

Annual Report 07

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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

CONTENTS



| | |
|-----|---|
| 2 | Important Notice |
| 3 | Overview of the Company |
| 6 | Summary of Accounting and Business Data |
| 14 | Changes of Share Capital and Shareholders |
| 18 | Information of Directors, Supervisors, Senior Management and Staff |
| 26 | Corporate Governance |
| 37 | Brief Introduction to the General Meeting |
| 38 | Report of the Board of Directors |
| 62 | Report of the Supervisory Committee |
| 67 | Significant Events |
| 73 | Financial Reports |
| 73 | Report of the PRC Auditors |
| 73 | Ascenda Certified Public Accountants, Ltd. (Beijing) |
| 75 | — Balance Sheets |
| 77 | — Profit and Loss Statement |
| 78 | — Cash Flow Statement |
| 79 | — Consolidated Statement of Changes in Equity |
| 83 | — Notes to the Financial Statements |
| 162 | Report of the International Auditors |
| 162 | PricewaterhouseCoopers, Certified Public Accountants |
| 163 | — Balance Sheets |
| 165 | — Consolidated Income Statement |
| 166 | — Consolidated Statement of Changes in Equity |
| 167 | — Consolidated Cash Flow Statement |
| 168 | — Notes to the Consolidated Financial Statements |
| 253 | Documents Available for Inspection |

IMPORTANT NOTICE

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

All the directors, including the independent non-executive director Mr. Wu Fabo acting as the proxy of the independent non-executive director, Mr. Lee Sun-leung, Sunny attended the 30th meeting of the fifth term of the Board of Directors held on March 18, 2008.

Mr. Li Zhushi, Chairman of the Board of Directors, Mr. Zeng Xiangxin, Chief Accountant of the Company and Mr. Hou Zengquan, manager of Financial Center of the Company, declare and confirm the authenticity and completeness of the financial reports included in this report.

The Audit Committee of the Company has audited and confirmed the annual financial reports for the year 2007 of the Company.

This Annual Report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial statements prepared in accordance with the Hong Kong Financial Reporting Standard ("HKFRS") and the international auditors' report therein where the English version prevail, the Chinese version shall prevail for the rest parts of this annual report.

OVERVIEW OF THE COMPANY

I. GENERAL INFORMATION

REGISTERED CHINESE NAME OF THE COMPANY

广州广船国际股份有限公司

ABBREVIATION OF CHINESE NAME OF THE COMPANY

广船国际

REGISTERED ENGLISH NAME OF THE COMPANY

Guangzhou Shipyard International Company Limited

ABBREVIATION OF ENGLISH NAME OF THE COMPANY:

GSI

LEGAL REPRESENTATIVE OF THE COMPANY

Mr. Li Zhushi

SECRETARY TO THE BOARD OF DIRECTORS

Mr. Li Zhidong

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

Tel: (8620) 8189 1712 ext. 2962

Fax: (8620) 8189 1575

E-mail address: lzd@chinagsi.com

AUTHORIZED SECURITIES REPRESENTATIVE

Ms. Yang Ping

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

Tel: (8620) 8189 1712 ext. 2995

Fax: (8620) 8189 1575

E-mail address: yangping@chinagsi.com

THE COMPANY'S REGISTERED ADDRESS AND OFFICE

40 South Fangcun Main Road, Guangzhou,

The People's Republic of China

Postal code: 510382

THE COMPANY'S PRINCIPAL PLACE OF BUSINESS IN HONG KONG

28/F, Three Pacific Place

1 Queen's Road East, Hong Kong

URL OF THE COMPANY: www.chinagsi.com

E-MAIL ADDRESS: gsi@chinagsi.com

OVERVIEW OF THE COMPANY

PUBLICATIONS FOR DISCLOSING INFORMATION:

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

URL FOR PUBLISHING THE REPORT: www.sse.com.cn, www.hkexnews.hk, www.chinagsi.com

PLACE FOR INSPECTION OF THE ANNUAL REPORT

The Board of Directors' Office

PLACE OF LISTING OF THE COMPANY'S SHARES

A Shares – Shanghai Stock Exchange
Stock Code: 600685
Abbreviated Name: Guangzhou Shipyard International

H Shares – The Stock Exchange of Hong Kong Limited
Stock Code: 0317
Abbreviated Name: Guangzhou Shipyard International

REGISTRATION DATE AND ADDRESS:

First registration date and address: June 7, 1993; Guangzhou
Amended registration date and address: October 21, 1994; Guangzhou

BUSINESS REGISTRATION NUMBER:

QI GU YUE SUI ZONG ZI DI 000264

TAXATION REGISTRATION NUMBER:

440107520102708

PRC AUDITORS:

Ascenda Certified Public Accountants, Limited (Beijing)
A12/F, Global Trade Centra, 36 North Sanhuan East Road
Dongcheng District, Beijing

INTERNATIONAL AUDITORS:

PricewaterhouseCoopers, Certified Public Accountants
22/F, Prince's Building, Central, Hong Kong

SOLICITORS:

Guangdong Z & T Law Firm
21/F, Yuehai Mansion, 472 East Huangshi Road, Guangzhou

Jones Day
29/F, Edinburgh Tower, The Landmark
15 Queen's Road Central, Hong Kong

OVERVIEW OF THE COMPANY

SHARE REGISTRARS:

Registry office for A Shares:

China Securities Depository & Clearing Corporation Limited, Shanghai Office
3/F, China Assurance Tower, 166 East Lujiazui Road,
Pudong New District, Shanghai, PRC

Registry Office for H Shares:

Computershare Hong Kong Investor Services Limited,
46/F Hopewell Centre
183, Queen's Road East, Hong Kong

ADR CUSTODIAN BANK:

The Bank of New York
P.O.Box 11258
Church Street Station
New York, NY 10286-1258
U.S.A

II. PRINCIPAL OPERATION AND STRATEGY GOAL OF THE COMPANY

Guangzhou Shipyard International Company Limited (the "Company"), reforming from Guangzhou Shipyard, was founded in 1993 and is the biggest modern integrated shipbuilding enterprise in south China parented by China State Shipbuilding Corporation ("CSSC"), enjoying autonomy in export and import operations.

The Company is based on core business of shipbuilding, focusing on building and exploiting handy-size vessels and has entered into the high tech shipbuilding market of Ro/Ro ship, Ro/Ro passenger vessel and semi-submersible heavy lift vessel. The Company adheres to the policy of market and client orientation, has formed several main businesses including shipbuilding, large-size bridge and building steel structures and electro-mechanical equipment production.

GSI has gained ISO9001, GJB/Z9002 Quality Certificate, GJB9001A-2001 Standard Certificate, National Confidential Certificate and Weapon Research & Product Certificate by National Defense Science and Technique Bureau and Occupational Health & Safety Management System Certificate and Environmental Management System Certificate issued by British Lloyds Society Quality Assurance Ltd. In 2007, GSI was honored as "High-tech Enterprise" awarded by Guangdong Science and Technology Agency.

The Company pursues the goal of continuous improvement of integral value and sustainable growth from powerful to largest. While devoting to optimizing internal management, improving operation efficiency and reducing production costs, the Company actively expands production capability to elevate competitive power and to become the leader of global handy-size ship market.

SUMMARY OF ACCOUNTING AND BUSINESS DATA

I. MAJOR FINANCIAL DATA

The major financial data of the Company and its subsidiaries (collectively the "Group") in the year 2007 are as follows:

(I). Prepared under PRC Accounting Standards for Business Enterprises and Relevant Regulations ("PRC Accounting Standards and Regulations")

| Item | Unit: RMB | |
|--|------------------|--|
| | Amount | |
| Operating profit | 1,109,831,246.40 | |
| Total profit | 1,343,060,757.80 | |
| Net profit attributable to shareholders | 940,656,796.04 | |
| Net profit attributable to shareholders after deduction of exceptional items | 915,678,615.36 | |
| Net cash flow from operating activities | 1,818,659,141.44 | |

The nature and amount of exceptional items are as follows:

| Item | Unit: RMB | |
|---|----------------|--|
| | Amount | |
| Exceptional income items | | |
| Income from sale or deposition of non-current assets | 709,104.84 | |
| Various kinds of government subsidies recognized as the profit and loss in current period | 27,921,080.27 | |
| Other non-operating income | 2,698,835.48 | |
| Income from short-term investment | 30,232,936.65 | |
| Subtotal | 61,561,957.24 | |
| Exceptional expenses items | | |
| Loss from sale or deposition of non-current assets | 9,247,877.18 | |
| Asset depreciation loss provision due to force majeure | 13,944,361.48 | |
| Other non-operating expenses | 603,744.86 | |
| Subtotal | 23,795,983.52 | |
| The effect to total profit | 37,765,973.72 | |
| Deduce: income tax | 12,462,771.33 | |
| The effect to net profit | 25,303,202.39 | |
| The effect to minority interest | 325,021.71 | |
| The effect to net profit attributable to shareholders | 24,978,180.68 | |
| Net profit attributable to shareholders after diluted exceptional items | 915,678,615.36 | |

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(II). Prepared in accordance with HKFRS

| Item | <i>Unit: RMB'000</i> | |
|-------------------------------------|----------------------|-----------|
| | Amount | |
| Profit before taxation | | 1,340,964 |
| Profit attributable to shareholders | | 938,560 |

SUMMARY OF ACCOUNTING AND BUSINESS DATA

II. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF LAST SEVERAL YEARS OF THE GROUP

(I). Prepared under PRC Accounting Standards and Regulations

Unit: RMB

| Item | 2007 | 2006 | | Change (%) | 2005 | |
|---|-------------------|------------------|-------------------|---------------------|------------------|-------------------|
| | | After Adjustment | Before Adjustment | | After Adjustment | Before Adjustment |
| Operating income | 5,952,697,163.61 | 3,399,203,543.04 | 3,399,203,543.04 | 75.12 | 2,826,324,036.87 | 2,826,324,036.87 |
| Total profit | 1,343,060,757.79 | 311,880,155.01 | 309,795,241.57 | 330.63 | 112,352,555.17 | 106,155,555.17 |
| Net profit attributable to shareholders | 940,656,796.03 | 267,537,448.04 | 293,616,579.81 | 251.60 | 134,773,259.73 | 98,193,259.73 |
| Net profit attributable to shareholders after deduction of exceptional items | 915,678,615.36 | 272,726,938.30 | 298,806,070.07 | 235.75 | 98,606,032.10 | 62,026,032.10 |
| Total assets | 11,034,433,438.69 | 7,675,454,534.11 | 7,481,033,647.00 | 43.76 | 2,638,523,337.13 | 2,544,604,337.13 |
| Total liabilities | 8,507,075,060.14 | 6,352,336,994.26 | 6,319,715,282.48 | 33.92 | 1,704,765,764.72 | 1,686,428,464.72 |
| Shareholders' equity (excluding minority interests) | 2,451,509,684.38 | 1,261,712,691.62 | 1,099,913,516.29 | 94.30 | 884,037,648.62 | 808,455,948.62 |
| Basic earnings per share | 1.90 | 0.54 | 0.59 | 251.85 | 0.27 | 0.20 |
| Diluted earnings per share | 1.90 | 0.54 | 0.59 | 251.85 | 0.27 | 0.20 |
| Basic earnings per share after deduction of exceptional items | 1.85 | 0.55 | 0.60 | 236.36 | 0.20 | 0.12 |
| Net assets per share (Number of shares in issue at the end of year) | 4.96 | 2.55 | 2.22 | 94.51 | 1.79 | 1.63 |
| Adjusted net assets per share (Number of shares in issue at the end of year) | 4.94 | 2.21 | 2.21 | 123.53 | 1.67 | 1.54 |
| Net cash flow from operating activities | 1,818,659,141.44 | 2,619,252,190.45 | 2,619,252,190.45 | -30.57 | 845,576,858.89 | 845,576,858.89 |
| Net cash flow from operating activities per share (Number of shares in issue at the end of the year) | 3.68 | 5.29 | 5.29 | -30.43 | 1.71 | 1.71 |
| Return on net assets (%) (Shareholders' equity at the end of year) | 38.37 | 21.20 | 26.69 | increased by 17.17% | 15.25 | 12.15 |
| Return on net assets (%) (Average of shareholders' equity at the beginning and the end of year) | 52.17 | 23.67 | 30.77 | increased by 28.50% | 16.80 | 12.93 |
| Return (loss) on net assets after deduction of exceptional items (%) (Shareholders' equity at the end of year) | 37.35 | 21.65 | 31.32 | increased by 15.70% | 12.29 | 8.17 |
| Return (loss) on net assets after deduction of exceptional items (%) (Average of shareholders' equity at the beginning and the end of year) | 50.78 | 24.17 | 31.32 | increased by 26.61% | 12.29 | 8.17 |
| Ratio of shareholders' equity (%) (Shareholders' equity/Total assets x 100%) | 22.22 | 14.70 | 14.70 | increased by 51.16% | 33.51 | 31.77 |
| Current Ratio (Current assets/Current liabilities) | 1.17 | 1.20 | 1.20 | -2.50 | 0.87 | 87.00 |

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(II). In accordance with HKFRS

Unit: RMB'000

| Item | 2007 | 2006 | 2005 | 2004 Restated | 2003 Restated |
|--|-------------------|-----------|-----------|------------------|------------------|
| Turnover | 5,906,793 | 3,322,299 | 2,728,916 | 2,363,403 | 2,840,446 |
| Operating profit | 1,158,930 | 288,260 | 91,318 | 56,528 | 66,175 |
| Profit before taxation | 1,340,964 | 310,978 | 112,288 | 35,072 | 26,473 |
| Profit attributable to shareholders | 938,560 | 266,635 | 135,011 | 60,945 | 24,555 |
| Total assets | 11,029,129 | 7,672,237 | 3,432,086 | 2,862,932 | 2,932,287 |
| Total liabilities | 8,501,772 | 6,349,186 | 2,499,650 | 2,092,208 | 2,214,985 |
| Total shareholders' equity (excluding minority interests) | 2,451,509 | 1,261,647 | 882,716 | 718,514 | 657,569 |
| Earnings per share (RMB) (Number of shares in issue at the end of the year) | 1.8973 | 0.5390 | 0.2729 | 0.1232 | 0.0496 |
| Earnings per share (RMB) (Weighted average number of shares in issue) | 1.8973 | 0.5390 | 0.2729 | 0.1232 | 0.0496 |
| Net assets per share (RMB) (Number of shares in issue at the end of the year) | 4.96 | 2.55 | 1.78 | 1.45 | 1.33 |
| Return on net assets (%) (Shareholders' equity at the end of the year) | 38.28 | 21.13 | 15.29 | 8.48 | 3.73 |
| Return on net assets (%) (Average of shareholders' equity at the beginning and the end of year) | 50.55 | 24.87 | 16.86 | 8.86 | 3.81 |
| Ratio of shareholders' equity (%) (Shareholders' equity/Total assets x 100%) | 22.23 | 16.44 | 25.72 | 25.10 | 22.43 |
| Current ratio (Current assets/ Current liabilities) | 1.13 | 1.19 | 0.91 | 0.97 | 0.98 |
| Gearing ratio (%) | 77.08 | 82.76 | 72.83 | 73.08 | 75.54 |

SUMMARY OF ACCOUNTING AND BUSINESS DATA

Notes:

- (1) Methods for calculating earnings per share, net assets per share, return on net assets, adjusted net assets per share, net cash flow from operating activities per share and gearing ratio are as follows:

- ① Bases on balances at the end of the year:

Earnings per share = net profit/total number of ordinary shares at the end of the year

Net assets per share = shareholders' equity at the end of the year/total number of ordinary shares at the end of the year

Return on net assets = net profit/shareholders' equity at the end of the year x 100%

Adjusted net assets per share = (shareholders' equity at the end of the year – accounts receivable aged over three years – deferred expenses – long-term deferred expenses)/total number of ordinary shares at the end of the year

Net cash flow from operating activities per share = net cash flow operating activities/total number of ordinary shares at the end of the year

- ② Based on weighted average balances:

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

Return on net assets = $P/(E0 + NP \div 2 + Ei \times Mi \div M0 - Ej \times Mj \div M0 \pm Ek \times Mk \div M0)$

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

NP: the net profit attributable to shareholders

E0: the opening balance of net assets attributable to shareholders

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

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

M0: the reporting months

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

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

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

Mk: the months that from the next month which the net assets changed by other business or affairs to the end of the period under review

- ③ Gearing ratio = total liabilities/total assets x 100%

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(III). The difference in this year's net profit (profit attributable to shareholders) and shareholders' equity calculated on the basis of the PRC Accounting Standards and Regulations and the HKFRS are as follows:

Unit: RMB'000

| Item | Net profit | | Shareholders' equity | |
|--|---|---|---|---|
| | For the year ended December 31, 2007 | For the year ended December 31, 2006 | For the year ended December 31, 2007 | For the year ended December 31, 2006 |
| Prepared under PRC Accounting Standards and Regulations | 940,657 | 267,538 | 2,451,509 | 1,261,713 |
| Provision for impairment of investment properties | 1,322 | - | - | (1,322) |
| Amortised cost adjustment on held-to-maturity financial assets | (1,256) | 1,256 | - | 1,256 |
| Appropriation for staff award and welfare | (2,163) | (2,159) | - | - |
| Prepared under HKFRS | 938,560 | 266,635 | 2,451,509 | 1,261,647 |

III. RETURN ON NET ASSETS RATIO AND EARNINGS PER SHARE COMPUTED IN ACCORDANCE WITH "REGULATIONS ON INFORMATION DISCLOSURE FOR COMPANIES WITH LISTED SECURITIES (NO.9)" PROMULGATED BY CHINA SECURITIES REGULATORY COMMITTEE

| Profit during the period under review | Return on net assets ratio (%) | | Earnings per share (RMB) | |
|--|--------------------------------|------------------|--------------------------|------------------|
| | Fully diluted | Weighted average | Fully diluted | Weighted average |
| Profit attributable to ordinary shareholders of the Company | 38.37 | 52.17 | 1.90 | 1.90 |
| Net profit attributable to ordinary shareholders of the Company after deduction of exceptional items | 37.35 | 50.78 | 1.85 | 1.85 |

SUMMARY OF ACCOUNTING AND BUSINESS DATA

IV. ITEMS PREPARED IN ACCORDANCE WITH FAIR VALUE MEASUREMENTS

Unit: RMB

| Item | Opening balance | Closing balance | Change | Impact to the current profit |
|---------------------------------------|-----------------|-----------------|----------------|------------------------------|
| Tradable financial assets | 712,022.60 | 294,309,931.43 | 293,597,908.83 | 282,540,017.01 |
| Trading financial liabilities | 570,327.16 | 11,628,218.98 | 11,057,891.82 | |
| Available-for-sale equity instruments | 218,765,655.40 | 575,174,357.75 | 356,408,702.40 | No impact |

Explanation of the items prepared in accordance with fair value measurements

Tradable financial assets refer to the forward foreign exchange contracts signed by the Company to avoid the exchange rate risk and their fair values are determined by a way of discounting and based on the forward foreign exchange quotation of commercial banks.

Available-for-sale equity instruments refer to stock investment of the Company in other listed companies and their fair values are estimated in accordance with market prices.

V. CHANGE OF SHAREHOLDERS' EQUITY DURING THE PERIOD UNDER REVIEW

Unit: RMB

| Item | Capital | Capital reserve | Surplus reserve fund | Retained profit | Total of shareholders' equity |
|-----------------|----------------|------------------|----------------------|-----------------|-------------------------------|
| Opening balance | 494,677,580.00 | 793,464,788.81 | 100,147,511.34 | -126,577,188.54 | 1,261,712,691.61 |
| Additions | - | 251,343,900.11 | 75,504,272.85 | 940,656,796.03 | 1,267,344,236.72 |
| Deductions | - | 42,207.40 | - | 77,505,036.56 | 77,547,243.96 |
| Closing balance | 494,677,580.00 | 1,044,766,481.52 | 175,651,784.19 | 736,574,570.94 | 2,451,509,684.38 |

Reasons of change:

- Capital reserve increased by 31.67%, that mainly due to the change of the fair value of the available-for-sale financial assets.
- The increase of the surplus reserve fund was mainly because of the deduction of statutory public welfare fund which amounted to 10% of retained earnings in accordance with the regulations of the Articles of Association of the Company.
- The increase of the retained profit of the Company was mainly due to the transfer in of the 2007 net profit of the Company, while the decrease of retained profit of the Company was due to the deduction of statutory public welfare fund.

SUMMARY OF ACCOUNTING AND BUSINESS DATA

VI. PRINCIPAL BUSINESS DATA

The turnover (note 1) and the results from the principal operations of the Group during the year under review are as follows:

Unit: RMB'000

| Principal operation | Year ended December 31, 2007 | | | Year ended December 31, 2006 | | |
|--|------------------------------|----------------|-------------------------------------|------------------------------|----------------|-------------------------------------|
| | Turnover | | Gross profit (loss) before taxation | Turnover | | Gross profit (loss) before taxation |
| | Amount | Percentage (%) | Amount | Amount | Percentage (%) | Amount |
| Shipbuilding | 5,134,589 | 88.35 | 856,693 | 2,860,687 | 86.11 | 421,541 |
| Steel structure | 391,846 | 6.74 | 45,362 | 320,033 | 9.63 | 41,033 |
| Mechanical and electrical products and others | 285,033 | 4.9 | 64,644 | 141,579 | 4.26 | 52,905 |
| Subtotal | 5,811,468 | 100 | 966,698 | 3,322,299 | 100 | 515,480 |
| Other operating profit | | | 68,282 | | | 13,040 |
| Operating expenses (note 2) | | | 216,688 | | | 224,219 |
| Business tax and surcharge | | | 20,347 | | | 9,293 |
| Impairment losses | | | 15,578 | | | 3,962 |
| Income from the changes of fair value | | | 282,540 | | | -2,382 |
| Investment income | | | 44,924 | | | 3,085 |
| Net non-operating income | | | 243,081 | | | 30,527 |
| Net non-operating expenditure | | | 9,852 | | | 10,395 |
| Total profit (under PRC Standards and Regulations) | | | 1,343,061 | | | 311,880 |
| Reconciling items | | | | | | |
| Provision for impairment of investment properties | | | 1,322 | | | - |
| Amortised cost adjustment on held-to-maturity financial assets | | | (1,256) | | | 1,256 |
| Appropriation for staff award and welfare | | | (2,163) | | | (2,159) |
| Profit before taxation (under HKFRS) | | | 1,340,964 | | | 310,978 |

Notes:

- The definition of turnover, which represents the income from principal operations prepared in accordance with PRC Accounting Standards and Regulations and the turnover in accordance with HKFRS, is set out in note IX 34 on page 129 and note 2.22 on page 183 to the Financial Statements respectively.
- Operating expenses, including selling, administrative and financial expenses, represent non-distinctive amounts incurred in the various principal operations. As operating expenses incurred did not have a direct correlation with the respective activities, it is impracticable to analyze these expenses by activities.

CHANGES OF SHARE CAPITAL AND SHAREHOLDERS

I. SHARE CAPITAL CHANGE

(I). Change of the share capital

Unit: share

| Category | Before the change | | Changes during the year (+, -) | | | | | After the change | |
|---|--------------------|--------------|--------------------------------|-------------|--------------------------|----------|-----------|--------------------|--------------|
| | Amount | Proportion % | New Share | Bonus Share | Conversion from reserves | Others | Sub-total | Amount | Proportion % |
| 1. Shares subject to sale restrictions | | | | | | | | | |
| (1) State-owned shares | 176,650,615 | 35.71 | - | - | - | - | - | 176,650,615 | 35.71 |
| 2. 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 |
| 3. Total | 494,677,580 | 100 | - | - | - | - | - | 494,677,580 | 100 |

(II). Change of the shares subject to sale restrictions

During the period under review, the shares subject to sale restrictions hold by CSSC had not changed. The reason for restrictions is the undertaking made by CSSC for A share reform, and the date of removal from sale restrictions is May 23, 2009.

(III). Share issue and listing information

As at December 31, 2007, except that the CSSC offered 2.7 bonus for every 10 shares to shareholders of A share of the Company on May 24, 2007 due to A share reform, the Company has not arranged any further issue of any new shares, derivatives, bonus shares, rights shares or conversion of shares from reserves and does not have employee share, since the issue of 157,398,000 new H shares and 126,479,500 new A shares on August 3, 1993 and September 22, 1993 respectively.

CHANGES OF SHARE CAPITAL AND SHAREHOLDERS

II. SHAREHOLDERS INFORMATION

(I). Number of shareholders

- As at December 31, 2007, the total amount of shareholders, the information of the top ten shareholders and the top ten shareholders of freely transferable shares are as follows:

Unit: share

Total number of shareholders As at December 31, 2007, there were 28,175 shareholders, including a shareholder of state-owned A shares subject to sale restrictions, 28,073 shareholders of listed freely transferable A shares and 101 shareholders of listed H shares.

Top ten shareholders' information

| Name | Addition/ Deductions in 2007 | Number of shares at the end of year | Percentage (%) | Number of shares subject to sale restrictions | Shares pledged or subject to attachment | Shareholders' classification |
|---|------------------------------------|---|-------------------|--|--|---------------------------------|
| China State Shipbuilding Corporation | - | 176,650,615 | 35.71 | 176,650,615 | None | State-owned shares |
| HKSCC Nominees Limited | 5,285,100 | 153,230,799 | 30.98 | 0 | Unknown | Foreign capital shares |
| GF Sharp Security Investment Fund | 2,213,534 | 6,615,053 | 1.34 | 0 | Unknown | Other |
| GF Jufeng Shape Security Investment Fund | 5,561,294 | 6,305,257 | 1.27 | 0 | Unknown | Other |
| GF Large Growth Mixed Securities Investment Fund | 6,011,451 | 6,011,451 | 1.22 | 0 | Unknown | Other |
| SYWG BNP PARIBAS New Power Shape Security | 5,800,000 | 5,800,000 | 1.17 | 0 | Unknown | Other |
| China Post Core Growth Equity Securities Investment Fund | 5,672,950 | 5,672,950 | 1.15 | 0 | Unknown | Other |
| GF Small Growth Securities Investment Fund | 3,743,590 | 5,533,124 | 1.12 | 0 | Unknown | Other |
| GF Jufu Opening Security Investment Fund | 4,331,720 | 4,631,720 | 0.94 | 0 | Unknown | Other |
| Lion Value Growth Securities Investment Fund | 4,110,683 | 4,110,683 | 0.83 | 0 | Unknown | Other |

CHANGES OF SHARE CAPITAL AND SHAREHOLDERS

Top ten shareholders of freely transferable shares' information

| Name | Number of shares at the end of year | Share classification |
|---|-------------------------------------|----------------------|
| HKSCC Nominees Limited | 153,230,799 | H Shares |
| GF Sharp Security Investment Fund | 6,615,053 | A Shares |
| GF Jufeng Shape Security Investment Fund | 6,305,257 | A Shares |
| GF Large Growth Mixed Securities Investment Fund | 6,011,451 | A Shares |
| SYWG BNP PARIBAS New Power Shape Security | 5,800,000 | A Shares |
| China Post Core Growth Equity Securities Investment Fund | 5,672,950 | A Shares |
| GF Small Growth Securities Investment Fund | 5,533,124 | A Shares |
| GF Jufu Opening Security Investment Fund | 4,631,720 | A Shares |
| Lion Value Growth Securities Investment Fund | 4,110,683 | A Shares |
| China Merchants Core Value Mexed Security Investment Fund | 3,841,568 | A Shares |

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

Except that GF Sharp Security Investment Fund, GF Jufeng Shape Security Investment Fund, GF Large Growth Mixed Securities Investment Fund, GF Small Growth Securities Investment Fund and GF Jufu Opening Security Investment Fund belong to GF Fund Management Co., Ltd., the Company is not aware of whether the top ten shareholders or the top ten shareholders of freely transferable shares disclosed above are connected with each other or they are persons acting in concert as defined in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

- Apart from the shareholders disclosed above, as at December 31, 2007, the register the Company maintains pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong ("SFO") recorded the following interest and short positions in the shares and underlying shares of the Company:

| Shareholder | Shareholding (share) | Proportion of total H shares (%) | Proportion of total issued shares (%) |
|--|-------------------------|-------------------------------------|--|
| Mirae Asset Global Investments (Hong Kong) Limited | 14,268,000 | 9.06 | 2.86 |
| JPMorgan Chase&Co. | 20,594,000 | 13.08 | 4.12 |

CHANGES OF SHARE CAPITAL AND SHAREHOLDERS

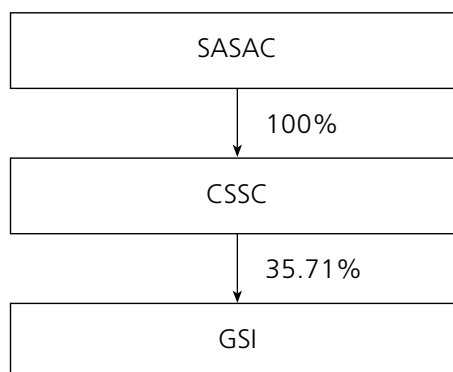
3. Brief introduction of the controlling shareholder and actual controller

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

The actual controller of the Company is the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”). CSSC manages the state-owned shares of the Company under SASAC’s authorization.

During the period under review, the controlling holder and actual controller of the Company has not changed.

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



INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

(I). Basic information

| Name | Position | Gender | Age | Current Tenure Commencement date | Total remuneration received from the Company in 2007 (RMB) | Whether received any remuneration from shareholders of the Company (yes/no) |
|----------------------|---------------------------------------|--------|-----|----------------------------------|--|---|
| Li Zhushi | Board chairman | Male | 63 | 2005-10-10 | 150,000 | Yes |
| Han Guangde | Vice board chairman & president | Male | 46 | 2005-05-27 | 1,434,289 | No |
| Chen Jingqi | Executive director | Male | 55 | 2005-05-27 | 1,251,399 | No |
| Zhong Jian | Executive director | Male | 45 | 2005-05-27 | 1,092,157 | No |
| Yu Baoshan | Non-executive director | Male | 47 | 2005-05-27 | 100,392 | Yes |
| Li Junfeng | Non-executive director | Male | 45 | 2005-05-27 | 40,000 | Yes |
| Miao Jian | Non-executive director | Male | 43 | 2005-05-27 | 40,000 | Yes |
| Bu Miaojin | Independent non-executive director | Male | 63 | 2005-05-27 | 60,000 | No |
| Wu Fabo | Independent non-executive director | Male | 55 | 2005-05-27 | 60,000 | No |
| Wang Xiaojun | Independent non-executive director | Male | 53 | 2005-05-27 | 60,000 | No |
| Lee Sun-leung, Sunny | Independent non-executive director | Male | 37 | 2006-05-09 | 60,000 | No |
| Wang Shusen | Chairman of the Supervisory Committee | Male | 67 | 2005-05-27 | 96,000 | Yes |
| Liang Mianhong | Executive supervisor | Male | 54 | 2005-05-27 | 1,077,773 | No |
| Liu Shibai | Executive supervisor | Male | 56 | 2005-05-27 | 939,548 | No |
| Wang Shiming | Non-executive supervisor | Male | 55 | 2005-05-27 | 40,000 | No |
| Ye Weiming | Non-executive supervisor | Male | 45 | 2005-05-27 | 40,000 | No |
| Chen Ji | Vice president | Male | 41 | 2005-05-27 | 1,104,975 | No |
| Yang Li | Vice president | Male | 40 | 2007-12-14 | 565,261 | No |
| Zhou Dusheng | Vice president | Male | 52 | 2007-12-14 | 596,313 | No |
| Zeng Xiangxin | Chief accountant | Male | 41 | 2005-05-27 | 1,141,271 | No |
| Li Zhidong | Company secretary | Male | 42 | 2005-05-27 | 968,121 | No |

The tenure ending date of the directors, supervisors and senior management of the Company above-mentioned is the date of the commencement of the next term of the Board of Directors.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Director Mr. Chen Jingqi held 2,540 A shares at the beginning of the year 2007 and such shareholding has not changed during the period under review. Apart from the above, during the period under review, no director, supervisor or senior management has held, purchased or sold shares of the Company.

The total remuneration received by directors, supervisors and senior management from the Company included basic remuneration, year-end bonus, housing accumulated fund, social pension and other insurance. For details refer to item 34(d), Directors and Supervisors' emoluments stated in Notes to the Consolidated Financial Statements.

Main experience of directors, supervisors and senior management

Directors

Mr. Li Zhushi, aged 63, senior engineer (Professional Level), general engineer of CSSC, joined the Company in 2005 and is currently chairman of the Board. Mr. Li graduated from Shanghai Jiaotong University in 1967. He joined Tianjin Xin Gang Shipyard in 1968. His prior work experience include being technician, deputy section chief, deputy factory director and factory director of Tianjin Xin Gang Shipyard, deputy general manager of China Shipping Trade Company, general manager of Hong Kong Hualian Marine Company Limited, and vice president of CSSC.

Mr. Han Guangde, aged 46, senior engineer (Professional Level), currently vice board chairman and president of the Company, graduated from Huazhong University of Science and Technology and joined Guangzhou Shipyard in 1983, and obtained a master degree of industrial engineering administration in 2002. He experienced as deputy director and deputy manager of the No. 2 Technical Office, deputy section chief, deputy manager, manager of the Shipbuilding Division, and vice president of the Company.

Mr. Chen Jingqi, aged 55, senior political officer, presently director and secretary of Party Committee of the Company, joined Guangzhou Shipyard in 1969, and graduated from Guangzhou Television University in 1987. He experienced as secretary of branch party committee of Coating Workshop, secretary of party committee of Container Division of Guangzhou Shipyard, deputy chairman and chairman of Labor Union, vice secretary of Party Committee and secretary of the Disciplinary Inspection Committee of the Company, and supervisor of the Company.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Zhong Jian, aged 45, senior engineer (Professional Level), currently director, vice president and deputy secretary of Party Committee of the Company. Mr. Zhong graduated from Shanghai Jiaotong University and joined Guangzhou Shipyard in 1983. He obtained a degree of MBA in 1993. He experienced as deputy chief economic engineer, manager of the Development and Investment Department, assistant to president, vice president of the Company, deputy manager and manager of Assets Management Dept. of CSSC.

Mr. Yu Baoshan, aged 47, senior engineer (Professional Level), presently he is assistant to president of CSSC, president of Guangzhou Shipbuilding Corporation, an affiliate of CSSC, president of Guangzhou CSSC Longxue Shipbuilding Co., Ltd., and vice board chairman of Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd. He joined Guangzhou Shipyard in 1978, graduated from Guangdong Zhanjiang Aquatic College in 1982, and obtained a master degree of industrial engineering administration in 2002. He experienced as director in the Second Design Office of Guangzhou Shipyard, and deputy manager in Shipbuilding Division, vice president, president and vice board chairman of the Company.

Mr. Li Junfeng, aged 45, senior engineer, graduated from Shanghai Jiaotong University in 1983, and joined Shiprepairing Bureau of CSSC in 1991. He obtained a degree of MBA in 2003. Presently he is the deputy manager of the Business & Marketing Department of CSSC. Mr. Li joined the Company in 2002.

Mr. Miao Jian, aged 43, senior engineer, graduated from Shanghai Jiaotong University in 1987 and joined Economy and Trade Office of 601 Institute of CSSC in the same year. Presently he is the chief of the Second Section in Financial Department of CSSC. Mr. Miao joined the Company in 2003.

Mr. Bu Miaojin, aged 63, professor, graduated from China Renmin University in 1969, started to work in 1970, and obtained a master degree of economics in 1981. He experienced as director of Management College, No. 1 deputy president of the Management College in Zhongshan University, the president of the Zhongkai Agrotechnical College. He joined the Company in 2002.

Mr. Wu Fabo, aged 55, China certified public accountant, senior accountant, started to work in 1968, graduated from Guangdong Foreign Trade School in 1975, and graduated from Guangzhou No.1 Employee Commercial College in 1985. He experienced as chief of Audit Department of Guangzhou Foreign Trade Committee and chief accountant of the Orient Certified Public Accountants Company. Presently he is the head of the Orient Certified Public Accountants Company limited. He joined the Company in 2002.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Wang Xiaojun, aged 53, lawyer qualified to practice in the PRC, Hong Kong and the United Kingdom, graduated from the University of Hong Kong in 1992, and joined the Stock Exchange Hong Kong Company Limited in the same year. He has worked for Richards Butler and Peregrine Finance Co., and is the sole proprietor of X.J. Wang & Co. Mr. Wang joined the Company in 2005.

Mr. Lee Sun-leung, Sunny, male, aged 37, member of ACCA, the UK, and qualified as Chartered Financial Analyst, the US. He graduated from the Chinese University of Hong Kong in 1993 and has worked for NWS Infrastructure Management Limited, Hong Kong since 2003. Mr. Lee joined the Company in 2006.

Supervisors

Mr. Wang Shusen, aged 67, senior economist, graduated from Harbin Institute of Technology in 1966 and subsequently joined Zhongnan Optical Instrument Factory, experienced as a section member, deputy section chief, director of general engineer office and deputy manager of Zhongnan Optical Instrument Factory, general manager of Wuhan Shipbuilding Corporation, deputy director of financial department and financial director of the former China State Shipbuilding Company, deputy general manager, chief accountant of the CSSC. Presently, he is vice board chairman of CSSC Financial Co., and chairman of the Supervisory Committee of the Company. Mr. Wang joined the Company in 2005.

Mr. Liang Mianhong, aged 54, senior political officer, currently a supervisor of the Company, vice secretary of Party Committee, secretary of the Disciplinary Inspection Committee and chairman of Labor Union of the Company. He joined Guangzhou Shipyard in 1969, graduated from Guangzhou Employee Spare-time University in 1987, experienced as clerical worker of Communist Youth League Committee and of the personnel department of Guangzhou Shipyard, clerical worker, deputy secretary and secretary of CCP committee mechanical factory branch, deputy manager of mechanical factory of Guangzhou Shipyard, secretary of CCP committee mechanical division branch, deputy manager of mechanical division of the Company, director assistant of CSSC Guangzhou Administrative Bureau, secretary of Party Committee shipbuilding division branch and the deputy manager of Shipbuilding Division of the Company.

Mr. Liu Shibai, aged 56, accountant, currently a supervisor of the Company, secretary of Supervisory Committee and manager of Audit Department of the Company. He graduated from Guangzhou Finance School and joined Guangzhou Shipyard in 1975, and experienced as deputy section chief of Financial Section, deputy section chief of financial Department, director of Audit Office of Guangzhou Shipyard, director of Audit Office, supervisor of the first Supervisory Committee and Deputy Chief Accountant of the Company.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Wang Shiming, aged 55, senior accountant and qualified accountant, graduated from Guangzhou Employee Spare-time University majoring in Industrial accountant in 1984. In 2000, he graduated from Murdoch University in Australia with a MBA. He joined Guangzhou Finance Bureau as a finance and tax officer in September 1971, and joined Guangzhou Yangcheng Qualified Accountants Company as an audit manager in March 1984. From February 1990 to December 2001, he worked in Hong Kong Yuexiu Group and experienced as financial director and president of Yuexiu Finance Company. Presently, he is a deputy director accountant of Zhongtianxin Qualified Accountants Company and an independent director of Guangzhou Baiyunshan Pharmacies Co., Ltd part-time. He joined the Company in 2004.

Mr. Ye Weiming, aged 45, lawyer, graduated from Zhongshan University and joined in the Judiciary Department of Guangdong Province in 1986. From 1989 to 1994, he worked for Guangdong Zhujiang Law Office as a part-time lawyer. He became a partner of Guangdong Sanzheng Law Office in September 1994 and he was transferred to Economy System Reform Committee of Guangdong Province in 1999. In July 2001, he established Guangdong Xinyang Law Office and presently he is the director and senior partner of the office. He joined the Company in 2004.

Senior Management

Mr. Chen Ji, aged 41, senior engineer, currently vice president of the Company, graduated from Shanghai Jiaotong University in 1989 and joined Guangzhou Shipyard in the same year, and obtained a degree of MBA in 2001. He experienced as ship repairing supervisor, assistant to production section chief of ship repairing factory of Guangzhou Shipyard, and assistant to production section chief, assistant to manager and deputy manager of ship repairing division, and assistant to president of the Company.

Mr. Yang Li, aged 40, engineer, graduated from Harbin Ship Engineering Institute and joined Guangzhou Shipyard in 1991, and obtained a degree of MBA in 2006. He experienced as technician of Technical Office of Guangzhou Shipyard, section chief, deputy manager and manager of Purchase Department in Shipbuilding Division of the Company, manager of Marketing Department and assistant to president of the Company.

Mr. Zhou Dusheng, aged 52, engineer, graduated from Zhenjiang Ship Institute and joined Guangzhou Shipyard in 1980, and obtained a master degree of MBA in 2003. He experienced as technician and deputy section chief of Technical Office of Guangzhou Shipyard, deputy manager of Quality Department, deputy manager of Engineering Department in Shipbuilding Division of the Company, deputy manager and director manager of Guangzhou Xinchun Shipping Service Company Limited, a subsidiary of the Company, assistant to manager, deputy manager and manager of Shipbuilding Division, manager of Shipbuilding Administration Department and assistant to president of the Company.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Zeng Xiangxin, aged 41, senior accountant, currently chief accountant of the Company, graduated from Hunan College of Finance and Economics in 1989, joined Guangzhou Shipyard in the same year, and obtained a degree of master of industrial engineering administration in 2002. He has experienced as accountant of Financial Department and accounting section chief, assistant to manager, deputy manager of Financial Department, manager of Financial Center and deputy chief accountant of the Company.

Mr. Li Zhidong, aged 42, senior engineer, currently company secretary, assistant to president of the Company and manager of Administrative Office, graduated from Shanghai Jiaotong University in 1987, joined Guangzhou Shipyard in the same year. He obtained a degree of MBA of CEIBS in 1997, experienced as engineer of Accommodation section of ship design office, deputy manager of engineering department in shipbuilding division, assistant to the manager of Financial Department of the company, deputy director of Administrative Office of the Company.

(II). Positions in holding company

| Name | Company | Position | Tenure period | Whether receive remuneration and allowance |
|-------------|--|--|------------------------------|--|
| Li Zhushi | Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd. | Board Chairman | Since Aug. 2005 to Mar. 2007 | No |
| Yu Baoshan | China State Shipbuilding Corporation | Assistant to President | Since Jun. 2007 | No |
| | Guangzhou Shipbuilding Corporation | President | Since Mar. 2006 | No |
| | Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd. | Vice Board Chairman | Since Jun. 2005 | No |
| | Guangzhou CSSC Longxue Shipbuilding Co., Ltd. | President | Since Mar. 2006 | Yes |
| | Guangzhou CSSC Yuanhang Wengchong Shipbuilding Engineering Co., Ltd. | Director | Since Nov. 2005 | No |
| Zhong Jian | CSSC Real Estate Development Co., Ltd. | Director | Since 2003 | No |
| | Hudong Heavy Mechanical Co., Ltd. | Director | Since May 2004 to Jul. 2007 | No |
| Li Junfeng | CSSC | Deputy Manager of Business & Marketing Dept. | Since 2004 | Yes |
| | Waigaoqiao Shipbuilding Co., Ltd. | Supervisor | Since Mar. 2003 | No |
| | Jiangnan Shipbuilding (Group) Co., Ltd. | Vice President | Since Jan. 2007 | No |
| Miao Jian | CSSC | Chief of the Second Section in Financial Dept. | Since Sep. 2001 | Yes |
| | CSSC Real Estate Development Co., Ltd. | Supervisor | Since Oct. 2001 | No |
| | CSSC Huanan Marine Mechanical Co., Ltd. | Director | Since Dec. 2006 | No |
| Wang Shusen | CSSC Financial Co. | Vice Board Chairman | Since Mar. 2004 | No |
| | China CSSC Holdings Limited | Chairman of the Supervisory Committee | Since Jul. 2007 | No |

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(III). Positions in other companies

| Name | Company | Position | Tenure period | Whether receive remuneration and allowance |
|-------------------------|---|-----------------------|-----------------|--|
| Bu Miaojin | Guangzhou Zhongkai Agrotechnical College | Professor | Since Feb. 2003 | Yes |
| | Guangzhou Light Industry Trade Group | Independent director | Since 2001 | Yes |
| Wu Fabo | Orient Certified Public Accountants Company | Manager | Since Aug. 1990 | Yes |
| Wang Xiaojun | Wang & Co., XJ | Sole proprietor | Since 2001 | Yes |
| | Yanzhou Coal Mining Co., Ltd. | Independent director | Since Apr. 2002 | Yes |
| Lee Sun-leung, Sunny | NWS Infrastructure Management Limited | Senior manager | Since 2003 | Yes |
| Wang Shiming | Zhongtianying Huaxin Accountants Co., Ltd. | Registered Accountant | Since Apr. 2006 | Yes |
| | Guangzhou Baiyunshan Pharmacies Co., Ltd | Independent director | Since May 2002 | Yes |
| Ye Weiming | Guangdong Xingyan Law Office | Partner, lawyer | Since Jul. 2001 | Yes |

II. REMUNERATION INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the directors of the fifth term of the Board of Directors and supervisors of the fifth term of the Supervisory Committee was proposed by the Board of Directors and approved by the general meeting, and the Board of Directors of the Company approved the remuneration of the senior management. The annual remuneration of the directors, supervisors and senior management of the fifth term is determined in accordance with the operation scale, performance of the Company and the market remuneration of the industry and other factors.

The five individuals whose emoluments were the highest in the Company for the year include three directors and two senior managers whose emoluments are reflected in "Basic information" above-mentioned, and in item 34(e), (Five highest paid individuals) of the Notes to the Consolidated Financial Statements on page 242.

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

1. Mr. Yu Baoshan resigned as the vice board chairman of the Company due to work relocation which has been approved by the 20th meeting of the fifth term of the Board on April 26, 2007. Mr. Han Guangde was elected as the vice chairman of the Board of the Company in the 21th meeting of the fifth term of the Board of the Company.
2. Mr. Wang Yi resigned as vice president of the Company due to work relocation which had been approved by the 24th meeting of the fifth term of the Board of the Company on October 25, 2007. Mr. Yang Li and Mr. Zhou Dusheng were elected as vice presidents of the Company at the 26th meeting of the fifth term of the Board on December 14, 2007, with their service terms ending on the date of the expiration of the fifth term of the Board of the Company.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

IV. OTHER INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Interests of directors, supervisors and senior management

Except as disclosed under "Information of Directors, supervisors, senior management and staff", at no time during the year up to December 31, 2007 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.

2. Service contracts of directors and supervisors

None of the service contracts of the incumbent of the fifth term of the Board of Directors and Supervisory Committee of the Company with the Company are not determinable by the Company within one year without payment of compensation (other than statutory compensation).

3. Interests of directors and supervisors in contracts

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

V. STAFF OF THE COMPANY

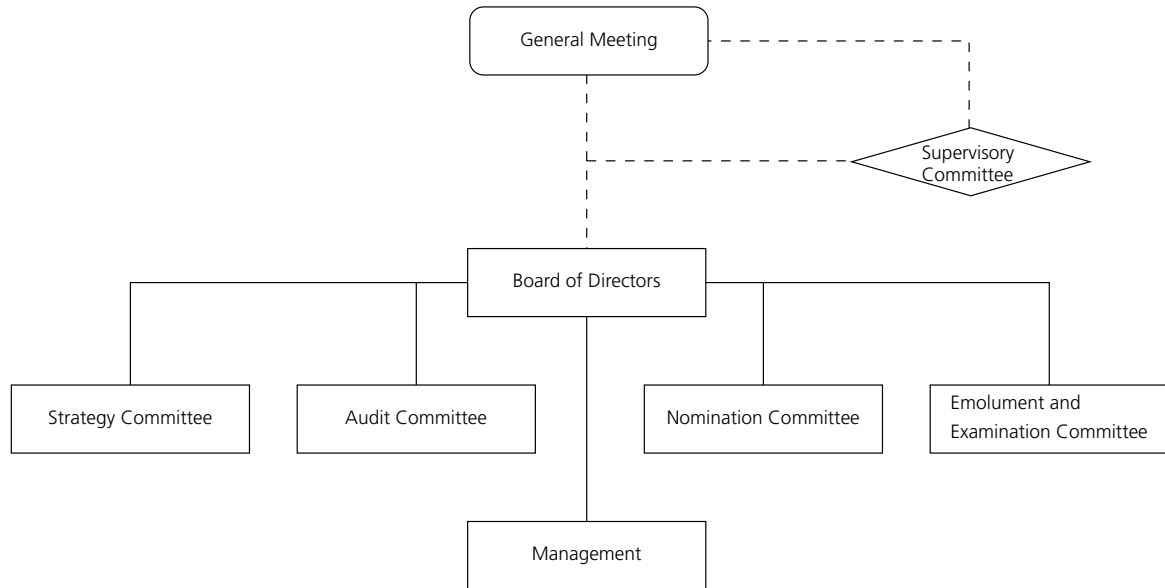
As at December 31, 2007, the number of employees on the payroll register of the Company was 3,731, including 1,614 manufacturing staff, 58 marketing staff, 1,419 professional technical staff, 61 financial staff and 360 administrative staff. Besides, the number of retired employees of the Company was 2,999.

