广船国际

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

POISED FOR CHALLENGES

ANNUAL REPORT 2008

CONTENTS

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 executive director Mr. Han Guangde and non-executive director Mr. Pan Zunxian attended as proxies of non-executive directors Mr. Yu Baoshan and Mr. Miao Jian respectively, attended the ninth meeting of the sixth term of the Board of Directors held on March 10, 2009.

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

The Audit Committee of the Company has reviewed and confirmed the annual financial reports for the year 2008 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 accounts prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") and the international auditors' report therein where the English shall prevail, while the Chinese version shall prevail for the rest of this annual report.

OVERVIEW OF THE COMPANY

I. BRIEF INTRODUCTION

Guangzhou Shipyard International Company Limited (the "Company") founded in 1993 having been reformed from Guangzhou Shipyard, is the biggest handy-size shipbuilding enterprise in South China parented by China State Shipbuilding Corporation ("CSSC") and the key mechanical and electrical products exporting base of the State, enjoying autonomy in export and import operations.

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

The Company has gained ISO9001:2000 and 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 (OHSAS18001:2007) and Environmental Management System Certificate (ISO4001:2004) issued by British Lloyds Society Quality Assurance Ltd. The Company was recognized as a high-tech enterprise of Guangdong Province in 2008.

The Company pursues the goal of continuous improvement of integral value and sustainable growth from powerful to largest. While devoted 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 in the global handy-size tanker market.

II. 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

OVERVIEW OF THE COMPANY

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

PUBLICATIONS FOR DISCLOSING INFORMATION

Shanghai Securities News

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

OVERVIEW OF THE COMPANY

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

ORGANIZATION NUMBER
19049939-0

PRC AUDITORS
Ascenda Certified Public Accountants, Limited (Beijing)
A12/F, Investment Plaza, 27 Jinrong Street
Xicheng District, Beijing

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

SOLICITORS
Guangzhou 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

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

Share Registrar and Transfer Agent 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 Mellon

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 2008 are as follows:

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

Unit: RMB

Item	Amount
Operating profit	857,670,185.19
Total profit	921,285,578.25
Net profit attributable to shareholders	820,395,655.17
Net profit attributable to shareholders after deduction of exceptional items	803,295,845.89
Net cash flow from operating activities	-195,267,322.66

The nature and amount of exceptional items are as follows:

Unit: RMB

Item	Amount	Notes
Profits or losses from disposal of non-current assets, including write-offs of asset impairment provisions	-6,185,529.15	Mainly resulted from disposal of fixed assets and investment real estate
Government subsidies recognized in the current profits and losses	25,756,382.54	Mainly resulted from local government grant and subsidies for research and development projects
Gains or Losses from fair value changes of trading securities and trading financial liabilities, and investment income from disposal of trading assets, trading financial liabilities and available-for-sale financial assets, except for effective hedging activities related to the Company's main operation	-1,825,409.78	Resulted from fair value changes of trading securities and trading financial liabilities, and investment income from disposal of trading assets, trading financial liabilities and available-for-sale financial assets
Reverse of provision for receivable impairment which was tested individually	500,000.00	Resulted from collection of receivables that was accrued with provisions
Other non-operating profits and losses apart from above items	1,931,157.23	Other non-operating profits and losses
Subtotals (effect on income before tax)	20,176,600.84	
Less: influence on income tax	3,024,508.56	
Total influence on net profits	17,152,092.28	
Including: attributable to minority interests	52,283.00	
Influence attributable to common shareholders of parent company	17,099,809.28	
Net profits attributable to common shareholders of parent company after deducting exceptional items	803,295,845.89	

(II) Prepared in accordance with HKFRS

Unit: RMB'000

Item	Amount
Profit before taxation	921,286
Profit attributable to shareholders	820,396

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	2008	2007		Change	2006	
		After adjustment	Before adjustment	(%)	After adjustment	Before adjustment
Operating income	**6,984,087,521.27**	5,952,697,163.61	5,952,697,163.61	17.33	3,399,203,543.04	3,399,203,543.04
Total profit	**921,285,578.25**	1,343,060,757.80	1,343,060,757.80	-31.4	311,880,155.01	311,880,155.01
Net profit attributable to shareholders	**820,395,655.17**	940,656,796.04	940,656,796.04	-12.78	267,537,448.04	267,537,448.04
Net profit attributable to shareholders after deduction of exceptional items	**803,295,845.89**	697,094,500.58	915,678,615.36	15.23	271,441,511.37	273,131,488.75
Basic earnings per share (RMB)	**1.66**	1.90	1.90	-12.78	0.54	0.54
Diluted earnings per share (RMB)	**–**	–	–	–	–	–
Basic earnings per share after deduction of exceptional items (RMB)	**1.62**	1.41	1.85	15.23	0.55	0.55
Fully diluted returns on net assets (%)	**29.86**	38.37	38.37	Decreased by 8.51%	21.20	21.20
Weighted average returns on net assets (%)	**31.58**	52.17	52.17	Decreased by 20.59%	23.67	23.67
Fully diluted return on net assets after deduction of exceptional items (%)	**29.24**	28.43	37.35	Increased by 0.81%	21.51	21.61
Weighted average returns on net assets after deduction of exceptional items (%)	**30.92**	38.66	50.78	Decreased by 7.74%	24.02	24.17
Net cash flow from operating activities	**-195,267,322.66**	1,818,659,141.44	1,818,659,141.44	-110.74	2,619,252,190.45	2,619,252,190.45
Net cash flow from operating activities per share (RMB)	**-0.39**	3.68	3.68	-110.60	5.29	5.29
Total assets	**10,258,230,707.13**	11,034,433,438.69	11,034,433,438.69	-7.03	7,675,454,534.11	7,675,454,534.11
Total liabilities	**7,415,365,491.69**	8,507,075,060.14	8,507,075,060.14	-12.83	6,352,336,994.26	6,352,336,994.26
Shareholders' equity (excluding minority interests)	**2,747,359,653.70**	2,451,509,684.38	2,451,509,684.38	12.07	1,261,712,691.61	1,261,712,691.61
Net assets per share attributable to shareholders of the Company (RMB)	**5.55**	4.96	4.96	12.07	2.55	2.55

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(II) Prepared in accordance with HKFRS

Unit: RMB'000

Item	2008	2007	2006	2005	2004 Restated
Turnover	**6,984,088**	5,906,793	3,322,299	2,728,916	2,363,403
Operating profit	**635,405**	1,158,930	288,260	91,318	56,528
Profit before taxation	**921,286**	1,340,964	310,978	112,288	35,072
Profit attributable to shareholders	**820,396**	938,560	266,635	135,011	60,945
Total assets	**10,251,665**	11,029,129	7,672,237	3,432,086	2,862,932
Total liabilities	**7,408,800**	8,501,772	6,349,186	2,499,650	2,092,208
Total shareholders' equity (excluding minority interests)	**2,747,360**	2,451,509	1,261,647	882,716	718,514
Earnings per share (RMB) (Number of shares in issue at the end of the year)	**1.6584**	1.8973	0.5390	0.2729	0.1232
Earnings per share (RMB) (Weighted average number of shares in issue)	**1.6584**	1.8973	0.5390	0.2729	0.1232
Net assets per share (RMB) (Number of shares in issue at the end of the year)	**5.55**	4.96	2.55	1.78	1.45
Return on net assets (%) (Shareholders' equity at the end of the year)	**29.86**	38.28	21.13	15.29	8.48
Return on net assets (%) (Average of shareholders' equity at the beginning and the end of year)	**31.56**	50.55	24.87	16.86	8.86
Ratio of shareholders' equity (%) (Shareholders' equity/ Total assets x 100%)	**26.80**	22.23	16.44	25.72	25.10
Current ratio (Current assets/ Current liabilities)	**1.20**	1.13	1.19	0.91	0.97
Gearing ratio (%)	**72.27**	77.08	82.76	72.83	73.08

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 × 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 expanses)/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÷2 + Ei×Mi÷M0 – Ej×Mj÷M0±Ek×Mk÷M0)
P: the net profit attributable to shareholders, and that after deduction of exceptional items
NP: the net profit attributable to shareholders
EO: the opertion balance of net assets attributable ti shareholders
Ei: the increase of net assets attributable to shareholders arising from new shares issuing or debt transferring to share during the period under review
Ej: the decrease of net assets attributable to shareholders arising from puchasing back share or dividend in cash during the period under review
MO: 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 ×100%

(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

	Net profit		Shareholders' equity	
Item	**For the year ended December 31, 2008**	For the year ended December 31, 2007	**As at December 31, 2008**	As at December 31, 2007
Prepared under PRC Accounting Standards and Regulations (after adjustment)	**820,396**	940,657	**2,747,360**	2,451,509
Provision for impairment of investment properties	**–**	1,322	**–**	–
Amortised cost adjustment on held-to-maturity financial assets	**–**	(1,256)	**–**	–
Appropriation for staff award and welfare of subsidiaries	**–**	(2,163)	**–**	–
Prepared under HKFRS	**820,396**	938,560	**2,747,360**	2,451,509

SUMMARY OF ACCOUNTING AND BUSINESS DATA

(IV) Principal business data

The turnover 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, 2008 Turnover (note 1) Amount	Percentage (%)	Gross profit (loss) before taxation Amount	Year ended December 31, 2007 Turnover (note 1) Amount	Percentage (%)	Gross profit (loss) before taxation Amount
Shipbuilding	**5,904,445**	**86.22**	**814,306**	5,134,589	88.35	856,693
Steel structure	**659,891**	**9.64**	**55,341**	391,846	6.74	45,362
Mechanical and electrical products and others	**283,335**	**4.14**	**18,202**	285,033	4.91	64,644
Subtotal	**6,847,671**	**100.00**	**887,849**	5,811,468	100	966,698
Other operating profit	**–**	**–**	**25,775**	–	–	68,282
Operating expenses *(note 2)*	**–**	**–**	**43,841**	–	–	216,688
Business tax and surcharge	**–**	**–**	**22,272**	–	–	20,347
Impairment reversal/(loss)	**–**	**–**	**-3,961**	–	–	15,578
(Loss)/gain from the change of fair value	**–**	**–**	**-130,521**	–	–	282,540
Investment income	**–**	**–**	**136,719**	–	–	44,924
Net non-operating income	**–**	**–**	**70,375**	–	–	243,081
Net non-operating expenditure	**–**	**–**	**6,759**	–	–	9,852
Total profit (under PRC Rules and Regulations)	**–**	**–**	**921,286**	–	–	1,343,061
Reconciling items						
– Provision of impairment of investment properties	**–**	**–**	**–**	–	–	1,322
– Amortised cost adjustment on held-to-maturity financial assets	**–**	**–**	**–**	–	–	(1,256)
– Appropriation for staff award and welfare of subsidiaries	**–**	**–**	**–**	–	–	(2,163)
Profit before taxation (under HKFRS)	**–**	**–**	**921,286**	–	–	1,340,964

Notes:

1. 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 IX37 on page 127 and note 2.22 on page 181 to the Financial Statements respectively.

2. 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.

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	Percentage (%)	New Share	Bonus Share	Conversion from reserves	Others	Sub-total	Amount	Percentage (%)
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, 2008, except that the CSSC offered 2.7 bonus shares for every 10 shares to holders of A shares 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 shares, 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. Proposed rights issue, on the basic of three new shares for every 10 existing share, was approved by the extraordinary general meeting and class meetings which were held on August 18, 2008.

SHARE CAPITAL AND SHAREHOLDERS

II. SHAREHOLDERS INFORMATION

(I) Number of shareholders

1. As at December 31, 2008, the total number of shareholders, the information of the top ten shareholders and the top ten shareholders of freely tradable shares are as follows:

Unit: share

Total number of shareholders	As at December 31, 2008, there were 67,451 shareholders, including a shareholder of state-owned A-Shares subject to sale restrictions, 67,055 shareholders of listed freely transferable A-Shares and 395 shareholders of listed H-Shares.

Top ten shareholders' information

Name	Changes in 2008	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	-1,467,790	151,763,009	30.68	0	Unknown	Foreign capital shares
Great Wall Consumer Value-added Securities Investment Fund	1,800,107	4,276,996	0.86	0	Unknown	Other
Pingan Life Insurance Dividend Fund	–	3,049,912	0.62	0	Unknown	Other
Great Wall Anxin Return Mixed Securities Investment Fund	-193,000	3,006,493	0.61	0	Unknown	Other
GF Jufeng Shape Security Investment Fund	-3,716,707	2,588,550	0.52	0	Unknown	Other
GF Shape Security Investment Fund	-4,215,053	2,400,000	0.49	0	Unknown	Other
Hua'an Middle and Small Shape Securities Investment Fund	200,000	2,000,000	0.40	0	Unknown	Other
Chan Kwok Tai Eddie	–	2,000,000	0.40	0	Unknown	Foreign capital shares
Full Goal Benefits Rich Securities Investment Fund	300,000	1,885,601	0.38	0	Unknown	Other

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	151,763,009	H Shares
Great Wall Consumer Value-added Securities Investment Fund	4,276,996	A Shares
Pingan Life Insurance Dividend Fund	3,049,912	A Shares
Great Wall Anxin Return Mixed Securities Investment Fund	3,006,493	A Shares
GF Jufeng Shape Security Investment Fund	2,588,550	A Shares
GF Shape Security Investment Fund	2,400,000	A Shares
Hua'an Middle and Small Shape Securities Investment Fund	2,000,000	A Shares
CHAN KWOK TAI EDDIE	2,000,000	H Shares
Full Goal Benefits Rich Securities Investment Fund	1,885,601	A Shares
Harvest in Shanghai and Shenzhen 300 Index Securities Investment Fund	1,077,372	A Shares

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

Except that GF Sharp Security Investment Fund and GF Jufeng Shape Security Investment Fund belong to GF Fund Management Co., Ltd., Great Wall Consumer Value-added Securities Investment Fund and Great Wall Anxin Return Mixed Securities Investment Fund belong to Harvest Fund Management Co., Ltd., the Company is not aware of whether the top ten shareholders or the top ten shareholders of freely tradable 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".

SHARE CAPITAL AND SHAREHOLDERS

2. Apart from the shareholders disclosed above, as at December 31, 2008, 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 (%)
Atlantis Investment Management Ltd.	16,000,000	10.17	3.23
Mirae Asset Global Investments (Hong Kong) Limited	10,968,000	6.97	2.22
JPMorgan Chase & Co.	12,368,000	7.86	2.50

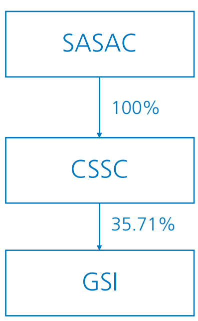
3. Brief introduction of the controlling shareholder and actual controller

CSSC is the controlling shareholder of the State-owned shares, which accounted for approximately 35.71% of the shares of the Company. CSSC, the registered capital of which is RMB6,374,300,000, was founded on July 1, 1999 through reorganizing China State Shipbuilding Company. Mr. Tan Zuojun is the legal representative of CSSC. The business of CSSC includes: shipbuilding, ship-repairing, manufacturing and export/import of marine equipment, 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 shareholder and actual controller of the Company have not changed.

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



SHARE CAPITAL AND SHAREHOLDERS

III. OTHER INFORMATION

(I) Pre-emptive rights

As there is no provision for preemptive rights according to the Company's Articles of Association, the Company had not arranged any scheme for such right during the period under review.

(II) Warrants and others

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

(III) Purchase, sale or redemption of the Company's securities

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

(IV) Sufficiency of public float

Based on the information that is 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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

I. INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Basic information

Name	Position	Gender	Age	Current tenure commencement date	Total remuneration received from the Company in 2008 (RMB'0000)	Whether received any remuneration from shareholders of the Company (yes/no)
Li Zhushi	Chairman	Male	64	2008-05-13	260,000.00	Yes
Han Guangde	Vice chairman & president	Male	47	2008-05-13	1,331,728.00	No
Chen Jingqi	Executive director	Male	56	2008-05-13	1,219,369.00	No
Zhong Jian	Executive director	Male	46	2008-05-13	1,069,949.00	No
Yu Baoshan	Non-executive director	Male	48	2008-05-13	66,700.00	Yes
Pan Zunxian	Non-executive director	Male	55	2008-05-13	53,300.00	Yes
Miao Jian	Non-executive director	Male	44	2008-05-13	66,700.00	Yes
Wang Xiaojun	Independent non-executive director	Male	54	2008-05-13	86,700.00	No
Lee Sun-leung, Sunny	Independent non-executive director	Male	38	2008-05-13	86,700.00	No
Chen Xin	Independent non-executive director	Male	49	2008-05-13	66,700.00	No
Peng Xiaolei	Independent non-executive director	Male	57	2008-05-13	66,700.00	No
Wang Shusen	Chairman of the Supervisory Committee	Male	68	2008-05-13	165,300.00	Yes
Liang Mianhong	Internal supervisor	Male	55	2008-05-13	974,499.00	No
Liu Shibai	Internal supervisor	Male	57	2008-05-13	907,179.00	No
Ye Weiming	External supervisor	Male	46	2008-05-13	66,700.00	No
Fu Xiaosi	External supervisor	Male	48	2008-05-13	53,300.00	No
Chen Ji	Vice president	Male	42	2008-05-13	1,077,659.00	No
Yang Li	Vice president	Male	41	2008-05-13	1,088,662.00	No
Zhou Dusheng	Vice president	Male	53	2008-05-13	1,111,550.00	No
Zeng Xiangxin	Chief accountant	Male	42	2008-05-13	1,090,342.00	No
Li Zhidong	Company secretary	Male	43	2008-05-13	992,336.00	No

Mr. Chen Xin resigned as independent non-executive director due to job relocation, which was approved by the ninth meeting of the sixth term of the Board of the Company and will be submitted to 2008 AGM for consideration. Otherwise, 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, that is the date of the 2010 AGM.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Director Mr. Chen Jingqi held 2,540 A shares at the beginning of the year 2008 and such shareholding has not been 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 the 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 33(c), 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 64, senior engineer (Professional Level), general engineer of CSSC, 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 experiences include being technician, deputy section chief, deputy factory director and factory director of Tianjin Xingang Shipyard, deputy general manager of China Shipping Trade Company, general manager of Hong Kong Hualian Marine Company Limited, and vice president of CSSC. Mr Li joined the Company in 2005.

Mr. Han Guangde, aged 47, senior engineer (Professional Level), 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 56, 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.

Mr. Zhong Jian, aged 46, senior engineer (Professional Level), 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 director and director of Assets Management Department of CSSC.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. Yu Baoshan, aged 48, senior engineer (Professional Level), presently assistant to president of CSSC, 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, president of Guangzhou Shipbuilding Corporation.

Mr. Pan Zunxian, aged 55, senior economist, presently deputy director of the business & marketing department and vice president of Meterial Purchasing Department of CSSC. He joined in Shanghai Shipyard since 1971, and experienced as deputy secretary of Party Committee, and vice manager of Shanghai Shipyard, secretary of Party Committee of Chengxi Shipyard and secretary of Party Committee of Chengxi Shipyard Co., Ltd. Mr. Pan joined the Company in 2008.

Mr. Miao Jian, aged 44, senior engineer, graduated from Shanghai Jiaotong University in 1987 and joined in Economy and Trade Office of 601 Institute of CSSC in the same year. Presently he is the deputy director of the Second Section in Financial Department of CSSC. Mr. Miao joined the Company in 2003.

Mr. Wang Xiaojun, aged 54, 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 of Hong Kong Limited in the same year. He has worked for Richards Butler and Peregrine Finance Co. and now is the sole proprietor of X.J. Wang & Co. Mr. Wang joined the Company in 2005.

Mr. Lee Sun-leung, Sunny, male, aged 38, member of ACCA, the UK, and qualifying as Chartered Financial Analyst, the US. He was 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.

Mr. Chen Xin, aged 49, engineering doctor degree, graduated from Changsha Railway University and joined Zhongnan Forestry University in 1982, obtained doctor degree and joined Guangdong University of Technology in 1995. He experienced as director of CIM lab, director of machecal and electrical engineering department, dean of machecal and electrical college, vice school master, professor, techacher of doctor students of Guangdong University of Technology. Presently he is the deputy director of Guangdong Science and Technologe Department and owns special allowance of the State Council. Mr. Chen joined the Company in 2008.

Mr. Peng Xiaolei, aged 57, master degree, senior accountant (Professional Level). He graduated from Zhongnan University of Economics, and served for Hubei Material School, Guangdong University of Business Studies, China United Telecommunications Corporation Limited Guangdong Branch, Guangdong Transportation Group Co., Ltd., presently, he is the vice president and chief accountant of Guangdong Guangye Assets Management Co., Ltd. Mr. Peng joined the Company in 2008.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Supervisors

Mr. Wang Shusen, aged 68, 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 2004.

Mr. Liang Mianhong, aged 55, senior political officer, currently a supervisor of the Company, 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, vice secretary of Party Committee.

Mr. Liu Shibai, aged 57, accountant, currently a supervisor of the Company, secretary of Supervisory Committee and deputy 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.

Mr. Ye Weiming, aged 46, lawyer, graduated from Zhongshan University and joined in 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 Gaungdong Xinyang Law Office and presently he is the director and senior partner of the office. He joined the Company in 2004.

Mr. Fu Xiaosi, aged 48, senior accountant, registered accountant, graduated from Huazhong University of Science and Technology in 1986. He has served for Zhongqing Wanxing Public Accountants Limited and experienced as senior manager, department manager, deputy director accountant (senior partner). He presently is the chief accountant of Hubei Tri-ring Group Corporation. Mr. Fu joined the Company in 2008.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Senior Management

Mr. Chen Ji, aged 42, senior engineer, currently vice president of the Company, vice secretary of Party Committee, Secretary of the Disciplinary Inspection graduated from Shanghai Jiaotong University in 1989 and joined Guangzhou Shipyard in the same year, and obtained a degree of MBA in 2001. He has 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 41, 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 53, 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 Xinshun 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.

Mr. Zeng Xiangxin, aged 42, 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 43, senior engineer, currently company secretary, assistant to president of the Company and director of Administrative Office, graduated from Shanghai Jiaotong University in August 1987, joined Guangzhou Shipyard in the same year. He obtained a degree of MBA in 1997, experienced as engineer of accommodation section of ship design office, deputy manager of engineering department in Shipbuilding Division, assistant to the manager of Financial Department of the Company, deputy director of Administrative Office of the Company, and qualified as fellow member of the Britain Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries in the year 2008.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(II) Positions in holding company

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Yu Baoshan	CSSC	Assistant to President	Since Jun. 2007	No
	Guangzhou Shipbuilding Corporation	President	Since Mar. 2006	No
	Guangzhou CSSC Longxue Shipbuilding Co., Ltd.	President	From Mar. 2006 to Aug. 2008	Yes
		Director	Since Mar. 2006	
	Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	Vice Board Chairman	Since Jun. 2005	No
	Guangzhou CSSC Yuanhang Wengchong Shipbuilding Engineering Co., Ltd.	Director	Since Nov. 2005	No
	Guangzhou CSSC Marine Diesel Engine Co., Ltd.	Chairman	Since Nov. 2008	No
Pan Zunxian	Business & Marketing Department of CSSC	Deputy Director	Since Aug. 2007	Yes
	Department of Purchasing of CSSC	Vice President	Since Jul. 2008	No
	Zhenjiang CSSC Equipment Co., Ltd	Director	Since 2007	No
	Shanghai CSSC Mitsui Marine Diesel Engine Co., Ltd.	Director	Since 2007	No
	CSSC Chengxi Shipbuilding and Repairing Co., Ltd	Director	Since 2006	No
Miao Jian	The Second Section in Financial Department. of CSSC	Deputy Director	Since Sep. 2001	Yes
	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

(III) Positions in other company

Name	Company	Position	Tenure period	Whether receive remuneration and allowance
Wang Xiaojun	Wang & Co., XJ	Sloe Proprietor	Since 2001	Yes
	Yanzhou Coal Mining Co., Ltd.	Independent Director	From Apr. 2002 to May 2008	Yes
	Norinco International Cooperation Company	Independent Director	Since Jun. 2008	Yes
Lee Sun-leung, Sunny	NWS Infrastructure Management Limited	Senior manager	Since May 2006	Yes
Chen Xin	Guangdong University of Technology	Vice School Master	From Mar. 1995 to May 2008	Yes
	Guangdong Science and Technology Department	Deputy Director	Since Jun. 2008	Yes
Peng Xiaolei	Guangdong Guangye Assets Management Co., Ltd	Vice President & Chief Accountant	Since 2002	Yes
	Guangdong Nanyue Logistic Co., Ltd	Independent Director	Since Feb. 2004	Yes
Ye Weiming	Guangdong Xingyan Law Office	Partner, lawyer	Since Jul. 2001	Yes
Fu Xiaosi	Hubei Tri-ring Group Corperation	Chief Accountant	Since Sep. 2007	Yes

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

II. REMUNERATION INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration scheme for the sixth term senior management is as follows:

The basic remuneration of each of the sixth term executive directors, internal supervisors and senior management will be between RMB210,000 and RMB300,000 for the first year of the term, and will be adjusted in accordance with the performance of the Company for the second and third years, but will not be less than 90% of that in the first year nor exceed 120% of that in the previous year.

The Company may, in the absolute discretion of the Board of Directors, pay the executive directors, internal supervisors and senior management a discretionary year-end bonus based on the performance of the Group but such bonus will not exceed 3 percent of the Group's consolidated profit after taxation and minority interests (before payment of the bonus) minus any net extraordinary loss of the Group but taking no account of any net extraordinary gain of the Group for each financial year of the Group during the three-year period of the term.

The emolument of each independent non-executive director is RMB100,000, and that of each non-executive director, the chairman of Supervisory Committee and each external supervisor is RMB80,000, RMB200,000 and RMB60,000 respectively.

The five individuals their emoluments were the highest in the Company for the year include five directors or supervisors or senior management whose emoluments are reflected in "Basic information" above-mentioned, and in item 33(d),(Five highest paid individuals) of the Notes to the Consolidated Financial Statements on page 236.

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

The tenure of the fifth term Board of the Company expired in May 2008. All the directors and supervisors were reappointed by at the 2007 AGM, which was held on May 13, 2008, except for Mr. Wu Fabo and Mr. Bu Miaojin who resigned as having served the Company as independent non-executive directors for six years, and Mr. Li Junfeng and Mr. Wang Shiming who resigned as non-executive director and external supervisor respectively due to job relocations. In addition, the Company appointed Mr. Chen Xin and Mr. Peng Xiaolei as independent non-executive directors, Mr. Pan Zunxian as non-executive director and Mr. Fu Xiaosi as external supervisor by election at the 2007 AGM.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

IV. OTHER INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Interests of directors, supervisors and senior management

Except as disclosed under "Information of Directors, Supervisors and Senior Management", at no time during the year up to December 31, 2008 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.

