</u> |

December 31, 2005

| <u>Bond age</u> | <u>Amount</u> | <u>Percentage%</u> | <u>Provision for doubtful debts</u> | <u>Record value</u> |
|-----------------|-----------------------|--------------------|-------------------------------------|----------------------|
| Within one year | 4,959,868.45 | 2.22 | 24,799.34 | 4,935,069.11 |
| 1-2 years | 2,234,768.06 | 1.00 | 11,173.84 | 2,223,594.22 |
| 2-3 years | 426,602.57 | 0.19 | 2,133.01 | 424,469.56 |
| 3-4 years | 15,000.00 | 0.01 | 75.00 | 14,925.00 |
| 4-5 years | — | 0.00 | — | — |
| special | 215,518,134.00 | 96.58 | 165,245,872.73 | 50,272,261.27 |
| Total | <u>223,154,373.08</u> | <u>100.00</u> | <u>165,284,053.93</u> | <u>57,870,319.15</u> |

None of other accounts receivables is due from shareholders who hold 5% or above of the Company's shares.

(3) Long-term Investments

| Item | Opening balance | | | Closing balance | | |
|------------------------------|-----------------|-----------------------------------|------------------------|-------------------------|----------------|-----------------------------------|
| | Amount | Provision for diminution in value | Addition in the period | Deduction in the period | Amount | Provision for diminution in value |
| Long-term equity investments | 113,484,352.44 | – | 4,851,912.55 | 1,300,000.00 | 117,036,264.99 | – |
| Long-term debt investments | – | – | – | – | – | – |
| Total | 113,484,352.44 | – | 4,851,912.55 | 1,300,000.00 | 117,036,264.99 | – |

Long-term equity investments – other equity investments

| Name of investees | Total investment | Percentage holding of investees' capital | Closing balance | Change in the period | Accumulated change |
|--|------------------|--|-----------------|----------------------|--------------------|
| Guangzhou Masterwood Company Limited | 2,486,385.00 | 0.51 | 3,201,612.51 | 101,770.16 | 715,227.51 |
| Guangzhou Guanglian Container Transportation Company Limited | 15,000,000.00 | 0.75 | 14,274,044.19 | 149,187.49 | -725,955.81 |
| Guangzhou Xinsun Shipping Service Company Limited | 500,000.00 | 0.83 | 10,996,138.10 | 426,407.95 | 10,496,138.10 |
| United Steel Structures Limited | 25,438,698.00 | 0.51 | 44,852,319.14 | 3,594,888.98 | 19,413,621.14 |
| Guangdong GSI Elevator Limited | 19,950,000.00 | 0.95 | 23,097,593.24 | 549,763.94 | 3,147,593.24 |
| Guangzhou Hongfan Information Technique Co., Ltd | 4,500,000.00 | 0.51 | 3,425,881.29 | -1,646.29 | -777,810.70 |
| Glory Group Development Company Limited | 10,439.94 | 1.00 | 2,477,196.64 | 31,540.32 | 2,466,756.70 |
| South China/Marine and Industrial Special Coating Limited | 1,722,003.00 | 0.25 | 2,938,945.47 | | 1,216,942.47 |
| Zhanjiang Nanhai Naval Ships High and New Technology Service Co. Ltd | 800,000.00 | 0.40 | 762,534.41 | | -37,465.59 |
| Shenzhen Yuanzhou Science & Technology Industry Company Ltd | 1,000,000.00 | 0.07 | 1,000,000.00 | | 0.00 |
| China Merchants Bank | 10,010,000.00 | 0.00 | 10,010,000.00 | | 0.00 |
| Total | | | 117,036,264.99 | 4,851,912.55 | 34,910,047.06 |

The 4th meeting of the 5th term of the Board of Directors held on October 10, 2005 passed the resolution of transferring 26% of the interest in Guangzhou Hongfan Information Technique Co., Ltd (77% controlled by the Company) to Information and Technology Company Limited of CSSC. The transferring payment amounting to RMB1,587,540.94 was received and has been recognized in the financial statements for the period under review.

(4) Investment income

| Item | Bond investment income | Equity investment income | | Total income |
|-----------------------|------------------------|--------------------------|------------|--------------|
| | | at equity | at cost | |
| Short-term investment | – | – | – | – |
| Long-term investment | – | 5,139,453.49 | 972,267.84 | 6,111,721.33 |
| Total | – | 5,139,453.49 | 972,267.84 | 6,111,721.33 |

(5) Principal operating income, cost and gross profit

| Product Category | Operating income | | Operating cost | | Operating gross profit | |
|---|--------------------|--------------------|--------------------|--------------------|------------------------|--------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 |
| Shipbuilding products | 1,304,113,391.03 | 1,066,536,410.29 | 1,160,162,583.78 | 1,009,334,208.77 | 143,950,807.25 | 57,202,201.52 |
| Steel Structure | 11,617,381.73 | 4,504,384.52 | 11,115,995.81 | 4,207,552.79 | 501,385.92 | 296,831.73 |
| Electrical & mechanical products and others | 18,250,232.50 | 12,238,598.25 | 15,077,264.47 | 9,059,647.58 | 3,172,968.03 | 3,178,950.67 |
| Ship-repairing products | 1,129,356.41 | 4,696,962.65 | 967,810.52 | 4,417,929.41 | 161,545.89 | 279,033.24 |
| Total | 1,335,110,361.67 | 1,087,976,355.71 | 1,187,323,654.58 | 1,027,019,338.55 | 147,786,707.09 | 60,957,017.16 |

Refer to relevant note in the consolidated statements.

(VI). Connected Parties and Transactions**1. Connected parties with controlling relation of the Company**