Among the staff of the Company, 288 persons are technical school graduates, 462 persons are college graduates, 768 persons are university graduates and 34 persons are postgraduates.

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.

I. CORPORATE GOVERNANCE INFORMATION

The corporate governance structure of the Company:



The Company always strictly conforms to the *Company Law* and the *Securities Law* of the PRC, relevant Regulations issued by the China Securities Regulatory Commission and the listing rules of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, actively consummates its corporate governance structure, standardizes its operations. During the period under review, the Company has strictly complied with all code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the period under review, In accordance with the “Guide for Articles of Association of Listed Companies (2006 Revision)” issued by the China Securities Regulatory Commission on March 16, 2006, “Rules for General Meeting of Shareholders of Listed Companies” and “Model Proceedings of Board of Directors of Listed Companies” and “Model Proceedings of Supervisory Committee of Listed Companies” issued by Shanghai Securities Exchange on May 12, 2006, and the practical situations of the Company, the Company amended the proceedings of general meetings, Board of Directors and Supervisory. Meanwhile, the Company also amended its Information Disclosure Management System pursuant to the “Information Disclosure Management Measure for Listing Companies” issued by China Securities Regulatory Commission and the requirements of the “Guide for Information Disclosure Affairs Management System for Listing Companies” issued by Shanghai Stock Exchange.

During 2007, there were 11 individual attendances by the directors, supervisors and senior management training courses organized by Guangdong Securities Regulatory Bureau of China Securities Regulatory Commission for directors, supervisors and senior management of listing companies. The training contents included changes of equity right, share incentive schemes, information disclosure supervision on listing companies, impact of the new Enterprise Accounting Rules, the risks and responsibilities of the directors, supervisors and senior management of listing companies, corporation governance evaluation, methods of purchase and reorganization of listing companies, etc. Through training, it thus enhanced the abilities of the directors, supervisors and senior managers in fulfilling their responsibilities, and strengthened the corporation governance of the Company.

CORPORATE GOVERNANCE

Besides, the Company seriously executed the internal corporation governance inspection in accordance with the requirements of "Notice Concerning Strengthening Corporation Governance of Listing Companies" issued by China Securities Regulatory Commission. Arming at the self-inspection and the shortages, the Company put forward the Self-examination Report and Rectification Scheme of Corporate Governance, published on July 19, 2007 with approval by the Board of Directors. Based on the acceptance of remarks from the public and the supervising institution and applying them to the practical situation of the Company, the Company issued Rectification Report of Corporate Governance with approval by the 24th meeting of the fifth term of the Board on Oct. 26, 2007. During 2007, the Company has made corresponding reforms to the deficiencies: Established the Work Code of Independent Directors and Management Regulations for External Guarantee, amended the Implement Frame for Internal Control and Management System for Financial Management System, Set up the Board of Directors' Office, implemented the corporate pension funds scheme, amended relevant clauses in Articles of Association initially.

In 2007, the Company was ranked as the "Integrate Governance Index Share" of Shanghai Stock Exchange, the sample share of "Shanghai Stock Exchange180" and component share of "Hangseng AH Index".

II. BOARD OF DIRECTORS

(I). Duties and Positions

The principal duties of the Board of Directors are to exercise management and decision-making power as conferred by the general meeting in respect of corporate development strategies, management structures, investment and financing, planning, financial control and so forth. In the Articles of Association of the Company, it has listed in detail the principal duties of the corporate development strategies as well as those of the management and the responsibilities of the said supervision and examination. The directors acknowledge their responsibility for preparing the financial statements in this annual report.

The roles of the chairman and the president are distinctively separated and different person undertakes different tasks. The chairman is responsible for overseeing the operation of the Board and monitoring the implementation of the Board's resolutions, whilst the president is responsible for, under the leadership of the Board of Directors, managing and overseeing the Group's business operations, implementing the resolutions laid down by the Board, etc.

(II). Composition

The Board is in its fifth term since the establishment of the Company, and is composed of eleven directors. The terms of office of the current directors are from May 27, 2005 or the respective dates of their appointments to the date of election of the next term of the Board.

Members of the Board have different industry backgrounds with expertise in corporate management, finance and accounting, investment and strategy, shipbuilding management and human resources management. The biography of the directors of the Company is set out in "Information of Directors, Supervisors, Senior Management and Staff" in this Annual Report.

Three directors, over 1/4 of the total number of directors, undertook specific management duties for the Company in 2007, enabling the Board to exercise close assessment and monitoring of the Company's management process. The Board has four independent non-executive directors, over 1/3 of the total number of directors.

(III). Board Meeting

The Company held nine Board meetings in 2007 to discuss the Group's development strategies, investment projects and the operational and financial performance of the Company. The Board meetings proceeded efficiently and arrived at prompt and prudent decisions. During the period under review, the four independent non-executive directors had no objection to decisions of the Company.

Attendance at meetings of the Board and its special committees (attendance in person/ number of meetings):

| Name | Board Meeting | Audit Committee | Emolument and Examination Committee | Strategy Committee | Nomination Committee |
|------------------------------|---------------|-----------------|-------------------------------------|--------------------|----------------------|
| Directors | | | | | |
| Li Zhushi | 7/9 | - | - | 1/1 | - |
| Han Guangde | 9/9 | - | - | 1/1 | - |
| Chen Jingqi | 9/9 | - | - | 1/1 | - |
| Zhong Jian | 9/9 | - | - | 1/1 | 2/2 |
| Yu Baoshan | 7/9 | - | 1/1 | - | - |
| Li Junfeng | 7/9 | - | - | 1/1 | - |
| Miao Jian | 8/9 | 3/4 | - | - | - |
| Independent Directors | | | | | |
| Wu Fabo | 9/9 | 4/4 | 1/1 | - | - |
| Bu Miaojin | 9/9 | - | 1/1 | - | 2/2 |
| Wang Xiaojun | 7/9 | - | - | - | 2/2 |
| Lee Sun-leung, Sunny | 8/9 | 3/4 | - | - | - |

Directors who had been unable to attend the meetings in person had appointed other directors as their proxies to attend and vote at the meetings on their behalf.

(IV). Directors

Directors are elected or replaced at general meetings, where the election is conducted by way of cumulative voting. The directors may offer themselves for re-election after the serve terms expires. Only appointees not related to the Company's management and substantial shareholders in any aspect should undertake the office of independent non-executive director. Independent non-executive directors are eligible for re-election subject to a maximum of six consecutive years.

Through the company secretary, all directors obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that directors of a listed company must comply with, ensuring understanding of their duties and assuring thorough implementation of procedures of the Board and due compliance with applicable laws and Regulations. The directors, as well as the special committees of the Board, may seek the advice of independent professional institutions in the course of exercising their powers, performing their duties or fulfilling any business requirements. Reasonable expenses incurred in this connection will be borne by the Company.

Each of the independent non-executive directors of the Company are familiar with the rights and obligations as directors and independent directors of a listed company. During the period under review, they all participated in the meetings of the Board in a highly conscientious and responsible manner, took the advantages of their experiences and special knowledge in the work of consummating the corporate governance and significant decision making, issued pertinent and external opinion on relevant matters such as significant events and connected transactions and so forth, improved the scientizing of the decision-making of the Board and its decision process, ensured the benefit of the shareholders and the Company as a whole. The four independent non-executive directors occupy positions in the special committees established under the Board.

The four independent non-executive directors has confirmed to the Company that they continued to satisfy the independence criteria as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year.

The Company has strictly complied with the relevant restrictive provisions imposed by Hong Kong and PRC regulatory organs in relation to securities transactions by directors and has consistently upheld the principle of complying with the most stringent provisions. The Company has adopted Model Code for Securities Transactions by Directors of Companies of Listing Rules. The Company has made specific inquiries of all directors of the Company for preparing this report and all directors have confirmed that they have complied with such code of conduct during the period under review.

III. SPECIAL COMMITTEES OF THE BOARD

The Board has set up four special committees. Each with defined terms of reference to monitor specific areas of the Company's business, and has established work team to assist the committees' work.

(I). Audit Committee

Established under proposals set forth in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is principally responsible for reviewing and monitoring the quality and procedures for the Group's financial reporting; evaluating the soundness and effectiveness of the Company's internal control systems; reviewing the appointment of independent auditors and coordination and reviewing the efficiency and quality of their work.

The Audit Committee comprises Mr. Wu Fabo (director member), Mr. Lee Sun-leung (Sunny) and Mr. Miao Jian, of which Mr. Wu and Mr. Lee are independent non-executive directors.

The Audit Committee held four meetings during 2007. All members of the committee and work team attended the meetings. All matters passed at the committee meetings have been properly recorded and filed in accordance with relevant rules. The director member reported to the Board on significant matters discussed.

Major tasks accomplished by the Audit Committee during the period under review are as follows:

- Reviewing the annual, interim and quarterly reports and financial statements of the Group;
- Reviewing the accounting policies and practices adopted by the Group and related matters;
- Checking and ensuring the connected transactions of the Company are fair, impartial and open, offering sufficient protection to the interests of minority shareholders;
- Assisting the Board to conduct independent evaluation of the effectiveness of the Group's financial reporting procedures and internal control systems;
- Providing opinions or reminding the management of related risks in respect of significant matters of the Company.

(II). Strategy Committee

The Strategy Committee is principally responsible for examining and reviewing the directions of the Company's strategic development, formulating the Company's strategic plans, monitoring the implementation of strategic planning, and facilitating timely adjustments to the Company's strategies and governance structure.

The Strategy Committee comprises Mr. Li Zhushi (director member), Mr. Han Guangde, Mr. Chen Jingqi, Mr. Zhong Jian and Mr. Li Junfeng.

During the year 2007, the Strategy Committee held one meeting which researched the Company's development strategic analyses report, and adjusted the medium-term and long-term development strategy and target.

(III). Nomination Committee

The Nomination Committee is principally responsible for selecting the candidates for directors and president and for choosing the selection standard and process of directors and president.

The Nomination Committee comprises independent non-executive director Mr. Bu Miaojin (director member), independent non-executive director Mr. Wang Xiaojun and Mr. Zhong Jian. The Nomination Committee held two meetings in the year 2007 to discuss the nomination of the persons for vice board chairman and the new assigned senior management.

(IV). Emolument and Examination Committee

The Emolument and Examination Committee is principally responsible for researching examination standard of the directors, supervisors and senior management of the Company, examining them and putting forward proposals, researching and examining remuneration policies and scheme of the directors, supervisors and senior management of the Company.

The Emolument and Examination Committee comprises independent non-executive director Mr. Bu Miaojin (director member), independent non-executive director Mr. Wu Fabo and Mr. Yu Baoshan. In 2007, the Emolument and Examination Committee held one meeting to discuss and determine the annual reward scheme for executive directors, internal supervisors and senior management and the special reward scheme to crucial staff for the year 2006.

IV. CONTROL MECHANISMS

(I). Supervisory Committee

The Supervisory Committee is in its fifth term since the establishment of the Company, and was elected by the 2005 annual general meeting. The Supervisory Committee composed of five supervisors, including two external supervisors and one staff supervisor. The number of the staff supervisors does not comply with the requirement in the Company Law. The Company has amended relevant clause of its Articles of Association, and promised to adjust the number of the staff supervisors for the new term of the Supervisory Committee in 2008, to meet the requirement of the Company Law.

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and Regulations. The Supervisory Committee held five meetings during 2007, each attended by all supervisors in person and carried out supervision on behalf of the shareholders in respect of the Company's financial matters and the lawfulness and compliance on the discharge of duties by the directors and senior management. The Supervisory Committee attended all Board meetings and general meetings, and diligently performed its supervisory duties. The work information refers to "Supervisory Committee Report" in this Annual Report.

(II). Internal Control and Audit

The Board is responsible for developing and maintaining an internal control system of the Company to protect shareholders' interest and to safeguard the Group's assets by reviewing the control procedures for financial, operational and supervisory matters. Such internal control system is implemented by management upon the authorization of the Board and the effectiveness of the internal control system is reviewed by the Audit Committee.

The Company has established an internal audit department. Depending on the materiality of potential risks existing in the internal control systems of various businesses and processes of the Company, the internal audit department carries out inspection, supervision and evaluation of the Company's financial information disclosure, operations and internal control activities on a regular or as-needed basis, with the purpose of ensuring transparency in information disclosure, operational efficiencies and effectiveness of the corporate control regimes. It furnishes independent and objective evaluations and recommendations in the form of audit reports.

CORPORATE GOVERNANCE

The Company always puts great efforts in internal control and to that end the Company has developed corresponding internal management systems and procedures in areas including corporate governance, operation, construction, finance, administration and personnel management and so forth. The Company formulated the internal control implementation framework in December 2005 and was approved by sixth meeting of the fifth term of the Board of the Company on December 1, 2005. In order to formalize the corporate governance, the Board will review the Company's internal control system once a year.

Due to the wide concerned aspects of the review, the lack of key points, a mass of work and system defects were not amended and consummated in time after analyzing in the execution of the internal control system, the Company has revised the Internal Control Implementation Framework and will confirm the key points annually as well as to review and perfect them.

The Company finished the 2007 interim and annual internal control review and analysis in August 2007 and March 2008 respectively. The analysis reports have been submitted to the Audit Committee and directors for review. All the directors affirmed that the Company has consummated its internal control system to ensure the effective implementation of management systems of the Company and avoid operating risk of the Company.

The establishment of the internal control system is for managing foreseeable risk, but could not avoid risk entirely. In view of the insurance limits of internal control system, the Company's internal control system could only provide reasonable but not absolute insurance to the realization of operation goal of the Company. It also is impossible for the system to avoid significant error and loss.

(III). Auditors

The financial statement for the year of 2007 was made in accordance with PRC Accounting Standards and Regulations and the HKFRS have been audited by the domestic auditor Ascenda Certified Public Accountants, Limited (Beijing) and international auditor PricewaterhouseCoopers, Certified Public Accountants, respectively.

During the period under review, the Company has not changed its appointment to the auditor Certified Public Accountants and has retained the auditor Ascenda Certified Public Accountants, Limited (Beijing) and auditor PricewaterhouseCoopers, Certified Public Accountants respectively as the Company's domestic and overseas audit institutions, and the payment for audit services for the year of 2007 was RMB0.68 million and RMB1.95 million respectively. Up to the end of this review, auditor PricewaterhouseCoopers, Certified Public Accountants has provided its audit services to the Company for 15 years.

Meanwhile, relevant transactions, external guarantee and the like audit services were provided to the Company by the domestic or international auditors (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally).

The Company strictly complied with the requirements in the “Regulations on Regular Rotation of Signing Certified Accountant in Securities and Futures Audit Business”, and changed the signing certified accountant of domestic audit report periodically. The certified accountants who signed on the domestic audit report in 2007 Annual Report are Mr. Xiong Jianyi and Mr. Yan Gangjun.

(IV). Chief Accountant

The chief accountant oversees all financial matters of the Company and is accountable to the president. The chief accountant is responsible for preparing financial statements in accordance with the PRC and HKFRS and in compliance with relevant provisions of The Stock Exchange of Hong Kong Limited, China Securities Regulatory Commission and Shanghai Stock Exchange. The chief accountant is also responsible for organizing the preparation of the Company's annual budget plans and annual accounts and monitoring the implementation of annual financial and operational plans. The chief accountant is also required to collaborate with the Board in the formulation of relevant internal control systems and to make recommendations thereof to the Board.

(V). Qualified Accountant

The previous financial advisor of the Company, qualified accountant Mr. Li Chi Sing passed away due to illness. The Company engaged, in March, 2007, Mr. Donald K W Chau, a fellow of the association of Chartered Certified Accountants and a practicing member of HKICPA, as consultant to assist the chief accountant Mr. Zeng Xiangxin who is in charge of the duties in the oversight of the Company's financial reporting procedures and internal controls.

Meanwhile, upon the application of the Company, the Stock Exchange of Hong Kong has exempted the Company from the strict compliance with Rule 3.24 of the Listing Rules three years from January 22, 2008. The Company reengaged Mr. Donald K W Chau as its consultant to assist the chief accountant Mr. Zeng Xiangxin who is in the discharge of the duties in the oversight of the Company's financial reporting procedures and internal controls.

V. SHAREHOLDERS AND OTHER STAKEHOLDERS

The Company strives to ensure that all shareholders, especially the minority shareholders, are able to fully exercise their rights on an equal basis.

(I). General Meeting

The general meeting is vested with the supreme authority of the Company, where powers are exercised in accordance with the law to determine significant matters of the Company. The annual or extraordinary general meeting provides a channel for direct communication between the Board and the shareholders. The Company pays high regard to the general meetings. Notice convening general meeting is issued 45 days prior to the date of the meeting, and all directors, supervisors and members of the senior management are requested to make their best efforts to attend. All shareholders are encouraged to attend general meetings and make their voice heard. Details of general meeting held in 2007 refer to "General Meeting Information" in this Annual Report.

(II). Substantial Shareholders

CSSC, as substantial shareholder of the Company, conducts its activities in a regulated manner. It has never been involved in any acts of by passing the general meeting or interfering, whether directly or indirectly, the Company's policy decisions or operations. The Company and the substantial shareholder are independent of each other in terms of staffing, assets, finance, institution and business.

The information about CSSC and other substantial shareholders as at the end of the period under review are set out in "Changes of Share Capital and Shareholders" of this Annual Report.

(III). Information Disclosures and Investor Relations Management

The Company believes that the core of the investor relations is effective communication; satisfying information disclosure is the basis of good investor relations. The Company has formulated Information Disclosure Management System and Investor Relations Management System to ensure openness, fairness and impartiality in information disclosure and to enhance transparency. The company secretary and securities affairs representative are responsible for information disclosure of the Company and reception of visiting shareholders and investors.

During the year 2007, the Company enhanced work in investor relations, issued annual report, interim report and quarterly report, almost 20 announcements and 1 circulars in time in accordance with relevant Regulations, objectively provided relevant information of legal and those possibly influence investors' interest, and improved the information disclosure standards continuously. Apart from that, the Company also expatiated its operation situation and developing foreground to investors through conference call, visiting investors, analyst interview, attending investors' forum and road-performance through internet.

(IV). Other Stakeholders

The Company established “Remuneration Scheme for the Fifth Term Senior Management” and “Performance Examination Rules of Directors, Supervisors and Senior Management”, in the purpose to prompt them to make concerted efforts and devote for the sustainable healthy development of the Company. The Company implemented the corporate pension funds system in order to lighten the intense situation of human source, stabilize production and marketing, strengthen the coherence and cultivate the core competitive ability of the Company. The implementation further advanced the remuneration system and established long-term stimulating system, to enable the employees to share benefits and risks with the Company, and mitigate the human resource shortage situation.

When promoting profitability and development, the Company also takes responsibilities actively for the society. On one hand, it provides necessities and economic aids to depressed areas periodically. On the other hand, the Company has been saving energy sources and reducing pollution, while implementing environmental shipbuilding.

In order to publicize knowledge of the ocean and ships of China, speedup development of industry tourism in Guangzhou and enhance the municipal image of Guangzhou, taking the advantage of engaging shipbuilding, the Company initiatively undertook to set up the ship science popularization base with Guangdong’s first-class level, which to be the only base for ships in China, for calling upon young people to devote to the shipbuilding industry, expediting the ocean resource exploitation and improving ocean territory consciousness of the Chinese.

VI. CONCLUSION

The corporate governance regime adopted by the Company is an indication of the standard in managing and operating its business. Sound corporate governance contributes to the healthy development of a company and enhances investors’ confidence in the company. To be effective in corporate governance, relevant measure must be reviewed on a regular basis to ensure that they are in tandem with market trends and requirements of regulatory authorities. It is a long-term goal of the Company to achieve unwavering corporate system leadership, through establishing and improving upon a modernized corporate system. As such, we will continue to enhance corporate governance as part of our efforts to ensure stable development and to increase shareholders’ value.

BRIEF INTRODUCTION TO THE GENERAL MEETING

ANNUAL GENERAL MEETING

The 2006 Annual General Meeting was held at the conference room of the Company at 40 South Fangcun Main Road, Guangzhou, the PRC on May 15, 2007. 9 shareholders including shareholder proxies representing 324,420,754 shares, approximately 65.58% of the total number of shares of the Company with voting right, attended the meeting. The announcement in relation to the resolutions passed at the meeting, which was published on May 16, 2007 in the Shanghai Securities News, Hong Kong Commercial Daily and China Daily (overseas version), with the main contents are as follows:

1. To approve the annual report for the year 2006.
2. To approve the proposal for profit distribution for 2006.
3. To approve increase investment of purchasing central bank notes with an aggregate amount not exceeding RMB500 million.
4. To amend the Rules for Proceedings of General Meetings of Shareholders, the Board of Directors and the Supervisory Committee of the Company.
5. To reappoint the domestic and international auditors for the year 2007.

REPORT OF THE BOARD OF DIRECTORS

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

(I). Result

The Company achieved a great development in 2007. With the endeavor of its staff, the Company did well in producing, market, technical research and the management improvement, while its profit increased continuously and rapidly. During period under review, the Company basically established the assembly shipbuilding model which resulted the great improvement of shipbuilding operation and new records of shipbuilding cycle; the Company insisted on the policy of independent research and development, which resulted a new record of the number of shipbuilding orders in hand; the exchange rate risk has been avoided effectively; non-shipbuilding operations has achieved full-grown development; and the Company carried out several welfare project for the harmonious development.

During the period under review, the operating income and productions profitability made a considerable increase compared with those of last year. As at December 31, 2007, the operating income of the Group prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB5,952,697,163.61 (the principal operating income of the Group amounted to RMB5,811,468,329.35), representing an increase of 75.12% over that of last year. The audited consolidated net profit attributable to shareholders amounted to RMB940,656,796.04, representing an increase of 249.96% over that of last year. The earnings per share and that after deduction of exceptional items were RMB1.90 and RMB1.85 respectively, representing increases of 251.85% and 236.36% respectively.



REPORT OF THE BOARD OF DIRECTORS

In the financial statements prepared in accordance with HKFRS the year ended December 31, 2007, the turnover of the Group amounted to RMB5,906.79 million, representing an increase of 78% over that of last year. The profit attributable to shareholders after taxation and minority interest amounted to RMB938.56 million, representing an increase of 252% over that of last year. The earnings per share was RMB1.897.

(II). Main work and results

1. Completion of renovation and operation of the dry dock improved the shipbuilding capacity markedly, with the good results of completing 16 vessels, commencing construction work for 18 vessels and launching 16 vessels.
2. Based on perfecting the shipbuilding management and control model in 2006, the Company integrated the block production, pipe-processing operations and established the organization structure of flat management combined by two kinds of shipbuilding assembly product lines of slipways and dry dock; enhanced the shipbuilding management; clarified the shipbuilding producing and designing process to further improve the shipbuilding efficiency. The average construction cycle on slipways and by dock in 2007 were nine days and twenty-five days shorter than those in 2006.
3. The Company has mastered the tanker designing technique meeting the requirements of CSR, developed new ship types that satisfied the requirements of PSPC, and intensified research on building high-tech ships.
4. During the period under review, the Company secured shipbuilding orders for construction of 24 vessels with a total tonnage of 1,143,500dwt, including two 50,000dwt class semi-submersible heavy lift vessels, utilizing advantages of GSI brand, created the order pattern of general contract projects, and opened up a new profit growth method for the Company. As at December 31, 2007, the Group has secured orders for 67 vessels with a total tonnage of 3,004,10dwt, and their delivery dates till year 2011.
5. The Company integrated the non-shipbuilding operations and established the non-shipbuilding organization structure with electro-mechanical products, electro-mechanical processing and steel structure operations; operating with market practice as guidance, aggressively opened new markets, and were rewarded with good results by venturing into the non-shipbuilding market.

(III). Problems and difficulties of operation and their solutions

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

As the result of the development of China shipbuilding industry, the increasing demand for shipbuilding talents, and the marked increase of shipbuilding output of the Company during 2007, the Company was faced with human resource shortage. For solving that, the Company pressed performance management, adjusted the position arrangement rationally alongside with the organization structure adjustment, identified key positions and core talent and paid more to them appropriately, established the occupation development plans for staff, implemented the corporate pension funds system, purchased the shareholding in Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd., to press the human resource exploration and efficient use as well as established the talents performance records for attracting and stabilizing talents to reduce unfavorable influence.

As the full operation of the dry dock and the shorter shipbuilding cycle enlarged the shipbuilding output of the Company, the work space restriction problem intensified, with the work space restriction in block production, block painting, block assembly and re-outfitting contributed to the shortage in blocks supply. The block production project cooperated with Guangdong Xinqiao Industrial Co., Ltd., has been cancelled due to objective reasons. The Guangdong Structure Pipe & Peg Company Limited, purchased by the Company, is under re-arrangement and capacity expansion, and is expected to relieve the deficient output of internal work space of the Company in 2008. Moreover, the Company will continuously search for new work space or partners to solve the problem in shipbuilding block supply in view of the long-term development of the Company.

As the majority of shipbuilding contracts of the Company are settled by USD and paid in several installments in accordance with shipbuilding progress, there is a long time between signing the contract and the delivery of the vessels, and the appreciation in value of RMB is expected to get higher, the Company is faced with certain RMB exchange rate risk. In order to reduce the impact of exchange rate change, the Company actively sought national policy support to manage its debt structure, using derivative financial instruments such as forward foreign exchange, foreign currency option, NDF, which has efficiently avoided the financial risk suffered from exchange rate change.

REPORT OF THE BOARD OF DIRECTORS

II. OPERATION OF THE COMPANY DURING THE PERIOD UNDER REVIEW

(I). Principal operation information

1. Major operation information by products

Unit: RMB

| Products | Operating income | Operating cost | Operating gross margin | Change in operating income over that of 2006 (%) | Change in operating cost over that of 2006 (%) | Change in operating gross margin over that of 2006 (%) |
|---|------------------|------------------|------------------------|--|--|--|
| Shipbuilding | 5,134,588,938.45 | 4,277,895,521.57 | 16.68 | 79.49 | 75.38 | 1.95 |
| Steel structure | 391,846,352.92 | 346,484,823.82 | 11.58 | 22.44 | 24.19 | -1.25 |
| Electrical & mechanical products and others | 285,033,037.98 | 220,389,537.54 | 22.68 | 101.32 | 148.51 | -14.68 |

Shipbuilding

In the year 2007, the Group completed 16 vessels with a total tonnage of 641,000dwt, vessels commenced construction work for 18 vessels and launched 16 vessels. The main clients of the Company are European clients from Denmark, Sweden, Italy, Malta etc. and some domestic clients. The main vessels built during the period under review are product/chemical tankers, with their dead weight tonnage from 38,500dwt to 52,500dwt.



REPORT OF THE BOARD OF DIRECTORS

During the period under review, the turnover from shipbuilding amounted to RMB5,134.59 million which represented an increase of 79.49% over that of last year. The turnover attributable to shipbuilding represents 88.35% of the Group's turnover, the gross profit of shipbuilding products amounted to RMB856.69 million, and the gross margin amounted to 16.68% (exclusive of subsidy income, if taking the subsidy income into consideration, the gross margin of the shipbuilding business would be 19.98%), representing an increase of 1.94% compared with that of last year. The operating income and the gross margin of shipbuilding in 2007 made considerable increases, that mainly due to completion of renovation and operation of the dry dock which improved the shipbuilding capacity, the adjustment of organization structure and well shipbuilding techniques and management which shortened the shipbuilding cycle and promoted production efficiency as well as the strengthening of cost control.

Steel structure



During this period under review, due to that the steel structure market took a favorable turn and the Company intensified to develop overseas steel structure projects, the steel structure turnover of the Company made a marked increase compared with that of the last year. In 2007, the steel structure completed by the Group

amounted to 39,136 ton, and the turnover contributed from the steel structure operation amounted to RMB391.85 million, the gross profit of steel structure amounted to RMB45.36 million while the gross margin amounted to 11.58%. The turnover attributable to the steel structure operation represented 6.58% of the Group's turnover.

Mechanical and electrical products and other operations

In 2007, the turnover from the mechanical and electrical equipment amounted to RMB285.03 million, and the gross profit amounted to RMB64.64 million with gross margin of 22.68%. The turnover attributable to mechanical and electrical represented 4.90% of the Group's turnover.



REPORT OF THE BOARD OF DIRECTORS

2. Geographical analysis of turnover

Unit: RMB

| Countries or Regions | Operating income | | Change (%) |
|----------------------|--------------------------------|--------------------------------|---------------------|
| | For the year 2007 | For the year 2006 | |
| Malta | 347,929,458.32 | 273,675,744.58 | 27.13 |
| Canada | – | 20,443,752.20 | -100.00 |
| Denmark | 723,881,803.84 | 1,004,955,485.12 | -27.97 |
| Macao | 17,865,136.78 | 50,136,089.54 | -64.37 |
| U.S.A | 269,820,040.27 | 202,039,301.88 | 33.55 |
| Hong Kong | 11,851,039.11 | 80,370,859.40 | -85.25 |
| The Marshall Islands | – | 20,975.71 | -100.00 |
| Taiwan | 5,785,152.59 | 3,478,423.62 | 66.32 |
| Germany | 19,585,199.41 | – | – |
| Sweden | 325,341,877.43 | 549,954,647.53 | -40.84 |
| Liberia | 1,008,570,307.94 | 637,893,204.82 | 58.11 |
| Oman | 43,842,287.05 | 31,626,350.89 | 38.63 |
| Greece | 918,019,743.30 | – | – |
| Others | 8,243,641.11 | 3,454,810.80 | 138.61 |
| Subtotal | <u>3,700,735,687.17</u> | <u>2,858,049,646.09</u> | <u>29.48</u> |
| Mainland China | <u>2,110,732,642.18</u> | <u>464,249,455.41</u> | <u>354.65</u> |
| Total | <u><u>5,811,468,329.35</u></u> | <u><u>3,322,299,101.50</u></u> | <u><u>74.92</u></u> |

(II). Major customers and suppliers

In 2007, the turnover attributable to the Group's five largest customers amounted to RMB4,362.11 million and accounted for 75.06% of the turnover of the Group, including of those, the turnover from Liberian Shipping Company, the Group's largest customer, amounted to RMB996.78 million and accounted for 17.15% of the total turnover of the Group.

In 2007, the purchase of raw materials and equipments from the Group's five largest suppliers amounted to RMB1,412.65 million and accounted for 42% of the total purchases of the Group, including of those, the purchase from Chongqing Iron and Steel Co., Ltd., the Group's largest supplier, amounted to RMB763.75 million and accounted for 22.86% of the total purchase of the Group.

REPORT OF THE BOARD OF DIRECTORS

None of the directors, supervisors and their respective associates had any interests in the major customers and suppliers noted above, nor had any of the Company's shareholders disclosed to the Company that he or she had any interest in the above mentioned major customers or suppliers.

(III). Major subsidiaries

The operation conditions of the Company's major subsidiaries, with 51% or more interest held, during the year are summarised as follows:

Unit: RMB'000

| Company Name | Principal Activities | Registered Capital | Interest Attributable to the Company (%) | Assets | Net profit (loss) |
|---|--|--------------------|--|---------|-------------------|
| Direct holding subsidiaries | | | | | |
| 1 Guangdong Guangzhou Shipyard International Elevator Company Limited | Elevator production and sales | 21,000 | 95 | 61,484 | 2,123 |
| 2 Guangzhou Guangli Shipbuilding Human Resources Service Company Ltd. | Labor service, ship installation, welding, derusting and painting | 500 | 80 | 27,799 | 54 |
| 3 Guangdong Structure Pipe & Peg Company Limited ("Pipe & Peg Company") | Concrete tubular pile and peg | 10,000 | 100 | 15,236 | -4,110 |
| 4 Guangzhou Hongfan Information Technique Company Limited | Development of computer software, system integration and sales of hardware | 5,000 | 51 | 8,600 | 2,350 |
| 5 Guangzhou Xinshun Shipping Service Company Limited | Hull installation, Welding, coating and repairing of ships | 2,000 | 83 | 20,968 | 1,336 |
| 6 Masterwood Company Limited | Furniture manufacturing | 3,315 | 51 | 11,255 | 962 |
| 7 Guangzhou Guanglian Container Transportation Company Limited | Container transportation | 20,000 | - | - | -31 |
| 8 United Steel Structures Limited | Large-sized steel structure | 73,573 | 51 | 204,119 | 43,012 |
| 9 Glory Group Development Co., Ltd. | Trading | HKD10,000 | 100 | 53,470 | 459 |
| Indirect holding subsidiaries | | | | | |
| 10 Masterwood Company Limited | Furniture manufacturing | 3,315 | 25 | 11,255 | 962 |
| 11 Guangzhou Hongfan Hotel | Traveling and catering services | 10,000 | 99.11 | 7,084 | 254 |
| 12 Guangdong Guangzhou Shipyard International Elevator Company Limited | Elevator production and sales | 21,000 | 3.8 | 61,484 | 2,123 |
| 13 Fonkwang Development Ltd. | General trade | HKD200,000 | 70 | 33,621 | 180 |
| 14 Guangzhou Guangli Shipbuilding Human Resources Service Company Ltd. | Labor service, ship installation, welding, derusting and painting | 500 | 15.20 | 27,799 | 54 |
| 15 Guangzhou Xinshun Shipping Service Company Limited | Hull installation, Welding, coating and repairing of ships | 2,000 | 16.18 | 20,968 | 1,336 |

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

REPORT OF THE BOARD OF DIRECTORS

(IV). Financial position of the Group during 2007

1. Balance sheet items

Unit: RMB

| Balance Sheet Items | Closing balance | As at the same period last year | Change (±%) | Percentage in total assets (%) |
|--------------------------------------|-------------------|---------------------------------|-------------|--------------------------------|
| Current Assets | | | | |
| Cash | 6,854,408,172.27 | 4,338,007,057.97 | 58.01 | 62.12 |
| Tradable financial assets | 294,309,931.43 | 712,022.60 | 41,234.35 | 2.67 |
| Note receivable | – | 500,000.00 | -100.00 | |
| Accounts receivable | 314,322,502.65 | 179,485,584.05 | 75.12 | 2.85 |
| Prepayments | 514,980,821.52 | 251,468,691.49 | 104.79 | 4.67 |
| Other receivables | 244,211,429.71 | 43,646,014.27 | 459.53 | 2.21 |
| Total current assets | 9,177,582,539.06 | 5,964,166,761.91 | 53.88 | 83.17 |
| Noncurrent assets: | | | | |
| Available-for-sale financial assets | 575,174,357.75 | 218,765,655.40 | 162.92 | 5.21 |
| Hold-to-maturity investment | – | 295,363,680.00 | -100.00 | |
| Long-term equity investment | 34,873,588.85 | 20,511,426.18 | 70.02 | 0.32 |
| Construction-in-process | 105,089,480.85 | 32,935,552.77 | 219.08 | 0.95 |
| Deferred income tax assets | 10,660,450.50 | 27,253,209.11 | -60.88 | 0.10 |
| Total noncurrent assets: | 1,856,850,899.63 | 1,711,287,772.20 | 8.51 | 16.83 |
| Total assets | 11,034,433,438.69 | 7,675,454,534.11 | 43.76 | 100.00 |
| Current liability: | | | | |
| Short-term loans | 494,297,390.00 | 63,785,655.00 | 674.94 | 4.48 |
| tradable financial liability | 11,628,218.98 | 570,327.16 | 1,938.87 | 0.11 |
| Accounts payables | 624,390,269.85 | 390,525,979.83 | 59.88 | 5.66 |
| Advances from customers | 250,222,378.27 | 27,414,783.01 | 812.73 | 2.27 |
| Employee compensation payable | 35,803,402.22 | 11,216,291.65 | 219.21 | 0.32 |
| Taxes and dues payable | 272,040,368.76 | -8,794,084.52 | -3,193.45 | 2.47 |
| Other payments | 93,294,913.66 | 51,594,290.47 | 80.82 | 0.85 |
| Noncurrent liability within one year | 1,160,077,390.49 | 573,002,406.00 | 102.46 | 10.51 |
| Total current liabilities | 7,813,588,811.55 | 5,165,490,598.72 | 51.27 | 70.81 |
| Noncurrent liabilities | | | | |
| Long-term loans | 387,468,446.74 | 1,082,590,123.87 | -64.21 | 3.51 |
| Contingent liabilities | 61,652,483.76 | 44,880,600.45 | 37.37 | 0.56 |
| Deferred income tax liabilities | 201,603,184.22 | 24,989,602.63 | 706.75 | 1.83 |
| Other noncurrent liabilities | 18,192,133.87 | – | 100.00 | 0.16 |
| Total noncurrent liabilities | 693,486,248.59 | 1,186,846,395.55 | -41.57 | 6.28 |
| Total liabilities | 8,507,075,060.14 | 6,352,336,994.27 | 33.92 | 77.10 |

REPORT OF THE BOARD OF DIRECTORS

| Balance Sheet Items | Closing balance | As at the same period last year | Change (±%) | Percentage in total assets (%) |
|--|------------------|---------------------------------|----------------|-----------------------------------|
| Shareholder's equity: | | | | |
| Capital reserves | 1,044,766,481.52 | 793,464,788.81 | 31.67 | 9.47 |
| Retained earnings | 736,413,838.67 | -126,577,188.54 | -681.79 | 6.67 |
| Total owner's equity belongs to parent company | 2,451,509,684.38 | 1,261,712,691.61 | 94.30 | 22.22 |
| Total Shareholders' equity | 2,527,358,378.55 | 1,323,117,539.84 | 91.02 | 22.90 |

Explanation to the important items which had a great increase or decrease (30%)

At the balance sheet date, the reasons of the great change of the assets and liabilities were as follows:

- (1) For the reasons such as the sufficient shipbuilding orders, advances from customers increased, the Company held more foreign exchange liabilities for the purpose of defending the exchange risk and the amount of the prepayments to suppliers increased accordingly for the expansion of the production capacities, the closing balance of the cash, accounts receivable, bank loans, advance payment and prepayments increased.
- (2) The appreciation of the derivative financial instruments which was profited from the appreciation of RMB brought an increase of the tradable assets at the end of the year.
- (3) Other receivables increased by the amount of the new increase of government subsidy which should be but not be received, however there was not any subsidy in the last year.
- (4) Available-for-sale financial assets increased by 162.92% comparing with the beginning of the period was mainly due to the appreciation of the partial stock held by the Company after assessing the market value at the balance sheet date.
- (5) Long-term equity investments increased by 70.02% comparing with the beginning of the period, that mainly due to that Guangzhou Guanglian Container Transportation Co, Ltd., a subsidiary of the Company, was not recorded in the Consolidated Financial Statement for its liquidation, whereas its equity investment has not been offset from the balance of the long-term investment.

REPORT OF THE BOARD OF DIRECTORS

- (6) Construction-in-process increased by 219.08%, that mainly due to the addition to the renovation projects, and the new purchased fixed assets which invested for enlarging shipbuilding capacity. The major projects including construction and installation of the 120T gantry crane, renovation of new shipbuilding pre-assembly work place, reconstructive to the assistant factory of the Pipe Workshop, purchasing of numerical control floor-type milling machine for Machining Center, the renovation of rain shed for shipbuilding division and so on.
- (7) Assets depreciation provisions increased by 55.91%, that mainly due to the inventory depreciation provision amounting RMB9,525,837.00 drawn by Guangzhou United Steel Structure Co, Ltd., a subsidiary of the Company, and depreciation provision for the investment real estate amounting RMB3.37 million.
- (8) Deferred income tax assets decreased by 60.88%, that mainly due to the loss of retained earnings has been fully offset by the profit before tax while relevant deferred income tax assets has been written-off during the year.
- (9) Accounts payable increased by 59.88%, that mainly due to the expansion of production scale and the increased purchase quantity of the materials.
- (10) Other payables increased by 80.82%, that mainly due to the remainder payment amounting RMB17,280,000.00 which should be paid for acquiring Guangdong Structure Pipe&Peg Company Limited.
- (11) Short-term loans increased by 674.94%, that mainly due to the foreign currency loans for defending the exchange risk.
- (12) Employee compensation payable increased by 219.21%, that mainly due to the annual benefit reward paid in accordance with the Company's regulations and internal control procedures.
- (13) Advances from customers increased by 812.73%, that mainly due to the increase of the first payment to the new shipbuilding contracts.
- (14) Long-term loans decreased by 64.21%, that mainly due to the long-term loans within one year has been transferred to non-current liabilities within one year at the end of the year.

REPORT OF THE BOARD OF DIRECTORS

- (15) Contingent liabilities increased by 37.37%, that mainly due to the increases of the turnover as well as the production quality security.
- (16) Deferred income tax liabilities increased by 706.75%, that mainly due to the increased deferred income tax liabilities accounted on the basis of the appreciation of the available-for-sale financial assets and derivative financial instruments which should be measured at the fair value at the balance sheet date.
- (17) In accordance with the substantial increase in profits and the income tax rate adjusted from 15% to 33%, the taxes and dues payable increased greatly.
- (18) With the increase of the business performance, the shareholder's equity increased over that of the last year. Including of that, the capital reserve increased by 31.67%, which mainly influenced by the fair value of the available-for-sale financial assets, and the increase of statutory surplus reserve due to 10% of the profit after taxation and offsetting the loss of accumulated retained earnings has been deducted as statutory surplus for 2007.

2. Profit and loss statement items

Unit: RMB

| Profit and Loss Statement Items | As at | As at | Change (±%) |
|----------------------------------|------------------|------------------|----------------|
| | Dec. 31, 2007 | Dec. 31, 2006 | |
| Operating income | 5,952,697,163.61 | 3,399,203,543.04 | 75.12 |
| Operating tax & surcharge | 20,346,934.95 | 9,293,363.87 | 118.94 |
| Selling expenses | 59,141,689.03 | 4,666,222.57 | 1,167.44 |
| Administrative expenses | 307,915,809.38 | 215,426,719.17 | 42.93 |
| Financial expenses | -150,369,238.43 | 4,126,375.06 | -3,744.10 |
| Gains on fair value fluctuations | 282,540,017.01 | -2,382,304.56 | -11,959.95 |
| Income on investment | 44,924,326.96 | 3,084,639.73 | 1,356.39 |
| Non-operating income | 243,081,133.44 | 30,527,484.63 | 696.27 |
| Income tax expense | 380,615,081.01 | 34,008,875.94 | 1,019.16 |

REPORT OF THE BOARD OF DIRECTORS

Explanation to the reasons of change

- (1) The operating income increased by 75.12%, which was benefit from the increase of principal operating income of shipbuilding.
- (2) Operating taxes and surcharges increased by 118.94%, that mainly due to the increase of revenue this year.
- (3) Selling expenses increased greatly, that mainly because the warranty expenses provision for shipbuilding products which amounting RMB45.83 million has been adjusted from production costs to selling expenses in accordance with new PRC Accounting Standards and Regulations, and such items was not comparable with the previous years.
- (4) Administrative expenses increased by 42.93%, and the main reasons were: the housing subsidy with an amount of RMB44.37 million to employee whose house was not met the specific standard according to correlative regulations; for the purpose of complying with the new P.R.C. Accounting Standards and Regulations, the disbursed methods of parts of costs or expenses was changed which influenced the administrative expenses; in addition, the research & development expenditure increased for developing Green and Environmental Shipbuilding.
- (5) Financial expenses had a great decrease which benefited from the management proposal of defending financial risk. This year the Company made good use of cash to maintain or raise their value, as well as held more USD loans, which brought a remarkable financial performance.
- (6) The increase of gains on fair value fluctuations mainly due to derivative financial instruments such as the forward settlement of exchange, according to the new P.R.C. Accounting Standards and Regulations the derivative financial instruments should be measured as the fair value at the balance sheet date, which had a great increase with the appreciation of the RMB.
- (7) Income on investment was derived from the income of actual delivery of the derivative financial instruments and the new shares exchange.
- (8) Non-operating income increased mainly because there were more products subsidy received this year while there is not such income in the last year.
- (9) Income tax expense increased because of the adoption of balance sheet debt method to account the income tax, the increased total profit, and also the higher income tax rate.

REPORT OF THE BOARD OF DIRECTORS

3. Cash flow statement items

Unit: RMB

| Cash Flow Statement Items | As at Dec. 31, 2007 | As at Dec. 31, 2006 | Change (±%) |
|---|------------------------|------------------------|----------------|
| Net cash flows from operating activities | 1,818,659,141.44 | 2,619,252,190.45 | -30.57% |
| Net cash flows from investment activities | 240,334,805.86 | -374,921,305.55 | 164.10% |
| Net cash flows from Financial activities | 352,259,684.49 | 1,462,734,630.36 | -75.92% |

Explanation to the reasons of change

- (1) Net cash flows from operating activities decreased mainly because the enlargement of the production and operation, which caused the increase in expenses for purchasing materials and caused the decrease in net cash flows.
- (2) Net cash flows from investment activities increased mainly because of the investment in subsidiaries and new share exchange.
- (3) Net cash flows from financial activities decreased mainly due to returning the mature bank loans.

(V). Investments information

The Company had not raised funds during the year nor utilized any proceeds previously raised. During the period under review, the investment capital not from share offering of the Company amounted to RMB446.25 million, decreased by RMB1.84 million and representing a decrease of 0.4% compared with that of last year.

| Items | Amount (RMB'0000) | Progress | Income (RMB'0000) |
|---------------------------------|----------------------|-----------|---|
| Purchasing assets | 7,711 | Completed | Reflected in the total profits of the current year |
| Purchasing subsidiaries | 2,302 | Completed | RMB-48.92 |
| Investing in central bank notes | 24,000 | Redeemed | RMB611.65 |

(VI). Responsibility ascertainment and treatment to relevant person for significant loss in assets

During the period under review, the Company had not happened any significant loss in assets.

REPORT OF THE BOARD OF DIRECTORS

(VII).The reasons and influences of changes of the accounting policies and accounting estimate and modification of significant financial errors of the Company

From January 1, 2007, the Company has implemented the Accounting Standard for Business Enterprise and relevant regulations issued by the Ministry of Finance of PRC in February 15, 2006, according to the Accounting Standard for Business Enterprises No. 38 – First time adoption of Accounting Standards for Business Enterprises and the regulations issued by the China Securities Supervisory Committee, the items which should be traced back have been adjusted in the specific accounting year, and the comparable financial statement for 2006 has already restated.

In accordance with the new standards, the estimated warranty expenses on shipbuilding products might be accounted in selling expenses. From the year of 2007, the Company has classified the estimated warranty expenses from operating costs to selling expenses.

The influence of the change of the accounting policy.

With the new accounting standards being implemented by the Company in this year, the items effected significantly by the change of accounting policy are as follows,

- ① The Company has utilized the derivative financial instruments such as the forward settlement of exchange to lock the exchange risk, with the appreciation of the RMB, the profit income of RMB282.54 million has been accounted into the current period, because the derivative financial instruments should be measured as the fair value at the balance sheet date.
- ② For the adoption of balance sheet debt method to account the income tax, the increase in total profit and the higher tax rate, the income tax expense increased to RMB380 million, whereas there was RMB34.01 million for the last year which was adjusted in according with the new standards.
- ③ The administrative expenses increased comparing with the year of 2006, For the purpose of complying with the new standards, some of costs have been changed to expenses, such as that the repairing expenditure increased by RMB40.83 million. Moreover, the research & development expenditure increased by RMB13.67 million because the expense has been recorded into the current administrative expenses instead of being offset by the government subsidy.
- ④ The selling expenses increased by RMB54.47 million comparing with that of last year, it was mainly because that the Company has classified the accounted estimated warranty expenses with the amount of RMB45.83 million from operating costs to selling expenses. The Company has not adjusted that of the last year.