(II) Service contracts of directors and supervisors

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

(III) Interests of directors and supervisors in contracts

During 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, 2008, the number of employees on the payroll register of the Company was 3,553, including 1,395 manufacturing staff, 37 marketing staff, 1,424 professional technical staff, 48 financial staff and 337 administrative staff. Besides, the number of retired employees of the Company was 3,128.

Among the staff of the Company, 200 persons are technical school graduates, 512 persons are college graduates, 850 persons are university graduates and 44 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.

INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(I) Employees' pension scheme

The Company and certain subsidiaries have joined the defined contribution retirement scheme operated by the provincial government of Guangdong Province since January 1, 1994. Under the scheme, during the period under review, the Company had made contributions to the scheme at the rate of 18% of the total salary (for purpose of calculating pensions, of all working employees). Upon retirement, the retirees will receive monthly payments from the Social Insurance Bureau of Guangdong Province. The contribution made by the Group for 2008 was RMB57,923,687.93 (2007: RMB41,842,355.69). In addition, during the year the Company had made payments of RMB1,796,887.58 (2007: RMB1,525,629.13) as subsidies to retirees.

(II) 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.

Pursuant to the document (Sui Fu [1999] 11) issued by Guangzhou Municipal Government concerned that the employees, whose staff quarters area after the Guangzhou City's housing reform has not meet the required standard in accordance with their positions of the day, can adjust their quarters by Commuting-purchase or compensating-purchase state-owned houses or get housing balance monetary allowance with an area not exceed the required standard prescribed by Guangdong Province. 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 which the total amount not exceeding RMB45 million before the end of November 2007. After the further verification, the total allowance amounted to RMB44.37 million, which has been recorded in the profit and loss statement for the year 2007. Allowance amounted RMB4.49 million has been paid in 2007 while the rest with an amount of RMB39.88 million has been paid off in 2008.

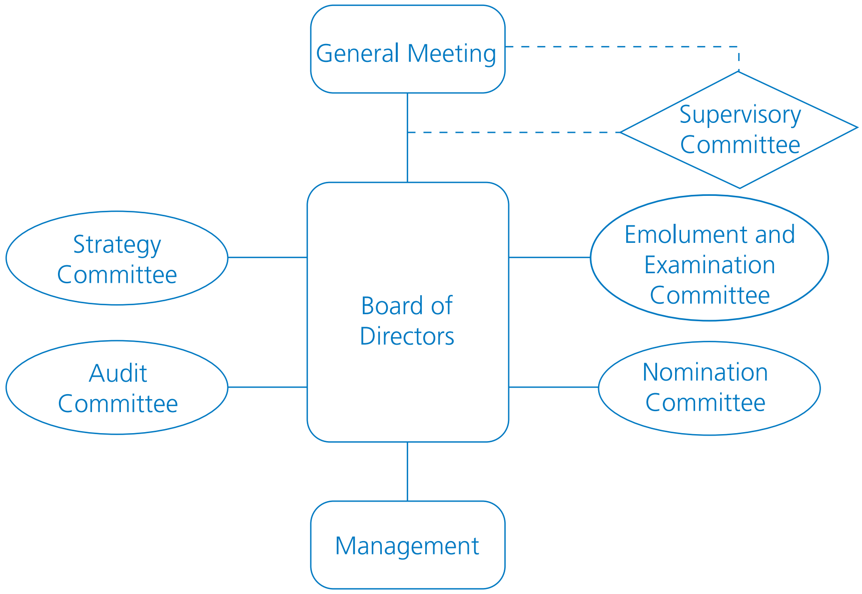
(III) Basic medical insurance

During the period under review, in accordance with the Measures Concerning Employee Medical Insurance, the Company joined the basic medical insurance scheme managed by Guangzhou Municipal Labor Protection Administration Department and paid insurance amounting to RMB15.42 million for its employees.

CORPORATE GOVERNANCE

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.

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. The Articles of Association of the Company list in detail the principal duties and powers of the Board of Directors in developing corporate strategies and management and the responsibility of supervision and examination of the Company's development and operation. The directors acknowledge their responsibility for preparing the accounts in this annual report.

The roles of the chairman and the president are distinctively separated and different persons undertake different tasks. The chairman is responsible for overseeing the operation of the Board and monitoring the implementation of the Board's resolutions, while 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 sixth term since the establishment of the Company, and is composed of eleven directors. The terms of office of the current directors are from May 13, 2008 or the respective dates of their appointments to the date of election of the next term of the Board or the dates of respective reelection by shareholders.

Members of the Board have different industry backgrounds with expertise in corporate management, finance and accounting, investment and strategy, shipbuilding management and law affairs, etc. The biographies of the directors of the Company are 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 2008, 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 twelve Board meetings in 2008 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 Meetings of the Fifth Term of the Board	Audit Committee	Emolument and Examination Committee	Strategy Committee	Nomination Committee
Directors					
Li Zhushi *(Chairman)*	4/4	–	–	1/1	–
Han Guangde *(President)*	4/4	–	–	1/1	–
Chen Jingqi	4/4	–	–	1/1	–
Zhong Jian	4/4	–	–	1/1	1/1
Yu Baoshan	4/4	–	2/2	–	–
Li Junfeng	4/4	–	–	1/1	–
Miao Jian	4/4	2/2	–	–	–
Independent Directors					
Wu Fabo	4/4	2/2	2/2	–	–
Bu Miaojin	4/4	–	2/2	–	1/1
Wang Xiaojun	3/4	–	–	–	1/1
Lee Sun-leung, Sunny	4/4	2/2	–	–	–

CORPORATE GOVERNANCE

Name	Board meetings of the Sixth Term of the Board	Audit Committee	Emolument and Examination Committee	Strategy Committee	Nomination Committee
Directors					
Li Zhushi *(Chairman)*	7/8	–	–	–	–
Han Guangde *(President)*	8/8	–	–	–	–
Chen Jingqi	7/8	–	–	–	–
Zhong Jian	8/8	–	–	–	1/1
Yu Baoshan	6/8	–	–	–	–
Pan Zunxian	7/8	–	–	1/1	–
Miao Jian	8/8	2/2	–	–	–
Independent Directors					
Wang Xiaojun	7/8	–	–	–	1/1
Lee Sun-leung, Sunny	8/8	2/2	–	–	–
Chen Xin	8/8	–	–	–	1/1
Peng Xiaolei	6/8	1/2	–	–	–

Except the independent non-executive director Mr. Peng Xiaolei did not attend or appoint other directors as his proxy to attend the seventh meeting of the sixth term of the Board when he was abroad and could not be contacted in time, 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 and election of directors is conducted by way of cumulative voting. The directors may offer themselves for re-election after the serve terms expire. 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.

The independent non-executive directors of the Company are familiar with the rights and obligations as directors and independent non-executive directors of a listed company. During the period under review, they all participated in the meetings of the Board in a highly conscientious and responsible manner, gave to the benefit of the Company their experiences and special knowledge in 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, 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 have confirmed to the Company that they continued to satisfy the independence criteria as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year.

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. The attendance of directors at meetings of the special committees of the Board please refer to "Attendance at meetings of the Board and its special committees" on page 26.

(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. Peng Xiaolei (chairman), Mr. Lee Sun-leung, Sunny and Mr. Miao Jian, of which Mr. Peng and Mr. Lee are independent non-executive directors.

The Audit Committee held four meetings during 2008. 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 chairman reported to the Board on significant matters discussed.

CORPORATE GOVERNANCE

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 (chairman), Mr. Han Guangde, Mr. Chen Jingqi, Mr. Zhong Jian and Mr. Pan Zunxian.

(III) Nomination Committee

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

The Nomination Committee is responsible for scouting suitable candidates from the Company, its controlled entities and the market in accordance with the demand for directors and the management personnel required by the Company, collects information on the profession, education qualification, professional title and working experience, etc of the candidates and seeks consent from the candidates. Afterwards, the Nomination Committee will hold nomination committee meetings to review the qualification of the candidates. If the candidates pass the review, the Nomination Committee will make a recommendation to the Board to hire the candidates, or the Board will make a recommendation to the general meeting to hire the candidates.

The Nomination Committee comprises independent non-executive director Mr. Chen Xin (chairman), independent non-executive director Mr. Wang Xiaojun and non-executive director Mr. Zhong Jian.

The Nomination Committee held two meetings in the year 2008 to discuss the nomination of the persons for director candidates, board chairman, vice board chairman and members of the special committees of the board and president candidate, and put forward proposals to the Board of Directors.

(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. Chen Xin (director member), independent non-executive director Mr. Peng Xiaolei and non-executive director Mr. Yu Baoshan. In 2008, the Emolument and Examination Committee held one meeting to discuss and determine the year-end reward scheme for executive directors, internal supervisors and senior management, the special reward scheme to crucial staff for the year 2007 and the remuneration Scheme for the Sixth Term Senior Management.

IV. CONTROL MECHANISMS

(I) Supervisory Committee

The Supervisory Committee is in its sixth term since the establishment of the Company, and was elected by the 2007 annual general meeting. The Supervisory Committee is composed of five supervisors, including three external supervisors and two staff supervisors.

The Supervisory Committee exercises independently the power of supervision upon the Company in accordance with the law to protect the lawful rights of the shareholders, the Company and its staff against any infringement. The size and composition of the Company's Supervisory Committee are in compliance with the requirements of the relevant laws and regulations. The Supervisory Committee held five meetings during 2008; 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. For information on their work refer to "Supervisory Committee Report" in this annual report.

(II) The Building of Internal Control System

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.

CORPORATE GOVERNANCE

The Company has designed an integrated internal control system adapted the current mode of manufacturing, operating, and managing of the Company, to ensure that decision-making and administration meet modern corporation governance levels. The internal control system includes management systems such as shareholders' general meeting, the Board and its professional committees, operations, financial, R&D, investment, human resources, purchasing, connected transactions and information disclosure. The internal control system has supplied a reliable guarantee for systematic decision-making on manufacturing and operations of the Company by after years of practice with continuous improvement and supplement.

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.

In 2008, in accordance with the requirements of "Notice Concerning Corporate Governance"【2008】 No. 27 issued by China Securities Regulatory Commission and "Notice Concerning Preventing Fund Occupancy of Listed Companies" issued by Guangdong Securities Regulatory Bureau, the Company summarized the status of specific corporate governance measures undertaken in 2007 and executed self-inspection of capital transactions with connected parties during the period under review, and finished "Corporate Governance Rectification Report" and "Self-inspection Report Concerning Fund Occupancy by Connected Parties", which were passed by the third and the fifth meeting of the sixth term of the Board respectively and published on the Website of Shanghai Stock Exchange.

Due to the characteristics of shipbuilding industry, the Company has a relatively large number of connected transactions with connected parties. The Company will continuously strengthen the standardization and improvement of the procedures for examining and approving connected transactions, to ensure the independence of independent directors, and seek effective methods to reduce connected transactions. Moreover, since the connected transactions are frequent and involve substantial amounts, the Company adopted measures to insure that the relevant accounts are settled in time, to rapidly recall accounts receivable, and to reduce the business funds occupancy by connected parties. Those ensured the ordinary manufacture and operation, enhanced the efficiency of capital usage, assured the safety of capitals, while protected the interest of minority shareholders.

In according with the relevant requirements of "Notice Concerning Compiling the Annual Report 2007 of Listing Companies" and the real statues of the Company, the Company working out "Anuual Reports Working Rules of Audit Committee of Board of Directors" and "Annual Reports Working Rules of of Independent Directors", Which would properly contribute the more effective work of the members of Audit Committee and independent directors and assure the annual reports fairly reflect the Company operations. Moreover, the Company also published "Provisions of Collecting Capitals" during the period under review.

CORPORATE GOVERNANCE

At present, the Company has formed comparatively complete internal control system. The concept and style of operations management, the structures of organization and duties of divisions, the relevant internal control system, internal and external communications as well as the human resource management policy have formed the internal control environment of the Company. In order to collect, analyze, classify, measure, record, and report transactions, reflect the management's operation performance and the liability in keeping relevant assets and liabilities under commission, the Company established relevant methods and records which composed the accounting system of the Company. For ensuring the effective implementation and fulfilling of the internal control system, the management of the Company has adopted the means included ratifying, authorizing, verifying, coordinating, checking, periodic checking, recording checking, property protection, responsibility separating, performance examination and the independent audit system which composed the procedures of internal control or the Company. The internal control environment, accounting system and control procedures composed the key elements of the completed internal control system of the Company. The Company holds the staff with rich experience in financial report

In 2008, nine directors, supervisors and senior managers of the Company attended training courses for directors, supervisors, and senior managers held by Guangdong Securities Regulatory Bureau and Hubei Securities Regulatory Bureau of China Securities Regulatory Commission.

(III) Self-evaluation Report on Internal Controls

In accordance with the Internal Control Framework of the Company, the Company shall review its internal control once a year and report on the same to audit committee and the Board. The Head Office, Audit Department, Enterprise Planning Department and Shipbuilding Management Department are in charge of the review and supervision of the internal control of the Company.

In 2008, the Board carried out the self-evaluation on the internal controls of the Company. The Board considers that the Company has formed comparatively complete internal control procedures and risk management system, which provide reasonable assurance to the effective operation and stable development in each field of the Company. The Company has not appointed professional organization to verify and appraise the internal control situation in 2008.

(IV) Auditors

The financial statements for the year of 2008 were made in accordance with PRC Accounting Standards and Regulations and the HKFRS, which have been audited by the domestic auditors Ascenda Certified Public Accountants, Limited (Beijing) and international auditors PricewaterhouseCoopers, Certified Public Accountants respectively.

During the period under review, the Company has not changed its auditors, and fees for domestic auditor and international auditor for the year of 2008 were RMB0.68 million and RMB2 million respectively. Up to the end of this period, Ascenda Certified Public Accountants, Limited (Beijing) has provided its audit services to the Company for 3 years, and auditor PricewaterhouseCoopers, Certified Public Accountants has provided its audit services to the Company for 16 years.

CORPORATE GOVERNANCE

Meanwhile, relevant transactions, external guarantee and the other audit services and no non-audit 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 2008 Annual Report are Mr. Xiong Jianyi and Mr. Yan Gangjun.

(V) 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 Accounting Standards and Regulations 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.

(VI) Qualified Accountant

The Company was granted a waiver from strict compliance with rule 3.24 of the Listing Rules on January 22, 2008 by The Stock Exchange of Hong Kong Limited for the three years from January 1, 2008 to December 31, 2010. The Company engaged 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 the discharge of the duties in the oversight of the Company's financial reporting procedures and internal controls.

Due to the regulations of the qualified accountants had been removed, and Mr. Donald K W Chau has resigned as financial advisers, the Company will not engage qualified accountant since January 1, 2009, and the Board of the Directors take this opportunity to appreciate Mr. Chau for his services.

CORPORATE GOVERNANCE

V. SHAREHOLDERS AND OTHER SHAREHOLDERS

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. Each notice convening a general meeting was issued 45 days prior to the date of the meeting, and all directors, supervisors and members of the senior management were requested to make their best efforts to attend. All shareholders are encouraged to attend general meetings and make their voice heard. Details of general meetings held in 2007 refer to "Brief Introduction to the 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 "Share Capital and Shareholders" of this Annual Report.

(III) Information Disclosure and Investor Relations Management

The Company believes that the core of the investor relations is effective communication; full 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 2008, the Company enhanced work in investor relations, issued annual report, interim report, quarterly report and announcements in relation to rumors and unusual price and volume movements in time, objectively provided relevant information required by law or possibly influencing investors' interest, and improved the information disclosure standards continuously. Furher, the Company also expatiated its operational situation and prospects to investors through road show, visiting investors, conference call, analyst interview, and attending investors' forum and e-mail.

CORPORATE GOVERNANCE

(IV) Other Stakeholders

The Company established "Remuneration Scheme for the Sixth Term Senior Management" and "Performance Examination Rules of Directors, Supervisors and Senior Management", with a view to prompt them to make concerted efforts and devote themselves to the sustainable healthy development of the Company.

The Company implemented the corporate pension funds system in order to advance the remuneration system, strengthen the coherence of the Company, and establish long-term stimulating system, to enable the employees to share benefits and risks with the Company.

The Company adheres to legal and ethical operation, concurrently with profit maximization, the Company actively protects the legal interest of investors, creditors and its staff, deals with customers and suppliers in good faith, engages in environment protection and carries out Green Shipbuilding, participates social service, to advance harmonious development of the Company and the society. For details refer to the 2008 Social Responsibility Report prepared by the Board of Directors.

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 measures must be reviewed on a regular basis to ensure that they are in tandem with market trends and requirements of regulatory authorities. It is a long-term goal of the Company to achieve unwavering corporate system leadership, through establishing and improving upon a modernized corporate system. As such, we will continue to enhance corporate governance as part of our efforts to ensure stable development and to increase shareholders' value.

BRIEF INTRODUCTION TO THE GENERAL MEETINGS

I. ANNUAL GENERAL MEETING

The 2007 Annual General Meeting was held at the conference room of the Company at 40 South Fangcun Main Road, Guangzhou, the PRC on May 13, 2008 with the main resolutions passed at which are as follows:

1. To approve the annual report for the year 2007.

2. To approve the proposal for profit distribution for 2007 – offset against the loss of undivided profit and deduct contributions to statutory public welfare fund, a dividend of RMB0.5 on each ordinary share will be paid.

3. To approve the remuneration scheme for the sixth term senior management.

4. To elect the members of the sixth term of the Board and the Supervisory Committee.

5. To amend the Articles of Association of the Company.

6. To reappoint the domestic and international auditors for the year 2008.

The announcement in relation to the resolutions passed at the meeting has been published on May 14, 2008 in the Shanghai Securities News, the website of Shanghai Securities Exchange (www.sse.com.cn), the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinagsi.com).

II. EXTRAORDINARY GENERAL MEETING AND CLASS MEETING

The first extraordinary general meeting of 2008, first class meeting of domestic shares of 2008 and first class meeting of foreign shares of 2008 (the "meetings") were held at the conference room of the Company at 40 South Fangcun Main Road, Guangzhou, the PRC at 1:30 P.M. on August 18, 2008 with the main resolutions passed at which are as follows:

1. Approved the 2008 Rights Issue Proposal of the Company.

2. Approved the change of name of the Company, and authorized the Board to amend the relevant provisions of the Articles of Association of the Company.

3. Approved the feasibility study report on the investment projects regarding the fund raising proposal.

4. Approved the resolution in respect of the arrangement of the undistributed profits before the rights issue.

5. Approved the supplemental agreement and the conditional second agreement to the framework agreement for continuing connected transactions in 2007 to 2009 with CSSC.

The announcement in relation to the resolutions passed at the meeting, which was published on August 19, 2008 in the Shanghai Securities News, the website of Shanghai Securities Exchange (www.sse.com.cn), the website of the Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the website of the Company (www.chinagsi.com).

REPORT OF THE BOARD OF DIRECTORS

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

(I) General Situation and Result

In 2008, the handy-size tanker shipbuilding market faced its first low tide since the continuously prosperous period from 2004. Not only was there overall decrease in shipbuilding demands, the Company also faced rising prices of shipbuilding raw materials, labor cost and RMB against U.S. dollar exchange rate, which resulted in increase of shipbuilding cost of the Company. Moreover, due to the change of the relationship between demand and supply in shipbuilding market caused by the global financial crisis, the profitability of the Company decreased during the period under review.

To effectively meet the changes of market environment, the Company adjusted the strategy of securing shipbuilding orders, promoted new ship types meeting the requirements of CSR (Common Structural Rules) and PSPC (Performance Standards for Protective Coatings) in China and speeded up development of the domestic shipbuilding market. Besides, it controlled the cost of raw material and purchasing cost strictly through adjusting raw steel material reserve properly and improving utilization rate of raw steel material, made reasonable use of policies and financial instruments to strengthen cash flow management and risk prevention, further optimized resource allocation and manufacturing management procedures as well as improved the shipbuilding efficiency and achieved the sustained growth of shipbuilding output.

As at December 31, 2008, the operating income of the Group prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB6.98 billion (including RMB6.84 million of principal operating income), representing an increase of 17.33% over that of last year. The audited consolidated net profit attributable to shareholders amounted to RMB820 million, representing a decrease of 12.78% over that of last year. The earnings per share and that after deduction of exceptional items were RMB1.66 and RMB1.62 respectively, representing decreases of 12.78% and increase of 15.23% respectively.

In the financial statements prepared in accordance with HKFRS for the year ended December 31, 2008, the turnover of the Group amounted to RMB6.98 billion, representing an increase of 18.24% over that of last year. The profit attributable to shareholders after taxation and minority interest amounted to RMB820.40 million, representing a decrease of 12.59% over that of last year. The earnings per share was RMB1.658.

1. Main work in and results

- Overcoming the capacity insufficiency of block manufacturing, work space restriction and short supply of materials, the Company created a new record as having commenced construction work for 19 vessels, launched 17 vessels and completed 18 vessels with a total tonnage of 710,000dwt. In the meanwhile, the Company optimized allocation of resources and manufacturing management procedures, which made great improvement in shipbuilding efficiency, shipbuilding cycle, man-hour per CGT and utilization rate of raw steel material.

REPORT OF THE BOARD OF DIRECTORS

- The Company adjusted its operational strategy and optimized its product mix, making a major breakthrough in securing shipbuilding orders of hi-tech vessels and vessels that satisfied the PSPC. During the period under review, the Company secured shipbuilding orders for constructions of four 1,400-passerger capacity Ro/Ro passenger vessels and nine 50,000dwt chemical/product oil tankers that meet the requirements of PSPC, which realized an important turn point of the strategic goal of the Company and consolidated the position of the leading position of the Company in handy-size tanker segment. As at December 31, 2008, the Company secured shipbuilding orders for construction for 63 vessels, with a total tonnage of 2,841,700dwt and the delivery dates till year 2012.

- The Company realized the integration operations relating to finance by CIMS (Computer Integrated Manufacturing System), and initially achieved the information management of logistics.

- The Company has been recognized as a hi-tech enterprise and its enterprise income taxation rate will be decreased to 15% for the three years from 2008 to 2010.

- The Company made reasonable use of policies and financial instruments to avoid exchange risk and reduce the loss of the Company; strengthened cash flow management to maximize the stock capital effect and profit and insure the safety of working capital.

- The Company completed the overall relocation of Mechanical Processing Center, established Research and Development Department of Steel Structure Company and Guangzhou GSI Large-size Mechanical Equipment Company Limited, and oriented products of non-shipbuilding operations and realized the transformation from light assets to enterprise entity initially.

2. *Technical innovation and energy-saving & environment protection*

In line with market exploitation, the Company optimized the chemical/product oil tanker of 25,000-27,000dwt and the fat shallow-draft chemical/product oil tanker of 42,000dwt; upgraded the NC water-fire heating plate bending machine, a hi-tech shipbuilding equipment, and expect to launch further new products. Furthermore, the 51,800dwt IA Ice Class chemical/product oil tanker of the Company won second prize of National Science and Technology Progress of Guangzhou in 2008 and 40,000dwt product oil tanker was awarded as Brand Ship Type of 2008 by China Shipbuilding Industry Association.

In 2008, the Company has made great progress in the second phase of GSI-CIMS project and the project of "ship design, shipbuilding and management integration digital platform" issued by State Asset Supervision and Administration Commission, and accomplished all product development tasks and implementation tasks, and at the same time also actively complemented the implementation of the shipbuilding mode transformation and other key projects of the Company.

REPORT OF THE BOARD OF DIRECTORS

The Company consciously performs social responsibility, actively develops pollution prevention and disposal, as well as carries out clean production and energy-saving and emission reduction. As to pollution disposal, the Company enforced noise abatement projects and implemented high-expenditure projects of environmental protection reconstruction of coating technique, which actively gave impetus to the Company toward becoming an environment-friendly enterprise.

Through improving working condition, adhering to essential safety and actively developing environment protection technology innovation, the Company avoided and reduced accidents, and promoted the continuous improvement of safety and environment protection management, to build the Company into a new sustainable-developed shipbuilding enterprise of safety, green, civilization and environmental protection.

(II) 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 2007 (%)	Change in operating cost over that of 2007 (%)	Change in operating gross margin over that of 2007 (%)
Shipbuilding	5,904,445,106.67	5,090,138,906.66	13.79	14.99	18.99	-2.89
Steel structure	659,890,955.31	604,550,304.54	8.39	68.41	74.49	-3.19
Electrical & mechanical products and others	283,334,519.51	265,132,537.92	6.42	-0.60	20.30	-16.26

REPORT OF THE BOARD OF DIRECTORS

The principal operating income of the Company in 2008 amounted to RMB6.848 billion, representing an increase of RMB1.036 billion and 17.83% compared with that of 2007. Such increase was mainly benefited from the shipbuilding operation, the income of which amounted to RMB5.904 billion, representing 86.22% of the total principle operating income and increased by 14.99% compared with that of 2007. The income from steel structure amounted to RMB0.66 billion representing an increase of 68.41% compared with that of 2007. The marked increase was mainly due to the delivered steel structure project of manufacturing and installing crane built for CSSC Jiangnan Heavy Industry Company Limited and the doors for dry docks built for CSSC Guangzhou Longxue Shipbuilding Co., Ltd in 2008. The income from electrical & mechanical products and others amounted to RMB0.283 billion representing a decrease of 0.60%.

REPORT OF THE BOARD OF DIRECTORS

The gross profit and the gross margin of shipbuilding product amounted to RMB0.814 billion and 13.79%, representing a decrease of 2.89%, which was mainly due to the sharp increase in the price of steel and row materials as well as the labor cost. And for the long shipbuilding circle and the cost should be recorded when shipbuilding commenced, the cost recorded in 2008 has not decreased even though the price of steel and row materials decreased back in the fourth quarter of 2008.

The gross margins of steel structure and electrical & mechanical products and others have obvious changes due to the increase in steel price and labor cost, the lower gross margin of the projects secured in 2008 and the increase in RMB against U.S. dollar exchange rate. The incomes from steel structure and electrical & mechanical products and others represented 13.78% in total principal operating income, increased slightly over that of 2007, and had less influence on the whole result of the Company.

