



广州广船国际股份有限公司
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED
H Stock Code: 317 A Stock Code: 600685

INTERIM REPORT 2007



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 managing director Mr. Han Guangde acting as proxy of non-executive director Mr. Yu Baoshan, and independent non-executive director Mr. Bu Miaojin acting as proxy of non-executive director Mr. Wang Xiaojun respectively, attended the twenty third meeting of the fifth term of the Board of Directors held on 16th August 2007.

Mr. Li Zhushi, Chairman of the Board of Directors, Mr. Zeng Xiangxin, Chief Accountant of the Company and Mr. Hou Zengquan, 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 Standards for Business Enterprises and Relevant Regulations (“PRC Accounting Standards 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 2007 of the Company.

The financial reports in this interim report are unaudited and are prepared at an income tax rate of 33%. Details please refer to item 6 in Other Significant Events.

This report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial statements prepared in accordance with Hong Kong Financial Reporting Standard (“HKFRS”) shall be prevailed at English version, 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

Abbreviated Name: Guangzhou Shipyard International

Share Code: 600685

H Shares – The Stock Exchange of Hong Kong Limited

Abbreviated Name: Guangzhou Shipyard International

Share Code: 317

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

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AUTHORIZED SECURITIES REPRESENTATIVE

Ms. Yang Ping

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6. PUBLICATIONS FOR DISCLOSING INFORMATION

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

URL DESIGNATED BY CHINA SECURITIES REGULATORY COMMISSION FOR PUBLISHING THE INTERIM REPORT:

<http://www.sse.com.cn>

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

URL OF THE COMPANY: <http://www.chinagsi.com>

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 Standards and Regulations

Financial Indicators	Unaudited	Audited	Unit: RMB
	As at 30th June 2007	As at 31st December 2006	Increment (%)
Total assets	8,696,413,339.95	7,675,454,534.11	13.30
Shareholders' equity	1,800,035,709.28	1,261,712,691.62	42.67
Net assets per share	3.64	2.55	42.67

Financial Indicators	Unaudited For six months ended 30th June		Increment (%)
	2007 (Consolidated)	2006 (Consolidated) (Note)	
Operating profit	496,786,365.42	74,658,979.48	565.41
Total profit	650,254,337.77	80,780,258.96	704.97
Net profit	465,135,036.53	65,202,572.88	613.37
Net profit after deduction of exceptional items	460,331,944.17	80,134,628.40	474.45
Earnings per share	0.94	0.13	613.37
Diluted earnings per share	0.94	0.13	613.37
Return on net assets (%)	25.84	6.81	Changed by 19.03%
Net cash flow from operating activities	599,747,487.28	787,959,817.59	-23.89
Net cash flow per share from operating activities	1.21	1.59	-23.89

Note: The data have been adjusted in accordance with the current PRC Accounting Standards and Regulations

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

Exceptional items	Unit: RMB Amount
Profit and loss caused by the Company's merger cost less than the merger identified fair value of the net assets of the merged unit when consolidated	1,467,050.44
Net non-operating income and expenses	9,972,384.74
Other exceptional items	
Asset impairment loss	-12,651,451.02
Investment income (financial instruments)	6,015,108.20
Total	4,803,092.36
Net profit after deduction of exceptional items	460,331,944.17

The return on net assets and earnings per share prepared in accordance with No.9 of Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public issued by China Securities Regulatory Commission are as follows:

	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic earnings per share	Diluted earnings per share
Profit during the period under review				
Net profit belongs to common shareholders of the Company	25.84	30.38	0.94	0.94
Net profit after deduction of exceptional items belongs to common shareholders of the Company	25.57	30.07	0.93	0.93

(2). Prepared in accordance with HKFRS

Unit: RMB'000			
Financial Indicators	Unaudited	Audited	Change (%)
	As at 30th June 2007	As at 31st December 2006	
Current assets	7,057,544	6,282,625	12.33
Current liabilities	5,914,131	5,258,600	12.47
Total assets	8,714,320	7,672,237	13.58
Shareholders' equity (excluding minority interests)	1,800,036	1,261,647	42.67
Net assets per share (RMB)	3.64	2.55	42.67
Gearing ratio (%)	78.43	82.76	(4.33)

Financial Indicators	Unaudited		Change (%)
	For six months ended 2007	For six months ended 2006	
	(Consolidated)	(Consolidated)	
Profit attributable to shareholders	465,202	65,203	613.47
Earnings per share (RMB)	0.9404	0.1318	613.47
Return on net assets (%)	25.84	6.81	19.03

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

Item	Unit: RMB	
	Net profit	Net assets
Prepared under PRC Accounting Standards and Regulations	485,866	1,879,633
Prepared under HKFRS	485,932	1,879,633
Reconciliation items:		
Amortized cost adjustment on held-to-maturity financial assets	(1,256)	—
Impairment of investment properties	1,322	—

III. CHANGES OF SHARE CAPITAL AND SHAREHOLDERS INFORMATION

1. CHANGES OF SHARE CAPITAL

	Before the change		Changes during the period (+, -)					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	176,650,615	35.71	-	-	-	-	-	176,650,615	35.71
(II) Freely transferable shares									
(1) PRC listed domestic shares	160,628,965	32.47	-	-	-	-	-	160,628,965	32.47
(2) Overseas listed foreign shares	157,398,000	31.82	-	-	-	-	-	157,398,000	31.82
(III) Total number of shares	494,677,580	100	-	-	-	-	-	494,677,580	100

2. SHAREHOLDERS INFORMATION

- As at 30th June 2007, the total number of shareholders of the Company was 27,302, including a shareholder of A share subject to sale restrictions, 27,023 shareholders of listed freely transferable A shares and 278 shareholders of listed H shares.
- Top 10 shareholders of the Company are as follows:

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	Unit: Share
China State Shipbuilding Corporation	-	176,650,615	35.71	176,650,615	None	State-owned Shareholder	
HKSCC Nominees Limited	5,307,300	153,252,999	30.98	-	Unknown	Foreign Capital Shareholder	
GF Shape Security Investment Fund	2,163,534	6,565,053	1.33	-	Unknown	Other	
SYWG BNP PARIBAS New Power Shape Security Investment Fund	5,929,852	5,929,852	1.20	-	Unknown	Other	
GF Small Shape Investment Fund	3,643,590	5,433,124	1.10	-	Unknown	Other	
GF Jufu Opening Security Investment Fund	4,700,000	5,000,000	1.01	-	Unknown	Other	
Pinan Life Insurance Dividend Fund	4,849,912	4,849,912	0.98	-	Unknown	Other	
China Merchants Core Value Mixed Security Investment Fund	4,255,338	4,255,338	0.86	-	Unknown	Other	
GF Jufeng Shape Security Investment Fund	3,432,792	4,176,755	0.84	-	Unknown	Other	
Rixing AM RMB A Shares Parent Fund	-2,399,014	4,000,678	0.81	-	Unknown	Other	

3. TOP 10 SHAREHOLDERS OF FREELY TRANSFERABLE SHARES

Shareholder	Number of transferable shares as at 30th June 2007	Nature of shares
HKSCC Nominees Limited	153,252,999	H Share
GF Shape Security Investment Fund	6,565,053	A Share
SYWG BNP PARIBAS New Power Shape Security Investment Fund	5,929,852	A Share
GF Small Shape Investment Fund	5,433,124	A Share
GF Jufu Opening Security Investment Fund	5,000,000	A Share
Pinan Life Insurance Dividend Fund	4,849,912	A Share
China Merchants Core Value Mixed Security Investment Fund	4,255,338	A Share
GF Jufeng Shape Security Investment Fund	4,176,755	A Share
Rixing AM RMB A Shares Parent Fund	4,000,678	A Share
Yinhua Leading Enterprise Fund	3,299,716	A Share

Except That GF Shape Security Investment Fund, GF Small Shape Investment Fund, GF Jufu Opening Security Investment Fund and GF Jufeng Shape Security Investment Fund belong to GF Fund Management Company, 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".

4. 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.
5. Apart from the shareholders disclosed above, as at 30th June 2007, the following persons, other than a director, supervisor or senior management of the Company, had the following interests or short positions in the shares and underlying shares of the Company as recorded in the register to be kept under section 336 of the Securities and Futures Ordinance of Hong Kong ("SFO").

Shareholder	Shareholding (share)	Proportion of total H shares (%)	Proportion of total Shares(%)
Legg Mason Inc.	11,168,000	7.10	2.26
Wexford Capital LLC	9,654,000	6.13	1.95
JPMorgan Chase & Co.	14,696,000	9.34	2.97

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 are CSSC and State-owned Assets Supervision and Administration Commission of the State Council respectively.

IV. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

As at 30th June 2007, the shares of directors, supervisors and senior management including individual and individual's spouse and children under the age of 18 have not changed.

2. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the period under review, Mr. Yu Baoshan resigned as the vice chairman of the Board of the Company due to work relocation, which has been approved by the twentieth meeting of the fifth term of the Board. And Mr. Han Guangde was elected as the vice chairman of the Board of the Company at the twenty first meeting of the fifth term of the Board of Directors.

3. INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Jingqi, a director of the Company, holds 2,540 A-shares of the Company. Otherwise, at no time during the period under review had the Company been notified that any director, supervisor or member of senior management (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for equity or debt securities of the Company and or associated corporations (within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers or which were required to be entered in the register required to be kept under section 352 of the SFO.

V. REPORT OF THE BOARD OF DIRECTORS

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

1. Result

During the period under review, the operating income of the Company and its subsidiaries (Collectively the "Group") in accordance with PRC Accounting Standards and Regulations amounted to RMB2,412.39 million (including of that, the principal operating income amounted to RMB 2,327.02 million) representing an increase of 57.10% compared with that of the same period last year. The net profit of the Group (attributed to the parent company) amounted to RMB465.14 million representing an increase of 613.37% compared with that of the same period last year which was adjusted in accordance with PRC Accounting Standards and Regulations. If compared with the figure without any adjustment of the same period last year, the net profit of the Group would increase by 517.75%. The earnings per share amounted to RMB 0.94.

The turnover prepared in accordance with HKFRS of the Group amounted to RMB 2,327.02 million, representing an increase of 54.65% over that of last year. The profit attributable to shareholders after taxation and minority interest amounted to RMB 465.20 million, representing an increase of 613.47% over that of last year. The earnings per share was RMB 0.94.

During the period under review, in order to adapt to the model of collective shipbuilding of two assembly product lines of slipways and dry dock, the Company adjusted the organization structure and established the processing & manufacturing department, through sharing the resources of shipbuilding to enhance the shipbuilding management and specialization of production. Besides, the Company integrated the non-shipbuilding operations and invested the electro-mechanic processing centre, and will move out the process of plate-cutting and block construction gradually in accordance with the schedule of the construction of the electro-mechanic processing centre, those will help to consummate the assistant projects of dry dock modification and improve efficiency of assembly shipbuilding. Moreover, the Company carried out management improvement and established modernized shipbuilding mode focusing on reformation of shipbuilding production system, assembly shipbuilding, the foundational management and information-based construction in order to perfect internal management, to curtail the berth construction circle and the dock construction circle and to improve shipbuilding efficiency.

During the period under review, the appreciation in value of RMB is getting higher which caused the Company facing higher RMB exchange rate risk. The senior management of the Company strengthened prevention of exchange rate risk and enlarged the scope of adopting derivative financial instruments to locking the exchange rate risk. Moreover, the Company also adopted a series of measures such as accelerating the gain of new orders, expediting the withdrawal of capital and increasing the debt of foreign currency reasonably to reduce the exchange rate risk, which brought out satisfied effect during the period under review.

2. Analysis on the difference of the profit forecast of the first half of 2007

Refer to the statement in the first quarterly report of 2007, it was anticipated that the net profit for the first six months of 2007 as prepared under the PRC Accounting Standards and Regulations will increase by more than 300% over that of same period of 2006 after adjustment in accordance with current PRC Accounting Standards and Regulations. However, the actual increase of the net profit reached 613.37%, that mainly due to the increase of output of shipbuilding resulted from the dry dock's being put into production, the shorter shipbuilding cycle and higher shipbuilding efficiency resulted from the adjustment of organization structure as well as the improvement of the management of the Company. In the meantime, the forecasted income brought by the fair value of the financial derivatives signed by the Group with the purpose of avoiding exchange rate risk alongside with the change of RMB exchange rate also has a great influence on the profit and loss of the Company. Moreover, at the request of the taxation authorities, the income tax rate of 15% during the period under review was changed into 33%, which caused unfavorable influence on the net profit of the Group.

3 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.

During the first half of 2007, as the demand for shipbuilding talents is increasing rapidly and the remuneration system of the Company failed to be introduced to the market, the human resource of the Company was faced with more challenge. To relieve the talent shortage for stabilizing production operation, the Company promoted the reform of remuneration system and has been reaching after multiplex remuneration encouraging system and measures, strengthened cultivation of the talents to establish a healthy talents environment. In the meantime, for the purpose to stabilize the labor contractors, the Company purchased the interest of Guangzhou Guangli Marine Human Resource Service Company Limited ("Guangli Company") to expand employing channels, solicit talent and supplement high-demanded stuff.

As the dry dock of the Company has been fully put in to production, the work space in block production, block painting, block assembly and re-outfitting is facing strain. The Company has searched out partners for block production which relieved short supply of blocks. However, due to certain objective cause, the project of a block production polled with Guangdong Xinqiao Industrial Company Limited has been cancelled, and the Company is seeking for other partner to solve the work space restriction thoroughly.

As 70% of shipbuilding contracts of the Company are for export, and because these contracts are settled by U.S. dollar and paid in several installments in accordance with shipbuilding progress, there are two or four 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 higher RMB exchange rate risk. In order to reduce the impact of exchange rate change, the Company adopted a series of appropriate measures, such as raising the ratio 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. During the period under review, the Company made a good result in the prevention of such risk. However, alongside with the accelerating appreciation of RMB and increasing fluctuation of exchange rate, the exchange rate risk is still an important factor restricting the development of the Group.

(II) PRINCIPAL OPERATION INFORMATION

1 Major operation information

Products	Operating income	Operating costs	Operating profit margin %	Unit: RMB		Change of operating profit margin compared with that of the same period of last year
				Increment of operating income compared with that of the same period last year (%)	Increment of operating cost compared with that of the same period last year (%)	
Shipbuilding	2,014,864,650.33	1,711,908,733.49	15.04	54.50	47.56	Changed by 4.00%
Steel structure	241,542,654.28	208,357,464.33	13.74	66.41	58.85	Changed by 4.11%

During the first half of 2007, the Group completed and delivered 7 vessels with a total tonnage of 277,800dwt, commenced construction work on 10 vessels, and launched 8 vessels. The main clients of the Company are mainly from Denmark, Liberia, Sweden, Malta and other important domestic clients, and the major products of the Company during the period under review are 29000dwt chemical/product tankers, 38500dwt product oil tankers, 51800dwt product tankers and 52500dwt crude oil tankers. Moreover, the Group completed 20,905 ton steel structure, and sold 88 hydraulic shearing machines and 155 elevators.

During the period under review, the Group secured new shipbuilding orders with 387,000 dwt and the total contract value amounted to RMB3.487 billion. As at 30th June 2007, the Group has accumulated orders for building 61 vessels with a total tonnage of 2,610,800 dwt and their delivery dates till year 2011.

2 Geographical Statement of Operation

Area	Unit: RMB	
	Operating income	Change (±%)
Denmark	122,852,968.10	-77.50
Malta	130,889,188.71	-7.70
Canada	0	-100.00
Liberia	602,348,182.11	181.42
Sweden	50,122,482.27	-71.41
U.S.A	172,238,166.09	65.76
Oman	43,842,287.05	100.00
Greece	120,383,377.32	100.00
Hong Kong	10,425,822.23	-86.70
Macao	17,889,136.78	29.37
Others	5,763,280.71	298.93
Subtotal	1,276,754,891.37	-1.42
The Mainland China	1,050,263,520.77	401.10
Total	2,327,018,412.14	54.65

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

During the period under review, the operating turnover represented an increase of 57.10% 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 operations of the Company increased by 125% compared with that of the same period last year, which is mainly benefited from the increase of the profit margin of shipbuilding products.

The turnover from shipbuilding increased by 54.5% compared with that of the same period last year, mainly because of the higher production efficiency which caused 18.17% more vessels having entered into distribution during the period under review. The profit margin of shipbuilding products amounted to 15.04% (unlisted in the subsidy income) representing an increase of 4% compared with 11.04% of same period last year. If took the subsidy income into consideration, the profit margin of shipbuilding products would be 20.68%. The considerable increase of net profit is mainly benefited from expansion of the production capacity, the improvement of production efficiency and the ameliorative cost management.

During the period under review, the turnover contributed from the steel structure operation made an increase of 13.74% which is mainly because of great increase in the turnover of Guangzhou United Steel Structure, a subsidiary of the Company. The profit margin of steel structure increased by 4.11% compared with that of the same period last year which was because of the improvement of the profitability benefiting from strengthening cost control and energy conservation.

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

Other operations	Profit and loss (RMB)	Proportion in the total net profit (%)
Income from the alteration of fair value	149,371,654.56	32.11
Non-operating income	155,571,789.74	33.45
Income tax expenditure	-164,388,538.89	35.34

- The income from the alteration of fair value is mainly derived from derivative financial instruments (refer to item 32 in Notes to the Financial Statements of this report).
- The non-operating income mainly includes subsidy income of products (refer to item 35 in Notes to the Financial Statements of this report).
- The income tax expenditure is mainly resulted from the change of the income tax rate and taxation method this year (refer to item 37 in Notes to the Financial Statements of this report).

5 Significant change in the profit breakdown compared with last year together with the main reasons

- The profit margin increase is mainly benefited from the shipbuilding products. Due to the improvement of management mode and production efficiency, and also the change of market prices and the more attention of the Company to the cost control ability, the profitability of the Company improved markedly.
- The change of the fair value of the derivative financial instruments is mainly due to more forward foreign exchange contracts resulted from the increasing fluctuation of exchange rate.
- In accordance with requirements of taxation authorities, the income tax rate should be adjusted from 15% to 33% since 1st January 2007, and pursuant which the Company should pay the income tax in advance, that cause the increase of income tax expenditure. Moreover, in accordance with the new PRC Accounting Standards and Regulations, the income tax was prepared by liabilities method in this year not taxes payable method in the previous years, so the income tax expenditure for the period under review had made an increase compared with that of same period last year.