REPORT OF THE BOARD OF DIRECTORS

(VIII). Profit distribution for the year 2007

For the year 2007, the net profit of the Company prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB916,325,357.56, the net profit of the Company prepared in accordance with HKFRS amounted to RMB916,040,000. Pursuant to the regulation of the Articles of Association of the Company, the profit distribution should be on the basis of the fewer between the profits prepared in accordance with two accounting standards above mentioned.

Profit distribution for the year 2007 should be based on the net profit of the Company prepared in accordance with HKFRS and its details are as follows:

- (1) offset the loss of accumulated retained earnings.
- (2) deduct 10% of the retained earnings after offsetting the loss above-mentioned amounting to RMB753,435,405.82 as statutory public welfare fund, which amounted to RMB75,343,540.58.
- (3) pay dividend of RMB0.5 on each of the 494,677,580 shares in issue, the total dividend will amount to RMB247,338,790.
- (4) there is no capital increment for 2007.

The retained earnings will be accumulated and distributable in the future years. This profit distribution plan will be submitted to the 2007 annual general meeting of shareholders for consideration.

REPORT OF THE BOARD OF DIRECTORS

III. PROSPECTS FOR THE COMING YEAR

Facing with the continuous RMB appreciation, and the rise of raw materials' prices, the Company will fully consummate the management process, innovate the human resource management mechanism, stick to technical innovation, strengthen the cost control of raw materials and labor force and adopt measures to avoid exchange rate risk actively, to reduce the external influence to achieve the rapidly healthy and sustainable development of the Company.

- To develop CIMS system with independent intellectual property rights for advancing the management in logistics, producing and cost control.
- To innovate the human resource management mechanism, enhance the management and performance evaluation on key positions for establishing professional staff in the fields of manufacturing, technical, administration and marketing.
- To enhance the research and development ability, optimize and develop new ship types, and secure shipbuilding orders with their delivery time to 2011 and 2012. To increase the proportion of high-tech vessels in total orders, take full advantage of technique resource and shipbuilding experience of the Company, and expand the market of semi-submersible heavy lift vessel and Ro/Ro passenger vessel. To develop the contracts settled by RMB and adjust the installments construction for avoiding the RMB appreciation risk.
- To rise the utilization ratio of steel and strengthen the cost control on raw materials and labor force.
- To pay further attention on potential risk from the change of exchange rate, rise of interest and materials costs, and adopt measures such as forward exchange settlement, U.S. dollar loan, increase the proportion of RMB settlement and advance first payment of shipbuilding orders for avoiding the exchange rate risk.
- To establish modern shipbuilding mode and improve the shipbuilding efficiency to achieve the goal of "Commence construction of 18 vessels, launch 17 vessels and deliver 18 vessels".
- To develop the non-shipbuilding market and increase proportion of non-shipbuilding operations for cultivating the second pillar operation of the Company.

REPORT OF THE BOARD OF DIRECTORS

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

(I). Meetings of the Board of Directors

During the period under review, the Board of Directors held nine meetings. The major points and resolutions arising from each of these meetings are as follows:

| Meetings | Convening date | Major Publications Disclosing Information | Date of Disclosing Information | Note |
|--|----------------|---|--------------------------------------|--------|
| Nineteenth meeting of the 5th term of the Board | Mar. 29, 2007 | Shanghai Securities News | Mar. 30, 2007 | |
| Twentieth meeting of the 5th term of the Board | Apr. 26, 2007 | Hong Kong Commercial Daily China Daily (overseas version) | Apr. 27, 2007 | |
| Twenty-first meeting of the 5th term of the Board | Jun. 29, 2007 | | Jun. 30, 2007 | – |
| Twenty-second meeting of the 5th term of the Board | Jul. 18, 2007 | | Jul. 19, 2007 | – |
| Twenty-third meeting of the 5th term of the Board | Aug. 16, 2007 | | Aug. 17, 2007 | – |
| Twenty-fourth meeting of the 5th term of the Board | Oct. 25, 2007 | | Oct. 26, 2007 | |
| Twenty-fifth meeting of the 5th term of the Board | Nov. 9, 2007 | | – | Note 1 |
| Twenty-sixth meeting of the 5th term of the Board | Dec. 14, 2007 | | Dec. 18, 2007 | – |
| Twenty-seventh meeting of the 5th term of the Board | Dec. 29, 2007 | | – | Note 2 |

Note:

1. The twenty-fifth meeting of the 5th term of Board considered and approved three resolutions which as follows:
 - Approved to carry out the housing balance monetary allowance policy with an total amount not exceeding RMB45 million before the end of November 2007, and authorized the senior management of the Company to deal with relevant affairs.
 - Approved to move the RMB0.3 billion from investing Central Bank Notes to investing new issue A share, and authorized the executive directors of the Company to make decision on the purchasing of Central Bank Notes, bills, stock strategy and new share investment with a total amount not exceeding RMB0.5 billion.
 - Approved to establish the Board of Directors' Office to in charge of investor relations, information disclosure, securities assets management and daily business of the Board.

REPORT OF THE BOARD OF DIRECTORS

2. The twenty-seventh meeting of the 5th term of the Board considered and approved two resolutions which as follows:
 - Approved the Company to provide a one-year working capital loan guarantee with an amount of RMB30 million for United Steel Structure Limited, a subsidiary of the Company in 2008, and acquire the guarantee fee from United Steel Structure Limited in accordance with general commercial terms.
 - Approved the Company to establish a branch company in Nancha Development District for electro-mechanic processing operation and authorized the senior management of the Company to deal with relevant procedure.

(II). The execution by the Board of Directors in respect of the resolutions passed at General Meetings

During the year, the Board of Directors had executed all the resolutions passed at the 2006 Annual General Meeting.

V. OTHER INFORMATION

Financial summary

Summaries of the results, assets and liabilities of the Group for the last three financial years prepared in accordance with the PRC Accounting Standards and Regulations, and the last five financial years prepared in accordance with the HKFRS are set out in on page 8 and page 9, respectively.

Results and profit distribution

The results and profit distribution of the Group for the year ended December 31, 2007 prepared under PRC Accounting Standards and Regulations, and the HKFRS are set out in the profit and loss statement on page 77 and consolidated income statement on page 165.

Reserves

The movements in the reserves of the Group which are prepared under PRC Accounting Standards and Regulations, and the HKFRS are set out in note 30 to 31 to the financial statements on page 126 to 127 and note 23 on page 226 to 228 respectively.

REPORT OF THE BOARD OF DIRECTORS

Fixed assets

As at December 31, 2007, the fixed assets pledged as security for the Group's banking facilities amounting to RMB132.59 million. Details of movements in fixed assets (including properties and other tangible assets) of the Group which are prepared under PRC Accounting Standards and Regulations and the HKFRS set out in note 9 to 10 to the financial statements on page 114 to 115, and note 6 to 7 to the notes to the consolidated financial statements on page 200 to 202 respectively.

Properties held for development or sale

The Group received the following properties in its efforts to recover accounts receivable and which are currently treated as properties hold for investment purpose. Save as disclosed, the Group has no property held for development or sale or investment purpose, for which the percentage ratios as defined under rule 14.04(9) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited exceed 5%, or which represents over 15% of the value of net tangible assets, or where contribution derived from properties exceeded 15% of pre-tax operating profit.

| Properties | Address | Use | Permanent freehold or not |
|---|---|---------------|---------------------------|
| Shops in Urumchi, Xinjiang | No. 3 Beijing Beilu New District Urumchi City, Xinjiang | Rent and sale | No |
| Shops in Changchun, Jiling | Building 308 Guangfu Road, Nanguan in Changchun, Jiling Province | Rent and sale | No |
| Real estate in Wushan Road, Guangzhou | Jinfu Garden, Wushan Road in Guangzhou, Guangdong Province | Rent and sale | No |
| Real estate in Heshan, Guangdong | Huangyuan, No. 496 Xincheng Road, Shaping Town in Heshan, Guangdong Province | Rent and sale | No |
| Shops in Hengyang, Hunan | No. 33 Jiefang Road, High-tech Development Zone in Hengyang City, Hunan Province | Rent and sale | No |
| Real estate in Dongguan, Guangdong | Building 1, West Three Yunhe Road in Dongguan City, Guangdong Province | Rent and sale | No |
| House property in Longgang Town, Shenzhen | Dongseng Garden, Ailian village in Longgang Town in Shengzhen, Guangdong Province | Rent and sale | No |

REPORT OF THE BOARD OF DIRECTORS

Share capital

Details of the share capital of the Company are set out in "Share capital structure" on page 79.

Preemptive rights

There is no provision for preemptive rights under the Company's Articles of Association.

Warrants and others

During the year, neither the Company nor its subsidiaries have issued any warrants, convertible securities, options or other securities with similar rights, nor had any person exercised any right noted above.

Purchase, sale or redemption of the Company's securities

Neither the Company nor its subsidiaries made any purchase, sale or redemption of the Company's securities during the year.

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group as at December 31, 2007 are set out in note (IX) 15 and note (IX) 22, 24 to the financial statements on page 118, 122 and 123 and note 25 to the notes to the consolidated financial statement on page 229 to 231, respectively.

Capital expenditure

The Group expects that capital expenditure during 2008 would be approximately RMB412.71 million. The Group has sufficient financial resources to meet the demand for capital expenditure and its daily working capital.

Contingent liabilities

Up to December 31, 2007, the Group has no significant contingent liabilities.

Connected transactions

During the period under review, relevant continuing connected transactions between the Group and CSSC Group were carried out in accordance with the framework agreement for connected transactions entered into on Nov. 22, 2006 (the "Framework Agreement"). Such transactions themselves are of an operational nature and in the normal and usual course of business of the Group, they allow the Group to leverage the reputation and bargaining power of the CSSC Group, provide a steady source of materials, labor and design and technology services necessary for the Group to conduct its business, and allow flexibility in handling excess resources which are in short supply for the CSSC Group. The Directors including four independent non-executive directors have reviewed the transactions and confirm that they have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties, and in accordance with the Framework Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

During the period under review, comprehensive services between the Group and Guangzhou Shipyard, a connected person, were carried out in accordance with the comprehensive services contract signed on December 8, 2005 between the Company and Guangzhou Shipyard pursuant to which Guangzhou Shipyard agreed to provide the Group, the staff and their family members with various services, including medical services, catering services, infant care and nursery, primary and secondary school education, training programs for skilled labors and management of staff quarters for an annual service charge not exceeding HKD 10 million. Such comprehensive service agreement was approved at the sixth meeting of the 5th term of the Board. The Company's independent directors have reviewed these continuing connected transactions and confirm that they have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and in accordance with the comprehensive services contract on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Details of the above connected transactions are set out in note (X) to the financial statements on the page 147. Furthermore, the above transactions, which also constitute continuing connected transactions under the Rules of The Stock Exchange of Hong Kong Limited, are subject to disclosure and reporting requirements in accordance with Chapter 14A thereof, which have been complied with. Details of significant related-party transactions are set out in note 42 to the financial statements prepared under the HKFRS on page 248.

REPORT OF THE BOARD OF DIRECTORS

Employees' pension scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1st January 1994. Under the scheme, during the period under review, the Company had made contributions to the scheme at the rate of 18% of the total salary (for purpose of calculating pensions, of all working employees). Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province. The contribution made by the Group for 2007 was RMB41,842,355.69 (2006: RMB29,090,000). In addition, during the year the Company had made payments of RMB1,525,629.13 (2006: RMB2,070,000) as subsidies to retirees.

Purchase of staff quarters by employees

Guangzhou Shipyard owns staff quarters occupied by employees of the Company. The sale of staff quarters to the Company's employees by Guangzhou Shipyard are in accordance with the State and Guangzhou City's housing reform policy and the Company was not involved in the selling of staff quarters to the employees.

The seventh meeting of the fifth term of the Board of the Company approved to implement the lump-sum housing monetary allowances policy for retired employees to whom the Company has not allocated staff quarters. The total amount of the allowances is RMB23.39 million. Such allowance has been recorded in the profit and loss statements for the year 2006. Allowances amounted RMB12.04 million has been paid in 2006 and the balance which amounted to RMB11.35 million has been paid in 2007.

Pursuant to the document (Sui Fu [1999] 11) issued by Guangzhou Municipal Government providing that the employees, whose staff quarters area after the Guangzhou City's housing reform does not meet the minimum standard in accordance with their present positions, can adjust their quarters commensurate to an area not exceed the required minimum standard prescribed by Guangdong Province by Commuting-purchase or compensating-purchase state-owned houses or obtain housing balance monetary allowance. Directors considered that the said document is not legally binding on the Company. However, in order to ensure the stabilization of the operation circumstances of the Company, to undertake social responsibility and to stabilize the staff team, the twenty-fifth meeting of the fifth Board of Directors approved the proposal to carry out the housing balance monetary allowance policy with the total amount not exceeding RMB45 million before the end of November 2007. After verification, the total allowance amounted to RMB44.37 million. Such allowance has been recorded in the profit and loss statements for the year 2007. Allowance amounted RMB4.49 million has been paid in 2007 and the balance amounted to RMB39.88 million is planned to be paid in 2008.

REPORT OF THE BOARD OF DIRECTORS

Significant litigation

There was no significant litigation of the Group happened during the period under review.

Certified Accountants' Special Statement on the Capital Impropriation by the Controlling Shareholder and Connected Parties

In accordance with the requirement of relevant notice from China Securities Regulatory Commission, Ascenda Certified Public Accountants, Limited (Beijing), the domestic auditors of the Company, audited the movement of funds between the Company and its controlling shareholder, CSSC and other connected parties and illustrated that as at 31st December 2007, the fund movement between the Company and CSSC and other connected parties arose from connected transactions in the normal operation of the Company. Apart from these, they have not found any breach by the Company of the requirements stated in "Notice of Standard Current Funds between Listed Companies and Connected Parties and External Guarantees of Listed Companies".

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

In accordance with the regulation stated in "Notice of Regulating the Finance Dealing with Connected Parties and the External Guarantees of Listed Companies", Zheng Jian Zi [2003] No. 56 (the "Notice") issued by the China Securities Regulatory Commission, the independent directors of the Company have thoroughly reviewed and checked the external guarantees and its decision procedure of the Company and found that, the decision procedure of the Company is in accordance with the regulations of relevant law, regulations and rules and Articles of Association of the Company, and has not provided any guarantee for the controlling shareholder, other connected parties with less than 50% shares controlled by the Company, any unincorporated unit or individuals up to December 31, 2007.

Resolutions for significant assets loss resulted from external guarantees

During the period under review, the Company has provided a guarantee a one-year loan with a guarantee amount of RMB50 million for United Steel Structure Limited, which had paid off the loan during the period of guarantee. Therefore, there were not any matters resulted from external guarantees of the Company.

REPORT OF THE BOARD OF DIRECTORS

Auditors

The financial statements for the year ended December 31, 2007 prepared under PRC Accounting Standards and Regulations and the HKFRS have been audited by Ascenda Certified Public Accountants, Limited (Beijing) and PricewaterhouseCoopers, Certified Public Accountants, respectively. They shall respectively retire and, being eligible, offer themselves for re-appointment.

Sufficiency of public float

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

Acknowledgment

The Board of Directors would like to extend its sincere gratitude to its customers for their trust in the Company, and to the shareholders for their valuable support to the Company, and to the staff for their efforts and dedication to the Company's development.

On behalf of the Board of Directors

Chairman

Li Zhushi

Guangzhou, March 18, 2008

REPORT OF THE SUPERVISORY COMMITTEE

The Fifth Supervisory Committee of the Company has the pleasure to present the 2007 Report of the Supervisory Committee for review and would like to extend our best wishes to every shareholder.

I. WORK INFORMATION

(I). General work information

The Supervisory Committee faithfully carried out its duties, protected the interests of the Company and shareholders in a fiduciary, serious, just and prudent manner and strengthened its role in supervising the financial affairs, Directors, president and other senior management of the Company in accordance with the Company law of the People's Republic of China (hereinafter referred to the "Company Law"), the Articles of Association of the Company ("Articles") and the Rules of proceeding for the Supervisory Committee. During the year under the report, with the support of shareholders, Board of Director, senior management and related departments of the Company, the Supervisory Committee operates canonically and exerts benign functions.

In accordance with the Articles, the members of supervisory committee attended general meetings, and attended the meetings of Board, meetings of the presidents and other relevant meetings as a nonvoting delegate. Supervisory committee can gain the information of significant events and decisions of the Company in time, and exercised superintendence during the decision-making of significant events. Moreover, the supervisory committee has gained timely information of the asset and finance through the relevant information and reports provided by related administrative depar, and provide advantages to the prosecution of the duties of supervisory committee.

When attended the meetings of the Board of Directors, the Supervisory Committee issued its opinions and suggestions on the affairs for consideration. For instance:

At the four meetings of the Board for discussing four periodical reports, the supervisory committee has issued modification and complementarily suggestion to each report, which has been explained, replied or approved by the Board. Moreover, during the second half of 2007, pursuant to relevant provisions, the Supervisory Committee inspected practicing situation for Information Disclosure Management System for two times, and issued inspection reports to the company secretary office, executive directors as well as the company secretary, which promoted standardization of information disclosure management of the Company. All above information indicates that the supervisory committee can exercise its superintendence in accordance with the law and regulations to protect the interests of the Company and shareholders.

REPORT OF THE SUPERVISORY COMMITTEE

(II). Amending the Rules of proceeding for the Supervisory Committee and Corporation Governance Work

In accordance with the *Model Rules of proceeding for the Supervisory Committee of Listed Companies* issued by Shanghai Stock Exchange in May 2006, considering the Company's actual situation, on the base of fully investigation and discussion, the Supervisory Committee amended the Rules of proceeding for the Supervisory Committee, which has been passed at the 2006 annual general meeting with the submission by the 9th meeting of the 5th term of the Supervisory Committee.

Pursuant to the Notice Concerning on Strengthening Corporation Governance Work of Listed Companies issued by China Securities Regulatory Commission, and the Notice in relation to Ready-made Corporation Governance Work issued by Guangdong Securities Regulatory Bureau, the Company carried out relevant work during the first half of 2007. During the whole work, including the special spot inspect by the team of Guangdong Securities Regulatory Bureau, the Supervisory Committee participated actively and cooperated seriously to provide relevant documents. In addition, the Supervisory Committee discussed and passed the Rectification Report of Corporation Governance for the Company, and provided the writing evaluation to the report. The standards of Company's corporation governance was improved through the corporation governance work.

(III). Information of "Supervisors' Work-day" Meetings and Trainings

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

1. Learning the documents of accounting information disclosure relative with the new Enterprise Accounting Rules issued by China Securities Regulatory Commission (CSRC), and the new Rules of Corporate Finance published by the Ministry of Finance of PRC.
2. Learning the notices in relation to corporation governance work issued by CSRC and Guangdong Securities Regulatory Bureau.
3. Learning the documents concerning on information disclosure management of Listed Companies by CSRC, the Shanghai Stock Exchange as well as the Company.
4. Discussing the daily management of the Company and communicating on matters related.

REPORT OF THE SUPERVISORY COMMITTEE

By work-day meetings of supervisors, all supervisors of the Company can obtain more information of the laws, regulations and requirements and pulse of lasted policies, and the independent supervisors can gain the relevant information of the Company timely through to exert their authority better.

With the arrangement of the Company, two members of the Supervisory Committee of the Company have attended the training class of directors and supervisors, which was organized by Guangdong Securities Regulation Bureau in June 2007. The main contents of the trainings including the changes of equity right, the equity stimulus, the information disclosure supervision on listing companies, the impact of the new Enterprise Accounting Rules, the risks and responsibilities of the directors, supervisors and senior managers of listing companies, the corporation governance evaluation, methods of purchase and reorganization of listing companies, etc. The trainings abovementioned are in favor of improving the ability and standards of fulfilling the duties of the supervisors and Supervisory Committee.

II. THE INFORMATION OF THE SUPERVISORY COMMITTEE MEETINGS

During the year under review, the Supervisory Committee held four meetings:

1. The ninth meeting of the 5th term of the Supervisory Committee was held on March 29, 2007 in the Company. The five supervisors attended the meeting and the resolutions were passed as follows:
 - 1) Approved the 2006 report of Supervisory Committee.
 - 2) Approved the 2006 Annual Report of the Company, and released written inspection opinion.
 - 3) Approved the revision of Rules of Procedures for the Supervisory Committee and submission of the same to the annual general meeting of 2006 for consideration.
 - 4) Approved the special resolution at the nineteenth meeting of the Board of canceling the special bad debt provision amounting to RMB109,062,627.93.
2. The tenth meeting of the 5th term of the Supervisory Committee held on April 26, 2007, the five supervisors attended the meeting and approved the First Quarterly Report of 2007 and released written inspection opinion.
3. The eleventh meeting of the 5th term of the Supervisory Committee was held on August 16, 2007, the five supervisors attended the meeting and approved the interim Report of 2007 and released written inspection opinion.

REPORT OF THE SUPERVISORY COMMITTEE

4. The twelfth meeting of the 5th term of the Supervisory Committee was held on October 25, 2007, the five supervisors attended the meeting and the resolutions were passed as follows:
 - 1) Approved the third quarterly Report of 2007 and released written inspection opinion.
 - 2) Approved the Rectification Report of Corporation Governance for the Company report of management and released written inspection opinion.

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

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

During the year under review, the transactions involving the acquisition and sale of assets were lawfully conducted under fair and reasonable price, no insider trading was noted and accordingly the interests of the shareholders and the assets of the Company were not adversely affected.

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

The Committee is of the view that the procedure of decision-making of the Company is in accordance with Articles of Association of the Company and has established necessary internal control system. The information disclosure management system was under the good situation and some deficiency of the system was improved timely. The directors, president and other senior management have carried out their duties rigorously, scrupulously and diligently in accordance with the fiduciary, clean and prudent principles under the regulations of the Listing Rules of the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. There were no violations of laws, regulations or the Articles of Association of the Company, nor was there any abuse of power to detriment the interests of the Company, the Shareholders or the staff. In 2007, the Board of Directors and executive team worked hard with the staff, and showed a brilliant performance, the new designed ships strengthened the Company's competition in handy-size tanker's market, the shipbuilding orders in hand made new record, the production efficiency improved markedly, the non-shipbuilding operations made great progress as well as the improvement in corporation governance, and represented a good performance in 2007.

REPORT OF THE SUPERVISORY COMMITTEE

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

The Supervisory Committee has audited the annual report and financial reports for the year 2007 before the submission of them to general meeting of shareholders for consideration in accordance with the Company Law and the Articles of Association of the Company, and in view that the financial records met the requirements of PRC Accounting Standards and Regulations and HKFRS, accurately reflected the financial position and business results of the Company.

The Supervisory Committee also consent to the Reports of the Board of Directors and the profit distribution proposal for the year.

Ascenda Certified Public Accountants, Limited (Beijing) and PricewaterhouseCoopers, Certified Public Accountants, which were appointed to audit the financial statements of the Company for this year have presented their audit reports on the Company with unqualified opinion.

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

On behalf of the Supervisory Committee
Chairman
Wang Shusen

Guangzhou, March 18, 2008

SIGNIFICANT EVENTS

- Havens Steel Company (“Havens”, the other 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. Relevant interest transferring has been finished during the period under review.
- Significant 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 | 129,005,336.16 | | |
| 1.1 | Electro-mechanical facility and metallic material | 66,769,645.33 | 1.15 | Market price |
| 1.2 | Power Source | 2,569,597.03 | 1.82 | Cost plus management fee from 20% to 25% |
| 1.3 | Labor and technology services | 59,666,093.80 | 20.91 | Not less than the price to the third parties |
| 2 | Total materials and labor services supplied to the Company by CSSC Group | 229,467,219.00 | | |
| 2.1 | Electro-mechanical facility, metallic, marine accessories and marine equipment | 186,343,134.44 | 0.65 | Market price or not less favorable than the price offered by the third independent parties |
| 2.2 | Labor and technology services | 43,124,084.56 | 4.96 | Cost plus management fee of 10% |
| 3 | Financial services supplied from CSSC Group | 242,653.84 | 8.73 | |
| 3.1 | Deposits | 26,881,257.61 | | Interest rate on deposits published by the People’s Bank of China |
| 3.2 | Interest from deposits | 242,653.84 | 0.39 | |
| 3.3 | Loans | – | – | |
| 3.4 | Interest from loans | – | – | |
| 4 | Total guarantee fees for guarantee supplied to the Company from CSSC Group | 11,863,557.94 | 100 | Agreed fee, not more than the price offered by the third independent parties |
| 5 | Total sales agency fees | 43,623,131.92 | 10.38 | 1% of contract price in accordance with international practice |
| 6 | Total purchases agency fees | 3,734,496.87 | 38.16 | 1% to 2% of contract price in accordance with international practice |

SIGNIFICANT EVENTS

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 X to the financial statements prepared under PRC Accounting Standards and Regulations contained in this report.

(2). The financing balance of the Company and CSSC and its subsidiaries during the year 2007

| Item | Closing balance | Opening balance |
|-------------------------|-----------------|-----------------|
| Accounts receivable | 18,660,124.53 | 2,010,486.62 |
| Other receivable | 48,440.00 | – |
| Advanced payment | 357,500,479.58 | 106,036,711.51 |
| Accounts payable | 15,119,055.94 | 28,162,901.22 |
| Other payable | 1,148,238.57 | 1,120,449.73 |
| Advances from customers | 63,218,652.07 | 1,524,000.00 |

During the period under review, The Company strictly confirms to the “Notice Transmitted by the State Council about Improving Quality of Listing Companies from China Securities Regulatory Commission” (Guo Fa (2005) 34), there was no non-operating capital of the Company impropriation by CSSC, the controlling shareholder of the Company or its subsidiaries.

SIGNIFICANT EVENTS

3. Refer to the adjustment of the income tax rate (for details please refer to announcement issued on July 6, 2007 by the Company), the Company has been keeping on contacting with taxation authorities. The Company 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. According to a preliminary appreciation, it would not have a significant impact on the Company, and will issue further announcement when appropriate.

Since January 1, 2008, the Company shall be subject to an income tax rate of 25% in accordance with the new Corporate Income Tax Law.

4. The twentieth meeting of the fifth term of Board of Directors approved the Company to purchase the 80% interest of Guangli Shipbuilding Human Resources Service Company Limited (“Guangli Company”) with a price of RMB3,052,492.77 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.
5. The twenty-fourth meeting of the fifth term of the Board of Directors approved the Company to purchase the 100% interest of Guangdong Structure Pipe & Peg Company Limited (“Pipe & Peg Company”) for the price not exceeding RMB19.23 million, the evaluation value of Pipe & Peg Company. The assets purchased will be mainly used for manufacturing shipbuilding blocks, and to solve the capacity shortage of shipbuilding block manufacturing resulted from the increase of the shipbuilding output of the Company.
6. Approved by the 25th meeting of the fifth of the Board of Directors, the Company carried out the housing balance monetary allowance policy which the total amount not exceeding RMB45 million before the end of November 2007.
7. Approved by the 24th meeting of the fifth term of the Board of Directors of the Company, the Company had secured a shipbuilding order for constructing two 50000 DWT semi-submersible heavy lift vessels as a general contract project, which developed new operating method and shipbuilding products, enhanced the Company’s competition ability and risk resistance, and indicated the development to high value-added ship of the Company.

SIGNIFICANT EVENTS

8. Approved by the 19th meeting of the fifth term of the Board of Directors, the Company has purchased new initial public offer shares with an aggregate investment amount not exceeding RMB200 million since August 2007. Approved by the 25th meeting of the fifth term of the Board of Directors, such investment amount increased to RMB500 million since November 19, 2007. During the period under review, the profit from purchasing new initial public offer shares amounted to RMB24.37 million. As at December 31, 2007, the securities properties hold by the Company are as follows:

| Stock Code | Abbreviation | Initial investment cost (RMB) | Proportion in the interest of the list company (%) | Book value as at December 31, 2007 | Profit and loss during the period under review | Changes in shareholders of the Company | Classify | Source of the shareholding |
|------------|---------------------------|-------------------------------|--|------------------------------------|--|--|-------------------------------------|----------------------------|
| 600036 | Merchants Bank | 10,010,000.00 | 0.083 | 441,884,357.75 | - | - | Available-for-sale financial assets | Purchasing |
| 601872 | Merchants Energy Shipping | 37,100,000.00 | 0.29 | 128,700,000.00 | - | - | Available-for-sale financial assets | Purchasing |
| Total | | 47,110,000.00 | | 570,584,357.75 | - | - | | |

9. Pursuant to the debt restructuring agreement entered into between the Company and Guangzhou International Trust Investment Company ("GZITIC") on January 31, 2005, the Company has obtained the entire ownership certificate to the shops with an approximate area of 19,250 sq. meters located in Urumuqi ("Real Estate"). However, as at the date of this annual report, the developer of the Real Estate had not yet paid the land grant fees in full, the Company did not obtain the land use right certificate of the Real Estate fully.

As at the end of the period under review, in accordance with the framework agreement for the debts restructuring entered into between the Company and GZITIC on February 20, 2006, the Company has obtained the building ownership certificates of certain shops and apartments located in Heshan City, Guangzhou City, Dongguang City and Shenzhen City of Guangdong Province and Hengyang City of Hunan Province with the total gross floor area of 14,546 sq.m., cash of RMB0.92 million, a car, golf membership cards, and ownership certificate of equity and creditor's rights in Guangzhou Jingxin Instruments and Electrical products Co, Ltd. For the other assets, ownership transfer of the 32 apartments in Shenzhen City of Guangdong Province are still in process, while the creditor's rights in Hongkong Guanghong Intl' Co., Ltd. is in process of negotiation and performance, which has not any material progress.

The Company has dealing with the received assets in accordance with market situation, part of them has been sold, which the rest are in process of negotiation for rent or sale as soon as possible.

SIGNIFICANT EVENTS

10. The 14th meeting of the fifth term of the Board of the Company approved an additional special bank loan with an aggregate amount of RMB3.2 billion for the purpose of hedging against exchange risk of RMB. As at December 31, 2007, USD 320.13 million in loans has been obtained and exchanged for RMB by the Company.

Moreover, as the Company secured large amount of shipbuilding orders in the past two years, the delivery time arranged to the year 2011, In order to avoid RMB exchange rate risks for the shipbuilding order which would be delivered after the year 2010, the 28th meeting of the fifth term of the Board held on January 25, 2008 approved to increase the US dollar loans with an amount of U.S. 500 million dollars for a term of three years. As at the date of the annual report, the US dollar loans is being processed, and no any material progress

11. Approved by the 20th meeting of the 5th term of the Board of Directors of the Company, the Company has commenced investing construction of electro-mechanic processing center since June 6, 2007. And the 27th meeting of the fifth term of the Board of Directors approved to establish a branch in Guangzhou Nansha district for developing large size electro-mechanic processing business, which was expected to put into production in May, 2008.
12. 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 form 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. Pursuant to the approval of the twenty-eighth meeting of the fifth term of the Board, the amount of the guarantee has decreased to RMB30 million, during the year 2008.
13. Approved by the 24th meeting of the fifth of the Board of Directors, the Company implemented the corporate pension funds system in the fourth quarter of 2007 for the qualified employees for advancing the emoluation system and establishing long-term stimulating system, to enable the employees to share benefits and risks with the Company, and mitigate the human resource shortage situation.
14. During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance scheme managed by Guangzhou Municipal Labor Protection Administration Department and paid insurance amounting to RMB16.01 million for its employees.

SIGNIFICANT EVENTS

15. 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. The Company's profits in 2007 amounted to RMB1.34 billion, representing an increase of more than 100% over that of 2005, and the Company's annual audit reports were "standard unqualified" for both 2006 and 2007 fiscal years, so that the conditions for offering additional shares has not been triggered.

Same as disclosed above, during the period under review, neither the Company nor any the shareholders who hold over 5% (including 5%) shares of the Company gave any undertaking that might have a material impact on the business results or financial condition of the Company during the period under review, or gave any such under taking before but continued to the period under review.

16. During the period under review, the Company did not change its auditors. The Company appointed Ascenda Certified Public Accountants Limited (Beijing) and PricewaterhouseCoopers Certified Public Accountants as the domestic auditors and international auditors of the Company respectively, and their audit payment for the year 2007 amounted to RMB0.68 million and RMB1.95 million respectively. As at the end of the period, Ascenda Certified Public Accountants Limited (Beijing) and PricewaterhouseCoopers Certified Public Accountants have supplied audit service to the Company for 1 and 15 years respectively.
17. 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.
18. During the period under review, there was no significant litigation or arbitration events to the Group. And the Company had not managed any trust, any contract or lease assets of other companies or other companies had not managed any trust, any contract or lease assets of the Company, which occurred during the period under review or occurred before but continued to the period under review.
19. The internal controlling information are set out in "Corporate Governance" of this annual report.

REPORT OF THE PRC AUDITORS

ACPA (2008) GF NO.020022

To the Shareholders of Guangzhou Shipyard International Company Limited.

We have audited the accompanying financial statements of Guangzhou Shipyard International Company Limited. (“the Company”), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated cash flow statement, and consolidated statement of change in equity for the year then ended, and explanatory notes.

I. Management’s Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; (3) making accounting estimates that are reasonable in the circumstances.

II. Auditors’ Responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with the Independent Auditing Standards of China. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

III. Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its financial performance and its cash flows for the year then ended, in accordance with the Accounting Standards for Business Enterprises promulgated in the People's Republic of China.

Ascenda Certified Public Accountants, Ltd. (Beijing)
China Certified Public Accountants
Xiong Jianyi, Yan Gangjun

Beijing, March 18, 2008

BALANCE SHEET

As at 31 December 2007

Monetary unit: RMB yuan

| Asset | Notes | | Consolidated | | Parent Company | |
|---|-------|--------|--------------------------|-------------------------|--------------------------|-------------------------|
| | Con. | Parent | Closing Balance | Opening balance | Closing Balance | Opening balance |
| Current Assets: | | | | | | |
| Monetary funds | 1 | | 6,854,408,172.27 | 4,338,007,057.97 | 6,795,682,384.53 | 4,252,200,864.96 |
| Trading financial assets | 2 | | 294,309,931.43 | 712,022.60 | 294,309,931.43 | 712,022.60 |
| Notes receivable | | | - | 500,000.00 | - | - |
| Accounts receivable | 3 | 47 | 314,322,502.65 | 179,485,584.05 | 208,019,567.55 | 112,940,604.51 |
| Advances to suppliers | 4 | | 514,980,821.52 | 251,468,691.49 | 554,051,866.66 | 268,474,706.68 |
| Dividend receivable | | | - | 16,751.21 | - | 16,751.21 |
| Other receivables | 5 | 48 | 244,211,429.71 | 43,646,014.27 | 243,384,219.73 | 33,657,043.21 |
| Repurchasing of financial assets | | | - | - | - | - |
| Inventories | 6 | | 955,349,681.48 | 1,150,330,640.32 | 846,411,548.82 | 1,058,652,784.31 |
| Non-current assets due within one year | | | - | - | - | - |
| Other current assets | | | - | - | - | - |
| Sub-total of current assets | | | 9,177,582,539.06 | 5,964,166,761.91 | 8,941,859,518.72 | 5,726,654,777.48 |
| Non-current assets: | | | | | | |
| Loans and payment on other's behalf disbursed | | | - | - | - | - |
| Available-for-sale financial assets | 7 | | 575,174,357.75 | 218,765,655.40 | 575,174,357.75 | 218,765,655.40 |
| Held-to-maturity investment | | | - | 295,363,680.00 | - | 295,363,680.00 |
| Long-term receivable | | | - | - | - | - |
| Long-term equity investment | 8 | 49 | 34,873,588.85 | 20,511,426.18 | 104,605,396.75 | 82,002,465.28 |
| Investment properties | 9 | | 100,611,056.86 | 106,232,389.94 | 100,611,056.86 | 106,232,389.94 |
| Fixed assets | 10 | | 937,526,406.93 | 938,437,607.15 | 898,498,642.92 | 903,592,939.26 |
| Construction in progress | 11 | | 105,089,480.85 | 32,935,552.77 | 100,516,696.29 | 32,935,552.77 |
| Material holds for constructions | | | - | - | - | - |
| Disposal of fixed assets | | | - | - | - | - |
| Petroleum and natural gas assets | | | - | - | - | - |
| Intangible assets | 12 | | 92,915,557.89 | 71,788,251.65 | 83,427,665.56 | 71,788,251.65 |
| Development costs | | | - | - | - | - |
| Goodwill | | | - | - | - | - |
| Long-term deferrals | | | - | - | - | - |
| Deferred Tax assets | 13 | | 10,660,450.50 | 27,253,209.11 | 7,851,272.09 | 27,253,209.11 |
| Other non-current assets | | | - | - | - | - |
| Sub-total of non-current assets | | | 1,856,850,899.63 | 1,711,287,772.20 | 1,870,685,088.22 | 1,737,934,143.41 |
| Total assets | | | 11,034,433,438.69 | 7,675,454,534.11 | 10,812,544,606.94 | 7,464,588,920.89 |

BALANCE SHEET

As at 31 December 2007

| Liabilities & Owners' (Stockholders') equity | Notes | Consolidated | | Parent Company | |
|---|--------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | | Closing Balance | Opening balance | Closing Balance | Opening balance |
| | Consolidated | Parent | | | |
| Current liabilities: | | | | | |
| Short-term loans | 15 | 494,297,390.00 | 63,785,655.00 | 471,227,390.00 | – |
| Trading financial liabilities | 16 | 11,628,218.98 | 570,327.16 | 11,628,218.98 | 570,327.16 |
| Notes payable | | – | – | – | – |
| Accounts payable | 17 | 624,390,269.85 | 390,525,979.83 | 598,591,406.02 | 373,983,845.39 |
| Advances from customers | 18 | 250,222,378.27 | 27,414,783.01 | 234,290,739.62 | 18,993,779.80 |
| Accrued employee compensation | 19 | 35,803,402.22 | 11,216,291.65 | 30,725,980.92 | 7,164,073.17 |
| Taxes and expenses payable | 20 | 272,040,368.76 | – 8,794,084.52 | 262,924,495.91 | – 16,685,848.93 |
| Interest payable | | – | – | – | – |
| Dividend payable | | 9,169.38 | 9,436.88 | 9,169.38 | 9,436.88 |
| Other payables | 21 | 93,294,913.66 | 51,594,290.47 | 83,581,622.99 | 40,024,676.71 |
| Reinsurance fee payable | | – | – | – | – |
| Insurance contract provision | | – | – | – | – |
| Entrusted trading of securities | | – | – | – | – |
| Entrusted selling of securities | | – | – | – | – |
| Long-term liabilities due within a year | 22 | 1,160,077,390.49 | 573,002,406.00 | 1,160,077,390.49 | 573,002,406.00 |
| Other current liabilities | 23 | 4,871,825,309.94 | 4,056,165,513.24 | 4,872,543,454.90 | 4,056,232,658.87 |
| Sub-total of current liabilities | | 7,813,588,811.55 | 5,165,490,598.72 | 7,725,599,869.21 | 5,053,295,355.05 |
| Long-term liabilities: | | | | | |
| Long-term borrowings | 24 | 387,468,446.74 | 1,082,590,123.87 | 387,468,446.74 | 1,082,590,123.87 |
| Bonds payable | | – | – | – | – |
| Long-term payables | | – | – | – | – |
| Special payables | 25 | 24,570,000.00 | 34,386,068.60 | 24,570,000.00 | 34,386,068.60 |
| Provision | 26 | 61,652,483.76 | 44,880,600.45 | 61,652,483.76 | 43,496,331.87 |
| Deferred tax liabilities | 27 | 201,603,184.22 | 24,989,602.63 | 201,603,184.22 | 24,989,602.63 |
| Other long-term liabilities | 28 | 18,192,133.87 | – | 18,192,133.87 | – |
| Sub-total of long-term liabilities | | 693,486,248.59 | 1,186,846,395.55 | 693,486,248.59 | 1,185,462,126.97 |
| Total liabilities | | 8,507,075,060.14 | 6,352,336,994.27 | 8,419,086,117.80 | 6,238,757,482.02 |
| Owners' (Stockholders') equity: | | | | | |
| Paid-in capital (or stock) | 29 | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 | 494,677,580.00 |
| Capital Reserves | 30 | 1,044,766,481.52 | 793,464,788.81 | 1,044,766,481.52 | 793,464,788.81 |
| Less: treasury stock | | – | – | – | – |
| Surplus reserves | 31 | 175,651,784.19 | 100,147,511.34 | 174,475,972.02 | 98,971,699.17 |
| Common risk provision | | – | – | – | – |
| Retained earnings | 32 | 736,574,570.94 | – 126,577,188.54 | 679,699,187.87 | – 161,282,629.11 |
| Foreign currency translation difference | | – | – | – | – |
| Total of owner's equity belong to the parent company | | 2,451,509,684.38 | 1,261,712,691.61 | 2,393,458,489.14 | 1,225,831,438.87 |
| Minor shareholders' equity | 33 | 75,848,694.17 | 61,404,848.23 | – | – |
| Total owners' (stockholders') equity | | 2,527,358,378.55 | 1,323,117,539.84 | 2,393,458,489.14 | 1,225,831,438.87 |
| Total liabilities & owners' (stockholders') equity | | 11,034,433,438.69 | 7,675,454,534.11 | 10,812,544,606.94 | 7,464,588,920.89 |

PROFIT AND LOSS STATEMENT

For the Year Ended 31 December 2007

Monetary unit: RMB yuan

| Items | Notes | | Consolidated | | Parent Company | |
|---|-------|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Con. | Parent | Current year | Last year | Current year | Last year |
| I. Total Operating Revenue | | | 5,952,697,163.61 | 3,399,203,543.04 | 5,409,315,254.23 | 3,037,082,028.30 |
| Including: Operating Income | 34 | 50 | 5,952,697,163.61 | 3,399,203,543.04 | 5,409,315,254.23 | 3,037,082,028.30 |
| Interest Income | | | - | - | - | - |
| Insurance fee earned | | | - | - | - | - |
| Fee and commission received | | | - | - | - | - |
| II. Total Operating Cost | | | 5,170,330,261.18 | 3,108,157,806.40 | 4,692,982,886.15 | 2,778,272,460.82 |
| Including: Operating Cost | 34 | 50 | 4,917,716,899.70 | 2,870,683,337.98 | 4,507,115,936.61 | 2,577,684,534.36 |
| Interest Expense | | | - | - | - | - |
| Fee and commission paid | | | - | - | - | - |
| Insurance discharge payment | | | - | - | - | - |
| Net claim amount paid | | | - | - | - | - |
| Net insurance policy reserves provided | | | - | - | - | - |
| Insurance policy dividend paid | | | - | - | - | - |
| Reinsurance expenses | | | - | - | - | - |
| Taxes and surcharge | 35 | | 20,346,934.95 | 9,293,363.87 | 17,825,707.02 | 7,937,020.79 |
| Selling expenses | | | 59,141,689.03 | 4,666,222.57 | 49,237,916.98 | 2,710,054.76 |
| General and administrative expenses | | | 307,915,809.37 | 215,426,719.17 | 275,047,472.98 | 185,268,228.48 |
| Financial expenses | 36 | | -150,369,238.43 | 4,126,375.06 | -161,741,292.57 | 937,644.86 |
| Impairment loss | 37 | | 15,578,166.56 | 3,961,787.75 | 5,497,145.13 | 3,734,977.57 |
| Add: Gain from change of fair value | 38 | | 282,540,017.01 | -2,382,304.56 | 282,540,017.01 | -2,382,304.56 |
| Investment income | 39 | | 44,924,326.96 | 3,084,639.73 | 43,601,790.28 | 3,934,828.42 |
| Including: Investment income/loss from associates and jointly controlled entities | | | 1,061,150.03 | -325,693.81 | 798,309.55 | 480,107.58 |
| Gains from currency exchange ("-" for loss) | | | | | | |
| III. Operating Profit ("-" for loss) | | | 1,109,831,246.40 | 291,748,071.81 | 1,042,474,175.37 | 260,362,091.34 |
| Add: Non-operating revenue | 40 | | 243,081,133.44 | 30,527,484.63 | 241,979,973.37 | 28,232,421.66 |
| Less: Non-operating expenditures | 41 | | 9,851,622.04 | 10,395,401.43 | 5,653,003.60 | 9,905,413.13 |
| Including: Loss on disposal of non-current assets | | | 9,247,877.18 | 9,438,622.89 | 5,058,458.74 | 9,152,783.36 |
| IV. Income before tax ("-" for loss) | | | 1,343,060,757.80 | 311,880,155.01 | 1,278,801,145.14 | 278,689,099.87 |
| Less: Income tax | 42 | | 380,615,081.01 | 34,008,875.94 | 362,475,787.58 | 28,485,299.53 |
| V. Net Profit ("-" for loss) | | | 962,445,676.79 | 277,871,279.07 | 916,325,357.56 | 250,203,800.34 |
| Net profit attributable to the owners of parent company | | | 940,656,796.04 | 267,537,448.04 | - | - |
| Minor shareholders' equity | 43 | | 21,788,880.75 | 10,333,831.03 | - | - |
| VI. Earnings per share (EPS): | | | | | | |
| i) Basic EPS | | | 1.90 | 0.54 | - | - |
| ii) Diluted EPS | | | - | - | - | - |

CASH FLOW STATEMENT

For the Year Ended 31 December 2007

Monetary unit: RMB yuan

| Items | Notes | | Consolidated | | Parent Company | |
|---|-------|--------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Con. | Parent | Current year | Last year | Current year | Last year |
| I. Cash flows from operating activities: | | | | | | |
| Cash received from the sale of goods or rendering of services | | | 7,517,352,719.43 | 6,243,560,560.73 | 6,698,437,993.43 | 5,753,067,122.06 |
| Refunds of taxes | | | 195,766,319.29 | 269,783,265.06 | 173,122,706.88 | 252,855,868.36 |
| Other cash receipts relating to operating activities | 44 | | 233,362,764.74 | 102,295,526.49 | 184,939,552.77 | 84,880,658.84 |
| Sub-total of cash inflows | | | 7,946,481,803.46 | 6,615,639,352.28 | 7,056,500,253.08 | 6,090,803,649.26 |
| Cash paid for goods and services | | | 5,349,725,300.13 | 3,456,623,945.83 | 4,744,117,976.19 | 3,009,839,486.92 |
| Cash paid to and on behalf of employees | | | 437,396,682.58 | 264,998,458.87 | 301,255,630.16 | 220,986,949.05 |
| Payments of all types of taxes | | | 139,342,297.26 | 63,171,118.99 | 87,351,798.35 | 45,574,079.33 |
| Other cash payments relating to operating activities | 44 | | 201,358,382.05 | 211,593,638.14 | 150,365,104.29 | 212,390,988.85 |
| Sub-total of cash out flows | | | 6,127,822,662.02 | 3,996,387,161.83 | 5,283,090,508.99 | 3,488,791,504.15 |
| Net cash flows from operating activities | | | 1,818,659,141.44 | 2,619,252,190.45 | 1,773,409,744.09 | 2,602,012,145.11 |
| II. Cash flows from investing activities: | | | | | | |
| Cash received from return of investments | | | 570,609,077.06 | 51,292,690.94 | 570,359,077.06 | 51,292,690.94 |
| Cash received from return on investment | | | 36,845,755.45 | 3,901,751.67 | 36,845,755.45 | 6,671,214.23 |
| Net cash received from the sale of fixed assets, intangible assets and other long-term assets | | | 622,969.20 | 3,850,673.42 | 599,469.20 | 1,393,383.42 |
| Net cash received from disposal of subsidiaries or other operational units | | | - | - | - | - |
| Other cash receipts relating to investing activities | 44 | | 87,158,069.58 | 14,127,810.62 | 87,015,451.53 | 13,843,237.00 |
| Sub-total of cash inflows | | | 695,235,871.29 | 73,172,926.65 | 694,819,753.24 | 73,200,525.59 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | | 77,107,497.60 | 50,366,602.20 | 68,574,905.88 | 42,606,588.95 |
| Cash paid to acquire investments | | | 263,017,375.00 | 397,727,630.00 | 266,069,867.77 | 345,068,830.00 |
| Net increase of loan against pledge | | | - | - | - | - |
| Net cash received from subsidiaries and other operational units | | | - | - | - | - |
| Other cash payments relating to investing activities | | | 114,776,192.83 | - | 97,323,150.00 | - |
| Sub-total of cash out flows | | | 454,901,065.43 | 448,094,232.20 | 431,967,923.65 | 387,675,418.95 |
| Net cash flows from investing activities | | | 240,334,805.86 | -374,921,305.55 | 262,851,829.59 | -314,474,893.36 |
| III. Cash flows from financing activities: | | | | | | |
| Cash received from investments by others | | | - | - | - | - |
| Incl. Cash received as investment from minor shareholders | | | - | - | - | - |
| Cash received from borrowings | | | 1,518,087,497.62 | 1,911,584,886.00 | 1,310,699,268.40 | 1,805,958,066.00 |
| Cash received from bond placing | | | - | - | - | - |
| Other cash receipts relating to financing activities | | | 751,248.99 | 3,843,250.44 | - | 3,754,966.68 |
| Sub-total of cash inflows | | | 1,518,838,746.61 | 1,915,428,136.44 | 1,310,699,268.40 | 1,809,713,032.68 |
| Cash repayments of amounts borrowed | | | 1,071,630,733.32 | 442,488,300.00 | 823,717,909.10 | 400,708,300.00 |
| Cash paid for distribution of dividends or profits and for interest expenses | | | 71,344,185.55 | 9,417,815.53 | 66,493,234.22 | 6,322,291.56 |
| Incl. Dividend and profit paid by subsidiaries to minor shareholders | | | - | - | - | - |
| Other cash payments relating to financing activities | | | 23,604,143.25 | 787,390.55 | 1,225,020.77 | 783,794.40 |
| Sub-total of cash out flows | | | 1,166,579,062.12 | 452,693,506.08 | 891,436,164.09 | 407,814,385.96 |
| Net cash flows from financing activities | | | 352,259,684.49 | 1,462,734,630.36 | 419,263,104.31 | 1,401,898,646.72 |
| IV. Effect of changes in foreign exchange rate on cash | | | -9,628,710.32 | -13,488,407.07 | -9,366,308.42 | -13,113,101.60 |
| V. Net increase in cash and cash equivalents | | | 2,401,624,921.47 | 3,693,577,108.19 | 2,446,158,369.57 | 3,676,322,796.87 |
| Add: Cash and cash equivalents at the beginning of the year | | | 4,338,007,057.97 | 644,429,949.78 | 4,252,200,864.96 | 575,878,068.09 |
| VI. Cash and cash equivalents at the end of the year | | | 6,739,631,979.44 | 4,338,007,057.97 | 6,698,359,234.53 | 4,252,200,864.96 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