REPORT OF THE BOARD OF DIRECTORS

2. *Geographical analysis of turnover*

Unit: RMB

Countries or regions	Operating income For the year 2008	Operating income For the year 2007	Increase or decrease (%)
Malta	**1,248,505,028.09**	347,929,458.32	258.84
Germany	**327,760,861.88**	19,585,199.43	1,573.51
Denmark	**2,114,264,244.03**	723,881,803.84	192.12
Macao	**440,950.00**	17,865,136.78	-97.53
Italy	**30,144,808.15**	–	100.00
U.S.A	**357,014,494.29**	269,820,040.27	32.32
Oman	**–**	43,842,287.05	-100.00
Hong Kong	**299,633,532.71**	11,851,039.11	2,428.33
Greece	**532,198,804.79**	918,019,743.30	-42.03
Taiwan	**8,189,067.59**	5,785,152.59	41.55
Sweden	**399,078,654.64**	325,341,877.43	22.66
Liberia	**–**	1,008,570,307.94	-100.00
India	**1,413,858.69**	–	100.00
Others	**–**	8,243,641.11	-100.00
Subtotal	**5,318,644,304.86**	3,700,735,687.17	43.72
Mainland China	**1,529,026,276.63**	2,110,732,642.18	-27.56
Total	**6,847,670,581.49**	5,811,468,329.35	17.83

REPORT OF THE BOARD OF DIRECTORS

(III) Major customers and suppliers

In 2008, the turnover attributable to the Group's five largest customers amounted to RMB4.24 billion and accounted for 61.88% of the total turnover of the Group. Of which, the turnover from Malta Emerld Shipping Company, the Group's largest customer, amounted to RMB1.25 billion, representing 18.23% of the total turnover of the Group.

In 2008, the purchase of raw materials and equipment from the Group's five largest suppliers amounted to RMB4.11 billion and accounted for 52.69% of the total purchases of the Group. Of which, the purchase from Chongqing Iron and Steel Co., Ltd., the Group's largest supplier, amounted to RMB960 million and accounted for 12.31% of the total purchase of the Group.

None of the directors, supervisors and their respective associates had any interests in the major customers or 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.

(IV) Internal control system in relation to fair value measurements

The assets which used fair value measurement of the Company includes derivative financial instrument for the purpose of evading exchange risk and tradable financial instrument. The Company is cautious about exchange risk. The risk precaution policy established by the Board is for the premise of fixing income or solidifying cost based on existed trade operation, never allow any speculate or arbitrage transaction occurs. Under the Board's policy, the Company has hired professional financial institution as consultant, establishes groups of professional team or found internal report procedure to handle the exchange rate risk evading or hedging, including holding or trading derivative financial instrument (a majority of forward exchange contracts), adjusting the debt structure (usually the adjustment of proportion of debt in RMB and in foreign currency), etc. The Senior management summarizes the risk precaution work periodically, discloses the fair value of related transaction and reports to the Board. The tradable financial instrument held by the Company are mainly the shares of listing companies for the purpose of long-term investment or strategic investment. The Company had designated relevant department to carry the responsibility of folowing the fair value and its fluctuation of related assets consistently, and shall take proper action to protect the Company's interest please refer to the risk management of account policies on page 93.

REPORT OF THE BOARD OF DIRECTORS

Items prepared in accordance with fair value measurements

Unit: RMB

Item	Opening balance	Profit and loss in 2008	Accumulated from fair value changes and accounted as equity	Impairment withdrawed in 2008	Closing balance
Financial assets					
Including:					
1. Financial assets prepared in accordance with fair value measurement and the change has been recorded in the current profit and loss	294,309,931.43	-136,949,029.23	–	–	157,360,902.20
Including: derivative financial assets	294,309,931.43	-136,949,029.23	–	–	157,360,902.20
2. Available-for-sale financial assets	575,174,357.75		-277,206,895.85		185,450,000.00
Subtotal	869,484,289.18	-136,949,029.23	-277,206,895.85		342,810,902.20
Financial liabilities	11,628,218.98	6,428,373.99	–	–	5,199,844.99

(V) Foreign currency financial asset and financial liabilities

Unit:RMB

Item	Opening balance	Profit and loss in 2008	Accumulated from fair value changes and accounted as equity	Impairment withdrawed in 2008	Closing balance
Finacial assets					
Including:					
1. Financial assets prepared in accordance with fair value measurement and the change has been recoded in the current profit and loss	294,309,931.43	-136,949,029.23		–	157,360,902.20
Including: derivative financial assets	294,309,931.43	-136,949,029.23		–	157,360,902.20
2. Account receivable					
(1) Account receivable	199,886,900.67		–	727,216.36	145,443,272.32
3. Available-for-sale financial assets	–		–	–	–
4. Held-to-maturity financial assets	–		–	–	–
Subtotal	494,196,832.10	-136,949,029.23	–	727,216.36	302,804,174.52
Financial liabilities					
(1) Derivative financial liabilities	11,628,218.98	6,428,373.99	–	–	5,199,844.99
(2) Loans	2,016,800,399.40				1,511,718,362.40

Note: Gains from change of the fair value included expired derivate financial instruments during the period under review, which realized the investment income amount to RMB116,665,210.50.

REPORT OF THE BOARD OF DIRECTORS

(VI) Financial position analysis

1. Balance sheet items

Unit: RMB

Balance sheet items	Closing balance	As at the same period last year	Increase of decrease (± %)
Tradable financial assets	157,360,902.20	294,309,931.43	-46.53
Interest receivable	142,294,820.00	49,915,107.00	185.07
Available-for-sale financial assets	185,450,000.00	575,174,357.75	-67.76
Construction-in-progress	262,095,452.84	105,089,480.85	149.40
Deferred tax assets	6,810,856.62	10,660,450.50	-36.11
Tradable financial liabilities	5,199,844.99	11,628,218.98	-55.28
Accounts payable	832,918,241.67	624,390,269.85	33.40
Salary payable	23,367,012.97	35,803,402.22	-34.74
Taxes payable	126,535,514.31	272,040,368.76	-53.49
Other payables	32,592,043.79	91,033,359.16	-64.20
Long-term borrowings	205,038,000.00	385,495,618.91	-46.81
Provisions for foreseeable liabilities	87,150,182.48	61,652,483.76	41.36
Deferred tax liabilities	55,440,080.20	201,603,184.22	-72.50
Other non-current liabilities	5,714,990.79	18,192,133.87	-68.59
Undistributed earnings	1,232,098,604.09	736,574,570.94	67.27

Note:

- The decrease of 46.53% in balance of tradable financial assets is resulted from the fair value changes derived by fluctuated market price and the deliveries of forward contracts during the period under review.
- The increase of 185.07% in balance of interest receivable is resulted from the increase fixed deposits.
- The decrease of 67.76% in balance of available-for-sale financial assets is resulted from the changes of the fair value.
- The increase of 149.40% in balance of construction-in-progress is resulted from the additional investments on renovation projects and investment in Mechanical Processing Center.
- The decrease of 36.11% in balance of deferred tax assets is due to the changes of income tax rate and reversed part of deferred tax asset.
- The ending and beginning balance of tradable financial liabilities accounts based on the fair value of derivate financial instruments, and the decrease of 55.28% in balance is resulted from the settlement of derivate financial instruments and changes of fair value caused by fluctuation of market price.

REPORT OF THE BOARD OF DIRECTORS

- The increase of 33.40% in balance of accounts payable is resulted from purchasing increase to cope with enlargement of the product size.

- The decrease of 34.74% in balance of salary payable is resulted from the payment of bonus accrued in last year.

- The decrease of 53.49% in balance of taxes payable is resulted from the decrease of income tax rate.

- The decrease of 64.20% in balance of other payables is resulted from the payment of employees' housing subsidies, supplementary pension, house-purchasing support and housing monetary subsidies for retirees.

- The decrease of 46.81% in balance of long-term borrowings is resulted from the repayment of bank loans.

- The increase of 41.36% in balance of provisions for foreseeable liabilities is resulted from the increase in product warrant as the sales revenue increased.

- The decrease of 72.50% in balance of deferred tax liability resulted from the significant decrease in fair value of available-for-sale financial assets due to the decrease of stock prices, the reliable income from exchange due to settlement of partial expired derivate financial instruments, and the adjustment of enterprise income tax rate in 2008.

- The decrease of 68.59% in balance of other non-current liabilities is resulted from the completion of partial research projects.

- The increase of 67.27% in balance of undistributed earnings is resulted from addition of current profit.

2. *Profit and loss statement items*

Unit: RMB

Profit and loss statement items	**As at Dec. 31, 2008**	**As at Dec. 31, 2007**	**Increase of decrease** (±%)
Financial expenses	**-288,581,498.27**	-150,369,238.43	91.92
Assets impairment loss	**-3,959,877.74**	15,578,166.56	-125.42
Income/Losses from fair value changes	**-130,520,655.24**	282,540,017.01	-146.20
Investment income	**136,718,751.83**	44,924,326.96	204.33
Non-operating income	**70,374,746.45**	243,081,133.44	-71.05
Non-operating expenditure	**6,759,353.39**	9,851,622.04	-31.39
Income tax	**81,113,055.51**	380,615,081.01	-78.69

REPORT OF THE BOARD OF DIRECTORS

Note:

- The decrease of 91.92% in financial expenses is due to the increase in exchange gain of foreign currency loans which was benefited from continuous Renminbi appreciation as well as the increase in interest income with the reasonable cash management.

- The decrease of 125.42% in asset impairment loss is resulted from reuse of the raw materials that was accrued with provisions, and thus reverses the provision.

- The decrease of 146.20% in income/losses from fair value changes results from settlement of some foreign exchange forward contracts, and from the fluctuation of market value on the contracts that are not matured.

- The increase of 204.33% in investment income is resulted from the incremental proceeds of holding and disposal of financial assets at fair value through profit or loss, and available-for-sale financial assets.

- The decrease of 71.05% in non-operating income is due to the decrease of government grant and subsidies.

- The decrease of 31.39% in non-operating expenditure is due to the decrease of losses from disposal of non-current assets.

- The decrease of 78.69% in income tax is due to the changes of income tax rate and current net profits.

3. *Cash flow statement items*

Unit: RMB

Cash flow statement items	As at Dec. 31, 2008	As at Dec. 31, 2007	Change (±%)
Net cash flow from operating activities	**-195,267,322.66**	1,818,659,141.44	-110.74
Net cash flow from investing activities	**-760,569,150.21**	240,334,805.86	-416.46
Net cash flows from financing activities	**-681,882,351.01**	352,259,684.49	-293.61

Note:

- The reasons for decrease of 110.74% in net cash flow from operating activities are that the Company secured less shipbuilding orders, which resulted from the adjustment of the strategy of acquisition of shipbuilding orders and product structure, as well as purchased more materials to relieve the effect of short supply and high price of raw materials.

- The decrease of 416.46% in net cash flow from investment activities mainly resulted from increase of deposits under lien for instruments that are designed to hedge foreign exchange risks.

- The decrease of 293.61% in net cash flow from financial activities mainly resulted from the repayment of mature and undue bank loans, and payment of dividends.

REPORT OF THE BOARD OF DIRECTORS

(VII) Prospects for the coming year

In 2009, alongside with the spread and expansion of global financial crisis and the adjustment of State financial and monetary policy, the risk in operation, exchange rate risk and interest rate risk of the Company will increase. The Company will potentially suffer problems in respect of investment construction, capital operation, materials supply, development in marine equipment, production operation and so on. Although the challenges and pressure is obvious, there is no change in the world shipbuilding industry transferring to China and the support of continuous accelerating development in shipbuilding industry by the State. In 2009, the National Development and Reform Commission promulgated Outline of Program for Reform & Management of Pearl River Delta (2008-2020) and Program for Revitalization of Shipbuilding Industry (2009-2011), and the shipbuilding industry would obtain more policy support. Moreover, the handy-size tanker market kept relative stability which helped the Comapny suffered less. The Company will fully realize the difficulties and challenges, and enhance control on cost and quality, strengthen risk prevention and production plan, to ensure vessels be delivered on schedule and to maintain sustained healthy and stable development of the Company.

Plan for the New Year

- Shipbuilding operation: to advance the combination of establishing new shipbuilding mode and PSPC production experiment, strengthen the development and application of CIMS and promote accuracy management; to increase block supply from subcontracts for ensuring its supply, strengthen shipbuilding production management, further improve the production efficiency and reduce the shipbuilding cycles, to achieve the goal of "Commence construction of 18 vessels, launch 19 vessels and deliver 18 vessels".

- Non-shipbuilding operations: to accelerate the acceptance testing of Mechanical Processing Center; to grasp the opportunity offered by CSSC to optimize strategy of shipbuilding industry of South China, to plan the co-development of Shipbuilding and non-shipbuilding, to maintain and develop the traditional electro-mechanical products market, and to create the second pillar operation of the Company.

- Technical innovation: taking the opportunity of the adjustment of shipbuilding market, to strengthen the development of new ship types and optimization of technical specifications, intensify the exploitation of low-cost and economical ship, enhance the development of special vessels and hi-tech vessels; to improve the research on new ship rules and regulations and deal with the higher ship standard in relation to environmental protection, pollution prevention, energy-saving and emission reduction in advance.

- Risk prevention: to strengthen quality management for building high-quality products and estimate risk on orders in hand and set up early warning and supervision system; to improve shipbuilding procedures and the internal control as well as production and function management of non-shipbuilding operation; to pay close attention to the change of RMB against U.S. dollar exchange rate, improve financial risk control, re-estimate the original measures to avoid the risk exchange rate, and research new measures of foreign exchange hedge to reduce cost or fix purchasing cost and income.

REPORT OF THE BOARD OF DIRECTORS

- Cost control: to advance man-hour management, raise the utilization rate of steel and strictly control expense and cost to ensure the profitability and sustainable development of the Company.

- Human resource: to focus on the development of marketing and research & development personnel, adjust the employment pattern in accordance with the change of the market to maintain the subcontract labor team; to consummate talents selection and cultivation system with performance method, and to promote the whole quality of human resource.

Capital expenditure plan

It was expected that the capital expenditure of the Group during 2009 would be approximately RMB570 million which will be mainly used in fixed asset investment. The Group has sufficient financial resources to meet the demand for its capital expenditure and daily working.

II. 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 RMB348 million, decreased by RMB99 million and representing a decrease of 28.39% compared with that of last year. The investments in 2008 are mainly as follows:

Unit: RMB'0000

Items	Amount	Progress	Income
Registered Guangzhou GSI Large-size Mechanical Equipment Company Limited	3,000	Completed	Hasn't open business
Increased investment in Glory Group Development Co., Ltd	2,643	Completed	RMB6.58 million during 2008
Increased Investment in Zhengjiang CSSC Hyundai Generator Equipment Co., Ltd	1,120	Completed	RMB2.92 million during 2008
Innovation in reform projects and equipments of Machining Center	27,995	Partially completed	Income of completed part was reflected in the total profits of current year

REPORT OF THE BOARD OF DIRECTORS

Major subsidiaries

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

Unit: RMB'000

	Company name	Principal activities	Registered capital	Interest attributable to the Company (%)	Assets	Net profit (loss)
Directly held subsidiaries						
1	Guangdong Guangzhou Shipyard International Elevator Co., Ltd.	Elevator production and sales	21,000	95	63,389	937
2	Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	80	25,107	349
3	Guangzhou Hongfan Information Technique Co., Ltd.	Development of computer software, system integration and sales of hardware	5,000	51	12,243	2,642
4	Guangzhou Xinshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	83	28,281	2,845
5	Masterwood Co., Ltd.	Furniture manufacturing	3,315	51	12,249	526
6	Guangzhou GSI Large-size Mechanical Equipment Co., Ltd.	Design, processing, installation and sale of marine auxiliaries, large-size mechanical and electric equipments sets, wind power equipments, shearing and pressing machine, shield machine, hydraulic machinery, plastics injection moulding machine and metal structure	30,000	100	30,047	–
7	United Steel Structures Limited	Large-sized steel structure	73,573	51	215,344	34,401
8	Glory Group Development Co., Ltd.	Trading	HKD30,000	100	173,848	8,029
Indirect held subsidiaries						
9	Masterwood Co., Ltd.	Furniture manufacturing	3,315	25	12,249	526
10	Guangzhou Hongfan Hotel	Traveling and catering services	10,000	99.11	8,250	307
11	Guangdong Guangzhou Shipyard International Elevator Co., Ltd.	Elevator production and sales	21,000	3.8	63,389	937
12	Fonkwang Development Ltd.	General trade	HKD200	70	139,638	5,476
13	Guangzhou Guangli Shipbuilding Human Resources Service Co., Ltd.	Personal service, ship installation, welding, derusting and paint	500	15.20	25,107	349
14	Guangzhou Xinshun Shipping Service Co., Ltd.	Hull installation, welding, coating and repairing of ships	2,000	16.18	28,281	2,845

REPORT OF THE BOARD OF DIRECTORS

Glory Group Development Co., Ltd. and Fonkwang Development Ltd. were incorporated and operating in Hong Kong, all other above-mentioned subsidiaries were established and operating in Mainland China.

Properties investment

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, sale	No
Real estate in Wushan Road, Guangzhou	Jinfu Garden, Wushan Road in Guangzhou, Guangdong Province	Rent, sale	No
Real estate in Henshan, Guangdong	Huangyuan, No. 496 Xincheng Road, Shaping Town in Heshan, Guangdong Province	Rent, sale	No
Shops in Hengyang, Hunan	No. 33 Jiefang Road, High-tech Development Zone in Hengyang City, Hunan Province	Rent, sale	No
Real estate in Dongguan, Guangdong	Building 1, West Three Yunhe Road in Dongguan City, Guangdong Province	Rent, sale	No
House property in Longgang Town, Shenzhen	Dongseng Garden, Ailian village in Longgang Town in Shengzhen, Guangdong Province	Rent, sale	No

III. THE REASONS AND INFLUENCES OF CHANGES OF THE ACCOUNTING POLICIES AND ACCOUNTING ESTIMATE AND MODIFICATION OF SIGNIFICANT FINANCIAL ERRORS OF THE COMPANY

During the period under review, there is no change of accounting policies, accounting estimate and modification of significant financial errors of the Company

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 twelve 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
Twenty-eighth meeting of the fifth term of the Board	Jan. 25, 2008	Shanghai Securities News	–	Note 1
Twenty-ninth meeting of the fifth term of the Board	Feb. 18, 2008	Shanghai Securities News	–	Note 2
Thirtieth meeting of the fifth term of the Board	Mar. 18, 2008	Shanghai Securities News	Mar. 19, 2008	–
Thirty-first meeting of the fifth term of the Board	Apr. 24, 2009	Shanghai Securities News	Apr. 25, 2009	–
First meeting of the sixth term of the Board	May. 13, 2008	Shanghai Securities News	May. 13, 2008	–
Second meeting of the sixth term of the Board	Jun. 30, 2008	Shanghai Securities News	Jul. 1, 2008	–
Third meeting of the sixth term of the Board	Jul.10, 2008	Shanghai Securities News	–	Note 3
Fourth meeting of the sixth term of the Board	Jul. 18, 2008	Shanghai Securities News	Jul. 19, 2008	–
Fifth meeting of the sixth term of the Board	Aug. 22, 2008	Shanghai Securities News	Aug. 23, 2008	–
Sixth meeting of the sixth term of the Board	Oct. 28, 2008	Shanghai Securities News	Oct. 29, 2008	–
Seventh meeting of the sixth term of the Board	Nov. 13, 2008	Shanghai Securities News	–	Note 4
Eighth meeting of the sixth term of the Board	Dec. 10, 2008	Shanghai Securities News	–	Note 5

Note:

1. The twenty-eighth meeting of the fifth term of the Board considered and approved to apply for 3-year loans within a total amount of USD0.5 billion for ship export by means of deposit pledge, and authorized the executive directors of the Company to sign legal documents such as loan contract and guaranty contract (note: the USD0.5 billion not counting the USD0.4 billion credit amount as approved by ways of written resolution on December 14, 2007).

REPORT OF THE BOARD OF DIRECTORS

2. The twenty-ninth meeting of the fifth term of Board considered and approved three resolutions which are as follows:

   - Considered and approved the sale of 48 house properties located in Dongseng Garden, Ailian village in Longgang Town in Shengzhen, with a price no less than RMB150, 000 for each, and the buyers shall bear all the transfer taxs and fees. The meeting authorized the executive directors to sign relevant documents.

   - Considered and approved to dismiss Strategic Management Department and Investment Development Department, and established Planing Department, which enjoys functions of original Strategic Management Department and Investment Development Department, Cost Management of Shipbuilding Management Division, as well as system authentication and support functions of Quality Control Department and Safety and Security Department.

   - Considered and approved to implement special rewards to senior management and backbone staff, including of which, the rewards for eleven senior management (including Mr. Wang Yi resigned as vice president, Mr. Yang Li and Mr. Zhou Dusheng elected as vice presidents in 2007) amounted to RMB3.48 million (with the hightest of RMB0.4 million), representing 43.5% in the total rewards. The other RMB4.52 million shall be allocated to backbone staff as special contribution award in accordance with performance and the allocation plan shall be decided by the senior management.

3. The third meeting of the sixth term of Board considered and approved four resolutions which as follows:

   - Considered and approved to transfer the land use warrant (herein refers to land use right and property assets) of Guangdong Structure Pipe & Peg Company Limited ("Pipe & Peg Company") to the Company, and settle and cancel registration of Pipe & Peg Company. The meeting authorized the executive directors to make decisions and sign relevant agreements.

   - Considered and approved to sell the shares of Merchants Energy Shipping and Merchants Bank with a price no less than 90% of average share price of last 20 days, and authorized the executive directors to make decisions on such matter.

   - Considered and approved the sale of 48 house property located in Dongseng Garden, Ailian village in Longgang Town in Shengzhen, with a price no less than RMB5.76 million (not include taxes and RMB0.12 million for each), and the buyers shall bear all the transfer taxes and fees, while the Company shall pay off the management fee, utilities and sanitation service fees. The meeting authorized the executive directors to sign relevant documents.

   - Considered and approved the explanation of rectification on Corporate Governance of the Company.

4. The seventh meeting of the sixth term of the Board considered and approved the Glory Group Development Company Limited, a subsidiary of the Company, to invest in the secondary stock market in Hong Kong within the amount of HKD10 million.

5. The eighth meeting of the sixth term of the Board considered and approved to cancel registration of GSI Electro-mechanical Company, a branch of the Company, and authorized the senior management to handle relevant procedures.

REPORT OF THE BOARD OF DIRECTORS

(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 2007 Annual General Meeting, First Extraordinary General Meeting of 2008, A Shares Class Meeting and H Shares Class Meeting.

(III) The discharge of responsibilities by the Special Committees of the Board

Please refer to Speical Committees of the Board stated in Corporate Governance.

V. PROFIT DISTRIBUTION FOR THE YEAR 2008

For the year 2008, the net profit of the Company prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB775,502,512.86, the net profit of the Company prepared in accordance with HKFRS amounted to RMB775,328,320.21. Pursuant to 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 2008 should be based on the net profit of the Company prepared in accordance with HKFRS and its details are as follows:

1. Deduct 10% as statutory public welfare fund, which amounted to RMB77,532,832.02.

2. Pay a dividend of RMB0.45 on each ordinary share, on the basis of 494,677,580 in issue shares, and the total dividend will amount to RMB222,604,911.

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

REPORT OF THE BOARD OF DIRECTORS

VI. DIVIDEND INFORMATION OF LAST THREE YEARS

Unit: RMB

Year	Cash dividend amount (tax-included)	Net profit of the year	Profit available for distribution	Ratio (%)
2005	–	97,730,510.40	–	–
2006	–	250,203,800.34	–	–
2007	247,338,790.00	916,325,357.56	679,699,187.87	36.39

VII. OTHER INFORMATION

Financial summary

Summaries of the results, assets and liabilities of the Group for the last several financial years prepared in accordance with the PRC Accounting Standards and Regulations, and the HKFRS are set out in on page 7 and page 8, respectively.

Results and profit distribution

The results and profit distribution of the Group for the year ended December 31, 2008 prepared under PRC Accounting Standards and Regulations, and the HKFRS are set out in the consolidated statement of changes in equity on page 75 and consolidated income statement on page 161.

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 IX33 to 35 to the financial statements on page 124 to 125 and note 21 on page 219 respectively.

Fixed assets

As at December 31, 2008 the fixed assets pledged as security for the Group's banking facilities amounted to RMB124.86 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 are set out in note IX10 to the financial statements on page 111 and note IX11 on page 112, and note 6 to the notes to the consolidated financial statements on page 196 respectively.

REPORT OF THE BOARD OF DIRECTORS

Bank loans, overdraft and other borrowings

Details of bank loans, overdraft and other borrowings of the Group as at December 31, 2008 are set out in note IX16, note IX25 and note IX27 to the financial statements on pages 115, 120 and 120 and note 23 to the notes to the consolidated financial statement on page 221, respectively.

Contingent liabilities

Up to December 31, 2008, the Group has no significant contingent liabilities.

Significant litigation

Please refer to item 1 in the Significant Events on page 63.

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 transacted of funds of the Company by its controlling shareholder, CSSC and other connected parties and illustrated that as at December 31, 2008, the funds transacted between the Company and CSSC and other connected parties are delivered 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, 2008.

Auditors

The financial statements for the year ended December 31, 2008 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 retired and, being eligible, offer themselves for re-appointment.

REPORT OF THE BOARD OF DIRECTORS

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 10, 2009

REPORT OF THE SUPERVISORY COMMITTEE

The Sixth Term of the Supervisory Committee of the Company has the pleasure to present the 2008 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 review, 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 departs, 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 meeting of the Board for discussing periodical reports, the Supervisory Committee has issued modifications and complementary suggestions to each report, which were supplied references to the Board, and the directors and senior managers have separately provided their opinions to the suggestions and proposals, which have been explained, replied or approved by the Board.

For promoting the work of information disclosure, perfecting relevant systems and protecting the interests of minority shareholders, the Supervisory Committee has inspected the performance of Information Disclosure Management System twice in 2008, and issued inspection reports to the Board office, executive directors as well as the company secretary, which promoted standardization of information disclosure management of the Company. The performance of the Information Disclosure Management System was well.

All above information indicate 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) Election of new term of the Supervisory Committee and cooperate to propose rights issue of Shares

The fifth term of the Supervisory Committee expired in May 2008, in accordance with relevant provisions of the Articles, considering the actual situation and on the base of fully investigation and discussion, the sixth supervisor candidates were recommended by the Supervisory Committee to the shareholders' general meetings, which was passed in the thirteenth meeting of the fifth term of the Supervisory Committee and finally be approved by the shareholder's general meetings.