(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 67.46 million, representing an increase of 10.30% compared with the same period last year (RMB 61.16 million). The major invested projects are as follows:

Item	Amount (RMB'0000)	Progress	Income
Purchase of Guangzhou Guangli Shipbuilding Human Resources Service Company Limited	305	Finished	The profit attributed to the Company amounted to RMB75,000
Normal reform projects inside the Company	6,336	Partly finished	Finished part brings out the income
Internal self-support projects of the Company	45	Partly finished	Finished part brings out the income
National debt projects	60	Partly finished	Finished part brings out the income

(IV) FINANCIAL POSITION AND ANALYSIS OF OPERATIONS

1. Financial position analysis

Item	First half of 2007	First half of 2006	Change amount (±)	Change ratio (±%)	RMB
Operating income	2,412,391,363.23	1,535,551,701.32	876,839,661.91	57.10	
Operating cost	1,997,947,247.36	1,350,213,740.76	647,733,506.60	47.97	
Expense	53,269,386.65	104,124,700.78	-50,855,314.13	-48.84	
Investment income	7,193,585.77	975,570.48	6,218,015.29	637.37	
Operating profit	496,786,365.42	74,658,979.48	422,127,385.94	565.41	
Non-operating income	155,571,789.74	10,987,245.95	144,584,543.79	1315.93	
Non-operating expenses	2,103,817.39	4,865,966.47	-2,762,149.08	-56.76	
Total profit	650,254,337.77	80,780,258.96	569,474,078.81	704.97	
Net profit attributed to parent company	465,135,036.53	65,202,572.88	399,932,463.65	613.37	

Reasons of change more than 30%:

- The great increase of operating income is mainly because of the increase of the turnover from shipbuilding and steel structure.
- The increase of operating cost is mainly due to the increase of turnover which caused the increase of cost expense.
- The considerable decrease of expense is mainly because of the decrease of administration expenses and financial expenses. The decrease of administrative expense is mainly due to the unusual high level administrative expense during the same period of last year, because the Company paid the housing allowance for retirees amounted to RMB23.39 million, whereas no such expenses happened this year. The decrease of financial expense is mainly due to the income of currency exchange and the increase of interest.
- The increase of investment income is mainly benefited from the income from the derivative financial instruments.
- Non-operating income made a great increase compared with the same period last year, mainly due to the increase of products subsidy income.
- The decrease of non-operating expenses is mainly due to the decrease of the loss from disposing fixed assets.

2. Balance sheet items

Item	Closing balance	Opening balance	Change (±%)	Percentage in total assets (%)	Unit: RMB
Tradable financial assets	149,513,350.00	712,022.60	20,898.40	1.72	
Prepayments to suppliers	445,822,334.11	251,468,691.49	77.29	5.13	
Other receivable	191,172,672.52	43,646,014.27	338.01	2.20	
Available-for-sale financial assets	337,930,149.72	218,765,655.40	54.47	3.89	
Construction-in-progress	47,388,177.42	32,935,552.77	43.88	0.54	
Deferred tax assets	10,001,250.91	27,253,209.11	- 63.30	0.12	
Short-time loans	43,230,000.00	63,785,655.00	- 32.23	0.50	
Receipts in advance	100,597,468.16	27,414,783.00	266.95	1.16	
Salaries payable	23,190,645.33	11,216,291.65	106.76	0.27	
Taxes payable	81,856,120.04	- 8,794,084.52	1,030.81	0.94	
Non-current liabilities within one year	841,634,469.35	573,002,406.00	46.88	9.68	
Long-term loans	804,156,476.86	1,082,590,123.87	- 25.72	9.25	
Deferred tax liabilities	121,053,613.17	24,989,602.63	384.42	1.39	
Retained earning	338,557,848.00	- 126,577,188.53	367.47	3.89	

Reasons of change more than 30%:

- The increase of tradable financial assets is mainly because of the increase of amount of new-signed forward foreign exchange contracts and with the appreciation of RMB exchange rate, whose fair value of the contracts increased accordingly.
- The increase of the prepayment is mainly due to the increase of purchase amount resulted from more orders secured by the Company.
- Other receivable increased mainly due to the increased subsidy receivable and receivable interest of fixed deposit in banks.
- The increase of available-for-sale financial assets is mainly due to the change of fair value. Including of that, the number of golf certificates decreased, part of which was transferred during the period under review.
- The increase of the construction-in-progress is mainly because of the reconstructing projects and the increase of new purchased fixed assets.
- Deferred tax assets decreased due to the decrease of difference which is to be offset.
- The decrease of short-time loans is mainly because the United Steel Structure, a subsidiary of the Company, returned the loans.
- Receipts in advance increased which is benefited from the increased turnover of non-shipbuilding operations of the Company during the period.
- The increase of salaries payable is mainly because that with better operation benefit, the Company increased the salaries of the staff, which resulted in the increase of salaries expense.
- Taxes payable increased, due to the increase of income tax payable.
- Non-current liabilities within one year increased, mainly because of the increase of foreign currency loans of the Company with the purpose of avoiding exchange rate risk.
- The decrease of long-term loans is because that loans within one year was placed into non-current liabilities within one year.
- Deferred tax liabilities increased, which is mainly because of the increase of income tax payable which caused by the change of fair value of available-for-sale financial assets.
- The increase of the retained earning is benefited from the better profit of the Company.

3. Cash flow statement items

Unit: RMB			
Item	As at 30th June 2007	As at 30th June 2006	Change (%)
Net cash flow from investing activities	30,294,629.54	-42,210,506.56	171.77
Net cash flow from financing activities	-16,195,997.18	-122,915,902.10	86.82

- The increase of the net cash flow from investing activities is because that the Company reduced partial People's Bank of China bills as the difference between income of the central bank bill and fixed deposit reduced.
- The cash flow from financing activities increased mainly due to the increase of foreign currency loans used to avoid exchange rate risk.

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

As at 30th June 2007, the assets with a book value of RMB 219.57 million have been charged as mortgage for the Group's bank credit.

(VI) STAFF OF THE COMPANY AND THE REMUNERATION POLICY

As at 30th June 2007, the number of employees on the payroll of the Company was 3,719. 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, alongside with the organization reformation and establish of shipbuilding governing framework, the Company will keep on perfecting working program, predigesting administration procedure and improving management efficiency. Besides, the Company will also be devoted to improving the production efficiency and cost control, promoting the accurate management, improving techniques research of assembly shipbuilding, expanding the assembly shipbuilding scope and shortening shipbuilding production cycle to achieve the goal of "Commence 16 vessels, launch 16 vessels, and deliver 16 vessels" of the year 2007. For technology, the Company will concentrate on research on chemical tanker and recommend new vessels compliant with CSR as soon to improve the leading status of the Company in the handy-size tanker segment.

VI. SIGNIFICANT EVENTS

(I). CORPORATE GOVERNANCE INFORMATION

1. Corporate Governance Practices

During the period under review, the Company had complied with the Company Law and the Securities Law of the PRC, relevant regulations issued by China Securities Regulatory Commission and the listing rules of the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited, actively consummates its corporate governance structure, standardizes its operations.

The Company has finished the internal control review and analysis for the first half of 2007 before August 10, 2007, and was submitted to the Audit Committee for review on August 16, 2007. 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.

During the period under review, the Company completed the amendment to Rules for Proceedings of General Meetings of the Shareholders of the Company, Amendment to Rules for Proceedings of the Board of the Directors of the Company as well as Amendment to Rules for Proceedings of the Supervisory Committee in accordance with "Guide for Articles of Association of Listed Companies" (2006 Revision) issued by the China Securities Regulatory Commission on March 16, 2006 and normative proceeding rules of the general meetings of shareholders, Board of Directors and Supervisory Committee of listed companies issued by Shanghai Stock Exchange. Moreover, the Company has formulated Information Disclosure Management System in accordance with Administration Measures on Information Disclosure of Listed Company issued by China Securities Regulatory Commission and Guild for Information Disclosure Management of Listed Companies issued by Shanghai Stock Exchange.

In accordance with the Notice on Performing Related Affairs on Strengthening Management of Listed Companies in Special Actions (the "Notice"), the Company arranged learning courses of the Notice and certain persons were arranged to deal with correlated work. As at the date of this report, the meetings of the Boards of the Directors of the Company has considered the proposal of Self-examination Report and Adjusting Plan of the Governance of the Company and relevant announcement has been published in Shanghai Securities News and URL Shanghai Stock Exchange.

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.

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 had adopted the Model Code for Securities Transactions by Directors of Listed Companies. 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 three meetings, including a meeting 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 THE ADOPTED IN THE PERIOD BEFORE AND CARRIED OUT IN THE PERIOD UNDER REVIEW.

(III). THE BOARD OF DIRECTORS OF THE COMPANY ADVICES NO PROFIT DISTRIBUTION DATED 30TH JUNE 2007 AND SHARES TRANSFERRED FROM ACCUMULATION FUND.

(IV). SIGNIFICANT LITIGATION OR ARBITRATION EVENT

There were no significant litigation or arbitration events to the Company during the period under review.

(V). SHARES OF OTHER LISTED COMPANY POSSESSED BY THE COMPANY AND ITS INVESTMENT INFORMATION

NO.	Stock Code	Abbreviation	Share	Proportion in the total interest of the Company	Initial investment cost (RMB)	Classify
1	600036	Merchants Bank	12,153,348	0.83%	10,010,000.00	Available-for-sale financial assets
2	601782	Merchants Energy Shipping	10,000,000	0.29%	37,100,000.00	Available-for-sale financial assets
Total			-	-	47,110,000.00	-

(VI). ASSETS TRANSACTION

The twentieth meeting of the fifth term of Board of Directors approved the Company to purchase the 80% interest of Guangzhou Guangli Shipbuilding Human Resources Service Company Limited (“Guangli Company”) with a price of RMB 3,052,492.77 and the ownership transfer has been completed during the period under review. The gain from this acquisition amounted to RMB1.467 million hereon has been recorded in the current profit and loss. Such transfer is favorable for the conformity of human resource of the Company to meet the need of labor and also to favor the arrangement and management of labor so as to reduce the risk of labor use.

(VII).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	14,211,013.83	16.65	
1.1	Electro-mechanical facility and metallic material	1,486,728.72	1.74	Market price
1.2	Power Source	1,172,760.35	1.37	Cost plus management fee from 20% to 25%
1.3	Labor and technology services	11,551,524.76	13.59	Not less than the price to the third parties
2	Total materials and labor services supplied to the Company by CSSC Group	75,416,935.63		
2.1	Electro-mechanical facility, metallic, marine accessories and marine equipment	60,382,420.91	1.67	Market price or not less favorable than the price offered by the third independent parties
2.2	Labor and technology services	15,034,514.72	7.26	Cost plus management fee of 10%
3	Financial services supplied from CSSC Group			
3.1	Deposits	27,488,265.93	0.60	Interest rate on deposits published by the People’s Bank of China
3.2	Interest from deposits	67,340.09	0.32	
3.3	Loans	0.00		
3.4	Interest from loans	0.00		
4	Total guarantee fees for guarantee supplied to the Company from CSSC Group	6,370,446.52	91.45	Agreed fee for providing guarantee from 0.5% to 1% of guaranteed amount
5	Total sales agency fees	17,863,411.85	37.81	1% of contract price in accordance with international practice
6	Total purchases agency fees	1,357,307.41	0.06	1.5% to 2% of contract price in accordance with international practice

Since the H-shares of the Company were listed on The Stock Exchange of Hong Kong Limited, the Group had engaged in various continuing connected transactions with the CSSC Group due to the nature of assembly building. 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 Standards and Regulations contained in this report.

2 Property and interest transfer

There were no property and interest transfer events between the Company and connected parties during the period under review.

(VIII). 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. 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.

(IX). 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.

(X) APPOINTMENT OR DEMISSION OF THE AUDITORS

The 2006 Annual General Meeting approved to re-appoint Ascenda Certified Public Accountants Limited (Beijing) and Pricewaterhousecoopers as the domestic auditor and international auditor of the Company respectively.

(XI) PUNISHMENT AND RECTIFICATION OF THE COMPANY, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER OF THE COMPANY

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

(XII) OTHER SIGNIFICANT EVENTS

1. Havens Steel Company (“Havens”, the another shareholder of United Steel Structure Limited, a subsidiary of the Company) was bankrupt and the interest of 49% in United Steel Structure Limited has been transferred to Canam Steel Structure Limited during the period under review.
2. Pursuant to the approval of the sixteenth meeting of the fifth term of the Board, the Company entered into a maximum amount guarantee contract for a maximum guarantee amount of RMB50 million with Bank of China, Zhujiang Branch during the period from December 2006 to January 2007, so as to guarantee working capital loan of United Steel Structure Limited, a 51% subsidiary of the Company. Details refer to announcement published on Shanghai Securities News, Hong Kong Commercial Daily, and China Daily (overseas version) on 12th January 2007. Apart from that, no significant external guarantees occurred during the period under review.
3. During the period under review, there is no financing commission of the Company.
4. Pursuant to the debt restructuring agreement entered into between the Company and Guangzhou International Trust Investment Company (“GZITIC”) on 20th February 2006, the ownership transfer of 32 apartments in Shenzhen City of Guangdong Province are in process, while the creditor’s rights in Hong Kong Guanghong International Company Limited is in process of negotiation.
5. The fourteenth meeting of the fifth term of the Board of the Company approved an additional special bank loan with an aggregate amount of RMB 3.2 billion for the purpose of hedging against exchange risk of RMB. As at the date of this annual report, USD 245 million in loans has been obtained and exchanged for RMB by the Company.
6. The reports in medias including Shanghai Security News dated 6th July 2007, in relation to a notice (the “Notice”) issued by the State Administration of Taxation demanding the relevant local taxation authorities to immediately correct the expired favourable income tax policy which is still being applied to the nine listed companies whose shares were issued in Hong Kong under the approval of the State Council in 1993. Moreover, the difference in income tax resulted from the application of the expired favourable income tax policy in the previous years should be dealt with in accordance with the relevant regulations of the Law of the People’s Republic of China Concerning the Administration of Tax Collection. The Company, being one of the nine above-mentioned listed companies, is communicating with the relevant taxation authorities, and has been informed to repay income tax of the first half of 2007 at the rate of 33% by Guangzhou National Taxation Bureau Liwan District Substation. However, there was no verdict on the disposal of income tax for past years. The Company will keep on contacting with taxation authorities, evaluate the influence on the finance of the Company and will issue further announcement when appropriate.

The New Corporate Income Tax Law (“New Tax Law”) will take effect on 1st January 2008, in accordance with which the Company shall be subject to an income tax rate of 25 percent since 1st January 2008.

7. Under the approval of the 20th meeting of the 5th term of the Board of Directors of the Company, the Company commenced investing construction of electro-mechanic processing center on 6th June 2007, which shall favor the shipbuilding operation and heavy electro-mechanic processing operation as well as improve the integrated profitability of the Company.
8. **Contingent liabilities**
Up to June 30, 2007, the Group has no significant contingent liabilities.
9. **Gearing ratio**
As at June 30, 2007, the gearing ratio of the Company was 78.39 %(82.76% at the beginning of the period). The change is mainly benefited from the better operating efficiency, more orders secured and more operating capital.
10. 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.