| Name | Registered address | Principal business | Relationship with the Company | Nature of the enterprise | Legal representative |
|--|---|---|-------------------------------|--------------------------------|----------------------|
| CSSC | No. 1 Pudong main Road, Shanghai | Ship manufacturing and sales | State shareholder | Company with limited liability | Chen Xiaojin |
| Guangzhou Xinsun Shipping Service Company Limited | No.40 Fangcun Main Road Guangzhou | Installation, welding outfitting, coating, repair of hull structure | Subsidiary | Company with limited liability | Zhou Dusheng |
| Guangzhou Masterwood Company Limited | No.40 Fangcun Main Road Guangzhou | Manufacture furniture | Subsidiary | Sino-foreign joint venture | Chen Demin |
| Guangzhou Guanglian Container Transportation Company Limited | No.126 Gexin Road Guangzhou | Container transportation | Subsidiary | Sino-foreign joint venture | Wang Lijian |
| United Steel Structures Limited | No.40 Fangcun Main Road Guangzhou | Steel structure business | Subsidiary | Sino-foreign joint venture | Chen Jianrong |
| Guangdong GSI Elevator Limited | No.40 Fangcun Main Road Guangzhou | Manufacturing elevator | Subsidiary | Company with limited liability | Lin Lianguang |
| Guangzhou Hongfan Information Technique Co., Ltd | No.40 Fangcun Main Road Guangzhou | Development of computer software, system integration and sales. | Subsidiary | Cooperative company | Wang Lijian |
| Glory Group Development Co., Ltd. | Catic plaza 8 causeway rd causeway bay HK | General trading | Subsidiary | Cooperative company | Han Guangde |
| Connected parties under indirect control: | | | | | |
| Guangzhou Hongfa Hotel | No.126 Gexin Road Guangzhou | Lodge, restaurant | Subsidiary | Cooperative company | Wang Lijian |
| Fankwong Developing Co., Ltd. | Rm 503 Dominion Centre Queen's Road East, HK | General trading | Subsidiary | Cooperative company | Zeng Xiangxin |
| Guangzhou Masterwood Co., Ltd. | 40 Fangcun Main Road, Guangzhou | Furniture manufacturing | Subsidiary | Sino-foreign joint venture | Chen Demin |

2. The registered capital of connected parties with controlling relations of the Company and the changes

| Name | Opening Balance | Additions in the period | Disposal in the period | Closing Balance |
|--|-----------------|----------------------------|---------------------------|-----------------|
| CSSC | 6,374,300,000 | – | – | 6,374,300,000 |
| Guangzhou Xinshun Shipping Service Company Limited | 2,000,000 | – | – | 2,000,000 |
| Guangzhou Masterwood Company Limited | 3,315,180 | – | – | 3,315,180 |
| Guangzhou Guanglian Container Transportation Co., Ltd. | 20,000,000 | – | – | 20,000,000 |
| United Steel Structures Limited | 73,572,705 | – | – | 73,572,705 |
| Guangdong GSI Elevator Limited | 21,000,000 | – | – | 21,000,000 |
| Guangzhou Hongfan Information Technique Co., Ltd | 5,000,000 | – | – | 5,000,000 |
| Glory Group Development Co., Ltd. | HKD 10,000 | | | HKD 10,000 |
| Connected parties under indirect control: | | | | |
| Guangzhou Hongfa Hotel | 10,000,000 | – | – | 10,000,000 |
| Fankwong Developing Co., Ltd. | HKD 200,000 | – | – | HKD 200,000 |
| Guangzhou Masterwood Company Limited | 3,315,180 | – | – | 3,315,180 |

3. The equity interests in connected parties with controlling relations of the Company and the changes

| Name | Opening Balance | | Additions in the period | Disposal in the period | Closing balance | |
|---|-----------------|-------|----------------------------|---------------------------|-----------------|-------|
| | Amount | % | | | Amount | % |
| CSSC | 210,800,080.00 | 42.61 | – | -34,149,465.00 | 176,650,615.00 | 35.71 |
| Guangzhou Xinshun Shipping Service Co., Ltd. | 12,734,614.64 | 83 | 513,744.52 | | 13,248,359.16 | 83 |
| Guangzhou Masterwood Company Limited | 6,078,122.25 | 51 | 199,549.33 | | 6,277,671.58 | 51 |
| Guangzhou Guanglian Container Transportation Company Limited | 18,833,142.26 | 75 | 198,916.66 | | 19,032,058.92 | 75 |
| United Steel Structures Limited | 80,896,921.88 | 51 | 7,048,801.92 | | 87,945,723.80 | 51 |
| Guangdong GSI Elevator Limited | 23,734,557.16 | 95 | 578,698.88 | | 24,313,256.04 | 95 |
| Guangzhou Hongfan Information Technique Co., Ltd | 6,139,646.21 | 77 | 577,768.08 | | 6,717,414.29 | 77 |
| Glory Group Development Co., Ltd | 2,445,656.32 | 100 | 31,540.32 | | 2,477,196.64 | 100 |
| Connected parties under indirect control: | | | | | | |
| Guangzhou Hongfan Hotel | 3,546,475.10 | 86.16 | 182,271.04 | | 3,728,746.14 | 86.16 |
| Fankwong Developing Co., Ltd. | HK\$200,000 | 70 | | | | 70 |
| Guangzhou Masterwood Company Limited | 6,078,122.25 | 25 | 199,549.33 | | 6,277,671.58 | 25 |

The connected transactions with controlling relations of the Company had been counteracted in the report.

4. The condition of the connected parties without controlling relations of the Company

(1) The connected parties without controlling relations of the Company

The connected transactions made between the Group and the associated enterprises under CSSC or associated enterprises and under the Group during the period under review had been carried out in the ordinary course of business of the relevant companies and on normal commercial terms, and had been entered into in accordance with the terms of the agreement covering such transactions or (where there is no such agreement) on terms no less favorable which are fair and reasonable as far as the shareholders are concerned.

Company

| | |
|---|---|
| Anqing Marine Diesel Factory | Jiujiang Marine Mechanical Factory |
| Guangxi Guijiang Shipyard | Jiujiang Instrument Factory |
| CSSC Guangzhou Marine Engineering Institute | Nanjing CSSC Luzhou Machinery Co., Ltd |
| Guangzhou Wenchong Shipyard | Shanghai Marine Research Institute |
| Guangzhou Shipyard | Shanghai Navigation Instrument Co., Ltd |
| Guangzhou Huangpu Shipyard | Shanghai Navigation Instrument Factory |
| CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd | Zhenjiang CSSC Equipment Co., Ltd. |
| Huanan Marine Mechanical Factory | Zhengmao Group Company Limited |
| Haiyin Limited Company | CSSC Finance Co., Ltd. |
| Hudong Zhonghua Shipyard (Group Limited Company) | No.9 Design Institution of CSSC |
| Hong Kong United Shipbuilding Co., Ltd | China State Shipbuilding Corporation |
| Jiangxi Chaoyang Machine Factory | China Shipping Trading Company |
| Jiangxi Marine Valve Factory | China Marine Engineering Institute |
| Jiangzi Navigaiton Instrument Factory | South China Maine& Industrial Special Coating Limited |
| Guangzhou Guangli Marine Engineering Service Co., Ltd | Guangzhou Shipyard Forging Co., Ltd. |
| CSSC International Trade Co., Ltd | CSSC Integrated Technology Economy Institute |
| Xijiang Shipyard | |