Monetary unit: RMB yuan

| Item | Paid-in capital (or stock) | Capital Reserves | Current year Owners' Equity Attributable to the Parent Company | | | | Undistributed Profit | Others | Minor shareholders' equity | Total owners' equity |
|---|-------------------------------|------------------|---|------------------|--------------------------|-----------------|-------------------------|---------------|----------------------------------|-------------------------|
| | | | Less: Treasury stock | Surplus reserves | Common risk provision | | | | | |
| I. Total Equity at the end of last year | 494,677,580.00 | 793,464,788.81 | | 100,147,511.34 | | -126,577,188.54 | | 61,404,848.23 | 1,323,117,539.84 | |
| Add: Increase (decrease) in profit | | | | | | | | | | |
| due to changes in accounting policies | - | - | - | - | - | - | - | - | - | |
| Prior period errors adjustments | - | - | - | - | - | - | - | - | - | |
| II. Total equity at the beginning of the year | 494,677,580.00 | 793,464,788.81 | | 100,147,511.34 | | -126,577,188.54 | | 61,404,848.23 | 1,323,117,539.84 | |
| III. Increase (decrease) in equity in current year | - | 251,301,692.71 | | 75,504,272.85 | | 862,991,027.21 | | 14,443,845.94 | 1,204,240,838.71 | |
| (i) Net profit | | | | | | 940,656,796.04 | | - | 940,656,796.04 | |
| (ii) Gain/Loss directly recognized in equity | | 251,301,692.71 | | | | | | 14,443,845.94 | 265,745,538.65 | |
| Net movement on fair value of | | | | | | | | | | |
| available-for-sale financial assets | | 251,301,692.71 | | | | | | | 251,301,692.71 | |
| Change on investee's equity under | | | | | | | | | | |
| equity method | | | | | | | | | | |
| Influence of income tax related to | | | | | | | | | | |
| owners' equity items | | | | | | | | | | |
| Others | | | | | | | | 14,443,845.94 | 14,443,845.94 | |
| Sub-total of (i) & (ii) | | 251,301,692.71 | | | | 940,656,796.04 | | 14,443,845.94 | 1,206,402,334.69 | |
| (iii) Movement of paid-in capital | | | | | | | | | | |
| Owners' paid-in capital | | | | | | | | | | |
| Share-based payment | | | | | | | | | | |
| Others | | | | | | | | | | |
| (iv) Profit allotment | | | | 75,504,272.85 | | -77,665,768.83 | | | -2,161,495.98 | |
| Appropriation of statutory surplus reserves | | | | 75,504,272.85 | | -75,504,272.85 | | | | |
| Providing of common risk provisions | | | | | | | | | | |
| Profit distributed to owners (or shareholders) | | | | | | | | | | |
| Others | | | | | | | | | -2,161,495.98 | |
| (v) Transfers within owner's equity | | | | | | | | | | |
| Transfer from capital reserves to paid-in capital | | | | | | | | | | |
| Transfer from surplus reserves to paid-in capital | | | | | | | | | | |
| Transfer from surplus reserves to | | | | | | | | | | |
| undistributed profit | | | | | | | | | | |
| Others | | | | | | | | | | |
| IV. Total equity at the end of the year | 494,677,580.00 | 1,044,766,481.52 | | 175,651,784.19 | | 736,413,838.67 | | 75,848,694.17 | 2,527,358,378.55 | |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

| Item | Paid-in capital (or stock) | Capital Reserves | Last Year Owners' Equity Attributable to the Parent Company | | | | Undistributed Profit | Others | Minor shareholders' equity | Total owners' equity |
|--|-------------------------------|------------------|--|---------------------------|--------------------------|-----------------|-------------------------|---------------|----------------------------------|-------------------------|
| | | | Treasury stock | Less: Surplus reserves | Common risk provision | | | | | |
| I. Total Equity at the end of last year | 494,677,580.00 | 681,168,181.72 | - | 100,147,511.34 | - | -391,955,624.44 | - | 49,719,923.70 | 933,757,572.32 | |
| Add: Increase (decrease) in profit due to changes in accounting policies | - | - | - | - | - | - | - | - | - | |
| Prior period errors adjustments | - | - | - | - | - | - | - | - | - | |
| II. Total equity at the beginning of the year | 494,677,580.00 | 681,168,181.72 | - | 100,147,511.34 | - | -391,955,624.44 | - | 49,719,923.70 | 933,757,572.32 | |
| III. Increase (decrease) in equity in current year | - | 112,296,607.09 | - | - | - | 265,378,435.90 | - | 11,684,924.53 | 389,359,967.52 | |
| (i) Net profit | - | - | - | - | - | 267,537,448.04 | - | - | 268,793,448.04 | |
| (ii) Gain/Loss directly recognized in equity | - | 112,296,607.09 | - | - | - | - | - | 11,684,924.53 | 123,981,531.62 | |
| Net movement on fair value of available-for-sale financial assets | - | 112,296,607.09 | - | - | - | - | - | - | 112,296,627.09 | |
| Change on investee's equity under equity method | - | - | - | - | - | - | - | - | - | |
| Influence of income tax related to owners' equity items | - | - | - | - | - | - | - | - | - | |
| Others | - | - | - | - | - | - | - | 11,684,924.53 | 11,684,924.53 | |
| Sub-total of (i) & (ii) | - | 112,296,607.09 | - | - | - | 267,537,448.04 | - | 11,684,924.53 | 391,518,979.66 | |
| (iii) Movement of paid-in capital | - | - | - | - | - | - | - | - | - | |
| Owners' paid-in capital | - | - | - | - | - | - | - | - | - | |
| Share-based payment | - | - | - | - | - | - | - | - | - | |
| Others | - | - | - | - | - | - | - | - | - | |
| (iv) Profit allotment | - | - | - | - | - | -2,159,012.14 | - | - | -2,159,012.14 | |
| Appropriation of statutory surplus reserves | - | - | - | - | - | - | - | - | - | |
| Providing of common risk provisions | - | - | - | - | - | - | - | - | - | |
| Profit distributed to owners (or shareholders) | - | - | - | - | - | - | - | - | - | |
| Others | - | - | - | - | - | - | - | -2,159,012.14 | -3,415,012.14 | |
| (v) Transfers within owner's equity | - | - | - | - | - | - | - | - | - | |
| Transfer from capital reserves to paid-in capital | - | - | - | - | - | - | - | - | - | |
| Transfer from surplus reserves to paid-in capital | - | - | - | - | - | - | - | - | - | |
| Transfer from surplus reserves to undistributed profit | - | - | - | - | - | - | - | - | - | |
| Others | - | - | - | - | - | - | - | - | - | |
| IV. Total equity at the end of the year | 494,677,580.00 | 793,464,788.81 | - | 100,147,511.34 | - | -126,577,188.54 | - | 61,404,848.23 | 1,323,117,539.84 | |

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

| Item | Paid-in capital (or stock) | Capital Reserves | Current year | | Undistributed Profit | Others | Total owners' equity |
|---|-------------------------------|-------------------------|-------------------------|-----------------------|-------------------------|--------|-------------------------|
| | | | Less: Treasury stock | Surplus reserves | | | |
| I. Total Equity at the end of last year | 494,677,580.00 | 793,464,788.81 | | 98,971,699.17 | -161,282,629.11 | | 1,225,831,438.87 |
| Add: Increase (decrease) in profit due to | | | | | | | |
| changes in accounting policies | - | - | - | - | - | - | - |
| Prior period errors adjustments | - | - | - | - | - | - | - |
| II. Total equity at the beginning of the year | 494,677,580.00 | 793,464,788.81 | - | 98,971,699.17 | -161,282,629.11 | - | 1,225,831,438.87 |
| III. Increase (decrease) in equity in current year | - | 251,301,692.71 | - | 75,343,540.58 | 840,981,816.98 | - | 1,167,627,050.27 |
| (i) Net profit | - | - | - | - | 916,325,357.56 | - | 916,325,357.56 |
| (ii) Gain/Loss directly recognized in equity | - | 251,301,692.71 | - | - | - | - | 251,301,692.71 |
| Net movement on fair value of available-for-sale | | | | | | | |
| financial assets | - | 251,301,692.71 | - | - | - | - | 251,301,692.71 |
| Change on investee's equity under equity method | - | - | - | - | - | - | - |
| Influence of income tax related to owners' equity items | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| Sub-total of (i) & (ii) | - | 251,301,692.71 | - | - | 916,325,357.56 | - | 1,167,627,050.27 |
| (iii) Movement of paid-in capital | - | - | - | - | - | - | - |
| Owners' paid-in capital | - | - | - | - | - | - | - |
| Share-based payment | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| (iv) Profit allotment | - | - | - | 75,343,540.58 | -75,343,540.58 | - | - |
| Appropriation of statutory surplus reserves | - | - | - | 75,343,540.58 | -75,343,540.58 | - | - |
| Providing of common risk provisions | - | - | - | - | - | - | - |
| Profit distributed to owners (or shareholders) | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| (v) Transfers within owner's equity | - | - | - | - | - | - | - |
| Transfer from capital reserves to paid-in capital | - | - | - | - | - | - | - |
| Transfer from surplus reserves to paid-in capital | - | - | - | - | - | - | - |
| Transfer from surplus reserves to undistributed profit | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| IV. Total equity at the end of the year | 494,677,580.00 | 1,044,766,481.52 | - | 174,315,239.75 | 679,699,187.87 | - | 2,393,458,489.14 |

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2007

| Item | Paid-in capital (or stock) | Capital Reserves | Last Year | | Undistributed Profit | Others | Total owners' equity |
|---|-------------------------------|-----------------------|-------------------------|----------------------|-------------------------|--------|-------------------------|
| | | | Less: Treasury stock | Surplus reserves | | | |
| I. Total Equity at the end of last year | 494,677,580.00 | 681,168,181.72 | - | 98,971,699.17 | -411,486,429.45 | - | 863,358,060.69 |
| Add: Increase (decrease) in profit due to | | | | | | | |
| changes in accounting policies | - | - | - | - | - | - | - |
| Prior period errors adjustments | - | - | - | - | - | - | - |
| II. Total equity at the beginning of the year | 494,677,580.00 | 681,168,181.72 | - | 98,971,699.17 | -411,486,429.45 | - | 863,331,031.44 |
| III. Increase (decrease) in equity in current year | - | 112,296,607.09 | - | - | 250,203,800.34 | - | 362,500,407.43 |
| (i) Net profit | - | - | - | - | 250,203,800.34 | - | 250,176,771.09 |
| (ii) Gain/Loss directly recognized in equity | - | 112,296,607.09 | - | - | - | - | 112,296,607.09 |
| Net movement on fair value of available-for-sale | | | | | | | |
| financial assets | - | 112,296,607.09 | - | - | - | - | - |
| Change on investee's equity under equity method | - | - | - | - | - | - | - |
| Influence of income tax related to owners' equity items | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | 112,296,607.09 |
| Sub-total of (i) & (ii) | - | 112,296,607.09 | - | - | 250,203,800.34 | - | 362,500,407.43 |
| (iii) Movement of paid-in capital | - | - | - | - | - | - | - |
| Owners' paid-in capital | - | - | - | - | - | - | - |
| Share-based payment | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| (iv) Profit allotment | - | - | - | - | - | - | - |
| Appropriation of statutory surplus reserves | - | - | - | - | - | - | - |
| Providing of common risk provisions | - | - | - | - | - | - | - |
| Profit distributed to owners (or shareholders) | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| (v) Transfers within owner's equity | - | - | - | - | - | - | - |
| Transfer from capital reserves to paid-in capital | - | - | - | - | - | - | - |
| Transfer from surplus reserves to paid-in capital | - | - | - | - | - | - | - |
| Transfer from surplus reserves to undistributed profit | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | - | - |
| IV. Total equity at the end of the year | 494,677,580.00 | 793,464,788.81 | - | 98,971,699.17 | -161,282,629.11 | - | 1,225,831,438.87 |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

I BRIEF INTRODUCTION TO 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 venture limited company. Upon approval, the Company was registered as a Sino-foreign joint limited company on October 21st 1994. The Company’s registered capital amounts to RMB494,677,580, and its legal representative is Li Zhushi.

The Company is engaged to design and construct handy-size oli tanker. Currently, the Company is the most famous shipyard in China, with strong advantage in design and development technics and experience in constructing handy-size oil tanker under modernized facilities. At present, the Company owns one 40,000dwt, two 60,000dwt shipbuilding berths and a 50,000dwt dry dock, shipbuilding and ship-repairing quay, 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 belongs to shipbuilding industry. The principal business scope covers: shipbuilding, steel structure engineering, and other mechanical and electrical equipment. In addition to large vessels, the Company’s principal products include steel structure’s manufacturing, coating & erecting for bridges & high-rise construction & large-size pipe, manufacturing & installing of passenger/goods lift, foils and studs for hydrofoil, port machinery, hydraulic machines, production line for external painted steel plates of refrigeration and design & manufacturing of crane machinery.

The Company’s parent company is China State Shipbuilding Corporation (CSSC), and the ultimate controlling party is State-owned Assets Supervision and Administration Commission of the State Council.

II BASIS OF FINANCIAL STATEMENTS PREPARATION

Before January 1, 2007, the financial statements of the Company have been prepared in accordance with the Accounting Standards for Business Enterprises (old edition) and the Accounting Systems for Business Enterprises promulgated in the People’s Republic of China. Since January 1, 2007, the Company prepared financial statements according to the Accounting Standards for Business Enterprises [Cai Kuai (2006) No.3] issued on February 15, 2006 and its supplementary rules. The financial statements hereby were restated, and according items were adjusted retrospectively to comply with requirements of Accounting Standards for Business Enterprises No. 38-First time adoption of Accounting Standards for Business Enterprises, and “Explanation for public company information disclosure requirements No.7-Preparation and disclosure for comparative financial information of transition period from old Accounting Standards for Business Enterprises.” [CSRC (2007) NO.10]

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

The financial statements have been prepared on the going concern and accrual basis, and recognized, measured and reported based on actual transactions and events, in accordance with Accounting Standards for Business Enterprises-Basic Standard and other specific accounting standards, guidelines and explanations. Estimations and assumptions are applied when preparing qualified financial statements according to the requirements of Accounting Standards for Business Enterprises, which would affect presentation and disclosure of asset, liability and contingencies as at balance sheet date, and reporting revenue and expense.

III STATE OF COMPLIANCE

The financial statements have been prepared in conformity with China Accounting Standards for Business Enterprise issued by the Ministry of Finance in February 2006, truly and fully reflecting the Company's financial conditions, operating results, cash flows and relating information.

IV SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATIONS

1. Accounting period

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

2. Currency Presented in Accounting Records

Accounting records are maintained in Renminbi.

3. Basis of Accounting

Recognition, measurement and reporting are based upon accrual system, and debit and credit accounting is applied.

4. Basis of Measurement

Basically, valuation bases upon cost of acquisition, and replacement costing, recoverable value, discounted present value or fair value are specially required by accounting standards.

5. Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

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 date when the transactions take place. At the balance sheet date, the monetary items denominated in foreign currencies are adjusted in accordance with the spot rate quoted by the People's Bank of China, exchange difference arising from the adjustment should be recognized in the current profit or loss except those that could be capitalized when purchasing or constructing assets. Foreign currency non-monetary items measured at historical cost shall continue to be translated at the spot exchange rates at the dates of the transactions, the amounts in functional currency shall remain unchanged.

7. Financial Assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale, and held-to maturity. The classification depends on the purpose and for which the financial assets were acquired and the ability of holding. Management determines the classification of its financial assets at initial recognition.

a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss, including financial assets held for trading and those designed as at fair value through profit or loss, are recognized initially at fair value with relevant transaction fees charged to current profit and loss. Considerations include declared cash dividends or matured interests are recognized as receivables. Cash dividends and interest received during holding period are recognized as investment income. At the balance sheet date, change of fair value of the financial assets should be charged to current profit or loss. When derecognition, difference between the fair value and initial measurement of the financial asset is recognized as investment income, concurrently adjustment made for gain or loss arising from change in fair value.

b) *Accounts receivable and provision for doubtful debts*

Initial recognition based upon consideration or contract value of receivables. In cases where debtors are bankrupt or are dead, unrecoverable amount after settlement out of liquidation or property; debtors overdue and certify it is impossible to get back after litigation process, the receivables are recognized as bad debt loss.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Allowance method is applied when accounting bad debt. On balance sheet date, except for receivables between associated companies within consolidation scope, the Company shall assess the significant receivables individually for impairment, and recognize the amount of impairment as the difference between discounted present value of future cash flow and the carrying amount. If there is no indication of impairment, receivables together with the insignificant amounts shall be assessed collectively in groups of similar credit risk characteristics, and 0.5% of the receivable balances shall be accounted as impairment amount, i.e. bad debt allowance.

If the Company finance with receivables including factoring, pledge or discounting the receivables to financial institutions and the Company shall bear the repayment responsibility in case the ultimate debtee overdues, the receivables shall be treated as pledge for loans; if the Company has no repayment responsibility, the transfer should be recognized and the profit and loss should be accounted.

When the Company recovers the receivables, the difference between the consideration paid and the carrying amount of the receivables should be charged to current profit or loss.

c) *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 effective interest rate through holding period and recognized as investment incomes in the income statement.

d) *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 related 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.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Determination of Fair Value

The fair values of quoted investments are based on current bid prices of an active market. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

8. Inventories

Inventories of the Company are finished goods or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress in the process of production for such sale, or materials or supplies to be consumed in the production process or in the rendering of services.

Inventories of the Company are valued on the basis of cost, which include:

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

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

At balance sheet date, inventories are stated at the lower of cost and net realizable value. If the carrying amount of inventories exceed their net realizable value due to obsolescence, out-of date, or low selling price, or estimated loss in construction, provision for impairment of inventory should be made to profit or loss account. Methods of making provision for impairment of inventories include:

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

9. Long-term equity investments

The company's long-term equity investments include investments in subsidiaries, associate companies, and joint-operation companies.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

10. Investment Property

Investment property of the Company includes buildings holding for earning rental.

Investment 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 property is measured at cost when it is acquired, while that acquired from non-monetary asset exchange with commercial substance, business combination or debt composition not under common control are 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. Depreciation variables are depicted as follows:

| Estimated Useful Life (Year) | Estimated Residual Rate | Annual Depreciation Rate |
|-------------------------------------|--------------------------------|---------------------------------|
| 45-70 | 3% | 1.39%-2.16% |

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.

11. Fixed Assets and Depreciation

Fixed assets refer to tangible assets that have been used for more than one accounting year, including other equipment related to the production and business. Fixed assets are stated at actual cost upon acquisition.

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

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

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:

| Classifications | Useful life | Annual Depreciation rate (%) |
|-------------------------|--------------------|-------------------------------------|
| Machinery and equipment | 8-50 | 1.8%-12.13% |
| Transmission systems | 6-20 | 4.5%-16.17% |
| Instrument and meters | 10-15 | 6.47%-9.7% |
| Vehicles | 8-35 | 2.57%-12.13% |
| Buildings | 5-10 | 9%-19.4% |
| Structures | 15-50 | 1.8%-6.47% |

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.

12. 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 composition 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.

At the balance sheet date, the value of construction-in-progress is calculated in accordance with the lower of carrying amount and recoverable value. When the recoverable value is lower than carrying amount, the difference will be determined as provision for impairment of construction-in-progress on single asset basis. The impairment loss could not reverse after recognition.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

13. Intangible assets

Intangible asset of the Company is identifiable non-monetary asset without physical substance owned or controlled by the Company, including land using right and know-how without patent.

Intangible assets are initially measured at actual cost, which is equivalent to considerations paid and related charges. Once the contracted value is not fair value, the acquisition cost should be value at fair value.

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development. During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period when the asset is not yet in use, it is tested for impairment annually.

Amortization is provided to write off the cost evenly over the useful lives from the month it is acquired. Intangible assets are not amortized where the useful lives of intangible assets cannot be ascertained but subject to impairment test annually. The amortization variables are depicted as follows:

| Category | Residual Value | Useful Life | Amortization Method |
|-------------------------|----------------|-------------|---------------------|
| Land using right | 0 | 50 year | Straight-line |
| Know-How without patent | 0 | 5-10 year | Straight-line |

The Company will make impairment provision by difference between the book value and the recoverable amount of the intangible assets when intangible assets devalue. The impairment loss could not reverse after recognition.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

14. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Other borrowing costs are recognised as expenses when incurred.

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.

Investment income earned at the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

15. Financial Liabilities

The Company's financial liabilities include: financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (a) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (b) the financial liability are not derivatives as effective hedging instrument.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

The Company value the financial liability on the basis of fair value, without any deduction for transaction costs it may incur upon future disposal, otherwise, the financial liability shall be valued based upon amortized cost.

Other financial liability is financial liability other than financial liabilities at fair value through profit or loss, mostly composed of trade payables. Initial cost is recognized as the sum of the fair value of financial liability and related transaction cost. Subsequent measurement is based upon amortised cost.

16. Employee Benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by an enterprise in exchange for service rendered by employees, including employee wages, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, union running costs and employee education costs, non-monetary benefits, compensation to employees for termination of employment relationship, and other expenditures incurred in exchange for service rendered by employees.

17. Provisions

A provision is recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognised as a finance cost.

18. Deferred Income

Deferred Income of the Company is the portion of government grant to be reported in future period. Relevant accounting treatment refers to IV 20.

19. Revenue

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. It is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Sale of services

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

Use by Others of Enterprise Assets

Revenue from use by others of enterprise assets is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income is recognised on a time-proportion basis using the effective interest method, which determined according to the period and calculation required by related contract and agreements.

Construction Contracts

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

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

20. Government grants

Government grants to the Company include financial appropriation, financial discount, tax refund (only VAT 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.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

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.

21. Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease incurred in the Company all belong to operating lease.

22. Income Tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities (or assets) are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

23. Business Combination

For a business combination involving enterprises under common control, assets and liabilities that are obtained by the absorbing party in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

For a business combination involving enterprises not under common control, the acquirer shall measure the assets given and liabilities incurred or assumed as consideration of the business combination at their fair values on the acquisition date; any difference between the fair value and the carrying amount of an item shall be recognized in profit or loss for the current period.

24. Preparation of Consolidated Financial Statements

The scope of the consolidation includes all subsidiaries under effective control and special purpose investees under effective control.

The consolidated financial statements shall be prepared in conformity with Accounting Standards for Business Enterprises No. 33-Consolidated Financial Statements, by the parent, after eliminating the effects of intragroup transactions. Minority interests are individually presented under shareholder's equity in the consolidated financial statements.

The accounting policies and accounting period applied by the subsidiaries and the Company is consistent.

25. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Company reports follow mostly through business segments with supplementary information as geographical segments.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

26. Others

Enterprise Pension Funds

In year 2007, the Company has design business pension funds plan according the related regulations promulgated nationally. The scheme is approved by the Company's employees' representatives committee and board of directors, also achieved by provincial ministry of labor and social security.

The Company has set up enterprise pension funds committee, which is responsible for daily management of the funds. The management of the funds separated with other assets of the Company, and the independent third party was invited to be manager of the account. The Company accounts for the expenditure of enterprise pension fund as employee benefits, charging to the current profit or loss, or capitalizing as assets. At the same time, the Company will pay the annuity directly to the account of employees which was set up in the bank and managed by enterprise pension funds committee.

Risk Management

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's integral risk management is aimed at decreasing potential unfavorable financial effects at the best effort.

The board of directors reviews and agrees policies for managing each of the risks. The management sets up several committees and designs reporting procedures under policies approved by the board. These committees are responsible for assessing various financial risks by co-working with each operating unit and financial institutions. After reporting to the management, the committees implements predesigned actions to circumvent or hedge the financial risks.

Due to continuing flourish in shipbuilding industry, considering long contracted period, the Company bears some sort of market risks. To circumvent market risks, the Company strengthens strategic relationships with suppliers, improving customized services and increasing expenditure on research and development to maitian market niche, aiming to lowing the risks.

As an international shipbuilding enterprise, the Company priced the shipbuilding contract denominated in U.S dollar, and face foreign exchange risks as a result. To manage foreign exchange risk resulted from future transactions and recognized assets and liabilities, the Company uses derivatives to hedge foreign exchange risks. By forecasting cash flows for next few years, identifying amount of foreign cash flow in- and-out, locking future exchange rate through foreign exchange forward contract with financial institutions, and managing structured liabilities, the Company prudently manages the facing future exchange rate risks, which include only the portion of the risks embedded in the signed contract.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

The Company controls the credit facility within the amount approved by the board. The management applies facility based upon the approval, and decides investment accordingly. The credit facility is basically approved annually, under special case, which would be approved out-of-budget. The financial department of the Company is responsible for managing the facility amount and cost of capital and making suggestions on the financing. The main objective of the credit risks management is to insure working capital required in normal operation, and to lowest the financing cost and risk cost at the best.

V Change in Accounting Policies, and Accounting Estimates and Significant Prior Period Errors Adjustments

1. Change in Accounting Policies

The Company implemented new Accounting Standards for Business Enterprise since Jan 1, 2007. The Company made adjustments retrospectively and restated comparative financial statements for year 2006. Retrospective adjustments made refer to Note XV.

According to Accounting Standards for Enterprise Business, "Estimated warranty provision" should be charged to "Selling Expense". Since year 2007, "Estimated warranty provision" which was previously accounted in "cost of goods sold", was adjusted to "selling expense". The adjustment did not constitute material effect on current profit or loss.

There is no change in accounting estimates and no significant prior period errors occurred in the current period.

VI Taxation

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

1. Turnover Tax and Surcharge

| Category | Taxation Basis | Tax Rate |
|------------------------|---|----------|
| Business tax | Transportation and construction installation | 3% |
| | Other services | 5% |
| Value-added tax | Incremental revenue from shipbuilding, ship-repairing, steel structures, mechanical and electrical equipment manufacturing, and materials sales | 17% |
| Education surcharge | Turnover tax payable during the year | 3% |
| Flood defence expenses | Income from principal activities and other incomes | 0.09% |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

2. Corporate Income tax

The Company is taxed based upon taxable income with applicable rates, which are displayed as follows:

| Companies | Tax Rate |
|--|-----------------|
| Guangzhou Shipyard International Company Limited | 33% |
| Guangzhou United Steel Structures Limited | 27% |
| Masterwood Company Limited | 27% |
| Guangzhou Guanglian Container | 33% |
| Guangzhou Xinsun ShippingService Company Limited | 33% |
| Guangdong GSI Elevator Limited | 33% |
| Guangzhou Hongfan Information Technique Co., Ltd. | 15% |
| Guangdong Structure Pipe & Peg Limited | 33% |
| Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd | 33% |
| Rongguang Developing Co., Ltd. | 17.5% |
| Guangzhou Hongfa Hotel | 33% |
| Fonkwang Developing | 17.5% |

Previous year applicable income tax rate is 15%, while this year, the Company was noticed by local taxation institution to use 33% when calculating income tax.

March 16, 2007, National People's Congress approved Income Tax Law of People's Republic of China (the new income tax law), which should be take effect on January 1, 2008. The Company's applicable income tax rate will adjust to 25% from 33% since Jan. 1, 2008

3. Real 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%.

4. Individual Income Tax

The Company prepays and withholds individual income tax for its employees.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

VII Business Combination and Consolidated Financial Statements

As at December 31, 2007, information of the Company's Subsidiaries are as follows:

1. Subsidiaries acquired through business combination under common control

| Subsidiaries | Organization Code | Registration Place | Industry | Registered Capital ('000) | Business Scope |
|--|-------------------|--------------------|----------------------|---------------------------|---|
| Guangdong Structure Pipe & Peg Company Limited | 70786913-X | FoShan | Parts Manufacturing | 10,000 | Base construction; Manufacturing and sales of erroconcrete and construction parts |
| Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd | 19047465-2 | Guangzhou | Labor Service Supply | 500 | Provincial labor employment introduction, Marine installation |

| Subsidiaries | Holding Ratio | | Representative Ratio | Investment | The net Amount | Consolidated (Y/N) |
|--|---------------|----------|----------------------|--------------------|-------------------------|--------------------|
| | Direct | Indirect | | As at the Year End | of Effective Investment | |
| Guangdong Structure Pipe & Peg Company Limited | 100% | – | 100% | 15,090,445.52 | 15,090,445.52 | Y |
| Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd | 80% | 15.2% | 95.2% | 3,684,258.34 | 3,684,258.34 | Y |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

2. Other Subsidiaries

| Subsidiaries | Organization Code | Registration Place | Industry | Registered Capital ('000) | Business Scope |
|---|-------------------|--------------------|--|---------------------------|--|
| Masterwood Company Limited | 61841220-X | Guangzhou | Furniture Manufacturing | RMB33,150 | Manufacture and sales of all kind of furniture |
| Guangzhou Guanglian Container | 618413042 | Guangzhou | Container Transportation | RMB20,000 | Container transportation |
| Guangzhou Xinsun Shipping Service Company Limited | 231249006 | Guangzhou | Installation, welding, fitting, coating, repairing of hull structure | RMB2,000 | Installation, welding, fitting, coating, repairing of hull structure |
| Guangzhou United Steel Structures Limited | 61843570-0 | Guangzhou | Production and sales of steel structure | USD8,850 | Production and sales of steel structure, installation of structures |
| Guangdong GSI Elevator Limited | 23112891-7 | Guangzhou | Elevator Installation | RMB21,000 | Installation, welding, fitting of elevator |
| Guangzhou Hongfan Information Technique Co., Ltd. | 70825764-5 | Guangzhou | Developing of computer software, system integration and sales | RMB5,000 | Developing of computer software, system integration and sales |
| Rongguang Developing Co., Ltd. | - | Hong Kong | Trading | HKD10 | Trading |
| Guangzhou Hongfa Hotel | 63320352-9 | Guangzhou | Restaurant | RMB10,000 | Lodge, restaurant |
| Fonkwang Developing | - | Hong Kong | Trading | HKD200 | Trading |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

| Subsidiaries | Holding Ratio | | Investment | As at the Year End | The net Amount of Effective Investment | Consolidated (Y/N) |
|--|---------------|---------|-------------------------|-----------------------|--|-----------------------|
| | Direct | Direct | Representative Ratio | | | |
| Masterwood Company Limited Guangzhou Guanglian Container Limited | 51% | 25% | 76% | 4,953,793.18 | 4,953,793.18 | Y |
| Guangzhou Xinsun Shipping Service Company Limited | 75% | – | 75% | 13,555,580.88 | 13,555,580.88 | N |
| Guangzhou United Steel Structures Limited | 83% | 16.184% | 99.184% | 14,795,395.95 | 14,795,395.95 | Y |
| Guangdong GSI Elevator Limited | 51% | – | 51% | 72,001,074.68 | 72,001,074.68 | Y |
| Guangzhou Hongfan Information Technique Co., Ltd. | 95% | 3.8% | 98.8% | 29,517,011.45 | 29,517,011.45 | Y |
| Rongguang Developing Co., Ltd. | 51% | – | 51% | 4,259,008.25 | 4,259,008.25 | Y |
| Guangzhou Hongfa Hotel | 100% | – | 100% | 2,381,223.81 | 2,381,223.81 | Y |
| Fonkwang Developing | – | 86.16% | 86.16% | 3,237,534.85 | 3,237,534.85 | Y |
| | – | 70% | 70% | 873,801.55 | 873,801.55 | Y |

Change of Consolidation Scope during Current Period

| Subsidiaries | Consolidated Period | Reason of Change | Net Asset as at the Year End | Net Profit of Current Period |
|---|--------------------------------------|---------------------|---------------------------------|---------------------------------|
| 1. New Company Consolidated | | | | |
| Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd | July to December of year 2007 | Acquisition | 2,626,516.72 | 54,403.30 |
| Guangdong Structure Pipe & Peg Company Limited | December 2007 | Acquisition | 4,688,453.32 | 543,601.83 |
| 2. Company No Longer Consolidated | | | | |
| Guangzhou Guanglian Container Limited | January to September of year 2007 | Liquidation | – | – |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Subsidiaries Acquired Through Business Combination Involving Enterprises Not under Common Control

1. Principle

Acquisition date was determined according the time when the control power transfer, which satisfied following conditions:

- (1) Business combination contract has been approved by the board or authorized by other institution within the Company.
- (2) Necessary asset transfer procedures has been performed by each parties involving in the combination.
- (3) Acquirer has effectively controlled the counter-party's financial and operating policy, and enjoy relevant risk and rewards.

2. Acquisition Cost

- (1) Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd

| Item | Book Value | Fair Value | Determination of Fair Value |
|-----------|--------------|--------------|-----------------------------|
| Net Asset | 2,572,113.42 | 3,815,615.96 | Valuation |

- (2) Guangdong Structure Pipe & Peg Company Limited

| Item | Book Value | Fair Value | Determination of Fair Value |
|-----------|---------------|---------------|-----------------------------|
| Net Asset | 11,147,540.61 | 19,200,000.00 | Valuation |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

3. Financial Information of the Party being absorbed

(1) Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd

| Item | Amount Since Acquisition Date |
|--|-------------------------------|
| Revenue | 93,174,364.57 |
| Net Profit | 54,403.30 |
| Net cash flows from operating activities | 5,976,823.53 |
| Net Cash Flows | 3,660,107.00 |

(2) Guangdong Structure Pipe & Peg Company Limited

| Item | Amount Since Acquisition Date |
|--|-------------------------------|
| Revenue | – |
| Net Profit | -543,601.83 |
| Net cash flows from operating activities | -3,281.02 |
| Net Cash Flows | -3,281.02 |

Minority Interest

Refer to Note IX 33.

VIII JOINT VENTURE AND ASSOCIATE COMPANIES

Joint venture and associated companies are displayed as follows:

| Companies | Organization Code | Registration Place | Industry | Holding Ratio | Represent-ative Ratio | Year-end | Current | Current |
|--|-------------------|--------------------|-------------------------|---------------|-----------------------|----------------------|--------------------|-----------------------|
| | | | | | | Net Asset ('0000) | Revenue ('0000) | Net Income ('0000) |
| South China Marine and Industrial Special Coating Co., Ltd | 618428789 | Guangzhou | Coating | 25% | 25% | 1336 | 1828 | 319 |
| Zhanjiang South Ocean Marine Services Inc. | 749150668 | Zhanjiang | Ship Equipment Fitting | 40% | 40% | 195 | 482 | 4 |
| Zhenjiang Zhongchuan Electricity Power Equipment Ltd. | 782067313 | Zhenjiang | Equipment Manufacturing | 32% | 32% | 4778 | 3112 | 82 |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

IX NOTES TO SIGNIFICANT ITEMS IN THE FINANCIAL STATEMENTS

1. Monetary Funds

| Item | Closing Balance | Opening Balance |
|-------------------------------------|-------------------------|-------------------------|
| Cash on hand | 297,787.13 | 271,480.92 |
| Deposit in Bank | 6,738,958,761.86 | 4,117,943,956.49 |
| Inc.: Deposit in CSSC Financial CO. | 26,881,257.61 | 458,194.93 |
| Other monetary funds | 115,151,623.28 | 219,333,425.63 |
| Total | <u>6,854,408,172.27</u> | <u>4,338,007,057.97</u> |

Note1: As at December 31, 2007, there is no pledge, frozen risk related to the Company's cash.

Note2: Other monetary funds is CD under lien.

Note3: The increased balance of 58.01% compared to the beginning mainly resulted from customers advanced payment.

Note4: CSSC Financial CO., one of subsidiaries of CSSC, is a non-bank financial institution authorized by People's Bank of China.

Foreign Currency included in the balance is displayed as below:

| Item | Closing Balance | | | Opening Balance | | |
|----------------------|----------------------|---------------|----------------------|----------------------|---------------|-----------------------|
| | Original Currency | Exchange Rate | RMB | Original Currency | Exchange Rate | RMB |
| Cash | - | - | 68,093.96 | - | - | 157,675.82 |
| HKD | 159.42 | 0.9364 | 149.28 | 98,349.99 | 1.0030 | 98,364.01 |
| USD | 6,093.80 | 7.3046 | 44,512.77 | 5,094.98 | 7.8087 | 39,785.17 |
| EUR | 942.84 | 10.6669 | 10,057.18 | 1,528.84 | 10.2665 | 15,695.84 |
| GBP | 917.29 | 14.5807 | 13,374.73 | 250.00 | 15.3232 | 3,830.80 |
| Deposit in Bank | - | - | 8,520,795.18 | - | - | 819,453,284.63 |
| HKD | 35,706.28 | 0.9364 | 33,435.36 | 4,777,104.39 | 1.0030 | 4,791,224.72 |
| USD | 1,145,575.64 | 7.3046 | 8,367,971.81 | 103,193,011.60 | 7.8087 | 805,803,269.65 |
| EUR | 11,192.38 | 10.6669 | 119,388.01 | 862,883.17 | 10.2665 | 8,858,790.26 |
| Other monetary funds | - | - | 8,131,618.77 | - | - | 8,696,745.27 |
| USD | 1,113,218.90 | 7.3046 | 8,131,618.77 | 1,113,725.11 | 7.8087 | 8,696,745.27 |
| Total | - | - | <u>16,720,507.91</u> | - | - | <u>828,307,705.72</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

2. Financial assets at fair value through profit or loss

| Item | Closing Fair Value | Opening Fair Value |
|--|-----------------------|-----------------------|
| Financial Assets designed as at fair value through profit or loss | 294,309,931.43 | 712,022.60 |

The opening balance of the account is derivatives, and the ending balance increase largely due to the fair value of USD/RMB forward contract increase largely with fast appreciation of RMB.

3. Account Receivables

(1) Classification based on significance:

| Classification | Amount | Closing Balance | | |
|--|-----------------------|-----------------|-----------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | Net |
| Individually significant balance | 242,206,247.69 | 75.86% | 1,211,031.24 | 240,995,216.45 |
| Individually insignificant but significant based on credit risk characteristics | 28,944,035.70 | 9.06% | 3,516,874.48 | 25,427,161.22 |
| Other insignificant balances | 48,152,035.01 | 15.08% | 251,910.03 | 47,900,124.98 |
| Total | <u>319,302,318.40</u> | <u>100.00%</u> | <u>4,979,815.75</u> | <u>314,322,502.65</u> |

| Classification | Amount | Opening Balance | | |
|--|-----------------------|-----------------|-----------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | Net |
| Individually significant balance | 116,828,198.81 | 62.17% | 584,140.99 | 116,244,057.82 |
| Individually insignificant but significant based on credit risk characteristics | 20,821,318.25 | 11.08% | 7,597,919.41 | 13,223,398.84 |
| Other insignificant balances | 50,269,474.77 | 26.75% | 251,347.38 | 50,018,127.39 |
| Total | <u>187,918,991.83</u> | <u>100.00%</u> | <u>8,433,407.78</u> | <u>179,485,584.05</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(2) Classification based on ages:

| Ages | Amount | Closing Balance | | Net |
|-----------------|-----------------------|-----------------|---------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | |
| Within one year | 290,358,282.70 | 90.94% | 1,462,941.26 | 288,895,341.44 |
| 1-2 years | 17,513,338.76 | 5.48% | 100,089.40 | 17,413,249.36 |
| 2-3 years | 3,625,473.67 | 1.14% | 18,127.37 | 3,607,346.30 |
| Over 3 years | 1,049,083.37 | 0.33% | 5,245.42 | 1,043,837.95 |
| Special | 6,756,139.90 | 2.12% | 3,393,412.30 | 3,362,727.60 |
| Total | <u>319,302,318.40</u> | <u>100.00%</u> | <u>4,979,815.75</u> | <u>314,322,502.65</u> |

| Ages | Amount | Opening Balance | | Net |
|-----------------|-----------------------|-----------------|---------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | |
| Within one year | 167,097,673.58 | 88.93% | 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 |
| Over 3 years | 948,212.82 | 0.50% | 4,741.07 | 943,471.75 |
| 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> |

Foreign currency included in the balance:

| Item | Closing Balance | | | Opening Balance | | |
|-------|-------------------|---------------|-----------------------|-------------------|---------------|----------------------|
| | Original Currency | Exchange Rate | RMB | Original Currency | Exchange Rate | RMB |
| USD | 26,588,625.50 | 7.3046 | 194,219,273.83 | 6,287,237.30 | 7.8087 | 49,095,149.93 |
| AUD | 6,236,385.17 | 0.9088 | <u>5,667,626.84</u> | 3,407,072.05 | 0.9773 | <u>3,329,731.51</u> |
| Total | | | <u>199,886,900.67</u> | | | <u>52,424,881.44</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(3) Top 5 customers

| Customers | Closing Balance | | |
|--|-----------------------|-----------------|---------------|
| | Balance per book | Aging | % |
| CARGOSHIP NAVIGATION LTD | 113,787,173.00 | Within one year | 35.64% |
| BECHTEL POWER CORPORATION | 65,071,880.31 | Within one year | 20.38% |
| Asia Aluminum Factory Co. Ltd. | 32,886,000.00 | Within one year | 10.30% |
| Guangzhou CSSC LONGXUE Development Co. Ltd. | 16,714,500.00 | Within one year | 5.23% |
| SPX COOLING TECHNOLOGIES GMBH | 13,746,694.38 | Within one year | 4.31% |
| Total | <u>242,206,247.69</u> | | <u>75.86%</u> |

As at December 31, 2007, the balance of top 5 customers amounted to RMB242,206,247.69, accounting for 75.86% of total, within which, Guangzhou CSSC Longxue Development Co. Ltd. is a connected party of the Company.

(4) Movement of bad debt allowance:

| Item | Opening Balance | Increase | Decrease | | Closing Balance |
|--------------------|--------------------|------------|----------|--------------|--------------------|
| | | | Reverse | Write-off | |
| Bad debt allowance | 8,433,407.78 | 834,255.03 | - | 4,147,514.36 | 4,979,815.75 |

(5) Balance with related party refer to Note X.

4. Advances to suppliers

(1) Classification based on ages:

| Ages | Closing Balance | | | Opening Balance | | |
|-----------------|-----------------------|-------------|-----------|-----------------------|-------------|-----------|
| | Amount | Ratio | Bad Debts | Amount | Ratio | Bad Debts |
| Within one year | 514,970,952.69 | 100.00% | - | 220,637,992.79 | 87.74% | - |
| 1-2 years | 6,550.00 | 0.00% | - | 30,789,298.70 | 12.24% | - |
| 2-3 years | 3,318.83 | 0.00% | - | - | - | - |
| Over 3 years | - | - | - | 41,400.00 | 0.02% | - |
| Total | <u>514,980,821.52</u> | <u>100%</u> | <u>-</u> | <u>251,468,691.49</u> | <u>100%</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(2) Balance with main suppliers:

| Suppliers | Book Value | Closing Balance | | Opening Balance |
|--|-----------------------|------------------|----------------|-----------------|
| | | Nature | | |
| Guangzhou CSSC Huangpu Shipbuilding Ltd. | 269,888,640.00 | Contracted Value | | – |
| Dalian Marine Diesel Engine Factory | 112,270,000.00 | Equipment | 107,148,632.47 | |
| CSSC No.704 Research Institution | 31,194,000.00 | Equipment | | – |
| Zhenjiang CSSC Equipment Ltd. | 27,480,000.00 | Equipment | 11,050,000.00 | |
| Wuhan Zhonghatong Marine Supply Ltd. | 16,500,000.00 | Equipment | | – |
| Total | <u>457,332,640.00</u> | | | |

(3) Balance with related party refer to Note X.

(4) The increased balance of 104.79% compared to the opening balance mainly resulted from enlargement of the Company's production amount and increasing lack of supply in the market.

5. Other Receivables

(1) Classification based on significance:

| Classification | Amount | Closing Balance | | Net |
|---|-----------------------|-----------------|---------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | |
| Individually significant balance | 197,106,765.52 | 77.33% | 9,168,723.23 | 187,182,104.58 |
| Individually insignificant but significant based on credit risk characteristics | 1,016,306.17 | 0.40% | 5,081.53 | 1,011,224.64 |
| Other insignificant balances | 55,769,082.17 | 22.27% | 506,919.39 | 56,018,100.49 |
| Total | <u>253,892,153.86</u> | <u>100.00%</u> | <u>9,680,724.15</u> | <u>244,211,429.71</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

| Classification | Amount | Opening Balance | | Net |
|---|----------------------|-----------------|---------------------|----------------------|
| | | Ratio | Bad Debt Allowance | |
| Individually significant balance | 42,406,525.50 | 80.86% | 8,748,244.80 | 33,658,280.70 |
| Individually insignificant but significant based on credit risk characteristics | 778,806.72 | 1.49% | 3,894.04 | 774,912.68 |
| Other insignificant balances | 9,259,116.47 | 17.66% | 46,295.58 | 9,212,820.89 |
| Total | <u>52,444,448.69</u> | <u>100.00%</u> | <u>8,798,434.42</u> | <u>43,646,014.27</u> |

(2) Classification based on ages:

| Ages | Amount | Closing Balance | | Net |
|-----------------|-----------------------|-----------------|---------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | |
| Within one year | 239,181,578.94 | 94.21% | 927,397.82 | 238,254,181.12 |
| 1-2 years | 240,465.85 | 0.09% | 1,202.33 | 239,263.52 |
| 2-3 years | 372,516.63 | 0.15% | 1,862.58 | 370,654.05 |
| Over 3 years | 403,323.69 | 0.16% | 2,016.62 | 401,307.07 |
| Special | 13,694,268.75 | 5.39% | 8,748,244.80 | 4,946,023.95 |
| Total | <u>253,892,153.86</u> | <u>100.00%</u> | <u>9,680,724.15</u> | <u>244,211,429.71</u> |

| Ages | Amount | Opening Balance | | Net |
|-----------------|----------------------|-----------------|---------------------|----------------------|
| | | Ratio | Bad Debt Allowance | |
| Within one year | 37,671,373.22 | 71.84% | 46,295.58 | 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 |
| Over 3 years | 122,479.60 | 0.23% | 612.40 | 121,867.20 |
| Special | 13,994,268.75 | 26.68% | 8,748,244.80 | 5,246,023.95 |
| Total | <u>52,444,448.69</u> | <u>100.00%</u> | <u>8,798,434.42</u> | <u>43,646,014.27</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(3) Significant Account Balance:

| Items | Book Value | Nature | Closing Balance | | Opening Balance |
|--|-----------------------|---------------------------|-----------------|---------------|----------------------|
| | | | Ages | % | |
| VAT Rebate and Subsidies Receivable | 183,412,496.77 | VAT Rebate and Subsidies | Within one year | 72.24% | 35,552,477.26 |
| Interest receivable of CD | 49,915,107.00 | Interest receivable of CD | Within one year | 19.66% | - |
| Guangzhou International Trust and Investment Company | 13,694,268.75 | Entrusted Deposits | Over 5 years | 5.39% | 13,994,268.75 |
| Total | <u>247,021,872.52</u> | | | <u>97.29%</u> | <u>49,546,746.01</u> |

Note 1 Ending significant account balances amounted to 247,021,872.52, which accounted for 97.29% of total other receivables.