VII. UNAUDITED FINANCIAL REPORTS

• PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND REGULATIONS

Balance Sheet

Assets	As at 30 June 2007			
	Consolidated		Parent company	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Current assets:				
Cash and bank balances	4,946,144,215.46	4,338,007,057.97	4,862,451,870.49	4,252,200,864.96
Trading financial assets	149,513,350.00	712,022.60	149,513,350.00	712,022.60
Notes receivable	–	500,000.00	–	–
Accounts receivable	196,882,482.48	179,485,584.05	56,481,957.01	112,940,604.51
Advance to suppliers	445,822,334.11	251,468,691.49	457,014,532.66	268,474,706.68
Interests receivable	–	–	–	–
Dividends receivable	16,751.21	16,751.21	16,751.21	16,751.21
Other receivables	191,172,672.52	43,646,014.27	196,913,681.01	33,657,043.21
Inventories	997,874,978.79	1,150,330,640.32	927,022,065.46	1,058,652,784.31
Non-current assets within one year	–	–	–	–
Other current assets	–	–	–	–
Total current assets	6,927,426,784.57	5,964,166,761.91	6,649,414,207.84	5,726,654,777.48
Non-current assets:				
Available-for-sale financial assets	337,930,149.72	218,765,655.40	337,930,149.72	218,765,655.40
Held-to-maturity investment	228,588,788.58	295,363,680.00	228,588,788.58	295,363,680.00
Long-term accounts receivables	–	–	–	–
Long-term equity investment	20,129,304.79	20,511,426.18	118,797,359.30	115,744,866.53
Investment real property	103,790,108.59	106,232,389.94	103,790,108.59	106,232,389.94
Fixed assets	930,150,074.67	938,437,607.15	899,199,720.64	903,592,939.26
Construction-in-progress	47,388,177.42	32,935,552.77	47,388,177.42	32,935,552.77
Construction materials	–	–	–	–
Disposal of fixed assets	–	–	–	–
Intangible assets	86,371,831.46	71,788,251.65	86,371,831.46	71,788,251.65
Development expenditure	–	–	–	–
Goodwill	–	–	–	–
Long-term deferred expenses	4,636,869.24	–	–	–
Deferred income tax assets	10,001,250.91	27,253,209.11	10,001,250.91	27,253,209.11
Other non-current assets	–	–	–	–
Total non-current assets	1,768,986,555.38	1,711,287,772.20	1,832,067,386.62	1,771,676,544.66
Total assets	8,696,413,339.95	7,675,454,534.11	8,481,481,594.46	7,498,331,322.14

Unit: RMB

Assets	Consolidated		Parent company	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Liabilities and equity				
Current liabilities:				
Short-term loans	43,230,000.00	63,785,655.00	–	–
Trading financial liabilities	–	570,327.16	–	570,327.16
Notes payable	–	–	–	–
Accounts payable	353,211,837.88	390,525,979.83	339,130,160.36	374,120,233.47
Advance from customers	100,597,468.16	27,414,783.00	88,017,788.08	18,938,856.72
Employee compensation payable	23,190,645.33	11,216,291.65	13,521,372.03	5,659,331.07
Taxes and charges payable	81,856,120.04	-8,794,084.52	63,900,423.74	-16,694,495.45
Interest payables	9,169.38	9,436.88	9,169.38	9,436.88
Other payables	28,735,693.51	51,594,290.47	18,671,744.34	41,456,600.33
Non-current liabilities within one year	841,634,469.35	573,002,406.00	841,634,469.35	573,002,406.00
Other current liabilities	4,329,443,262.40	4,056,165,513.24	4,330,096,935.86	4,056,232,658.87
Total current liabilities	5,801,908,666.05	5,165,490,598.71	5,694,982,063.14	5,053,295,355.05
Non-current liabilities:				
Long-term loans	804,156,476.86	1,082,590,123.87	804,156,476.86	1,082,590,123.87
Bond payable	–	–	–	–
Long-term accounts payable	–	–	–	–
Special payable	37,084,221.99	34,386,068.60	37,084,221.99	34,386,068.60
Estimated liabilities	52,577,739.81	44,880,600.45	51,193,471.23	43,496,331.87
Deferred income tax liabilities	121,053,613.17	24,989,602.63	121,053,613.17	24,989,602.63
Other non-current liabilities	–	–	–	–
Total non-current liabilities	1,014,872,051.83	1,186,846,395.55	1,013,487,783.25	1,185,462,126.97
Total liabilities	6,816,780,717.88	6,352,336,994.26	6,708,469,846.39	6,238,757,482.02
Equity:				
Share capital	494,677,580.00	494,677,580.00	494,677,580.00	494,677,580.00
Capital surplus	866,652,769.94	793,464,788.81	866,652,769.94	793,464,788.81
Less: Treasury share	–	–	–	–
Surplus reserve	100,147,511.34	100,147,511.34	99,527,585.23	99,527,585.23
Ordinary risk reserve	–	–	–	–
Undistributed profits	338,557,848.00	-126,577,188.53	312,153,812.90	-128,096,113.92
Foreign exchange translation differences	–	–	–	–
Total owner's equity attributable to the parent company	1,800,035,709.28	1,261,712,691.62	1,773,011,748.07	1,259,573,840.12
Minority interests	79,596,912.79	61,404,848.23	–	–
Total equity	1,879,632,622.07	1,323,117,539.85	1,773,011,748.07	1,259,573,840.12
Total liabilities and equity	8,696,413,339.95	7,675,454,534.11	8,481,481,594.46	7,498,331,322.14

Profit and Loss Statement

First half of 2007

Unit: RMB

Items	Consolidated		Parent company	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006
1. Operating income	2,412,391,363.23	1,535,551,701.32	2,068,723,919.59	1,362,053,569.28
2. Operating cost	1,997,947,247.36	1,350,213,740.76	1,750,932,801.26	1,205,809,085.79
Operating tax and surcharge	8,302,153.11	5,191,850.78	6,907,462.77	4,620,507.85
Sales expenses	5,961,634.20	2,015,111.69	1,513,166.83	1,052,042.06
Administrative expenses	92,703,896.49	103,129,236.11	79,844,755.93	86,967,776.27
Finance expenses	-45,396,144.04	-1,019,647.02	-50,574,835.43	-1,816,802.88
Impairment losses	12,651,451.02	0.00	1,331,875.59	0.00
Add: Income from the changes of fair value	149,371,654.56	-2,338,000.00	149,371,654.56	-2,338,000.00
Investment income	7,193,585.77	975,570.48	6,525,108.20	6,111,721.33
Including: Investment income from associates and joint venture companies				
3. Operating profit	496,786,365.42	74,658,979.48	434,665,455.40	69,194,681.52
Add: Non-operating income	155,571,789.74	10,987,245.95	155,422,157.73	10,738,083.00
Less: Non-operating expenses	2,103,817.39	4,865,966.47	2,001,254.54	4,697,182.20
Losses on disposal of non-current assets				
4. Total profit	650,254,337.77	80,780,258.96	588,086,358.59	75,235,582.32
Less: Income tax expense	164,388,538.89	11,645,591.74	147,836,431.77	10,055,000.00
5. Net profit	485,865,798.88	69,134,667.22	440,249,926.82	65,180,582.32
Net profit attributable to the parent company	465,135,036.53	65,202,572.88	440,249,926.82	65,180,582.32
Minority interest	20,730,762.35	3,932,094.34	-	-
6. Earning per share ("EPS")				
(1) Basic EPS	0.94	0.13	0.89	0.13
(2) Diluted EPS	0.94	0.13	0.89	0.13

Cash flow statement
First half of 2007

Unit:RMB

Item	Consolidated		Parent company	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006
1. Cash flows from operating activities				
Cash received from sales of goods and rendering of services	3,117,344,273.96	2,401,414,550.39	2,695,959,334.24	2,216,250,899.69
Refund of taxes and levies	86,779,508.93	147,827,513.67	68,754,324.04	136,167,358.62
Other cash received from relating operating activities	46,710,668.95	69,073,679.37	31,835,344.68	45,986,649.41
Subtotal of cash inflows	3,250,834,451.84	2,618,315,743.43	2,796,549,002.96	2,398,404,907.72
Cash paid for goods and services	2,266,934,797.64	1,546,156,667.76	1,954,877,848.67	1,346,729,019.94
Cash paid to and on behalf of employees	202,500,448.26	137,858,060.94	136,744,574.04	116,151,943.00
Payments of all types of taxes	50,625,687.07	28,833,943.43	30,047,551.89	18,993,911.11
Other cash paid relating to operating activities	131,026,031.59	117,507,253.71	93,512,572.55	125,234,290.78
Subtotal of cash outflows	2,651,086,964.56	1,830,355,925.84	2,215,182,547.15	1,607,109,164.83
Cash flows from operating activities	599,747,487.28	787,959,817.59	581,366,455.81	791,295,742.89
2. Cash flows from investing activities				
Cash received from disposal of investments	319,915,964.62	1,587,540.94	319,675,580.00	1,587,540.94
Including: Cash received from sales of subsidiaries	–	1,587,540.94	–	1,587,540.94
Cash received from returns on investment	2,469,920.00	972,267.84	2,469,920.00	972,267.84
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	523,913.00	965,481.00	523,413.00	915,481.00
Other cash received from relating investing activities	21,008,776.00	–	20,988,952.85	–
Subtotal of cash inflows	343,918,573.62	3,525,289.78	343,657,865.85	3,475,289.78
Cash paid to acquire fixed assets, intangible assets and other long-term assets	62,051,591.31	33,630,196.34	60,168,978.31	30,395,709.90
Cash paid to investments	251,572,352.77	12,105,600.00	251,572,352.77	–
Other cash paid for relating investing activities	–	–	–	–
Subtotal of cash outflows	313,623,944.08	45,735,796.34	311,741,331.08	30,395,709.90
Net cash flows from investing activities	30,294,629.54	-42,210,506.56	31,916,534.77	-26,920,420.12
3. Cash flows from financing activities				
Cash received from capital contribution	–	–	–	–
Including: Proceeds from minority investments in subsidiaries	–	–	–	–
Cash received from borrowings	356,164,421.69	121,070,200.00	259,444,057.50	108,070,200.00
Other cash received from other relating financing activities	6,905,376.75	3,773,980.28	–	3,743,434.97
Subtotal of cash inflows	363,069,798.44	124,844,180.28	259,444,057.50	111,813,634.97
Cash payment for borrowings	343,684,037.19	246,190,485.83	226,599,078.00	246,190,485.83
Cash payment for interest expenses and distribution of dividends and profits	34,580,397.60	989,340.36	30,921,696.62	989,340.36
Including: Cash payment for dividends minorities	–	–	–	–
Other cash paid for relating financing activities	1,001,360.83	580,256.19	963,969.97	372,433.77
Including: Cash payment on capital reduction of subsidiaries to minority shareholders	–	–	–	–
Subtotal of cash outflows	379,265,795.62	247,760,082.38	258,484,744.59	247,552,259.96
Net cash flows from financing activities	-16,195,997.18	-122,915,902.10	959,312.91	-135,738,624.99
4. Effect of exchange rate change on cash	-5,708,962.15	242,248.28	-3,991,297.96	491,415.18
5. Net increase in cash and cash equivalent	608,137,157.49	623,075,657.21	610,251,005.53	629,128,112.96

Item	Consolidated		Parent company	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006
Complementary information				
1. Reconciliation of net profit to				
cash flows from operating activities	465,135,036.53	65,202,572.88	440,249,926.82	65,180,582.32
Net profit	20,730,762.35	3,932,094.34	–	–
Add: Minority interests	1,331,875.59	-27,500.00	1,331,875.59	-27,500.00
Provision of asset diminution in value (provision for diminution of assets)	39,694,013.45	39,409,727.57	36,352,949.45	34,491,848.20
Depreciation	2,499,189.50	2,613,644.96	2,499,189.50	2,613,644.96
Amortization of intangible assets	767,570.63	1,493,571.99	–	–
Amortization of long-term deferred expenses	24,269.60	56,837.74	–	171,740.02
Decrease (less: increase) in prepaid expenses	-273,800.13	18,641,461.19	54,923.08	15,776,967.04
Increase (less: decrease) in accrued expenses	823,077.70	-95,030.47	823,577.70	-45,030.47
Losses (proceeds) on disposal of fixed assets, intangible assets and other long-term assets	93,562.85	3,943,345.27	–	3,774,709.72
Loss on write-off fixed assets	14,391,725.81	-1,825,017.45	10,483,814.56	-2,237,331.74
Finance expenses	-7,193,585.77	-975,570.48	-6,525,108.20	-6,111,721.33
Investment losses (less: income)	119,812,872.69	–	119,594,995.70	–
Deferred tax liabilities (less: assets)	-283,479,885.45	-70,997,168.23	-306,066,425.32	-60,058,738.19
Decrease (less: Increase) in inventories	301,863,254.10	-178,004,946.73	367,008,590.79	-156,054,283.73
Decrease (less: increase) in operating receivables	-2,289,222.22	929,463,239.53	-9,523,385.71	918,878,625.21
Increase (less: decrease) in operating receivables	-74,183,229.95	-24,871,444.52	-74,918,468.15	-25,057,769.12
Others	599,747,487.28	787,959,817.59	581,366,455.81	791,295,742.89
Net cash flows generated from operating activities	–	–	–	–
2. Investing and financing activities that				
do not involve cash receipts and payment				
Conversion of debt into capital	–	–	–	–
Convertible company bonds within one year	–	–	–	–
Fixed assets acquired under finance lease	–	–	–	–
3. Net increase in cash and cash equivalents:				
Cash at end of period	4,946,144,215.46	1,267,505,606.99	4,862,451,870.49	1,205,006,181.05
Less: Cash at beginning of period	4,338,007,057.97	644,429,949.78	4,252,200,864.96	575,878,068.09
Add: Cash equivalent at end of period	–	–	–	–
Less: Cash equivalent at beginning period	–	–	–	–
Net increase in cash and cash equivalent	608,137,157.49	623,075,657.21	610,251,005.53	629,128,112.96

Consolidated statement of changes in equity
First half of 2007

Unit: RMB

Item	The first half of 2007								
	Owner's equity attributable to the parent company					Undistributed profit	Others	Minority Interest	Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve					
I Closing balance of last year	494,677,580.00	793,464,788.81	-	100,147,511.34	-126,577,188.53	-	61,404,848.23	1,323,117,539.85	
Add: changes in accounting policies	-	-	-	-	-	-	-	-	
Adjustment to prior accounting errors	-	-	-	-	-	-	-	-	
II Opening balance of this year	494,677,580.00	793,464,788.81	-	100,147,511.34	-126,577,188.53	-	61,404,848.23	1,323,117,539.85	
III Changes during the period ("-" refers to decrease)	-	73,187,981.13	-	-	465,135,036.53	-	18,192,064.56	556,515,082.22	
(1)Net profit	-	-	-	-	465,135,036.53	-	20,730,762.35	485,865,798.88	
(2)Profit and losses directly recorded in owner's equity	-	73,187,981.13	-	-	-	-	-2,538,697.79	70,649,283.34	
1.Net changes in fair value of available-for-sale financial assets	-	73,187,981.13	-	-	-	-	-	73,187,981.13	
2. Influence of changes in other owner's equity of investees under equity method	-	-	-	-	-	-	-2,538,697.79	-2,538,697.79	
3. Others	-	-	-	-	-	-	-	-	
Subtotal of (1) and (2)	-	73,187,981.13	-	-	465,135,036.53	-	18,192,064.56	556,515,082.22	
(3)Addition and reduction of shareholder's capital	-	-	-	-	-	-	-	-	
(4)Distribution of profit	-	-	-	-	-	-	-	-	
(5)Transfer within shareholders' equity	-	-	-	-	-	-	-	-	
IV Closing balance	494,677,580.00	866,652,769.94	-	100,147,511.34	338,557,848.00	-	79,596,912.79	1,879,632,622.07	

Item	The first half of 2006								
	Owner's equity attributable to the parent company					Capital reserve	Less: Treasury share	Minority Interest	Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Share capital					
I Closing balance of last year	494,677,580.00	651,977,481.72	-	100,147,511.34	-438,346,624.44	-	49,719,923.79	858,175,872.41	
Add: changes in accounting policies	-	141,487,307.09	-	-	20,311,868.24	-	1,351,093.41	163,150,268.74	
Adjustment to prior accounting errors	-	-	-	-	-	-	-	-	
II Opening balance of this year	494,677,580.00	793,464,788.81	-	100,147,511.34	-418,034,756.20	-	51,071,017.20	1,021,326,141.15	
III Changes during the period ("-" refers to decrease)	-	-	-	-	291,457,567.67	-	10,333,831.03	301,791,398.70	
(1)Net profit	-	-	-	-	293,616,579.81	-	10,333,831.03	303,950,410.84	
(2)Profit and losses directly recorded in owner's equity	-	-	-	-	-2,159,012.14	-	-	-2,159,012.14	
1.Net changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	
2. Influence of changes in other owner's equity of investees under equity method	-	-	-	-	-	-	-	-	
3. Others	-	-	-	-	-2,159,012.14	-	-	-2,159,012.14	
Subtotal of (1) and (2)	-	-	-	-	291,457,567.67	-	10,333,831.03	301,791,398.70	
(3)Addition and reduction of shareholder's capital	-	-	-	-	-	-	-	-	
(4)Distribution of profit	-	-	-	-	-	-	-	-	
(5)Transfer within shareholders' equity	-	-	-	-	-	-	-	-	
IV Closing balance	494,677,580.00	793,464,788.81	-	100,147,511.34	-126,577,188.53	-	61,404,848.23	1,323,117,539.85	

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. The Company’s registered capital amounts to RMB494,677,580, and its legal representative is Li Zhushi. The address of the Company’s registered office is 40 South Fangcun Main Road, Guangzhou, the PRC.

Business nature and principal business activities: Currently, the Company is the largest modernized and comprehensive shipyard in southern China. 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. It also owns processing lines for steel plate and large pipe; and production lines for steel structure engineering, elevator and other electro-mechanic products.

The Company presently has 3 major operations, including shipbuilding, steel structure engineering, and other mechanical and electrical equipment. In addition to large vessels, the Company’s principal products include steel structure’s manufacturing, coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

II. Accounting policies, accounting estimations and methods of consolidated financial statements

1. Statement of compliance with PRC Accounting Standards and Regulations

The financial statements have been prepared in conformity with P.R.C. Accounting Standards and Regulations issued by the Ministry of Finance in February 2006, truly and fully reflecting the Company’s financial situation, operating results, cash flows and relating information.

2. Basis of preparation

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

3. Accounting period

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

4. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi (RMB).

5. Basis of Recording and Valuation

Basis of recording adopts accrual system, and basis of valuation is mainly cost of acquisition and fair value specially required by accounting standards.

6. 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 Standard with the differences arising stated as exchange difference.

7. Recognition and measurement of trading financial assets

Trading financial assets or liabilities of the Company are held principally for the purpose of selling or buying back in the near future to gain short-term profits. Those derivatives could not be used as effective hedging instruments are stated in this account. These assets or liabilities are recorded at fair value when they are acquired, and the correlative transaction expenses are charged to profit or loss accounts. At balance sheet date, these assets or liabilities are adjusted to fair value and the differences are charged into profits or losses.

8. Held-to-maturity investments

Held-to-maturity investments are those non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity. These assets are initially recognized at the sum of their fair value and correlative transaction expenses when they are acquired. Interest incomes are measured at amortized costs and actual interest rate through holding period and recognized as investment incomes in the income statement.

9. Accounts receivable and provision for doubtful debts

Accounts receivable are those non-derivative financial assets with fixed or determinable payments that do not have a quoted market price in an active market. Creditor's right arising from the sales of goods or rendering service is initially recognized at the value stipulated in contract or agreement with customers. At balance sheet day, accounts receivables are determined at amortized cost, and the differences between amount received and net value of accounts receivable should be recognized as profit or loss when the Company collect or dispose accounts receivable.

Measurement method:

(1) Basis of recognition as bad debt losses: If cases where debtors are bankrupt or are dead, bad debts unpaid represent balance after settlement out of liquidation or property; debtors do not pay back debt overdue, and certify it is impossible to get back after litigation process.

(2) Accounting basis of bad debt losses: Allowance method

Allowance and applicable rate: For the accounts receivable which there is no bad information of in-receivable, 0.5% of its left will be draw out as allowance; For the account receivable which there is special disadvantageous information for the receivable, the provision will draw in accordance with the difference between the most prudent returnable amounts of debts and its book value.

10. Available-for-sale financial assets

Available-for-sale financial assets are those financial assets other than financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. The original cost of these financial assets is stated at the sum of their fair value and correlative business charges.