Besides, the Supervisory Committee participated actively in preparation work of proposed rights issue of shares which started in the first half of 2008.

(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 in relation to 2007 annual report and others issued by China Securities Regulatory Commission (CSRC).

2. Learning the Basic Regulations of Enterprise Internal Control issued jointly by the Ministry of Finance of PRC, CSRC, National Audit Office of PRC, China Bank Regulatory Commission and China Insurance Regulatory Commission.

3. Learning the documents in relation to long-term corporation governance system of listed companies issued by Guangdong Securities Regulatory Bureau CSRC.

4. Learning Management Provision of Raised Fund and Listing Rules (revised edition 2008) published by the Shanghai Stock Exchange.

5. Discussing the daily management of the Company and communicating on matters related.

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.

Some members of the Supervisory Committee have attended the training class of directors, supervisors and senior managers which was organized by Guangdong Securities Regulation Bureau and Hubei Securities Regulation Bureau in September and November 2008. The main contents of the trainings include the explain of management measure for Company momentous assets reconstruction, the risks and responsibilities of the directors, supervisors and senior managers of listing companies, the rules and cases of information disclosure of the Company, Corperation Management and operation standardization, etc. The trainings above mentioned are in favor of improving the ability and standards of fulfilling the duties of the supervisors and Supervisory Committee.

REPORT OF THE SUPERVISORY COMMITTEE

II. THE INFORMATION OF THE SUPERVISORY COMMITTEE MEETINGS

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

1. The thirteenth meeting of the fifth term of the Supervisory Committee was held on March 18, 2008 in the Company. All five supervisors attended the meeting. The resolutions passed at the meeting are as follows:

   (1) Approved the 2007 Report of Supervisory Committee, and submitted the same to annual general meeting for approval.

   (2) Approved the 2007 Annual Report of the Company and provided writing suggestions.

   (3) Approved to recommend Mr. Wang Shusen, Mr.Ye Weiming and Mr. Fu Xiaosi as the sixth supervisor candidates, and submitted the same to annual general meeting for approval. As a result of democratic election among the employee representatives in the Company, Mr. Liang Mianhong and Mr. Liu shibai were employee-elected supervisors for the sixth term of the Supervisory Committee.

2. The fourteen meeting of the fifth term of the Supervisory Committee was held on April 24, 2008 in the Company. All five supervisors attended the meeting and approved the First Quarterly Report of 2008 and released written inspection opinion.

3. The first meeting of the sixth term of the Supervisory Committee was held on May 13, 2008 in the Company. All five supervisors attended the meeting and elected Mr. Wang Shusen as the chairman of the sixth term of the Supervisory Committee.

4. The second meeting of the sixth term of the Supervisory Committee was held on August 22, 2008 in the Company. The four supervisors and one appointed his approxy attended the meeting and approved the Interim Report of 2008 and released written inspection opinion.

5. The third meeting of the sixth term of the Supervisory Committee was held on October 28, 2008 in the Company. All five supervisors attended the meeting and approved the Third Quarterly Report of 2008 and released written inspection opinion.

REPORT OF THE SUPERVISORY COMMITTEE

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, which performed well. 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 2008, along with the declining international shipbuilding market and fluctuating irregularly of the steel price, the Board and senior management together with the whole staff made great endeavor to develop business and dig the potential of the Company, the production efficiency improved steadily on the base of 2007, the operations represented well, while its anti-risk and competition ability as well as corporation governance show progress continuously.

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 2008 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 consents to the Reports of the Board of Directors and the profit distribution proposal for the year of 2008.

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 10, 2009

SIGNIFICANT EVENTS

I. SIGNIFICANT LITIGATION OR ARBITRATION EVENT

The Company and Guangzhou International Trust Investment Company ("GZITIC"), Hong Kong Guanghong Int'l Co., Ltd ("HKGH") entered into a "Credit's Right Transfer Agreement", in accordance with which GZITIC transferred the creditor right amounting RMB10.64 million of HKGH owned by Guangzhou International Trust Investment Development Co., Ltd., a subsidiary of GZITIC, to the Company. At the same time, the Company and HKGH entered into a "Debt Offset Agreement", which stated that HKGH would transfer seven cars to the Company before October 1, 2005, while the rest of debts would be settled with its interest in Guanghong Electronic (Shenzhen) Co., Ltd. which is controlled by HKGH.

As HKGH still did not fulfill its obligations after several negotiations, the Company raised the litigation against HKGH to the Secondary People's Court of Guangzhou. HKGH was sentenced to pay back the debt amounting to RMB10.64 million and relevant interests owned by the Company in ten days after the sentence took effect. However, the court rejected the request of the Company that Mr. Huang Jinchao should undertake joint liability within RMB0.6 million. The Company had appealed to the high court against such reject.

Except disclosure as above, no significant litigation or arbitration events occurred during the period under review.

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

Stock code	Abbreviation	Initial investment cost (RMB)	Proportion in the interest of the listed company (%)	Book value as at December 31, 2007	Profit and loss during the period under review	Changes in shareholders of the Company	Accounting subject	Source of the shareholding
600036	Merchants Bank	10,010,000.00	0.081	144,096,000.00	7,469,408.72	–	Available-for-sale financial assets	Purchasing
601872	Merchants Energy Shipping	37,100,000.00	0.29	38,600,000.00	–	–	Available-for-sale financial assets	Purchasing
Total		47,110,000.00	–	182,696,000.00	7,469,408.72	–		

During the period under review, the Company has sold 303,348 shares of Merchants Bank and obtained an profit of RMB7,469,408.72. The profit from purchasing new initial public offer shares amounted to RMB4.56 million.

III. ACQUISITION, SALE AND MERGER

The Company entered into a conditional equity transfer agreement (the "Agreement") with CSSC on July 25, 2008, to purchase 100% equity interest in Guangzhou Wenchong Shipyard Co., Ltd. ("GWS"), a wholly-owned subsidiary of CSSC, for an acquisition price of RMB3.04 billion. Such proposal had been approved by the second meeting of the sixth term of the Board which was held on June 30, 2008, and the first extraordinary general meeting and the class meetings of 2008 held on August 18, 2008. For more details please refer to the announcements in relation to the proposal acquisition issued on July 1, 2008, July 22, 2008, July 25, 2008 and August 19, 2008 by the Company.The proposed acquisition has not been implemented to date.

IV. SIGNIFICANT CONNECTED TRANSACTIONS

1. Routine connected transactions

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	248,783,193.89		
1.1	Electrical and mechanic engineering equipment and metallic materials	162,857,462.61	2.33	Market price
1.2	Power Source	2,558,520.20	0.04	Cost plus management fee from 20% to 25%
1.3	Labor supply, design and technology services	83,367,211.08	1.19	Not less than the price to the third parties
2	Total materials and labor services supplied to the Company by CSSC Group	495,009,259.49		
2.1	Electrical and mechanic engineering equipment and metallic materials, ship-building accessories and equipment for use on ship	441,960,499.85	11.62	Market price or not less favorable than the price offered by the third independent parties
2.2	Labor supply, design and technology services	53,048,759.64	0.89	Cost plus management fee of 10%
3	Financial services supplied from CSSC Group			
3.1	Deposits	18,673,571.65	0.36	Interest rate on deposits published by the People's Bank of China
3.2	Interest on deposits	214,428.99	0.07	
3.3	Loans	–	–	
3.4	Interest on loans	–	–	
4	Total guarantee fees for guarantee supplied to the Company from CSSC Group	7,071,243.31	60.90	Agreed fee, not more than than the price offered by the third independent parties
5	Total sales agency fees	51,024,013.66	42.84	1% of contract price in accordance with international practice
6	Total purchases agency fees	6,344,212.63	0.08	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. 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.

During the period under review, relevant routine connected transactions between the Group and CSSC Group were carried out in accordance with the framework agreement for connected transactions enter into on November 22, 2006 and relevant supplemental agreements enter into on June 30, 2008 which were approved by the shareholders' general meeting.

2. Comprehensive Services Contract

During the period under review, in accordance with the comprehensive services contract signed on October 10, 2008 between the Group and a connected person Guangzhou Shipyard, Guangzhou Shipyard agreed to provide the Group, as well as the staff and their family members with medical services, catering services, infant care and nursery, training programs for skilled labor and management of staff quarters for an annual service charge not exceeding HKD10 million. Such comprehensive services agreement was approved at the sixth meeting of the sixth term of the Board held on October 28, 2008, and an announcement was made on the same day, the service charge amounting to RMB7.82 million would be paid for 2008.

3. The financing balance of the Company and CSSC and its subsidiaries during the year 2008

Items	**As at December 31, 2008**	As at December 31, 2007
Accounts receivable	**69,761,805.89**	18,660,124.53
Other receivable	**–**	48,440.00
Advanced payment	**153,462,673.21**	357,500,480.08
Accounts payable	**76,973,570.76**	15,119,055.94
Other payable	**1,425,899.59**	1,148,238.57
Advances from customers	**84,813,070.82**	63,218,630.70

SIGNIFICANT EVENTS

4. Fund occupation and refund by connected parties in 2008

Non-operating fund occupation by controlling shareholder and its subsidiaries (RMB)		Total refund by controlling shareholder and its subsidiaries in 2008
As at January 1, 2008	As at December 31, 2008	
48,440.00	–	48,440.00

Refund Method	Refund Amount	Time
Cash	48,440.00	September 30, 2008

5. The connected transactions about acquisition and sale

As mentioned above that the Company and CSSC entered into Conditional Equity Transfer Agreement on July 25, 2008 in relation to purchase 100% interest of GWS such constituted an important connected transaction. For more details please refer to item III in Significant Event.

6. Co-investment with the Connected Persons

The thirty first meeting of the fifth term of the Board approved to increase the registered capital of Glory Group Development Co., Ltd. (the "Glory Development"), a subsidiary of the Company, to HKD30 million, in order to offset its capital gap to enable the Glory Development to invest RMB11.2 million in the second project of Zhenjiang CSSC Hyundai Generator Equipment Co., Ltd. in accordance with its proportion of equity interest (32%). It was expected that such investment shall be in favor of the development of the marine accessories business of the Group.

7. Others

The Directors including four independent non-executive directors have reviewed the transactions and confirm that such transactions were entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and in accordance with the relevant contracts the terms of which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's continuing connected transactions are constituted of routine connected transaction and comprehensive service contract under the Chapter 14A of the Rules of the Stock Exchange of Hong Kong Limited, which had been issued in accordance with relevant regulations. Details are set out in Connected Transaction in note X to the financial statements prepared in accordance with PRC Accounting Standards and Regulations and note 41 to the financial statements prepared in accordance with the HKFRS on page 240.

SIGNIFICANT EVENTS

V. SIGNIFICANT CONTRACTS AND PERFORMANCE

1. During the period under review, the Company had not managed any trust, any contract or significant lease assets of other companies nor other companies had not managed any trust, any contract or significant lease assets of the Company.

2. Two shipbuilding contracts, each for building two Ro/Ro passenger vessels, were entered into between the Company and China Shipping Passenger Liner Company Limited and its joint venture company, China Shipping Gang Lian Maritime Company Limited respectively on May 15, 2008. The amount of the contracts is approximately RMB2.1 billion. The contracts will be beneficial to adjust the Company's product receivables structure, and thereby reduce the risk of RMB appreciation. Moreover, the construction of the vessels will improve the Company's product structure as well as help towards achieving the Company's strategic goal of developing high-tech ships, and improve its competitiveness and risk management. For more details please refer to the announcement issued on May 15, 2008 by the Company.

3. 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 ("United Steel"), a 51% subsidiary of the Company. For more details please refer to the announcement issued on January 12, 2007 by the Company in Shanghai Securities News, Hong Kong Commercial Daily and China Daily (overseas version). 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. As at December 31, 2008, United Steel had paid back the loan which the Company guaranteed for it.

VI. IMPLEMENTATION OF COMMITMENT

During the period under review, CSSC, the controlling shareholder subjected to sale restrictions of the Company carried out the commitment to A-share reform.

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

VII. PUNISHMENT AND RECTIFICATION OF THE COMPANY, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER OF THE COMPANY

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

SIGNIFICANT EVENTS

VIII. OTHER SIGNIFICANT EVENTS

1. As being recognized as national level high-tech enterprises during the period under review, the Company and its subsidiary Guangzhou Hongfan Information Technique Company Limited would be entitled to 15% income tax rate for three years (from 2008 to 2010) under a preferential tax policy.

2. Pursuant to the debt restructuring agreement entered into between the Company and Guangzhou International Trust Investment Company ("GZITIC"), the Company has obtained the entire ownership certificate to the shops with an approximate area of 21,175 sq. meters located in Urumchi ("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, 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, cars, golf membership cards of Wuhan, and ownership certificate of equity and creditor's rights in Guangzhou Jingxin Instruments and Electrical Products Co., Ltd.

   During the period under review, the Company sold the 32 apartments in Shenzhen City of Guangdong Province and finished relevant transfer process. Matters in relation to creditor's rights in Hongkong Guanghong Int'l Co., Ltd., please refer to item I in Significant Event.

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

3. In view of the present depressed shipbuilding market, certain brand recognition of "Guangzhou Shipyard International" in domestic and overseas shipbuilding market, in order to avoid any possible disadvantageous effect to the exist contracts and securing orders in future which arising from change name, the Board approved to abolish proposed change of company name to "Guangzhou CSSC International Co., Ltd." ("CSSCI"), and submitted that to shareholders' general meeting for approval.

4. Pursuant to approval of the third meeting of the sixth term of the Board, the Company has written off Guangdong Structure Pipe & Peg Co., Ltd, a 100% subsidiary of the Company, whose land-use right and relevant assets has been transferred to Shunde Shipyard, a branch organization of the Company. That was expected to advance the block manufacturing capacity of the Company.

5. In order to avoid RMB exchange rate risks for the shipbuilding orders which will be delivered after the year 2010, under approval of the eighteenth meeting of the fifth term of the Board, the Company increased USD476.78 million loans and HKD148.00 million loans during 2008. As at December 31, 2008, the foreign currency loans balance amounted to USD213.44 million and HKD60 million.

SIGNIFICANT EVENTS

6. Pursuant to approval of the sixth meeting of the sixth term of Board, the Company established a wholly-owned subsidiary in Zhongshan City Guangdong Province named "Zhongshan GSI Marine Engineering Company Limited" ("Zhongshan Company") with a registered capital amounting to RMB100 million in January 2009. Zhongshan Company will in charge of the construction of block manufacturing center project, and the fixed assets investment of which will amount to RMB804.52 million, which has been approved by the ninth meeting of the sixth term of Board.

7. Pursuant to approval of the fifth meeting of the sixth term of Board, the Company established a wholly-owned subsidiary in Nansha district in Guangzhou named "Guangzhou GSI Large-size Mechanical Equipment Company Limited" ("Mechanical Equipment Company") with a registered capital amounting to RMB30 million in November 2008. Mechanical Equipment Company will be in charge of the operation of mechanical processing center. The ninth meeting of the sixth term of Board approved to increase its registered capital with an amount of RMB158.61 million to purchase fixed assets.

8. The Company was noticed that Ascenda Certified Public Accountants Limited (Beijing), the domestic auditors of the Company, changed its Chinese name as to "Tianjian Guanghua (Beijing) Certified Public Accountants Limited" since July 22, 2008.

REPORT OF THE PRC AUDITORS

ACPA (2009) GF NO.020006

To the Shareholders of Guangzhou Shipyard International Company Limited

We have audited the accompanying financial statements of Guangzhou Shipyard International Company Limited ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated (and the Company's) balance sheet as at December 31, 2008, and the consolidated (and the Company's) income statement, the consolidated (and the Company's) cash flow statement, and the consolidated (and the Company's) statement of changes in equity for the year then ended, and explanatory notes.

I. Management's Responsibility for the Financial Statements

Management of the Company 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. Auditor's 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 and of the Group as at December 31, 2008 and the results of financial performance and cash flows of the Company and of the Group 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

China Certified Public Accountants
Xiong Jianyi, Yan Gangjun

Beijing, March 10, 2009

BALANCE SHEETS

As at December 31, 2008

(Amounts in RMB Yuan unless otherwise stated)

Assets	Note		Consolidated		The Company	
	Consolidated	the Company	2008	2007	2008	2007
Current assets:						
Cash and cash equivalents	1		**6,132,593,874.55**	6,854,408,172.27	**6,008,183,349.92**	6,795,682,384.53
Tradable financial assets	2		**157,360,902.20**	294,309,931.43	**157,360,902.20**	294,309,931.43
Accounts receivable	3	50	**392,666,954.58**	314,322,502.65	**236,630,301.29**	208,019,567.55
Advances to suppliers	4		**486,868,845.98**	514,980,821.52	**435,625,707.10**	554,051,866.66
Interest receivable	5		**142,294,820.00**	49,915,107.00	**142,294,820.00**	49,915,107.00
Dividend receivable			**–**	–	**255,000.00**	–
Other receivables	6	51	**191,817,452.41**	194,296,322.71	**190,269,833.94**	193,469,112.73
Inventories	7		**1,115,697,445.47**	955,349,681.48	**1,040,462,688.11**	846,411,548.82
Total current assets			**8,619,300,295.19**	**9,177,582,539.06**	**8,211,082,602.56**	**8,941,859,518.72**
Non-current assets:						
Available-for-sale financial assets	8		**185,450,000.00**	575,174,357.75	**185,450,000.00**	575,174,357.75
Long-term equity investment	9	52	**35,608,067.54**	34,873,588.85	**127,012,681.53**	104,605,396.75
Investment properties	10		**94,138,711.50**	100,611,056.86	**94,138,711.50**	100,611,056.86
Fixed assets	11		**964,998,418.77**	937,526,406.93	**924,194,120.15**	898,498,642.92
Construction in progress	12		**262,095,452.84**	105,089,480.85	**261,914,097.64**	100,516,696.29
Intangible assets	13		**89,828,904.67**	92,915,557.89	**84,071,652.35**	83,427,665.56
Deferred Tax assets	14		**6,810,856.62**	10,660,450.50	**4,661,917.15**	7,851,272.09
Total non-current assets			**1,638,930,411.94**	1,856,850,899.63	**1,681,443,180.32**	1,870,685,088.22
Total assets			**10,258,230,707.13**	**11,034,433,438.69**	**9,892,525,782.88**	**10,812,544,606.94**

BALANCE SHEETS

As at December 31, 2008

	Note		Consolidated		The Company	
	Consolidated	*the Company*	**2008**	2007	**2008**	2007
Current liabilities:						
Short-term borrowings	*16*		**478,026,177.43**	494,297,390.00	**428,817,000.00**	471,227,390.00
Trading financial liabilities	*17*		**5,199,844.99**	11,628,218.98	**5,199,844.99**	11,628,218.98
Notes payable	*18*		**143,660,239.95**	–	**143,660,239.95**	–
Accounts payable	*19*		**832,918,241.67**	624,390,269.85	**797,649,531.42**	598,591,406.02
Advances from customers	*20*		**218,775,845.39**	250,222,378.27	**159,117,253.99**	234,290,739.62
Accrued employee compensation	*21*		**23,367,012.97**	35,803,402.22	**17,004,591.67**	30,725,980.92
Taxes payable	*22*		**126,535,514.31**	272,040,368.76	**118,263,883.65**	262,924,495.91
Interest payable	*23*		**20,146,276.66**	4,234,382.33	**20,146,276.66**	4,234,382.33
Dividend payable			**34,632.88**	9,169.38	**34,632.88**	9,169.38
Other payables	*24*		**32,592,043.79**	91,033,359.16	**23,318,111.37**	81,320,068.49
Current portion of long-term liabilities	*25*		**877,863,362.40**	1,160,077,390.49	**877,863,362.40**	1,160,077,390.49
Other current liabilities	*26*		**4,278,333,045.78**	4,871,825,309.94	**4,279,122,484.28**	4,872,543,454.90
Total current liabilities			**7,037,452,238.22**	**7,815,561,639.38**	**6,870,197,213.26**	**7,727,572,697.04**
Long-term liabilities:						
Long-term borrowings	*27*		**205,038,000.00**	385,495,618.91	**205,038,000.00**	385,495,618.91
Special purpose payables	*28*		**24,570,000.00**	24,570,000.00	**24,570,000.00**	24,570,000.00
Provision	*29*		**87,150,182.48**	61,652,483.76	**87,150,182.48**	61,652,483.76
Deferred tax liabilities	*30*		**55,440,080.20**	201,603,184.22	**55,440,080.20**	201,603,184.22
Other long-term liabilities	*31*		**5,714,990.79**	18,192,133.87	**5,714,990.79**	18,192,133.87
Total long-term liabilities			**377,913,253.47**	**691,513,420.76**	**377,913,253.47**	**691,513,420.76**
Total liabilities			**7,415,365,491.69**	**8,507,075,060.14**	**7,248,110,466.73**	**8,419,086,117.80**
Shareholders' equity:						
Share capital	*32*		**494,677,580.00**	494,677,580.00	**494,677,580.00**	494,677,580.00
Capital surplus	*33*		**767,559,585.67**	1,044,766,481.52	**767,559,585.67**	1,044,766,481.52
Surplus reserves	*34*		**253,023,883.94**	175,491,051.92	**251,848,071.77**	174,315,239.75
Undistributed profits	*35*		**1,232,098,604.09**	736,574,570.94	**1,130,330,078.71**	679,699,187.87
Equity attributable to the Company's Shareholders			**2,747,359,653.70**	**2,451,509,684.38**	**2,644,415,316.15**	**2,393,458,489.14**
Minority Interest	*36*		**95,505,561.74**	75,848,694.17	**–**	–
Total shareholders' equity			**2,842,865,215.44**	**2,527,358,378.55**	**2,644,415,316.15**	**2,393,458,489.14**
Total liabilities & shareholders' equity			**10,258,230,707.13**	**11,034,433,438.69**	**9,892,525,782.88**	**10,812,544,606.94**

CONSOLIDATED AND THE COMPANY'S INCOME STATEMENT

For the Year 2008

(Amounts in RMB Yuan unless otherwise stated)

	Note		Consolidated		The Company	
	Consolidated	the Company	**2008**	2007	**2008**	2007
I. Revenue						
Net sales	37	53	**6,984,087,521.27**	**5,952,697,163.61**	**6,395,548,634.25**	**5,409,315,254.23**
II. Cost						
Cost of goods sold	37	53	**6,070,463,652.88**	4,917,716,899.70	**5,545,945,452.67**	4,507,115,936.61
Taxes and levies on operations	38		**22,271,654.16**	20,346,934.95	**18,430,854.24**	17,825,707.02
Selling expenses			**49,887,310.04**	59,141,689.03	**44,735,683.06**	49,237,916.98
General and administrative expenses			**282,534,191.60**	307,915,809.37	**273,877,472.43**	275,047,472.98
Financial expenses	39		**-288,581,498.27**	-150,369,238.43	**-292,421,998.70**	-161,741,292.57
Impairment loss	40		**-3,959,877.74**	15,578,166.56	**-1,586,852.41**	5,497,145.13
Gains/Losses from fair value changes	41		**-130,520,655.24**	282,540,017.01	**-130,520,655.24**	282,540,017.01
Investment income	42		**136,718,751.83**	44,924,326.96	**118,174,623.21**	43,601,790.28
Share of profit/loss -of associates an jointly controlled entities	42		**3,810,566.74**	1,061,150.03	**895,015.90**	798,309.55
III. Operating profit ("-" for loss)			**857,670,185.19**	**1,109,831,246.40**	**794,221,990.93**	**1,042,474,175.37**
Non-operating profits	43		**70,374,746.45**	243,081,133.44	**68,431,792.96**	241,979,973.37
Non-operating losses	44		**6,759,353.39**	9,851,622.04	**5,653,979.27**	5,653,003.60
Including: Losses on disposal of non-current assets	44		**5,729,400.67**	9,247,877.18	**5,064,278.74**	5,058,458.74
IV. Profits before income taxes ("-" for loss)			**921,285,578.25**	**1,343,060,757.80**	**856,999,804.62**	**1,278,801,145.14**
Less: Income tax	45		**81,113,055.51**	380,615,081.01	**81,497,291.76**	362,475,787.58
V. Net profit ("-" for loss)			**840,172,522.74**	**962,445,676.79**	**775,502,512.86**	**916,325,357.56**
Attributable to the parent company			**820,395,655.17**	940,656,796.04	**775,502,512.86**	916,325,357.56
Attributable to minority interests	46		**19,776,867.57**	21,788,880.75	**–**	–
VI. Earnings per share (EPS):						
i) Basic EPS			**1.66**	1.90	**–**	–

CASH FLOW STATEMENT

For the Year 2008

(Amounts in RMB Yuan unless otherwise stated)