(2) The routine connected transactions

(i). Labor provided by the Company

| Connected Parties | First half of 2006 | | | | | First half of 2005 |
|--|--------------------|--------------|--------------|----------------|------------------------------|--------------------|
| | Total | Power | Material | Operating Rent | Labour and Technical Service | |
| Affiliated Company | | | | | | |
| South China Marine & Industrial Special Coating Company Limited | 15,617.30 | 4,110.94 | 7,961.20 | - | 3,545.16 | |
| Guangli Marine Service Company | 32,000.00 | - | - | - | 32,000.00 | |
| sub-total | 47,617.30 | 4,110.94 | 7,961.20 | - | 35,545.16 | - |
| Companies under control of CSSC | | | | | | |
| Guangzhou Shipyard Forging Co., Ltd | - | - | - | - | - | 29,389.73 |
| Guangzhou Huangpu Shipyard | 3,189,794.78 | - | 866,587.09 | - | 2,323,207.69 | 956,425.16 |
| CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd. | 79,640.17 | - | - | - | 79,640.17 | - |
| Guangzhou Wenchong Shipyard | 3,820,219.11 | - | - | 139,320.00 | 3,680,899.11 | - |
| Guangzhou Shipyard | 1,737,422.63 | 1,094,066.07 | 385,491.88 | 93,231.60 | 164,633.08 | 2,760,616.49 |
| Chian Shipping Trading Company | 73,900.00 | - | 73,900.00 | - | - | 203,230.00 |
| Sub-total | 8,900,976.69 | 1,094,066.07 | 1,325,978.97 | 232,551.60 | 6,248,380.05 | 3,949,661.38 |
| Total | 8,948,593.99 | 1,098,177.01 | 1,333,940.17 | 232,551.60 | 6,283,925.21 | 3,949,661.38 |

(ii). Material and Labor provided by CSSC to the Company

| Connected parties | First half of 2006 | | | | | First half of 2005 |
|---|--------------------|----------------------|------------------|----------------------|-----------------------------|--------------------|
| | Total | Purchasing materials | Marine equipment | Production equipment | Labor and technical service | |
| Affiliated companies | | | | | | |
| South China Maring & Industrial Special | | | | | | |
| Coating Limited | 79,500.00 | - | - | - | 79,500.00 | - |
| Guangzhou Guangli Marine Engineering | | | | | | |
| Service Co., Ltd. | 24,999,521.83 | - | 278,795.00 | - | 24,720,726.83 | - |
| Sub-total | 25,079,021.83 | - | 278,795.00 | - | 24,800,226.83 | - |
| Anqing Marine Diesel Factory | 238,000.00 | - | - | 238,000.00 | - | 119,000.00 |
| Guangzhou Wenchong Shipyard | 98,897.43 | - | - | - | 98,897.43 | 2,973,109.28 |
| Guangzhou Shipyard | 38,985,951.88 | 3,508,551.30 | 18,279,660.41 | 48,087.92 | 17,149,652.25 | 41,341,189.90 |
| Guangzhou Huangpu Shipyard | 50,742.52 | - | - | - | 50,742.52 | 120,000.00 |
| Huanan Marine Mechanical Factory | 6,259,273.56 | - | - | 6,259,273.56 | - | 7,354,305.89 |
| Hudong Zhonghua Shipyard | | | | | | |
| (Group Limited Company) | - | - | - | - | - | 15,177,410.26 |
| Hong Kong United Shipbuilding Co., Ltd. | 638,511.40 | - | - | 638,511.40 | - | - |
| Jiangxi chaoyan Mechanical Factory | 3,239.40 | - | 3,239.40 | - | - | 420,826.18 |
| Jiangxi Marine Valve Factory | 422,051.00 | - | - | 422,051.00 | - | - |
| Jiujiang Marine Mechanical Factory | 1,688,715.72 | - | 1,688,715.72 | - | - | 1,781,747.03 |
| Jiujiang Instrument Factory | 520,000.00 | - | - | 520,000.00 | - | - |
| Nanjing CSSC Luzhou Machinery Factory | 3,211,111.12 | - | - | 3,211,111.12 | - | 3,736,068.37 |
| Shanghai Marine Research Institute | - | - | - | - | - | 82,000.00 |
| Shanghai Navigaiton Instrument Factory | 519,600.00 | - | - | 519,600.00 | - | 259,800.00 |
| CSSC Zhenjiang Equipment Company | 27,438,774.13 | - | 1,587,684.43 | 25,851,089.70 | - | 45,418,166.54 |
| China State Trading Company | 512,272.02 | - | - | - | 512,272.02 | - |
| China Marine Engineering Institute | 91,200.00 | - | - | 91,200.00 | - | - |
| Total | 105,757,362.01 | 3,508,551.30 | 21,838,094.96 | 37,798,924.70 | 42,611,791.05 | 118,783,623.45 |

Pursuant to the comprehensive service agreement entered between the Company and Guangzhou Shipyard in the previous years, the Group paid the comprehensive service fee with a total amount of RMB3,639,644.92 during the period.

(iii). Finance Service Provided by CSSC

| Item | Close balance | | Interest received/paid | |
|---------------------------|--------------------|--------------------|------------------------|--------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 |
| Deposit | | | | |
| CSSC Finance Company Ltd. | 933,035.95 | 866,602.99 | 4,709.78 | 4,313.19 |

(iv). Assurance and Assurance fee provided by CSSC

| Company | Amount of Guarantee | | Guarantee fee paid by the Company | |
|-----------------------------|---------------------|--------------------|-----------------------------------|--------------------|
| | First half of 2006 | First half of 2005 | First half of 2006 | First half of 2005 |
| CSSC | 100,000,000.00 | 500,000,000.00 | - | - |
| China State Trading Company | - | - | - | - |
| CSSC Guangzhou Holding Co. | - | 146,212,000.00 | - | 200,000.00 |
| Subtotal | 100,000,000.00 | 646,212,000.00 | 0.00 | 200,000.00 |

(v). Sales agent by CSSC

| Company | Agent amount | |
|---|--------------------|--------------------|
| | First half of 2006 | First half of 2005 |
| China Shipping Industrial Trading Company | 10,622,636.25 | 5,035,836.42 |
| China Shipping Trading Company | 2,091,026.86 | 5,300,856.29 |
| Sub-total | 12,713,663.11 | 10,336,692.71 |

(vi). Purchase agent by CSSC

| Agent | Total | | Imported material | | Marine equipment | | Equipment | |
|--|--------------|--------------|-------------------|-------------|------------------|-------------|-------------|--------------|
| | this period | last period | this period | last period | this period | last period | this period | last period |
| Hong Kong United Shipbuilding Co., Ltd | 1,671,083.73 | 1,538,260.21 | - | - | 1,671,083.73 | - | - | 1,538,260.21 |
| China Shipping Trading Company | 89,979.75 | 10,800.90 | - | - | 41,453.97 | 7,821.29 | 48,525.78 | 2,979.61 |
| Sub-total | 1,761,063.48 | 1,549,061.11 | - | - | 1,712,537.70 | 7,821.29 | 48,525.78 | 1,541,239.82 |