At balance sheet date, available-for-sale financial assets are measured at fair value and their changes in fair value are charged to capital surplus, transferred to profit or loss when the financial assets are disposed.

11. Inventories

Inventories of the Company are valued on the basis of acquisition cost, and inventories acquired from non-monetary asset exchange, business combination or debt restructuring not under common control are recorded at fair value. Including:

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

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

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

At balance sheet date, inventories are stated at the lower of cost and net realizable value. If the cost of inventories exceed their net realizable value, provision for impairment of inventory should be made to profit or loss account. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to finish goods, estimated selling expenses and relating taxes.

Methods of making provision for impairment of 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 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.

12. Investment real property

Investment real property is a property held for long-term rental yields or for capital appreciation or for both, rather than a property and land use right used in the ordinary course of business. Investment real property is measured at cost when it is acquired, while that acquired from non-monetary asset exchange with commercial substance, business combination or debt restructuring not under common control is recorded at fair value when it is incurred.

After initial measurement, investment real property is carried at cost less accumulated depreciation and straight-line depreciation.

Subsequent recognition is at cost, the same principle and method as fixed assets.

When investment real property becomes owner-occupied, it is reclassified as fixed assets.

13. Long-term equity investments

(1) Initial measurement of long-term equity investments

For a business combination involving enterprises under common control, long-term investments are accounted for based on book value. For a business combination involving enterprises not under common control, long-term investments are accounted for based on fair value recognized by the parties and goodwill on acquisition could be recognized.

If the initial investment cost of long-term equity investment not under common control exceeds the share of net assets of the invested company at fair value, the cost of long-term equity investment should not be adjusted. Otherwise, the difference (between initial cost and the share of net assets of the invested company at fair value) should be charged to profit or loss and adjusted simultaneously to the cost of long-term equity investment.

(2) Subsequent measurement of long-term equity investments

For enterprises in which the Company's investment representing more than 50% of the investee's issued capital, the investment is accounted for on a cost basis in the separate financial statements of the parent, but consolidated financial statements are prepared under equity method to adjust the costs of investment in subsidiaries.

For enterprises in which the Company's 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 actually has control over the investing project.

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

(3) Impairment of long-term equity investments

The Company recognizes net losses incurred by the investee enterprise to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent period, the Company will recover to recognize share of profits after its attributable share of profits makes up the share of unrecognized losses.

14. Fixed Assets and Depreciation

Fixed assets refer to tangible assets that have been used for more than one accounting year and been held for the production, business, redering service, renting and management. Fixed assets are stated at actual cost upon acquisition.

The subsequent expenditures that meet capitalization requirement would be recognized as the cost of fixed assets. Reporative expenditure that do not meet capitalization requirement would be charged to the profit and loss account in the period in which it is incurred.

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 original cost. Except for those reparative expenses that meet capitalization requirement, other reparative expenses of fixed assets should be charged to the profit and loss account. The annual rates of depreciation for various categories of fixed assets are as follows:

Fixed assets category	Useful life (Year)	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 impairment is made when there is an indication that the fixed assets devalue. At the balance sheet date, the value of fixed asset is calculated in accordance with the lower of carrying amount and recoverable value. When the recoverable value is lower than carrying amount, the difference will be determined as provision for impairment of fixed assets on single asset basis.

15. Construction-in-progress

Construction-in-progress is stated at cost. The relevant interests are included as project cost before the project reaches its intended use. Construction-in-progress acquired through non-monetary exchange with commerce substance, business combination or debt restructuring not under common control should be measured at fair value.

The project is recognized as fixed assets when the project reaches its intended use. For the project has reached its intended use but not yet settle the final account for completed project, from the date the project reaches its intended use, 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 depreciation methods of fixed assets. The readjustment will make after the final account for completed project was settled.

The Company will make impairment provision for the construction-in-progress when there are indications of impairment.

16. Value and amortization of intangible assets

Intangible assets are state at actual cost. Amortization is provided to write off the cost evenly over the useful lives from the month when it is acquired. Intangible assets are not amortized where the useful lives of intangible assets cannot be ascertained but subject to impairment test annually.

The Company will make impairment provision by difference between the book value and the anticipated recoverable value of the intangible assets when intangible assets devalue.

17. Impairment of long-term assets

Impairment of long-term assets is used to account for impairment of fixed assets, intangible assets, construction-in-progress, investment real property at cost, long-term equity investments not accounted in available-for-sale financial assets, and so on. An asset is impaired when its recoverable value is lower than its carrying amount. If there is an indication listed as follow, an asset may be impaired.

- (1) Market value of the assets declines greatly, obviously higher than estimated drops as time lapses or appropriate use.
- (2) There are great negative changes in economic, technology or legislative environment or market, leading to unfavorable influences on the Company.
- (3) There is evidence that the assets are obsolescent or physically damaged.
- (4) The assets have been already unused, ceased to use or plan to dispose advance.
- (5) There is evidence of the Company's internal report that the assets' economic performance is worse than expected.

If recoverable value of the assets is lower than their carrying amount, carrying amount of the assets is written down to their recoverable value and the differences are recognized as impairment losses. Recoverable value is the higher of net value of fair value less disposal costs and present value of estimated cash flows of the assets. Once impairment losses are recognized, depreciation or amortized expenses are accordingly adjusted in the following period. Reversals of previously recognized impairment losses of long-term assets are prohibited.

18. Research and development costs

Research and development costs of the Company are stated according to their nature. Costs arising in research phase are directly charged to expenses as incurred. If technical and commercial feasibility of a project have been established and its costs are reliable to be determined, costs arising from the development project (relating to the design and testing of new or improved products) are recognized as intangible assets when projects complete. Other development expenditures that do not meet the criteria of intangible assets are recognized as expenses when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

19. Long-term Deferred Expenses and Amortization

When the favorable period of an expense is more than one accounting period, it is recognized as long-term deferred expenses. Long-term deferred expenses are amortized evenly over favorable period of expense items.

20. Employee compensations payable

Employee **compensations** payable of the Company includes salary, bonuses, allowances, staff welfare, and various social securities and dismissal welfare, as well as other expenditures relating to employee benefits. Employee **compensations** payable is measured as liability in the period the services are provided and charged to cost of assets or expenses in the income statement based on beneficial objects.

Early retirement benefits payable to eligible employees are accrued and expensed on the date of approval for early retirement. Where the obligations do not fall due wholly within 12 months, the obligations payable are discounted using the discount rate determined by reference to market yields on high quality corporate bonds at the balance sheet date.

21. Revenue recognition

Commodity sale: the Company has no any managing and controlling right after the important risk and reward of the ownership 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 collecting 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 difference, 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.

22. Government grants

Government grants to the Company include financial appropriation, financial discount, tax refund (only reimbursement schema) and so on.

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

For the government grants relating to income to compensate the expenses or losses in the following period, would be recognized as deferred income and accounted for income in the income statement when matching costs are recognized over the period. For that to compensate the occurred expenses or losses, would be recognized as income when acquired.

Government subsidy for the Company is recognized directly in the income statement if it could be calculated on the same basis as relative revenue recognition of construction contracts.

23. Borrowing costs

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

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

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.

Calculation of interest capitalization for each accounting period: Borrowing costs that can be capitalized are actual borrowing costs incurred on specific borrowings less any interest income earned from unused borrowings.

24. Income Tax

Income tax is measured on the liabilities method.

25. Accounting assumptions and estimations

- (1) Impairment of assets

An asset is impaired when recoverable amount of the asset is lower than its carrying amount. Recoverable value is the higher of fair value less applicable disposal costs and present value of anticipated cash flows of the assets.

- (2) Fair value measurement

Fair value is determined on the basis of quoted prices from an active market, allowing for other factors for necessary adjustment, when there is an active market for financial assets or liabilities. If there is no active market, the Company adopts valuation techniques to determine fair value, taking all considerable market variables into account.

- (3) Accrual for warranty

The Company provides warranties on goods sold and services rendered. A warranty provision is recognized when the ownership and risk of the products or projects are transferred to customers, based on historical information, industry practices and market environment.

Due to the special nature of the Company's products and services, and the uncertainty in accepting warranty obligations, material adjustments for warranties may be required upon final settlement.

26. Preparation of Consolidated Financial Statements

- (1) Scope of consolidated financial statements

In accordance with the Accounting Standard for Business Enterprise No.33-Consolidated Financial Statements, consolidated financial statements include invested companies with more than 50 % share capital or actual control though with no more than 50% share capital.

- (2) Method of consolidated financial statements

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

At present, as all subsidiaries included in business combination implement new Accounting Standards for Business Enterprise, there is no adjustment for accounting standards when consolidated.

III. Taxation

1. Taxes and associate charges

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

Tax category	Principal operation category and tax basis	Rate
Value-added tax	Shipbuilding, ship-repairing, steel structures, mechanical and electrical equipment manufacturing, and sales materials	17%
Business tax	Transportation and construction installation	3%
Business tax	Other services	5%
Education surcharge	Turnover tax payable during the year	3%
Flood defense expenses	Revenue and other incomes	0.09%

2. Income tax

Noticed by tax authorities, Guangzhou State Tax Bureau Liwan Branch, the Company filed income tax return and prepaid income tax at the tax rate of 33% in the first half of 2007. As to prior year's income tax, any adjustment is suspended.

3. Estate tax

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

IV. Subsidiaries and Associates

1. Holding subsidiaries

Company	Registered Place	Registered Capital (RMB'000)	Principal Business	Investment Capital (RMB'000)	Interest attributable to the Company (%)	Indirect interest (%)	Consolidated or not
Masterwood Company Limited	Guangzhou	RMB3315	Manufacture and sales of all kind of material furniture series	9336	51	25	Yes
Guangzhou Guanglian Container Transportation Company Limited	Guangzhou	RMB20000	Container transportation	15000	75		Yes
Guangzhou Xinsun Shipping Service Company Limited	Guangzhou	RMB 2000	Installation, welding, fitting, coating, repairing of hull structure	500	83		Yes
Guangzhou United Steel Structures Limited	Guangzhou	USD8850	Production and sales of steel structure, installation of service after sales	37522	51		Yes
Guangdong GSI Elevator Limited	Guangzhou	RMB 21000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	19950	95	3.8	Yes
Guangzhou Hongfan Information Technique Co., Ltd.	Guangzhou	RMB 5000	Developing of computer software, system integration and sales	3850	51		Yes
Glory group Developing Co., Ltd.	Hong Kong	HKD10	General Trading	10.44	100		Yes
Guangzhou Guangli Marine Human Resource Service Co., Ltd	Guangzhou	RMB 500	Provincial labor employment introduction, Marine installation, Marine technique consulting, Indoor decoration, Rendering service, Transportation agency	3052	80	17	Yes
Indirect holding subsidiaries	Guangzhou	RMB10000	Lodge, restaurant	10000	86.16	Yes	Yes
Guangzhou Hongfa Hotel	Guangzhou	RMB 21000	Installation, welding, fitting, coating, repairing of hull structure	350	3.8	Yes	Yes
Guangzhou Masterwood Co., Ltd.	Guangzhou	RMB 3315	Manufacture and sales of all kind of material furniture series	829	25	Yes	Yes
Guangzhou Xingshun Shipping Service Co., Ltd.	Guangzhou	RMB 2000	Installation, welding Outfitting, coating, Repair of hull structure	500	17	Yes	Yes
Fonkwang Developing Co., Ltd.	Hong Kong	HKD200	General Trading	HKD140	70	Yes	Yes

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

2. During the period, no holding subsidiary is out of the scope of consolidation, and Guangzhou Guangli Marine Human Resource Service Co., Ltd. has been increased into the consolidation scope.

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

1. Cash and Bank Balances

	Ending balance		Beginning balance	
	Foreign currency	Equivalent RMB	Foreign currency	Equivalent RMB
Cash				
RMB		74,960.23		113,805.10
HKD	79,140.89	79,112.18	98,349.99	98,364.01
USD	5,795.98	44,152.62	5,094.98	39,785.17
JPY	-	-	-	-
EUR	2,118.84	21,717.47	1,528.84	15,695.84
GBP	250.00	3,807.75	250.00	3,830.80
Subtotal		<u>223,750.25</u>		<u>271,480.92</u>
Bank deposit				
RMB		4,394,087,931.58		3,298,490,671.86
HKD	3,043,710.85	2,993,336.53	4,777,104.39	4,791,224.72
USD	20,887,904.44	159,367,188.41	103,193,011.60	805,803,269.65
EUR	48,065.99	491,241.13	862,883.17	8,858,790.26
Subtotal	-	<u>4,556,939,697.65</u>	-	<u>4,117,943,956.49</u>
Deposit in CSSC Financial CO. (Note)		<u>27,488,265.93</u>	-	<u>458,194.93</u>
Others				
RMB	-	353,184,178.55	-	210,636,680.36
USD	1,090,975.39	8,308,323.08	1,113,725.11	8,696,745.27
Subtotal		<u>361,492,501.63</u>		<u>219,333,425.63</u>
Total		<u><u>4,946,144,215.46</u></u>		<u><u>4,338,007,057.97</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.

Other cash and bank balances mainly include structural deposit and warranty deposit.

2. Trading financial assets

Item	Fair value as at 30 June 2007	Fair value as at 31 December 2006
Derivative financial assets	<u>149,513,350.00</u>	<u>712,022.60</u>
Total	<u><u>149,513,350.00</u></u>	<u><u>712,022.60</u></u>

Derivative financial instruments increased significantly compared with the beginning balance, mainly due to increases in new forward foreign exchange contracts in this period to prevent exchange rate risk and increase in fair value as RMB exchange rate appreciated greatly during the period.

3. Accounts receivable

Accounts receivable

(1) Aging Analysis of accounts receivable

Aging	Ending balance			
	Amount	Percentage%	Provisions for doubtful debts	Net receivable
Within 1 year	187,854,446.27	91.50	852,655.51	187,001,790.76
1-2 years	1,295,323.33	0.63	6,476.62	1,288,846.71
2-3 years	5,653,075.51	2.75	28,265.38	5,624,810.13
3-4 years	1,016,722.42	0.50	5,083.61	1,011,638.81
4-5 years	73,554.00	0.04		73,554.00
Over 5 years		–		–
Special	9,422,768.73	4.59	7,540,926.66	1,881,842.07
Total	<u>205,315,890.26</u>	<u>100.00</u>	<u>8,433,407.78</u>	<u>196,882,482.48</u>

Aging	Beginning balance			
	Amount	Percentage%	Provisions for doubtful debts	Net receivable
Within 1 year	167,097,673.58	88.92	835,488.37	166,262,185.21
1-2 years	8,329,350.86	4.43	41,646.75	8,287,704.11
2-3 years	2,120,985.84	1.13	10,604.93	2,110,380.91
3-4 years	298,412.99	0.16	1,492.07	296,920.92
4-5 years	649,799.83	0.35	3,249.00	646,550.83
Over 5 years	–	–	–	–
Special	9,422,768.73	5.01	7,540,926.66	1,881,842.07
Total	<u>187,918,991.83</u>	<u>100.00</u>	<u>8,433,407.78</u>	<u>179,485,584.05</u>

(2) Details of top five customers are listed as follows:

Company	Amount	Percentage of total accounts receivable %
BECHTEL	100,274,985.54	53.36
Zhonghai Developing Co., Ltd	27,271,724.00	14.51
Macao Ludang Co., Ltd	5,173,934.18	2.75
WHL	4,735,987.02	2.52
Chongqing Yuandong Fuji Mechanical and Electronic Company	4,108,150.00	2.19
Total	<u>141,564,780.74</u>	<u>75.33</u>

Notes receivable

(1) Aging analysis of notes receivable

Aging	Ending balance	Beginning balance
Within 1 year	–	500,000.00
Total	<u>–</u>	<u>500,000.00</u>

Notes receivable decreased 100%, mainly due to the collection of notes upon their maturity.

Advance to suppliers

(1) Aging analysis of advance to suppliers

Aging	Ending balance	Beginning balance
Within 1 year	442,187,931.01	220,637,992.79
1-2 years	3,634,403.10	30,789,298.70
2-3 years	–	–
Over 3 years	–	41,400.00
Total	445,822,334.11	251,468,691.49

(2) Top five suppliers:

Company	Ending balance
Dalian Marine Diesel Works	156,740,000.00
CSSC No. 704 Research Institute	46,512,530.00
Hong Kong China United Shipbuilding Co., Ltd.	41,225,469.10
Shanxi Diesel Co., Ltd	28,600,000.00
CSSC Zhenjiang Equipment Co., Ltd.	28,200,000.00
Total	301,277,999.10

- Advance to suppliers increased by 77.29% compared with the beginning balance, mainly due to increases in purchase of equipments and materials with the addition of shipbuilding orders.
- Zhenjiang CSSC Equipment Co., Ltd. and Hong Kong China United Shipbuilding Co., Ltd. are related parties of the Company as they are subsidiaries of CSSC, controlling shareholder of the Company. In addition, prepayment due from shareholders who hold 5% or above of the Company's interest amounted to RMB 138,978,695.29.

Other receivables

(1) Aging analysis of other receivables

Aging	Ending balance			
	Amount	Percentage%	Provisions for doubtful debts	Net receivable
Within 1 year	182,689,190.69	91.36	33,771.38	182,655,419.31
1-2 years	251,958.00	0.13	1,259.79	250,698.21
2-3 years	2,362,278.33	1.18	11,811.39	2,350,466.94
3-4 years	39,316.60	0.02	196.58	39,120.02
4-5 years	501,607.17	0.25	2,508.04	499,099.13
Over 5 years	132,487.40	0.07	662.44	131,824.96
Special	13,994,268.75	7.00	8,748,224.80	5,246,043.95
Total	199,971,106.94	100.00	8,798,434.42	191,172,672.52

Aging	Beginning balance			
	Amount	Percentage%	Provisions for doubtful debts	Net receivable
Within 1 year	37,671,373.21	71.83	46,295.57	37,625,077.64
1-2 years	456,327.12	0.87	2,281.64	454,045.48
2-3 years	200,000.00	0.38	1,000.00	199,000.00
3-4 years	57,729.60	0.11	288.65	57,440.95
4-5 years	64,750.00	0.12	323.75	64,426.25
Special	13,994,268.75	26.68	8,748,244.80	5,246,023.95
Total	52,444,448.68	100.00	8,798,434.41	43,646,014.27

(2) Major details of other receivables:

Items	Ending balance
Subsidies receivable	103,639,763.84
Guangzhou International Trust Investment Company	13,994,268.75
Receivable interest from fixed deposit	35,054,090.00
Nanhai Dasheng Co.	300,000.00
Kingguanghang Co.	215,257.20
Total	153,203,379.79

Other receivables increased by 338.01% compared with the beginning balance, mainly due to the addition of subsidies receivable, and interests receivable from term deposit.