Note 2 Entrusted deposits has been exchanged for some assets with Guangzhou Notional Investment Corp. under Debt Restructuring Agreement. Under the agreement, asset transferring procedures for GUANGHO Project and 32 real assets in Longgang Shenzhen are under going, which is out of agreed period.

(4) Movement of bad debt allowance:

| Item | Opening Balance | Increase | Decrease | | Closing Balance |
|-----------|-----------------|------------|----------|-----------|-----------------|
| | | | Reverse | Write-off | |
| Bad Debts | 8,798,434.42 | 882,289.73 | - | - | 9,680,724.15 |

(5) Balance with related party refer to Note X.

(6) The increased balance of 459.53% compared to the opening mainly resulted from increase of VAT tax rebate and subsidies and interest receivable of CD.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

6. Inventory

(1) Classification

| Categories | Closing Balance | Opening Balance |
|----------------------------|-----------------------|-------------------------|
| Raw Materials | 441,273,482.06 | 304,875,494.49 |
| Work-in-Process | 520,529,135.71 | 843,024,445.18 |
| Finished Goods | 6,681,159.26 | 4,533,945.64 |
| Low-value consumables | 316,512.21 | 859,262.57 |
| Less: Impairment Provision | 13,450,607.76 | 2,962,507.56 |
| Total | <u>955,349,681.48</u> | <u>1,150,330,640.32</u> |

(2) Movements of Impairment Provision

| Categories | Opening Balance | Accrual | Decrease | | Closing Balance |
|---------------|-----------------|---------------|------------|-----------|-----------------|
| | | | Reverse | Write-off | |
| Raw Materials | 2,962,507.56 | 10,977,218.13 | 489,117.93 | - | 13,450,607.76 |

7. Available-for-sale Financial Assets

(1) Classification:

| Item | Closing Fair Value | Opening Fair Value |
|-------------------|--------------------|--------------------|
| Equity Instrument | 575,174,357.75 | 218,765,655.40 |

(2) Classification Brake Down:

| Item | Closing Fair Value | Opening Fair Value |
|---|-----------------------|-----------------------|
| China Merchants Energy Shipping Co., Ltd | 128,700,000.00 | 68,067,900.00 |
| China MerChants Bank Co., Ltd | 441,884,357.75 | 145,497,755.40 |
| Membership of Wuhan Gold and Silvil Golf Club | 4,590,000.00 | 5,200,000.00 |
| Total | <u>575,174,357.75</u> | <u>218,765,655.40</u> |

The increased balance of 162.92% compared to the beginning mainly resulted from increased year-end stock price of "Zhaoshang LunChuan", "CMBC". As at December 31, 2007, the holding stocks on "Zhaoshang LunChuan" are unrestricted outstanding shares, while holding stocks on "CMBC" are restricted to sale.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

8. Long-term Equity Investment

(1) Classification:

| Item | Opening Balance | Increase | Decrease | Closing Balance |
|---------------------|----------------------|----------------------|----------------------|----------------------|
| Subsidiaries | 215,897.37 | 13,555,580.88 | 215,897.37 | 13,555,580.88 |
| Joint Venture | 3,011,992.86 | 797,083.24 | 464,622.06 | 3,344,454.04 |
| Associate Companies | 17,283,535.95 | 690,017.98 | - | 17,973,553.93 |
| Total | <u>20,511,426.18</u> | <u>15,042,682.10</u> | <u>35,554,108.28</u> | <u>34,873,588.85</u> |
| Less: Impairment | - | - | - | - |
| Net Value | <u>20,511,426.18</u> | <u>15,042,682.10</u> | <u>35,554,108.28</u> | <u>34,873,588.85</u> |

Note1 The opening balance of 215,897.37 is investment in subsidiary Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd, when the Company held 20% of interests, accounting based upon equity method, not within the scope of consolidation. According to the 21st board resolution of the fifth board of directors, the Company acquired 80% of the shares held by other shareholders, after which, the Company held 100% of the subsidiary's interest, and accordingly consolidated its financial statements this year.

The closing balance of 13,555,580.88 is investment in subsidiary Guangzhou Guanglian Container Limited, when the Company held 75% of interests. With regard to the 24th board resolution of the fifth board of directors, because Guangzhou Guanglian Container Limited terminated co-operation beforehand this year, and went to liquidate, the financial statement of the subsidiary will be no longer consolidated in this year.

Note2 The increased balance of 70.02% compared to the opening mainly resulted from de-consolidation of the amount of Guangzhou Guanglian Container Limited, which otherwise would deduct long-term equity investment balance.

(2) Equity Investment Accounting Based on Cost Method:

| Investees | Initial Investment | Opening Balance | Increase | Decrease | Closing Balance | Holding Ratio | Representative Ratio |
|--|---------------------|---------------------|----------|----------|---------------------|---------------|----------------------|
| Shenzhen Yuanzhou Science & Technology Industry Company Ltd. | 1,000,000.00 | 1,000,000.00 | - | - | 1,000,000.00 | 7% | 7% |
| CSSC Information Technique Co., Ltd. | 900,000.00 | 900,000.00 | - | - | 900,000.00 | 15% | 15% |
| Total | <u>1,900,000.00</u> | <u>1,900,000.00</u> | <u>-</u> | <u>-</u> | <u>1,900,000.00</u> | | |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(3) Equity Investment Accounting Based on Equity Method:

| Investees | Holding Ratio | Representative Ratio | Initial Investment | Incremental Investment | Accumulated Equity | Accumulated Cash Dividends |
|---|---------------|----------------------|--------------------|------------------------|--------------------|----------------------------|
| | | | | (Less: Shares sold) | | |
| South China Marine and Industrial Special Coating Co.,Ltd | 25% | 25% | 1,722,060.00 | - | 2,087,016.10 | 464,622.06 |
| Zhanjiang South Ocean Marine Services Inc. | 40% | 40% | 800,000.00 | - | -15,071.41 | - |
| Zhenjiang Zhongchuan Electricity Power Equipment Ltd. | 32% | 32% | 15,558,800.00 | - | -270,174.66 | - |
| Total | | | 18,080,860.00 | - | 1,801,770.03 | 464,622.06 |

| Investees | Opening Balance | Increase or Decrease | Current Cash Dividends | Closing Balance |
|---|---|----------------------|------------------------|-----------------|
| | South China Marine and Industrial Special Coating Co.,Ltd | 3,011,992.86 | 797,083.24 | 464,622.06 |
| Zhanjiang South Ocean Marine Services Inc. | 766,951.07 | 17,977.52 | - | 784,928.59 |
| Zhenjiang Zhongchuan Electricity Power Equipment Ltd. | 14,616,584.88 | 672,040.46 | - | 15,288,625.34 |
| Total | 18,395,528.81 | 1,487,101.22 | 464,622.06 | 19,418,007.97 |

9. Investment Property

| Item | Opening Balance | Increase | Decrease | Closing Balance |
|-----------------------------|-----------------|--------------|----------|-----------------|
| 1. Total original costs | 108,837,744.26 | 27,000.00 | - | 108,864,744.26 |
| House and Building | 108,837,744.26 | 27,000.00 | - | 108,864,744.26 |
| 2. Accumulated depreciation | 2,605,354.32 | 2,274,811.48 | - | 4,880,165.80 |
| House and Building | 2,605,354.32 | 2,274,811.48 | - | 4,880,165.80 |
| 3. Provision for Impairment | - | 3,373,521.60 | - | 3,373,521.60 |
| House and Building | - | 3,373,521.60 | - | 3,373,521.60 |
| 4. Net value | 106,232,389.94 | - | - | 100,611,056.86 |
| House and Building | 106,232,389.94 | - | - | 100,611,056.86 |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

10. Fixed Assets

(1) Movements of original cost and accumulated depreciation:

| | Item | Opening Balance | Increase | Decrease | Closing Balance |
|-----|-----------------------------|------------------|----------------|----------------|------------------|
| (1) | Total original cost | 1,649,263,143.36 | 136,144,862.78 | 132,651,349.66 | 1,652,756,656.48 |
| | 1. Buildings and Structures | 777,238,333.70 | 70,473,943.92 | 84,273,526.93 | 763,438,750.69 |
| | 2. Machinery and equipment | 779,432,594.76 | 55,501,426.64 | 21,750,448.89 | 813,183,572.51 |
| | 3. Vechiles | 49,161,718.20 | 4,885,296.18 | 22,675,652.22 | 31,371,362.16 |
| | 4. Others | 43,430,496.70 | 5,284,196.04 | 3,951,721.62 | 44,762,971.12 |
| (2) | Accumulated deprecation | 710,825,536.21 | 81,773,620.04 | 77,368,906.70 | 715,230,249.55 |
| | 1. Buildings and Structures | 232,871,127.41 | 27,799,129.91 | 40,319,816.75 | 220,350,440.57 |
| | 2. Machinery and equipment | 425,008,701.39 | 50,156,351.30 | 18,413,627.99 | 456,751,424.70 |
| | 3. Vechiles | 30,702,190.63 | 1,911,090.38 | 17,234,980.82 | 15,378,300.19 |
| | 4. Others | 22,243,516.78 | 1,907,048.45 | 1,400,481.14 | 22,750,084.09 |
| (3) | Net Book Value | 938,437,607.15 | - | - | 937,526,406.93 |
| | 1. Buildings and Structures | 544,367,206.29 | - | - | 543,088,310.12 |
| | 2. Machinery and equipment | 354,423,893.37 | - | - | 356,432,147.81 |
| | 3. Vechiles | 18,459,527.57 | - | - | 15,993,061.97 |
| | 4. Others | 21,186,979.92 | - | - | 22,012,887.03 |

Asset Collateral Refer to Note XII

(2) Total fixed asset transferred from construction-in-progress during the year amounted to 129,389,750.21.

(3) There is no indication of impairment in fixed assets, and no impairment provision were accrued.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

11. Construction-in-Progress

(1) Movements of construction-in-progress:

| Item | Opening Balance | Increase | Transfer to Fixed Asset | Other Decrease | Closing Balance |
|---|----------------------|-----------------------|-------------------------|----------------|-----------------------|
| Innovation Projects | 32,935,552.77 | 201,543,678.29 | 129,389,750.21 | - | 105,089,480.85 |
| (1) Base Construction, Innovations sponsored by National Debt | 1,821,627.45 | 14,047,111.30 | 1,451,547.00 | - | 14,417,191.75 |
| (2) Others | 31,113,925.32 | 187,496,566.99 | 127,938,203.21 | - | 90,672,289.10 |
| Total | <u>32,935,552.77</u> | <u>201,543,678.29</u> | <u>129,389,750.21</u> | <u>-</u> | <u>105,089,480.85</u> |

Note1 There is no capitalized interest in the cost of construction-in-progress.

Note2 The increased balance of 219.08% compared to the opening mainly resulted from increase of innovation projects, within which there are innovation project of 120T crane installation project, new installation workshops, pipe workshop innovation.

(2) There is no indication of impairment in construction-in-progress, and no impairment provision were accrued.

12. Intangible Assets

| Item | Opening Balance | Increase | Decrease | Closing Balance |
|-----------------------------|-----------------|---------------|--------------|-----------------|
| 1. Total original costs | 104,618,948.87 | 30,941,688.86 | 3,162,621.58 | 132,398,016.15 |
| Land Use Right | 66,925,182.85 | 13,856,644.11 | 3,162,621.58 | 77,619,205.38 |
| Know-How without Patent | 37,693,766.02 | 17,085,044.75 | - | 54,778,810.77 |
| 2. Accumulated amortization | 32,830,697.22 | 6,651,761.04 | - | 39,482,458.26 |
| Land Use Right | 16,665,042.08 | 1,954,708.44 | - | 18,619,750.52 |
| Know-How without Patent | 16,165,655.14 | 4,697,052.60 | - | 20,862,707.74 |
| 3. Net Book Value | 71,788,251.65 | 24,289,927.82 | 3,162,621.58 | 92,915,557.89 |
| Land Use Right | 50,260,140.77 | - | - | 58,999,454.86 |
| Know-How without Patent | 21,528,110.88 | - | - | 33,916,103.03 |

There is no indication of impairment in intangible assets, and no impairment provision were accrued.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

13. Deferred Tax Assets

| Item | Opening Balance | | Closing Balance | |
|--|-----------------------|----------------------|----------------------|----------------------|
| | Temporary Difference | Deferred Tax Assets | Temporary Difference | Deferred Tax Assets |
| Impairment Provision | 11,710,752.36 | 1,756,612.85 | 27,283,250.76 | 6,820,812.69 |
| Prepaid housing subsidy | 4,314,330.00 | 647,149.50 | 7,323,750.00 | 1,830,937.50 |
| Housing allowance for retirees | 11,354,664.35 | 1,703,199.65 | 1,725,651.90 | 431,412.98 |
| Medical insurance for retirees within 10 years | 4,596,650.40 | 689,497.56 | 1,555,218.83 | 388,804.71 |
| Early retiree benefits | 6,600,912.00 | 990,136.80 | 4,753,930.46 | 1,188,482.62 |
| Accrual of windup project costs | 4,573,263.03 | 685,989.45 | - | - |
| Accrued payroll | 14,291,200.00 | 2,143,680.00 | - | - |
| Deductible previous years loss | 124,246,288.56 | 18,636,943.29 | - | - |
| Total | <u>181,688,060.70</u> | <u>27,253,209.11</u> | <u>42,641,801.95</u> | <u>10,660,450.50</u> |

The decreased balance of 60.88% compared to the opening mainly resulted from decrease of temporary difference, which came from deducting previous years loss to zero.

14. Impairment Provision

| Item | Opening Balance | | Decrease | | Closing Balance |
|---------------------|----------------------|----------------------|-------------------|---------------------|----------------------|
| | Balance | Accruals | Reverse | Write-off | |
| Bad Debt | 17,231,842.20 | 1,716,544.76 | - | 4,287,847.06 | 14,660,539.90 |
| Inventory | 2,962,507.56 | 10,977,218.13 | 489,117.93 | - | 13,450,607.76 |
| Investment Property | - | 3,373,521.69 | - | - | 3,373,521.69 |
| Total | <u>20,194,349.76</u> | <u>16,067,284.58</u> | <u>489,117.93</u> | <u>4,287,847.06</u> | <u>31,484,669.35</u> |

Note1 The incremental inventory impairment provision of 10,997,218.13 in current period resulted from the fact that subsidiary Guangzhou United Steel Structures Limited purchased specialized materials for TXU project, while TXU company could not perform as agreed contract, leading to pile up inventory. By performing impairment test, 9,525,837.00 of provision accrued as a result.

Note2 By performing impairment test for investment real estate in Changchun and Guangdong Heshan, 3,373,521.69 of provision was made for these investments.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

15. Short-term Borrowings

| Category | Closing Balance | Opening Balance | Note |
|-----------------------|-----------------------|----------------------|------|
| Credit Borrowings | 474,297,390.00 | 23,785,655.00 | |
| Guaranteed Borrowings | <u>20,000,000.00</u> | <u>40,000,000.00</u> | * |
| Total | <u>494,297,390.00</u> | <u>63,785,655.00</u> | |

Note: With regard to the 27th board resolution of the fifth board of directors, the Company provided guarantee assurance for subsidiary Guangzhou United Steel Structures Limited for the working capital borrowing of 30 million with period over 1 year. As of December 31, 2007, borrowing balance per book of Guangzhou United Steel Structures Limited is 20 million.

Foreign currency included in the balance:

| Item | Closing Balance | | | Opening Balance | | |
|-------|---------------------|----------------|-----------------------|-------------------|---------------|---------------------|
| | Original Currency | Exchange Rate | RMB | Original Currency | Exchange Rate | RMB |
| USD | 59,400,000.00 | 7.3046 | 433,893,240.00 | 650,000.00 | 7.8087 | 5,075,655.00 |
| EUR | <u>3,500,000.00</u> | <u>10.6669</u> | <u>37,334,150.00</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>-</u> | <u>-</u> | <u>471,227,390.00</u> | <u>-</u> | <u>-</u> | <u>5,075,655.00</u> |

The increased balance of 674.94% compared to the opening mainly resulted from additional foreign currency borrowings to hedge foreign exchange rate risks.

16. Financial liabilities At Fair Value through Profit or Loss

| Item | Closing Fair Value | Opening Fair Value |
|---|----------------------|--------------------|
| Financial liability designed as measured at fair value through profit or loss | <u>11,628,218.98</u> | <u>570,327.16</u> |

Opening balance of financial liabilities consists of derivatives. The closing balance increased largely mainly due to the increase in the fair value of USD/RMB forward contract increase largely with fast appreciation of RMB. The contract was contracted for the purpose of hedging exchange rate risk.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

17. Account Payable

(1) Accounts aged over 1 year are displayed as below:

| Suppliers | Amounts | Incurrence | Nature | Unsettled Reason |
|---|---------------------|------------|-----------|------------------|
| Guangzhou Haige Communications Group | 540,900.00 | Year 2006 | Materials | Unmatured |
| Jiangxi Marine Valve Plant | 457,000.00 | Year 2006 | Materials | Unmatured |
| Shanghai Xinzhong Power Plant | 239,000.00 | Year 2006 | Materials | Unmatured |
| Xian Kunlun Industries (Groups) Corporation Ltd. | 194,000.00 | Year 2006 | Materials | Unmatured |
| Taixing Power and Mechanics Plant | 117,800.00 | Year 2006 | Materials | Unmatured |
| Total | <u>1,548,700.00</u> | | | |

(2) Balance with related party refer to Note X.

(3) The increased balance of 59.88% compared to the opening mainly resulted from enlargement of operation and increased materials purchase.

(4) Foreign currency included in the balance:

| Item | Closing Balance | | | Opening Balance | | |
|-------|----------------------|------------------|---------------------|----------------------|------------------|---------------------|
| | Original Currency | Exchange Rate | RMB | Original Currency | Exchange Rate | RMB |
| USD | 159,411.93 | 7.3046 | 1,164,440.38 | - | - | - |
| HKD | - | - | - | 1,600,000.00 | 1.0047 | 1,164,440.38 |
| Total | <u>-</u> | <u>-</u> | <u>1,164,440.38</u> | <u>-</u> | <u>-</u> | <u>1,164,440.38</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

18. Advances from customers

(1) Accounts aged over 1 year are displayed as below:

| Customers | Amounts | Incurrence | Nature | Unsettled Reason |
|--|----------------------|------------|--------------|-------------------------|
| CSSC Final Installation Department | 10,600,000.00 | Year 2006 | Shipbuilding | Unfinished construction |
| Guandong Ministry of Sea Affairs | 1,925,582.00 | Year 2006 | Shipbuilding | Unfinished construction |
| Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. | 900,000.00 | Year 2005 | Design fee | Unfinished construction |
| CSSC Technology Research & Economy Development Institute | 424,000.00 | Year 2005 | Design fee | Unfinished construction |
| Total | <u>13,849,582.00</u> | | | |

(2) Balance with related party refer to Note X.

(3) The increased balance of 812.73% compared to the opening mainly resulted from prepaid shipbuilding considerations by shipowners, and at the same time, steel structure business enlarges a lot, concurrently leading to inflow of prepayment based on new contracts.

(4) Foreign currency included in the balance:

| Item | Closing Balance | | | Opening Balance | | |
|------|-------------------|---------------|----------------------|-------------------|---------------|---------------------|
| | Original Currency | Exchange Rate | RMB | Original Currency | Exchange Rate | RMB |
| USD | <u>790,362.14</u> | 7.3046 | <u>5,773,279.285</u> | <u>145,570.05</u> | 7.8087 | <u>1,136,712.85</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

19. Accrued Employee Compensation

| Item | Opening Balance | Increase | Decrease | Closing Balance |
|---|-----------------|----------------|----------------|-----------------|
| Salary, bonus, allowance and subsidy | - | 325,213,846.61 | 300,390,804.41 | 25,000,000.00 |
| Employee welfare | 11,216,291.65 | 52,374,523.85 | 58,513,394.20 | 5,077,421.30 |
| Social security | - | 39,174,404.22 | 39,174,404.22 | - |
| Housing fund | - | 25,203,169.45 | 25,203,169.45 | - |
| Labor union expenditure and personnel education | - | 13,096,071.08 | 12,124,020.62 | 972,050.46 |
| Compensation for dismiss of labor relationship | - | 7,061,782.00 | 2,307,851.54 | 4,753,930.46 |
| Total | 11,216,291.65 | 462,123,797.21 | 437,713,644.44 | 35,803,402.22 |

Note1 The increased balance of 219.21% compared to the opening mainly resulted from incentives for increase in current operating profit.

Note2 Balance of employee welfare consists of accrued employee welfare and bonus fund of subsidiary Guangzhou United Steel Structures Limited, which was calculated according to the post-rate setup in the company's article of association.

20. Taxes and Expenses Payable

| Categories | Closing Balance | Opening Balance |
|-------------------------------------|-----------------|-----------------|
| Value-added Tax | -1,056,047.32 | -14,788,553.13 |
| Business Tax | 391,058.96 | 428,441.90 |
| Individual Income Tax | 6,589,914.19 | 1,295,509.17 |
| Corporate Income Tax | 255,657,993.49 | 2,232,094.38 |
| Land Use Tax | 1,640,756.42 | 8,481.02 |
| City construction tax | 3,111,389.03 | 306,817.80 |
| Real Estate Tax | 1,483,851.58 | 64,017.96 |
| Education Surcharge | 1,326,452.16 | 124,493.02 |
| Flood control and maintain expenses | 2,949,058.41 | 1,576,740.59 |
| Others | -54,058.16 | -42,127.23 |
| Total | 272,040,368.76 | -8,794,084.52 |

The closing balance increased largely compared to the opening mainly resulted from increase in current operating profit.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

21. Other Payables

- (1) Balance with related party refer to Note X.
- (2) Major account balances are displayed as below:

| Item | Book Value | Nature | Closing Balance | | Opening Balance |
|---|----------------------|--|-----------------|---------------|-----------------|
| | | | Age | % | |
| Subsidy for area difference of house purchased by employees | 39,883,276.98 | Housing Subsidy | Within 1 year | 42.75% | - |
| He Zhuohua, He Jianwei | 17,280,000.00 | Share of interest Transaction Payment | Within 1 year | 18.52% | - |
| Subsidy for employee purchasing house payable | 5,591,700.00 | Employee Housing Purchase Subsidy | Within 1 year | 5.99% | - |
| Total | 62,754,976.98 | | | 67.27% | |

Note1 According to the 25th board resolution of the fifth board of directors, Subsidy Program for area difference of house purchased by employees would start by the end of November 2007, which amounted no more than 45 million RMB. After reviewing, the payable amount totaled 44,368,946.98, which has been fully charged to the profit or loss of year 2007, within which, there is 4.49 million RMB was paid in year 2007, the rest amount would be paid within year 2008.

Note2 According to Share of Interest Sale Agreement signed with He Zhuohua and He Jianwei, the Company sold its 100% interest in Guangdong Structure Pipe & Peg Company Limited at 19.2 million. As of the end year 2007, the Company has paid 1.92 million, and the rest 17.28 million has not been paid.

Note3 The Company has accrued subsidy for employee purchasing house totalling 10,380,600.00, which has been paid 4,788,900.00, the rest 5,591,700.00 payable. The accrual has been authorized by the Company's general manager official meeting.

- (3) The increased balance of 80.82% compared to the opening mainly resulted from accruals of subsidy for area difference of house purchased by employees, and accruals of payment for shares of interest in Guangdong Structure Pipe & Peg Company Limited.

22. Long-term Liabilities due Within a year

| Item | Closing Balance | Opening Balance |
|--|-------------------------|-----------------------|
| Long-term borrowings due within a year | <u>1,160,077,390.49</u> | <u>573,002,400.00</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

23. Other Current Liabilities

| Item | Closing Balance | Opening Balance |
|-------------------------------|-------------------------|-------------------------|
| Long-term Contract Settlement | <u>4,871,825,309.94</u> | <u>4,056,165,513.24</u> |

24. Long-term Borrowings

| Category | Closing Balance | Opening Balance |
|-----------------|-----------------------|-------------------------|
| Guaranteed Debt | <u>387,468,446.74</u> | <u>1,082,590,123.87</u> |

Guaranteed Debt is guaranteed by CSSC.

Foreign currency included in the balance:

| Item | Closing Balance | | | Opening Balance | | |
|------|----------------------|------------------|-----------------------|-----------------------|------------------|-------------------------|
| | Original Currency | Exchange Rate | RMB | Original Currency | Exchange Rate | RMB |
| USD | <u>53,044,444.15</u> | 7.3046 | <u>387,468,446.74</u> | <u>138,638,969.85</u> | 7.8087 | <u>1,082,590,123.87</u> |

The decreased balance of 64.21% compared to the opening mainly resulted from reclassification of long-term borrowings due within one year with the amount 1,160,077,390.49.

25. Special Payables

Details of the closing balance of special payables are listed below:

| Item | Opening Balance | Increase | Decrease | Closing Balance | Memo |
|---|----------------------|----------|---------------------|----------------------|-----------------------------|
| High-speed ro/ro passenger freight ships | 6,720,000.00 | - | - | 6,720,000.00 | CHUANCAI[2001] No.13 |
| semi-submersible heavy lift vessel | 17,850,000.00 | - | - | 17,850,000.00 | CHUANGONGJI[2002] No.350 |
| National Defence R&D Expenses | 5,505,846.14 | - | 5,505,846.14 | - | - |
| Others | 4,310,222.46 | - | 4,310,222.46 | - | - |
| TOTAL | <u>34,386,068.60</u> | <u>-</u> | <u>9,816,068.60</u> | <u>24,570,000.00</u> | |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

26. Provision

Details of the closing balance of provision are listed below:

| Item | Opening Balance | Increase | Decrease | Closing Balance |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| Unsettled lawsuits | 1,384,268.58 | – | 1,384,268.58 | – |
| Product quality warranties | 36,434,549.87 | 41,479,081.45 | 16,261,147.56 | 61,652,483.76 |
| Others | 7,061,782.00 | – | 7,061,782.00 | – |
| TOTAL | <u>44,880,600.45</u> | <u>41,479,081.45</u> | <u>24,707,198.14</u> | <u>61,652,483.76</u> |

Note: The closing balance of provision has increased by 37.37%, which is due to the increases of current-year sales and the expected product quality warranties.

27. Deferred Tax Liabilities

Details of the closing balance are listed below:

| Item | Opening Balance | | Closing Balance | |
|---|----------------------------------|--------------------------|----------------------------------|--------------------------|
| | deductible temporary differences | Deferred Tax Liabilities | deductible temporary differences | Deferred Tax Liabilities |
| Net movement on fair value of available-for-sale financial assets | 166,455,655.40 | 24,968,348.31 | 523,731,024.42 | 130,932,756.11 |
| Dervatives | 141,695.44 | 21,254.32 | 282,681,712.45 | 70,670,428.11 |
| TOTAL | <u>166,597,350.84</u> | <u>24,989,602.63</u> | <u>806,412,736.87</u> | <u>201,603,184.22</u> |

Note: The closing balance of deferred tax liabilities have increased by 706.75%. The reason is that the closing fair values of available-for-sale financial assets and dervatives have increased so that the deferred tax liabilities have been recognized by the tax rate of 25%.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

28. Other Non-current Liabilities

Details of the closing balance are listed below:

| Item | Closing Balance | Opening Balance | Memo |
|--|----------------------|-----------------|-----------------|
| China State Shipbuilding Corporation (CSSC) | 6,088,140.75 | – | Deferred Income |
| General Armament Ministry | 7,373,993.12 | – | Deferred Income |
| The Economic & Trade Commission of Guangdong Province/Finance Bureau | 2,730,000.00 | – | Deferred Income |
| Guangzhou Economic & Trade Committee/Finance Bureau | 1,600,000.00 | – | Deferred Income |
| Guangzhou Environmental Protection Bureau/Finance Bureau | 300,000.00 | – | Deferred Income |
| Others | 100,000.00 | – | Deferred Income |
| TOTAL | <u>18,192,133.87</u> | | |

29. Share's Stock

(1) Details of movement of share's stock in current year are listed below:

| Classification | Opening Balance | | Increase/Decrease Capitalization | | | | Closing Balance | | |
|---|--------------------|----------------|----------------------------------|----------------|--------------------|----------|-----------------|--------------------|----------------|
| | Number of Shares | % | Issue New Shares | Donated Shares | of Capital Reserve | Others | SUM | Number of Shares | % |
| 1. Restrictive-for-sale Stocks | 176,650,615 | 35.71% | – | – | – | – | – | 176,650,615 | 35.71% |
| 2. Unlimited Stocks | 318,026,965 | 64.29% | – | – | – | – | – | 318,026,965 | 64.29% |
| 1. RMB Ordinary Shares | 160,628,965 | 32.47% | – | – | – | – | – | 160,628,965 | 32.47% |
| 2. Foreign Capital Stocks listed abroad | 157,398,000 | 31.82% | – | – | – | – | – | 157,398,000 | 31.82% |
| TOTAL | <u>494,677,580</u> | <u>100.00%</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>494,677,580</u> | <u>100.00%</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(2) The Trading Time in Stock Market for Restrictive-for-sale Stocks is listed below:

| Time | New available- for-trading stocks after restrictive- for-sale period | Closing Balance of Restrictive- for-sale Stocks | Closing balance for Unlimited Stocks | Memo |
|---------------|--|--|---|------|
| 24th May 2009 | 176,650,615 | – | 494,677,580 | Note |

Note: The employment date of the Company's equity division reform scheme was May 24, 2006. As the Company's sole non-circulating stock shareholder, CSSC promised as follows:

1. The non-circulating stock owned by CSSC shall not be traded in stock market or resold to any third party since the employment of equity division reform scheme;
2. CSSC shall not list to sell its shares of A Stock within 24 months after the overdue of its previous promise.

30. Capital Reserves

Details of the change of capital reserves in current year are listed below:

| Item | Closing Balance | Opening Balance | Memo | Item |
|---------------|-----------------------|-----------------------|------------------|-------------------------|
| share premium | 651,385,281.95 | – | – | 651,385,281.95 |
| Others | 142,079,506.86 | 251,343,900.11 | 42,207.40 | 393,381,199.57 |
| TOTAL | <u>793,464,788.81</u> | <u>251,343,900.11</u> | <u>42,207.40</u> | <u>1,044,766,481.52</u> |

Note1. The increase of capital reserves in current year is the net movement on fair value of available-for-sale financial assets.

Note2. The decrease of capital reserves is due to the selling of golf membership, which was assessed with increased fair value.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

31. Surplus Reserves

Details of the change of surplus reserves in current year are listed below:

| Item | Closing Balance | Opening Balance | Memo | Item |
|----------------------------|-----------------------|----------------------|----------|-----------------------|
| Statutory surplus reserves | 81,221,123.91 | 75,343,540.58 | - | 156,564,664.49 |
| Other surplus reserves | 18,926,387.43 | - | - | 18,926,387.43 |
| TOTAL | <u>100,147,511.34</u> | <u>75,343,540.58</u> | <u>-</u> | <u>175,491,051.92</u> |

32. Undistributed Profit

Details of the change of undistributed profit in current year are listed below:

| Item | Current Year | Last Year |
|---|-----------------|-----------------|
| Ending balance of undistributed profit in last year | -126,577,188.54 | -391,955,624.44 |
| Add: Increase (-decrease) in profit due to changes in accounting policies | - | - |
| Corrections of prior period errors | - | - |
| Beginning balance of undistributed profit in current year | -126,577,188.54 | -391,955,624.44 |
| Add: Net profit in current year | 940,656,796.04 | 267,537,448.04 |
| Available-for-distribution profit | 814,079,607.50 | -124,418,176.40 |
| Minus: Profit appropriation – statutory surplus reserves | 75,343,540.58 | - |
| Minus: Others | - | - |
| Profit appropriation – staff bonus and welfare fund | 2,161,495.98 | 2,159,012.14 |
| Profit appropriation – reserve fund | - | - |
| Profit available for distribution to shareholders | 736,574,570.94 | -126,577,188.54 |
| Minus: Profit appropriation – statutory surplus reserves | - | - |
| Profit appropriation – ordinary shares dividends | - | - |
| Profit appropriation – ordinary shares dividends converted to shares | - | - |
| Ending balance of undistributed profit | 736,574,570.94 | -126,577,188.54 |

Note 1. The Company's statutory surplus reserves is 10% of the parent company's available-for-distribution profit in current year.

Note 2. Profit appropriation – staff bonus and welfare fund in current year is RMB2,161,495.98, which is 10% of the Company's holding company, United Steel Structures, Ltd's net profit.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

33. Minority Interests (Balance Sheet)

Minority interests belong to subsidiary companies' minorities are listed below:

| Name of Minorities | Name of Investees | Closing Balance | Including: Offsetting Amount of Minority Interests |
|---|--|----------------------|--|
| Canamsteel Structures Limited Company | United Steel Structures, Ltd | 69,177,503.12 | – |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangzhou Masterwood Co., Ltd | 1,564,355.74 | – |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangzhou Guangli Shipbuilding Engineering Service Co., Ltd | 185,760.92 | – |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangzhou Xingshun Shipping Services Company Limited | 121,723.70 | – |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangdong GSI Elevator Limited | 358,506.21 | – |
| Ou Zhi Min | Fonkwang Developing Co., Ltd. | 348,856.17 | – |
| CSSC Science & Technology Association Technology Consultation Service Corporation | Guangzhou Hongfan PC Technology Co., Ltd | 835,099.65 | – |
| China Shipbuilding IT Co., Ltd | Guangzhou Hongfan PC Technology Co., Ltd | 2,171,259.11 | – |
| Quan Hua Tai etc. | Guangzhou Hongfan PC Technology Co., Ltd | 1,085,629.55 | – |
| TOTAL | | <u>75,848,694.17</u> | <u>–</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

34. Operating Income/Operating Costs

(1) Details of operating income and operating costs are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|---|---------------------------|------------------------|
| Operating Income | 5,952,697,163.61 | 3,399,203,543.04 |
| Including: Income from principal activities | 5,811,468,329.35 | 3,322,299,101.50 |
| Other Operating Income | 141,228,834.26 | 76,904,441.54 |
| Operating Costs | 4,917,716,899.70 | 2,870,683,337.98 |
| Including: Cost of Sales | 4,844,769,882.93 | 2,806,819,321.77 |
| Other Operating Expenses | <u>72,947,016.77</u> | <u>63,864,016.21</u> |

(2) Operating Income & Costs are classified by products and projects as follows:

| Product/Project | Amount in Current Year | | Amount in Last Year | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | Operating Income | Operating Costs | Operating Income | Operating Costs |
| Shipbuilding Products | 5,134,588,938.45 | 4,277,895,521.57 | 2,860,687,252.04 | 2,439,145,765.97 |
| Steel Structuring Projects | 391,846,352.92 | 346,484,823.82 | 320,032,753.48 | 278,999,453.69 |
| Mechanical & Electrical Products and other principal businesses | 285,033,037.98 | 220,389,537.54 | 141,579,095.98 | 88,674,102.11 |
| Others | 141,228,834.26 | 72,947,016.77 | 76,904,441.54 | 63,864,016.21 |
| TOTAL | <u>5,952,697,163.61</u> | <u>4,917,716,899.70</u> | <u>3,399,203,543.04</u> | <u>2,870,683,337.98</u> |

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

| Item | Amount in Current | Amount in Last Year |
|----------------------------------|----------------------|------------------------|
| Total revenue from top 5 clients | 4,362,107,587.96 | 1,765,620,574.13 |
| Proportion of the total revenue | 75.06% | 53.13% |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(4) Operating income from principal activities and gross margin are listed by areas below:

| Area | Operating Income from Principal Activities | | Gross Margin | |
|--------------------------------------|---|-------------------------|-----------------------|-----------------------|
| | Year 2007 | Year 2006 | Year 2007 | Year 2006 |
| Foreign countries and areas: | | | | |
| The Republic of Malta | 347,929,458.32 | 273,675,744.58 | 53,052,138.23 | 49,472,592.68 |
| Canada | - | 20,443,752.20 | - | 3,321,039.91 |
| Denmark | 723,881,803.84 | 1,004,955,485.12 | 109,153,776.64 | 72,214,557.61 |
| Macao | 17,865,136.78 | 50,136,089.54 | 2,441,847.63 | 2,171,799.72 |
| USA | 269,820,040.27 | 202,039,301.88 | 25,236,187.33 | 25,497,508.68 |
| Hongkong | 11,851,039.11 | 80,370,859.40 | 2,347,402.12 | 11,143,530.72 |
| The Republic of the Marshall Islands | - | 20,975.71 | - | 547,955.41 |
| Taiwan | 5,785,152.59 | 3,478,423.62 | 93,161.10 | 305,965.49 |
| German | 19,585,199.43 | - | 1,636,120.01 | - |
| Sweden | 325,341,877.43 | 549,954,647.53 | 75,154,483.62 | 86,849,222.96 |
| Liberia | 1,008,570,307.94 | 637,893,204.82 | 262,559,054.14 | 155,070,943.74 |
| Oman | 43,842,287.05 | 31,626,350.89 | 10,837,692.41 | 5,692,745.16 |
| Greece | 918,019,743.30 | - | 230,492,141.96 | - |
| Others | 8,243,641.11 | 3,454,810.80 | 4,189,410.27 | 714,352.05 |
| Sub-total | 3,700,735,687.17 | 2,858,049,646.09 | 777,193,415.46 | 413,002,214.13 |
| China | 2,110,732,642.18 | 464,249,455.41 | 189,505,030.96 | 102,477,565.60 |
| TOTAL | <u>5,811,468,329.35</u> | <u>3,322,299,101.50</u> | <u>966,698,446.42</u> | <u>515,479,779.73</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(5) Details of Construction Contracts

The Company's shipbuilding products are provided according to Rules of Construction Contract, all of which are fixed-price construction contracts. Details are listed below:

| Item | Total Amount (RMB) | Accumulated Costs | Realized | Settlement Amount |
|--------------------|--------------------------|-------------------------|---|-------------------------|
| | | | Accumulated Gross Margin ("-" for loss) | |
| Chemicals ship | 2,566,455,017.56 | 408,802,257.05 | 20,336,725.66 | 494,617,416.00 |
| Oil/chemicals ship | 20,602,880,618.81 | 3,517,917,331.17 | 850,365,206.61 | 5,910,736,898.13 |
| Oil tanker | 2,049,334,413.50 | 1,197,689,678.46 | 52,876,951.15 | 233,083,823.69 |
| Others | 1,816,990,000.00 | 766,795,326.55 | 72,299,617.21 | 834,639,000.00 |
| TOTAL | <u>27,035,660,049.87</u> | <u>5,891,262,593.23</u> | <u>995,878,500.63</u> | <u>7,473,077,137.82</u> |

35. Turnover Tax and Surcharge

Details of turnover tax and surcharge are listed below:

| Category | Amount in Current Year | Amount in Last Year |
|---------------------------------------|---------------------------|------------------------|
| Business tax | 2,948,866.35 | 673,546.38 |
| City Maintenance And Construction Tax | 12,179,156.67 | 6,033,859.10 |
| Education surcharge | 5,218,911.93 | 2,585,958.39 |
| TOTAL | <u>20,346,934.95</u> | <u>9,293,363.87</u> |

Note: The amount of turnover tax and surcharge in current year has increased by 118.94%, which is due to the increase of total revenue.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

36. Period Expenses

(1) Selling Expenses, General and Administrative Expenses

| Item | Current Year | Last Year |
|-------------------------------------|-----------------------|-----------------------|
| Selling Expenses | 59,141,689.03 | 4,666,222.57 |
| General and Administrative Expenses | <u>307,915,809.37</u> | <u>215,426,719.17</u> |

Note1: Selling expenses increased 1167.44% compared to last year mainly came from the regulation of new Accounting Standards for Business Enterprises, which requires charging warranty provision to selling expenses instead of cost of goods sold, totalling 45.83 million, resulting a large increase in the account, but not constituting material influence on current profit or loss.

Note 2: General and administrative expenses increased 42.93% compared to last year mainly due to, (1) increase in employee remuneration, which is accrual of year-end bonus of 12.25 million; (2) payment of housing subsidy of 44.37 million, for qualified employees; (3) some expenses which originally charging to cost of goods sold currently adjusting to be charged in the account, based on the requirements of new Accounting Standards for Business Enterprises, including increased maintenance expenditure 40.83 million, and increased R&D expenditure 13.67 million, compared to the amount per statement last year.

(2) Financial Expenses

Details of financial expenses are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|---|------------------------|---------------------|
| Interest expenses | 74,349,847.05 | 7,334,494.76 |
| Minus: Interest income | 138,323,572.16 | 18,576,559.70 |
| Add: Net loss foreign currency exchange | -99,889,477.37 | 11,033,704.07 |
| Transaction fee and others | <u>13,493,964.05</u> | <u>4,334,735.93</u> |
| TOTAL | <u>-150,369,238.43</u> | <u>4,126,375.06</u> |

Note: Financial expenses have decreased rapidly in current year, which are mainly contributed by the foreign currency exchange gain from the large amount of borrowings and the greatly increased interest income due to the rational cash flow management.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

37. Asset Impairment Loss

Details of asset impairment loss are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|--|---------------------------|------------------------|
| Bad debt loss | 1,716,544.76 | 1,023,845.70 |
| Impairment loss of inventories | 10,488,100.20 | 2,937,942.05 |
| Impairment loss of investment properties | 3,373,521.60 | — |
| TOTAL | <u>15,578,166.56</u> | <u>3,961,787.75</u> |

Note: RMB9,525,837.00 of impairment loss of inventories was provided by the Company's consolidated company, Guangzhou United Steel Structures, Ltd, which has led to the increase of asset impairment loss by 293.21% in current year.

38. Net Gain on the movement of fair value

Details of net movement on fair value are listed below:

| Source | Amount in Current Year | Amount in Last Year |
|------------|---------------------------|------------------------|
| Dervatives | <u>282,540,017.01</u> | <u>-2,382,304.56</u> |

Note: Net gain on the movement of fair value has increased greatly comparing to last year, which is because the ending exchange rate comparing to the rates agreed-upon in the long-term contracts of selling and buying foreign currencies has changed a lot.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

39. Investment Income

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

| Sources of Investment Income | Amount in Current Year | Amount in Last Year |
|---|---------------------------|------------------------|
| The adjustment based on the net profit & loss of investee enterprises under equity method at the end of the year | 1,395,785.47 | -361,314.04 |
| Income from holding and disposal of financial assets held for trading and those at fair value through profit or loss | 37,710,308.16 | 3,159,870.84 |
| Income from holding and disposal of financial liabilities held for trading and those at fair value through profit or loss | - | 294,850.00 |
| Income from holding and disposal of available-for-sale financial assets | 213,333.33 | - |
| Interest income from the held-to-maturity investment | 5,604,900.00 | - |
| Others | - | -8,767.07 |
| | <hr/> | <hr/> |
| TOTAL | <u>44,924,326.96</u> | <u>3,084,639.73</u> |

Note: Investment income has increased by 934.97% in current year, which is mainly owing to the increased income from holding and disposal of financial assets at fair value through profit or loss and those available for sale.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(2) Investment income is listed by investee enterprises below:

| Name of Investee Enterprises | Amount in Current Year | Amount in Last Year |
|---|---------------------------|------------------------|
| Investment Income from stocks | 24,116,476.65 | – |
| Income from Central Bank's Notes | 6,116,460.00 | – |
| Income from selling available-for-sale financial assets | 213,333.33 | 3,159,870.84 |
| Gain from financial assets held for trading | 9,968,808.99 | – |
| South China Marine and Industrial Special Coating Co., Ltd | 780,332.03 | 475,690.92 |
| Zhenjiang Zhongchuan Electricity Power Equipment Ltd. | 262,840.48 | -942,215.12 |
| Zhanjiang South Ocean Marine Services Inc. | 17,977.52 | 4,416.66 |
| Others | 3,448,097.96 | 386,876.43 |
| TOTAL | <u>44,924,326.96</u> | <u>3,084,639.73</u> |

Note: Investment income from stocks is derived from the purchase of new shares this year.