(vii). Account receivable and payable of connected parties

a. Other receivable

| Name | June 30, 2006 | December 31, 2005 |
|-----------------------------|---------------|-------------------|
| Guangzhou Shipyard | 14,631.84 | - |
| China State Trading Company | 12,663.18 | - |
| Total | 27,295.02 | - |

b. Account receivable

| Name | June 30, 2006 | December 31, 2005 |
|--|---------------|-------------------|
| Guangzhou Huangpu Shipyard | 626,985.83 | 152,004.27 |
| Guangzhou Shipyard | 107,880.00 | 109,480.00 |
| Guangzhou Wenchong Shipyard | 973,396.00 | 5,202.15 |
| CSSC | - | 30,000.00 |
| CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd. | 93,179.00 | - |
| China State Trading Company | 73,900.00 | - |
| South China Marine & Industrial Special Coating Limited | 3,810.94 | - |
| Total | 1,879,151.77 | 296,686.42 |

c. Advanced payment

| Company | June 30, 2006 | December 31, 2005 |
|---|----------------|-------------------|
| Guangxi Guijiang Shipyard | 273,200.00 | 273,200.00 |
| Guangzhou Guangli Marine Engineering Service Co., Ltd | 1,000,000.00 | - |
| Huanan Marine Mechanic and Electric Department | 15,327,000.00 | 6,467,927.85 |
| CSSC Zhenjiang Equipment Co., Ltd. | 20,800,000.00 | 16,800,000.00 |
| China United Shipbuilding Co., Ltd | 79,197,026.47 | - |
| Guangzhou Wenchong Shipyard | - | 90,000.00 |
| China State Trading Company | 3,318.33 | 3,318.83 |
| Total | 116,600,544.80 | 23,634,446.68 |

d. Account payable

| <u>Company</u> | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|--|----------------------|--------------------------|
| Guangzhou Guangli Marine Engineering Service Co., Ltd. | 2,581,592.03 | |
| 611 Institute Shanghai Sanjin Technology Co., Ltd. | | 268,195.00 |
| Anqing Marine Diesel Factory | 11,900.00 | – |
| Guangzhou Shipyard Forging Company | | 236,699.88 |
| Guangxi Guijiang shipyard | 64,000.00 | 64,000.00 |
| Guangzhou Wenchong Shipyard | – | 629,534.95 |
| Guangzhou Shipyard | 3,235,345.95 | 1,014,943.30 |
| Huanan Marine Mechanic and Electric Department | 424,000.00 | 340,000.00 |
| Haiying Limited Company | 30,000.00 | 30,000.00 |
| Hudong Corporation Electric Division | 113,750.00 | 113,750.00 |
| Chenxi Marine Equipment Co., Ltd. | 142,794.70 | |
| Jiangxi Chaoyang Machine Factory | | 21,736.66 |
| Jiangxi Marine Valve Factory | 33,551.00 | 10,500.00 |
| Jiujiang Marine Mechanical Factory | 648,436.40 | 57,320.00 |
| Jiujiang Instrument Factory | 51,250.00 | 25,250.00 |
| CSSC Luzhou Environment Protection Equipment Co., Ltd | 66,000.00 | 66,000.00 |
| Shanghai Shipyard | | 142,794.70 |
| Shanghai Navigation Instrument Factory | 535,915.00 | 16,315.00 |
| CSSC Zhenjiang Equipment Co., Ltd. | 3,791,137.50 | 7,656,005.00 |
| CSSC No. 9 Institute | 265,000.00 | |
| China Shipping Trading Company | 241,664.95 | 245,788.32 |
| China Marine Engineering Institute | 6,710.00 | |
| Total | <u>12,243,047.53</u> | <u>10,938,832.81</u> |

e. Other account payable

| <u>Company</u> | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|---|----------------------|--------------------------|
| Guangzhou Shipyard | 12,072.40 | 17,072.00 |
| Guangzhou Marine Engineering Institute | 2,790,000.00 | – |
| Guangzhou Guangli Marine Engineering Service Co., Ltd | 600.00 | – |
| Total | <u>2,802,672.40</u> | <u>17,072.00</u> |

f. Advances form Customers

| <u>Company</u> | <u>June 30, 2006</u> | <u>December 31, 2005</u> |
|------------------|----------------------|--------------------------|
| Xijiang Shipyard | – | 180,000.00 |
| Total | <u>–</u> | <u>180,000.00</u> |

(VII). Condition of Capital inflow and outflow between the company and its subsidiaries

During the period under review, the capital flowing between the Company and its subsidiaries is mainly by selling and purchasing goods, paying and receiving salary and other fund. It's not exist other issues stated in "the Notice of Standard the Finance Dealing with Connected Parties and the External Guarantees of List Companies", Zhen Jian Zi [2003] No.56.

(VIII). Contingencies

As at 30th June 2006, the Company (the Group) had no significant contingent items.

(IX). Commitments

As at 30th June 2006, the Company (the Group) had no significant commitments

(X). Events post period of balance sheet

As at the date of this report disclosed, the Company (the Group) had no unadjusted item listed in events post period of balance sheet.

(XI). Other Issues

The scheme of profit distribution for the first half of 2006: no profit distribution or capital increment was approved by the meeting of Board of Directors held on 17th August 2006.

B. Condensed Consolidated Interim Financial Information prepared under HKGAAP (All amounts in Renminbi Yuan thousands unless otherwise stated)

Condensed consolidated interim balance sheet

| | Note | 30 June 2006 Unaudited | 31 December 2005 Audited |
|---|------|---------------------------|-----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 971,812 | 961,210 |
| Investment properties | 5 | 76,287 | 67,134 |
| Land use rights | 5 | 50,788 | 51,647 |
| Interest in associates | | 15,943 | 3,825 |
| Deferred income tax assets | | 38,410 | 50,245 |
| Available-for-sale financial assets | | 58,121 | 46,252 |
| Total non-current assets | | 1,211,361 | 1,180,313 |
| Current assets | | | |
| Inventories | | 420,879 | 318,528 |
| Due from customers on construction contracts | | 430,422 | 781,915 |
| Trade receivables | 6 | 276,460 | 220,961 |
| Other receivables | 7 | 432,347 | 281,685 |
| Derivative financial instruments | | 464 | 3,802 |
| Current income tax recoverable | | 693 | 452 |
| Bank balances and cash | | 1,267,506 | 644,430 |
| Total current assets | | 2,828,771 | 2,251,773 |
| Total assets | | 4,040,132 | 3,432,086 |
| EQUITY | | | |
| Capital and reserves attributable to the shareholders of the Company | | | |
| Share capital | 8 | 1,146,655 | 1,146,655 |
| Other reserves | | 139,428 | 129,339 |
| Accumulated losses | | (328,075) | (393,278) |
| | | 958,008 | 882,716 |
| Minority interests | | 55,248 | 49,720 |
| Total equity | | 1,013,256 | 932,436 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Retirement benefit obligations | | 10,194 | 13,851 |
| Current liabilities | | | |
| Due to customers on construction contracts | | 2,283,216 | 1,682,172 |
| Trade payables | 9 | 386,094 | 372,909 |
| Other payables and accruals | | 168,977 | 126,399 |
| Dividends payable | | 12 | 2,184 |
| Current income tax liabilities | | 848 | 1,591 |
| Borrowings | 10 | 133,000 | 260,505 |
| Derivative financial instruments | | 278 | 1,278 |
| Provisions for warranty | 11 | 44,257 | 38,761 |
| Total current liabilities | | 3,016,682 | 2,485,799 |
| Total liabilities | | 3,026,876 | 2,499,650 |
| Total equity and liabilities | | 4,040,132 | 3,432,086 |
| Net current liabilities | | (187,911) | (234,026) |
| Total assets less current liabilities | | 1,023,450 | 946,287 |