		Consolidated		The Company	
		2008	2007	**2008**	2007
I.	**Cash flows from operating activities:**				
	Cash received from the sale of goods and rendering of services	**7,511,657,429.95**	7,517,352,719.43	**6,243,202,113.87**	6,698,437,993.43
	Refund of taxes	**492,129,092.71**	195,766,319.29	**479,535,489.95**	173,122,706.88
	Cash received from other operating activities	**102,478,416.23**	233,362,764.74	**94,608,918.59**	184,939,552.77
	Total cash inflow from operating activities	**8,106,264,938.89**	**7,946,481,803.46**	**6,817,346,522.41**	**7,056,500,253.08**
	Cash paid for goods and services	**6,981,570,109.33**	5,349,725,300.13	**6,049,149,494.65**	4,744,117,976.19
	Cash paid to and on behalf of employees	**724,043,334.78**	437,396,682.58	**423,056,864.83**	301,255,630.16
	Payments of taxes	**361,608,420.06**	139,342,297.26	**319,905,596.68**	87,351,798.35
	Payments for other operating activities	**234,310,397.38**	201,358,382.05	**210,615,323.86**	150,365,104.29
	Total cash outflow for operating activities	**8,301,532,261.55**	**6,127,822,662.02**	**7,002,727,280.02**	**5,283,090,508.99**
	Net cash flow generated from operating activities	**-195,267,322.66**	**1,818,659,141.44**	**-185,380,757.61**	**1,773,409,744.09**
II.	**Cash flows from investing activities:**				
	Proceeds from disposal of investments	**24,935,284.61**	570,609,077.06	**24,935,284.61**	570,359,077.06
	Proceeds from return on investments	**26,813,556.39**	36,845,755.45	**26,813,556.39**	36,845,755.45
	Proceeds from disposal of fixed assets, intangible assets and other long-term assets	**278,926.83**	622,969.20	**199,193.83**	599,469.20
	Proceeds from other investing activities	**194,354,187.67**	87,158,069.58	**194,290,777.35**	87,015,451.53
	Total cash inflow from investing activities	**246,381,955.50**	**695,235,871.29**	**246,238,812.18**	**694,819,753.24**
	Payments for fixed assets, intangible assets and other long-term assets	**174,270,759.70**	77,107,497.60	**168,244,058.98**	68,574,905.88
	Payments for investments	**10,430,695.00**	263,017,375.00	**66,863,787.13**	266,069,867.77
	Payments for other investing activities	**822,249,651.01**	114,776,192.83	**822,249,651.01**	97,323,150.00
	Total cash outflow for investing activities	**1,006,951,105.71**	**454,901,065.43**	**1,057,357,497.12**	**431,967,923.65**
	Net cash flows from investing activities	**-760,569,150.21**	**240,334,805.86**	**-811,118,684.94**	**262,851,829.59**
III.	**Cash flows from financing activities:**				
	Proceeds from borrowings	**4,020,065,898.49**	1,518,087,497.62	**3,452,468,686.00**	1,310,699,268.40
	Other proceeds relating to financing activities	**17,242,445.78**	751,248.99	**7,450,000.00**	–
	Total cash inflow from financing activities	**4,037,308,344.27**	**1,518,838,746.61**	**3,459,918,686.00**	**1,310,699,268.40**
	Repayments of borrowings	**4,287,248,824.49**	1,071,630,733.32	**3,752,380,656.60**	823,717,909.10
	Distribution of dividends or profits and interests payments	**417,877,363.02**	71,344,185.55	**416,088,139.65**	66,493,234.22
	Incl. Dividend and profits paid to minority interests	**120,000.00**	–	**–**	–
	Payments for other financing activities	**14,064,507.77**	23,604,143.25	**34,416.66**	1,225,020.77
	Total cash outflow for financing activities	**4,719,190,695.28**	**1,166,579,062.12**	**4,168,503,212.91**	**891,436,164.09**
	Net cash flows from financing activities	**-681,882,351.01**	**352,259,684.49**	**-708,584,526.91**	**419,263,104.31**
IV.	**Effect of exchange rate changes on cash**	**95,717,672.29**	-9,628,710.32	**95,335,283.84**	-9,366,308.42
V.	**Net increase(decrease) in cash and cash equivalents**	**-1,542,001,151.59**	**2,401,624,921.47**	**-1,609,748,685.62**	**2,446,158,369.57**
	Add: Cash and cash equivalents at the beginning of the year	**6,739,631,979.44**	4,338,007,057.97	**6,698,359,234.53**	4,252,200,864.96
VI.	**Cash and cash equivalents at the end of the year**	**5,197,630,827.85**	**6,739,631,979.44**	**5,088,610,548.91**	**6,698,359,234.53**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year 2008

(Amounts in RMB Yuan unless otherwise stated)

	Year 2008						
	Shareholders' Equity Attributable to the Parent Company						Total
			Less:		Undistributed	Minority	Shareholders'
	Share Capital	Capital Surplus	Treasury Stock	Surplus Reserves	Profit	Interests	Equity
I. Balance – December 31, 2007	**494,677,580.00**	**1,044,766,481.52**	**–**	**175,491,051.92**	**736,574,570.94**	**75,848,694.17**	**2,527,358,378.55**
II. Balance – January 1, 2008	**494,677,580.00**	**1,044,766,481.52**	**–**	**175,491,051.92**	**736,574,570.94**	**75,848,694.17**	**2,527,358,378.55**
III. Increase (decrease) in equity in year 2008	**–**	**-277,206,895.85**	**–**	**77,532,832.02**	**495,524,033.15**	**19,656,867.57**	**315,506,836.89**
(i) Net profit	–	–	–	–	**820,395,655.17**	**19,776,867.57**	**840,172,522.74**
(ii) Unrealized gain/Losses directly recognized in equity	–	**-277,206,895.85**	–	–	–	–	**-277,206,895.85**
1. Net changes on fair value of available-for-sale financial assets	–	**-277,206,895.85**	–	–	–	–	**-277,206,895.85**
Sub-total of (i)&(ii)	–	**-277,206,895.85**	–	–	**820,395,655.17**	**19,776,867.57**	**562,965,626.89**
(iii) Profit distribution	–	–	–	**77,532,832.02**	**-324,871,622.02**	**-120,000.00**	**-247,458,790.00**
1. Appropriation to statutory surplus reserves	–	–	–	**77,532,832.02**	**-77,532,832.02**	–	–
2. Profit distributed to shareholders	–	–	–	–	**-247,338,790.00**	**-120,000.00**	**-247,458,790.00**
IV. Balance – December 31, 2008	**494,677,580.00**	**767,559,585.67**	**–**	**253,023,883.94**	**1,232,098,604.09**	**95,505,561.74**	**2,842,865,215.44**

	Year 2007						
	Shareholders' Equity Attributable to the Parent Company						Total
			Less:		Undistributed	Minority	Shareholders'
	Share Capital	Capital Surplus	Treasury Stock	Surplus Reserves	Profit	Interests	Equity
I. Balance – December 31, 2006	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
II. Balance – January 1, 2007	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 year 2007	–	251,301,692.71	–	75,343,540.58	863,151,759.48	14,443,845.94	1,204,240,838.71
(i) Net profit	–	–	–	–	940,656,796.04	21,788,880.75	962,445,676.79
(ii) Unrealized gain/Losses directly recognized in equity	–	251,301,692.71	–	–	–	-7,345,503.81	243,956,657.90
1. Net changes on fair value of available-for-sale financial assets	–	251,301,692.71	–	–	–	–	251,301,692.71
2. Others	–	–	–	–	–	-7,345,503.81	-7,345,503.81
Sub-total of (i)&(ii)	–	251,301,692.71	–	–	940,656,796.04	14,443,845.94	1,206,402,334.69
(iv) Profit distribution	–	–	–	75,343,540.58	-77,505,036.56	–	-2,161,495.98
1. Appropriation to statutory surplus reserves	–	–	–	75,343,540.58	-75,343,540.58	–	–
2. Others	–	–	–	–	-2,161,495.98	–	-2,161,495.98
IV. Balance – December 31, 2007	494,677,580.00	1,044,766,481.52	–	175,491,051.92	736,574,570.94	75,848,694.17	2,527,358,378.55

PARENT COMPANY'S STATEMENT OF CHANGES IN EQUITY

For the Year 2008

(Amounts in RMB Yuan unless otherwise stated)

Year 2008

	Share Capital	Capital Surplus	Less: Treasury Stock	Surplus Reserves	Undistributed Profit	Total Shareholders' Equity
I. Balance – December 31, 2007	**494,677,580.00**	**1,044,766,481.52**	**–**	**174,315,239.75**	**679,699,187.87**	**2,393,458,489.14**
II. Balance – January 1, 2008	**494,677,580.00**	**1,044,766,481.52**	**–**	**174,315,239.75**	**679,699,187.87**	**2,393,458,489.14**
III. Increase (decrease) in equity in year 2008	**–**	**-277,206,895.85**	**–**	**77,532,832.02**	**450,630,890.84**	**250,956,827.01**
(i) Net profit	**–**	**–**	**–**	**–**	**775,502,512.86**	**775,502,512.86**
(ii) Unrealized gain/Losses directly recognized in equity	**–**	**-277,206,895.85**	**–**	**–**	**–**	**-277,206,895.85**
1. Net changes on fair value of available-for-sale financial assets	**–**	**-277,206,895.85**	**–**	**–**	**–**	**-277,206,895.85**
Sub-total of (i)&(ii)	**–**	**-277,206,895.85**	**–**	**–**	**775,502,512.86**	**498,295,617.01**
(iv) Profit distribution	**–**	**–**	**–**	**77,532,832.02**	**-324,799,539.70**	**-247,338,790.00**
1. Appropriation to statutory surplus reserves	**–**	**–**	**–**	**77,532,832.02**	**-77,532,832.02**	**–**
2. Profit distributed to shareholders	**–**	**–**	**–**	**–**	**-247,338,790.00**	**-247,338,790.00**
IV. Balance – December 31, 2008	**494,677,580.00**	**767,559,585.67**	**–**	**251,848,071.77**	**1,130,330,078.71**	**2,644,415,316.15**

Year 2007

	Share Capital	Capital Surplus	Less: Treasury Stock	Surplus Reserves	Undistributed Profit	Total Shareholders' Equity
I. Balance – December 31, 2006	494,677,580.00	793,464,788.81	–	98,971,699.17	-161,282,629.11	1,225,831,438.87
II. Balance – January 1, 2007	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 year 2007	–	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) Unrealized gain/Losses directly recognized in equity	–	251,301,692.71	–	–	–	251,301,692.71
1. Net changes on fair value of available-for-sale financial assets	–	251,301,692.71	–	–	–	251,301,692.71
Sub-total of (i)&(ii)	–	251,301,692.71	–	–	916,325,357.56	1,167,627,050.27
(iv) Profit distribution	–	–	–	75,343,540.58	-75,343,540.58	–
1. Appropriation to statutory surplus reserves	–	–	–	75,343,540.58	-75,343,540.58	–
2. Profit distributed to shareholders	–	–	–	–	–	–
IV. Balance – December 31, 2007	494,677,580.00	1,044,766,481.52	–	174,315,239.75	679,699,187.87	2,393,458,489.14

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

I BRIEF INTRODUCTION TO THE COMPANY

Guangzhou Shipyard International Company Limited ("the Company") was reorganized in 1993 from Guangzhou Shipyard, and incorporated in the PRC as a joint stock limited company. Upon approval, the Company was registered as a Sino-foreign joint limited company on October 21, 1994. The Company's registered capital amounts to RMB494,677,580.00, its registered address is No.40, south Fangcun Avenue, Liwan District, Guangzhou, and its legal representative is Li Zhushi.

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

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 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, 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 1 to December 31.

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.

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 arised 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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; debtees overdue and certify it is impossible to get back after litigation process, the receivables are recognized as bad debt loss.

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) 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. If included in the original cost, the interest accrued and dividends receivable shall be recognized independently and shall be recognized as the current investment income when received. 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.

If the fair value of available-for-sale financial assets continued to fall greatly, and the falling is not temporary, the amount of original cost deducting original capital received, amortization and current fair value shall be recognized as impairment loss, and in the mean time, the aggregate losses originally charged to owner's equity shall be transferred to asset impairment losses.

When disposed of, the balance between selling price and book value shall be charged to Investment income, and the accumulative amount of the changes of the fair value originally charged to the owner's equities shall be transferred to Investment income

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 obsolesce, out-of date, or low selling price, or estimated loss in construction, provision for impairment of inventory should be made to profit or loss account. 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 jointly controlled entities.

Investment in subsidiaries

Investment in subsidiaries is measured at cost of initial acquisition. For an investment involving business combination, initial recognition refers to Note (23) Business Combination. Subsequent addition to or retrieving of the long-term equity investment should adjust the recording cost.

Long-term equity investments will be accounted for using the cost method and adjusted to equity method when preparing consolidated financial statements. Cash dividend or profit distributions declared by the investee will be recognized as investment income in the current period. However, investment income recognized by the investing enterprise will be limited to the amount distributed to it out of accumulated net profits of the investee arising after the investment was made. Any cash dividend or distribution received in excess of this amount will be treated as a recovery of initial investment cost.

Investment in associates and jointly controlled entities

When the Company can exercise joint control or significant influence over the investee, a long-term equity investment will be accounted for using the equity method. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Where an investing enterprise can exercise joint control over the investee, the investee is its jointly controlled enterprise. Significant influence is the power to participate in the financial and operating policy decisions of investee but is not control or joint control over those polices. Where an investing enterprise can exercise significant influence over the investee, the investee is its associate.

Where the initial investment cost of a long-term equity investment exceeds the Company's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment will be made to the initial investment cost. Where the initial investment cost is less than the Company's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference will be charged to profit or loss for the current period, and the cost of the long-term equity investment will be adjusted accordingly.

After the Company has acquired a long-term equity investment, it will recognize its share of the net profits or losses made by the investee as investment income or losses, and adjust the carrying amount of the investment accordingly. The carrying amount will be reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Company.

Other long-term equity investments

For an investee unit that does not under a common control or significant influence, and there is no active market quotations, the fair value measurement cannot be applied to long-term equity investments reliably, then valuation of that long-term investment will based upon cost, and subsequent measurement will adopt cost method.

Impairment of long-term equity investments

At the balance sheet date, if there is indication of impairment, recoverable amount should be measured reasonably. If the recoverable amount of long-term equity investments is less than book value, then the Company reduces book value to its recoverable amount, and recognizes the amount of write downs as impairment loss through profit or loss. Once impairment of long-term equity investments is recognized, it cannot be reversed in later accounting period.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

10. Investment Property

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

Investment property of the Company is measured initially at its cost. The cost of a purchased investment property comprises its purchase price, related taxes and fee, and other directly attributable expenditures. The cost of a self-constructed investment property consists of all necessary expenditure incurred for bringing the asset to working condition for its intended use.

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

Classifications	Estimated useful life (Year)	Estimated net salvage value (%)	Annual depreciation rate
Buildings	45~70	3%	1.39%~2.16%

When the purpose of investment property has changed, it shall be converted from the investment property to other assets or vise versa. The carrying value of the property prior to the conversion shall be entry value after conversion.

When the recoverable amount of investment property is lower than its carrying value on the balance sheet date, the carrying value shall be written down to the recoverable amount, the write-down amount shall be included in the current profits and losses, and the corresponding provision shall be made in the meantime. Once made, the provision of investment property shall not be reversed in the future accounting periods.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, discarded, damaged or destroyed, the Company shall deduct the carrying value of it as well as the relevant taxes from the disposal income, and include the residual amount in the current profits and losses.

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.

Fixed assets of the Company are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, value-added tax, import custom duties and other related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset contributed by an investor will be determined in accordance with the value stipulated in the investment contract or agreement, expect where the value stipulated in the contract or agreement is not fair.

The Company provides depreciation for all its fixed assets other than fully depreciated fixed assets that are still in use and is calculated based upon straight-line method.

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

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

Classifications	Useful life	Estimated residual value rate	Annual depreciation rate (%)
Buildings	8~50	3%-10%	1.8%~12.13%
Machinery and equipment	6~20	3%-10%	4.5%~16.17%
Vehicles	10~15	3%-10%	6.47%~9.7%
Others	5~50	3%-10%	2.57%~12.13%

At the balance date, if the recoverable amount of fixed assets are less than the original carrying amount, then reduces fixed assets to its recoverable amount, the difference is charged to profit or loss for the current period, at the same time, corresponding provisions for asset impairment must be made. Once impairment of fixed assets is recognized, it cannot be reversed in later accounting period.

Fixed assets will be derecognized on disposal or when the fixed assets are permanently withdrawn from use and no future economic benefits are expected from its disposal. When fixed assets is sold, transferred, retired or damaged, the Company will recognize the amount of any proceeds on disposal deduct the carrying amount and related taxes in profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

12. Construction-in-progress

Construction-in-progress is stated at cost. The relevant interests are included as project cost before the property reaches its conditions for its intended use.

For the project has reached its intended use but not yet settle the final account for completed project, the asset is recorded in accordance with an estimated value to determine their costs and depreciation. After final account of the project has been settled, the Company shall base on actual cost to make adjustment on previous estimated value of the project, but need not adjust depreciation retrospectively.

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

13. Intangible Assets and Research and Development Expenditure

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 recognized 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 amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period when the asset is not yet in use, it is tested for impairment annually.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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 listed as follows:

Category	Useful life	Amortization method
Land using right	50 year	Straight-line
Know-how without patent	5-10 year	Straight-line

At the balance sheet date, 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 provision could not be reversed after recognition.

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 capitalized as part of the cost of those assets. Other borrowing costs are recognized as expenses when incurred. Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

During the capitalization period, the amount of interest to be capitalized for each accounting period will be determined as such: where funds are borrowed under a specific-purpose borrowing for the acquisition construction or production of a qualifying asset, the amount of interest to be capitalized will be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds; where funds are borrowed under general-purpose borrowing and are utilized for the acquisition, construction or production of a qualifying asset, the Company will determined the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings (the capitalization rate will be the weighted average of the interest rates applicable to the general-purpose borrowings). The amount of interest capitalized for each accounting period cannot exceed the actual amount of interest incurred on the related borrowings during that accounting period.

Capitalization of borrowing costs will be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months. The borrowing costs incurred during these periods will be recognized as an expense for the current period until the acquisition, construction or production is resumed. However, capitalization of borrowing costs will continue when the interruption is a necessary part of the process of preparing that asset for its intended use or sale.

Capitalization 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.

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 amortized cost.

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.

16. Accrued Employee Compensation

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, severance payments, and other expenditures incurred in exchange for service rendered by employees.

When the Company sever labor relation with staffs, on the staffs' freewill or compulsory, and the plans of severing labor relation have be clarify formally and cannot be canceled unilaterally, the related compensation to staffs shall be recognized as estimated debts and charged to current profit or losses.

Other employee benefits are recognised as liability and changed to corresponding product cost, service cost, asset cost and current profits or losses in the corresponding accounting period.

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.

A provision will be initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties, and time value of money will be taken into account as a whole in reaching the best estimate. When the effect of the time value is material, provisions are discounted to the best estimates from relevant future cash flows. The Company will review the carrying amount of a provision at the balance date, and adjust the book value to the best estimates.

18. Deferred Income

Differed Income of the Company is the portion of government grant to be reported in future period. Relevant accounting treatment refers to IV20.

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.

If the collection of the receivables stipulated in the contract or agreement is on installments, and if it is financing in nature, the revenue incurred by selling goods shall be recognized at the fair value based upon the contract or agreement.

Revenue from rendering of services

Revenue from rendering 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.

When the Company has entered into a contract or an agreement comprising both sale of goods and rendering of services, if the sale of goods component and the services component can be separately identifiable and measurable, the sale of goods component will be accounted for as sale of goods and the services component will be accounted for as rendering of services. If the sale of goods component and the services component cannot be separately identifiable, or cannot be separately measurable despite being separately identifiable, both the sale of goods component and the services component will be accounted for as sale of goods.

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

Construction contracts

When the outcome of a construction contract can be estimated reliably at the balance date, contract revenue and contract expenses will be recognized using the percentage of completion method. When the outcome of a construction contract cannot be estimated reliably, different accounting treatments will be adopted depending on the circumstances: (a) if contract costs can be recovered, contract revenue will be recognized to the extent of the contract costs that can be recovered; and contract costs will be recognized as contract expenses in the period in which they are incurred; (b) if contract costs cannot be recovered, they will be recognized as contract expenses immediately when incurred and contract revenue will not be recognized. If the estimated total contract costs exceed total contract revenue, the expected loss will be recognized immediately as an expense for the current period.

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

Foreign currency revenue entries base upon contracted currency, and are translated into Renminbi according to No.19 Accounting Standards for Business Enterprises – Foreign Currency Translation.

At the balance sheet date, an amount equal to the total contract revenue multiplied by the percentage of completion less the accumulated revenue recognized in previous accounting periods will be recognized as contract revenue for the current period. Meanwhile, an amount equal to the estimated total contract costs multiplied by the percentage of completion less the accumulated expenses recognized in previous accounting periods will be recognized as contract expenses for the current period.

20. Government Grants

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital contributions from the government as an owner of the Company to Enterprises.

If a government grant is in the form of a transfer of a monetary asset, the item will be measured at the amount received or receivable; if a government grant is in the form of a transfer of a non-monetary asset, the item will be measure at fair value. If fair value is not reliably determinable, the item will be measured at a nominal amount (1 RMB).

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.

Government grants relating to income, which is to compensate future expenditure and losses, are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate. In case the compensation is for the expenditure or losses already incurred, the grants should be directly recorded in current profit and loss.

Refund of a government grant previously recognized will be accounted for as follows: (a) if there is any related deferred income, the repayment will be offset against the carrying amount of the deferred income, and any excess will be recognized in profit or loss for the current period; (b) if there is no related deferred income, the repayment will be recognized immediately in profit or loss for the current period.

21. Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases, otherwise as finance lease. Payments or incomes made under operating leases (net of any incentives received from the lesser) 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.

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods will be measured at the amount expected to be paid (or returned) according to the requirements of tax laws; Deferred tax assets and deferred tax liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws.

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.

At the balance sheet date, the carrying amount of a deferred tax asset will be reviewed. Current and deferred tax of the Company will be recognized as income or an expense and included in profit or loss for the current period, except to the extent that the tax arises from a business combination or a transaction or event which is recognized directly in owner's equity.

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 surplus. If the capital surplus is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

For a business combination not involving enterprises under common control, the acquirer shall determine the cost of combination according to the following circumstances: (a) the cost of combination is the aggregate of the fair value, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, (b) when for a business combination achieved in stages that involves multiple exchange transactions, the cost of combination is the aggregate of the costs of individual transactions, (c) costs incurred by the acquirer that are directly attributable to the business combination shall be included in the cost of business combination.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized as goodwill. When the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, after reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall recognize the remaining difference 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 entities 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 intra-group 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.

For entities acquired not under common control, the consolidation is prepared at the fair value of identifiable net assets on the acquisition date by making adjustments to the individual statements. For combinations involving common control entities, the combination should be deemed to be incurred at the beginning of the year, and all the assets, liabilities, operating results and cash flows should be consolidated in the statements in the beginning of current period.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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 mostly through business segments with supplementary information as geographical segments

26. Others

Enterprise pension funds

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 archived 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 market risk, credit risk and foreign currency 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.

Considering contracted period is long, 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 maintain 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.

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.

Part of the Company's financial assets is measured at fair value, and thus the value is significantly influenced by the fluctuation of active market price. The Company will keep an eye on the changes in the prices of financial assets market, and implement appropriate actions to protect the Company's benefits in time, at the decision of management.

V CHANGE IN ACCOUNTING POLICIES, AND ACCOUNTING ESTIMATES AND SIGNIFICANT PRIOR PERIOD ERRORS ADJUSTMENTS

There is no change in accounting policies, 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%
Tax for maintaining and building cities	Turnover tax payable during the year	7%
Education surcharge	Turnover tax payable during the year	3%
Flood defense expenses	Income from principal activities and other incomes	0.09%

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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	15%
Rongguang Developing Co., Ltd.	17.5%
Fonkwang Developing	17.5%
Guangzhou Hongfan Information Technique Co., Ltd.	15%
Other subsidiary company	25%

Note: March 16, 2007, National People's Congress approved Income Tax Law of People's Republic of China (the new income tax law), which has taken effect on January 1, 2008. The Company's applicable income tax rate adjusted to 25% from 33% since January 1, 2008.

The Company and its subsidiary Guangzhou Hongfan Information Technique Co., Ltd. are approved to be Hi-tech Enterprises by relevant authorities (Guangzhou Liwan District, National Tax Bureau, [2009] No.08002; Guangzhou Tianhe District, National Tax Bureau [2008] No.5012). The Company and Guangzhou Hongfan Information Technique Co., Ltd. are together taxed at 15% for three years since January 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

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VII BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2008, information of the Company's subsidiary companies was displayed as follows:

Subsidiaries	Organization code	Registration Place	Industry	Registered capital ('000)	Business scope
Masterwood Company Limited	61841220-X	Guangzhou	Furniture manufacturing	RMB3,315	Manufacture and sales of all kind of furniture
Guangzhou Xinsun Shipping Service Company Co., Ltd.	231249006	Guangzhou	Installation, welding, fitting, coating, repairing of hull structure	RMB2,000	Installation, welding, fitting, coating, repairing of hull structure
Guangzhou United Steel Structures Co., Ltd.	61843570-0	Guangzhou	Production and sales of steel structure	USD8,850	Production and sales of steel structure, installation of structures
Guangdong GSI Elevator Co., Ltd.	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
Guangzhou Guangli Marine Human Resource Service Co., Ltd	19047465-2	Guangzhou	Labor service supply	RMB500	Provincial labor employment introduction, marine installation
Guangzhou Hongfa Hotel	63320352-9	Guangzhou	Restaurant	RMB10,000	Lodge, restaurant
Glory Group Developing Co., Ltd.	–	Hong Kong	Trading	HKD30,000	Trading
Fonkwang Developing Co., Ltd.	–	Hong Kong	Trading	HKD200	Trading
Guangzhou Shipyard Heavy Machinery Co., Ltd.	68132734–X	Guangzhou	Designing, manufacturing and installing	RMB30,000	Designing, manufacturing, installing and selling marine auxiliaries, set of heavy machinery

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Subsidiaries	Holding ratio Direct	Holding ratio Indirect	Representative ratio	Investment as at the year end	Consolidated (Y/N)
Masterwood Company Limited	51%	25%	76%	1,690,741.80	Y
Guangzhou Xinsun Shipping Service Company Limited	83%	16.184%	99.184%	500,000.00	Y
Guangzhou United Steel Structures Co., Ltd.	51%	–	51%	37,522,079.55	Y
Guangdong GSI Elevator Co., Ltd.	95%	3.8%	98.8%	19,950,000.00	Y
Guangzhou Hongfan Information Technique Co., Ltd.	51%	–	51%	2,550,000.00	Y
Guangzhou Guangli Marine Human Resource Service Co., Ltd	80%	15.2%	95.2%	3,052,492.77	Y
Guangzhou Hongfa Hotel	–	86.16%	86.16%	8,000,000.00	Y
Glory Group Developing Co., Ltd.	100%	–	100%	26,443,792.13	Y
Fonkwang Developing Co., Ltd.	–	70%	70%	HKD140,000.00	Y
Guangzhou Shipyard Heavy Machinery Co., Ltd.	100%	–	100%	30,000,000.00	Y

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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 Shipyard Heavy Machinery Co., Ltd.	November to December of year 2008	Newly established	30,000,000.00	–
2. Company No Longer Consolidated				
Guangdong Parts and Pipes Limited	January to December of year 2008	Cancelled the registration	–	-10,329,604.18

VIII JOINT VENTURE AND ASSOCIATE COMPANIES

Joint venture and associated companies are displayed as follows:

Companies	Registration place	Industry	Holding ratio	Representative ratio	Year-end net asset	Current revenue	Current net income
					('0000)	*('0000)*	*('0000)*
South China Marine and Industrial Special Coating Co., Ltd	Guangzhou	Coating	25%	25%	1,397	2,602	348
Zhanjiang South Ocean Marine Services Inc.	Zhanjiang	Ship equipment fitting	40%	40%	202	354	6
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	Zhenjiang	Equipment manufacturing	32%	32%	9,208	9,801	911

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

IX NOTES TO SIGNIFICANT ITEMS IN THE FINANCIAL STATEMENTS

1. Cash and cash equivalents

Item	Ending balance	Beginning balance
Cash on hand	200,289.50	297,787.13
Bank	5,196,687,451.21	6,738,958,761.86
Inc.: Deposit in CSSC Financial CO.	18,673,571.65	26,881,257.61
Other monetary funds	935,706,133.84	115,151,623.28
Total	6,132,593,874.55	6,854,408,172.27

Note 1: As at December 31, 2008, there is no pledge, frozen risk related to the Company's cash.