Other receivables due from shareholders who hold 5% or above of the Company's interest amounted to RMB 71,780.81.

4. Inventories

Item	Ending balance			Beginning balance		
	Amount	Provision for impairment	Net amount	Amount	Provision for impairment	Net amount
1.Raw material	323,254,075.84	16,097,724.56	307,156,351.28	304,875,494.49	2,962,507.56	301,912,986.93
2.Low-value	1,027,593.37	-	1,027,593.37	859,262.57	-	859,262.57
3.Work-in-progress	683,350,234.24	-	683,350,234.24	843,024,445.18	-	843,024,445.18
4.In-stock	6,340,799.90	-	6,340,799.90	4,533,945.64	-	4,533,945.64
Total	1,013,972,703.35	16,097,724.56	997,874,978.79	1,153,293,147.88	2,962,507.56	1,150,330,640.32

5. Available-for-sale financial assets

Item	Fair value as at 30 June 2007	Fair value as at 31 December 2006
Available-for-sale equity instruments		
1. China Merchants Bank	236,850,619.72	145,497,755.40
2. China Merchant Shipping Co., Ltd	96,234,530.00	68,067,900.00
3. Golf Club Membership	4,845,000.00	5,200,000.00
Total	337,930,149.72	218,765,655.40

Available-for-sale financial assets increased by 54.46% compared with the beginning balance, mainly due to increases in fair value. The balance of Golf Club Membership decreased mainly due to the partial transfer during the period.

6. Held-to-maturity investments

Item	Ending balance	Beginning balance
Notes of the central bank	228,588,788.58	295,363,680.00
Total	228,588,788.58	295,363,680.00

7. Long-term equity investments

(1) Long-term investments are classified as follows:

Item	Beginning balance			Ending balance		
	Amount	Provision for impairment	Addition	Deduction	Amount	Provision for impairment
Long-term equity investments	20,511,426.18	-	-	382,121.39	20,129,304.79	-
Long-term debt investments	-	-	-	-	-	-
Other long-term investments	-	-	-	-	-	-
Total	20,511,426.18	-	-	382,121.39	20,129,304.79	-

(2) The details of long-term equity investments are as follows:

Invested company	Total investment	Holding Percentage of investees' capital	Ending balance	Equity method	
				Changes in the period	Accumulated changes
South China/Marine and Industrial Special Coating Ltd.	1,722,060.00	25.00%	3,011,992.86	73,047.39	1,289,932.86
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	800,000.00	40.00%	766,951.07	4,416.66	-33,048.93
Shenzhen Yuanzhou Science & Technology Industry Company Ltd.	1,000,000.00	7.00%	1,000,000.00	-	-
Information and Technology Company Ltd. of CSSC	900,000.00	15.00%	900,000.00	-	-
Guangzhou Guangli Marine Human Resource Service Company Ltd.	100,000.00	20.00%	0.00	92,026.43	-100,000.00
CSSC Zhenjiang Modern Generator Co., Ltd	15,558,800.00	32.00%	14,450,360.86	-1,108,439.14	-1,108,439.14
Sub-total.	20,080,860.00		20,129,304.79	-938,948.66	48,444.79

Approved by the Resolution of the 20th meeting of the 5th term of the Board of Directors, the Company purchased 80% share of Guangzhou Guangli Marine Human Resource Service Company Ltd (former name: Guangli Ship Engineering Service Ltd) from the union of Guangzhou Shipyard. The purchase price was determined at valuation price. Guangzhou Guangli Marine Human Resource Service Company Ltd was incorporated into consolidated financial statements and treated as the entity not under common control.

8. Investment real property

Item	Beginning balance	Addition	Deduction	Ending balance
1. Total original costs	108,837,744.26	360,758.85	333,758.85	108,864,744.26
2. Accumulated depreciation	2,605,354.32	1,143,529.70	6,123.94	3,742,760.08
3. Provision for impairment	-	1,331,875.59	-	1,331,875.59
4. Net value	106,232,389.94	-	-	103,790,108.59

The investment real property of the Company are all shops and apartments.

9. Fixed assets

<u>Item</u>	<u>Beginning balance</u>	<u>Addition</u>	<u>Deduction</u>	<u>Ending balance</u>
(1) Total original cost	1,649,263,143.36	33,832,528.55	12,621,609.98	1,670,474,061.93
1. Buildings and Structures	777,238,333.70	13,721,531.05	545,144.41	790,414,720.34
2. Machinery and equipment	779,432,594.76	54,841,211.92	9,768,397.05	824,505,409.63
3. Vehicles	49,161,718.20	2,377,848.28	190,952.00	51,348,614.48
4. Others	43,430,496.70	-37,108,062.70	2,117,116.52	4,205,317.48
(2) Accumulated depreciation	710,825,536.21	39,267,333.45	9,768,882.40	740,323,987.26
1. Buildings and Structures	232,871,127.41	12,704,448.14	641,663.61	244,933,911.94
2. Machinery and equipment	425,008,701.39	41,408,680.92	8,679,580.98	457,737,801.33
3. Vehicles	30,702,190.63	1,674,678.07	190,952.00	32,185,916.70
4. Others	22,243,516.78	-16,520,473.68	256,685.81	5,466,357.29
(3) Net value				
1. Buildings and Structures	544,367,206.29	1,017,082.91	-96,519.20	545,480,808.40
2. Machinery and equipment	354,423,893.37	13,432,531.00	1,088,816.07	366,767,608.30
3. Vehicles	18,459,527.57	703,170.21	-	19,162,697.78
4. Others	21,186,979.92	-20,587,589.02	1,860,430.71	-1,261,039.81
Total	<u>938,437,607.15</u>			<u>930,150,074.67</u>

10. Construction-in-progress

<u>Category</u>	<u>Beginning balance Including interest</u>	<u>Addition Including interest</u>	<u>Transfer to fixed assets Including interest</u>	<u>Other decrease Including interest</u>	<u>Ending balance Including interest</u>
1. Reconstructions	32,935,552.77	64,409,960.64	49,957,335.99	-	47,388,177.42
(1) Capital construction, technical improvement projects by national debt	1,821,627.45	600,988.25	1,625,870.28	-	796,745.42
Including: capitalized interests	-	-	-	-	-
(2) Others	31,113,925.32	63,808,972.39	48,331,465.71	-	46,591,432.00
2. Subsidiaries	-	-	-	-	-
Total	<u>32,935,552.77</u>	<u>64,409,960.64</u>	<u>49,957,335.99</u>	<u>-</u>	<u>47,388,177.42</u>
Including: capitalized interests	208,179.34	-	-	-	208,179.34

(1) Construction-in-progress increased by 43.88% compared with the beginning balance, mainly due to the purchase of fixed assets and renew of projects, such as 120t gantry crane manufacture and installation project, reconstruction of preinstall place of newly developing area, reconstruction of cannulation workshop auxiliary buildings, numerical milling machine of machinery fabrication center, shipbuilding moving canopy and so on.

Note 1: Capital construction and technical improvement project by national debt is expenditures for 400t gantry crane.

Note 2: Capitalizing interest rate is the current loan rate of the bank.

(2) Construction-in-progress had no impairment indication at the end of balance sheet date, and no impairment provision should be accrued.

11. Intangible assets

Item	Beginning balance	Addition	Deduction	Ending balance
(1) Original costs	104,618,948.87	17,085,044.75	–	121,703,993.62
1.Land use right	66,925,182.85			66,925,182.85
2.Know-how	37,693,766.02	17,085,044.75	–	54,778,810.77
(2) Accumulated amortization	32,830,697.22	2,501,464.94	–	35,332,162.16
1.Land use right	16,680,042.08	366,789.12	–	17,046,831.20
2.Know-how	16,150,655.14	2,134,675.82	–	18,285,330.96
(3) Net value				
1.Land use right	50,245,140.77	– 366,789.12	–	49,878,351.65
2.Know-how	21,543,110.88	14,950,368.93	–	36,493,479.81
Total	<u>71,788,251.65</u>	<u>14,583,579.81</u>	<u>–</u>	<u>86,371,831.46</u>

12. Deferred income tax assets and liabilities

Item	Ending balance	Beginning balance
1. Deferred income tax assets	10,001,250.91	27,253,209.11
Prepaid housing subsidy	889,265.70	647,149.50
Housing allowance for retirees	569,465.13	1,703,199.65
Medical insurance for retirees within 10 years	846,362.44	689,497.56
Accrual of windup project costs	1,509,176.80	685,989.45
Provision for impairment of inventories	977,627.49	444,376.13
Provision for doubtful debts	2,886,920.78	1,312,236.72
Prior-year losses	–	18,636,943.28
Early retirees benefits	1,537,692.56	990,136.80
Accrued payroll expenses of last year	784,740.00	2,143,680.00
2. Deferred income tax liabilities	121,053,613.77	24,989,602.63
Available-for-sale financial assets	71,570,787.43	24,968,348.31
Income tax of interests	11,567,849.70	–
Derivative financial instrument	37,914,976.64	21,254.32

Deferred income tax assets decreased by 63.3% compared with the beginning balance, mainly due to the decrease of deductible differences. Deferred income tax liabilities increased by 384.42% compared with the beginning balance, mainly due to increase in taxable differences as a result of changes in fair value of available-for-sale financial assets.

13. Provision for asset impairments

Category	Beginning balance	Provision in the period	Decrease in the period		
			Ending balance	Reverse	Write-off
1. Provision for doubtful debts	17,231,842.20	–	–	–	17,231,842.20
Accounts receivable	8,433,407.78	–	–	–	8,433,407.78
Other receivable	8,798,434.42	–	–	–	8,798,434.42
2. Provision for impairment of inventories	2,962,507.56	11,319,575.43	–	-1,815,641.57	16,097,724.56
Raw materials	2,962,507.56	11,319,575.43	–	-1,815,641.57	16,097,724.56
3. Provision for impairment of investment real property	–	1,331,875.59	–	–	1,331,875.59
Total	<u>20,194,349.76</u>	<u>12,651,451.02</u>	<u>–</u>	<u>-1,815,641.57</u>	<u>34,661,442.35</u>

Special materials purchased by the subsidiary, United Steel Company for the project of the US TXU Company, devalued by the US TXU company's default of the contract. Provision should be made for impairment of such special materials. Meanwhile, the US TXU Company has already made relating compensations according to the contract, which were recognized as other operating income in the income statement (refer to Note. 30).

14. Trading financial liabilities

Item	Fair value as at 30 June 2007	Fair value as at 31 December 2006
1. Derivative financial liabilities	–	570,327.16
Total	–	570,327.16

15. Employee compensations

Item	Beginning balance	Addition	Decrease	Ending balance
I. Salary, bonus, allowance and subsidy	–	170,464,654.40	170,464,654.40	–
II. Employee welfare	11,216,291.65	27,600,113.68	18,356,367.06	20,460,038.27
III. Social security expenses	–	53,904,516.60	53,904,516.60	–
Including:				
1. Medicare	–	18,088,402.18	18,088,402.18	–
2. Basic endowment insurance	–	15,504,246.00	15,504,246.00	–
3. Pension	–	–	–	–
4. Unemployment insurance	–	13,027,260.38	13,027,260.38	–
5. Injury insurance	–	586,269.18	586,269.18	–
6. Maternity insurance	–	279,794.24	279,794.24	–
IV. Housing fund	–	7,612,231.96	7,612,231.96	–
V. Labor union due and employee education fee	–	5,302,688.79	2,593,869.43	2,708,819.36
VI. Non-monetary benefits	–	100,445.00	100,445.00	–
VII. Compensation for dismissal	–	–	–	–
VIII. Others	–	3,151,191.19	3,129,403.49	21,787.70
Including: stock paid by cash	–	–	–	–
Total	11,216,291.65	268,135,841.62	256,161,487.94	23,190,645.33

16. Taxes and charges payable

Item	Ending balance	Beginning balance
Value-added Tax	-25,984,044.38	-14,788,553.13
Business tax	2,638,392.96	428,441.90
City construction tax	1,444,336.56	306,817.80
Corporation income tax	94,764,280.02	2,232,094.38
Estates tax	2,523,378.97	64,017.96
Land use tax	768,856.34	8,481.02
Stamp tax	–	8,646.52
Individual income tax withheld	2,936,664.03	1,295,509.17
Education surcharge	612,001.06	–
Flood defence expenses	2,151,587.48	1,700,857.71
Withholding tax	667.00	-50,397.85
Total	81,856,120.04	-8,794,084.52

17. Other payables

Category	Ending balance	Beginning balance
Monetary housing subsidies for retirees	1,725,651.90	11,354,664.35
Medicare for retirees	3,276,649.40	4,596,649.90
Guangzhou Marine Affaires Bureau	2,404,238.23	2,404,238.23
Auditing expenses to accountants	697,301.88	1,663,071.49
Staff check off	448,189.76	1,382,869.58
Emolument to non-executive directors	–	647,044.00
Deposit	–	315,030.00
Guangzhou Shipyard	22,072.40	22,072.40
Accrual of stamp tax	139,522.93	–
Additional pension	3,260,119.22	–
Other payables	16,761,947.79	29,208,650.52
Total	<u>28,735,693.51</u>	<u>51,594,290.47</u>
Including: Aging beyond 3 years	3,276,649.40	7,421,868.02

- (1) Other payables decreased by 44.30% compared with the beginning balance, mainly due to payment of monetary housing subsidies for retirees.
- (2) Other payables aging beyond 3 years is Medicare for retirees in recent 10 years.
- (3) At the end of the reporting period, other payables to shareholders who hold 5% or above of the Company's interest amounted to RMB779,257.40, details of which are referred to Note VI (5).

18. Accounts Payable

Aging	Ending balance	Beginning balance
Within 1 year	350,183,886.70	385,202,326.89
1-2 years	2,820,669.45	4,368,064.44
2-3 years	35,764.87	–
Over 3 years	171,516.86	955,588.50
Total	<u>353,211,837.88</u>	<u>390,525,979.83</u>

At the end of the reporting period, accounts payable to shareholders who hold 5% or above of the Company's interest amounted to RMB6,783,632.51.

19. Advances from customers

Aging	Ending balance	Beginning balance
Within 1 year	98,196,207.82	24,302,316.50
1-2 years	1,382,614.97	2,118,329.51
2-3 years	510,230.42	477,222.09
Over 3 years	508,414.95	516,914.90
Total	<u>100,597,468.16</u>	<u>27,414,783.00</u>

- (1) Advances from customers increased by 266.95% compared with the beginning balance, mainly due to the enlargement of non-ship product portfolio.
- (2) At the end of the reporting period, advances from shareholders who hold 5% or above of the Company's interest amounted to RMB64,579,770.00.

20. Other current liabilities

<u>Item</u>	<u>Ending balance</u>	<u>Beginning balance</u>
Settlement for long-term contractual project	4,329,443,262.40	4,056,165,513.24
Total	<u>4,329,443,262.40</u>	<u>4,056,165,513.24</u>

21. Estimated liabilities

<u>Item</u>	<u>Ending balance</u>	<u>Beginning balance</u>
Retirement benefits	5,800,972.54	7,061,782.00
Provision for product warranty	45,392,498.69	36,434,550.45
Lawsuit cost	1,384,268.58	1,384,268.00
Total	<u>52,577,739.81</u>	<u>44,880,600.45</u>

Product warranty is mainly warranty for shipbuilding, accrued as special product expenditures at 1%-2% of sales price according to relating regulations and traditions.

22. Short-term loans and long-term loans

<u>Item</u>	<u>Short-term loans</u>		<u>Long-term loans</u>	
	<u>Ending balance</u>	<u>Beginning balance</u>	<u>Ending balance</u>	<u>Beginning balance</u>
Guarantee loans	43,230,000.00	63,785,655.00	804,156,476.86	1,082,590,123.87
Total	<u>43,230,000.00</u>	<u>63,785,655.00</u>	<u>804,156,476.86</u>	<u>1,082,590,123.87</u>

Short-term loans decreased by 32.23% compared with the beginning balance, mainly due to maturity of bank loans borrowed by United Steel Structures Ltd., RMB40 million of which was guaranteed by the Company. Long-term loans are guaranteed by the controlling company, CSSC.

23. Special payables

<u>Item</u>	<u>Beginning balance</u>	<u>Addition</u>	<u>Deduction</u>	<u>Ending balance</u>
National fund	30,056,068.60	4,300,000.00	1,601,846.61	32,754,221.99
Provincial fund	4,330,000.00			4,330,000.00
Total	<u>34,386,068.60</u>	<u>4,300,000.00</u>	<u>1,601,846.61</u>	<u>37,084,221.99</u>

24. Share capital

(1) Changes of share capital in the period:

Item	Beginning balance		Changes(+, -)					Unit: share Ending balance	
	Number of share	Proportion %	New share	Conversion			Subtotal	Number of share	Proportion %
				Bonus share	from reserves	Others			
(I) Shares subject to sale restrictions									
1. State-owned shares	176,650,615	35.71	-	-	-	-	-	176,650,615	35.71
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-	-	-	-	-
Including: Domestic legal person share	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
4. Foreign shares	-	-	-	-	-	-	-	-	-
Including: Foreign legal person share	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Total shares subject to sale restriction	176,650,615	35.71	-	-	-	-	-	176,650,615	35.71
(II) Freely transferable shares									
1. PRC listed domestic shares	160,628,965	32.47	-	-	-	-	-	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 freely transferable shares	318,026,965	64.29	-	-	-	-	-	318,026,965	64.29
(III) Total number of shares	494,677,580	100.00	-	-	-	-	-	494,677,580	100.00

Dates when shares subject to sale restrictions could be transferred:

Date	Addition of transferable share upon restriction expiry	Number of shares subject to sale restrictions	Number of freely transferable shares	Note
24 May 2009	176,650,615		494,677,580	Note

Note: As the only non-listed shareholder of the Company, CSSC makes commitment as follows:

- Former non-transferable shares held by CSSC will not be traded or transferred within 12 months from the date of implementation of the share reform plan.
- CSSC will not trade any A shares of the Company through stock exchanges within 24 months upon the expiry of the aforesaid commitment period.