The notes on pages 49 to 58 form an integral part of this condensed interim financial information.

Condensed consolidated interim income statement

| | | Unaudited | |
|---|--------------------|---------------------------------|--|
| | | Six months ended 30 June | |
| Note | 2006 | 2005 | |
| Sales | 1,504,707 | 1,189,676 | |
| Construction costs | (1,156,764) | (1,007,242) | |
| Cost of goods sold and services rendered | (168,315) | (105,044) | |
| Cost of sales | (1,325,079) | (1,112,286) | |
| Gross profit | 179,628 | 77,390 | |
| Other (losses)/gains – net | (3,069) | 8,629 | |
| Selling and marketing costs | (2,015) | (2,310) | |
| Administrative expenses | (108,321) | (65,971) | |
| Other income | 20,371 | 29,512 | |
| Other expenses | (4,069) | (343) | |
| Operating profit | 82,525 | 46,907 | |
| Finance costs | (1,757) | (14,307) | |
| Share of profits of associates | 12 | 154 | |
| Profit before income tax | 80,780 | 32,754 | |
| Income tax expense | (11,645) | (4,662) | |
| Profit for the period | 69,135 | 28,092 | |
| Attributable to: | | | |
| – shareholders of the Company | 65,203 | 27,235 | |
| – minority interests | 3,932 | 857 | |
| | 69,135 | 28,092 | |
| Earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share) | | | |
| – basic & diluted | 0.1318 | 0.0551 | |

The notes on pages 49 to 58 form an integral part of this condensed interim financial information.

Condensed consolidated interim statement of changes in equity

| | Unaudited | | | | | |
|--|--|-------------------|-----------------------|----------------|-----------------------|------------------|
| | Attributable to shareholders of the Company | | | | Minority interests | Total equity |
| | Share Capital | Other reserves | Accumulated losses | Total | | |
| Balance at 1 January 2005 | 1,146,655 | 100,148 | (528,289) | 718,514 | 52,210 | 770,724 |
| Fair value gains on available-for-sale financial assets, net of tax | – | 9,168 | – | 9,168 | – | 9,168 |
| Profit for the period | – | – | 27,235 | 27,235 | 857 | 28,092 |
| Disposal of interest in a subsidiary | – | – | – | – | (5,262) | (5,262) |
| Balance at 30 June 2005 | <u>1,146,655</u> | <u>109,316</u> | <u>(501,054)</u> | <u>754,917</u> | <u>47,805</u> | <u>802,722</u> |
| Balance at 1 January 2006 | 1,146,655 | 129,339 | (393,278) | 882,716 | 49,720 | 932,436 |
| Fair value gains on available-for-sale financial assets, net of tax | – | 10,089 | – | 10,089 | – | 10,089 |
| Profit for the period | – | – | 65,203 | 65,203 | 3,932 | 69,135 |
| Disposal of interest in a subsidiary | – | – | – | – | 1,596 | 1,596 |
| Balance at 30 June 2006 | <u>1,146,655</u> | <u>139,428</u> | <u>(328,075)</u> | <u>958,008</u> | <u>55,248</u> | <u>1,013,256</u> |

The notes on pages 49 to 58 form an integral part of this condensed interim financial information.

Condensed consolidated interim cash flow statement

| | Unaudited | |
|---|--------------------------|------------------|
| | Six months ended 30 June | |
| | 2006 | 2005 |
| Cash flows from operating activities – net | <u>805,208</u> | <u>(165,976)</u> |
| Cash flows from investing activities: | | |
| – disposal of interest in subsidiaries, net of cash disposed | 1,588 | 13,523 |
| – purchases of property, plant and equipment | (50,036) | (47,880) |
| – proceeds on disposal of property, plant and equipment | 1,325 | 380 |
| – interest received | 4,014 | 2,047 |
| – investment in an associate | (12,106) | – |
| – dividends received from available-for-sale financial assets | 972 | 891 |
| Cash flows from investing activities – net | <u>(54,243)</u> | <u>(31,039)</u> |
| Cash flows from financing activities: | | |
| – proceeds from borrowings | 121,070 | 325,072 |
| – repayments of borrowings | (248,412) | (205,196) |
| Cash flows from financing activities – net | <u>(127,342)</u> | <u>119,876</u> |
| Net increase/(decrease) in cash and cash equivalents | 623,623 | (77,139) |
| Cash and cash equivalents at start of period | 644,430 | 377,700 |
| Exchange losses on cash and cash equivalents | (547) | – |
| Cash and cash equivalents at end of period | <u>1,267,506</u> | <u>300,561</u> |

The notes on pages 49 to 58 form an integral part of this condensed interim financial information.

The cash and cash equivalents at beginning and end of the period represented bank balances and cash as stated in the respective balance sheets.

Selected Notes to the Condensed Consolidated Interim Financial Information

1 General information

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

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

This condensed consolidated interim financial information was presented in thousands of units of Renminbi Yuan (RMB’000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 17 August 2006.

2 Basis of preparation

This condensed consolidated interim financial information of the Company and its subsidiaries (together “the Group”) for the period ended 30 June 2006 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, ‘Actuarial gains and losses, group plans and disclosures’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment to ‘The fair value option’, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any significant impact on the classification and valuation of the Group’s financial instruments, as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment ‘Net investment in a foreign operation’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment ‘Cash flow hedge accounting of forecast intragroup transactions’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment ‘Financial guarantee contracts’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, ‘Exploration for and evaluation of mineral resources’, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, ‘Determining whether an arrangement contains a lease’, effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts and this interpretation does not have any significant impact on the recognition and classification of the Group’s lease arrangement;
- HK(IFRIC)-Int 5, ‘Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds’, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, ‘Liabilities arising from participating in a specific market – waste electrical and electronic equipment’, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

4 Segment information

Primary reporting format – business segments

At 30 June 2006, the Group is organised on the PRC basis into three main business segments:

- (1) Ship building – construction and trading of vessels;
- (2) Ship repairing – provision of ship repairing services; and
- (3) Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment.