Note 2: Other monetary funds are CD under lien.

Note 3: 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:

	Ending balance			Beginning balance		
Item	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash			83,243.23			68,093.96
HKD	44,875.66	0.8819	39,575.84	159.42	0.9364	149.28
USD	3,713.80	6.8346	25,382.34	6,093.80	7.3046	44,512.77
EUR	954.84	9.6590	9,222.80	942.84	10.6669	10,057.18
GBP	917.25	9.8798	9,062.25	917.29	14.5807	13,374.73
BANK			72,525,897.60			8,520,795.18
HKD	18,369,199.62	0.8819	16,199,797.14	35,706.28	0.9364	33,435.36
USD	7,128,898.30	6.8346	48,723,168.32	1,145,575.64	7.3046	8,367,971.81
EUR	787,134.50	9.6590	7,602,932.14	11,192.38	10.6669	119,388.01
Other monetary funds						8,131,618.77
USD	–	–	–	1,113,218.90	7.3046	8,131,618.77
Total			72,609,140.83			16,720,507.91

2. Trading Financial Assets

Item	Ending fair value	Beginning fair value
Financial Assets designed as at fair value through profit or loss	157,360,902.20	294,309,931.43

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

Note 2: The decrease of 46.53% in balance compared to the beginning is resulted from the fluctuation of fair value caused by the changes of exchange rate, and the settlement of matured forward contracts.

3. Account Receivables

(1) Classification based on significance:

	Ending balance			
Classification	Amount	Ratio	Bad debt allowence	Net
Individually significant balance	298,629,204.57	75.16%	1,493,146.02	297,136,058.55
Individually insignificant but significant based on credit risk characteristics	34,585,564.43	8.70%	2,887,041.88	31,698,522.55
Other insignificant balances	64,153,139.18	16.14%	320,765.70	63,832,373.48
Total	397,367,908.18	100.00%	4,700,953.60	392,666,954.58

	Beginning balance			
Classification	Amount	Ratio	Bad debt allowence	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	319,302,318.40	100.00%	4,979,815.75	314,322,502.65

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Note 1: Individually significant receivables refer to the receivables with the amount 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 provision in the condition that there is no indication of impairment for the receivables.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignifant amount.

(2) Classification based on ages:

	Ending balance			
Ages	**Amount**	**Ratio**	**Bad debt allowence**	**Net**
Within one year	360,798,187.59	90.80%	1,823,071.11	358,975,116.48
1-2 years	22,279,300.29	5.61%	108,662.64	22,170,637.65
2-3 years	10,679,786.18	2.69%	53,398.94	10,626,387.24
Over 3 years	1,495,422.23	0.37%	600,609.02	894,813.21
Special	2,115,211.89	0.53%	2,115,211.89	–
Total	397,367,908.18	100.00%	4,700,953.60	392,666,954.58

	Beginning balance			
Ages	**Amount**	**Ratio**	**Bad debt allowence**	**Net**
Within one year	290,358,282.70	90.93%	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	319,302,318.40	100.00%	4,979,815.75	314,322,502.65

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Foreign currency included in the balance:

	Ending balance			Beginning Balance		
Item	**Original currency**	**Exchange rate**	**RMB**	**Original currency**	**Exchange rate**	**RMB**
USD	19,329,787.92	6.8346	132,111,368.53	26,588,625.50	7.3046	194,219,273.83
HKD	3,208,781.04	0.8819	2,829,824.00	6,236,385.17	0.9088	5,667,626.84
EUR	578,855.00	9.6590	5,591,160.45	–	–	–
Total			140,532,352.98			199,886,900.67

(3) Top 5 balances

	Ending balance			
Customers	**Balance per book**	**Aging**	**Proportion (%)**	**Beginning balance**
General Armament Department of Chinese navy	104,582,500.00	Within one year	26.32%	–
Bechtel Power Corporation	76,500,245.75	Within one year	19.25%	65,071,880.31
SPX Cooling Technology GMBH	35,136,203.12	Within one year	8.84%	13,746,694.38
Jiangnan Heavy Industry Co., LTD	30,903,248.00	Within one year	7.78%	–
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	30,880,000.00	Within one year	7.77%	16,714,500.00
Total	278,002,196.87		69.96%	95,533,074.69

Note 1: As at December 31, 2008, the balance of Top 5 customers is RBM278,002,196.87, 69.96% of the total balance of Account Receivables. Among them, Jiangnan Heavy Industry Co., LTD and CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd are related parties of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(4) *Movement of bad debt allowance:*

Item	Beginning balance	Increase	Decrease: Reverse	Decrease: Write-off	Ending balance
Individually significant balance	1,211,031.24	282,114.78	–	–	1,493,146.02
Individually insignificant but significant based on credit risk characteristics	3,516,874.48	–	629,832.60	–	2,887,041.88
Other insignificant balances	251,910.03	68,855.67	–	–	320,765.70
Total	4,979,815.75	350,970.45	629,832.60		4,700,953.60

(5) Up to December 31, 2008, there are no account receivables of shareholders holding 5% or more than 5% of the voting stocks; balance with related party refers to Note X-part C.

4. Advances to Suppliers

(1) *Classification based on ages:*

Ages	Ending balance: Amount	Ending balance: Ratio	Ending balance: Bad debts	Beginning balance: Amount	Beginning balance: Ratio	Beginning balance: Bad debts
Within one year	476,117,195.98	97.79%	–	514,970,952.69	100.00%	–
1-2 years	10,745,100.00	2.21%	–	6,550.00	0.00%	–
2-3 years	6,550.00	0.00%	–	3,318.83	0.00%	–
Over 3 years	–	–	–	–	–	–
Total	486,868,845.98	100.00%	–	514,980,821.52	100.00%	–

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(2) *Balance with main suppliers:*

Suppliers	Ending balance Book value	Ending balance Nature	Beginning balance
Dalian Marine Diesel Engine Factory	184,431,000.00	Equipment	112,270,000.00
Guangzhou CSSC Huangpu Shipbuilding Ltd.	115,387,025.64	Contracted value	269,888,640.00
Zhenjiang CSSC Equipment Ltd.	31,120,000.00	Equipment	27,480,000.00
Guangzhou Fanyu Oceangoing Propeller Manufacture Ltd.	20,080,000.00	Equipment	2,734,331.25
Shenyang Institute of Automaton	11,554,837.40	Equipment	5,775,000.00
Total	362,572,863.04		418,147,971.25

Note: As at December 31, 2008, the balance of Top 5 customers is 362,572,863.04, 74.47% of the total balance of Advances to suppliers. Among them, Guangzhou CSSC Huangpu Shipbuilding Ltd and Zhenjiang CSSC Equipment Ltd. are related parties of the Company.

(3) *Significant advances to suppliers aged over 1 year are as below:*

Suppliers	Ending balance	Aging	Unsettled reason
Shenyang Institute of Automaton of Chinese Academy of Sciences	5,775,000.00	1-2 years	Construction work in progress
Harbin Engineering University	1,874,500.00	1-2 years	Construction work in progress
Total	7,649,500.00		

(4) Up to December 31, 2008, there is no advances to suppliers of shareholders holding 5% or more than 5% of the voting stocks; balance with related party refers to Note X.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

5. Interest Accrued

Item	Ending balance	Beginning balance
Interest receivable of CD	142,294,820.00	49,915,107.00

6. Other Receivables

(1) Classification based on significance:

	Ending balance			
Classification	Amount	Ratio	Bad debt allowence	Net
Individually significant balance	142,017,480.80	70.61%	9,013,974.06	133,003,506.74
Individually insignificant but significant based on credit risk characteristics	3,686,068.18	1.83%	18,430.34	3,667,637.84
Other insignificant balances	55,423,424.95	27.56%	277,117.12	55,146,307.83
Total	201,126,973.93	100.00%	9,309,521.52	191,817,452.41

	Beginning balance			
Classification	Amount	Ratio	Bad debt allowence	Net
Individually significant balance	147,191,658.52	72.16%	9,168,723.23	138,022,935.29
Individually insignificant but significant based on credit risk characteristics	1,016,306.17	0.50%	5,081.53	1,011,224.64
Other insignificant balances	55,769,082.17	27.34%	506,919.39	55,262,162.78
Total	203,977,046.86	100.00%	9,680,724.15	194,296,322.71

Note 1: 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, and the Receivable of Guangzhou International Trust and Investment Company, which amounts to 10,340,232.15, was made a provision of RMB8,360,252.99.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignifant amount.

(2) *Classification based on ages:*

	Ending balance			
Ages	**Amount**	**Ratio**	**Bad debt allowence**	**Net**
Within one year	189,000,673.6	93.98%	940,338.19	188,060,335.41
1-2 years	1,214,503.78	0.60%	6,072.52	1,208,431.26
2-3 years	406,645.56	0.20%	2,033.23	404,612.33
Over 3 years	164,918.84	0.08%	824.59	164,094.25
Special provision for bad debts	10,340,232.15	5.14%	8,360,252.99	1,979,979.16
Total	201,126,973.93	100.00%	9,309,521.52	191,817,452.41

	Beginning balance			
Ages	**Amount**	**Ratio**	**Bad debt allowence**	**Net**
Within one year	189,266,471.94	92.79%	927,397.82	188,339,074.12
1-2 years	240,465.85	0.12%	1,202.33	239,263.52
2-3 years	372,516.63	0.18%	1,862.58	370,654.05
Over 3 years	403,323.69	0.20%	2,016.62	401,307.07
Special provision for bad debts	13,694,268.75	6.71%	8,748,244.80	4,946,023.95
Total	203,977,046.86	100.00%	9,680,724.15	194,296,322.71

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(3) Significant account balance:

Items	Ending balance: Book value	Ending balance: Nature	Ending balance: Ages	Ending balance: Proportion (%)	Beginning balance
VAT Rebate and Subsidies Receivable	130,118,430.89	VAT Rebate and Subsidies	Within one year	64.69%	183,412,496.77
Beijing Property rights Transfer Co. LTD	50,000,000.00	Bid deposit	Within one year	24.86%	–
Guangzhou International Trust and Investment Company	10,340,232.15	Entrusted deposits	Over 5 years	5.14%	13,694,268.75
Total	190,458,663.04			94.69%	197,106,765.52

Note 1: Ending significant account balances amounted to RMB190,458,663.04, which accounted for 94.69% of total other receivables.

Note 2: Entrusted deposits has been exchanged for some assets with Guangzhou Notional Investment Corp. under Debt Restructuring Agreement. According to the "Delegatio Nominis contract" signed by the Company and Guangzhou Notional Investment Corp. and Hong Kong Gunghong international Corp., Guangzhou Notional Investment Corp. transferred the claim of 10,640,000.00 to Hong Kong Gunghong international Corp, which belongs to its subsidiary Guangzhou Guoxin economic developing Corp. to the Company. In the meantime, according to the contract, Hong Kong Gunghong international Corp shall offset part of the debts with 7 cars, which was due to hand over before September 9, 2005, and pay the rest debt with interest in Guanghong electrooptical technology Corp, on which Hong Kong Gunghong international Corp has the right of disposition. Up to December 31, 2008. The Company had not realized the creditor's rights, and shall pay attention to further following up.

(4) Movement of bad debt allowance:

Items	Beginning balance	Increase	Decrease: Reverse	Decrease: Write-off	Ending balance
Individually significant balance	9,168,723.23	233,242.64	–	387,991.81	9,013,974.06
Individually insignificant but significant based on credit risk characteristics	5,081.53	13,348.81	–	–	18,430.34
Other insignificant balances	506,919.39	–	229,802.27	–	277,117.12
Total	9,680,724.15	246,591.45	229,802.27	387,991.81	9,309,521.52

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(5) Up to December 31, 2008, there are no other receivables of shareholders holding 5% or more than 5% of the voting stocks; balance with related party refers to Note X(c).

7. Inventory

(1) *Classification*

Categories	Ending balance	Beginning balance
Raw materials	462,707,013.67	441,273,482.06
Work-in-process	656,536,129.45	520,529,135.71
Finished goods	5,409,429.91	6,681,159.26
Low-value consumables	792,675.43	316,512.21
Total	1,125,445,248.46	968,800,289.24
Less: Impairment provision	9,747,802.99	13,450,607.76
Net value	1,115,697,445.47	955,349,681.48

(2) *Movements of Impairment Provision*

Categories	Beginning balance	Increase	Decrease		Ending balance
			Reverse	Write-off	
Raw materials	13,450,607.76	1,008,918.99	4,711,723.76	–	9,747,802.99
Work-in-process	–	–	–	–	–
Finished goods	–	–	–	–	–
Low-value consumables	–	–	–	–	–
Total	13,450,607.76	1,008,918.99	4,711,723.76		9,747,802.99

Note: The reverse of provision for inventory is because of the disappearance of factors that caused the provision, and the reverse amount is 1.02% of the total.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

8. Available-for-sale Financial Assets

(1) Classification:

Item	Ending fair value	Beginning fair value
Equity instrument	185,450,000.00	575,174,357.75

(2) Classification brake down:

Item	Ending fair value	Beginning fair value
China Merchants Energy Shipping Co., Ltd	38,600,000.00	128,700,000.00
China Merchants Bank Co., Ltd	144,096,000.00	441,884,357.75
Membership of Wuhan Gold and Silver Golf Club	2,754,000.00	4,590,000.00
Total	185,450,000.00	575,174,357.75

Note: The decreased balance of 67.76% compared to the beginning mainly resulted from decreased year-end stock price of "CMES", "CMBC". As at December 31, 2008, the holding stocks on "CMES" and "CMBC" are unrestricted outstanding shares. The fair value of above-mentioned stocks is based on their closing price of December 31, 2008.

9. Long-term Equity Investment

(1) Classification:

Item	Beginning balance	Increase	Decrease	Ending balance
Subsidiaries	13,555,580.88	–	13,555,580.88	–
Joint venture	19,418,007.97	15,010,566.73	720,507.16	33,708,067.54
Associate companies	1,900,000.00	–	–	1,900,000.00
Total	34,873,588.85	15,010,566.73	14,276,088.04	35,608,067.54
Less: Impairment	–	–	–	–
Net value	34,873,588.85	15,010,566.73	14,276,088.04	35,608,067.54

Note 1: The beginning 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 twenty fourth board resolution of the fifth board of directors, because Guangzhou Guanglian Container Limited terminated co-operation beforehand in 2007, and went to liquidate, the financial statement of the subsidiary will be no longer consolidated in 2007, and the liquidation had been completed this year.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(2) *Equity investment accounting based on cost method:*

Investees	Initial investment	Beginning balance	increase	Decrease	Ending 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	1,900,000.00	1,900,000.00			1,900,000.00		

(3) *Equity investment accounting based on equity method:*

Investees	Holding ratio	Representative ratio	Initial investment	Beginning balance
South China Marine and Industrial Special Coating Co., Ltd	25%	25%	1,722,060.00	3,344,454.04
Zhanjiang South Ocean Marine Services Inc.	40%	40%	800,000.00	784,928.59
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	32%	32%	15,558,800.00	15,288,625.34
Total			18,080,860.00	19,418,007.97

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Investees	Increase or decrease	Current cash dividends	Ending Balance
South China Marine and Industrial Special Coating Co., Ltd	869,047.18	720,823.25	3,492,677.97
Zhanjiang South Ocean Marine Services Inc.	25,968.72	–	810,897.31
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	14,115,866.92	–	29,404,492.26
Total	15,010,882.82	720,823.25	33,708,067.54

Note 1: The increased equities in Zhenjiang Zhongchuan Electricity Power Equipment Ltd. include the additional investment of RMB11,200,000.00.

10. Investment Property

Item	Beginning balance	Increase	Decrease	Ending balance
1. Total original costs	108,864,744.26	–	7,377,534.44	101,487,209.82
House and Building	108,864,744.26	–	7,377,534.44	101,487,209.82
2. Accumulated depreciation	4,880,165.80	2,274,811.44	1,661,490.51	5,493,486.73
House and Building	4,880,165.80	2,274,811.44	1,661,490.51	5,493,486.73
3. Provision for impairment	3,373,521.60	–	1,518,510.01	1,855,011.59
House and Building	3,373,521.60	–	1,518,510.01	1,855,011.59
4. Net value	100,611,056.86	–	–	94,138,711.50
House and Building	100,611,056.86	–	–	94,138,711.50

Note 1: the decreased amount of investment property is mainly result from selling.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

11. Fixed Assets

(1) Movements of original cost and accumulated depreciation:

Item	Beginning balance	Increase	Decrease	Ending balance
(1) Total original cost	**1,652,756,656.48**	**138,971,109.47**	**50,857,272.34**	**1,740,870,493.61**
1. Buildings and structures	763,438,750.69	25,953,068.50	9,216,418.11	780,175,401.08
2. Machinery and equipment	813,183,572.51	104,591,403.36	38,221,432.45	879,553,543.42
3. Vehicles	31,371,362.16	5,062,230.25	3,034,736.30	33,398,856.11
4. Others	44,762,971.12	3,364,407.36	384,685.48	47,742,693.00
(2) Accumulated deprecation	**715,230,249.55**	**96,387,285.84**	**35,745,460.55**	**775,872,074.84**
1. Buildings and structures	220,350,440.57	27,780,201.69	1,667,210.18	246,463,432.08
2. Machinery and equipment	456,751,424.70	65,383,704.36	30,888,234.09	491,246,894.97
3. Vehicles	15,378,300.19	2,337,023.32	2,821,403.03	14,893,920.48
4. Others	22,750,084.09	886,356.47	368,613.25	23,267,827.31
(3) Net book value	**–**	**–**	**–**	**–**
1. Buildings and structures	–	–	–	–
2. Machinery and equipment	–	–	–	–
3. Vehicles	–	–	–	–
4. Others	–	–	–	–
(1) Total original cost	**937,526,406.93**			**964,998,418.77**
1. Buildings and structures	543,088,310.12			533,711,969.00
2. Machinery and equipment	356,432,147.81			388,306,648.45
3. Vehicles	15,993,061.97			18,504,935.63
4. Others	22,012,887.03			24,474,865.69

Note: Asset collateral refer to Note XII (1) mortgage.

(2) Total fixed asset transferred from construction-in-progress during the year amounted to RMB123,118,749.56.

(3) The decreased amount of fixed asset mainly resulted from discarding and selling.

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

12. Construction-in-Progress

(1) Movements of construction-in-progress:

		Beginning balance			Increase	
Item	Capita sourcel	Amount	Including: Capitalization of interest	Deprecation	Amount	Including: Capitalization of interest
Total		105,089,480.85	–	–	280,124,721.55	–
Including: main projects		70,033,475.54	–	–	191,722,905.77	–
Machining center of Mechanical Processing Center	Others	47,681,642.11	–	–	105,158,700.70	–
Innovation of Shunchuan Piping Plant	Others	1,463,624.03	–	–	18,259,420.46	–
House of Painting Shop	Others	93,837.92	–	–	26,674,783.09	–
Installation of 120 ton gantry crane	Others	19,050,874.92	–	–	8,689.45	–
Equipments pending installtion	Others	1,743,496.56	–	–	41,621,312.07	–

	Decrease		Ending balance		
Item	Amount	Including: Transfer to fixed asset	Amount	Including: Capitalization of interest	Deprecation
Total	123,118,749.56	123,118,749.56	262,095,452.84	–	–
Including: main projects	45,715,967.87	45,715,967.87	216,040,413.44	–	–
Machining centre of Longxue base	2,490,579.68	2,490,579.68	150,349,763.13	–	–
Innovation of Shunchuan Piping Plant			19,723,044.49	–	–
House of Painting Shop	926,543.52	926,543.52	25,842,077.49	–	–
Installation of 120 ton gantry crane	19,059,564.37	19,059,564.37	–	–	–
Equipments pending installtion	23,239,280.30	23,239,280.30	20,125,528.33	–	–

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

(3) Compared to the beginning balance the increase of 149.40% in balance of construction-in-progress is resulted from the additional investment on machining centre of Mechanical Processing Center.

13. Intangible Assets

Item	Beginning balance	Increase	Decrease	Ending balance
1. Total original costs	**132,398,016.15**	**2,756,510.68**	**–**	**135,154,526.83**
Land use right	77,619,205.38	1,776,510.68	–	79,395,716.06
Technology without patent	54,778,810.77	980,000.00	–	55,758,810.77
2. Accumulated amortization	**39,482,458.26**	**5,843,163.90**	**–**	**45,325,622.16**
Land use right	18,619,750.52	913,369.33	–	19,533,119.85
Technology without patent	20,862,707.74	4,929,794.57	–	25,792,502.31
3. Net Book Value	**–**	**–**	**–**	**–**
Land use right	–	–	–	–
Technology without patent	–	–	–	–
1. Total original costs	**92,915,557.89**	**–**	**–**	**89,828,904.67**
Land use right	58,999,454.86	–	–	59,862,596.21
Technology without patent	33,916,103.03	–	–	29,966,308.46

Note: There is no indication of impairment in intangible assets, and no impairment provision was accrued.

14. Deferred Tax Assets

Item	Ending balance		Beginning balance	
	Temporary difference	Deferred tax assets	Temporary difference	Deferred tax assets
Impairment provision	27,158,167.27	4,073,725.09	27,283,250.76	6,820,812.69
Prepaid housing subsidy	7,241,940.00	1,086,291.00	7,323,750.00	1,830,937.50
Housing allowance for retirees	4,009,670.80	601,450.62	1,725,651.90	431,412.98
Medical insurance for retirees within 10 years	3,791,341.07	568,701.16	1,555,218.83	388,804.71
Early retiree benefits	3,204,591.67	480,688.75	4,753,930.46	1,188,482.62
Total	45,405,710.81	6,810,856.62	42,641,801.95	10,660,450.50

Note: Compared to the beginning balance, the decrease of 36.11% in balance of deferred tax asset is resulted from decrease of income tax rate from 33% to 15%.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

15. Impairment Provision

Item	Beginning balance	Accruals	Decrease		Ending balance
			Reverse	Write-off	
Bad debt	14,660,539.90	597,561.90	854,634.87	392,991.81	14,010,475.12
Inventory	13,450,607.76	1,008,918.99	4,711,723.76	0	9,747,802.99
Investment property	3,373,521.69	–	–	1,518,510.01	1,855,011.68
Total	31,484,669.35	1,606,480.89	5,566,358.63	1,911,501.82	25,613,289.79

16. Short-term Borrowings

Category	Ending balance	Beginning balance
Credit borrowings	170,469,177.43	474,297,390.00
Guaranteed borrowings	–	20,000,000.00
Pledged borrowings	307,557,000.00	–
Total	478,026,177.43	494,297,390.00

Note: Pledged borrowings took CD as a pledge.

17. Trading Financial Liabilities

Item	Ending fair value	Beginning fair value
Financial liability designed as measured at fair value through profit or loss	5,199,844.99	11,628,218.98

Note: Compared to the beginning balance, the decrease of 55.28% in balance of financial liabilities is resulted from settlement of derivate financial instruments and from changes of fair value caused by fluctuation of exchange rate.

18. Notes payable

Item	Ending balance	Beginning balance
Bank acceptance	143,660,239.95	–

Note: Compared to the beginning balance, the ending balance of notes payable increased significantly as a result of changes in clearing form.

19. Account Payable

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

Suppliers	Amounts	Incurrence	Nature	Unsettled reason
Lianjian-Fanguang JV Co. LTD	3,249,165.87	Year 2006, 2007	Materials	Inmatured
Zhanjinag Yuexi Constructional Engineering Co. LTD	1,540,975.06	Year 2007	Construction	Inmatured
Total	4,790,140.93			

(2) Up to December 31, 2008, there are no account payables of shareholders holding 5% or more than 5% of the voting stocks; Balance with related party refers to Note X(3).

(3) The increase of 33.40% in balance compared to the beginning is resulted from the increased purchase of materials.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

20. Advances from Customers

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

Customers	Amounts	Incurrence	Nature	Unsettled reason
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	15,002,999.95	Year 2006	Construction	Unfinished construction
Huudong Zhonghua Shipbuilding (Group) Co., Ltd	4,600,000.00	Year 2006	Construction	Unfinished construction
Guangzhou CSSC-Ocean-GWS Marine Engineering Co., Ltd	4,048,500.00	Year 2005	Design fee	Unfinished construction
CSSC Technology Research & Economy Development Institute	1,130,000.00	Year 2007	Design fee	Unfinished construction
CSSC No. 9 Marine Design and Research Institute	395,000.00	Year 2005	Design fee	Unfinished construction
Total	25,176,499.95			

(2) Up to December 31, 2008, there are no advances from shareholders holding 5% or more than 5% of the voting stocks; balance with related party refers to Note X(3).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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

Item	Ending balance Original currency	Ending balance RMB	Beginning balance Original currency	Beginning balance RMB
USD	6,108,738.09	42,729,443.90	790,362.14	5,773,279.285
EUR	371,295.80	3,881,874.48	–	–
Total		46,611,318.38		5,773,279.285

21. Accrued Employee Compensation

Item	Beginning balance	Increase	Decrease	Ending balance
Salary, bonus, allowance and subsidy	25,000,000.00	513,857,722.26	523,772,722.26	15,085,000.00
Employee welfare	5,077,421.30	27,168,785.64	27,168,785.64	5,077,421.30
Social security	–	85,490,036.92	85,490,036.92	–
Housing fund	–	36,966,602.54	36,966,602.54	–
Labor union expenditure and personnel education	972,050.46	10,590,316.44	11,562,366.90	–
Compensation for dismiss of labor relationship	4,753,930.46	54,850.00	1,604,188.79	3,204,591.67
Supplementary pension	–	9,008,958.55	9,008,958.55	–
Others	–	27,058,700.88	27,058,700.88	–
Total	35,803,402.22	710,195,973.23	722,632,362.48	23,367,012.97

Note 1: The decrease of 34.74% in balance compared to the beginning is resulted from the decreased bonus compared to that of last year.