25. Capital surplus

Item	Beginning balance	Addition	Deduction	Ending balance
Share premium	651,977,481.72	-	-	651,977,481.72
Other capital surplus	141,487,307.09	73,187,981.13	-	214,675,288.22
Total	793,464,788.81	73,187,981.13	-	866,652,769.94

Other capital surplus is mainly the difference (deferred income tax liabilities already deducted) between fair value and original investment cost of available-for-sale financial assets.

26. Surplus reserve

Item	Beginning balance	Addition in the period	Decrease in the period	Ending balance
Statutory surplus reserve	79,524,651.42			79,524,651.42
Discretionary surplus reserve	20,622,859.92	-	-	20,622,859.92
Total	100,147,511.34	-	-	100,147,511.34

27. Undistributed profit

Item	First half of 2007
Balance at the beginning of the year	-126,577,188.53
Balance adjustment of prior years	-
Profit of this period	465,135,036.53
Statutory reserve	-
Statutory public welfare fund	-
Employee welfare fund	-
Preference share dividend distributed	-
Discretionary public reserve	-
Ordinary share dividend distributed	-
Balance at the end of the period	338,557,848.00

28. Revenue, cost of goods sold and gross profit

Category	Revenue (RMB)		Cost of goods sold (RMB)		Gross profit (RMB)	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006	First half of 2007	First half of 2006
Shipbuilding products	2,014,864,650.33	1,304,113,391.03	1,711,908,733.49	1,160,162,583.78	302,955,916.84	143,950,807.25
Steel structure	241,542,654.28	145,146,370.31	208,357,464.33	131,167,759.84	33,185,189.95	13,978,610.47
Machinery & electronics and others	70,611,107.53	55,446,750.72	48,477,810.49	33,747,910.95	22,133,297.04	21,698,839.77
Total	2,327,018,412.14	1,504,706,512.06	1,968,744,008.31	1,325,078,254.57	358,274,403.83	179,628,257.49

The performance of the Company remains increasing in this period. Compared with the same period of last year, the revenue increased by 54.65% and gross profits ratio increased by 3.47%, mainly due to increasing profitability of shipbuilding products, which had 15.04% gross profit ratio, 4% higher than as compared to 11.04% of the same period of last year.

29. Principal operating tax and additional tax

Category	First half of 2007	First half of 2006
Business tax	1,173,186.15	383,815.91
City construction tax	4,987,576.87	3,365,683.28
Education surcharge	2,141,390.09	1,442,351.59
Total	8,302,153.11	5,191,850.78

30. Other operating profits

Item	Operating income		Operating cost		Gross profit	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006	First half of 2007	First half of 2006
Sales of raw materials	6,560,100.17	6,409,738.13	3,976,268.53	5,167,090.83	2,583,831.64	1,242,647.30
Sales of scrap materials	20,843,637.55	15,224,078.19	14,419,780.35	9,915,728.08	6,423,857.20	5,308,350.11
Transportation services	–	2,848.00		66.00	–	2,782.00
Leasehold	3,374,162.16	3,265,298.16	616,643.44	486,700.50	2,757,518.72	2,778,597.66
Others	54,595,051.21	5,943,226.78	10,190,546.73	9,565,900.78	44,404,504.48	– 3,622,674.00
Total	85,372,951.09	30,845,189.26	29,203,239.05	25,135,486.19	56,169,712.04	5,709,703.07

Other operating profits increased by 883.76% compared with the same period of last year, mainly due to increases in the item of “others”. The US TXU Company compensated a subsidiary, United Steel Structure Co., Ltd for previous costs and design expenses of the project, as The US TXU Company was default to the contracts.

31. Finance expenses

Category	First half of 2007	First half of 2006
Interest expense	33,540,329.08	1,294,900.54
Less: Interest income	57,175,298.21	3,694,612.45
Exchange losses	-29,253,270.66	793,664.82
Others	7,492,095.75	586,400.07
Total	-45,396,144.04	-1,019,647.02

32. Proceeds from the changes of fair value

Source of proceeds from the changes of fair value	First half of 2007	First half of 2006
Derivative financial instrument	149,371,654.56	-2,338,000.00
Total	149,371,654.56	-2,338,000.00

33. Investment income

Source of proceeds from investment income	First half of 2007	First half of 2006
1. Held-to-maturity investment income	4,705,248.58	–
2. Available-for-sale financial assets	574,074.07	–
3. Derivative instrument	735,785.55	–
4. Investment incomes from associates	1,178,477.57	975,570.48
Total	7,193,585.77	975,570.48

34. Impairment losses

Item	First half of 2007	First half of 2006
1. Losses of investment real property	1,331,875.59	–
2. Losses on devaluation of inventories	11,319,575.43	–
Total	12,651,451.02	–

35. Non-operating income

<u>Item</u>	<u>First half of 2007</u>	<u>First half of 2006</u>
1. Total gains on disposal of non-current assets	523,853.00	962,093.00
Including: Gains on disposal of fixed assets	523,853.00	962,093.00
2. Bad debt incomes	–	–
3. Compensation	25,425.00	26,683.00
4. Penalty received	33,176.50	22,664.00
5. Others	154,989,335.24	9,975,805.95
Total	<u>155,571,789.74</u>	<u>10,987,245.95</u>

Non-operating income increased 1315.93% compared with the same period of last year, mainly due to increase of subsidies receivable of shipbuilding products.

36. Non-operating expenses

<u>Item</u>	<u>First half of 2007</u>	<u>First half of 2006</u>
1. Total losses on disposal of non-current assets	1,444,493.55	4,855,438.27
Including: Losses on disposal of fixed asset	1,444,493.55	4,855,438.27
2. Compensation	359,145.91	10,110.00
3. Extraordinary losses	–	–
4. Penalty expenses	160,611.02	269.48
5. Donation for public interest	–	–
6. Donation for non-public interest	–	–
7. Others	139,566.91	148.72
Total	<u>2,103,817.39</u>	<u>4,865,966.47</u>

Non-operating expenses decreased by 56.76%, mainly due to decrease in losses on disposal of fixed assets.

37. Income tax expenses

<u>Item</u>	<u>First half of 2007</u>	<u>First half of 2006</u>
Current income tax	131,504,708.01	1,590,591.74
Deferred income tax	32,883,830.88	10,055,000.00
Total	<u>164,388,538.89</u>	<u>11,645,591.74</u>

Income tax expenses increased by 1311.59% compared with the same period of last year, mainly due to changes in tax rate and accounting policy on income tax. According to requirements of taxation authorities, income tax rate of the Company has been raised temporarily from 15% to 33% since January 1, 2007, leading to great increases in tax expenses. In addition, income tax is changed from tax payable method to the liability method in accordance with new P.R.C Accounting Standards and Regulations, causing increase in income tax expenses.

38. Government grants

<u>Item</u>	<u>Category</u>	<u>Amount</u>
1. Subsidies for goods	Tax refund	143,495,587.61
2. Tax exemption	Tax refund	114,201.71
3. Other	Financial appropriation	10,760,544.22
Total		<u>154,370,333.54</u>

39. Segment report

Geographical segment

Countries or Regions	Turnover		Gross profit		Change %
	First half of 2007	First half of 2006	First half of 2007	First half of 2006	
Denmark	122,852,968.10	545,929,692.15	24,517,478.56	30,399,002.58	-77.50
Malta	130,889,188.71	141,802,654.29	28,078,153.80	21,500,650.29	-7.70
Canada	0.00	20,443,752.20	0.00	1,681,039.91	-100.00
Liberia	602,348,182.11	214,039,092.72	140,771,686.30	41,640,008.72	181.42
Sweden	50,122,482.27	175,307,116.37	17,502,431.23	16,290,796.37	-71.41
United States	172,238,166.09	103,908,442.75	645,474.06	10,579,719.31	65.76
Oman	43,842,287.05	-	7,635,265.36	-	100.00
Greece	120,383,377.32	-	33,266,953.32	-	100.00
Hong Kong	10,425,822.23	78,411,860.76	1,638,006.75	900,955.99	-86.70
Macao	17,889,136.78	13,828,028.30	1,131,811.38	1,146,298.04	29.37
Others	5,763,280.71	1,444,698.87	1,464,630.94	-294,646.10	298.93
Subtotal	1,276,754,891.37	1,295,115,338.41	256,651,891.70	123,843,825.11	-1.42
China	1,050,263,520.77	209,591,173.65	101,622,512.13	55,784,432.38	401.10
Total	2,327,018,412.14	1,504,706,512.06	358,274,403.83	179,628,257.49	54.65

40. Other cash received from relating operating activities amounted to RMB46.71 million, primarily including:

Item	Amount
Non-operating income and other	46,710,668.95

41. Other cash paid for relating operating activities amounted to RMB131.03 million, primarily including:

Item	Amount
Sales expenses	5,961,634.20
Administrative expenses	41,429,782.85
Overhead	83,634,614.54
Total	131,026,031.59

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

(I) Accounts receivable

30 June 2007

Aging	Original value	Percentage%	Provision for doubtful debts	Net receivable
Within 1 year	52,960,899.78	85	264,804.50	52,696,095.28
1-2 years	332,333.33	1	1,661.67	330,671.66
2-3 years	3,909,325.88	6	454,135.81	3,455,190.07
3-4 years	–	0	–	–
4-5 years	–	0	–	–
Over 5 years	–	0	–	–
Special	5,000,972.60	8	5,000,972.60	–
Total	62,203,531.59	100	5,721,574.58	56,481,957.01

31 December 2006

Aging	Original value	Percentage%	Provision for doubtful debts	Net receivable
Within 1 year	96,803,940.37	81.58	636,315.66	96,167,624.71
1-2 years	15,298,267.68	12.89	76,491.33	15,221,776.35
2-3 years	755,889.76	0.64	3,779.45	752,110.31
3-4 years	111,308.85	0.09	556.54	110,752.31
4-5 years	601,799.83	0.51	3,009.00	598,790.83
Over 5 years	90,000.00	0.08	450.00	89,550.00
Special	5,000,972.60	4.21	5,000,972.60	–
Total	118,662,179.09	100	5,721,574.58	112,940,604.51

Refer to the notes of “Accounts Receivable” in the consolidated statements.

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

(2) *Other receivables*

30 June 2007

Aging	30 June 2007			
	Amount	Percentage%	Provision for doubtful debts	Net receivable
Within 1 year	153,976,782.37	0.90	36,229.68	189,414,261.62
1-2 years	104,554.00	0.00	522.77	104,031.23
2-3 years	2,016,478.33	0.01	10,082.39	2,006,395.94
3-4 years	39,316.60	0.00	196.58	39,120.02
4-5 years	421,727.57	0.00	2,108.64	
Over 5 years	104,350.00	0.00	521.75	103,828.25
Special	13,994,268.75	0.08	8,748,224.80	5,246,043.95
Total	<u>170,657,477.62</u>	<u>100.00</u>	<u>8,797,886.61</u>	<u>196,913,681.01</u>

30 June 2007

Aging	30 June 2007			
	Amount	Percentage%	Provision for doubtful debts	Net receivable
Within 1 year	27,416,665.45	29.01	43,351.40	27,373,314.05
1-2 years	115,200.00	0.54	568.50	114,631.50
2-3 years	890,462.27	4.20	4,452.31	886,009.96
3-4 years	–	0.00	–	–
4-5 years	–	0.00	–	–
Trust deposit in GZITIC	37,250.00	0.18	186.25	37,063.75
Trust deposit in GETDZITIC	13,994,268.75	66.07	8,748,244.80	5,246,023.95
Total	<u>42,453,846.47</u>	<u>100.00</u>	<u>8,796,803.26</u>	<u>33,657,043.21</u>

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

(3) *Long-term Investments*

1) Long-term investments category statement:

Category	Beginning balance		Addition in the period	Decrease in the period	Ending balance	
	Amount	Provision for impairment			Amount	Provision for impairment
Long-term equity investments	115,744,866.53	–	3,052,492.77	–	118,797,359.30	–
Long-term debt investments	–	–	–	–	–	–
Other long-term investments	–	–	–	–	–	–
Total	<u>115,744,866.53</u>	<u>–</u>	<u>3,052,492.77</u>	<u>–</u>	<u>118,797,359.30</u>	<u>–</u>

2) Details of Long-term equity investments:

Invested company	Total investment	Holding	Ending balance	Changes	Accumulated changes
		Percentage of investee's capital			
Guangzhou Masterwood Company Limited	1,690,741.80	51.00%	2,833,503.59	-	1,142,761.79
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75.00%	13,790,407.97	-	- 1,209,592.03
Guangzhou Xinshun Shipping Service Company Limited	500,000.00	83.00%	11,314,810.39	-	10,814,810.39
Guangzhou United Steel Structures Limited	25,438,698.00	51.00%	51,167,295.89	-	25,728,597.89
Guangdong GSI Elevator Limited	19,950,000.00	95.00%	26,364,714.49	-	6,414,714.49
Guangzhou Hongfan Information Technique Co., Ltd	2,550,000.00	51.00%	3,570,452.66	-	1,020,452.66
Guangzhou Guangli Marine Human Resource Service Co., Ltd	3,052,492.77	80.00%	3,052,492.77	3,052,492.77	3,052,492.77
Glory Group Developing Co., Ltd.	10,439.94	100.00%	1,924,737.61	-	1,914,297.67
South China Marine & Industrial Special Coating Ltd.	1,722,003.00	25.00%	3,011,992.86	-	1,289,989.86
Zhanjiang Nanhai Naval Ships High and New Technology Service Co., Ltd	800,000.00	40.00%	766,951.07	-	- 33,048.93
Shenzhen Yuanzhou Science & Technology Industry Company Ltd	1,000,000.00	7.00%	1,000,000.00	-	0.00
Total	71,714,375.51		118,797,359.30	3,052,492.77	50,135,476.56

(4) Investment income

Source of investment income	First half of 2007	First half of 2006
1. Held-to-maturity investments	4,705,248.58	-
2. Available-for-sale financial assets	574,074.07	-
3. Derivative instruments	735,785.55	-
4. Proceeds from associates	510,000.00	6,111,721.33
Total	6,525,108.20	6,111,721.33

(5) Revenue, cost of goods sold and gross profit

Product category	Revenue		Cost of goods sold		Gross profit	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006	First half of 2007	First half of 2006
Shipbuilding products	2,014,864,650.33	1,304,113,391.03	1,711,908,733.49	1,160,162,583.78	302,955,916.84	143,950,807.25
Steel structure	3,784,211.79	11,617,381.73	3,560,763.48	1,111,5995.81	223,448.31	501,385.92
Other mechanical and electronic production	14,391,832.99	19,379,588.91	11,872,131.15	16,045,074.99	2,519,701.84	3,334,513.92
Total	2,033,040,695.11	1,335,110,361.67	1,727,341,628.12	1,187,323,654.58	305,699,066.99	147,786,707.09

VI. Connected parties and connected-party transactions

1. Connected parties under the control of the Company

Company	Registered Address	Principal business	Relationship with the Company	Nature of the enterprise	Legal representative
CSSC	No. 1 Pudong main Road, Shanghai	State-owned assets investment and operating administration	Controlling shareholder	Company with Limited liability	Chen Xiaojin
Guangzhou Xinshun Shipping Service Company Limited	No.40 Fangcun Main Road Guangzhou	Installation, welding Outfitting, coating, Repair of hull structure	Subsidiary	Company with Limited liability	Li Yongqiang
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.7 Floor 3, Tiancheng Plaza, 342-354 Longkoudong Road, Tianhe district, Guangzhou	Development of computer Software, system integration and sales	Subsidiary	Cooperative Company	Wang Lijian
Glory Group Developing Co., Ltd.	Catic plaza 8 causeway rd causeway bay HK	General Trading	Subsidiary	Cooperative Company	Han Guangde
Guangzhou Guangli Marine Human Resource Service Co., Ltd	No.40 Fangcun Main Road Guangzhou	Human resource deploying and service rendering	Subsidiary	Company with Limited liability	Qin Tinggui
Connected parties under indirect control:					
Guangzhou Hongfa Hotel	No.126 Gexin Road Guangzhou	Lodge, restaurant	Subsidiary	Cooperative Company	Wang Lijian
Fonkwang Developing Co., Ltd.	Catic plaza 8 causeway rd causeway bay HK	General Trading	Subsidiary	Cooperative Company	Zeng Xiangxin
Guangzhou Masterwood Co., Ltd. Guangzhou	40 Fangcun Main Road, Guangzhou	Furniture manufacturing	Subsidiary	Sino-foreign Joint Venture	Chen Demin
Guangzhou Xingshun Shipping Service Co., Ltd.	No.40 Fangcun Main Road Guangzhou	Installation, welding Outfitting, coating, Repair of hull structure	Subsidiary	Company with Limited liability	Li Yongqiang

2. The registered capital of connected parties under the control of the Company and their changes

Company	Beginning balance RMB	Addition RMB	Decrease RMB	Ending balance RMB
CSSC	6,374,300,000	–	–	6,374,300,000
Guangzhou Xinshun Shipping Service Company Limited	2,000,000	–	–	2,000,000
Masterwood Company Limited	3,315,180	–	–	3,315,180
Guangzhou Guanglian Container Transportation Co., Ltd.	20,000,000	–	–	20,000,000
Guangzhou 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
Guangzhou Guangli Marine Human Resource Service Co., Ltd	0	500,000	–	500,000
Glory Group Developing Co., Ltd.	HKD10,000	–	–	HKD10,000
Connected parties under indirect controls:				
Guangzhou Hongfa Hotel	10,000,000	–	–	10,000,000
Fonkwang Developing Co., Ltd.	HKD200,000	–	–	HKD200,000
Masterwood Company Limited	3,315,180	–	–	3,315,180
Guangzhou Xinshun Shipping Service Company Limited	2,000,000	–	–	2,000,000

3. The equity interests in connected parties under the control of the Company and their changes

Company	Beginning balance		Addition		Decrease		Ending balance	
	Amount	Percentage %	Amount	Percentage %	Amount	%	Amount	%
CSSC	176,650,615.00	35.71	–	–	–	–	176,650,615.00	35.71
Guangzhou Xinshun Shipping Service Company Limited	1,660,000.00	83.00	–	–	–	–	1,660,000.00	83.00
Masterwood Company Limited	1,690,741.80	51.00	–	–	–	–	1,690,741.80	51.00
Guangzhou Guanglian Container Transportation Co., Ltd.	15,000,000.00	75.00	–	–	–	–	15,000,000.00	75.00
Guangzhou United Steel Structures Limited	37,522,079.55	51.00	–	–	–	–	37,522,079.55	51.00
Guangdong GSI Elevator Limited	20,748,000.00	98.80	–	–	–	–	20,748,000.00	98.80
Guangzhou Hongfan Information Technique Co., Ltd	2,550,000.00	51.00	–	–	–	–	2,550,000.00	51.00
Glory Group Developing Co., Ltd.	HKD10,000	100.00	–	–	–	–	HKD10,000	100.00
Guangzhou Guangli Marine Human Resource Service Co., Ltd	400,000.00	80.00	–	–	400,000.00	80.00	–	–
Connected parties under indirect controls:								
Guangzhou Hongfa Hotel	8,616,000.00	86.16	–	–	–	–	8,616,000.00	86.16
Fonkwang Developing Co., Ltd.	HKD 140,000	70.00	–	–	–	–	HKD140,000	70.00
Masterwood Company Limited	828,795.00	25.00	–	–	–	–	828,795.00	25.00
Guangzhou Xinshun Shipping Service Company Limited	340,000.00	17.00	–	–	–	–	340,000.00	17.00

The connected party transactions under the control of the Company have been counteracted in the consolidated financial statements.