Other operations of the Group mainly comprise the trading of computers and containers transportation services, neither of which are of a sufficient size to be reported separately.

The segment results for the six months ended 30 June 2006 were as follows:

| Business segment | Ship building | Ship repairing | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---------------------------------|------------------|----------------|---|------------------|-------------|------------------|
| Total segment revenue | 1,304,115 | 1,129 | 205,902 | 64,989 | (71,428) | 1,504,707 |
| Inter-segment revenue | – | – | (24,559) | (46,869) | 71,428 | – |
| Sales | 1,304,115 | 1,129 | 181,343 | 18,120 | – | 1,504,707 |
| Segment results | 146,972 | 161 | 19,463 | 15,582 | 2,496 | 184,674 |
| Unallocated revenues | | | | | | 13,638 |
| Unallocated costs | | | | | | (115,787) |
| Operating profit | | | | | | 82,525 |
| Finance costs | | | | | | (1,757) |
| Share of profits of associates | | | | 12 | | 12 |
| Profit before income tax | | | | | | 80,780 |
| Income tax expense | | | | | | (11,645) |
| Profit for the period | | | | | | 69,135 |

The segment results for the six months ended 30 June 2005 were as follows:

| Business segment | Ship building | Ship repairing | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---------------------------------|------------------|----------------|---|------------------|-------------|------------------|
| Total segment revenue | 1,066,537 | 4,838 | 128,091 | 41,177 | (50,967) | 1,189,676 |
| Inter-segment revenue | – | (243) | (26,219) | (24,505) | 50,967 | – |
| Sales | 1,066,537 | 4,595 | 101,872 | 16,672 | – | 1,189,676 |
| Segment results | 81,881 | 318 | 13,146 | 10,684 | (337) | 105,692 |
| Unallocated revenues | | | | | | 8,475 |
| Unallocated costs | | | | | | (67,260) |
| Operating profit | | | | | | 46,907 |
| Finance costs | | | | | | (14,307) |
| Share of profits of associates | | | | 154 | | 154 |
| Profit before income tax | | | | | | 32,754 |
| Income tax expense | | | | | | (4,662) |
| Profit for the period | | | | | | 28,092 |

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions were entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Other segment items for the six months ended 30 June 2006 were as follows:

| | Ship building | Ship repairing | Steel structure and other manufacturing | Other operations | Unallocated | Total Group |
|----------------------------------|---------------|----------------|---|---------------------|--------------|---------------|
| Depreciation and amortisation | 19,642 | – | 4,449 | 3,314 | 14,708 | 42,113 |
| Capital expenditure | <u>36,483</u> | <u>–</u> | <u>4,095</u> | <u>4,325</u> | <u>8,946</u> | <u>53,849</u> |

Other segment items for the six months ended 30 June 2005 were as follows:

| | Ship building | Ship repairing | Steel structure and other manufacturing | Other operations | Unallocated | Total Group |
|--|---------------|----------------|---|---------------------|---------------|---------------|
| Depreciation and amortisation | 18,802 | – | 7,965 | 3,438 | 10,543 | 40,748 |
| Impairment for trade receivables | – | – | 1,509 | – | – | 1,509 |
| Reversal of impairment for investment properties | – | – | – | – | (1,322) | (1,322) |
| Capital expenditure | <u>12,724</u> | <u>–</u> | <u>882</u> | <u>1,008</u> | <u>31,834</u> | <u>46,448</u> |

Capital expenditure comprises additions to property, plant and equipment.

The segment assets and liabilities at 30 June 2006 were as follows:

| | Ship building | Ship repairing | Steel structure and other manufacturing | Other operations | Elimination | Total Group |
|--------------------------|---------------|----------------|---|---------------------|-------------|------------------|
| Segment assets | 1,753,804 | 755 | 256,747 | 62,551 | (13,287) | 2,060,570 |
| Interest in associates | | | | 15,943 | | 15,943 |
| Unallocated assets | | | | | | 1,963,619 |
| Total assets | | | | | | <u>4,040,132</u> |
| Segment liabilities | 2,738,320 | 2,707 | 72,171 | 22,002 | (13,287) | 2,821,913 |
| Unallocated liabilities | | | | | | 204,963 |
| Total liabilities | | | | | | <u>3,026,876</u> |

The segment assets and liabilities at 31 December 2005 were as follows:

| | Ship building | Ship repairing | Steel structure and other manufacturing | Other operations | Elimination | Total Group |
|--------------------------|---------------|----------------|---|---------------------|-------------|-------------------------|
| Segment assets | 1,774,292 | 2,280 | 220,411 | 58,228 | (16,530) | 2,038,681 |
| Interest in associates | | | | 3,825 | | 3,825 |
| Unallocated assets | | | | | | 1,389,580 |
| Total assets | | | | | | <u><u>3,432,086</u></u> |
| Segment liabilities | 2,108,161 | 7,423 | 63,465 | 29,359 | (16,530) | 2,191,878 |
| Unallocated liabilities | | | | | | 307,772 |
| Total liabilities | | | | | | <u><u>2,499,650</u></u> |

Segment assets consist primarily of property, plant and equipment, inventories, derivatives financial instruments and receivables, and mainly exclude investment properties, deferred income tax assets, available-for-sale financial assets and bank balances and cash.

Segment liabilities comprise operating liabilities and mainly exclude taxation and borrowings.

Secondary reporting format – geographical segments

Although the Group's three main business segments are managed in the PRC, turnover is contributed from eight main geographical areas in which the customers are located:

| | | |
|--------------------------|---|--|
| Mainland China | – | ship building, ship repairing, steel structure and other manufacturing |
| Denmark | – | ship building |
| Hong Kong | – | ship building, ship repairing, steel structure and other manufacturing |
| Sweden | – | ship building |
| Liberia | – | ship building |
| Malta | – | ship building |
| Marshall Island | – | ship building |
| United States of America | – | steel structure and other manufacturing |
| Other countries | – | ship repairing, steel structure and other manufacturing |

| Sales | Six months ended 30 June | |
|--------------------------|--------------------------|-------------------------|
| | 2006 | 2005 |
| Mainland China | 209,591 | 317,368 |
| Denmark | 545,930 | 595,997 |
| Hong Kong | 78,412 | 84,778 |
| Sweden | 175,308 | – |
| Liberia | 214,039 | – |
| Malta | 141,803 | – |
| Marshall Island | 21 | 153,389 |
| United States of America | 103,908 | – |
| Other countries | 35,695 | 38,144 |
| | <u><u>1,504,707</u></u> | <u><u>1,189,676</u></u> |