Note 2: 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

22. Taxes and Expenses Payable

Categories	Ending balance	Beginning balance
Value-added tax	2,924,971.33	-1,056,047.32
Business tax	806,367.01	391,058.96
Individual income tax	5,559,541.26	6,589,914.19
Corporate income tax	105,668,914.01	255,657,993.49
Land use tax	8,481.02	1,640,756.42
City construction tax	4,537,056.12	3,111,389.03
Real estate tax	1,715,210.72	1,483,851.58
Education surcharge	1,937,452.32	1,326,452.16
Flood control and maintain expenses	3,465,711.20	2,949,058.41
Others	-88,190.68	-54,058.16
Total	126,535,514.31	272,040,368.76

Note: The decrease of 53.49% in balance compared to the beginning is resulted from the decrease of Income tax payable caused by the decrease of Income tax rate.

23. Interest Payable

Categories	Ending balance	Beginning balance
Interest on long-term borrowings	18,212,694.11	1,972,827.83
Interest on short-term borrowings	1,933,582.55	2,261,554.50
Total	20,146,276.66	4,234,382.33

24. Other Payables

(1) Major account balances are displayed as below:

Item	Ending balance	Nature
Intermediary organ fees payable related to allotment of shares	4,231,900.00	Intermediary organs fee

(2) Up to December 31, 2008, there are no other payables of shareholders holding 5% or more than 5% of the voting stocks; balance with related party refers to Note X-part C.

25. Current Portion of Long-term Liabilities

Item	Ending balance	Beginning balance	Note
Long-term liabilities	877,863,362.40	1,160,077,390.49	Refer to Note IX

26. Other Current Liabilities

Item	Ending balance	Beginning balance
Long-term contract settlement	4,278,333,045.78	4,871,825,309.94

27. Long-term Borrowings

Category	Ending balance	Beginning balance
Credit borrowings	34,173,000.00	–
Guaranteed borrowings	501,960,362.40	1,545,573,009.40
Pledged borrowings	546,768,000.00	–
Total	1,082,901,362.40	1,545,573,009.40
Less: Long-term liabilities due within a year	877,863,362.40	1,160,077,390.49
Including: Guaranteed borrowings	501,960,362.40	1,160,077,390.49
Pledged borrowings	375,903,000.00	–
Net	205,038,000.00	385,495,618.91

Note 1: Pledged Borrowings took CD as a pledge.

Note 2: Guaranteed Borrowings is guaranteed by CSSC.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

28. Special Purpose Payables

Item	Beginning balance	Increase	Decrease	Ending balance	Note
High-speed ro/ro passenger vessels	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
Total	24,570,000.00			24,570,000.00	

29. Provision

Details of the balance of provision are displayed as follows:

Item	Beginning balance	Increase	Decrease	Ending balance
Product quality warranties	61,652,483.76	38,675,905.20	13,178,206.48	87,150,182.48

Note: The increase of 41.36% in balance compared to the beginning is resulted from the increase of product quality warranties along with the increase of sales revenue.

30. Deferred Tax Liabilities

Details of the balance of deferred tax liabilities are displayed as follows:

	Ending balance		Beginning balance	
Item	Temporary differences	Deferred tax liabilities	Temporary differences	Deferred tax liabilities
Net movement on fair value of available-for-sale financial assets	135,989,850.00	20,398,477.50	523,731,024.44	130,932,756.11
Exchange gain	81,449,627.47	12,217,444.12	–	–
Derivatives	152,161,057.20	22,824,158.58	282,681,712.44	70,670,428.11
TOTAL	369,600,534.67	55,440,080.20	806,412,736.88	201,603,184.22

Note: The decrease of 72.50% in balance of deferred tax liabilities compared to the beginning is resulted from the decrease of fair value of financial assets available for sale caused by the fluctuation of market price, the settlement of some derivatives, and the exchange gain, which caused significant write-off of deferred tax liabilities. Beside, the change of income tax rate is also one of the significant causes.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

31. Other Non-current Liabilities

Details of the balance of other non-current liabilities are displayed as follows:

Item	Ending balance	Beginning balance	Note
China State Shipbuilding Corporation (CSSC)	192,500.03	6,088,140.75	Deferred income
General Armament Ministry	–	7,373,993.12	Deferred income
The Economic & Trade Commission of Guangdong Province/Finance Bureau	4,230,000.00	2,730,000.00	Deferred income
Guangzhou Economic & Trade Committee/Finance Bureau	1,008,280.24	1,600,000.00	Deferred income
Guangzhou Environmental Protection Bureau/Finance Bureau	284,210.52	300,000.00	Deferred income
Others	–	100,000.00	Deferred income
Total	5,714,990.79	18,192,133.87	

Note: The decrease of 68.59% in balance compared to the beginning is resulted from settlement of some research project.

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(Amounts in RMB Yuan unless otherwise stated)

32. Share Capital

(1) Details of movement of share capital in current year are listed below:

	Beginning balance		Increase/Decrease					Ending balance	
Classification	Number of Shares	%	Issue New Shares	Donated Shares	capitalization of capital reserve	Others	SUM	Number of Shares	%
I. Restrictive-for-sale Stocks	176,650,615	35.71%	–	–	–	–	–	176,650,615	35.71%
II. 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	494,677,580	100.00%	–	–	–	–	–	494,677,580	100.00%

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

Time	New available-for-trading stocks after Restrictitve-for-sale period	Ending balance of shares subject to sale restrictions	Ending balance for freely transferable shares	Note
May 24, 2009	176,650,615	176,650,615	318,026,965	Note 1

Note 1: 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.

33. Capital Surplus

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

Item	Beginning balance	Increase	Decrease	Ending balance
Share premium	651,385,281.95	–	–	651,385,281.95
Others	393,381,199.57	–	277,206,895.85	116,174,303.72
Total	1,044,766,481.52	–	277,206,895.85	767,559,585.67

Note: The details of the decrease of Other Capital Reserves are listed below:

(1) The amount of change of fair value of financial assets available for sale is 271,988,147.24.

(2) The amount of the transfer of sound value flexible when selling the financial assets is 5,218,748.61.

34. Surplus Reserves

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

Item	Beginning balance	Increase	Decrease	Ending balance
Statutory surplus reserves	156,564,664.49	77,532,832.02	–	234,097,496.51
Other surplus reserves	18,926,387.43	–	–	18,926,387.43
Total	175,491,051.92	77,532,832.02		253,023,883.94

Note: The Company's statutory surplus reserves is 10% of the parent company's current net profit prepared according to the financial report of parent company prepared by HKFRS.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

35. 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	736,574,570.94	-126,577,188.54
Add: Increase (-decrease) in profit due to changes in accounting policies	–	–
Corrections of prior period errors	–	–
Beginning balance of undistributed profit in current year	736,574,570.94	-126,577,188.54
Add: Net profit in current year	820,395,655.17	940,656,796.04
Others	–	–
Available-for-distribution profit	1,556,970,226.11	814,079,607.50
Minus: Profit appropriation – statutory surplus reserves	77,532,832.02	75,343,540.58
Profit appropriation – staff bonus and welfare fund	–	2,161,495.98
Profit appropriation – ordinary shares dividends	247,338,790.00	–
Ending balance of undistributed profit	1,232,098,604.09	736,574,570.94

Note: The Company has hold the Board Meeting on May 13, 2008, on which the proposal of profit distribution has been passed. That is, the Company shall release cash dividends rated RMB0.50 per share (A stock included tax) on the base of total shares amounted 494,677,580,and profit appropriation-statutory surplus reserves is RMB75,343,540.58. The proposal had already been implemented.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

36. Minority Interests (Balance Sheet)

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

Name of minorities	Name of investees	Ending balance	Beginning balance
Canam Steel Structures Limited	United Steel Structures, Ltd	86,033,866.73	69,177,503.12
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangzhou Masterwood Co., Ltd	1,570,619.49	1,564,355.74
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangzhou Guangli Marine Engineering Service Co., Ltd	202,508.47	185,760.92
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangzhou Xingshun Shipping Services Company Limited	144,441.42	121,723.70
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangdong GSI Elevator Limited	369,753.28	358,506.21
Ou Zhi Min	Fonkwang Developing Co., Ltd.	1,797,659.45	348,856.17
CSSC Science & Technology Association Technology Consultation Service Corporation	Guangzhou HONGFAN PC Technology Co., Ltd	1,077,342.58	835,099.65
China Shipbuilding IT Co., Ltd	Guangzhou HONGFAN PC Technology Co., Ltd	2,908,824.97	2,171,259.11
Quan Hua Tai etc.	Guangzhou HONGFAN PC Technology Co., Ltd	1,400,545.35	1,085,629.55
Total		95,505,561.74	75,848,694.17

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

37. Operating Income/Operating Cost

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

Item	Amount in current year	Amount in last year
Operatin income	6,984,087,521.27	5,952,697,163.61
Including: Income from principal activities	6,847,670,581.49	5,811,468,329.35
Other operating income	136,416,939.78	141,228,834.26
Operating costs	6,070,463,652.88	4,917,716,899.70
Including: Cost of sales	5,959,821,749.12	4,844,769,882.93
Other operating expenses	110,641,903.76	72,947,016.77

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

	Amount in current year		Amount in last year	
Product/Project	Operating income	Operating costs	Operating income	Operating costs
1. Principal businesses	6,847,670,581.49	5,959,821,749.12	5,811,468,329.35	4,844,769,882.93
Inc: Shipbuilding products	5,904,445,106.67	5,090,138,906.66	5,134,588,938.45	4,277,895,521.57
Steel Structure projects	659,890,955.31	604,550,304.54	391,846,352.92	346,484,823.82
Mechanical & electrical products and others	283,334,519.51	265,132,537.92	285,033,037.98	220,389,537.54
2. Others	136,416,939.78	110,641,903.76	141,228,834.26	72,947,016.77
Total	6,984,087,521.27	6,070,463,652.88	5,952,697,163.61	4,917,716,899.70

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(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	4,237,056,225.90	4,362,107,587.96
Proportion of the total revenue	60.68%	75.06%

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

	Operating income from principal activities		Gross margin	
Area	Year 2008	Year 2007	Year 2008	Year 2007
Foreign countries and areas:				
The Republic of Malta	1,248,505,028.09	347,929,458.32	251,321,086.69	53,052,138.23
German	327,760,861.88	19,585,199.43	21,702,441.54	1,636,120.01
Denmark	2,114,264,244.03	723,881,803.84	337,997,013.17	109,153,776.64
Macao	440,950.00	17,865,136.78	440,950.00	2,441,847.63
Italy	30,144,808.15	–	5,032,074.86	–
USA	357,014,494.29	269,820,040.27	34,563,675.86	25,236,187.33
Oman	–	43,842,287.05	–	10,837,692.41
Hongkong	299,633,532.71	11,851,039.11	20,402,066.86	2,347,402.12
Greece	532,198,804.79	918,019,743.30	85,390,412.16	230,492,141.96
Taiwan	8,189,067.59	5,785,152.59	50,623.12	93,161.10
Sweden	399,078,654.64	325,341,877.43	63,748,505.07	75,154,483.62
Liberia	–	1,008,570,307.94	–	262,559,054.14
India	1,413,858.69	–	-177,826.52	–
Others	–	8,243,641.11	–	4,189,410.27
Sub-total	5,318,644,304.86	3,700,735,687.17	820,471,022.81	777,193,415.46
China	1,529,026,276.63	2,110,732,642.18	67,377,809.56	189,505,030.96
Total	6,847,670,581.49	5,811,468,329.35	887,848,832.37	966,698,446.42

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(5) Details of Construction Contracts

Item	Total amount (RMB)	Accumulated costs	Realized accumulated gross margin ("-" for loss)	Setllment amount
Chemicals/product oil tanker	21,873,235,850.30	5,623,592,587.19	1,157,124,728.22	9,780,881,624.77
Crude oil tanker	758,914,478.63	550,277,598.40	15,520,594.87	579,013,346.15
Special vessel	5,223,060,000.00	1,290,970,316.35	99,973,891.80	2,409,170,180.00
Total	27,855,210,328.93	7,464,840,501.94	1,272,619,214.89	12,769,065,150.92

38. Turnover Tax and Surcharge

Details of turnover tax and surcharge are listed below:

Category	Amount in current year	Amount in last year
Business tax	3,928,343.07	2,948,866.35
City maintenance and construction tax	12,839,123.32	12,179,156.67
Education surcharge	5,504,187.77	5,218,911.93
Total	22,271,654.16	20,346,934.95

39. Expenses

Details of selling and administration expense are listed below:

Item	Amount in current year	Amount in last year
Selling expense	49,887,310.04	59,141,689.03
General and administration expense	282,534,191.60	307,915,809.37

Note 1: Selling Expense is primarily provision for product guarantees.

Note 2: General and administration expense is primarily wages and repair charges.

Details of financial expenses are listed below:

Item	Amount in current year	Amount in last year
Interest expenses	199,416,620.47	74,349,847.05
Minus: Interest income	287,503,094.58	138,323,572.16
Net loss foreign currency exchange	212,105,472.12	99,889,477.37
Transaction fee and others	11,610,447.96	13,493,964.05
Total	-288,581,498.27	-150,369,238.43

Note: The decrease of 91.92% in balance compared to the beginning, which amounts to 138,212,259.84, is resulted from the increased exchange gain of 112,215,994.75, the increased interest of CD of 149,179,522.42 and the increased interest of bank loans of 125,066,773.42.

40. Asset Impairment Loss

Details of asset impairment loss are listed below:

Item	Amount in current year	Amount in last year
Bad debt loss	-257,072.97	1,716,544.76
Impairment loss of inventories	-3,702,804.77	10,488,100.20
Impairment loss of investment properties	–	3,373,521.60
Total	-3,959,877.74	15,578,166.56

Note: The decrease of 124.90% in balance is resulted from the reversed amount of 4,711,723.76 of asset impairment loss because of the disappearance of factors that caused the Impairment.

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41. Gains/Losses from Fair Value Changes

Details of net movement on fair value are listed below:

Source	Amount in current year	Amount in last year
Trading financial assets	-136,949,029.23	293,597,908.83
Trading financial liabilities	6,428,373.99	-11,057,891.82
TOTAL	-130,520,655.24	282,540,017.01

Note: The decrease of 146.20% in gains/losses from fair value changes results from settlement of some foreign exchange forward contracts, and from the fluctuation of market value on the contracts that are not matured.

42. 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 the equity method at the end of the year	3,810,566.74	1,395,785.47
Income from holding and disposal of financial assets held for trading and those at fair value through profit or loss	144,861,376.24	37,710,308.16
Income from holding and disposal of financial liabilities held for trading and those at fair value through profit or loss	-23,635,539.50	213,333.33
Income from holding and disposal of available-for-sale financial assets	11,704,012.83	–
Interest income from the held-to-maturity investment and profit or loss from holding and disposal of financial assets	–	5,604,900.00
Others	-21,664.48	–
Total	136,718,751.83	44,924,326.96

Note: The increase of 204.33% in investment income is resulted from the increased Investment income of 106,696,401.51 from the settlement of some foreign exchange forward contracts.

(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	4,560,626.24	24,116,476.65
Income from Central Bank's Notes	–	6,116,460.00
Income from selling available-for-sale financial assets	11,704,012.83	213,333.33
Gain from financial assets held for trading	116,665,210.50	9,968,808.99
South China Marine and Industrial Special Coating Co., Ltd	869,047.18	780,332.03
Zhenjiang Zhongchuan Electricity Power Equipment Ltd.	2,915,550.84	262,840.48
Zhanjiang South Ocean Marine Services Inc.	25,968.72	17,977.52
Others	-21,664.48	3,448,097.96
Total	136,718,751.83	44,924,326.96

43. Non-operating Incomes

Details of non-operating profits are listed below:

Item	Amount in current year	Amount in last year
Income from the disposal of non-current asset	754,905.44	709,104.84
Including: Income from the disposal of fixed assets	754,905.44	709,104.84
Penalty income	154,582.00	70,041.00
Compensation income	30,630.00	912,654.40
Government subsidies	66,658,731.06	239,673,193.12
Other income	2,775,897.95	1,716,140.08
Total	70,374,746.45	243,081,133.44

Note 1: The main source of current-year non-operating income, which has decreased by 71.05%, is government subsidies.

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Note 2: Details of government subsidies are listed below:

Item	Amount in current year
Product subsidy	40,902,348.52
New product development subsidy	19,903,954.16
Recoverable rebuilding subsidy after disaster	5,146,448.92
Tax refund due to self-developed software	705,979.46
Total	66,658,731.06

44. Non-operating Losses

Details of non-operating losses are listed below:

Item	Amount in current year	Amount in last year
Losses from the disposal of non-current asset	5,729,400.67	9,247,877.18
Including: Losses from the disposal of fixed assets	5,729,400.67	9,247,877.18
Penalty expenses	1,035.17	165,677.95
Donation expenses	2,500.00	437,566.91
Compensations	363,118.27	–
Other expenses	663,299.28	500.00
Total	6,759,353.39	9,851,622.04

45. Income Tax

Income tax expenses are consisted of:

Item	Amount in current year	Amount in last year
Income tax expense in current period	112,892,287.04	293,373,148.61
Deferred tax expense	-31,779,231.53	87,241,932.40
Total	81,113,055.51	380,615,081.01

Note: The decrease of 78.69% in income taxes compared to the beginning, which amounts to 299,502,025.50, is due to the changes of income tax rate and current net profits, which together caused a decrease of 180,480,861.57 in Income tax expense in current period. Besides, the decrease in the value of available-for-sale financial assets and the lower income tax rate lead to a decrease of RMB119,021,163.93 compared to that of last year.

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46. Minority Interests (Profit or Loss)

Details of minority interests are listed below:

Name of minorities	Name of investee enterprises	Proportion of minority	Amount in current year	Amount in last year
Canam Steel Structures Ltd.	United Steel Structures, Ltd	49%	16,856,363.61	20,016,767.86
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangzhou Masterwood Co., Ltd	24%	126,263.75	230,942.29
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangzhou Guangli Marine Engineering Service Co., Ltd	4.8%	16,747.54	382,658.81
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangzhou Xingshun Shipping Services Company Limited	0.816%	22,717.73	8,825.81
CSSC Guangzhou Huangpu Shipyard Ltd.	Guangdong GSI Elevator Limited	1.2%	11,247.07	25,478.24
Civet Investment Co., (Hong Kong) LTD	Guangzhou Guanglian Container Transportation Company Limited	15%	–	-46,965.41
Guang Guan Hang Co., Ltd	Guangzhou Guanglian Container Transportation Company Limited	10%	–	-31,310.28
Ou Zhi Min	Fonkwang Developing Co., Ltd.	30%	1,448,803.28	50,930.02
CSSC Science & Technology Association Technology Consultation Service Corporation	Guangzhou Hongfan Information Technique Co., Ltd	10%	264,229.51	235,010.90
China Shipbuilding IT Co., Ltd	Guangzhou HONGFAN PC Technology Co., Ltd	26%	686,996.72	611,028.34
Quan Hua Tai etc.	Guangzhou Hongfan Information Technique Co., Ltd	13%	343,498.36	305,514.17
Total			19,776,867.57	21,788,880.75

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47. Supplementary Information of Cash Flow Statement

(1) Reconciliation of net income to cash flows from operating activites 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	840,172,522.74	962,445,676.79
Add: provision for fixed assets	-3,959,877.74	15,578,166.56
Depreciation of fixed assets, petroleum & natural gas, biological assets	98,662,097.28	77,589,990.89
Amortization of intangible assets	5,843,163.90	6,651,761.04
Amortization of long-term prepayments	–	–
Losses on disposal of fixed assets, intangible assets and other long-term assets ("-" for gains)	5,369,455.47	8,403,484.31
Losses on scrapping of fixed assets ("-" for gains)	586,573.68	663,820.18
Losses on movement of fair value ("-" for gains)	130,520,655.24	-282,540,017.01
Financial expenses ("-" for gains)	-288,263,742.00	-150,369,238.43
Investments losses ("-" for gains)	-136,718,751.83	-44,924,326.96
Decrease in deferred tax assets ("-" for increase)	3,849,593.88	16,592,758.61
Increase in deferred tax liabilities ("-" for decrease)	-35,628,825.41	92,832,281.55
Decrease in inventories ("-" for increase)	-156,644,959.22	184,492,858.64
Decrease in operating receivables ("-" for increase)	53,637,762.45	-579,797,423.49
Increase in operating payables ("-" for decrease)	-712,692,991.10	1,511,039,348.76
Others	–	–
Net cash flows from operating activities	-195,267,322.66	1,818,659,141.44
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	5,197,630,827.85	6,739,631,979.44
Less: Cash at the beginning of the period	6,739,631,979.44	4,338,007,057.97
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	-1,542,001,151.59	2,401,624,921.47

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(2) Cash and cash equivalents are listed below:

Item	Amount in current year	Amount in last year
I. Cash	5,197,630,827.85	6,739,631,979.44
Including: Cash in treasury	200,289.50	297,787.13
Available-for-use bank deposit	5,196,687,451.21	6,738,958,761.86
Other available-for-use monetary fund	743,087.14	375,430.45
II. Cash equivalents	–	–
Including: Bond Investment mature within 3 months	–	–
III. Ending balance of cash and cash equivalents	5,197,630,827.85	6,739,631,979.44
IV. Limited-for-use cash and cash equivalents belongs to parent company or subsidiaries within the group	934,963,046.70	114,776,192.83

(3) 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
Special fund receipt from CSSC	5,950,000.00	10,930,000.00
subsidies	83,330,000.00	144,520,120.65
Total	89,280,000.00	155,450,120.65

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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

Item	Amount in current year	Amount in last year
Administrative expenses	126,805,241.52	120,824,563.19
Selling expenses	9,011,279.17	4,027,699.81
Manufacturing expenses	98,493,876.69	76,506,119.05
Total	234,310,397.38	201,358,382.05

C. Other cash receipts relating to investing activities

Item	Amount in current year	Amount in last year
Interest income	194,354,187.67	87,158,069.58

D. Other cash payments relating to investing activities

Item	Amount in current year	Amount in last year
Marginal deposit for security	822,249,651.01	114,776,192.83

48. Borrowing Costs

Details of borrowing costs are listed below:

Item	Amount in current year	Capitalization rate
Borrowing costs recognized as expenses	199,416,620.47	–
Capitalized borrowing costs	–	–
Including: Capitalized borrowing costs of fixed assets	–	–
Capitalized borrowing costs of investment properties	–	–
Capitalized borrowing costs of inventories	–	–
Total	199,416,620.47	

49. 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	-212,105,472.12
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	–
Total	-212,105,472.12

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Notes to major items of financial statements of the parent company

50. Accounts Receivable

(1) Classification based on significance:

Classification	Ending balance			
	Original value	Percentage	Provision for bad debts	Net value
Individually significant balance	182,892,755.70	76.61%	914,463.78	181,978,291.92
Individually insignificant but significant based on credit risk characteristics	20,973,325.49	8.78%	1,074,272.51	19,899,052.98
Other insignificant balances	34,882,931.18	14.61%	129,974.79	34,752,956.39
Total	238,749,012.37	100.00%	2,118,711.08	236,630,301.29

Classification	Beginning balance			
	Original value	Percentage	Provision for bad debts	Net value
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	210,445,159.62	100.00%	2,425,592.07	208,019,567.55

Note 1: 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.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignifant amount.

(2) Classification based on ages:

	Ending balance			
Ages	Amount	Ratio	Provision for bad debts	Net
Within 1 year	217,775,686.88	91.22%	1,086,692.18	216,688,994.70
1-2 years (including 2 years)	13,357,500.52	5.59%	61,153.52	13,296,347.00
2-3 years (including 3 years)	5,649,492.20	2.37%	28,247.46	5,621,244.74
More than 3 years	1,028,859.15	0.43%	5,144.30	1,023,714.85
Special provision for bad debts	937,473.62	0.39%	937,473.62	–
Total	238,749,012.37	100.00%	2,118,711.08	236,630,301.29

	Beginning balance			
Ages	Amount	Ratio	Provision for bad debts	Net
Within 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 provision for bad debts	1,337,473.62	0.64%	1,337,473.62	–
Total	210,445,159.62	100.00%	2,425,592.07	208,019,567.55

51. Other Receivables

(1) Classification based on significance:

	Ending balance			
Classification	Amount	Ratio	Bad debt allowance	Net
Individually significant balance	190,458,663.04	95.44%	9,260,845.14	181,197,817.90
Individually insignificant but significnat based on credit risk characteristics	2,242,509.24	1.12%	1,712.55	2,240,796.69
Other insignificant balances	6,865,309.90	3.44%	34,090.55	6,831,219.35
Total	199,566,482.18	100.00%	9,296,648.24	190,269,833.94

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Classification	Beginning balance Amount	Ratio	Bad debt allowance	Net
Individually significant balance	146,428,085.07	72.08%	9,164,905.36	137,263,179.71
Individually insignificant but significant based on credit risk characteristics	378,851.09	0.19%	1,708.00	377,143.09
Other insignificant balances	56,323,656.8	27.73%	494,866.87	55,828,789.93
Total	203,130,592.96	100.00%	9,661,480.23	193,469,112.73

Note 1: Individually significant balances refer to the other receivables with the amount of more than RMB10 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 RMB10,340,232.15, there is an indication of impairment for it, and then the bad debt allowance shall be accounted as RMB8,360,252.99.

Note 2: Individually insignificant but significant based on credit risk characteristics refer to the receivables aging more than 1 year with insignificant amount.

Note 3: Other insignificant balances refer to the receivables aging within 1 year with insignificant amount.