40. Non-operating revenue

Details of non-operating revenue are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|--|---------------------------|------------------------|
| Sub-total of income from the disposal of non-current asset | 709,104.84 | 6,482,625.19 |
| Including: Income from the disposal of fixed assets | 709,104.84 | 6,482,625.19 |
| Penalty income | 70,041.00 | 84,318.00 |
| Compensation income | 912,654.40 | 45,083.00 |
| Government subsidies (Note) | 239,673,193.12 | 23,322,039.54 |
| Other Income | 1,716,140.08 | 593,418.90 |
| TOTAL | <u>243,081,133.44</u> | <u>30,527,484.63</u> |

Note 1. The main source of current-year non-operating income, which has increased by 438.95%, is government subsidies.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Note 2. Details of government subsidies are listed below:

| Item | Amount in Current Year | Notes |
|---|---------------------------|-----------------------|
| Special project subsidy | 211,752,112.85 | – |
| New product development subsidy | 10,383,611.74 | – |
| Subsidy of foreign currency exchange | 16,100,000.00 | – |
| Recoverable rebuilding subsidy after disaster | 760,500.60 | CaiFang [2006] No.160 |
| Tax return from self-developed software | 478,447.93 | |
| Export subsidy of complete plant | 198,520.00 | – |
| | <hr/> | |
| TOTAL | 239,673,193.12 | – |
| | <hr/> <hr/> | |

41. Non-operating Expenditures

Details of non-operating revenue are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|--|---------------------------|------------------------|
| Sub-total of losses from the disposal of non-current asset | 9,247,877.18 | 9,438,622.89 |
| Including: Losses from the disposal of fixed assets | 9,247,877.18 | 9,438,622.89 |
| Penalty expenses | 165,677.95 | 32,308.25 |
| Donation expenses | 437,566.91 | – |
| Compensation expenses | – | 94,083.18 |
| Other expenses | 500.00 | 830,387.11 |
| | <hr/> | <hr/> |
| TOTAL | 9,851,622.04 | 10,395,401.43 |
| | <hr/> <hr/> | <hr/> <hr/> |

42. Income Tax

Income tax expenses are consisted of:

| Item | Amount in Current Year | Amount in Last Year |
|--------------------------------------|---------------------------|------------------------|
| Income tax expense in current period | 273,171,858.64 | – |
| Deferred tax expense | 107,443,222.37 | 34,008,875.94 |
| | <hr/> | <hr/> |
| TOTAL | 380,615,081.01 | 34,008,875.94 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

43. Minority Interests (Profit or Loss)

Details of minority interests are listed below:

| Name of Minorities | Name of Investee Enterprises | % of Minority | Amount in Current Year | Amount in Last Year |
|---|--|---------------|------------------------|----------------------|
| Canamsteel Structures Limited Company | United Steel Structures, Ltd | 49% | 20,016,767.86 | 10,579,159.49 |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangzhou Masterwood Co., Ltd | 24% | 230,942.29 | 114,664.11 |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangzhou Guangli Shipbuilding Engineering Service Co., Ltd | 4.8% | 382,658.81 | - |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangzhou Xingshun Shipping Services Company Limited | 0.816% | 8,825.81 | 7,325.13 |
| CSSC Guangzhou Huangpu shipyard Ltd. | Guangdong GSI Elevator Limited | 1.2% | 25,478.24 | 48,213.29 |
| Civet Investment Co., (Hong Kong) LTD | Guangzhou Guanglian Container Transportation Company Limited | 15% | -46,965.41 | -66,889.75 |
| Guang Guan Hang Co., Ltd | Guangzhou Guanglian Container Transportation Company Limited | 10% | -31,310.28 | -44,593.17 |
| Ou Zhi Min | Fonkwang Developing Co., Ltd. | 30% | 50,930.02 | 186,577.94 |
| CSSC Science & Technology Association Technology Consultation Service Corporation | Guangzhou HONGFAN PC Technology Co., Ltd | 10% | 235,010.90 | 86,124.14 |
| China Shipbuilding IT Co., Ltd | Guangzhou HONGFAN PC Technology Co., Ltd | 26% | 611,028.34 | 223,922.75 |
| Quan Hua Tai etc. | Guangzhou HONGFAN PC Technology Co., Ltd | 13% | 305,514.17 | 111,961.38 |
| Others | | | | -912,634.28 |
| TOTAL | | | <u>21,788,880.75</u> | <u>10,333,831.03</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

44. Supplementary Information of Cash Flow Statement

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

| Supplementary Information | Amount in Current Year | Amount in Last Year |
|--|------------------------|---------------------|
| I. Reconciliation of net income to cash flows from operating activities: | | |
| Net income | 962,445,676.79 | 277,871,279.07 |
| Add: provision for fixed assets | 15,578,166.56 | 3,961,787.75 |
| Depreciation of fixed assets, petroleum & natural gas, biological assets | 77,589,990.89 | 78,869,574.62 |
| Amortization of intangible assets | 6,651,761.04 | 4,930,585.00 |
| Amortization of long-term prepayments | - | - |
| Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains) | 8,403,484.31 | 625,754.35 |
| Losses on scrapping of fixed assets ("-" for gains) | 663,820.18 | 2,333,543.35 |
| Losses on movement of fair value ("-" for gains) | -282,540,017.01 | 2,382,304.56 |
| Financial expenses ("-" for gains) | -150,369,238.43 | 4,126,375.06 |
| Investments losses ("-" for gains) | -44,924,326.96 | -3,084,639.73 |
| Decrease in Deferred tax assets ("-" for increase) | 16,592,758.61 | 28,521,790.89 |
| Increase in Deferred tax liabilities ("-" for decrease) | 92,832,281.55 | -357,745.69 |
| Decrease in inventories ("-" for increase) | 184,492,858.64 | -833,769,731.14 |
| Decrease in operating receivables ("-" for increase) | -579,797,423.49 | -40,918,730.48 |
| Increase in operating payables ("-" for decrease) | 1,511,039,348.76 | 3,165,309,983.67 |
| Others | - | -71,549,940.83 |
| Net cash flows from operating activities | 1,818,659,141.44 | 2,619,252,190.45 |
| II. Investing and financing activities that do not involve cash receipts and payments: | | |
| Conversion of debt into capital | - | - |
| Convertible bonds to be expired within one year | - | - |
| Fixed assets under finance lease | - | - |
| III. Net increase in cash and cash equivalents: | - | - |
| Cash at the end of the period | 6,739,631,979.44 | 4,338,007,057.97 |
| Less: Cash at the beginning of the period | 4,338,007,057.97 | 644,429,949.78 |
| Plus: Cash equivalents at the end of the period | - | - |
| Less: Cash equivalents at the beginning of the period | - | - |
| Net increase in cash and cash equivalents | 2,401,624,921.47 | 3,693,577,108.19 |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

- (2) Related information of acquiring or disposing subsidiaries and other operating units in current period is listed below:

| Item | Amount in Current Year |
|--|------------------------|
| I. Related information of acquiring or disposing subsidiaries and other operating units: | |
| i. The price of acquiring subsidiaries and other operating units | 22,252,492.77 |
| ii. Cash and cash equivalents paid for acquiring subsidiaries and other operating units | 22,252,492.77 |
| Minus: Cash and cash equivalents held by subsidiaries and other operating units | 10,711,503.77 |
| iii. Net cash paid for acquiring subsidiaries and other operating units | 11,540,989.00 |
| iv. Net assets of subsidiaries acquired | 18,960,464.78 |
| Current assets | 16,254,776.56 |
| Non-current assets | 26,779,861.81 |
| Current liabilities | 24,074,173.59 |
| Non-current liabilities | - |

- (3) Cash and cash equivalents are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|---|------------------------|---------------------|
| I. Cash | 6,739,631,979.44 | 4,338,007,057.97 |
| Including: Cash in treasury | 297,787.13 | 271,480.92 |
| Available-for-use bank deposit | 6,738,958,761.86 | 4,319,416,263.99 |
| Other available-for-use monetary fund | 375,430.45 | 18,319,313.06 |
| II. Cash equivalents | - | - |
| Including: Bond Investment mature within 3 months | - | - |
| III. Ending balance of cash and cash equivalents | 6,739,631,979.44 | 4,338,007,057.97 |
| Including: limited-for-use Cash and cash equivalents belongs to parent company or subsidiaries within the group | - | - |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(4) Other items in cash flow statement

A. Other cash receipts relating to operating activities are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|--------------------------------|-----------------------------------|--------------------------------|
| Subsidies | 144,520,120.65 | 19,463,253.97 |
| Special fund receipt from CSSC | 10,930,000.00 | 8,496,000.00 |
| | <hr/> | <hr/> |
| TOTAL | <u>155,450,120.65</u> | <u>27,959,253.97</u> |

B. Other cash payments relating to operating activities are listed below:

| Item | Amount in Current Year | Amount in Last Year |
|-------------------------------------|-----------------------------------|--------------------------------|
| General and administrative expenses | 120,824,563.19 | 94,729,205.89 |
| Selling expenses | 4,027,699.81 | 4,666,222.57 |
| Manufacturing expenses | 76,506,119.05 | 112,198,209.68 |
| | <hr/> | <hr/> |
| TOTAL | <u>201,358,382.05</u> | <u>211,593,638.14</u> |

C. other cash receipts relating to investing activities

| Item | Amount in Current Year | Amount in Last Year |
|-----------------|-----------------------------------|--------------------------------|
| Interest income | 87,015,451.53 | 14,127,810.62 |
| | <hr/> | <hr/> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

45. Borrowing Costs

Details of borrowing costs are listed below:

| Item | Amount in Current Year | Capitalization Rate |
|--|-----------------------------------|----------------------------|
| Borrowing costs recognized as expenses | 146,632,449.38 | – |
| Capitalized borrowing costs | – | – |
| Including: Capitalized borrowing costs of fixed assets | – | – |
| Capitalized borrowing costs of investment properties | – | – |
| Capitalized borrowing costs of inventories | – | – |
| | <hr/> | <hr/> |
| TOTAL | <u>146,632,449.38</u> | <u>–</u> |

46. Foreign Currency Translation

Details of foreign currency translation are listed below:

| Item | Amount in Current Year |
|--|-------------------------------|
| Difference from foreign currency translation recognized directly in income statement | -99,889,477.37 |
| Difference from foreign currency translation of financial reports that includes gain or loss from the disposal of the oversea operations directly recognized in income statement | – |
| | <hr/> |
| TOTAL | <u>-99,889,477.37</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

Notes to major items of financial statements of the parent company

47. Accounts receivable

(1) Classification based on significance:

| Classification | Original value | Closing balance | | Net value |
|---|-----------------------|-----------------|-------------------------|-----------------------|
| | | Percentage | Provision for bad debts | |
| Individually significant balance | 163,387,673.00 | 77.64% | 816,938.37 | 162,570,734.63 |
| Individually insignificant but significant based on credit risk characteristics | 11,981,327.79 | 5.69% | 1,390,692.89 | 10,590,634.90 |
| Other insignificant balances | 35,076,158.83 | 16.67% | 217,960.81 | 34,858,198.02 |
| Total | <u>210,445,159.62</u> | <u>100.00%</u> | <u>2,425,592.07</u> | <u>208,019,567.55</u> |

| Classification | Original value | Opening balance | | Net value |
|---|-----------------------|-----------------|-------------------------|-----------------------|
| | | Percentage | Provision for bad debts | |
| Individually significant balance | 70,969,942.62 | 59.81% | 354,849.71 | 70,615,092.91 |
| Individually insignificant but significant based on credit risk characteristics | 21,858,238.72 | 18.42% | 5,085,258.92 | 16,772,979.80 |
| Other insignificant balances | 25,833,997.75 | 21.77% | 281,465.95 | 25,552,531.80 |
| Total | <u>118,662,179.09</u> | <u>100.00%</u> | <u>5,721,574.58</u> | <u>112,940,604.51</u> |

Note1: Individually significant receivables refer to the receivables with the amount of more than 10 million. The Company has assessed the significant receivables individually for impairment at the end of the year, 0.5% of the receivable balances shall be accounted as impairment amount in the condition that there is no indication of impairment for the receivables.

Note2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(2) Classification based on ages:

| Aging | Amount | Closing Balance | | Net |
|-------------------------------|-----------------------|-----------------|-------------------------|-----------------------|
| | | Ratio | Provision for bad debts | |
| With 1 year | 198,463,831.83 | 94.30% | 1,034,899.18 | 197,428,932.65 |
| 1-2 years (including 2 years) | 7,370,168.07 | 3.50% | 36,850.84 | 7,333,317.23 |
| 2-3 years (including 3 years) | 3,173,057.73 | 1.51% | 15,865.29 | 3,157,192.44 |
| More than 3 years | 100,628.37 | 0.05% | 503.14 | 100,125.23 |
| Special | 1,337,473.62 | 0.64% | 1,337,473.62 | - |
| Total | <u>210,445,159.62</u> | <u>100.00%</u> | <u>2,425,592.07</u> | <u>208,019,567.55</u> |

| Aging | Amount | Opening balance | | Net |
|-------------------------------|-----------------------|-----------------|-------------------------|-----------------------|
| | | Ratio | Provision for bad debts | |
| With 1 year | 96,803,940.37 | 81.58% | 636,315.66 | 96,167,624.71 |
| 1-2 years (including 2 years) | 15,298,267.68 | 12.89% | 76,491.33 | 15,221,776.35 |
| 2-3 years (including 3 years) | 755,889.76 | 0.64% | 3,779.45 | 752,110.31 |
| More than 3 years | 803,108.68 | 0.68% | 4,015.54 | 799,093.14 |
| Special | 5,000,972.60 | 4.21% | 5,000,972.60 | - |
| Total | <u>118,662,179.09</u> | <u>100.00%</u> | <u>5,721,574.58</u> | <u>112,940,604.51</u> |

48. Other Receivables

(1) Classification based on significance:

| Classification | Amount | Closing Balance | | Net |
|---|-----------------------|-----------------|---------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | |
| Individually significant balance | 196,343,192.07 | 77.59% | 9,164,905.36 | 187,178,286.71 |
| Individually insignificant but significant based on credit risk characteristics | 378,851.09 | 0.15% | 1,708.00 | 377,143.09 |
| Other insignificant balances | 56,323,656.8 | 22.26% | 494,866.87 | 55,828,789.93 |
| Total | <u>253,045,699.96</u> | <u>100.00%</u> | <u>9,661,480.23</u> | <u>243,384,219.73</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

| Classification | Amount | Opening balance | | Net |
|---|----------------------|-----------------|---------------------|----------------------|
| | | Ratio | Bad Debt Allowance | |
| Individually significant balance | 13,994,268.75 | 32.96% | 8,748,244.80 | 5,246,023.95 |
| Individually insignificant but significant based on credit risk characteristics | 1,042,912.27 | 2.46% | 5,207.06 | 1,037,705.21 |
| Other insignificant balances | 27,416,665.45 | 64.58% | 43,351.40 | 27,373,314.05 |
| Total | 42,453,846.47 | 100.00% | 8,796,803.26 | 33,657,043.21 |

Note1: Individually significant balances refer to the other receivables with the amount of more than 10 million. The Company has assessed significant other receivables individually for impairment at the end of the year. For the receivables of Guangzhou International Trust and Investment amounted with RMB13,994,268.75, there is an indication of impairment for it, and then the bad debt allowance shall be accounted as RMB8,748,244.80.

Note2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

(2) Classification based on ages:

| Aging | Amount | Closing Balance | | Net |
|-------------------------------|-----------------------|-----------------|---------------------|-----------------------|
| | | Ratio | Bad Debt Allowance | |
| With 1 year | 238,972,580.12 | 94.44% | 911,527.43 | 238,061,052.69 |
| 1-2 years (including 2 years) | 86,854.37 | 0.03% | 434.27 | 86,420.10 |
| 2-3 years (including 3 years) | 10,000.00 | 0.01% | 50.00 | 9,950.00 |
| More than 3 years | 281,996.72 | 0.11% | 1,223.73 | 280,772.99 |
| Special | 13,694,268.75 | 5.41% | 8,748,244.80 | 4,946,023.95 |
| Total | 253,045,699.96 | 100.00% | 9,661,480.23 | 243,384,219.73 |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

| Aging | Amount | Opening Balance | | Net |
|-------------------------------|----------------------|-----------------|---------------------|----------------------|
| | | Ratio | Bad Debt Allowance | |
| With 1 year | 27,416,665.45 | 64.58% | 43,351.40 | 27,373,314.05 |
| 1-2 years (including 2 years) | 115,200.00 | 0.27% | 568.50 | 114,631.50 |
| 2-3 years (including 3 years) | 890,462.27 | 2.10% | 4,452.31 | 886,009.96 |
| More than 3 years | 37,250.00 | 0.09% | 186.25 | 37,063.75 |
| Special | 13,994,268.75 | 32.96% | 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> |

49. Long-term Equity Investment

(1) Long-term equity investments are listed as follows in terms of category:

| Item | Opening balance | Increase | Decrease | Closing balance |
|-----------------------------------|----------------------|----------------------|-------------------|-----------------------|
| Investment for subsidiary company | 77,223,521.35 | 22,252,492.77 | - | 99,476,014.12 |
| Investment for joint venture | 3,011,992.86 | 797,083.24 | 464,622.06 | 3,344,454.04 |
| Investment for associate company | 1,766,951.07 | 17,977.52 | - | 1,784,928.59 |
| total | <u>82,002,465.28</u> | <u>23,067,553.53</u> | <u>464,622.06</u> | <u>104,605,396.75</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

(2) Long-term investments under the cost method:

| Investee | Initial amount | Opening balance | Increase | Decrease | Closing balance | Percentage holding of investee's capital | Percentage holding of voting power |
|--|----------------|-----------------|---------------|----------|-----------------|--|------------------------------------|
| Rongguang Development Company Limited | 10,700.00 | 10,700.00 | - | - | 10,700.00 | 100.00% | 100.00% |
| Guangzhou Hongfan Information Technique Company Limited | 2,550,000.00 | 2,550,000.00 | - | - | 2,550,000.00 | 51.00% | 51.00% |
| Guangdong Shipyard International Elevator Company Limited | 19,950,000.00 | 19,950,000.00 | - | - | 19,950,000.00 | 95.00% | 95.00% |
| Guangzhou Xingshun Shipping Service Company Limited | 500,000.00 | 500,000.00 | - | - | 500,000.00 | 83.00% | 83.00% |
| Guangzhou United Steel Structures Limited | 37,522,079.55 | 37,522,079.55 | - | - | 37,522,079.55 | 51.00% | 51.00% |
| Masterwood Company Limited | 1,690,741.80 | 1,690,741.80 | - | - | 1,690,741.80 | 51.00% | 51.00% |
| Guangzhou Guanglian Container | 15,000,000.00 | 15,000,000.00 | - | - | 15,000,000.00 | 75.00% | 75.00% |
| Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd | 3,052,492.77 | - | 3,052,492.77 | - | 3,052,492.77 | 80.00% | 80.00% |
| Guangdong Structure Pipe & Peg Company Limited | 19,200,000.00 | - | 19,200,000.00 | - | 19,200,000.00 | 100.00% | 100.00% |
| Shenzhen Yuanzhou Service and Technology Industry Company | 1,000,000.00 | 1,000,000.00 | - | - | 1,000,000.00 | 7.00% | 7.00% |
| Total | 100,476,014.12 | 78,223,521.35 | 22,252,492.77 | - | 100,476,014.12 | - | - |

Note1: According to the Board Resolutions of the 12th meeting for the 5th board, this year the Company has purchased 80% shares of Guangzhou Guangli Shipbuilding Human Resource Service Co., Ltd held by the labor union of the Guangzhou Shipyard International Company Limited, the purchasing price is determined by the assessment. From this year the Company is included within the scope of consolidation and considered as the company not under the same controller.

Note2: According to the Board Resolutions of the 24th meeting for the 5th board, this year the Company has purchased 100% shares of Guangdong Structure Pipe & Peg Company Limited from Hezhuohua and Hejianwei, the purchasing price is determined by the assessment. From this year the Company is included with the scope of consolidation and considered as the company not under the same controller.

Note3: The details of the long-term equity investment under the equity method refer to Note IX.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

50. Operating Revenue and Operating Cost

(1) Details for operating revenue and operating cost are listed as follows:

| Items | Current year | Last year |
|-------------------------------|----------------------|----------------------|
| Operating Revenue | 5,409,315,254.23 | 3,037,082,028.30 |
| Revenue from main operations | 5,310,770,582.16 | 2,970,192,550.35 |
| Revenue from other operations | 98,544,672.07 | 66,889,477.95 |
| Operating Cost | 4,507,115,936.61 | 2,577,684,534.36 |
| Cost of main operations | 4,436,076,468.20 | 2,531,765,338.66 |
| Cost of other operations | <u>71,039,468.41</u> | <u>45,919,195.70</u> |

(2) Details are listed as follows in terms of category for production or business:

| Category | Current year | | Last year | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | Revenue | Cost | Revenue | Cost |
| shipping building products | 5,134,588,938.45 | 4,278,799,206.39 | 2,860,687,252.04 | 2,439,145,765.97 |
| steel structure construction | 3,824,429.79 | 3,290,141.51 | 55,812,692.30 | 52,608,262.38 |
| mechanical and electrical products and others | 172,357,213.92 | 153,987,120.30 | 53,692,606.01 | 40,011,310.31 |
| Other business | <u>98,544,672.07</u> | <u>71,039,468.41</u> | <u>66,889,477.95</u> | <u>45,919,195.70</u> |
| Total | <u>5,409,315,254.23</u> | <u>4,507,115,936.61</u> | <u>3,037,082,028.30</u> | <u>2,577,684,534.36</u> |

X RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

A. Related parties

1. Parent company

| Name of parent company | Registered address | Principle business | Registered capital | Organization code | Holding ratio | Representative ratio |
|--------------------------------------|---|---|--------------------|-------------------|---------------|----------------------|
| China State Shipbuilding Corporation | No 1, Pudong Main Street, Shanghai City | investment and operation for state-owned assets | 637,430,000.00 | 190499390 | 35.71% | 35.71% |

2. Subsidiary

Details of subsidiary refer to Note VII.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

3. Joint venture and associate company

Details of joint venture and associate company refer to VIII

4. Other related parties

Name of related parties

Relationship with the Company

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

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

B. Related Party Transactions

1. Selling goods and providing services

| Name of related parties | Current year | | Last year | | Pricing policy |
|---|-------------------|------------|--------------|------------|----------------|
| | Amount | Percentage | Amount | Percentage | |
| South China Marine & Industrial Special Coating Ltd. | 255,776.56 | 0.00% | 28,377.65 | 0.00% | Market price |
| Guangzhou Guangli Shipbuilding Engineering Service Ltd. | – | – | 27,350.43 | 0.00% | Market price |
| CSSC Guangzhou Huangpu Shipyard Ltd. | 8,222,041.45 | – | 5,111,262.67 | 0.09% | Market price |
| Guangzhou Wenchong Shipyard Ltd. | 14,403,352.59 | 0.24% | 7,937,071.61 | 0.13% | Market price |
| Guangzhou Shipyard | 4,081,046.96 | 0.07% | 3,148,864.87 | 0.05% | Market price |
| CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd | 41,038,313.23 | 0.69% | 880,845.30 | 0.01% | Market price |
| Xijiang Shipyard | 10,766,000.00 | 0.18% | 270,000.00 | 0.00% | Market price |
| Shanghai Marine Research Institute | – | – | 50,000.00 | 0.00% | Market price |
| Shanghai Navigation Instrument Factory | 7,692.31 | – | 324,786.32 | 0.01% | Market price |
| China Shipping Trading Corporation | 1,249,299.51 | 0.02% | 73,900.00 | 0.00% | Market price |
| China Shipbuilding IT Co., Ltd | 110,000.00 | 0.00% | – | – | Market price |
| Guangxi Guijiang Shipyard | 3,789.00 | 0.00% | – | – | Market price |
| Jiangnan Shipbuilding (Group) Co., Ltd | 29,981,416.15 | 0.50% | – | – | Market price |
| CSSC No. 9 Institute | 1,280,000.00 | 0.02% | – | – | Market price |
| CSSC Guangzhou Shipyard | 297,968.25 | 0.01% | – | – | Market price |
| CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd | 17,097,720.83 | 0.29% | – | – | Market price |
| Marine Design & Research Institute of China | <u>226,303.94</u> | 0.00% | – | – | Market price |

2. Sales acted by related parties

| Name of related parties | Current year | | Last year | | Pricing Policy |
|------------------------------------|---------------------|------------|---------------------|------------|----------------|
| | Amount | Percentage | Amount | Percentage | |
| China Shipping Trading Corporation | 38,911,597.54 | 0.65% | 44,220,952.02 | 0.13% | Market price |
| CSSC International Trade Co., Ltd | <u>4,711,534.38</u> | 0.08% | <u>3,890,143.88</u> | 0.11% | Market price |

Note: Other assets except selling goods are all acted by China Shipping Trading Corporation and its subordinate companies.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

3. Purchasing goods and adopting services

| Name of related parties | Current year | | Last year | | Pricing policy |
|--|---------------|------------|---------------|------------|----------------|
| | Amount | Percentage | Amount | Percentage | |
| South China Marine & Industrial Special Coating Ltd. | 797,820.13 | 0.02% | 79,500.00 | 0.00% | Market Price |
| Guangzhou Guangli Shipbuilding and service Lid. | – | – | 61,337,174.13 | – | Market Price |
| Anqing Marine Diesel Factory | 10,000.00 | 0.00% | 238,000.00 | 0.01% | Market Price |
| Guangxi Guijiang Shipyard | 2,732,000.00 | 0.06% | – | – | Market Price |
| Guangzhou Wenchong Shipyard Ltd | 1,026,547.29 | 0.02% | 324,138.25 | 0.01% | Market Price |
| Guangzhou Shipyard | 98,893,968.94 | 2.01% | 98,280,059.09 | 3.42% | Market Price |
| CSSC Guangzhou Huangpu Shipyard Ltd. | 8,149,539.68 | 0.17% | 627,252.37 | 0.02% | Market Price |
| Huanan Marine Mechanical Factory | 15,663,891.64 | 0.32% | 16,465,896.72 | 0.57% | Market Price |
| Sijiang Shipyard | 100,000.00 | 0.00% | – | – | Market Price |
| Jiangxi Chaoyang Mechanical Factory | 10,615.38 | 0.00% | 3,239.40 | 0.00% | Market Price |
| Jiangxi Marine Valve Factory | 20,000.00 | 0.00% | 2,012,051.00 | 0.07% | Market Price |
| Jiujiang Instrument Factory | 990,000.00 | 0.02% | 520,000.00 | 0.02% | Market Price |
| CSSC Jiujiang Fire Control Equipment CO., Ltd. | 3,240.00 | 0.00% | 850,000.00 | 0.03% | Market Price |
| Jiujiang Marine Mechanical Factory | – | – | 2,366,117.44 | 0.08% | Market Price |
| CSSC Nanjing Lvzhou Machinery Co., Ltd | 12,966,021.36 | 0.26% | 8,026,529.91 | 0.28% | Market Price |
| Shanghai Marine Research & Design Institute | 2,600,000.00 | 0.05% | – | – | Market Price |
| Shanghai Navigation Instrument Factory | 1,057,760.00 | 0.02% | 519,600.00 | 0.02% | Market Price |
| CSSC Zhenjiang Equipment Co., Ltd | 75,921,151.33 | 1.54% | 67,538,113.37 | 2.35% | Market Price |
| CSSC No.11 Institute | 120,000.00 | 0.00% | – | – | Market Price |
| China Shipping Trading Corporation | 391,863.25 | 0.01% | 2,025,443.30 | 0.07% | Market Price |
| China Shipbuilding Polytechnic Economic Institute | 96,800.00 | 0.00% | 100,000.00 | 0.00% | Market Price |
| Marine Design & Research Institute of China | 3,280,000.00 | 0.07% | 2,057,200.00 | 0.07% | Market Price |
| China Shipping NO 708 institute | 4,636,000.00 | 0.09% | – | – | Market Price |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

4. Purchasing goods and materials acted by related parties

| Name of related parties | Current year | | Last year | | Pricing Policy |
|------------------------------------|--------------|------------|--------------|------------|----------------|
| | Amount | Percentage | Amount | Percentage | |
| China United Shipbuilding Co., Ltd | 3,522,942.83 | 0.03% | 4,051,736.33 | 0.07% | Market Price |
| China Shipping Trading Corporation | 211,554.04 | 0.00% | 96,859.86 | 0.00% | Market Price |

Note: other assets purchased by the Company except goods are all acted by CSSC.

5. Providing financial services

| Name of related party | Closing balance of bank deposit | | Interest revenue of the Company | | Remarks |
|-------------------------------|---------------------------------|-------------------|---------------------------------|-----------------|---------|
| | 2007 | 2006 | 2007 | 2006 | |
| China Marine Finance Co., Ltd | <u>26,881,257.61</u> | <u>458,194.93</u> | <u>242,653.84</u> | <u>9,315.83</u> | Deposit |

6. Guarantee

| Name | Guarantee | Current year | | | Last year | | |
|---------------------------------|-----------|-------------------|--------|-----------|-------------------|--------|--|
| | | Amount | Period | Guarantee | Amount | Period | |
| CSSC | Loan | USD211,589,000.00 | 1 year | Loan | USD245,085,000.00 | 1 year | |
| CSSC Guangzhou Shipping Company | L/G | 475,456,000.00 | 1 year | L/G | USD70,770,000 | 1 year | |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

C. Balance with related parties

| Name of related party | Account | Closing balance | | Opening balance | |
|---|-------------------------|-----------------|------------|-----------------|------------|
| | | Amount | Percentage | Amount | Percentage |
| Guangzhou Shipyard Ltd. | Other receivables | 48,440.00 | 0.00% | - | - |
| CSSC Guangzhou Huangpu Shipyard Ltd. | Account receivables | 167,295.00 | 0.05% | 694,355.61 | 0.37% |
| Guangzhou Shipyard Ltd. | Account receivables | 199,300.91 | 0.06% | 167,400.00 | 0.09% |
| Guangzhou Wenchong Shipyard Ltd | Account receivables | 787,213.02 | 0.25% | 590,021.01 | 0.31% |
| CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd | Account receivables | 16,715,110.00 | 5.32% | 549,710.00 | 0.29% |
| Shanghai Waigaoqiao Shipbuilding Co., Ltd | Account receivables | - | - | 9,000.00 | 0.00% |
| South China Marine & Industrial Special Coating Ltd. | Account receivables | 3,200.01 | 0.00% | - | - |
| The Ninth Design and Research Institute | Account receivables | 380,000.00 | 0.12% | - | - |
| China Shipbuilding IT Co., Ltd | Account receivables | 11,000.00 | 0.00% | - | - |
| Guangxi Guijiang Shipyard | Account receivables | 3,789.00 | 0.00% | - | - |
| CSSC Guangzhou Longxue Shipbuilding Co., Ltd | Account receivables | 323,516.59 | 0.10% | - | - |
| China Shipping Trading Corporation | Account receivables | 69,700.00 | 0.02% | - | - |
| Guangxi Guijiang Shipyard | Advances from customers | 190,000.00 | 0.04% | 273,200.00 | 0.11% |
| Guangzhou Guangli Ship Engineering and service Ltd. | Advances from customers | - | - | 4,000,000.00 | 1.59% |
| Guangzhou Shipyard | Advances from customers | 13,253,278.83 | 2.57% | 180,000.00 | 0.07% |
| Huanan Marine Mechanical Factory | Advances from customers | 942,400.00 | 0.18% | 4,498,010.91 | 1.79% |
| CSSC Zhenjiang Equipment Co., Ltd | Advances from customers | 33,134,222.40 | 6.43% | 11,050,000.00 | 4.39% |
| China United Shipbuilding Co., Ltd | Advances from customers | 28,937,346.09 | 5.62% | 80,685,260.12 | 32.09% |
| The Ninth Design and Research Institute | Advances from customers | - | - | 174,448.00 | 0.07% |
| CSSC Nanjing Lvzhou Machinery Co., Ltd | Advances from customers | - | - | 510,000.00 | 0.20% |
| China Shipping Trading Corporation | Advances from customers | 705,733.93 | 0.14% | 4,662,473.65 | 1.85% |
| CSSC International Trade Co., Ltd | Advances from customers | 3,318.83 | 0.00% | 3,318.83 | 0.00% |
| CSSC Guangzhou Huangpu Shipyard Ltd. | Advances from customers | 269,888,640.00 | 52.41% | - | - |
| Jiujiang Haitian Equipment Manufacture Co., Ltd | Advances from customers | 888,540.00 | 0.17% | - | - |
| Systems Engineering Research Institute, CSSC | Advances from customers | 8,975,000.00 | 1.74% | - | - |
| Marine Design & Research Institute of China | Advances from customers | 582,000.00 | 0.11% | - | - |
| Guangzhou Shipyard Ltd. | Account payables | 5,420,155.07 | 0.87% | 13,525,053.44 | 3.46% |
| The Ninth Design and Research Institute | Account payables | 116,552.00 | 0.02% | 265,000.00 | 0.07% |
| Guangxi Guijiang Shipyard | Account payables | 2,458,800.00 | 0.39% | - | - |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

| Name of related party | Account | Closing balance | | Opening balance | |
|--|-----------------------|-----------------|------------|-----------------|------------|
| | | Amount | Percentage | Amount | Percentage |
| Anqing Marine Diesel Factory | Account payables | - | - | 11,900.00 | 0.00% |
| Guangzhou Marine Engineering Corporation | Account payables | - | - | 67,096.30 | 0.02% |
| CSSC Guangzhou Huangpu Shipyard Ltd. | Account payables | - | - | 576,182.88 | 0.15% |
| Huanan Marine Mechanical Factory | Account payables | 1,306,248.89 | 0.21% | 84,000.00 | 0.02% |
| Jiangxi Marine Valve Factory | Account payables | 477,000.00 | 0.08% | 508,500.00 | 0.13% |
| Jiujiang Instrument Factory | Account payables | 50,000.00 | 0.01% | 13,000.00 | 0.00% |
| CSSC Jiujiang Fire Control Equipment CO., Ltd. | Account payables | 42,500.00 | 0.01% | 42,500.00 | 0.01% |
| CSSC Nanjing Lvzhou Environment Protection Equipment Co., Ltd | Account payables | 2,299,570.00 | 0.37% | 712,500.00 | 0.18% |
| Shanghai Marine Instrument General Factory | Account payables | 247,760.00 | 0.04% | 25,600.00 | 0.01% |
| CSSC Zhenjiang Equipment Co., Ltd | Account payables | 2,467,890.00 | 0.40% | 6,840,000.00 | 1.75% |
| China Shipping Trading Corporation | Account payables | -29,720.02 | 0.00% | 1,348,402.67 | 0.35% |
| Technology Research & Economy Development Institute, CSSC | Account payables | - | - | 67,096.30 | 0.02% |
| Marine Design & Research Institute of China | Account payables | 262,300.00 | 0.04% | 102,860.00 | 0.03% |
| The Ninth Design and Research Institute | Other payables | 923,361.05 | 0.99% | - | - |
| Guangzhou Shipyard Ltd. | Other payables | 28,592.40 | 0.03% | 37,942.40 | 0.07% |
| Guangzhou Economic Development Zone South China Marine & Industrial Special Coating Ltd. | Other payables | 6,285.12 | 0.01% | 1,000.00 | 0.00% |
| China United Shipbuilding Co., Ltd | Other payables | 190,000.00 | 0.20% | 19,000.00 | 0.04% |
| CSCC | Other payables | - | - | 1,012,887.33 | 1.96% |
| CSSC Guangzhou Huangpu Shipyard Ltd. | Other payables | - | - | 50,000.00 | 0.10% |
| Guangzhou Guangli Marine Engineering Service Co., Ltd | Other payables | - | - | 620.00 | 0.00% |
| CSSC | Advances to suppliers | 1,130,000.00 | 0.45% | 424,000.00 | 1.55% |
| The Ninth Design and Research Institute | Advances to suppliers | 450,000.00 | 0.18% | 200,000.00 | 0.73% |
| Hudong Zhonghua Shipbuilding (Group) Co., Ltd | Advances to suppliers | 4,600,000.00 | 1.84% | 900,000.00 | 3.28% |
| The 708th Institute of CSCC | Advances to suppliers | 3,280,000.00 | 1.31% | - | - |
| Guangzhou Wenchong Shipyard Ltd | Advances to suppliers | 4,048,500.00 | 1.62% | - | - |
| CSSC Guangzhou Huangpu Shipyard Ltd. | Advances to suppliers | 21.37 | 0.00% | - | - |
| CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd | Advances to suppliers | 15,002,999.95 | 6.00% | - | - |
| Jiangnan Shipyard (Group) Co., Ltd | Advances to suppliers | 34,707,130.75 | 13.87% | - | - |
| Marine Design & Research Institute of China | Advances to suppliers | 3,280,000.00 | 1.31% | - | - |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

D. The ending balance of allowance for receivables of related parties

| Name of related parties | Account | Closing balance | | Opening balance | |
|---|---------------------|-----------------|------------|-----------------|------------|
| | | Amount | Percentage | Amount | Percentage |
| CSSC Guangzhou Huangpu Shipyard Ltd. | Account receivables | 836.48 | 0.02% | 3,471.78 | 0.04% |
| Guangzhou Shipyard Ltd. | Account receivables | 996.50 | 0.02% | 837.00 | 0.01% |
| Guangzhou Wenchong Shipyard Ltd | Account receivables | 3,936.07 | 0.08% | 2,950.11 | 0.03% |
| CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd | Account receivables | 83,575.55 | 1.68% | 2,748.55 | 0.03% |
| Shanghai Waigaoqiao Shipbuilding Co., Ltd | Account receivables | - | - | 45.00 | 0.00% |
| Guangzhou Shipyard Ltd. | Other receivables | 242.20 | 0.00% | - | - |
| South China Marine & Industrial Special Coating Ltd. | Account receivables | 16.00 | 0.00% | - | - |
| The Ninth Design and Research Institute | Account receivables | 1,900.00 | 0.04% | - | - |
| China Shipbuilding IT Co., Ltd | Account receivables | 55.00 | 0.00% | - | - |
| Guangxi Guijiang Shipyard | Account receivables | 18.95 | 0.00% | - | - |
| CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd | Account receivables | 1,617.58 | 0.03% | - | - |

XI CONTINGENCIES

The Company has no material contingencies at the end of the year to be disclosed.

XII COMMITMENTS

1. Mortgage

The details of mortgage for the Company are listed as follows at the end of the year:

| Items | information for mortgage assets | | Other information | | remarks |
|-----------|---------------------------------|----------------|-------------------|--------------------------------------|-----------------------|
| | Original value | Net value | Guarantee | Mortgage bank | |
| Equipment | 72,725,995.25 | 9,182,257.50 | The Company | China Commercial Bank Fangcui Branch | In the line of credit |
| Equipment | 169,431,693.16 | 123,407,008.16 | The Company | China Commercial Bank Fangcui Branch | In the line of credit |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

2. Unmatured Forward Contract

To hedge foreign exchange rate risk, the Company signed foreign exchange rate forward contract with the bank. As of December 31, 2007, unmatured forward contracts of the Company accumulated to 67 contracts, the transaction amount amounted to USD 655,900,000.00, and the contracted transaction period ranges from Jan 10, 2008 to June 30, 2010.

The Company has no other material Commitments after the balance sheet date to be disclosed except those above-mentioned.

XIII SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

1. Significant changes for tax policy after the balance sheet date

The enterprise income tax rate for the Company is 33% in 2007. According to the newest PRC enterprise income tax law, the tax rate for the Company shall change to 25% from January 1st, 2008.

2. The Company has called the Board Meeting on March 18th, 2008, on which the proposal of profit distribution has been passed. That is, the Company shall release cash dividends rated RMB0.5 per share (A Stock included tax) on the base of total shares amounted 494,677,580.00, all together the Company shall release cash bonus amounted RMB247,338,790.00, which is still waiting to be approved by the annual general meeting.

3. The Company has no other material subsequent events after the balance sheet date to be disclosed.

XIV OTHER SIGNIFICANT EVENTS

The 27th meeting for the 5th board has passed the board resolution that the Company shall register a branch company in Nanshang Economic Development Zone of Guangzhou City, and has authorized the managing hierarchy to handle that. At present, the project is in process to be implemented.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

XV SUPPLEMENTAL INFORMATION

The adjustment for statement of changes in the shareholder's equity of the opening balance sheet of 2007

From January 1st, 2007, the Company should apply "Accounting Standards for Business Enterprises" and its subsequent regulations promulgated in 2006, and has prepared the statement of changes in the shareholders's equity for the the beginning of the year. According to the request of "Explanation for the Accounting Standards for Business Enterprises No1", the Company has checked the balance of assets, liabilities and owner's equity of the balance sheet of January 1st, 2007. The adjustments for the statement of changes in the shareholder's equity of the beginning of 2007 are listed as follows:

| Number | Items | Amount before adjustment | Adjusted amount | Amount after adjustment |
|--------|--|-----------------------------|--------------------|----------------------------|
| | consolidated shareholder's equity on December 31th, 2006 (present accounting standards) | 1,099,913,516.29 | - | 1,099,913,516.29 |
| 1 | plus: minority interests on December 31th, 2006 (present accounting standards) | 61,404,848.23 | - | 61,404,848.23 |
| 2 | compensation to employees for termination of employment relationship recognized for provision | - | -7,061,782.00 | -7,061,782.00 |
| 3 | financial assets at fair value through profit or loss and available-for-sale financial assets | - | 141,487,307.10 | 141,487,307.10 |
| 4 | derivative financial instrument | - | 141,695.44 | 141,695.44 |
| 5 | income tax | - | 27,231,954.79 | 27,231,954.79 |
| | consolidated shareholder's equity on January 1st, 2007 (new accounting standards) | - | - | 1,323,117,539.84 |
| | Including: minority interests on January 1st, 2007 (new accounting standards) | - | - | 61,404,848.23 |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

The retrospective adjustments for the statement of income of 2006

- the statement of income for the year 2006 rested on the original accounting system or standards shall be adjusted to the statement rested on the "Accounting Standards for Business Enterprises".

| Items | Consolidated company | | | Parent company | | |
|-----------------------------------|-----------------------------|--------------------|----------------------------|-----------------------------|--------------------|----------------------------|
| | Amount before adjustment | Adjusted amount | Amount after adjustment | Amount before adjustment | Adjusted amount | Amount after adjustment |
| 1. operating revenue | 3,399,203,543.04 | - | 3,399,203,543.04 | 3,037,082,028.30 | - | 3,037,082,028.30 |
| less: operating cost | 2,870,683,337.98 | - | 2,870,683,337.98 | 2,577,684,534.36 | - | 2,577,684,534.36 |
| Business tax | 9,293,363.87 | - | 9,293,363.87 | 7,937,020.79 | - | 7,937,020.79 |
| Selling and distribution expenses | 4,666,222.57 | - | 4,666,222.57 | 2,710,054.76 | - | 2,710,054.76 |
| administrative expenses | 219,996,939.35 | -4,570,220.18 | 215,426,719.17 | 189,611,638.48 | 4,343,410.00 | 185,268,228.48 |
| financial expenses | 4,126,375.06 | - | 4,126,375.06 | 937,644.86 | - | 937,644.86 |
| impairment loss of losses | - | 3,961,787.75 | 3,961,787.75 | - | 3,734,977.57 | 3,734,977.57 |
| Plus: gains or losses form | | | | | | |
| changes in fair value | - | -2,382,304.56 | -2,382,304.56 | - | -2,382,304.56 | -2,382,304.56 |
| Investment gains or losses | 3,084,639.73 | - | 3,084,639.73 | 18,269,806.70 | -14,334,978.28 | 3,934,828.42 |
| including: investment income | | | | | | |
| from associated and | | | | | | |
| jointly controlled entities | -325,693.81 | - | -325,693.81 | 480,107.58 | - | 480,107.58 |
| 2. operating profit/loss | 290,437,304.21 | 1,310,767.60 | 291,748,071.81 | 276,470,941.80 | -16,108,850.46 | 260,362,091.34 |
| Plus: non-operating revenue | 26,668,699.06 | 3,858,785.57 | 30,527,484.63 | 24,373,636.09 | 3,858,785.57 | 28,232,421.66 |
| Less: non-operating expenditures | 10,395,401.43 | - | 10,395,401.43 | 9,905,413.13 | - | 9,905,413.13 |
| including: loss on disposal of | | | | | | |
| non-current assets | 9,438,622.89 | - | 9,438,622.89 | 9,152,783.36 | - | 9,152,783.36 |
| 3. income/loss before tax | 309,795,241.57 | 2,084,913.44 | 311,880,155.01 | 290,939,164.71 | -12,250,064.84 | 278,689,099.87 |
| Less: income tax | 5,844,830.73 | 28,164,045.21 | 34,008,875.94 | - | 28,485,299.53 | 28,485,299.53 |
| 4. net profit/loss | 303,950,410.84 | -26,079,131.77 | 277,871,279.07 | 290,939,164.71 | -40,735,364.37 | 250,203,800.34 |
| earnings belonging to | | | | | | |
| shareholders of parent company | 293,616,579.81 | -26,079,131.77 | 267,537,448.04 | 290,939,164.71 | -40,735,364.37 | 250,203,800.34 |
| minority interests | 10,333,831.03 | - | 10,333,831.03 | - | - | - |

Note: The adjustment includes the readjusted amount according to *Accounting Standards for Business Enterprises*.

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

2. The adjustment sheet for the income statement of 2006 between the one simulated applying the new accounting standards and the one disclosed rested on the original accounting standards

| Items | Amount |
|---|----------------|
| net profit/loss for the year 2006 (original accounting system or standards) | 293,616,579.81 |
| total amounts for retrospective adjustments | -15,745,300.74 |
| including: 1. financial assets at fair value through profit and or loss | -2,382,304.56 |
| 2. income tax | -28,164,045.21 |
| 3. minority interests | 10,333,831.03 |
| 4. expected benefits for dismissing employees | 4,467,218.00 |
| net profit/loss for the year 2006 (according to the new standards) | 277,871,279.07 |
| reference information supposed to completely apply the new standards | - |
| total amounts for other items | - |
| including: 1. general borrowing costs | - |
| 2. exploitation expenditures | - |
| simulated net profit/loss for the year 2006 | 277,871,279.07 |

Exceptional profits or losses

In accordance with the "Questions and Answers for the Standards of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No 1 – exceptional Profits and losses" amended by the China Securities Regulatory Commission in 2007 (Kuajiji [2007] NO.9), the non-often profits or losses of the Company are listed as follows:

| Items | Current year | Last year |
|---|----------------------|----------------------|
| Exceptional revenues | | |
| 1. gains from disposal of non-current assets | 709,104.84 | 6,482,625.19 |
| 2. government allowance through profits or losses | 27,921,080.27 | 19,463,253.97 |
| 3. other items of exceptional revenue | 2,698,835.48 | 722,819.90 |
| 4. short-time investment gains | 30,232,936.65 | 294,850.00 |
| | <hr/> | <hr/> |
| Subtotal | <u>61,561,957.24</u> | <u>26,963,549.06</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

| Items | Current year | Last year |
|--|----------------|----------------|
| Exceptional expenditures | | |
| 1. losses from disposal of non-current assets | 9,247,877.18 | 9,447,389.96 |
| 2. provision for assets as the force majeure | 13,944,361.48 | -1,642,464.18 |
| 3. other items of exceptional expenditures | 603,744.86 | 956,778.54 |
| 4. others | — | 23,391,335.00 |
| subtotal | 23,795,983.52 | 32,153,039.32 |
| Influenced profit before tax | 37,765,973.72 | -5,189,490.26 |
| less: income tax expenses | 12,462,771.33 | — |
| Influenced net profit | 25,303,202.39 | -5,189,490.26 |
| influenced minority interests | 325,021.71 | 404,550.45 |
| influenced net profits belonging to the common stockholders of parent company | 24,978,180.68 | -5,594,040.71 |
| net profits belonging to the common stockholders of parent company deducted exceptional profits or losses | 915,678,615.36 | 273,131,488.75 |

Return on Net Assets and Earning Per Share

In accordance with the "Regulations of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No.9 – Calculation and Disclosing of Rate on Net Assets and Earning Per Share" and "Questions and Answers for the Standards of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No 1 – exceptional Profits and losses" amended by the China Securities Regulatory Commission in 2007, the Company has calculated the rate of return on net assets and earning per share. Details are listed as follows:

1. Calculation Results

| profits for according period | Current year | | | | |
|--|---------------|------------------------------|-------------------------|----------------------------|--|
| | Spreading out | Rate of return on net assets | | Earning per share | |
| | | Weighted average | Basic earning per share | Diluted earnings per share | |
| net profits belonging to the common stockholders (I) | 38.37% | 52.17% | 1.90 | — | |
| net profits belonging to the common stockholders after deducted exceptional profits or losses (II) | 37.35% | 50.78% | 1.85 | — | |
| profits for according period | Last year | | | | |
| | Spreading out | Rate of return on net assets | | Earning per share | |
| | | Weighted average | Basic earning per share | Diluted earnings per share | |
| net profits belonging to the common stockholders (I) | 21.20% | 23.67% | 0.54 | — | |
| net profits belonging to the common stockholders after deducted exceptional profits or losses (II) | 21.65% | 24.17% | 0.55 | — | |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

2. Calculation Process of Earnings Per Share

| Items | Number | Current year | Last year |
|---|-------------------------------|----------------|----------------|
| net profits belonging to the common stockholders of the Company | 1 | 940,656,796.04 | 267,537,448.04 |
| non-often profits or losses belonging to the common shareholders of parent company deducted the tax | 2 | 24,978,180.68 | -5,594,040.71 |
| net profits belonging to the common shareholders of the Company after deducted non-often profits or losses | 3=1-2 | 915,678,615.36 | 273,131,488.75 |
| Total number of shares for the beginning of the year | 4 | 494,677,580.00 | 494,677,580.00 |
| Additional number of shares for increasing capital with accumulation fund or the distribution of stock dividends | 5 | - | - |
| Additional number of shares for initially issuing shares or debt for equity | 6 | - | - |
| months calculated from the next month of initially issuing shares or debt for equity to the last month of the accounting period | 7 | - | - |
| decreased number of shares for purchasing back or drawing back stocks for the accounting period | 8 | - | - |
| months calculated from the next month of decreasing shares to the last month for the accounting period | 9 | - | - |
| months for the accounting period | 10 | 12 | 12 |
| weighted average number of ordinary shares outstanding | 11=4+5+6 x 7÷10-8 x 9÷10 | 494,677,580.00 | 494,677,580.00 |
| Basic earnings per share (I) | 12=1÷11 | 1.90 | 0.54 |
| Basic earnings per share (II) | 13=3÷11 | 1.85 | 0.55 |
| interests for the potential dilutive ordinary shares recognized as expenditures | 14 | - | - |
| income tax rate | 15 | 33% | 15% |
| Diverting expenditures | 16 | - | - |
| additional number of shares for performing the right of warrants and share options | 17 | - | - |
| diluted earnings per share (I) | 18=[1+(14-16)x(1-15)]÷(11+17) | 1.90 | 0.54 |
| diluted earnings per share (II) | 19=[3+(14-16)x(1-15)]÷(11+17) | - | - |

NOTES TO THE FINANCIAL STATEMENTS

(Unit: RMB)

XVI THE AUTHORIZATION OF FINANCIAL STATEMENT

The financial statement has been approved by the Board Meeting held on March 18th, 2008.