4. Connected parties uncontrolled by the Company

The related party transactions between the Company and companies under the control of CSSC or associated enterprises under the Group during the year 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 than which are fair and reasonable as far as the shareholders are concerned.

Name of Connected parties uncontrolled by the Company

Anqing Marine Diesel Factory	CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd
Guangzhou Wenchong Shipyard Ltd.	Huudong Zhonghua Shhipbuilding (Group) Co., Ltd
Guangzhou Shipyard	Jiangnan Shipbuilding Group Co., Ltd
CSSC Guangzhou Huangpu Shipyard Ltd.	CSSC Guangzhou Longxue Shipbuilding Co., Ltd
Huanan Marine Mechanical Factory	CSSC Integrated Technology Economy Institute
Jiangxi Chaoyang Mechanical Factory	Guangxi Guijiang Shipyard
Jiangxi Marine Valve Factory	Jiujiang Haitian Equipment Manufacture Co., Ltd
Jiujiang Instrument Factory	CSSC International Trade Co., Ltd
CSSC Jiujiang Fire Control Equipment Co., Ltd	CSSC Marine Systems Engineering Department
CSSC Nanjing Lvzhou Machinery Co., Ltd	Guangzhou Marine and Engineering Design & Research Institute
Shanghai Navigation Instrument Co., Ltd	Shanghai Waigaoqiao Shipbuilding Co., Ltd
CSSC Zhenjiang Equipment Co., Ltd	China United Shipbuilding Co., Ltd
CSSC No. 9 Institute	CSSC Guangzhou Holding Co.
China Shipping Trading Corporation	China State Shipbuilding Corporation
Marine Design& Research Institute of China	

5. Connected party transactions with CSSC and its subsidiaries (unit: RMB)

(i) Service provided by the Company

Connected Companies	First half of 2007						First half of 2006
	Total	Power	Material	Operating lease	Labor and technical service		
Affiliated company		-	-	-	-	-	
South China Marine & Industrial Special Coating Ltd.	13,434.91	5,652.52	6,705.92	-	1,076.47		15,617.30
Subtotal	13,434.91	5,652.52	6,705.92	-	1,076.47		15,617.30
Companies under control of CSSC	-	-	-	-	-		-
Guangzhou Marine and Engineering Design & Research Institute	55,202.46	55,202.46	-	-	-		-
CSSC Guangzhou Huangpu shipyard Ltd.	4,262,385.42	-	729,288.97	429,560.00	3,103,536.45		3,189,794.78
Guangzhou Wenchong shipyard Ltd.	5,087,797.82	-	-	194,120.00	4,893,677.82		3,820,219.11
Guangzhou Shipyard	1,586,281.85	1,111,905.37	260,157.77	43,374.60	170,844.11		1,737,422.63
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	621,755.68	-	498,268.37	-	123,487.31		-
CSSC No. 9 Institute	1,280,000.00	-	-	-	1,280,000.00		-
Shanghai Marine Research & Design Institute	50,000.00	-	-	-	50,000.00		-
Shanghai Waigaoqiao Shipbuilding Co., Ltd	7,692.31	-	7,692.31	-	-		-
China Shipping Trading Corporation	1,261,848.00	-	-	-	1,261,848.00		73,900.00
CSSC Guanzhou Nansha-longxue Construction Developing Co., Ltd	-	-	-	-	-		79,640.17
Subtotal	14,197,578.92	1,167,107.83	1,480,022.80	667,054.60	10,883,393.69		8,900,976.69
Total	14,211,013.83	1,172,760.35	1,486,728.72	667,054.60	10,884,470.16		8,916,593.99

(ii) *Material and Labor provided by CSSC and its subsidiaries*

Related parties	First half of 2007					First half of 2006
	Total	Purchasing materials	Marine equipment	Production equipment	Labor and technical service	
South China Marine & Industrial Special Coating Ltd.	-	-	-	-	-	79,500.00
Subtotal	-	-	-	-	-	79,500.00
Anqing Marine Diesel Factory	-	-	-	-	-	238,000.00
CSSC Guangzhou Huangpu shipyard Ltd.	512,632.50	-	-	-	512,632.50	50,742.52
Guangzhou Wenchong shipyard Ltd.	957,347.29	-	-	-	957,347.29	98,897.43
Guangzhou Shipyard	42,815,377.02	9,887,515.79	18,164,185.47	1,919,140.83	12,844,534.93	38,985,951.88
Huanan Marine Mechanical Factory	424,786.32	-	-	424,786.32	-	6,259,273.56
Jiangxi Chaoyang Mechanical Factory	10,615.38	-	10,615.38	-	-	3,239.40
Jiangxi Marine Valve Factory	-	-	-	-	-	422,051.00
Jiujiang Marine Mechanical Factory	-	-	-	-	-	1,688,715.72
Jiujiang Instrument Factory	-	-	-	-	-	520,000.00
CSSC Nanjing Lvzhou Machinery Ltd.	7,029,679.49	-	-	7,029,679.49	-	3,211,111.12
Shanghai Marine Research Institute	600,000.00	-	-	-	600,000.00	-
Shanghai Navigation Instrument Factory	1,057,760.00	-	-	1,057,760.00	-	519,600.00
CSSC Zhenjiang Equipment Co., Ltd.	21,888,737.63	-	5,424,350.45	16,464,387.18	-	27,438,774.13
CSSC No.11 Institute	120,000.00	-	-	-	120,000.00	-
Marine Design& Research Institute of China	-	-	-	-	-	91,200.00
China Shipping Trading Corporation	-	-	-	-	-	512,272.02
China United Shipbuilding Co., Ltd	-	-	-	-	-	638,511.40
Total	<u>75,416,935.63</u>	<u>9,887,515.79</u>	<u>23,599,151.30</u>	<u>26,895,753.82</u>	<u>15,034,514.72</u>	<u>80,757,840.18</u>

(iii) *Finance Service Provided by CSSC and its subsidiaries*

Item	Ending balance		Interests received/paid	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006
Deposit	-	-	-	-
CSSC Finance Company Ltd	<u>27,488,265.93</u>	<u>933,035.95</u>	<u>67,340.09</u>	<u>4,709.78</u>

(iv) *Guarantee provided by CSSC and its subsidiaries*

Company	Amount of Guarantee		Guarantee fee paid by the company	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006
CSSC	-	100,000,000.00	5,318,324.02	-
CSTC	-	-	-	-
CSSC Guangzhou Holding Co.	<u>475,456,000.00</u>	-	<u>1,052,122.50</u>	<u>200,000.00</u>
Subtotal	<u>475,456,000.00</u>	<u>100,000,000.00</u>	<u>6,370,446.52</u>	<u>200,000.00</u>

(v) *Sales agent service by CSSC and its subsidiaries*

Agent	Agent amount	
	First half of 2007	First half of 2006
China Shipping Industrial Trading Company	<u>17,157,693.43</u>	<u>10,622,636.25</u>
China Shipping Trading Company	<u>705,718.42</u>	<u>2,091,026.86</u>
Subtotal	<u>17,863,411.85</u>	<u>12,713,663.11</u>

(vi) Purchase agent service by CSSC

Agent	Total		Imported material		Marine equipment		Production equipment	
	First half of 2007	First half of 2006	First half of 2007	First half of 2006	First half of 2007	First half of 2006	First half of 2007	First half of 2006
China United Shipbuilding Co., Ltd	1,264,223.17	1,671,083.73	-	-		1,671,083.73	1,264,223.17	
China Shipping Industrial Trading Company	93,084.24	89,979.75	-	-	14,061.66	48,525.78	79,022.58	41,453.97
Subtotal	1,357,307.41	1,761,063.48	-	-	14,061.66	1,719,609.51	1,343,245.75	41,453.97

(vii) Accounts receivable and payable of related parties

A. Other receivables

Company	June 30, 2007	December 31, 2006
Guangzhou Shipyard	12,099.50	
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	59,681.31	-
Total	71,780.81	-

B Accounts receivable

Company	June 30, 2007	December 31, 2006
South China Marine & Industrial Special Coating Ltd.	6,120.03	
Guangzhou Marine Design and Research Institute	16,564.40	
Guangzhou Wenchong shipyard Ltd.	720,581.02	590,021.01
Guangzhou shipyard	675,422.71	167,400.00
CSSC Guangzhou Huangpu shipyard Ltd.	908,296.90	694,355.61
CSSC No. 9 Institute	780,000.00	
CSSC Guangzhou Longxue shipyard Ltd.	444,479.78	549,710.00
Shanghai Waigaoqiao Shipbuilding Co., Ltd		9,000.00
Total	3,551,464.84	2,010,486.62

C. Advance to suppliers

Company	June 30, 2007	December 31, 2006
Guangzhou Guangli Marine Human Resource Service Co., Ltd		4,000,000.00
Guangxi Guijiang Shipyard	273,200.00	273,200.00
Guangzhou Shipyard	22,979,783.09	180,000.00
Huanan Marine Mechanical Factory	15,440,410.91	4,498,010.91
CSSC Zhenjiang Equipment Co., Ltd.	32,400,000.00	11,050,000.00
China United Shipbuilding Co., Ltd	54,126,318.07	80,685,260.12
Jiujiang Haitian Equipment Manufacturing Co., Ltd	888,540.00	
CSSC No. 9 Institute		174,448.00
Nanjing Lvzhou Machinery Ltd.		510,000.00
China Shipping Trading Corporation	6,835,124.89	4,662,473.65
CSSC International Trading Co., Ltd	3,318.33	3,318.83
CSSC Marine Systems Engineering Department	5,450,000.00	
Marine Design & Research Institute of China	582,000.00	
Total	138,978,695.29	106,036,711.51

D. Accounts payable

<u>Company</u>	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Guangzhou Guangli Marine Human Resource Service Co., Ltd		3,973,209.63
Anqing Marine Diesel Factory	11,900.00	11,900.00
Guangzhou Shipyard	3,014,355.72	13,525,053.44
Guangzhou Marine Design and Research Institute		67,096.30
CSSC Guangzhou Huangpu shipyard Ltd.		576,182.88
Huanan Marine Mechanic and Electric Factory	2,500.00	84,000.00
Jiangxi Marine Valve Factory	498,000.00	508,500.00
Jiujiang Instrument Factory	26,000.00	13,000.00
CSSC Jiujiang Fire Control Equipment Co., Ltd	42,500.00	42,500.00
CSSC Nanjing Lvzhou Environment Protection Equipment Co., Ltd	1,478,300.00	712,500.00
Shanghai Navigation Instrument Factory	273,360.00	25,600.00
CSSC Zhenjiang Equipment Co., Ltd	1,239,888.00	6,840,000.00
CSSC No. 9 Institute	116,552.00	265,000.00
China Shipping Trading Corporation	-22,583.21	1,348,402.67
China Shipbuilding Polytechnic Economic Institute		67,096.30
Marine Design & Research Institute of China	102,860.00	102,860.00
Total	6,783,632.51	28,162,901.22

E. Other payables

<u>Company</u>	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Guangzhou Guangli Marine Human Resource Service Co., Ltd		620.00
Guangzhou Shipyard	37,942.40	37,942.40
CSSC Guangzhou Huangpu shipyard Ltd.	50,000.00	50,000.00
China United Shipbuilding Co., Ltd	19,000.00	19,000.00
CSSC		1,012,887.33
CSSC Guangzhou Holding Co.	672,315.00	–
Total	779,257.40	1,120,449.73

F. Advances from Customers

<u>Company</u>	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Guangzhou Wenchong shipyard Ltd.	4,048,500.00	
CSSC Guangzhou Nansha-longxue Construction Developing Co., Ltd	29,970,000.00	
China Shipbuilding Polytechnic Economic Institute	480,000.00	424,000.00
CSSC No. 9 Institute		200,000.00
Jiangnan Shipbuilding (Group) Co., Ltd	19,647,270.00	
CSSC Guangzhou Longxue Shipbuilding Co., Ltd	6,954,000.00	
Hudong Zhonghua Shipbuilding (Group) Co., Ltd	3,480,000.00	900,000.00
Total	64,579,770.00	1,524,000.00

VII. Capital flows between the Company and its subsidiaries

During the reporting period, the capital flowing between the Company and its subsidiaries is mainly by selling and purchasing goods. There is no other disclosure issues according to “the Notice of Standard the Finance Dealing with Related Parties and the External Guarantees of Listed Companies”(Zhengjianzi [2003] No. 56).

VIII. Contingencies

As at 30th June 2007, the Company had no significant contingent items.

IX. Commitments

X. Events after the balance sheet date

Profit distribution:

The meeting of Board of Directors was held on August 16, 2007 and made the resolution of no profit distribution and no reserve transfer for the first half of 2007.

XI. Other significant events

XII. Supplementary information

1. Statement of net profit adjustment for the first half of 2006

<u>Item</u>	Unit: RMB <u>Amount</u>
Net profit for the first half year of 2006 (according to original P.R.C. Accounting Standards and Regulations)	75,294,572.88
Total influences of retrospective adjustments	
Including: Administrative expenses	-2,301,000.00
Income tax expenses	10,055,000.00
Proceeds from the changes of fair value	-2,338,000.00
Net profit for the first half year of 2006 (according to new P.R.C. Accounting Standards and Regulations)	65,202,572.88
References on assumption of the comprehensive implementation of new China Accounting Standards for Business Enterprise	
Total influences of other items	-
Including:	-
Simulated net profit for the first half of 2006	<u>65,202,572.88</u>

2. Statement of shareholder's equity adjustment for the first half of 2006

<u>Item</u>	<u>Before adjustment</u>	<u>After adjustment</u>
Share capital	494,677,580.00	494,677,580.00
Capital surplus	651,977,481.72	691,257,481.72
Including: Fair value of available-for-sale financial assets		39,280,000.00
Surplus reserve	100,147,511.34	100,147,511.34
Undistributed profit	-363,052,051.56	-326,753,051.56
Fair value of derivative instruments		
Deferred income tax		
Plan of early retirement benefits		
Shareholder's equity attributable to the parent company	883,750,521.50	959,329,521.50
Add: Minority interests	55,248,326.13	55,248,326.13
Total	<u>938,998,847.63</u>	<u>1,014,577,847.63</u>

- Prepared in accordance with HKFRS. (All amounts in Renminbi Yuan thousands unless otherwise stated.)