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

| Total Assets | As at | |
|------------------------|------------------|------------------|
| | 30 June 2006 | 31 December 2005 |
| Mainland China | 3,987,716 | 3,396,185 |
| Hong Kong | 36,473 | 32,076 |
| | <u>4,024,189</u> | <u>3,428,261</u> |
| Interest in associates | 15,943 | 3,825 |
| | <u>4,040,132</u> | <u>3,432,086</u> |

Total assets are allocated based on where the assets are located.

| Capital expenditures | Six months ended 30 June | |
|-----------------------------|--------------------------|--------|
| | 2006 | 2005 |
| Mainland China | 53,849 | 46,448 |

Capital expenditure is allocated based on where the assets are located.

| Analysis of sales by category | Six months ended 30 June | |
|--------------------------------------|--------------------------|------------------|
| | 2006 | 2005 |
| Revenue from construction contracts | 1,304,115 | 1,066,537 |
| Sales of goods | 181,488 | 101,879 |
| Revenue from services | 19,104 | 21,260 |
| | <u>1,504,707</u> | <u>1,189,676</u> |

5 Capital expenditure

| | Property, plant and equipment | Investment properties | Land use rights | Total capital expenditure |
|--|----------------------------------|--------------------------|--------------------|------------------------------|
| Six months ended 30 June 2005 | | | | |
| Opening net book amount at 1 January 2005 | 941,099 | 5,200 | 66,345 | 1,012,644 |
| Additions | 46,448 | – | – | 46,448 |
| Disposals | (2,116) | – | – | (2,116) |
| Disposal of interest in a subsidiary | (5,444) | – | (12,938) | (18,382) |
| Depreciation and amortisation | (39,720) | (126) | (902) | (40,748) |
| Impairment reversed | – | 1,322 | – | 1,322 |
| Closing net book amount at 30 June 2005 | <u>940,267</u> | <u>6,396</u> | <u>52,505</u> | <u>999,168</u> |
| Six months ended 30 June 2006 | | | | |
| Opening net book amount at 1 January 2006 | 961,210 | 67,134 | 51,647 | 1,079,991 |
| Additions | 56,929 | 9,919 | – | 66,848 |
| Disposals | (5,839) | – | – | (5,839) |
| Depreciation and amortisation | (40,488) | (766) | (859) | (42,113) |
| Closing net book amount at 30 June 2006 | <u>971,812</u> | <u>76,287</u> | <u>50,788</u> | <u>1,098,887</u> |

During the period, certain properties and vehicles were transferred to the Company to settle a portion of the debt owed by Guangzhou International Trust and Investment Company (“GZITIC”) as described in note 7. These assets have been measured initially at their fair value of RMB9,988,000.

Major additions to property, plant and equipment during the period included construction costs for dock improvement project and a new gantry crane, amounting to Rmb13,657,000 and Rmb17,806,000 respectively.

6 Trade receivables

At 30 June 2006 and 31 December 2005, the ageing analyses of the trade receivables were as follows:

| | As at | |
|---|----------------|------------------|
| | 30 June 2006 | 31 December 2005 |
| Not exceeding one year | 266,636 | 201,648 |
| More than one year but not exceeding two years | 4,894 | 7,861 |
| More than two years but not exceeding three years | 3,350 | 9,816 |
| More than three years | 1,580 | 1,636 |
| | <u>276,460</u> | <u>220,961</u> |

The general credit terms of trade receivables are:

Operations

Ship building
Other operations (including ship repairing,
steel structure and other manufacturing)

Credit terms

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

7 Other receivables

| | As at | |
|--|----------------|------------------|
| | 30 June 2006 | 31 December 2005 |
| Prepayments for trading materials and equipment | 361,848 | 169,103 |
| Other taxes recoverable | 20,970 | 52,520 |
| Amount due from non-banking financial institutions * | 137,033 | 216,491 |
| Less: provision for non-recovery | (96,244) | (166,219) |
| | 40,789 | 50,272 |
| Others | 8,740 | 9,790 |
| | <u>432,347</u> | <u>281,685</u> |

* During the period, the debt owed by Guangzhou Economic and Technology Development Zone International Trust and Investment Company and its full provision totalling Rmb 48,408,000 were written off.

According to the debt restructuring general agreement entered into between the Company and GZITIC on 20 February 2006, certain properties, golf club membership, debts and other interests ("commuting assets") are to be transferred to the Company to settle the remaining principal amount of RMB168,083,000 due by GZITIC and the interest thereon. During the period, certain such properties and vehicles have been transferred to the Company and reduced the debt by Rmb 31,050,000. Provision has been made for non-recovery as at period end after taking into account the estimated recoverable amount of the remaining commuting assets to be obtained.

8 Share capital

| | As at 1 January, 30 June and 31 December 2005 | | Transfers in/(out) | | As at 30 June 2006 | |
|--|--|------------------|------------------------------------|-----------|------------------------------------|------------------|
| | Number of shares (thousands) | Amount | Number of shares (thousands) | Amount | Number of shares (thousands) | Amount |
| Share capital registered, issued and fully paid | | | | | | |
| Non-circulating State Shares | 210,800 | 210,800 | (210,800) | (210,800) | – | – |
| Circulating State Shares subject to exchange restrictions | – | – | 176,651 | 176,651 | 176,651 | 176,651 |
| Ordinary A Shares | 126,480 | 126,480 | 34,149 | 34,149 | 160,629 | 160,629 |
| Ordinary H Shares | 157,398 | 157,398 | – | – | 157,398 | 157,398 |
| | <u>494,678</u> | <u>494,678</u> | <u>–</u> | <u>–</u> | <u>494,678</u> | <u>494,678</u> |
| Share premium | | 651,977 | | | | 651,977 |
| Total | | <u>1,146,655</u> | | | | <u>1,146,655</u> |

Note: Following the PRC government policy on State Share Reform, the Company completed its reform (the “Reform”) on 24 May 2006. Effectively, the non-circulating State Shares were converted into the circulating State Shares subject to exchange restrictions by a payment of 2.7 shares for every 10 shares to the A Shares shareholders by the immediate holding company, China State Shipbuilding Corporation (“CSSC”). The circulating State Shares will be tradable at the Shanghai Stock Exchange three years after the Reform. In addition, CSSC will be required to pay additional shares to the A Shares shareholders if the Company’s performance for years 2006 and 2007 does not meet the criteria set out in the Reform.