Accordance to the rules of the Company, the financial statement shall be presented to the general meeting of stockholders.

| | | |
|-----------------------|---------------------------------|--|
| Legal Representative: | Person in charge of accounting: | Person in charge of accounting institute: |
| Mr. Li Zhushi | Mr. Zeng Xiangxin | Mr. Hou Zengquan |

Guangzhou Shipyard International Company Limited

March 18, 2008

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED (a joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Guangzhou Shipyard International Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 163 to 252, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 March 2008

BALANCE SHEETS

(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated)
As at 31 December 2007

| | Note | Group | | Company | |
|-------------------------------------|------|-------------------|-----------|-------------------|-----------|
| | | 2007 | 2006 | 2007 | 2006 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 6 | 1,049,953 | 981,567 | 1,006,353 | 946,722 |
| Investment properties | 7 | 94,161 | 98,721 | 94,161 | 98,721 |
| Land use rights and leasehold land | 8 | 76,108 | 67,784 | 66,620 | 67,784 |
| Intangible assets | 9 | 15,921 | – | 15,921 | – |
| Investments in subsidiaries | 10 | – | – | 84,476 | 77,224 |
| Interest in associates | 11 | 19,419 | 18,611 | 2,522 | 2,522 |
| Available-for-sale financial assets | 13 | 577,074 | 220,665 | 576,174 | 219,765 |
| Deferred income tax assets | 14 | – | 2,264 | – | 2,264 |
| Derivative financial instruments | 15 | 245,852 | – | 245,852 | – |
| | | 2,078,488 | 1,389,612 | 2,092,079 | 1,415,002 |
| Current assets | | | | | |
| Held-to-maturity financial assets | 16 | – | 296,620 | – | 296,620 |
| Inventories | 17 | 725,423 | 413,623 | 619,094 | 324,648 |
| Amounts due from subsidiaries | | – | – | 54,659 | 54,751 |
| Due from customers on | | | | | |
| construction contracts | 18 | 229,927 | 736,708 | 227,318 | 734,005 |
| Trade receivables | 19 | 314,323 | 179,986 | 196,757 | 94,773 |
| Other receivables | 20 | 728,187 | 316,495 | 724,371 | 286,930 |
| Derivative financial instruments | 15 | 48,458 | 712 | 48,458 | 712 |
| Current income tax recoverable | | – | 474 | – | 474 |
| Term deposits with initial term of | | | | | |
| over three months | 21 | 5,331,755 | 2,064,200 | 5,331,755 | 2,064,200 |
| Restricted cash | 21 | 114,776 | 17,928 | 97,323 | – |
| Cash and cash equivalents | 21 | 1,457,792 | 2,255,879 | 1,416,519 | 2,188,000 |
| | | 8,950,641 | 6,282,625 | 8,716,254 | 6,045,113 |
| Total assets | | 11,029,129 | 7,672,237 | 10,808,333 | 7,460,115 |

BALANCE SHEETS (CONTINUED)

*(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated)
As at 31 December 2007*

| | Note | Group | | Company | |
|---|--------------------|-------------------|-----------|-------------------|-----------|
| | | 2007 | 2006 | 2007 | 2006 |
| EQUITY | | | | | |
| Capital and reserves attributable to the shareholders of the Company | | | | | |
| Share capital | 22 | 1,146,655 | 1,146,655 | 1,146,655 | 1,146,655 |
| Other reserves | 23 | 568,281 | 241,635 | 567,105 | 241,016 |
| Retained earnings/(accumulated losses) | 24 | | | | |
| – Proposed dividend | 39 | 247,339 | – | 247,339 | – |
| – Others | | 489,234 | (126,643) | 430,751 | (163,162) |
| | | 2,451,509 | 1,261,647 | 2,391,850 | 1,224,509 |
| Minority interests in equity | | 75,848 | 61,404 | – | – |
| Total equity | | 2,527,357 | 1,323,051 | 2,391,850 | 1,224,509 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Borrowings | 25 | 387,468 | 1,082,591 | 387,468 | 1,082,591 |
| Retirement benefit obligations | 26 | 3,173 | 7,995 | 3,173 | 7,995 |
| Deferred income tax liabilities | 14 | 190,943 | – | 193,753 | – |
| | | 581,584 | 1,090,586 | 584,394 | 1,090,586 |
| Current liabilities | | | | | |
| Amounts due to subsidiaries | | – | – | 10,839 | 4,107 |
| Due to customers on construction contracts | 18 | 4,871,825 | 4,056,166 | 4,872,544 | 4,056,233 |
| Trade payables | 27 | 624,390 | 381,872 | 589,079 | 362,018 |
| Other payables and accruals | 28 | 440,661 | 141,905 | 403,792 | 111,823 |
| Dividends payable | | 9 | 9 | 9 | 9 |
| Current income tax liabilities | | 255,649 | 2,648 | 251,242 | – |
| Borrowings | 25 | 1,654,374 | 636,788 | 1,631,304 | 573,002 |
| Derivative financial instruments | 15 | 11,628 | 570 | 11,628 | 570 |
| Provisions for warranty and legal claims | 29 | 61,652 | 38,642 | 61,652 | 37,258 |
| | | 7,920,188 | 5,258,600 | 7,832,089 | 5,145,020 |
| Total liabilities | | 8,501,772 | 6,349,186 | 8,416,483 | 6,235,606 |
| Total equity and liabilities | | 11,029,129 | 7,672,237 | 10,808,333 | 7,460,115 |
| Net current assets | | 1,030,453 | 1,024,025 | 884,165 | 900,093 |
| Total assets less current liabilities | | 3,108,941 | 2,413,637 | 2,976,244 | 2,315,095 |
| Li Zhushi | Han Guangde | | | | |
| Director | Director | | | | |

The notes on pages 168 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT-BY FUNCTION OF EXPENSE

(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated)
For the year ended 31 December 2007

| | Note | 2007 | 2006 |
|--|------|------------------|-------------|
| Revenue | | 5,906,793 | 3,322,299 |
| Construction costs | | (4,352,338) | (2,439,145) |
| Cost of goods sold and services rendered | | (663,653) | (367,674) |
| Cost of sales | 31 | (5,015,991) | (2,806,819) |
| Gross profit | | 890,802 | 515,480 |
| Other gain/(losses) – net | 30 | 291,309 | (28,443) |
| Selling and marketing costs | 31 | (15,041) | (4,665) |
| Administrative expenses | 31 | (290,509) | (226,982) |
| Other income | 32 | 291,585 | 37,170 |
| Other expenses | | (9,216) | (4,300) |
| Operating profit | | 1,158,930 | 288,260 |
| Finance income – net | 33 | 180,545 | 23,044 |
| Share of profit/(loss) of associates | | 1,489 | (326) |
| Profit before income tax | | 1,340,964 | 310,978 |
| Income tax expense | 35 | (380,615) | (34,009) |
| Profit for the year | | 960,349 | 276,969 |
| Attributable to: | | | |
| Shareholders of the Company | | 938,560 | 266,635 |
| Minority interests | | 21,789 | 10,334 |
| | | 960,349 | 276,969 |
| Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share) | | | |
| – basic & diluted | 38 | 1.8973 | 0.5390 |
| Dividends | 39 | 247,339 | – |

The notes on pages 168 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated)
For the year ended 31 December 2007

| Note | Attributable to shareholders of the Company | | | Total | Minority interests | Total |
|---|--|-----------------------|--|-------------------------|-----------------------|-------------------------|
| | 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 | 23 | – | 112,296 | – | 112,296 | – |
| Profit for the year | | – | – | 266,635 | 266,635 | 10,334 |
| Total recognized income and expense for 2006 | | – | 112,296 | 266,635 | 378,931 | 10,334 |
| Disposal of interest in a subsidiary | | – | – | – | – | 1,590 |
| Dividend paid by a subsidiary | | – | – | – | – | (240) |
| Balance at 31 December 2006 | <u>1,146,655</u> | <u>241,635</u> | <u>(126,643)</u> | <u>1,261,647</u> | <u>61,404</u> | <u>1,323,051</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 | 23 | – | 251,302 | – | 251,302 | – |
| Profit for the year | | – | – | 938,560 | 938,560 | 21,789 |
| Total recognized income and expense for 2007 | | – | 251,302 | 938,560 | 1,189,862 | 21,789 |
| Transfer to statutory surplus reserve | | – | 75,344 | (75,344) | – | – |
| Disposal of interest in a subsidiary | | – | – | – | – | (4,518) |
| Dividend paid by a subsidiary | | – | – | – | – | (490) |
| Acquisition of interest in subsidiaries | | – | – | – | – | (2,337) |
| Balance at 31 December 2007 | <u>1,146,655</u> | <u>568,281</u> | <u>736,573</u> | <u>2,451,509</u> | <u>75,848</u> | <u>2,527,357</u> |

The notes on pages 168 to 252 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with HKFRS. All amounts in Renminbi Yuan thousands unless otherwise stated)
For the year ended 31 December 2007

| | Note | 2007 | 2006 |
|--|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash (used in)/generated from operations | 40 | (1,333,418) | 585,532 |
| Interest paid | | (70,386) | (6,514) |
| Interest received | | 87,875 | – |
| PRC enterprise income tax paid | | (39,897) | (4,788) |
| Net cash (used in)/generated from operating activities | | (1,355,826) | 574,230 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (144,166) | (116,976) |
| Purchase of intangible assets | | (17,085) | – |
| Proceeds from sale of property, plant and equipment and investment properties | 40 | 1,303 | 8,501 |
| Acquisition of interest in subsidiaries, net of cash acquired | | (18,592) | – |
| Disposal of interest in a subsidiary, net of cash disposed | | (10,712) | 1,588 |
| Investment in an associate | | – | (15,559) |
| Purchase of held-to-maturity financial assets | | (248,520) | (345,069) |
| Return from held-to-maturity financial assets | | 550,000 | 50,000 |
| Purchase of available-for-sale financial assets | | – | (37,100) |
| Interest received | | – | 18,577 |
| Dividends received from associates | | 465 | 447 |
| Dividends received from available-for-sale financial assets | | 1,878 | 3,160 |
| Proceeds from sale of available-for-sale financial assets | | 857 | – |
| Net cash generated from/(used in) investing activities | | 115,428 | (432,431) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 1,392,516 | 1,882,663 |
| Repayments of borrowings | | (946,061) | (410,192) |
| Dividends paid to shareholders of the Company | | – | (4) |
| Dividends paid to minority interests | | (490) | (240) |
| Net cash generated from financing activities | | 445,965 | 1,472,227 |
| Net (decrease)/increase in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of the year | | 2,255,879 | 644,430 |
| Exchange losses on cash and cash equivalents | | (3,654) | (2,577) |
| Cash and cash equivalents at end of the year | 21 | 1,457,792 | 2,255,879 |

The notes on pages 168 to 252 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

These consolidated financial statements are presented in thousands of units of Renminbi Yuan (RMB’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (together “the Group”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) *Standards, amendment and interpretations effective in 2007*

HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments. The main additional disclosure on sensitivity analysis to market risk and the capital disclosures have been included in the notes to the consolidated financial statements.

HK(IFRIC)-Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. Management is currently assessing the impact of HKFRS 8.

HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1(Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- (b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009. Management is currently assessing the impact of HKAS 23 (Amendment).

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

- (a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(c) Associates (continued)

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognized in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.9). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi Yuan ("RMB"), which is the presentation currency of the Company and the functional currency of the Company and the group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of property, plant and equipment acquired in exchange is measured at fair value.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives. The principal annual rates of depreciation for various classes of property, plant and equipment are as follows:

| | Depreciation rates |
|---|--------------------|
| – Buildings, developments and structures | 2.0% – 12.5% |
| – Machinery, vehicles, equipment and transmission systems | 2.9% – 16.7% |
| – Instruments, meters and power systems | 5.0% – 20.0% |

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost less impairment losses if any. Cost includes the costs of construction of property and costs of plant and equipment. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the income statements.

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs. The cost of investment property acquired in exchange for assets is measured at fair value.

After initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on investment properties is calculated using the straight-line method to allocate their costs less accumulated impairment losses to their residual values over their estimated useful lives to the Group. The principal annual rate of the depreciation for investment properties is 1.4% – 3.2%.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

When an investment property becomes owner-occupied, it is reclassified as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Intangible assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives (three to ten years).

2.8 Operating lease as a lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Land use rights and leasehold land represented upfront payments made for the use of land and are amortized over the unexpired terms of the lease on a straight line basis. Amortization of land use rights are expensed in the income statement.

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Constructions in progress are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial Assets (continued)

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, unless they are intended to be settled after 12 months.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "term deposits with initial term of over three months", "restricted cash", "cash and cash equivalents" (together "bank balances and cash"), "trade receivables", "other receivables" and "amounts due from subsidiaries" in the balance sheet.

(c) *Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial Assets (continued)

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

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within other losses/gains – net, in the period in which they arise.

Changes in the fair value of financial assets classified as available-for-sale are recognized in equity.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as “gains and losses from investment”.

Dividends on available-for-sale financial assets are recognized in the income statement as part of other income when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial Assets (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.13.

2.11 Accounting for derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The Group's derivative instruments do not qualify for hedge accounting, and are accounted for at fair value through profit and loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement within "other gains/losses – net".

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Trade receivables and other receivables

Trade receivables and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within "selling and marketing costs". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and marketing costs" in the income statement.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.15 Share capital

Ordinary shares are classified as equity.

2.16 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Construction contracts

Contract costs are recognized when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured.

The Group uses the “percentage of completion method” to determine the appropriate amount to be recognized in a given period. The stage of completion is determined based on the completion of a physical proportion of the contract work by reference to the standard hours incurred up to the balance sheet date as a percentage of total estimated standard hours for each contract.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within trade receivables.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provision is not recognized for future operating losses.

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

In relation to warranty provision, the Group recognizes a provision for repairs or replacement of shipbuilding and other machine products still under warranty at the balance sheet date. This provision is estimated based on the historical data of the level of repairs and replacements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognized when they accrue to the employee. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(b) *Retirement obligation*

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme are calculated as a percentage of employees' salaries. The retirement scheme costs charged to the income statement represent contributions payable by the Group to the fund. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions are recognized as employee benefit expense when they are due and are not reduced by contributions forfeited from those employees who leave the scheme prior to vesting fully in the contributions.

(c) *Early retirement benefit*

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

(d) *Housing benefit*

The Group's contributions to the housing fund scheme organized by the Guangzhou People's Municipal Government are expensed as incurred.

(e) *Medical insurance*

The Group's contributions to the medical insurance scheme organized by the Guangzhou People's Municipal Government for existing employees are expensed when services are rendered by the employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits (continued)

(e) Medical insurance (continued)

Contributions to the medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

(a) Contract revenue

Revenue from individual construction contracts is recognized net of value-added tax by using the "percentage of completion method" (Note 2.19)

(b) Sales of goods

Revenue from the sale of mechanical and electrical equipment, steel structure products (except for those with characteristic of construction contracts) and other products is recognized net of value-added tax when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(c) Sales of services

Revenue from rendering of services is recognized net of value-added tax when the services provided to customers are completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Revenue recognition (continued)

(d) *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method.

(e) *Operating lease rental income*

Lease income is recognized over the term of the lease on a straight-line basis.

2.23 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (b) management intends to complete the intangible asset and use or sell it;
- (c) there is an ability to use or sell the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- (f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government subsidy for shipbuilding on individual qualified vessels is recognized on the same basis as that of the respective construction contracts.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.25 Borrowing costs

Borrowing costs incurred for the construction of qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

A Foreign Exchange Risk Management Committee comprising senior management of the Group and financial consultants from financial institutions was set up to advise the Board of Directors to monitor the exchange risk exposure and evaluate the performance of the financial derivatives. A treasury team in the Finance Department is dedicated to the day-to-day management of cash flows.

A Contract Risk Management Committee comprising senior management of the Group and in-house legal consul was set up to monitor the credit risk pursuant to the risk management guidelines approved by the Board of Directors.

(a) *Market risk*

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. The Group's foreign currency transactions are mainly denominated in US dollars ("USD"). The Group has considered this risk factor when entering into new business contracts and used forward foreign exchange contracts to mitigate such risk. Certain trade receivables, other receivables, bank balances and cash, borrowings, trade payables and other payables which are denominated in USD, are exposed to foreign exchange risk. Details of the Group's trade receivables, other receivables, bank balances and cash, borrowings, trade payable and other payables are disclosed in Notes 19, 20, 21, 25, 27 and 28 respectively.

At 31 December 2007, if RMB had weakened/strengthened by 6.5% against the USD with all other variables held constant, post-tax profit for the year would have been RMB79,941,000 (2006: RMB37,277,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated trade receivables, other receivables, bank balances and cash, and foreign exchange losses/gains on translation of USD-denominated borrowings, trade payable and other payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets other than bank balances and cash and borrowings, the Group's income and operating cash flows are substantively independent of changes in market interest rates. The maturity term of bank balances and cash, together with current borrowings, is within 12 months so there would not have significant interest rate risk for these financial assets and liabilities.

The Group's interest rate risk arises from non-current borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. As at 31 December 2007, approximately RMB1,568,294,000 (2006: RMB1,655,621,000) of the Group's borrowings respectively were at variable rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 25.

The Group has not used any financial instrument to hedge its exposure to interest rate risk.

At 31 December 2007, if interest rates on bank borrowings had been 60 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB6,305,000 (2006: RMB8,444,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale. The Group's equity investments in equity of other entities are publicly traded in the Shanghai Stock Exchange.

At 31 December 2007, if the price of the listed securities had decreased/increased by 20% with all other variables held constant, other components of equity would decrease/increase by RMB85,588,000 (2006: RMB36,306,000), mainly as a result of losses/gains on equity securities classified as available-for-sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group has no significant concentrations on credit risks. The carrying amount of bank balances and cash, derivative financial assets, trade receivables, other receivables, held-to-maturity financial assets and available-for-sale financial assets represent the Group's maximum exposure to credit risk at the reporting date in relation to financial assets. The Group does not hold any collateral as security.

The Group's bank balances and cash are deposited in those financial institutions without significant credit risk. Management do not expect any losses from non-performance by these finance institutions.

Credit risk related to trade receivables is the risk that the receivables cannot be collected on the due date. The Group has no significant credit risk for ship building business as majority of the payment should be made prior to delivery of vessels to customers. In respect of the non-ship building business and the specific ship building business, the Group will carry out customer credit checks prior to entering business contracts, request progress payments from customers and press for immediate settlement upon delivery of goods to mitigate the risk. Contract Risk Management Committee is responsible for monitoring the collection of receivables over due for more than one year.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the treasury team aims to maintain flexibility in funding by keeping committed credit lines available, so as to meet operating needs.

Management monitors the Group's undrawn borrowing facility (Note 25) and bank balances and cash (Note 21) on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) *Liquidity risk (continued)*

| | Less than one year | Between one and two years | Between two and five years |
|--|-----------------------|---------------------------------|----------------------------------|
| Group | | | |
| At 31 December 2007 | | | |
| Borrowings | 1,654,374 | 404,827 | – |
| Derivative financial liabilities | 11,628 | – | – |
| Trade payables, other payables and accruals | 814,829 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2006 | | | |
| Borrowings | 636,788 | 999,087 | 125,768 |
| Derivative financial liabilities | 570 | – | – |
| Trade payables, other payables and accruals | 496,362 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| Company | | | |
| At 31 December 2007 | | | |
| Borrowings | 1,631,304 | 404,827 | – |
| Derivative financial liabilities | 11,628 | – | – |
| Trade payables, other payables and accruals | 758,580 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2006 | | | |
| Borrowings | 573,002 | 999,087 | 125,768 |
| Derivative financial liabilities | 570 | – | – |
| Trade payables, other payables and accruals | 454,847 | – | – |
| | <u> </u> | <u> </u> | <u> </u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings, as shown on the consolidated balance sheet. Total capital is calculated as equity attributable to the shareholders of the Company, as shown in the consolidated balance sheet, plus total borrowings.

The gearing ratios at 31 December 2007 and 2006 are as follows:

| | 2007 | 2006 |
|--|------------------|-----------|
| Total borrowings (Note 25) | 2,041,842 | 1,719,379 |
| Total equity attributable to the shareholders of the Company | 2,451,509 | 1,261,647 |
| Total capital | 4,493,351 | 2,981,026 |
| Gearing ratio | 45% | 58% |

The decrease in the gearing ratio during 2007 primarily resulted from the increase in retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as forward foreign exchange contracts and available-for-sale equity securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value for financial instruments that are not traded in an active market (such as non-circulating available-for-sale financial assets) is determined by using valuation techniques. The Group uses a variety of methods, such as quoted market prices for similar assets and discounted cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(a) *Fair value estimation for non-circulating corporate shares*

The non-circulating corporate shares of China Merchants Bank held by the Company are classified as available-for-sales financial assets and measured at fair value at the balance sheet date. The fair value estimation is based on the average closing price of the circulated shares in December 2007 and a discount rate adjusting to reflect the limitation on the time frame for circulation in stock exchange.

The discount rate for the consideration of the above limitation may cause material adjustments to the book value of the Company's assets in the future when the assets are re-valued at subsequent balance sheet date or available for trading in the stock exchange market. The estimated fair value of non-circulating corporate shares is disclosed in Note 13.

(b) *Budgeted shipbuilding costs*

Based on the best information available in market environment, the Group prepares a cost budget for each shipbuilding contract and the budget, which is used in the Group's financial reporting, is revisited on a monthly basis. The key components of cost budget include material, equipment and sub-contracted service costs. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2007, the Directors have reviewed the shipbuilding contracts and considered that a provision for loss is not necessary. Material adjustments to the budgeted shipbuilding costs may occur in future if there is a significant change in the shipbuilding market environment.

(c) *Income taxes*

The Group is subject to income taxes in two jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Group's income tax expense is disclosed in Note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Critical judgments in applying the entity's accounting policies

(a) *Revenue recognition*

The Group has recognized revenue for sales and installation of steel structure projects, which are normally completed within one year. Such revenue shall be recognized when the steel structure products have been delivered and installed and the final acceptance documents have been obtained, as management of the Group consider that after these stages the economic benefit associated with such transactions will probably flow to the Group.

(b) *Trigger point of profit recognition for individual construction contract*

The Group does not recognize profit from individual construction contract, until the percentage of completion is over 50% for a new vessel and 30% for the subsequent vessel of the same batch, given that the outcome of the contract can be reasonably ascertained.

5. SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2007, the Group is organized on the PRC basis into two main business segments:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2007 are as follows:

| Business segment | Ship building | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---------------------------------|------------------|---|---------------------|-------------|------------------|
| Total segment revenue | 5,134,589 | 639,814 | 269,006 | (136,616) | 5,906,793 |
| Inter-segment revenue | – | (55,685) | (80,931) | 136,616 | – |
| Sales | 5,134,589 | 584,129 | 188,075 | – | 5,906,793 |
| Segment results | 1,303,932 | 64,672 | 132,368 | (53,344) | 1,447,628 |
| Unallocated revenues | | | | | 41,204 |
| Unallocated costs | | | | | (329,902) |
| Operating profit | | | | | 1,158,930 |
| Finance income-net | | | | | 180,545 |
| Share of profit of associates | | | 1,489 | | 1,489 |
| Profit before income tax | | | | | 1,340,964 |
| Income tax expense | | | | | (380,615) |
| Profit for the year | | | | | 960,349 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2006 are as follows:

| Business segment | Ship building | Steel structure and other manufacturing | Other operations | Elimination | Group |
|---------------------------------|------------------|---|---------------------|-------------|-----------------------|
| Total segment revenue | 2,860,687 | 482,326 | 97,286 | (118,000) | 3,322,299 |
| Inter-segment revenue | – | (58,909) | (59,091) | 118,000 | – |
| Sales | <u>2,860,687</u> | <u>423,417</u> | <u>38,195</u> | <u>–</u> | <u>3,322,299</u> |
| Segment results | 428,024 | 69,354 | 53,383 | (23,381) | 527,380 |
| Unallocated revenues | | | | | 21,630 |
| Unallocated costs | | | | | <u>(260,750)</u> |
| Operating profit | | | | | 288,260 |
| Finance income-net | | | | | 23,044 |
| Share of loss of associates | | | (326) | | <u>(326)</u> |
| Profit before income tax | | | | | 310,978 |
| Income tax expense | | | | | <u>(34,009)</u> |
| Profit for the year | | | | | <u><u>276,969</u></u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

Other segment items for the year ended 31 December 2007 are as follows:

| | Ship building | Steel structure and other manufacturing | Other operations | Unallocated | Group |
|---|----------------|---|---------------------|--------------|----------------|
| Depreciation and amortization | 42,081 | 6,288 | 13,541 | 24,001 | 85,911 |
| Impairment for inventory | 1,451 | 9,526 | – | – | 10,977 |
| Impairment for investment properties | – | – | – | 2,052 | 2,052 |
| Capital expenditure | <u>121,276</u> | <u>19,952</u> | <u>19,886</u> | <u>8,762</u> | <u>169,876</u> |

Other segment items for the year ended 31 December 2006 are as follows:

| | Ship building | Steel structure and other manufacturing | Other operations | Unallocated | Group |
|-------------------------------|---------------|---|---------------------|--------------|----------------|
| Depreciation and amortization | 45,972 | 9,055 | 7,069 | 21,674 | 83,770 |
| Impairment for inventory | 1,966 | – | – | – | 1,966 |
| Capital expenditure | <u>82,125</u> | <u>6,850</u> | <u>20,398</u> | <u>9,125</u> | <u>118,498</u> |

Capital expenditure comprises additions to property, plant and equipment (Note 6) and intangible assets (Note 9), excluding additions from acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

The segment assets and liabilities at 31 December 2007 are as follows:

| | Ship building | Steel structure and other manufacturing | Other operations | Unallocated | Group |
|--------------------------|---------------|---|---------------------|-------------|-------------------|
| Segment assets | 6,198,530 | 522,233 | 134,818 | (70,950) | 6,784,631 |
| Interest in associates | | | 19,419 | | 19,419 |
| Unallocated assets | | | | | 4,225,079 |
| Total assets | | | | | 11,029,129 |
| Segment liabilities | 5,631,559 | 218,290 | 78,451 | (70,950) | 5,857,350 |
| Unallocated liabilities | | | | | 2,644,422 |
| Total liabilities | | | | | 8,501,772 |

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

| | Ship building | Steel structure and other manufacturing | Other operations | Unallocated | 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 | | | | | 7,672,237 |
| Segment liabilities | 4,457,431 | 144,463 | 40,702 | (23,607) | 4,618,989 |
| Unallocated liabilities | | | | | 1,730,197 |
| Total liabilities | | | | | 6,349,186 |

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, available-for-sale financial assets and held-to-maturity financial assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments

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

Mainland China – ship building, steel structure, other manufacturing and services

Liberia – ship building

Greece – ship building

Denmark – ship building

Malta – ship building

Sweden – ship building

United States of America – steel structure and other manufacturing

Other countries – ship building, steel structure, other manufacturing and services

| Revenue | 2007 | 2006 |
|--------------------------|-------------------------|------------------|
| Mainland China | 2,206,058 | 464,676 |
| Liberia | 1,008,570 | 637,893 |
| Greece | 918,020 | – |
| Denmark | 723,882 | 1,004,956 |
| Malta | 347,930 | 273,676 |
| Sweden | 325,342 | 549,955 |
| United States of America | 269,820 | 202,039 |
| Other countries | 107,171 | 189,104 |
| | <u>5,906,793</u> | <u>3,322,299</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. SEGMENT INFORMATION (continued)

Secondary reporting format – geographical segments (continued)

| Total Assets | 2007 | 2006 |
|------------------------|-------------------|-------------|
| Mainland China | 10,977,057 | 7,612,494 |
| Hong Kong | 32,653 | 41,132 |
| | 11,009,710 | 7,653,626 |
| Interest in associates | 19,419 | 18,611 |
| | 11,029,129 | 7,672,237 |

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

| Capital expenditures | 2007 | 2006 |
|-----------------------------|----------------|-------------|
| Mainland China | 169,876 | 118,498 |

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

| Analyses of sales by category | 2007 | 2006 |
|--------------------------------------|------------------|-------------|
| Revenue from construction contracts | 5,134,589 | 2,860,687 |
| Sales of goods | 644,613 | 423,481 |
| Revenue from services | 127,591 | 38,131 |
| | 5,906,793 | 3,322,299 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Construction- in-progress | Buildings, developments and structures | Machinery, vehicles, equipment and transmission systems | Instruments, meters and power systems | Total |
|------------------------------------|------------------------------|--|--|--|-------------------------|
| At 1 January 2006 | | | | | |
| Cost | 56,425 | 715,853 | 868,180 | 6,368 | 1,646,826 |
| Accumulated depreciation | – | (212,498) | (468,134) | (4,984) | (685,616) |
| Net book amount | <u>56,425</u> | <u>503,355</u> | <u>400,046</u> | <u>1,384</u> | <u>961,210</u> |
| Year ended 31 December 2006 | | | | | |
| Opening net book amount | 56,425 | 503,355 | 400,046 | 1,384 | 961,210 |
| Additions | 98,931 | 2,943 | 12,174 | – | 114,048 |
| Transfers | (121,777) | 57,219 | 44,964 | 19,594 | – |
| Disposals | (643) | (3,843) | (8,413) | (8) | (12,907) |
| Depreciation | – | (22,732) | (57,680) | (372) | (80,784) |
| Closing net book amount | <u>32,936</u> | <u>536,942</u> | <u>391,091</u> | <u>20,598</u> | <u>981,567</u> |
| At 31 December 2006 | | | | | |
| Cost | 32,936 | 770,702 | 859,602 | 44,772 | 1,708,012 |
| Accumulated depreciation | – | (233,760) | (468,511) | (24,174) | (726,445) |
| Net book amount | <u>32,936</u> | <u>536,942</u> | <u>391,091</u> | <u>20,598</u> | <u>981,567</u> |
| Year ended 31 December 2007 | | | | | |
| Opening net book amount | 32,936 | 536,942 | 391,091 | 20,598 | 981,567 |
| Additions | 144,871 | 1,133 | 6,787 | – | 152,791 |
| Acquisition of subsidiaries | – | 9,652 | 1,699 | – | 11,351 |
| Transfers | (72,718) | 19,697 | 50,328 | 2,693 | – |
| Disposals | – | (5,968) | (3,487) | (14) | (9,469) |
| Disposal of subsidiary | – | – | (4,893) | – | (4,893) |
| Depreciation | – | (25,415) | (53,173) | (2,806) | (81,394) |
| Closing net book amount | <u>105,089</u> | <u>536,041</u> | <u>388,352</u> | <u>20,471</u> | <u>1,049,953</u> |
| At 31 December 2007 | | | | | |
| Cost | 105,089 | 757,188 | 874,478 | 47,321 | 1,784,076 |
| Accumulated depreciation | – | (221,147) | (486,126) | (26,850) | (734,123) |
| Net book amount | <u>105,089</u> | <u>536,041</u> | <u>388,352</u> | <u>20,471</u> | <u>1,049,953</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

6. PROPERTY, PLANT AND EQUIPMENT – COMPANY

| | Construction- in-progress | Buildings, developments and structures | Machinery, vehicles, equipment and transmission systems | Instruments, meters and power systems | Total |
|------------------------------------|------------------------------|--|--|--|-------------------------|
| At 1 January 2006 | | | | | |
| Cost | 54,018 | 714,915 | 760,225 | 6,285 | 1,535,443 |
| Accumulated depreciation | – | (212,340) | (391,081) | (4,931) | (608,352) |
| Net book amount | <u>54,018</u> | <u>502,575</u> | <u>369,144</u> | <u>1,354</u> | <u>927,091</u> |
| Year ended 31 December 2006 | | | | | |
| Opening net book amount | 54,018 | 502,575 | 369,144 | 1,354 | 927,091 |
| Additions | 98,931 | – | 2,565 | – | 101,496 |
| Transfers | (119,370) | 57,219 | 42,557 | 19,594 | – |
| Disposals | (643) | (3,342) | (7,088) | (7) | (11,080) |
| Depreciation | – | (21,855) | (48,555) | (375) | (70,785) |
| Closing net book amount | <u>32,936</u> | <u>534,597</u> | <u>358,623</u> | <u>20,566</u> | <u>946,722</u> |
| At 31 December 2006 | | | | | |
| Cost | 32,936 | 767,140 | 751,301 | 44,691 | 1,596,068 |
| Accumulated depreciation | – | (232,543) | (392,678) | (24,125) | (649,346) |
| Net book amount | <u>32,936</u> | <u>534,597</u> | <u>358,623</u> | <u>20,566</u> | <u>946,722</u> |
| Year ended 31 December 2007 | | | | | |
| Opening net book amount | 32,936 | 534,597 | 358,623 | 20,566 | 946,722 |
| Additions | 138,847 | – | – | – | 138,847 |
| Transfers | (71,266) | 19,697 | 48,876 | 2,693 | – |
| Disposals | – | (1,916) | (3,243) | (6) | (5,165) |
| Depreciation | – | (23,989) | (47,264) | (2,798) | (74,051) |
| Closing net book amount | <u>100,517</u> | <u>528,389</u> | <u>356,992</u> | <u>20,455</u> | <u>1,006,353</u> |
| At 31 December 2007 | | | | | |
| Cost | 100,517 | 745,204 | 778,540 | 47,269 | 1,671,530 |
| Accumulated depreciation | – | (216,815) | (421,548) | (26,814) | (665,177) |
| Net book amount | <u>100,517</u> | <u>528,389</u> | <u>356,992</u> | <u>20,455</u> | <u>1,006,353</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

7. INVESTMENT PROPERTIES

| | Group and Company | |
|---|--------------------------|---------|
| | 2007 | 2006 |
| Beginning of the year | 98,721 | 67,134 |
| Additions | – | 33,171 |
| Disposal | (338) | – |
| Depreciation | (2,170) | (1,584) |
| Impairment | (2,052) | – |
| End of the year | 94,161 | 98,721 |
| Cost | 102,316 | 102,657 |
| Accumulated depreciation and impairment | (8,155) | (3,936) |
| Net book amount | 94,161 | 98,721 |
| Fair value of investment properties | 128,940 | 111,021 |

The investment properties were revalued at 31 December 2007 by management with reference to the current prices in an active market or discounted cash flow projections.

The following amounts have been recognized in the income statement:

| | Group and Company | |
|---------------|--------------------------|------|
| | 2007 | 2006 |
| Rental income | 2,048 | 200 |

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

| | Group and Company | |
|-------------------|--------------------------|------|
| | 2007 | 2006 |
| Within one year | 2,048 | 200 |
| One to two years | 1,800 | – |
| Two to five years | 5,400 | – |
| Over five years | 9,000 | – |
| | 18,248 | 200 |

The Company leased out properties under various agreements which will expire from 2008 to 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. LAND USE RIGHTS AND LEASEHOLD LAND

The Group's interests in land use rights and leasehold land represent prepaid land use rights payments in terms of operating leases and their net book value are analyzed as follows:

| | Group | | Company | |
|---------------------------|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| In Hong Kong: | | | | |
| Lease of between | | | | |
| 10 to 50 years | 8,237 | 8,494 | 8,237 | 8,494 |
| In PRC: | | | | |
| Lease of between | | | | |
| 10 to 50 years | 67,871 | 59,290 | 58,383 | 59,290 |
| | 76,108 | 67,784 | 66,620 | 67,784 |
| | | | | |
| | Group | | Company | |
| | 2007 | 2006 | 2007 | 2006 |
| Beginning of the year | 67,784 | 51,647 | 67,784 | 51,647 |
| Additions | – | 17,539 | – | 17,539 |
| Acquisition of subsidiary | 9,507 | – | – | – |
| Amortization | (1,183) | (1,402) | (1,164) | (1,402) |
| End of the year | 76,108 | 67,784 | 66,620 | 67,784 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

9. INTANGIBLE ASSETS

| | <u>Group and Company</u> |
|--------------------------|--------------------------|
| | 2007 |
| Computer software | |
| Opening net book amount | – |
| Additions | 17,085 |
| Amortization | <u>(1,164)</u> |
| Closing net book amount | <u>15,921</u> |
| Cost | 17,085 |
| Accumulated amortization | <u>(1,164)</u> |
| Net book amount | <u>15,921</u> |

10. INVESTMENTS IN SUBSIDIARIES

| | <u>Company</u> | |
|---------------------------|----------------|---------------|
| | 2007 | 2006 |
| Unlisted shares, at costs | <u>84,476</u> | <u>77,224</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. INVESTMENTS IN SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries at 31 December 2007.

| Name | Place of operation and kind of legal entity | Principal activities | Issued and fully paid-up capital | Interest held | | | |
|---|---|---|----------------------------------|---------------|------------|----------|------------|
| | | | | 2007 | | 2006 | |
| | | | | Direct % | Indirect % | Direct % | Indirect % |
| MasterWood Company Limited | PRC, Sino-foreign equity joint venture | Manufacture of furniture | RMB3,315,180 | 51 | 25 | 51 | 25 |
| Guangzhou Guanglian Container Transportation Company Limited | PRC, Sino-foreign equity joint venture | Transportation services for containers | RMB20,000,000 | – | – | 75 | – |
| United Steel Structures Limited | PRC, Sino-foreign equity joint venture | Large steel structure engineering | USD8,850,000 | 51 | – | 51 | – |
| Guangzhou Xin Sun Shipping Service Company Limited | PRC, Company with limited liability | Fabrication, welding and coating of ships | RMB2,000,000 | 83 | 16.18 | 83 | – |
| Guangdong Guangzhou Shipyard International Elevator Company Limited | PRC, Company with limited liability | Manufacture of elevators | RMB21,000,000 | 95 | 3.8 | 95 | 3.8 |
| Guangzhou Hongfan Information Technique Company Limited | PRC, Company with limited liability | Sales of computers development of computer software, system integration | RMB5,000,000 | 51 | – | 51 | – |
| Guangzhou Guangli Shipbuilding Human Resource Service Company Limited | PRC, Company with limited liability | Fabrication, welding and coating of ships, employment service agent | RMB500,000 | 80 | 15.20 | – | 20 |
| Guangdong Structure Pipe & Peg Company Limited | PRC, Company with limited liability | Manufacture of concrete pipe and peg | RMB10,000,000 | 100 | – | – | – |
| Guangzhou Hongfan Hotel Company Limited | PRC, Company with limited liability | Hotel and catering | RMB10,000,000 | – | 99.11 | – | 86.16 |
| Glory Group Development Company Limited | Hong Kong, Company with limited liability | Intermediate holding company | HKD10,000 | 100 | – | 100 | – |
| Fon Kwang Development Limited | Hong Kong, Company with limited liability | Trading of equipment and materials | HKD200,000 | – | 70 | – | 70 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

11. INTEREST IN ASSOCIATES

| | Group | | Company | |
|--------------------------------------|---------------|--------|--------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| Unlisted | | | | |
| Beginning of the year | 18,611 | 3,825 | 2,522 | 2,522 |
| Additions | – | 15,559 | – | – |
| Disposal | (216) | – | – | – |
| Share of profit/(loss) of associates | 1,489 | (326) | – | – |
| Dividend | (465) | (447) | – | – |
| End of the year | 19,419 | 18,611 | 2,522 | 2,522 |

The Group's interest in its principal associates, all of which are established in the PRC and unlisted, and their gross amounts of assets, liabilities, revenues and profit or loss are as follows:

| Name | Assets | Liabilities | Revenues | Profit/(loss) | Interest held |
|---|----------------|---------------|---------------|---------------|---------------|
| 2007 | | | | | |
| Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited ("South China Special Coating") | 15,033 | 1,672 | 17,842 | 3,188 | 25% |
| Zhanjiang Nanhai Naval New Technology & Service Company Limited ("Nanhai Naval") | 3,407 | 1,452 | 2,640 | 45 | 40% |
| Zhenjiang CSSC Hyundai Generator Equipment Company Limited ("Zhengjiang CSSC Hyundai") | 83,657 | 35,880 | 31,071 | 821 | 32% |
| | 102,097 | 39,004 | 51,553 | 4,054 | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

11. INTEREST IN ASSOCIATES (continued)

| Name | Assets | Liabilities | Revenues | Profit/(loss) | Interest held |
|--|---------------|---------------|---------------|---------------|---------------|
| 2006 | | | | | |
| South China Special Coating | 12,871 | 824 | 11,522 | 2,080 | 25% |
| Nanghai Naval | 2,114 | 204 | 7,792 | 11 | 40% |
| Guangzhou Guangli Shipbuilding Human Resource Service Company Limited | 12,618 | 10,139 | 56,920 | 460 | 20% |
| Zhengjiang CSSC Hyundai | 56,533 | 9,477 | 769 | (2,944) | 32% |
| | <u>84,136</u> | <u>20,644</u> | <u>77,003</u> | <u>(393)</u> | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below.

Group

| | Loans and receivables | Derivative financial instruments at fair value through profit or loss | Available- for-sale | Held-to- maturity | Total |
|---|--------------------------|--|------------------------|----------------------|------------------|
| Assets as per consolidated balance sheet | | | | | |
| 31 December 2007 | | | | | |
| Available-for-sale financial assets (Note 13) | – | – | 577,074 | – | 577,074 |
| Derivative financial instruments (Note 15) | – | 294,310 | – | – | 294,310 |
| Trade receivables (Note 19) | 314,323 | – | – | – | 314,323 |
| Other receivables (Note 20) | 213,206 | – | – | – | 213,206 |
| Bank balances and cash (Note 21) | 6,904,323 | – | – | – | 6,904,323 |
| Total | 7,431,852 | 294,310 | 577,074 | – | 8,303,236 |
| 31 December 2006 | | | | | |
| Available-for-sale financial assets (Note 13) | – | – | 220,665 | – | 220,665 |
| Derivative financial instruments (Note 15) | – | 712 | – | – | 712 |
| Trade receivables (Note 19) | 179,986 | – | – | – | 179,986 |
| Other receivables (Note 20) | 65,813 | – | – | – | 65,813 |
| Held-to-maturity financial assets (Note 16) | – | – | – | 296,620 | 296,620 |
| Bank balances and cash (Note 21) | 4,338,007 | – | – | – | 4,338,007 |
| Total | 4,583,806 | 712 | 220,665 | 296,620 | 5,101,803 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

| | Derivative financial instruments at fair value through profit or loss | Other financial liabilities | Total |
|--|--|-----------------------------------|-----------|
| Liabilities as per consolidated balance sheet | | | |
| 31 December 2007 | | | |
| Borrowings (Note 25) | – | 2,041,842 | 2,041,842 |
| Derivative financial instruments (Note 15) | 11,628 | – | 11,628 |
| Trade payables (Note 27) | – | 624,390 | 624,390 |
| Other payables and accruals (Note 28) | – | 190,439 | 190,439 |
| | <hr/> | <hr/> | <hr/> |
| Total | 11,628 | 2,856,671 | 2,868,299 |
| | <hr/> | <hr/> | <hr/> |
| 31 December 2006 | | | |
| Borrowings (Note 25) | – | 1,719,379 | 1,719,379 |
| Derivative financial instruments (Note 15) | 570 | – | 570 |
| Trade payables (Note 27) | – | 381,872 | 381,872 |
| Other payables and accruals (Note 28) | – | 114,490 | 114,490 |
| | <hr/> | <hr/> | <hr/> |
| Total | 570 | 2,215,741 | 2,216,311 |
| | <hr/> | <hr/> | <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

| | Loans and receivables | Derivative financial instruments at fair value through the profit and loss | Available- for-sale | Held-to- maturity | Total |
|--|--------------------------|---|------------------------|----------------------|------------------|
| Assets as per balance sheet | | | | | |
| 31 December 2007 | | | | | |
| Available-for-sale financial assets (Note 13) | – | – | 576,174 | – | 576,174 |
| Derivative financial instruments (Note 15) | – | 294,310 | – | – | 294,310 |
| Amounts due from subsidiaries (Note a) | 54,659 | – | – | – | 54,659 |
| Trade receivables (Note 19) | 196,757 | – | – | – | 196,757 |
| Other receivables (Note 20) | 212,025 | – | – | – | 212,025 |
| Bank balances and cash (Note 21) | 6,845,597 | – | – | – | 6,845,597 |
| Total | 7,309,038 | 294,310 | 576,174 | – | 8,179,522 |
| 31 December 2006 | | | | | |
| Available-for-sale financial assets (Note 13) | – | – | 219,765 | – | 219,765 |
| Derivative financial instruments (Note 15) | – | 712 | – | – | 712 |
| Amounts due from subsidiaries (Note a) | 54,751 | – | – | – | 54,751 |
| Trade receivables (Note 19) | 94,773 | – | – | – | 94,773 |
| Other receivables (Note 20) | 52,515 | – | – | – | 52,515 |
| Held-to-maturity financial assets (Note 16) | – | – | – | 296,620 | 296,620 |
| Bank balances and cash (Note 21) | 4,252,200 | – | – | – | 4,252,200 |
| Total | 4,454,239 | 712 | 219,765 | 296,620 | 4,971,336 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company (Continued)

| | Derivative financial instruments at fair value through the profit and loss | Other financial liabilities | Total |
|--|---|-----------------------------------|------------------|
| Liabilities as per balance sheet | | | |
| 31 December 2007 | | | |
| Borrowings (Note 25) | – | 2,018,772 | 2,018,772 |
| Derivative financial instruments (Note 15) | 11,628 | – | 11,628 |
| Trade payables (Note 27) | – | 589,079 | 589,079 |
| Other payables and accruals (Note 28) | – | 169,501 | 169,501 |
| Amounts due to subsidiaries (Note a) | – | 10,839 | 10,839 |
| | <u>11,628</u> | <u>2,788,191</u> | <u>2,799,819</u> |
| Total | 11,628 | 2,788,191 | 2,799,819 |
| 31 December 2006 | | | |
| Borrowings (Note 25) | – | 1,655,593 | 1,655,593 |
| Derivative financial instruments (Note 15) | 570 | – | 570 |
| Trade payables (Note 27) | – | 362,018 | 362,018 |
| Other payables and accruals (Note 28) | – | 92,829 | 92,829 |
| Amounts due to subsidiaries (Note a) | – | 4,107 | 4,107 |
| | <u>570</u> | <u>2,114,547</u> | <u>2,115,117</u> |
| Total | 570 | 2,114,547 | 2,115,117 |

Note a: Amounts due from subsidiaries arise mainly from charges of certain expenses and are denominated in RMB. Amounts due from subsidiaries are neither past due nor impaired and the subsidiaries have no default history. Amounts due to subsidiaries arise mainly from charges by the subsidiaries and are denominated in RMB. Amounts due to subsidiaries bear no interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|--|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Beginning of the year | 220,665 | 46,252 | 219,765 | 45,352 |
| Addition | – | 42,300 | – | 42,300 |
| Disposal | (857) | – | (857) | – |
| Revaluation surplus transfer to equity (Note 23) | 357,266 | 132,113 | 357,266 | 132,113 |
| End of the year | 577,074 | 220,665 | 576,174 | 219,765 |

In 2007, the Group disposed of certain available-for-sale financial assets amounting to RMB857,000 (2006: nil) at market price. There were no impairment provisions on available-for-sale financial assets as at 31 December 2007 or 2006.

Available-for-sale financial assets include the following:

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Securities listed in Shanghai Stock Exchange | | | | |
| – Non-circulating corporate shares of China Merchants Bank | 441,884 | 145,498 | 441,884 | 145,498 |
| – Corporate shares of China Merchants Energy Shipping Co., Ltd. | 128,700 | 68,067 | 128,700 | 68,067 |
| | 570,584 | 213,565 | 570,584 | 213,565 |
| Others | 6,490 | 7,100 | 5,590 | 6,200 |
| Total | 577,074 | 220,665 | 576,174 | 219,765 |
| Market value of listed securities | 570,584 | 213,565 | 570,584 | 213,565 |

Available-for-sale financial assets are denominated in RMB.

None of the available-for-sale financial assets is either past due or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | Group | | Company | |
|--|------------------|----------|------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Deferred tax (liabilities)/assets: | | | | |
| – To be settled after more than 12 months | (179,745) | (23,436) | (179,745) | (23,436) |
| – To be (settled)/recovered within 12 months | (11,198) | 25,700 | (14,008) | 25,700 |
| | (190,943) | 2,264 | (193,753) | 2,264 |

Deferred taxation is provided on temporary differences under the liability method using a principal taxation rate of 25% (2006: 15%).