As at 30 June 2007

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	30 June 2007 Unaudited	31 December 2006 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	992,929	981,567
Investment properties	5	97,273	98,721
Land use rights and leasehold land	5	67,217	67,784
Intangible assets	5	14,918	–
Interest in associates		18,229	18,611
Available-for-sale financial assets	6	339,830	220,665
Deferred income tax assets	7	–	2,264
Derivative financial instruments	8	126,380	–
Total non-current assets		1,656,776	1,389,612
Current assets			
Held-to-maturity financial assets		228,589	296,620
Inventories		464,508	413,623
Due from customers on construction contracts		533,367	736,708
Trade receivables	9	196,883	179,986
Other receivables	10	664,920	316,495
Derivative financial instruments	8	23,133	712
Current income tax recoverable		–	474
Bank balances and cash	11	4,946,144	4,338,007
Total current assets		7,057,544	6,282,625
Total assets		8,714,320	7,672,237
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	12	1,146,655	1,146,655
Other reserves		314,822	241,635
Retained earnings/(accumulated losses)		338,559	(126,643)
		1,800,036	1,261,647
Minority interests			
		79,597	61,404
Total equity		1,879,633	1,323,051
LIABILITIES			
Non-current liabilities			
Borrowings	13	804,156	1,082,591
Deferred income tax liabilities	7	111,053	–
Retirement benefit obligations		5,347	7,995
		920,556	1,090,586
Current liabilities			
Due to customers on construction contracts		4,329,443	4,056,166
Trade payables	14	353,212	381,872
Other payables and accruals		205,857	141,905
Dividends payable		9	9
Current income tax liability		94,757	2,648
Borrowings	13	884,864	636,788
Derivative financial instruments	8	–	570
Provisions for warranty and legal claims		45,989	38,642
Total current liabilities		5,914,131	5,258,600
Total liabilities		6,834,687	6,349,186
Total equity and liabilities		8,714,320	7,672,237
Net current asset		1,143,413	1,024,025
Total assets less current liabilities		2,800,189	2,413,637

The notes on pages 56 to 68 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT-BY FUNCTION OF EXPENSE

	Note	Unaudited	
		Six months ended 30 June	
		2007	2006
Revenue		2,327,018	1,504,707
Construction costs		(1,708,913)	(1,156,764)
Cost of goods sold and services rendered		(272,966)	(168,315)
Cost of sales		(1,981,879)	(1,325,079)
Gross profit		345,139	179,628
Other gains/(losses) – net		135,434	(3,069)
Selling and marketing expenses		(4,146)	(2,015)
Administrative expenses		(101,006)	(108,321)
Other income		216,401	20,371
Other expenses		(1,451)	(4,069)
Operating profit	15	590,371	82,525
Finance income/(costs) – net	16	59,986	(1,757)
Share of (loss)/profit of associates		(36)	12
Profit before income tax		650,321	80,780
Income tax expense	17	(164,389)	(11,645)
Profit for the period		485,932	69,135
Attributable to:			
– shareholders of the Company		465,202	65,203
– minority interests		20,730	3,932
		485,932	69,135
Earnings per share for profit attributable to the shareholders of the Company for the period (expressed in RMB per share)			
– basic & diluted	18	0.9404	0.1318

The notes on pages 56 to 68 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			Total	Minority interests	Total equity
	Share Capital	Other reserves	Retained earnings/ (accumulated losses)			
Balance at 1 January 2006	1,146,655	129,339	(393,278)	882,716	49,720	932,436
Fair value gains, net of tax						
– available-for-sale financial assets,	–	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>
Balance at 1 January 2007	1,146,655	241,635	(126,643)	1,261,647	61,404	1,323,051
Fair value gains, net of tax						
– available-for-sale financial assets,	–	73,187	–	73,187	–	73,187
Profit for the period	–	–	465,202	465,202	20,730	485,932
Dividend paid by a subsidiary	–	–	–	–	(490)	(490)
Acquisition of minority interests	–	–	–	–	(2,047)	(2,047)
Balance at 30 June 2007	<u>1,146,655</u>	<u>314,822</u>	<u>338,559</u>	<u>1,800,036</u>	<u>79,597</u>	<u>1,879,633</u>

The notes on pages 56 to 68 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2007	2006
Cash flows from operating activities – net		576,681	805,208
Cash flows from investing activities:			
– purchases of property, plant and equipment		(69,405)	(50,036)
– proceeds from sale of property, plant and equipment		523	1,325
– disposal of interest in subsidiary		–	1,588
– acquisition of subsidiary, net of cash acquired		608	–
– investment in an associate		–	(12,106)
– purchase of held-to-maturity financial assets		(248,520)	–
– return from held-to-maturity financial assets		320,000	–
– interest received		21,569	4,014
– proceeds received from available-for-sale financial assets		1,199	972
Cash flows from investing activities – net		25,974	(54,243)
Cash flows from financing activities:			
– proceeds from borrowings		356,164	121,070
– repayments of borrowings		(343,684)	(248,412)
– dividends paid to minority interests		(490)	–
Cash flows from financing activities – net		11,990	(127,342)
Net increase in cash and cash equivalents		614,645	623,623
Cash and cash equivalents at start of period		4,320,079	644,430
Exchange losses on cash and cash equivalents		(3,486)	(547)
Cash and cash equivalents at end of period	11	4,931,238	1,267,506

The notes on pages 56 to 68 form an integral part of this condensed interim financial information.

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 16 August 2007.

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 2007 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007.

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosure (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analyses to market risk. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analyses to market risk and the capital disclosures required by the amendment of HKAS 1. The Group has applied HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007. The full disclosure will be disclosed in the year end financial statements.
- HK (IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). This interpretation is not relevant for the Group.
- HK (IFRIC)-Int 8, Scope of HKFRS 2 Share-based payment (effective for annual periods beginning on or after 1 May 2006). This interpretation is not relevant for the Group.
- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The Group has applied HK (IFRIC)-Int 9 from 1 January 2007, but it has no significant impact on the Group's financial statements.
- HK (IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied HK (IFRIC)-Int 10 from 1 January 2007, but it has no significant impact on the Group's financial statements.

4 Segment information

Primary reporting format – business segments

At 30 June 2007, the Group is organized on the PRC basis into two main business segments:

- (1) Shipbuilding – construction and trading of vessels;
- (2) 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, painting services and ship repairing services, none of which are of a sufficient size to be reported separately.

The segment results for the six months ended 30 June 2007 are as follows:

	Ship building	Steel structure and other manufacturing	Other operations	Elimination	Group
Total segment revenue	2,014,865	315,470	127,135	(130,452)	2,327,018
Inter-segment revenue	–	(34,691)	(95,761)	130,452	–
Sales	2,014,865	280,779	31,374	–	2,327,018
Segment results	612,308	78,822	18,424	(18,291)	691,263
Unallocated revenues					1,513
Unallocated costs					(102,405)
Operating profit					590,371
Finance income – net	41,383		18,603		59,986
Share of loss of associates			(36)		(36)
Profit before income tax					650,321
Income tax expense					(164,389)
Profit for the period					485,932

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

	Ship building	Steel structure and other manufacturing	Other operations	Elimination	Group
Total segment revenue	1,304,115	205,902	66,118	(71,428)	1,504,707
Inter-segment revenue	–	(24,559)	(46,869)	71,428	–
Sales	1,304,115	181,343	19,249	–	1,504,707
Segment results	146,972	19,463	15,743	2,496	184,674
Unallocated revenues					13,638
Unallocated costs					(115,787)
Operating profit					82,525
Finance costs – net					(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

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

Other segment items for the six months ended 30 June 2007 are as follows:

	Ship building	Steel structure and other manufacturing	Other operations	Unallocated	Total Group
Depreciation and amortization	18,676	3,311	4,058	15,756	41,801
Reversal of impairment for trade receivables	-	(1,813)	-	-	(1,813)
Impairment for inventory	-	13,135	-	-	13,135
Capital expenditure	<u>35,887</u>	<u>1,073</u>	<u>21,838</u>	<u>11,514</u>	<u>70,312</u>

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

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

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

The segment assets and liabilities at 30 June 2007 are as follows:

	Ship building	Steel structure and other manufacturing	Other operations	Elimination	Total Group
Segment assets	5,714,089	388,613	166,977	(53,305)	6,216,374
Interest in associates			18,229		18,229
Unallocated assets					2,479,717
Total assets					<u>8,714,320</u>
Segment liabilities	4,721,854	194,600	76,237	(53,305)	4,939,386
Unallocated liabilities					1,895,301
Total liabilities					<u>6,834,687</u>

The segment assets and liabilities at 31 December 2006 are as follows:

	Ship building	Steel structure and other manufacturing	Other operations	Elimination	Total Group
Segment assets	4,849,317	299,491	102,734	(23,607)	5,227,935
Interest in associates			18,611		18,611
Unallocated assets					2,425,691
Total assets					<u>7,672,237</u>
Segment liabilities	4,457,431	144,463	40,702	(23,607)	4,618,989
Unallocated liabilities					1,730,197
Total liabilities					<u>6,349,186</u>

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

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

Secondary reporting format – geographical segments

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

Mainland China – ship building, steel structure and other manufacturing
 Denmark – ship building
 Sweden – ship building
 Liberia – ship building
 Malta – ship building
 Greece – ship building
 Macao – steel structure and other manufacturing
 United State of America – steel structure and other manufacturing
 Hong Kong – ship building, steel structure and other manufacturing
 Oman – steel structure and other manufacturing
 Other countries – steel structure and other manufacturing

Revenue	Six months ended 30 June	
	2007	2006
Mainland China	1,050,264	209,591
Liberia	602,349	214,039
United State of America	172,238	103,908
Malta	130,889	141,803
Denmark	122,854	545,930
Greece	120,383	–
Sweden	50,122	175,308
Oman	43,842	–
Macao	17,889	13,535
Hong Kong	10,424	78,412
Other countries	5,764	22,181
	<u>2,327,018</u>	<u>1,504,707</u>

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

Total Assets	As at	
	30 June 2007	31 December 2006
Mainland China	8,664,588	7,612,494
Hong Kong	31,503	41,132
	<u>8,696,091</u>	<u>7,653,626</u>
Interest in associates	18,229	18,611
	<u>8,714,320</u>	<u>7,672,237</u>

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

	Six months ended 30 June	
	2007	2006
Capital expenditures		
Mainland China	<u>70,312</u>	<u>53,849</u>

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

	Six months ended 30 June	
	2007	2006
Analysis of sales by category		
Revenue from construction contracts	2,014,865	1,304,115
Sales of goods	280,901	181,488
Revenue from services	<u>31,252</u>	<u>19,104</u>
	<u>2,327,018</u>	<u>1,504,707</u>

5 CAPITAL EXPENDITURE

	Property, plant and equipment	Investment properties	Land use rights and leasehold land	Intangible assets	Total capital expenditure
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 amortization	(40,488)	(766)	(859)	–	(42,113)
Closing net book amount	<u>971,812</u>	<u>76,287</u>	<u>50,788</u>	<u>–</u>	<u>1,098,887</u>
Six months ended					
30 June 2007					
Opening net book amount					
at 1 January 2007	981,567	98,721	67,784	–	1,148,072
Additions	55,242	27	–	15,043	70,312
Disposals	(3,871)	(365)	–	–	(4,236)
Depreciation and amortization	(40,009)	(1,100)	(567)	(125)	(41,801)
Impairment	–	(10)	–	–	(10)
Closing net book amount	<u>992,929</u>	<u>97,273</u>	<u>67,217</u>	<u>14,918</u>	<u>1,172,337</u>

6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Six months ended 30 June	
	2007	2006
Beginning of the period	220,665	46,252
Sale	(625)	–
Revaluation surplus transfer to equity	119,790	11,869
End of the period	<u>339,830</u>	<u>58,121</u>

Available-for-sale financial assets represent non-circulating corporate shares of China Merchants Bank, China Merchants Energy Shipping Co., Ltd., other unlisted equity interests of private issuers and golf club membership.

Regarding the revaluation surplus of RMB119,790,000, the net amount of RMB73,187,000 was credited to other reverse after netting off deferred tax of RMB46,603,000.

7 DEFERRED INCOME TAX ASSETS / (LIABILITIES)

Taking into consideration the offsetting of balances within the same tax jurisdiction, the deferred tax assets and liabilities are recognized for following temporary differences:

	As at	
	30 June 2007	31 December 2006
Provision of assets	5,374	2,443
Tax losses	–	18,637
Staff benefits	4,627	6,173
Fair value gains on derivatives financial instruments	(37,915)	(21)
Fair value gains on available-for-sale financial assets	(71,571)	(24,968)
Interest income	(11,568)	–
	<u>(111,053)</u>	<u>2,264</u>

8 DERIVATIVE FINANCIAL INSTRUMENTS

	As at	
	30 June 2007	31 December 2006
Forward foreign exchange contracts		
– assets	149,513	712
– liabilities	–	(570)
Total	149,513	142
Less: current portion	(23,133)	(142)
Non-current portion	<u>126,380</u>	<u>–</u>

These forward foreign exchange contracts will be delivered from July 2007 to June 2010.

9 TRADE RECEIVABLES

At 30 June 2007 and 31 December 2006, the ageing analyses of the trade receivables were as follows:

	As at	
	30 June 2007	31 December 2006
Not exceeding one year	189,958	172,439
More than one year but not exceeding two years	4,602	2,009
More than two years but not exceeding three years	1,760	2,281
More than three years	563	3,257
	<u>196,883</u>	<u>179,986</u>

The general credit terms of trade receivables are:

Operations	Credit terms
Ship building	Within one month after issue of invoice
Other operations	Normally one to six months

10 OTHER RECEIVABLES

	As at	
	30 June 2007	31 December 2006
Prepayments for trading materials and equipment	445,822	250,682
Government subsidy receivables for shipbuilding	143,496	–
Interest income receivables	35,054	–
Other taxes recoverable	27,908	49,777
Others	12,640	16,036
	<u>664,920</u>	<u>316,495</u>

11 BANK BALANCES AND CASH

	As at	
	30 June 2007	31 December 2006
Bank balances and cash	4,946,144	4,338,007
Less: restricted cash	(14,906)	(17,928)
Cash and cash equivalent	<u>4,931,238</u>	<u>4,320,079</u>

The restricted cash was held in bank accounts as warranty deposits.

12 SHARE CAPITAL

	As at 1 January 2006		Transfers in/(out)		As at 30 June, 31 December 2006 and 30 June 2007	
	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		<u>651,977</u>				<u>651,977</u>
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.

13 BORROWINGS

	As at	
	30 June 2007	31 December 2006
Non-current		
Bank borrowings	<u>804,156</u>	<u>1,082,591</u>
Current		
Bank borrowings		
– short-term bank borrowings	43,230	63,786
– current portion of long-term bank borrowings	<u>841,634</u>	<u>573,002</u>
	<u>884,864</u>	<u>636,788</u>
Total borrowings	<u>1,689,020</u>	<u>1,719,379</u>

As at 30 June 2007, borrowings of RMB1,645,791,000 (31 December 2006: RMB1,655,593,000) are guaranteed by CSSC.

Interest expense on borrowings for the six months ended 30 June 2007 amounted to RMB 33,442,000 (six months ended 30 June 2006: RMB784,000).

14 TRADE PAYABLES

At 30 June 2007 and 31 December 2006, the ageing analyses of the trade payables were as follows:

	As at	
	30 June 2007	31 December 2006
Not exceeding one year	350,092	379,370
More than one year but not exceeding two years	2,966	2,358
More than two years but not exceeding three years	11	70
More than three years	143	74
	<u>353,212</u>	<u>381,872</u>

15 OPERATING PROFIT

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

	Six months ended 30 June	
	2007	2006
<u>Credit:</u>		
Fair value gains on derivative financial instruments	149,372	19
Subsidy income for compensations related to income	8,000	9,683
Government subsidy income for shipbuilding	143,496	–
Gain on sales of scrap and other materials	7,835	5,225
Compensation from customer for a contract termination	45,904	–
Reversal of impairment for trade receivables	1,813	–
Income from held-to-maturity financial assets	4,705	–
<u>Charge:</u>		
Depreciation and amortization charges	41,801	42,113
Add: amount capitalized in opening inventories	17,061	12,487
Less: amount capitalized in ending inventories	(14,218)	(14,419)
	44,644	40,181
Impairment charge relating to inventory	13,135	–
Employee benefit expenses, include directors' emoluments	187,352	148,694
Retiree housing subsidy	–	23,391
Loss on disposal of property, plant and equipment	3,713	4,514

16 FINANCIAL INCOME/(COST)- NET

The financial income/(cost) for the six months ended 30 June 2007 mainly comprise net interest income of RMB16,779,000(six months ended 30 June 2006: RMB4,014,000) and exchange gain of RMB43,207,000(six months ended 30 June 2006: nil)

17 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	
	2007	2006
Current income tax – the PRC enterprise income tax	97,675	1,590
Deferred income tax	66,714	10,055
	164,389	11,645

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which is effective from 1 January 2008.

Since the deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, the change in the applicable tax rate affected the determination of the carrying values of deferred tax assets and deferred tax liabilities of the Company and subsidiaries located in mainland China. As at the date that this condensed consolidated interim financial information is approved for issue, detailed measures of the new CIT Law have yet to be issued, specific provisions concerning the applicable income tax rates, computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions for the periods from 2008 and onwards have not been clarified.

As in this condensed consolidated interim financial information, the Company and subsidiaries located in mainland China recognized the deferred taxation to be realized after 1 January 2008 using the income tax rate of 25%.

On 19 June 2007, the State Administration of Taxation issued ruling to request local tax authorities to cancel the below preferential income tax rate treatment with immediate effect. Since 1993, being the first batch of mainland entities listed on the Hong Kong stock exchange, nine entities including the Company were granted by the Ministry of Finance and the State Administration of Taxation the preferential income tax rate of 15%.

The Company had paid income tax at the rate of 15% up to year 2006. In accordance with the advice of in-charged tax authority, the Company will pay its income tax at the rate of 33% for year 2007.

As at the date that this condensed consolidated interim financial information is approved for issue, the Company is communicating with the relevant tax authority to clarify the treatment of prior year income tax and thereafter will evaluate the financial impact.

18 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB465,202,000 (six months ended 30 June 2006: RMB65,203,000) and the weighted average number of 494,677,580 (six months ended 30 June 2006: 494,677,580) ordinary shares in issue during the period.

19 CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at	
	30 June 2007	31 December 2006
Contracted but not provided for	10,771	7,619
Authorized but not contracted for	270,305	53,005
	281,076	60,624

20 SIGNIFICANT RELATED-PARTY TRANSACTIONS

CSSC, the immediate shareholder of the Company which owns 35.71% of the Company's shares, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CSSC group companies, directly or indirectly controlled by the PRC government, are also regarded as 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	
	2007	2006
Sales of goods:		
– to companies controlled by CSSC	2,659	1,414
– to other state-controlled enterprises	990,177	73,894
	992,836	75,308
Sales of services:		
– to companies controlled by CSSC	11,552	7,535

ii) Purchases of goods and services

	Six months ended 30 June	
	2007	2006
Purchases of goods:		
– from companies controlled by CSSC	60,383	63,146
– from other state-controlled enterprises	473,827	259,118
	534,210	322,264
Purchase of services:		
– from companies controlled by CSSC	15,035	42,612
– from other state-controlled enterprises	8,418	8,019
	23,453	50,631

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

	Six months ended 30 June	
	2007	2006
Vessel sales commissions payable:		
– to companies controlled by CSSC	17,863	12,714
– to other state-controlled enterprises	554	2,919
Other expenses payable:		
– to companies controlled by CSSC (a)	11,464	5,396
	29,881	21,029

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 RMB3,804,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB3,640,000) 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 2007 and 2006 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) **Key management compensation**

	Six months ended 30 June	
	2007	2006
Emolument, salaries and other short-term employee benefits	1,176	2,590
Post-employment benefits	88	92
	1,264	2,682

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.