9 Trade payables

At 30 June 2006 and 31 December 2005, the ageing analyses of the trade payables were as follows:

| | As at | |
|---|----------------|------------------|
| | 30 June 2006 | 31 December 2005 |
| Not exceeding one year | 382,899 | 372,611 |
| More than one year but not exceeding two years | 2,770 | 70 |
| More than two years but not exceeding three years | 425 | 113 |
| More than three years | – | 115 |
| | <u>386,094</u> | <u>372,909</u> |

10 Borrowings

| | As at | |
|--|----------------|------------------|
| | 30 June 2006 | 31 December 2005 |
| Short-term bank borrowings | 133,000 | 60,355 |
| Current portion of long-term bank borrowings | – | 200,150 |
| | <u>133,000</u> | <u>260,505</u> |

As at 30 June 2006, borrowings of RMB100,000,000 (31 December 2005: RMB200,000,000) are guaranteed by CSSC.

Interest expense on borrowings for the six months ended 30 June 2006 is RMB784,000 (30 June 2005: RMB11,184,000).

11 Provisions for warranty

| | Six months ended 30 June | |
|--------------------------------------|--------------------------|---------------|
| | 2006 | 2005 |
| Opening net book amount at 1 January | 38,761 | 38,247 |
| Additional provisions | 18,405 | 9,156 |
| Surplus amounts written back | (1,217) | (1,646) |
| Amount utilised during the period | (11,692) | (4,570) |
| Closing net book amount at 30 June | <u>44,257</u> | <u>41,187</u> |

12 Operating profit

The following items have been credited/charged to the operating profit during the interim period:

| | Six months ended 30 June | |
|---|--------------------------|----------|
| | 2006 | 2005 |
| Credit: | | |
| Fair value gains on derivative financial instruments | 19 | 8,629 |
| Dividends income from available-for-sale financial assets | 972 | 891 |
| Government grant received related to income | 9,683 | 17,485 |
| Gain on sales of scrap and other materials | 5,225 | 7,236 |
| Interest income | 4,014 | 2,047 |
| Reversal of impairment charge relating to investment properties | – | 1,322 |
| Charge: | | |
| Depreciation and amortisation charges | 42,113 | 40,748 |
| Add: amount capitalised in opening inventories | 12,487 | 6,818 |
| Less: amount capitalised in ending inventories | (14,419) | (15,071) |
| | 40,181 | 32,495 |
| Impairment charge relating to trade receivables | – | 1,509 |
| Employee benefit expenses, include directors' emoluments | 148,694 | 127,655 |
| Retiree housing subsidy * | 23,391 | – |
| Loss/(gain) on disposal of interest in a subsidiary | 8 | (273) |
| Loss on disposal of property, plant and equipment | 4,514 | 1,736 |

* On 4 January 2006, the Board of Directors of the Company resolved to provide a monetary housing subsidy to qualified retired employees who have not been granted any housing properties during the Housing System Reform carried out in year 2000.

13 Income tax expense

The PRC enterprise income tax of the Company and its subsidiaries has been calculated on their respective estimated assessable profit for the period at the applicable tax rates.

| | Six months ended 30 June | |
|--|--------------------------|--------------|
| | 2006 | 2005 |
| Current income tax – the PRC enterprise income tax | 1,590 | 721 |
| Deferred income tax | 10,055 | 3,941 |
| | <u>11,645</u> | <u>4,662</u> |

14 Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB65,203,000 (June 2005: RMB27,235,000) and the weighted average number of 494,677,580 (June 2005: 494,677,580) ordinary shares in issue during the period.

15 Capital commitments

Capital expenditures at the balance sheet date but not yet incurred are as follows:

| | As at | |
|-----------------------------------|---------------|------------------|
| | 30 June 2006 | 31 December 2005 |
| Property, plant and equipment: | | |
| Contracted but not provided for | 12,113 | 19,944 |
| Authorised but not contracted for | 68,594 | 24,834 |
| | <u>80,707</u> | <u>44,778</u> |

16 Significant related-party transactions

CSSC which owns 35.71% (2005: 42.61%) of the Company's shares, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CSSC group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither CSSC nor the PRC government publishes financial statements available for public use.

The following significant transactions were carried out with related parties:

i) Sales of goods and services

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2006 | 2005 |
| Sales of goods: | | |
| – to companies controlled by CSSC | 1,414 | 1,448 |
| – to other state-controlled enterprises | 73,894 | 130,162 |
| | <u>75,308</u> | <u>131,610</u> |
| Sales of services: | | |
| – to companies controlled by CSSC | 7,535 | 9,861 |

ii) Purchases of goods and services

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2006 | 2005 |
| Purchases of goods: | | |
| – from companies controlled by CSSC | 63,146 | 99,033 |
| – from other state-controlled enterprises | 259,118 | 338,833 |
| | <u>322,264</u> | <u>437,866</u> |
| Purchase of services: | | |
| – from companies controlled by CSSC | 42,612 | 19,751 |
| – from other state-controlled enterprises | 8,019 | – |
| | <u>50,631</u> | <u>19,751</u> |

iii) **Payment of expenses and other charges**

| | Six months ended 30 June | |
|---|---------------------------------|--------|
| | 2006 | 2005 |
| Vessel sales commissions payable: | | |
| – to companies controlled by CSSC | 12,714 | 10,337 |
| – to other state-controlled enterprises | 2,919 | – |
| Other expenses payable: | | |
| – to companies controlled by CSSC (a) | 5,396 | 5,363 |
| | 21,029 | 15,700 |

Note:

- (a) Pursuant to the comprehensive service agreement dated 8 December 2005 entered between the Company and Guangzhou Shipyard (“GZS”), a subsidiary of CSSC, the Group incurred service fees amounted to RMB3,640,000 for the six months ended 30 June 2006 (June 2005: RMB3,618,000) for its provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS. The service fees for the six months ended 30 June 2006 and 2005 did not include welfare to key management personnel. The effective period of this comprehensive service agreement is from 1 January 2006 to 31 December 2008.

iv) **Transfer of interest in a subsidiary**

On 6 January 2006, the Company transferred 26% interest in Guangzhou Hongfan Information Technique Company Limited (“Hongfan”), a subsidiary of the Company, to China Shipyard Information and Technology Company Limited, a subsidiary of CSSC at a consideration of Rmb1,588,000. Following the transfer, Hongfan has become a 51% held subsidiary of the Company.

v) **Key management compensation**

| | Six months ended 30 June | |
|--|---------------------------------|-------|
| | 2006 | 2005 |
| Emolument, salaries and other short-term employee benefits | 2,590 | 2,030 |
| Post-employment benefits | 92 | 77 |
| | 2,682 | 2,107 |

VII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements with signatures and stamps of legal representative, chief accountant and accounting departments head.
2. The originals of announcements published in “Shanghai Securities News”, “Hong Kong Commercial Daily” and “China Daily” (oversea version) during the period under review and related company documents.