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

| | Group | | Company | |
|--|------------------|----------|------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Beginning of the year | 2,264 | 50,245 | 2,264 | 50,245 |
| Recognized in the income statement (Note 35) | (87,243) | (28,164) | (90,053) | (28,164) |
| Charged directly to equity (Note 23) | (105,964) | (19,817) | (105,964) | (19,817) |
| End of the year | (190,943) | 2,264 | (193,753) | 2,264 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. DEFERRED INCOME TAX (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

| | Group | | | |
|------------------------------------|---|------------|---------------|---------------|
| | Provision and impairment of assets | Tax losses | Staff benefit | Total |
| At 1 January 2006 | 25,058 | 27,616 | 3,101 | 55,775 |
| Recognized in the income statement | (22,615) | (8,979) | 3,072 | (28,522) |
| At 31 December 2006 | 2,443 | 18,637 | 6,173 | 27,253 |
| Recognized in the income statement | 4,377 | (18,637) | (2,333) | (16,593) |
| At 31 December 2007 | 6,820 | – | 3,840 | 10,660 |
| | Company | | | |
| | Provision and impairment of assets | Tax losses | Staff benefit | Total |
| At 1 January 2006 | 25,058 | 27,616 | 3,101 | 55,775 |
| Recognized in the income statement | (22,615) | (8,979) | 3,072 | (28,522) |
| At 31 December 2006 | 2,443 | 18,637 | 6,173 | 27,253 |
| Recognized in the income statement | 1,568 | (18,637) | (2,333) | (19,402) |
| At 31 December 2007 | 4,011 | – | 3,840 | 7,851 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. DEFERRED INCOME TAX (continued)

Deferred tax liabilities:

| | Group and Company | | Total |
|--------------------------------------|--|---|------------------|
| | Fair value gains on derivative financial instruments | Fair value gains on available-for-sale financial assets | |
| At 1 January 2006 | (379) | (5,151) | (5,530) |
| Recognized in the income statement | 358 | – | 358 |
| Charged directly to equity (Note 23) | – | (19,817) | (19,817) |
| At 31 December 2006 | (21) | (24,968) | (24,989) |
| Recognized in the income statement | (70,650) | – | (70,650) |
| Charged directly to equity (Note 23) | – | (105,964) | (105,964) |
| At 31 December 2007 | (70,671) | (130,932) | (201,603) |

The deferred income tax charged to equity represents fair value reserve for available-for-sale financial assets (Note 23).

15. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group and Company | | | |
|------------------------------------|-------------------|------|-----------------|-------|
| | Assets | | Liabilities | |
| | 2007 | 2006 | 2007 | 2006 |
| Forward foreign exchange contracts | 294,310 | 712 | (11,628) | (570) |
| Less non-current portion: | | | | |
| Forward foreign exchange contracts | 245,852 | – | – | – |
| Current portion | 48,458 | 712 | (11,628) | (570) |

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2007 are RMB4,033,832,200 (2006: RMB502,829,650).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The credit quality of derivative financial assets is as follows:

| | Group and Company | |
|---|-------------------|------------|
| | 2007 | 2006 |
| The mega four state-controlled commercial banks | 98,236 | 334 |
| Nationwide joint-stock commercial banks | 152,248 | 378 |
| Foreign invested commercial banks | 43,826 | – |
| | 294,310 | 712 |

16. HELD-TO-MATURITY FINANCIAL ASSETS

Held-to-maturity financial assets were discounted government bonds which matured from February 2007 to October 2007. Held-to-maturity financial assets are denominated in RMB.

The movement in held-to-maturity financial assets is summarized as follows:

| | Group and Company | |
|---------------------------------|-------------------|----------------|
| | 2007 | 2006 |
| Beginning of year | 296,620 | – |
| Additions | 248,520 | 345,069 |
| Interest recognized in the year | 4,860 | 1,551 |
| Repayments received | (550,000) | (50,000) |
| End of year | – | 296,620 |

The Group has not reclassified any financial asset measured at amortized cost rather than fair value during the year (2006: nil.)

There were no gains or losses realized on the disposal of held-to-maturity financial assets in 2007 and 2006, as all financial assets were disposed of at their redemption date.

The fair value of held-to-maturity financial assets is based on quoted market bid prices as at year end date (2006: RMB295,348,000).

The contracted interest rate of held-to-maturity financial assets was from 2.42% to 2.75% (2006: from 2.42% to 2.76%); and the effective interest rate of held-to-maturity financial assets was from 2.38% to 2.75% (2006: from 2.38% to 2.75%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. INVENTORIES

| | Group | | Company | |
|------------------|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Raw materials | 433,980 | 302,458 | 415,849 | 298,449 |
| Work in progress | 284,762 | 106,631 | 197,880 | 21,707 |
| Finished goods | 6,681 | 4,534 | 5,365 | 4,492 |
| | 725,423 | 413,623 | 619,094 | 324,648 |

The cost of inventories recognized as expense and included in cost of goods sold amounted to RMB561,451,000 (2006: RMB 341,143,000).

18. CONSTRUCTION CONTRACTS IN PROGRESS

| | Group | | Company | |
|---|--------------------|-------------|--------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Contract costs incurred plus attributable profits | 2,831,179 | 2,096,608 | 2,827,851 | 2,093,838 |
| Less: progress billings to date | (7,473,077) | (5,416,066) | (7,473,077) | (5,416,066) |
| | (4,641,898) | (3,319,458) | (4,645,226) | (3,322,228) |
| Representing: | | | | |
| Due from customers | | | | |
| on construction contracts | 229,927 | 736,708 | 227,318 | 734,005 |
| Due to customers | | | | |
| on construction contracts | (4,871,825) | (4,056,166) | (4,872,544) | (4,056,233) |
| | (4,641,898) | (3,319,458) | (4,645,226) | (3,322,228) |

At 31 December 2007, there was no retention monies held by customers for contract works (2006: nil).

At 31 December 2007, there were advances for construction contract amounting to RMB154,388,000 (2006: RMB13,774,000) (Note 28).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. TRADE RECEIVABLES

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Trade receivables due from third parties | 270,212 | 119,563 | 151,060 | 32,804 |
| Less: provision for impairment of trade receivables | (5,081) | (8,430) | (2,426) | (5,721) |
| Trade receivables – net | 265,131 | 111,133 | 148,634 | 27,083 |
| Amounts due from related parties | 49,192 | 68,853 | 48,123 | 67,690 |
| | 314,323 | 179,986 | 196,757 | 94,773 |

The carrying amounts of trade receivables approximate their fair value.

The general credit terms of trade receivables are:

Operations

Shipbuilding

Other operations

(including steel structure and other manufacturing)

Credit terms

Within one month after issue of invoice

Normally one to six months

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. TRADE RECEIVABLES (continued)

At 31 December 2007 and 2006, the ageing analyses of the trade receivables due from third parties are as follows:

| | Group | | Company | |
|--|----------------|---------|----------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Not exceeding one year | 250,878 | 107,318 | 146,265 | 25,902 |
| More than one year but not exceeding two years | 11,682 | 423 | 1,708 | 391 |
| More than two years but not exceeding three years | 160 | 192 | 111 | 183 |
| More than three years | 2,411 | 3,200 | 550 | 607 |
| | 265,131 | 111,133 | 148,634 | 27,083 |

At 31 December 2007 and 2006, the ageing of the amounts due from related parties are all within one year.

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

| | Group | | Company | |
|--------|----------------|---------|----------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| RMB | 228,016 | 114,167 | 191,172 | 79,866 |
| USD | 82,583 | 52,919 | 2,150 | 2,007 |
| HKD | 3,259 | 731 | 2,970 | 731 |
| EURO | 465 | 1,595 | 465 | 1,595 |
| Others | – | 10,574 | – | 10,574 |
| | 314,323 | 179,986 | 196,757 | 94,773 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. TRADE RECEIVABLES (continued)

The credit quality of trade receivables is as follows:

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Neither past due nor impaired: | | | | |
| Existing customers without history of defaults | 288,154 | 164,988 | 183,674 | 88,698 |
| Past due but not impaired: | | | | |
| Past due less than one year | 19,526 | 10,322 | 10,463 | 5,916 |
| Past due over one year | 6,552 | 2,442 | 2,620 | 159 |
| | 26,078 | 12,764 | 13,083 | 6,075 |
| Past due and impaired: | | | | |
| Past due less than one year | 3,625 | 1,821 | 959 | 720 |
| Past due over one year | 1,547 | 8,843 | 1,467 | 5,001 |
| | 5,172 | 10,664 | 2,426 | 5,721 |
| Total trade receivables | 319,404 | 188,416 | 199,183 | 100,494 |

Trade receivables past due but not impaired relate to a number of customers for whom there is no recent history of default. Trade receivables impaired are mainly due from some customers, which are in unexpected difficult economic situations, and it was assessed that only a portion of the receivables is expected to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. TRADE RECEIVABLES (continued)

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

| | Group | | Company | |
|--|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Beginning of the year | (8,430) | (8,159) | (5,721) | (5,770) |
| Provision for receivable impairment | (3,140) | (675) | (815) | (373) |
| Receivables written off during the year as uncollectible | 4,131 | – | 3,589 | – |
| Unused amounts reversed | 2,358 | 404 | 521 | 422 |
| End of the year | (5,081) | (8,430) | (2,426) | (5,721) |

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

20. OTHER RECEIVABLES

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Prepayments for trading materials and equipment | | | | |
| – prepayments to third party | 31,699 | 33,754 | 29,064 | 18,037 |
| – prepayments to related parties | 483,282 | 216,928 | 483,282 | 216,378 |
| Other taxes recoverable | 100,081 | 49,777 | 99,317 | 42,636 |
| Amounts due from non-banking financial institutions | 13,694 | 13,994 | 13,694 | 13,994 |
| Less: provision for non-recovery | (8,748) | (8,748) | (8,748) | (8,748) |
| | 4,946 | 5,246 | 4,946 | 5,246 |
| Subsidy receivables | 83,332 | – | 83,332 | – |
| Others | 24,847 | 10,790 | 24,430 | 4,633 |
| | 728,187 | 316,495 | 724,371 | 286,930 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

20. OTHER RECEIVABLES (continued)

The carrying amounts of other receivables approximate their fair value.

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

| | Group | | Company | |
|------|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| RMB | 648,089 | 118,926 | 646,117 | 94,748 |
| USD | 40,157 | 133,149 | 40,157 | 127,762 |
| HKD | 1,844 | 708 | – | 708 |
| EURO | 38,097 | 63,712 | 38,097 | 63,712 |
| | 728,187 | 316,495 | 724,371 | 286,930 |

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

| | Group | | Company | |
|---|----------------|--------|----------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Neither past due nor impaired: | | | | |
| With no history of default | 208,260 | 60,567 | 207,079 | 47,269 |
| Past due and impaired: | | | | |
| Past due over three years | 13,694 | 13,994 | 13,694 | 13,994 |
| Total other receivables | 221,954 | 74,561 | 220,773 | 61,263 |

Other receivables neither past due nor impaired are mainly miscellaneous taxes recoverable and subsidy receivables from taxation authorities and Ministry of Finance, which have no default history. Other receivables impaired are mainly due from a non-banking financial institution, a state-controlled enterprise, and it was assessed that only a portion of the receivables is expected to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. BANK BALANCES AND CASH

| | Group | | Company | |
|--|------------------|-----------|------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Cash in bank and in hand | 1,010,335 | 1,873,807 | 966,489 | 1,788,000 |
| Bank deposits (Note a) | 5,893,988 | 2,464,200 | 5,879,108 | 2,464,200 |
| Bank balance and cash | 6,904,323 | 4,338,007 | 6,845,597 | 4,252,200 |
| Less: Restricted cash (Note b) | 114,776 | 17,928 | 97,323 | – |
| Term deposits with initial term of over three months | 5,331,755 | 2,064,200 | 5,331,755 | 2,064,200 |
| Cash and cash equivalents | 1,457,792 | 2,255,879 | 1,416,519 | 2,188,000 |

(a) The average effective annual interest rate on bank deposits was 4.5% (2006: 2.5%); These deposits have an averages maturity of 240 days (2006: 240 days).

(b) The restricted cash was held in bank accounts as guarantee deposits for forward contract transaction and bank loans.

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

| | Group | | Company | |
|------|------------------|-----------|------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| RMB | 6,872,282 | 3,527,323 | 6,839,777 | 3,465,144 |
| USD | 30,154 | 796,855 | 5,644 | 785,294 |
| HKD | 1,640 | 4,898 | 34 | 1,476 |
| EURO | 234 | 8,927 | 129 | 282 |
| GBP | 13 | 4 | 13 | 4 |
| | 6,904,323 | 4,338,007 | 6,845,597 | 4,252,200 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

21. BANK BALANCES AND CASH (continued)

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

| | Group | | Company | |
|---|-------------------------|------------------|-------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| The mega four state-controlled commercial banks | 2,320,155 | 607,577 | 2,299,752 | 569,007 |
| Policy banks | 305,451 | 1,697,697 | 305,451 | 1,697,697 |
| Nationwide joint-stock commercial banks | 3,941,653 | 1,804,355 | 3,923,908 | 1,783,004 |
| Foreign invested commercial banks | 308,372 | 227,040 | 289,242 | 201,934 |
| A related financial institution | 26,881 | 458 | 26,881 | 458 |
| Other financial institutions and cash on hand | 1,811 | 880 | 363 | 100 |
| | <u>6,904,323</u> | <u>4,338,007</u> | <u>6,845,597</u> | <u>4,252,200</u> |

Bank balances and cash deposited in mega four state-controlled commercial banks, policy banks and nationwide joint-stock commercial banks, most of which are listed in China, are with no history of non-performance. Foreign invested commercial banks are rated by Standard and Pool's within a range from AA to A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. SHARE CAPITAL

| | As at 1 January 2006 | | Transfers in/(out) | | As at 31 December 2006 and 2007 | |
|---|---|---------------|---|---------------|---|---------------|
| | <i>Number of shares (thousands)</i> | <i>Amount</i> | <i>Number of shares (thousands)</i> | <i>Amount</i> | <i>Number of shares (thousands)</i> | <i>Amount</i> |
| | | | | | | |
| 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 |
| | 494,678 | 494,678 | – | – | 494,678 | 494,678 |
| Share premium | | 651,977 | | | | 651,977 |
| Total | | 1,146,655 | | | | 1,146,655 |

Note: Following the PRC government policy on State Share Reform, the Company completed its reform (the "Reform") on 24 May 2006 by an allotment of 2.7 shares for every 10 shares to the A Shares shareholders by the immediate holding company, China State Shipbuilding Corporation ("CSSC"). Effectively, the non-circulating State Shares were converted into the circulating State Shares subject to exchange restrictions. These circulating State Shares will be tradable at the Shanghai Stock Exchange three years after the Reform. In addition, CSSC will be required to allot 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. OTHER RESERVES

| | Surplus reserves | | | Fair value reserve for available-for- sale financial assets | Total |
|---------------------------------------|---------------------------------|--|-------------------------------------|---|----------------|
| | Statutory surplus reserve | Statutory public welfare fund | Discretionary surplus reserve | | |
| a) Group | | | | | |
| Balance at 1 January 2006 | 48,997 | 30,525 | 20,626 | 29,191 | 129,339 |
| In 2006: | | | | | |
| Revaluation – gross (Note 13) | – | – | – | 132,113 | 132,113 |
| Revaluation – tax (Note 14) | – | – | – | (19,817) | (19,817) |
| Transfer to/(from) | 30,525 | (30,525) | – | – | – |
| Balance at 31 December 2006 | 79,522 | – | 20,626 | 141,487 | 241,635 |
| In 2007: | | | | | |
| Revaluation – gross (Note 13) | – | – | – | 357,266 | 357,266 |
| Revaluation – tax (Note 14) | – | – | – | (105,964) | (105,964) |
| Transfer to statutory surplus reserve | 75,344 | – | – | – | 75,344 |
| Balance at 31 December 2007 | 154,866 | – | 20,626 | 392,789 | 568,281 |
| b) Company | | | | | |
| Balance at 1 January 2006 | 48,476 | 30,427 | 20,626 | 29,191 | 128,720 |
| In 2006: | | | | | |
| Revaluation – gross (Note 13) | – | – | – | 132,113 | 132,113 |
| Revaluation – tax (Note 14) | – | – | – | (19,817) | (19,817) |
| Transfer to/(from) | 30,427 | (30,427) | – | – | – |
| Balance at 31 December 2006 | 78,903 | – | 20,626 | 141,487 | 241,016 |
| In 2007: | | | | | |
| Revaluation – gross (Note 13) | – | – | – | 357,266 | 357,266 |
| Revaluation – tax (Note 14) | – | – | – | (105,964) | (105,964) |
| Transfer to statutory surplus reserve | 74,787 | – | – | – | 74,787 |
| Balance at 31 December 2007 | 153,690 | – | 20,626 | 392,789 | 567,105 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. OTHER RESERVES (continued)

Surplus reserves are part of shareholders' funds and comprise statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve.

(i) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation (after setting off accumulated losses of previous years) as stated in statutory financial statement to the statutory surplus reserve until the balance reaches 50% of the paid up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(ii) Statutory public welfare fund

Pursuant to the amendment to the Company Law in the PRC effective 1 January 2006, the PRC companies have no longer been required to provide statutory public welfare fund. According to the relevant accounting regulations, the balance of statutory public welfare fund was transferred to statutory surplus reserve.

(iii) Discretionary surplus reserve

In accordance with the relevant PRC financial regulations, subject to the approval by shareholders in general meetings, discretionary surplus reserve can be used to reduce any losses incurred or to increase share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. OTHER RESERVES (continued)

(iv) Profit appropriations

In accordance with the Company's Articles of Association, profit after income tax shall be appropriated in the following sequence:

- a. offset accumulated losses;
- b. transfer 10% to statutory surplus reserve (Note 23(i));
- c. transfer to discretionary surplus reserve (Note 23(iii)); and
- d. pay dividends.

Pursuant to Article 206 of the Company's Articles of Association, where the financial statements prepared in accordance with the PRC accounting standards and regulations differ from those prepared under the Hong Kong Financial Reporting Standards, for the purpose of approving the profit distribution, profit after income tax of the Company for the relevant accounting year shall be deemed to be the lesser of the amounts in the two different financial statements.

24. RETAINED EARNINGS/(ACCUMULATED LOSSES)

| | Group | | Company | |
|---------------------------------------|------------------|-----------|------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Beginning of the year | (126,643) | (393,278) | (163,162) | (415,708) |
| Profit for the year | 938,560 | 266,635 | 916,039 | 252,546 |
| Transfer to statutory surplus reserve | (75,344) | — | (74,787) | — |
| End of the year | 736,573 | (126,643) | 678,090 | (163,162) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. BORROWINGS

| | Group | | Company | |
|--|------------------|-----------|------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Non-current | | | | |
| Bank borrowings | 387,468 | 1,082,591 | 387,468 | 1,082,591 |
| Current | | | | |
| Bank borrowings | | | | |
| – short term bank borrowings – unsecured | 494,297 | 63,786 | 471,227 | – |
| – current portion of long term bank borrowings | 1,160,077 | 573,002 | 1,160,077 | 573,002 |
| | 1,654,374 | 636,788 | 1,631,304 | 573,002 |
| Total borrowings | 2,041,842 | 1,719,379 | 2,018,772 | 1,655,593 |

Long term bank borrowings of RMB1,547,545,000 (2006: RMB1,655,593,000) are guaranteed by CSSC, the immediate shareholder of the Company.

The maturity of borrowings is as follows:

| | Group | | Company | |
|----------------------------|------------------|-----------|------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Within one year | 1,654,374 | 636,788 | 1,631,304 | 573,002 |
| Between one and two years | 387,468 | 961,088 | 387,468 | 961,088 |
| Between two and five years | – | 121,503 | – | 121,503 |
| | 2,041,842 | 1,719,379 | 2,018,772 | 1,655,593 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. BORROWINGS (continued)

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

| | Group | | Company | |
|----------------------|-------------------------|------------------|-------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Six months or less | 1,632,396 | 23,786 | 1,629,343 | – |
| Six to twelve months | 409,446 | 1,695,593 | 389,429 | 1,655,593 |
| | <u>2,041,842</u> | <u>1,719,379</u> | <u>2,018,772</u> | <u>1,655,593</u> |

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

| | 2007 | | | 2006 | |
|----------------------------|--------------|--------------|--------------|------|------|
| | EUR | RMB | USD | RMB | USD |
| Short term bank borrowings | 4.65% | 6.89% | 5.37% | 5.6% | 6.6% |
| Long term bank borrowings | – | – | 4.55% | – | 3.5% |

The carrying amounts and fair value of the non-current borrowings are as follows:

| | Carrying amounts | | Fair values | |
|-----------------|-----------------------|------------------|-----------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Bank borrowings | <u>387,468</u> | <u>1,082,591</u> | <u>387,468</u> | <u>1,082,591</u> |

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 4.55% (2006: 3.5%).

The carrying amounts of short-term borrowings approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

25. BORROWINGS (continued)

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

| | Group | | Company | |
|------|-------------------------|------------------|-------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| RMB | 23,070 | 58,710 | – | – |
| USD | 1,981,438 | 1,660,669 | 1,981,438 | 1,655,593 |
| EURO | 37,334 | – | 37,334 | – |
| | <u>2,041,842</u> | <u>1,719,379</u> | <u>2,018,772</u> | <u>1,655,593</u> |

The Group has the following undrawn borrowing facilities:

| | Group | |
|--------------------------|-------------------------|----------------|
| | 2007 | 2006 |
| Expiring within one year | 1,999,830 | 259,444 |
| Expiring beyond one year | – | 159,090 |
| | <u>1,999,830</u> | <u>418,534</u> |

This undrawn borrowing facility is secured by the property, plant and equipment with net book amount of RMB132,589,000 (2006: RMB140,447,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. RETIREMENT BENEFIT OBLIGATIONS

| | Group and Company | |
|---|--------------------------|---------|
| | 2007 | 2006 |
| Balance sheet obligations for: | | |
| – early retirement scheme (Note a) | 4,754 | 7,062 |
| – medical insurance scheme (Note b) | 1,555 | 4,597 |
| | 6,309 | 11,659 |
| Less: current portion included in other payables and accruals | (3,136) | (3,664) |
| | 3,173 | 7,995 |

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in Guangzhou City have participated in a number of employees benefit plans for its existing and retired employees organized by the government. The Group has no other material legal or constructive obligations for payment of employee benefits to retirees or upon retirement of existing employees beyond the schemes as described below.

(a) Retirement scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since 1 January 1994. Under the scheme, the relevant group companies are required to make contributions at 18% of the preceding year's average annual salary of the employees or certain range of the preceding year's average annual salary of the Guangdong province. Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province.

In addition, certain employees of the Company have applied for early retirement and their application have been approved. Pursuant to the early retirement scheme, the retirees are entitled to similar benefits (including the Company's contribution in relation to retirement, housing and medical insurance) as that of a normal employee except that these contributions are calculated based on the monthly compensation to the retirees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

26. RETIREMENT BENEFIT OBLIGATIONS (continued)

(b) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective 1 December 2001 ("Provisional Rules of Medical Insurance"), it is mandatory for the Company and its subsidiaries in Guangzhou to participate in a medical insurance scheme set up and managed by the government. Employees, including those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

The Group's annual obligations for payment of this medical insurance contribution is based on 8% of the preceding year's average annual salary of the employees or certain range of the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

Pursuant to the Provisional Rules of Medical Insurance, contributions are also required for the past services rendered by the retired and retiring employees prior to 1 December 2001. Certain of these contributions which do not fall due wholly within twelve months from the balance sheet date are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.

The movements in the liability recognized in the balance sheet are as follows:

| | 2007 | 2006 |
|---|----------------|----------------|
| Beginning of the year | 11,659 | 18,829 |
| Total expense, included in employee benefit expense | – | (2,482) |
| Amounts paid | <u>(5,350)</u> | <u>(4,688)</u> |
| End of the year | <u>6,309</u> | <u>11,659</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. TRADE PAYABLES

| | Group | | Company | |
|-------------------------------------|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Trade payables due to third parties | 419,974 | 279,655 | 394,941 | 260,137 |
| Amounts due to related parties | 204,416 | 102,217 | 194,138 | 101,881 |
| | 624,390 | 381,872 | 589,079 | 362,018 |

The carrying amounts of trade payables approximate their fair value.

At 31 December 2007 and 2006, the ageing analyses of the trade payables due to third parties are as follows:

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Not exceeding one year | 413,561 | 277,420 | 388,825 | 258,160 |
| More than one year but not exceeding two years | 5,932 | 2,091 | 5,635 | 1,833 |
| More than two years but not exceeding three years | 362 | 70 | 362 | 70 |
| More than three years | 119 | 74 | 119 | 74 |
| | 419,974 | 279,655 | 394,941 | 260,137 |

At 31 December 2007 and 2006, the ageing analyses of the amounts due to related parties are as follows:

| | Group | | Company | |
|--|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Not exceeding one year | 204,416 | 101,950 | 194,138 | 101,614 |
| More than one year but not exceeding two years | – | 267 | – | 267 |
| | 204,416 | 102,217 | 194,138 | 101,881 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. TRADE PAYABLES (continued)

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

| | Group | | Company | |
|-----|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| RMB | 622,968 | 381,800 | 589,079 | 361,946 |
| USD | 1,161 | 17 | – | 17 |
| HKD | 261 | 55 | – | 55 |
| | 624,390 | 381,872 | 589,079 | 362,018 |

28. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Payables and accruals to third parties | 189,428 | 111,344 | 168,490 | 89,683 |
| Payables and accruals to related parties | 1,011 | 3,146 | 1,011 | 3,146 |
| Advance from third parties for construction contract | 137,070 | – | 137,070 | – |
| Advance from related parties for construction contract | 17,318 | 13,774 | 17,318 | 13,774 |
| Advance from third parties for other projects | – | 12,117 | – | 3,696 |
| Advance from related parties for other projects | 95,834 | 1,524 | 79,903 | 1,524 |
| | 440,661 | 141,905 | 403,792 | 111,823 |

The carrying amounts of other payables approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

28. OTHER PAYABLES AND ACCRUALS (continued)

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

| | Group | | Company | |
|------|----------------|---------|----------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| RMB | 395,655 | 140,176 | 394,532 | 110,875 |
| USD | 20,504 | 1,462 | 254 | 681 |
| HKD | 6,656 | 267 | 9 | 267 |
| EURO | 17,846 | – | 8,997 | – |
| | 440,661 | 141,905 | 403,792 | 111,823 |

29. PROVISIONS FOR WARRANTY AND LEGAL CLAIM

| | Group | | |
|----------------------------------|-------------|----------------------|---------------|
| | Legal claim | Warranty (Note a) | Total |
| At 1 January 2006 | – | 38,761 | 38,761 |
| Additional provisions | 1,384 | 26,433 | 27,817 |
| Surplus amounts written-back | – | (8,044) | (8,044) |
| Used during the year | – | (19,892) | (19,892) |
| At 31 December 2006 | 1,384 | 37,258 | 38,642 |
| Additional/(reversal) provisions | (1,384) | 42,720 | 41,336 |
| Surplus amounts written-back | – | (6,042) | (6,042) |
| Used during the year | – | (12,284) | (12,284) |
| At 31 December 2007 | – | 61,652 | 61,652 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

29. PROVISIONS FOR WARRANTY AND LEGAL CLAIM (continued)

| | Company Warranty |
|------------------------------|-----------------------------|
| At 1 January 2006 | 38,761 |
| Additional provisions | 26,433 |
| Surplus amounts written-back | (8,044) |
| Used during the year | (19,892) |
| | <hr/> |
| At 31 December 2006 | 37,258 |
| Additional provisions | 42,720 |
| Surplus amounts written-back | (6,042) |
| Used during the year | (12,284) |
| | <hr/> |
| At 31 December 2007 | 61,652 |

Note (a) The Group mainly provides a one-year warranty on shipbuilding and other machine products and undertakes to repair or replace items that fail to perform satisfactorily.

30. OTHER GAIN/(LOSSES) – NET

| | 2007 | 2006 |
|---|-----------------|----------|
| Net foreign exchange transaction losses – net (Note 36) | (25,316) | (28,638) |
| Forward foreign exchange contracts not qualified for hedge accounting | | |
| – realized gains on derivative financial instruments | 9,969 | 2,577 |
| – fair value gains/(losses) on derivative financial instruments | 282,540 | (2,382) |
| Other financial assets at fair value through profit or loss: | | |
| – realized fair value gains on listing securities | 24,116 | – |
| | <hr/> | <hr/> |
| | 291,309 | (28,443) |
| | <hr/> | <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31. EXPENSES BY NATURE

| | 2007 | 2006 |
|--|------------------|------------------|
| Change in construction contracts in progress relating to cost recognition variance | 266,025 | (283,941) |
| Changes in inventories of finished goods and work in progress | (180,278) | (39,229) |
| Depreciation and amortization charges (Notes 6, 7, 8 and 9) | 85,911 | 83,770 |
| Impairment for investment properties (Note 7) | 2,052 | – |
| Provision of impairment for trade receivables | 782 | 271 |
| Provision of impairment for inventories | 10,977 | 1,966 |
| Raw materials and consumables used | 3,438,874 | 2,232,780 |
| Employee benefit expense, include directors' emoluments (Note 34) | 546,466 | 346,699 |
| Provisions for warranty (Note 29) | 42,720 | 26,433 |
| Surplus warranty written-back (Note 29) | (6,042) | (8,044) |
| Auditors' remuneration | 2,736 | 2,593 |
| Research and development cost | 17,442 | 3,665 |
| Subcontract cost | 608,783 | 397,264 |
| Vessel design fee | 36,300 | 9,576 |
| Vessel inspection fee | 39,501 | 20,133 |
| Commission and agent fee | 156,178 | 111,292 |
| VAT input transfer out | 32,490 | 27,005 |
| Taxes and duty | 16,027 | 19,954 |
| Other expense | 204,597 | 86,279 |
| | <hr/> | <hr/> |
| Total cost of sales, selling and marketing costs and administrative expenses | 5,321,541 | 3,038,466 |

32. OTHER INCOME

| | 2007 | 2006 |
|--|----------------|---------------|
| Dividend income from available-for-sale financial assets | 1,878 | 3,160 |
| Subsidy income for shipbuilding | 211,753 | – |
| Subsidy income for compensations related to income | 27,443 | 19,463 |
| Compensation from customer for a contract termination | 45,904 | – |
| Others | 4,607 | 14,547 |
| | <hr/> | <hr/> |
| | 291,585 | 37,170 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. FINANCE INCOME – NET

| | 2007 | 2006 |
|--|----------------|---------------|
| Interest income from bank deposit | 137,790 | 18,577 |
| Interest income from held-to-maturity financial assets | 4,860 | 1,551 |
| Interest expense for bank borrowings | (73,930) | (7,333) |
| Interest expense for amounts due to suppliers | (300) | (261) |
| Other incidental borrowing costs | (13,011) | (4,230) |
| Net foreign exchange gains arising from borrowings (Note 36) | 125,136 | 14,740 |
| | <u>180,545</u> | <u>23,044</u> |

34. EMPLOYEE BENEFIT EXPENSE

| | 2007 | 2006 |
|---------------------------------------|----------------|----------------|
| Wages and salaries | 366,522 | 215,118 |
| Retirement cost | 39,578 | 29,093 |
| Housing fund (Note a) | 20,022 | 11,479 |
| Medical insurance and other welfare | 37,918 | 34,144 |
| Retiree housing subsidy (Note b) | – | 23,391 |
| Compensatory housing subsidy (Note c) | 44,369 | – |
| Other staff costs | 38,057 | 33,474 |
| | <u>546,466</u> | <u>346,699</u> |

(a) Housing fund

The Company and its subsidiaries in the PRC are obliged to make contribution to a defined contribution scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit is calculated at a rate of 8% based on the standard salaries of its employees for the first six months, and of 12% since July 2007.

(b) Retiree housing subsidy

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. EMPLOYEE BENEFIT EXPENSE (continued)

(c) Compensatory housing subsidy

In year 2007, the Board of Directors of the Company resolved to provide a monetary housing subsidy to qualified staff whose entitled living housing area is below certain standard. This is one-off welfare to those staff.

(d) Directors' and supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2007 is set out below:

| Name of Director and Supervisor | Salary and bonus | Other benefits(i) | Employer's contribution to pension scheme | Total |
|---------------------------------|------------------|-------------------|---|-------|
| Director Mr. Li Zhushi | 150 | – | – | 150 |
| Director Mr. Yu Baoshan | 89 | 6 | 5 | 100 |
| Director Mr. Han Guangde | 1,387 | 31 | 16 | 1,434 |
| Director Mr. Chen Jingqi | 1,204 | 31 | 16 | 1,251 |
| Director Mr. Zhong Jian | 1,046 | 30 | 16 | 1,092 |
| Director Mr. Li Junfeng | 40 | – | – | 40 |
| Director Mr. Miao Jian | 40 | – | – | 40 |
| Director Mr. Wu Fabo | 60 | – | – | 60 |
| Director Mr. Bo Miaojin | 60 | – | – | 60 |
| Director Mr. Wang Xiaojun | 60 | – | – | 60 |
| Director Mr. Li Xinliang | 60 | – | – | 60 |
| Supervisor Mr. Wang Shusen | 96 | – | – | 96 |
| Supervisor Mr. Liang Mianhong | 1,031 | 31 | 16 | 1,078 |
| Supervisor Mr. Wang Shiming | 40 | – | – | 40 |
| Supervisor Mr. Ye Weiming | 40 | – | – | 40 |
| Supervisor Mr. Liu Shibai | 894 | 30 | 16 | 940 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. EMPLOYEE BENEFIT EXPENSE (continued)

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

The remuneration of every Director and Supervisor for the year ended 31 December 2006 is set out below:

| Name of Director and Supervisor | Salary and bonus | Other benefits(i) | Employer's contribution to pension scheme | Total |
|-----------------------------------|------------------|-------------------|---|-------|
| Director Mr. Li Zhushi | 180 | – | – | 180 |
| Director Mr. Yu Baoshan | 336 | 31 | 28 | 395 |
| Director Mr. Han Guangde | 338 | 30 | 28 | 396 |
| Director Mr. Chen Jingqi | 303 | 27 | 28 | 358 |
| Director Mr. Zhong Jian | 144 | 23 | 28 | 195 |
| Director Mr. Li Junfeng | 40 | – | – | 40 |
| Director Mr. Miao Jian | 40 | – | – | 40 |
| Director Mr. Wu Fabo | 60 | – | – | 60 |
| Director Mr. Bo Miaojin | 60 | – | – | 60 |
| Director Mr. Wang Xiaojun | 62 | – | – | 62 |
| Director Mr. Mak, Kin Kwong Peter | 31 | – | – | 31 |
| Director Mr. Li Xinliang | 31 | – | – | 31 |
| Supervisor Mr. Wang Shusen | 96 | – | – | 96 |
| Supervisor Mr. Liang Mianhong | 266 | 25 | 28 | 319 |
| Supervisor Mr. Wang Shiming | 40 | – | – | 40 |
| Supervisor Mr. Ye Weiming | 40 | – | – | 40 |
| Supervisor Mr. Liu Shibai | 225 | 24 | 28 | 277 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. EMPLOYEE BENEFIT EXPENSE (continued)

(e) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: nil) individuals during the year are as follows:

| | 2007 | 2006 |
|---|--------------|----------|
| Salary and bonus | 2,152 | – |
| Other benefits | 62 | – |
| Employer's contribution to pension scheme | 32 | – |
| | <u>2,246</u> | <u>–</u> |

The emoluments of the two individuals are fall within the bands from RMB1,000,001 to RMB1,500,000 in 2007 (2006: nil).

35. INCOME TAX EXPENSE

Taxation on the PRC profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

| | 2007 | 2006 |
|--|----------------|---------------|
| Current income tax – the PRC enterprise income tax | 293,372 | 5,845 |
| Deferred income tax (Note 14) | 87,243 | 28,164 |
| | <u>380,615</u> | <u>34,009</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

35. INCOME TAX EXPENSE (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

| | 2007 | 2006 |
|--|------------------|----------------|
| Profit before income tax | <u>1,340,964</u> | <u>310,978</u> |
| Tax calculated at domestic tax rates applicable to profits in the respective areas | 438,862 | 47,604 |
| Income not subject to tax | (8,936) | (1,814) |
| Expenses not deductible for tax purposes | 2,028 | 386 |
| Utilization of previously unrecognized temporary difference or tax losses | – | (315) |
| Tax losses for which no deferred income tax assets was recognized | 1,441 | 120 |
| Recognition of previous years unrecognized deferred tax assets | – | (11,972) |
| Effect of statutory tax rate changes | <u>(52,780)</u> | <u>–</u> |
| Income tax expense | <u>380,615</u> | <u>34,009</u> |

The weighted average applicable tax rate was 32.7% (2006: 15.3%). The higher rate was caused by the increase in the income tax rate for the company from 15% to 33%.

Since 1993, being the first batch of mainland entities listed on the Hong Kong stock exchange, nine entities including the Company have been granted by the Ministry of Finance and the State Administration of Taxation to be taxed at the preferential income tax rate of 15%.

The Company was subject to income tax at the rate of 15% up to year 2006. On 19 June 2007, the State Administration of Taxation ordered local tax authorities to terminate the above preferential income tax rate arrangement with immediate rectification. In accordance with the advice of the in-charge tax authority, the Company's income tax rate for year 2007 is 33%. Management of the Company has assessed the implication of prior year income tax and consider that there should not be material financial impact arising from this tax matter to the Company.

Effective 1 January 2008, the Company and the subsidiaries established in the PRC shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of PRC (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law, the corporate income tax rate applicable to the Company and the subsidiaries will be 25% from 1 January 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

36. NET FOREIGN EXCHANGE GAINS/(LOSSES)

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

| | 2007 | 2006 |
|------------------------------|-----------------|----------|
| Other losses – net (Note 30) | (25,316) | (28,638) |
| Finance costs (Note 33) | 125,136 | 14,740 |
| | 99,820 | (13,898) |

37. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB916,039,000 (2006: RMB252,546,000)

38. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB938,560,000 (2006: RMB266,635,000) and the weighted average number of 494,677,580 (2006: 494,677,580) ordinary shares in issue during the year.

39. DIVIDENDS

A dividend in respect of the year ended 31 December 2007 of RMB 0.50 per share, amounting to a total amount of RMB247,339,000, is to be proposed at the Annual General Meeting on 13 May 2008. These financial statements do not reflect this dividend payable.

| | Group and Company | |
|---|--------------------------|------|
| | 2007 | 2006 |
| Proposed final dividend of RMB0.50 (2006: nil) per ordinary share | 247,339 | – |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

40. CASH (USED IN)/GENERATED FROM OPERATIONS

| | 2007 | 2006 |
|---|--------------------|----------------|
| Profit for the year | 960,349 | 276,969 |
| Adjustments for: | | |
| – Income taxation expense (Note 35) | 380,615 | 34,009 |
| – Depreciation and amortization (Note 31) | 85,911 | 83,770 |
| – Impairment of investment properties (Note 31) | 2,052 | – |
| – Loss on sale of property, plant and equipment and investment properties (Note (a)) | 8,504 | 4,406 |
| – Fair value gains on derivative financial instruments (Note 30) | (282,540) | 2,382 |
| – Loss on disposal of interest in a subsidiary | – | 8 |
| – Interest income (Note 33) | (137,790) | (18,577) |
| – Dividend income from available-for-sale financial assets (Note 32) | (1,878) | (3,160) |
| – Interest expense | 74,284 | 7,588 |
| – Interest income from held-to-maturity financial assets (Note 33) | (4,860) | (1,551) |
| – Share of (profit)/loss from associates (Note 11) | (1,489) | 326 |
| – Exchange gains on borrowings (Note 33) | (125,136) | (14,740) |
| – Exchange losses on cash and cash equivalent | 3,654 | 2,577 |
| Changes in working capital: | | |
| – Inventories | (306,288) | (95,095) |
| – Construction contracts in progress | 1,322,440 | 2,419,201 |
| – Trade and other receivables and current income tax recoverable | (484,292) | (44,130) |
| – Restricted cash | (96,848) | (17,928) |
| – Term deposits with initial term of over three months | (3,267,555) | (2,064,200) |
| – Trade and other payables and accruals, provision for warranties and legal claims and current income tax liability | 537,449 | 13,677 |
| Cash (used in)/generated from operations | <u>(1,333,418)</u> | <u>585,532</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

40. CASH (USED IN)/GENERATED FROM OPERATIONS (continued)

- (a) In the cash flow statement, proceeds from sale of property, plant and equipment and investment properties comprise:

| | 2007 | 2006 |
|---|----------------|---------|
| Net book amount | 9,807 | 12,907 |
| Loss on sale of property, plant and equipment and investment properties | (8,504) | (4,406) |
| | <hr/> | <hr/> |
| Proceeds from sale of property, plant and equipment and investment properties | 1,303 | 8,501 |
| | <hr/> | <hr/> |

- (b) In the cash flow statement, disposal of interest in subsidiaries, net of cash disposed comprise:

| | 2007 |
|--|-----------------|
| Property, plant and equipment (Note 6) | 4,893 |
| Trade receivables and other receivables | 4,759 |
| Cash and cash equivalents | 10,712 |
| Minority interests | (4,518) |
| Trade payables and other payables | (2,290) |
| | <hr/> |
| Net assets value disposed | 13,556 |
| Amount to be received, included in other receivables | 13,556 |
| | <hr/> |
| Disposal of interest in subsidiaries, net of cash disposed | (10,712) |
| | <hr/> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

40. CASH (USED IN)/GENERATED FROM OPERATIONS (continued)

(c) In the cash flow statement, acquisition of interest in subsidiaries, net of cash acquired comprise:

| | 2007 |
|---|-----------------|
| Property, plant and equipment (Note 6) | 11,350 |
| Land use rights and leasehold land (Note 8) | 9,508 |
| Interest in associates disposed (Note 11) | (216) |
| Inventories | 5,512 |
| Trade receivables and other receivables | 3,025 |
| Cash and cash equivalents | 3,660 |
| Minority interests | 2,337 |
| Trade payables and other payables | <u>(12,924)</u> |
| Net assets value acquired | 22,252 |
| Cash consideration paid | <u>(22,252)</u> |
| Cash consideration paid | (22,252) |
| Cash and cash equivalents acquired | <u>3,660</u> |
| Acquisition of interest in subsidiaries, net of cash acquired | <u>(18,592)</u> |

41. CAPITAL COMMITMENTS

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

| | 2007 | 2006 |
|--|----------------|---------------|
| Contracted but not provided for | 44,851 | 7,619 |
| Authorized but not contracted for | <u>148,739</u> | <u>53,005</u> |
| Total commitments of property, plant and equipment | <u>193,590</u> | <u>60,624</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS

CSSC, the immediate shareholder of the Company which owns 35.71% of the Company's shares (2006: 35.71%), is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CSSC group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither CSSC nor the PRC government publishes financial statements available for public use.

The following significant transactions were carried out with related parties:

i) Sales of goods and services

| | 2007 | 2006 |
|---|------------------|---------|
| Sales of goods | | |
| – to companies controlled by CSSC (a) | 69,339 | 3,802 |
| – to other state-controlled enterprises (a) | 1,414,280 | 413,022 |
| | 1,483,619 | 416,824 |
| Sales of services | | |
| – to companies controlled by CSSC (b) | 59,666 | 14,050 |

Note:

- (a) Goods are sold at market price.
- (b) Income from provision of service represents provision of vessel-related processing services and other services. Services are provided either on the basis of the price in force with non-related parties or on a cost-plus basis, allowing a margin of around 25%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

ii) Purchases of goods and services

| | 2007 | 2006 |
|---|------------------|---------|
| Purchases of goods: | | |
| – from companies controlled by CSSC (a) | 186,349 | 163,015 |
| – from other state-controlled enterprises (a) | 1,344,693 | 704,221 |
| | 1,531,042 | 867,236 |
| Purchase of services: | | |
| – from companies controlled by CSSC (b) | 43,118 | 100,356 |
| – from other state-controlled enterprises (a) | 14,118 | 7,861 |
| | 57,236 | 108,217 |

Note:

- (a) Goods and services are purchased at market price.
- (b) Services are purchased on a cost-plus basis, allowing a margin of around 10%.

iii) Payment of expenses and other charges

| | 2007 | 2006 |
|---|----------------|--------|
| Vessel sales commissions payable: | | |
| – to companies controlled by CSSC (a) | 43,623 | 48,111 |
| – to other state-controlled enterprises (b) | 1,780 | 5,251 |
| Other expenses payable: | | |
| – to companies controlled by CSSC (c) | 22,972 | 13,244 |
| Interest expense payable: | | |
| – to state-controlled banks (d) | 35,444 | 4,705 |
| | 103,819 | 71,311 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

iii) Payment of expenses and other charges (continued)

Note:

- (a) Vessel sales commission payable was computed based on 1% of the contract price of relevant vessels.
- (b) Vessel sales commission payable to other state-controlled enterprises was computed based on 1% – 3% of the contract price of relevant vessels.
- (c) Pursuant to the comprehensive service agreement dated 8 December 2005 entered into between the Company and Guangzhou Shipyard (“GZS”), a subsidiary of CSSC, the Group incurred service fees amounted to RMB7,617,000 (2006: RMB7,292,000) for the provision of staff welfare services (including the provision of staff quarters and other benefits) to GZS. The service fees for the year ended 31 December 2007 and 2006 did not include the provision of welfare for key management personnel. The effective period of this comprehensive service agreement is from 1 January 2006 to 31 December 2008.
- (d) Interest are charged at market price.

iv) Interest income and other income

| | 2007 | 2006 |
|---|---------------|---------------|
| Interest income from held-to-maturity financial assets | | |
| – from state-controlled banks (a) | 4,860 | 1,511 |
| Interest income from bank balances and cash | | |
| – from state-controlled banks (a) | 85,296 | 7,323 |
| Realized income from forward foreign exchange contracts | | |
| – from state-controlled banks (a) | 8,020 | 2,510 |
| | <u>98,176</u> | <u>11,344</u> |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

42. SIGNIFICANT RELATED-PARTY TRANSACTIONS (continued)

v) Key management compensation

| | 2007 | 2006 |
|--|---------------|--------------|
| Emolument, salaries and other short-term employee benefits | 11,775 | 3,853 |
| Post-employment benefits | 152 | 304 |
| | <u>11,927</u> | <u>4,157</u> |

vi) Year-end balances

| | 2007 | 2006 |
|--|----------------|------------------|
| Receivables from related parties (Note 19 & Note 20): | | |
| – to CSSC and companies controlled by CSSC | 333,808 | 76,867 |
| – to other state-controlled enterprises | 203,612 | 214,160 |
| | <u>537,420</u> | <u>291,027</u> |
| Payables to related parties (Note 27 & Note 28): | | |
| – to CSSC and companies controlled by CSSC | 193,404 | 30,575 |
| – to other state-controlled enterprises | 125,175 | 90,086 |
| | <u>318,579</u> | <u>120,661</u> |
| Other financial instruments | | |
| Held-to-maturity financial assets | | |
| – with state-controlled banks | – | 296,960 |
| Financial derivatives – forward foreign exchange contracts | | |
| – with state-controlled banks | 249,199 | 307 |
| Bank balances and cash | | |
| – with financial institution controlled by CSSC | 26,881 | 458 |
| – with state-controlled banks | 5,759,920 | 3,583,358 |
| Borrowings | | |
| – with state-controlled banks | <u>406,403</u> | <u>1,654,351</u> |

The receivables from related parties are unsecured in nature and bear no interest. The payables to related parties bear no interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

43. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentation in the current year. And such reclassifications have no impact on the Group's net profit for the year 2006.

DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements with signatures and stamps of legal representative, chief accountant and accounting department heads.
2. The original auditors' reports with the stamps of Certified Public Accountants Firms and signatures of the certified public accountants.
3. The originals of announcements made in "Shanghai Securities News", "Hong Kong Commercial Daily", "China Daily" (oversea version), the website of Shanghai Stock Exchange (www.sse.com.cn), the Stock Exchange of Hong Kong Limited (www.hkexnews.hk), and the Company (www.chinagsi.com) during the period under review and related company documents.