(2) *Classification based on ages:*

Ages	Ending balance Amount	Ratio	Bad debt allowance	Net
Within 1 year	186,983,740.79	93.70%	934,682.71	186,049,058.08
1-2 years (including 2 years)	131,810.80	0.07%	659.05	131,151.75
2-3 years (including 3 years)	68,427.00	0.03%	342.13	68,084.87
More than 3 years	2,042,271.44	1.02%	711.36	2,041,560.08
Special provision for bad debts	10,340,232.15	5.18%	8,360,252.99	1,979,979.16
Total	199,566,482.18	100.00%	9,296,648.24	190,269,833.94

Ages	Beginning balance Amount	Ratio	Bad debt allowance	Net
Within 1 year	189,057,473.12	93.08%	911,527.43	188,145,945.69
1-2 years (including 2 years)	86,854.37	0.04%	434.27	86,420.10
2-3 years (including 3 years)	10,000.00	0.00%	50.00	9,950.00
More than 3 years	281,996.72	0.14%	1,223.73	280,772.99
Special provision for bad debts	13,694,268.75	6.74%	8,748,244.80	4,946,023.95
Total	203,130,592.96	100.00%	9,661,480.23	193,469,112.73

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

52. 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 companies	99,476,014.12	56,433,092.13	34,200,000.00	121,709,106.25
Investment for joint venture	4,129,382.63	895,015.90	720,823.25	4,303,575.28
Investment for associate companies	1,000,000.00	–	–	1,000,000.00
Total	104,605,396.75	57,328,108.03	34,920,823.25	127,012,681.53

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

Investee	Initial amont	Beginning balance	Increase	Decrease	Ending balance	Percentage holding of investee's capital	Percentage holding of voting power
Glory Group Developing Company Limited	10,700.00	10,700.00	26,433,092.13	–	26,443,792.13	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%
Guangzhou Shipyard Large Mechanical Equipment Co. LTD	30,000,000.00	–	30,000,000.00	–	30,000,000.00	100.00%	100.00%
Guangdong Shipyard International Eelevator 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 Marine Human Resource Service Co., Ltd	3,052,492.77	3,052,492.77	–	–	3,052,492.77	80.00%	80.00%
Guangdong Parts and Pipes 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	130,476,014.12	100,476,014.12	56,433,092.13	34,200,000.00	122,709,106.25	–	–

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

53. Operating Revenue and Operating Cost

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

Items	Current year	Last year
Operating revenue	6,395,548,634.25	5,409,315,254.23
Revenue from main operation	6,255,294,248.28	5,310,770,582.16
Revenue from other operations	140,254,385.97	98,544,672.07
Operating cost	5,545,945,452.67	4,507,115,936.61
Cost of main operations	5,432,611,138.62	4,436,076,468.20
Cost of other operations	113,334,314.05	71,039,468.41

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

	Current year		Last year	
Category	Revenue	Cost	Revenue	Cost
Shipbuilding	5,904,445,106.67	5,090,138,906.66	5,134,588,938.45	4,278,799,206.39
Steel structure	215,021,202.80	206,028,893.17	3,824,429.79	3,290,141.51
Mechanical and electrial products and others	135,827,938.81	136,443,338.79	172,357,213.92	153,987,120.30
Other business	140,254,385.97	113,334,314.05	98,544,672.07	71,039,468.41
Total	6,395,548,634.25	5,545,945,452.67	5,409,315,254.23	4,507,115,936.61

X RELATED PARTIES AND RELATED-PARTY TRANSACTIONS

A. Related Parties

1. *Parent company*

Name of parent company	Registered address	Principle business	Registered capital	Orginzation code	Holding ratio	Repersentagtive ratio
China State Shipbuilding Corporation	No 1, Pudong Main Street, Shanghai City	Investment and operation for state-owned assets	6,374,300,000.00	190499390	35.71%	35.71%

2. *Subsidiary*

Details of subsidiary refer to Note XII.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

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
CSSC Huanan Ship Machinery Co., Ltd.	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
Changjiang Zhongchuan Instrument Co. LTD	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 Marine Design and Research 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 Shipbuilding (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
Nationalized Xijinag Shipbuilding	Controlled by the same final controller

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

B. Related Party Transactions

1. *Selling goods and providing services*

	Current year		Last year		
Name of related parties	Amount	Percentage	Amount	Percentage	Pricing
South China Marine & Industrial Special Coating Ltd.	236,193.41	0.00%	255,776.56	0.00%	Market price
Guangzhou Wenchong Shipyard Ltd.	1,135,970.00	0.02%	–	–	Market price
Guangzhou CSSC-Ocean-GWS Marine Engineering Co. Ltd	11,516,409.51	0.16%	14,403,352.59	0.24%	Market price
Guangzhou Shipyard Ltd.	5,358,383.34	0.08%	4,081,046.96	0.07%	Market price
CSSC Guangzhou Huangpu Shipyard Ltd.	17,151,274.44	0.25%	8,222,041.45	0.14%	Market price
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	56,621,440.16	0.81%	41,038,313.23	0.69%	Market price
CSSC Guangzhou Nansha-Longxue Shipbuilding Co., Ltd	47,548,318.48	0.68%	17,097,720.83	0.29%	Market price
Guangxi Guijiang Shipyard Co., Ltd	–	–	3,789.00	0.00%	Market price
CSSC No. 9 Marine Design and Research Institute	–	–	1,280,000.00	0.02%	Market price
Shanghai Navigation Instrument Factory	–	–	7,692.31	0.00%	Market price
China Shipping Trading Corporation	1,300,744.54	0.02%	1,249,299.51	0.02%	Market price
CSSC Guangzhou Shipping Company	–	0.00%	297,968.25	0.01%	Market price
Jiangnan Heavy Industry Co., Ltd	100,946,122.29	1.45%	29,981,416.15	0.50%	Market price
Shanghai Changxing Shipbuilding Co. LTD	224,358.97	0.00%	110,000.00	0.00%	Market price
China Shipbuilding IT Co., Ltd	358,974.36	0.01%	–	–	Market price
Xijiang Shipyard	7,500.00	0.00%	10,766,000.00	0.18%	Market price
Marine Design & Research Institute of China	6,377,504.39	0.10%	226,303.94	0.00%	Market price
Total	248,783,193.89	3.58%	129,020,720.78	2.16%	

2. *Commissions for sales acted by related parties*

Name of related parties	Current year	Last year	Pricing
China Shipping Trading Corporation	42,526,369.91	17,157,693.43	Market price
CSSC International Trade Co. Ltd	8,497,643.75	705,718.42	Market price
Total	51,024,013.66	17,863,411.85	

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

3. *Purchasing goods and adopting services*

	Current year		Last year		
Name of related parties	Amount	Percentage	Amount	Percentage	Pricing
South China Marine & Industrial Special Coating Ltd.	–	–	797,820.13	0.02%	Market price
Anqing Marine Diesel Factory	–	–	10,000.00	0.00%	Market price
Guangzhou Wenchong Shipyard Ltd	800,400.00	0.01%	1,026,547.29	0.02%	Market price
Guangzhou Shipyard	114,602,832.49	1.89%	98,893,968.94	2.01%	Market price
CSSC Guangzhou Huangpu Shipyard Ltd.	189,995,511.34	3.13%	8,149,539.68	0.17%	Market price
CSSC Guangzhou Nansha-Longxue Construction & Development Co., Ltd	1,218,073.10	0.02%	–	–	Market price
Guangxi Guijiang Shipyard	–	–	2,732,000.00	0.06%	Market price
Xijiang Shipyard	–	–	100,000.00	0.00%	Market price
CSSC Huanan Ship Machinery Co., Ltd	28,401,688.90	0.47%	15,663,891.64	0.32%	Market price
Jiangxi Marine Valve Factory	63,600.00	0.00%	20,000.00	0.00%	Market price
Jiangxi Chaoyang Mechanical Factory	10,615.38	0.00%	10,615.38	0.00%	Market price
CSSC Jiujiang Instrument CO., Ltd	–	–	990,000.00	0.02%	Market price
CSSC Jiujiang Fire Control Equipment CO., Ltd.	–	–	3,240.00	0.00%	Market price
CSSC Nanjing Lvzhou Machinery Co.,Ltd	20,524,969.08	0.34%	12,966,021.36	0.26%	Market price
Shanghai Marine Research & Design Institue	11,095,900.00	0.18%	2,600,000.00	0.05%	Market price
Shanghai Navigation Instrument Factory	–	–	1,057,760.00	0.02%	Market price
CSSC Zhenjiang Equipment Co., Ltd	86,356,881.20	1.42%	75,921,151.33	1.54%	Market price
CSSC No. 11 Marine Design and Research Institute	–	–	120,000.00	0.00%	Market price
China Shipbuilding Polytechnic Economic Institute	102,088.00	0.00%	96,800.00	0.00%	Market price
China Shipping Trading Corporation	–	–	391,863.25	0.01%	Market price
Huahai Shipping Goods Channel Devices Co., Ltd	2,327,500.00	0.04%	–	–	Market price
Shanghai Navigation Instrument Factory	69,200.00	0.00%	–	–	Market price
Systems Engineering Research Institute, CSSC	35,900,000.00	0.59%	–	–	Market price
Marine Design & Research Institute of China	3,540,000.00	0.05%	7,916,000.00	0.16%	Market price
Total	495,009,259.49	8.14%	229,467,219.00	4.66%	

Note: According to the "Comprehensive Services Contract" and its supplemental agreement signed between the Company and Guangzhou Shipyard Ltd, the Company should pay comprehensive service fees amount to RMB7,823,296.20 for year 2008, and the fees of year 2007 amount to RMB7,617,291.96.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

4. Commissions arising from purchase acted by related parties

Name of related parties	Current year	Last year	Pricing
China Shipping Trading Corporation	47,429.11	211,554.04	Market price
China United Shipbuilding Co., Ltd	6,296,783.52	3,522,942.83	Market price
Total	6,344,212.63	3,734,496.87	

5. Providing financial services

	Ending balance of bank deposit		Interest revenue of the Company		
Name of related party	Year 2008	Year 2007	Year 2008	Year 2007	Note
China Marine Finance Co., Ltd	18,673,571.65	26,881,257.61	214,428.99	242,653.84	Deposit

6. Pledge

	Current year			
Name	Guarantee	Amount of guarantee	Guarantee cost	Note
CSSC	Loan	$73,444,000	6,362,068.60	
CSSC Guangzhou Shipping Company	L/G	$35,355,000	709,174.71	
Total			7,071,243.31	

	Last year			
Name	Guarantee	Amount of guarantee	Guarantee cost	Note
CSSC	Loan	$211,589,000	10,156,812.94	
CSSC Guangzhou Shipping Company	L/G	RMB475,456,000.00	1,706,745.00	
Total			11,863,557.94	

NOTES TO THE FINANCIAL STATEMENTS

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C. Balance with Related Parties

		Ending balance		Beginning balance	
Name of related party	Account	Amount	Percentage	Amount	Percentage
Guangzhou Shipyard Ltd.	Other receivables	–	–	48,440.00	0.00%
Total other receivables				**48,440.00**	**0.00%**
South China Marine & Industrial Special Coating Co., Ltd	Account receivables	948.00	0.00%	3,200.01	0.00%
China Shipbuilding IT Co., Ltd	Account receivables	42,000.00	0.01%	11,000.00	0.00%
CSSC Guijiang Shipyard	Account receivables	–	–	3,789.00	0.00%
Marine Design & Research Institute of China	Account receivables	9,632.80	0.00%	–	–
Guangzhou CSSC-Ocean-GWS Marine Engineering Co., Ltd	Account receivables	2,448,243.00	0.62%	787,213.02	0.25%
Guangzhou Shipyard Ltd.	Account receivables	240,675.39	0.06%	199,300.91	0.06%
CSSC Guangzhou Huangpu Shipyard Ltd.	Account receivables	4,044,595.54	1.02%	167,295.00	0.05%
CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd	Account receivables	30,880,000.00	7.77%	16,715,110.00	5.23%
The Ninth Design and Research Institute	Account receivables	–	–	380,000.00	0.12%
CSSC Guangzhou Nancha-longxue Shipbuilding Co. Ltd	Account receivables	1,192,463.16	0.30%	323,516.59	0.10%
Jiangnan Heavy Industry Co., Ltd	Account receivables	30,903,248.00	7.78%	–	–
China Shipping Trading Corporation	Account receivables	–	–	69,700.00	0.02%
Total account receivables		**69,761,805.89**	**17.56%**	**18,660,124.53**	**5.83%**
CSSC Guijiang Shipyard	Advances to suppliers	–	–	190,000.00	0.04%
Guangzhou Shipyard Ltd.	Advances to suppliers	1,280,000.00	0.26%	13,253,278.83	2.57%
CSSC Guangzhou Huangpu Shipyard Ltd.	Advances to suppliers	115,387,025.64	23.70%	269,888,640.00	52.41%
CSSC Huanan Marine Mechanical Co., Ltd	Advances to suppliers	4,285,863.25	0.88%	942,400.00	0.18%
China United Shipbuilding Co., Ltd	Advances to suppliers	–	–	28,937,346.09	5.62%
Jiujiang Haitian Equipment Manufacture Co., Ltd	Advances to suppliers	–	–	888,540.00	0.17%
CSSC Zhenjiang Equipment Co., Ltd	Advances to suppliers	31,120,000.00	6.39%	33,134,222.40	6.43%
CSSC International Trade Co., Ltd	Advances to suppliers	–	–	3,318.83	0.00%
Systems Engineering Research Institute, CSSC	Advances to suppliers	–	–	8,975,000.00	1.74%
China Shipping Trading Corporation	Advances to suppliers	704,984.32	0.14%	705,733.93	0.14%
Marine Design & Research Institute of China	Advances to suppliers	582,000.00	0.12%	582,000.00	0.11%
CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd	Advances to suppliers	102,800.00	0.02%	–	–
Total advances to suppliers		**153,462,673.21**	**31.51%**	**357,500,480.08**	**69.41%**

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

		Ending balance		Beginning balance	
Name of related party	Account	Amount	Percentage	Amount	Percentage
CSSC Guijiang Shipyard	Account payables	–	–	2,458,800.00	0.39%
Guangzhou Shipyard Ltd.	Account payables	7,831,017.91	0.94%	5,420,155.07	0.87%
CSSC Huanan Marine Mechanical Co., Ltd	Account payables	11,870,500.00	1.43%	1,306,248.89	0.21%
Jiangxi Marine Valve Factory	Account payables	2,875.00	0.00%	477,000.00	0.08%
CSSC Jiujiang Instrument Co., Ltd.	Account payables	50,000.00	0.01%	50,000.00	0.01%
CSSC Jiujiang Fire Control Equipment CO., Ltd.	Account payables	–	–	42,500.00	0.01%
CSSC Nanjing Lvzhou Environment Protection Equipment Co., Ltd	Account payables	2,099,325.00	0.25%	2,299,570.00	0.37%
Shanghai Marine Instrument General Factory	Account payables	41,025.00	0.00%	247,760.00	0.04%
CSSC Zhenjiang Equipment Co., Ltd	Account payables	16,869,231.20	2.03%	2,467,890.00	0.40%
The Ninth Design and Research Institute	Account payables	26,000.00	0.00%	116,552.00	0.02%
China Shipping Trading Corporation	Account payables	-40,429.79	0.00%	-29,720.02	0.00%
Marine Design & Research Institute of China	Account payables	259,000.00	0.03%	262,300.00	0.04%
CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd	Account payables	100,000.00	0.01%	–	–
Huahai Shipping Goods Channel Devices Co., Ltd	Account payables	2,327,500.00	0.28%	–	–
Systems Engineering Research Institute, CSSC	Account payables	11,665,000.00	1.40%	–	–
Guangzhou Wenchong Shipyard Ltd	Account payables	217,200.00	0.03%	–	–
China United Shipbuilding Co., Ltd	Account payables	23,655,326.44	2.84%	–	–
Total account payables		**76,973,570.76**	**9.25%**	**15,119,055.94**	**2.42%**
Guangzhou Economic Development Zone South China Marine & Industrial Special Coating Ltd.	Other payables	28,142.15	0.09%	6,285.12	0.01%
Guangzhou Shipyard Ltd.	Other payables	5,000.00	0.02%	28,592.40	0.03%
China United Shipbuilding Co., Ltd	Other payables	469,396.39	1.44%	190,000.00	0.20%
The Ninth Design and Research Institute	Other payables	923,361.05	2.83%	923,361.05	0.99%
Total other payables		**1,425,899.59**	**4.37%**	**1,148,238.57**	**1.23%**
Guangzhou Shipyard Ltd.	Advances from customers	1,178,400.00	0.58%	–	–
CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd	Advances from customers	63,491,221.07	31.19%	15,002,999.95	6.00%
GUANGZHOU CSSC-OCEANLINE-CWS MARINE ENOIN EERINO CO. LTD	Advances from customers	4,048,500.00	1.99%	4,048,500.00	1.62%
Hudong-Zhonghua Shipbuilding (Group) Co., Ltd	Advances from customers	7,600,000.00	3.73%	4,600,000.00	1.84%

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

Name of related party	Account	Ending balance Amount	Ending balance Percentage	Beginning balance Amount	Beginning balance Percentage
Jiangnan Heanvy Industry CO., LTD	Advances from customers	4,763,949.75	2.34%	34,707,130.75	13.87%
The Ninth Design and Research Institute	Advances from customers	1,250,000.00	0.61%	450,000.00	0.18%
CSSC No. 708 Marine Design and Research Institute	Advances from customers	–	–	3,280,000.00	1.31%
Technology Research & Economy Development Institute, CSSC	Advances from customers	1,364,000.00	0.67%	–	–
CSSC (Home Office)	Advances from customers	–	–	1,130,000.00	0.45%
China Shipbuilding IT Co., Ltd	Advances from customers	492,000.00	0.24%	–	–
CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd	Advances from customers	625,000.00	0.31%	–	–
Total advances from customers		**84,813,070.82**	**41.67%**	**63,218,630.70**	**25.27%**

D. The Ending Balance of Allowance for Receivables of Related Parties

Name of related parties	Account	Ending balance Amount	Ending balance Percentage	Beginning balance Amount	Beginning balance Percentage
Guangzhou Shipyard Ltd.	Other receivables	–	–	242.20	0.00%
South China Marine and Industrial Special Coating Co., Ltd	Account receivables	4.74	0.00%	16.00	0.00%
China Shipbuilding IT Co., Ltd	Account receivables	210.00	0.00%	55.00	0.00%
CSSC Guijiang Shipyard	Account receivables	–	–	18.95	0.00%
Marine Design & Research Institute of China	Account receivables	48.16	0.00%	–	–
Guangzhou Shipyard Ltd.	Account receivables	1,203.38	0.03%	996.50	0.02%
CSSC Guangzhou Huangpu Shipyard Ltd.	Account receivables	20,222.98	0.43%	836.48	0.02%
CSSC Guangzhou Nancha-longxue Construction & Development Co., Ltd	Account receivables	154,400.00	3.28%	83,575.55	1.68%
Guangzhou CSSC-Ocean-GWS Marine Engineering Co., Ltd	Account receivables	12,241.22	0.26%	3,936.07	0.08%
The Ninth Design and Research Institute	Account receivables	–	–	1,900.00	0.04%
CSSC Guangzhou Nancha-longxue Shipbuilding Co., Ltd	Account receivables	5,962.32	0.13%	1,617.58	0.03%
Jiangnan Heavy Industry Co., Ltd	Account receivables	154,516.24	3.29%	–	0.00%
China Shipping Trading Corporation	Account receivables	–	–	348.50	0.01%

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

XI CONTINGENCIES

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

XII SIGNIFICANT COMMITMENTS

1. Mortgage

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

Information for mortgage assets			Other information		
Items	Original value	Net value	Guarantee	Mortgagee bank	Note
Buildings	169,431,693.16	119,550,757.78	The Company	China Commercial Bank Fangcun Branch	In the line of credit
Equipment	72,725,995.25	5,307,613.54	The Company	China Commercial Bank Fangcun Branch	In the line of credit

2. Inmatured Forward Contract

(1) To avoid foreign exchange rate risk, the Company signed foreign exchange forward contract with the bank. As at December 31, 2008, the Company accumulated totally 34 inmatured forward contracts, with a transaction amount USD361,500,000.00 and HKD60,000,000, and the contracted delivery period from January 20, 2009 to June 30, 2010.

(2) The Company signed EUR option contract with the bank. As at December 31, 2008, the Company totally accumulated 16 inmatured EUR option contracts, with a total amount of EUR20 million and the contracted exercising period from January 8, 2009 to August 10, 2009.

The Company has no other material commitments as at the balance sheet date to be disclosed except those above-mentioned.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

XIII SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

1. Investment after the Balance Sheet Date

On January 19, 2009, the Company set up a wholly owned subsidiary named Zhongshan GS1 Marine Engineering Company Limited ("Zhongshan Company") for the purpose to undertake segmented shipbuilding. The registered capital of Zhongshan Company is RMB100 million.

2. Others

The Board of Directors held its meeting on March 10, 2009, by which the resolution of profit distribution has been passed. That is, the Company shall release cash dividends rated RMB0.45 per share (A Stock included tax) on the base of total shares amounted 494,677,580, all together the Company shall release cash dividends amounted RMB222,604,911.00, and profit appropriation-statutory surplus reserves at RMB77,532,832.02. The resolution still shall be approved by the annual general meeting of shareholders.

XIV OTHER SIGNIFICANT EVENTS

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

XV SUPPLEMENTAL INFORMATION

1. The Differences between Domestic and Overseas Financial Report (Unit: RMB'0000)

	Current year		Last year	
Item	**Net assets**	**Net profit**	**Net assets**	**Net profit**
The financial statements prepared under PRC Accounting Standards and Regulations	274,736	82,040	245,151	94,066
Adjustments:	–	–	–	–
Investment depreciation reserves	–	–	–	132
Adjust held-to-maturity investments to its amortized value	–	–	–	-126
Bonus accrued by subsidiaries	–	–	–	-216
The financial statements prepared by HKFRS	274,736	82,040	245,151	93,856

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

2. Exceptional Items in Profits or Losses

In accordance with the "Explanatory Announcement for the Standards of Disclosing Relevant Information for the Company Which Publishes Securities Publicly No 1 – exceptional items in Profits and losses" (the announcement of NO.43 [2008] of China Securities Regulatory Commission),the exceptional items in profits and losses of the Company are listed as follows:

Items	Current year	Last year
Profits or losses from disposal of non-current assets, including write-offs of asset impairment provisions	-6,185,529.15	-8,538,772.34
Government subsidies recognized in the current profits and losses	25,756,382.54	27,921,080.27
Assets depreciation reserves accrued because of force majeure, such as natural disaster	–	-13,944,361.48
Gains/Losses from fair value changes of trading securities and trading financial liabilities, and investment income from disposal of trading assets, trading financial liabilities and available-for-sale financial assets, except for effective hedging activities related to the Company's main operation	-1,825,409.78	322,741,762.65
Reverse of provision for receivable impairment which was tested individually	500,000.00	–
Apart from above items, other non-operating profits and losses	1,931,157.23	2,095,090.62
Subtotals (effect on income before tax)	20,176,600.84	330,274,799.72
Less: influence on income tax	3,024,508.56	86,387,482.55
Total influence on net profits	17,152,092.28	243,887,317.17
Including: attributable to minority interests	52,283.00	325,021.71
Influence attributable to common shareholders of parent company	17,099,809.28	243,562,295.46
Net profits attributable to common shareholders of parent company after deducting exceptional items	803,295,845.89	697,094,500.58

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

3. 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 – Unusual items in Profit and Losses" amended by the China Securities Regulatory Commission in 2007, the Company has calculated the rate of return on net assets and earnings per share. Details are listed as follows:

(1) Calculation results

	Current year			
	Rate of return on net assets		Earning per share	
Profits for according period	Spreading out	Weighted average	Basic earning per share	Diluted earings per share
Net profits belonging to the common shareholders (I)	29.86%	31.58%	1.66	–
Net profits belonging to the common shareholders after deducted exceptional profits or losses (II)	29.24%	30.92%	1.62	–

	Last year			
	Rate of return on net assets		Earning per share	
Profits for according period	Full diluted	Weighted average	Full diluted	Weighted average
Net profits belonging to the common shareholders (I)	38.37%	52.17%	1.90	–
Net profits belonging to the common shareholders after deducted exceptional profits or losses (II)	28.43%	38.66%	1.41	–

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in RMB Yuan unless otherwise stated)

(2) Calculation process of earnings per share

Items	Number	Current year	Last year
Net profits attributable to the shareholders of the Company	1	820,395,655.16	940,656,796.04
Exceptional profits or losses attributable to the shareholders of parent company deducted the tax	2	17,099,809.28	243,562,295.46
Net profits attributable to the shareholders of the Company after deducted exceptional profits or losses	3=1-2	803,295,845.89	697,094,500.58
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	6	–	–
issuing shares or debt for equity	6	–	–
	6	–	–
Months calculated from the next month of	7	–	–
initially issuing shares or debt for equity to	7	–	–
the last month of the accounting period	7	–	–
Decreased nember 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+6x7÷10-8x9÷10	494,677,580.00	494,677,580.00
Basic earings per share (I)	12=1÷11	1.66	1.90
Basic earnings per share (II)	13=3÷11	1.62	1.41
Interests for the potential dilutive ordinary shares recognized as expenditures	14	–	–
Income tax rate	15	15%	33%
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)	–	–
Diluted earnings per share (II)	19=[3+(14–16)x(1-15)]÷(11+17)	–	–

XVI THE AUTHORIZATION OF FINANCIAL STATEMENT

The financial statements have been approved by the board of directors' meeting held on March 10, 2009.

According to the Article of the Company, the financial statement shall be presented to the general meeting of shareholders for consideration.

INDEPENDENT AUDITOR'S REPORT

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 159 to 243, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

INDEPENDENT AUDITOR'S REPORT

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 2008 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, 10 March 2009

BALANCE SHEETS

(Prepared in accordance with HKFRS)

		Group		Company	
		As at 31 December		As at 31 December	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	**1,231,778**	1,049,953	**1,190,793**	1,006,353
Investment properties	7	**89,137**	94,161	**89,137**	94,161
Land use rights and leasehold land	8	**75,196**	76,108	**69,439**	66,620
Intangible assets	9	**14,950**	15,921	**14,950**	15,921
Investments in subsidiaries	10	**–**	–	**121,709**	84,476
Interest in associates	11	**33,708**	19,419	**2,522**	2,522
Available-for-sale financial assets	13	**1,900**	577,074	**1,000**	576,174
Derivative financial instruments	14	**44,890**	245,852	**44,890**	245,852
Restricted cash	19	**212,000**	–	**212,000**	–
		1,703,559	2,078,488	**1,746,440**	2,092,079
Current assets					
Available-for-sale financial assets	13	**185,450**	–	**185,450**	–
Inventories	15	**832,683**	725,423	**760,024**	619,094
Amounts due from subsidiaries		**–**	–	**45,470**	54,659
Due from customers on construction contracts	16	**283,014**	229,927	**280,438**	227,318
Trade receivables	17	**392,667**	314,323	**235,066**	196,757
Other receivables	18	**678,932**	728,187	**582,394**	724,371
Derivative financial instruments	14	**112,471**	48,458	**112,471**	48,458
Term deposits with initial term of over three months	19	**4,855,140**	5,331,755	**4,855,140**	5,331,755
Restricted cash	19	**723,463**	114,776	**707,572**	97,323
Cash and cash equivalents	19	**484,286**	1,457,792	**375,766**	1,416,519
		8,548,106	8,950,641	**8,139,791**	8,716,254
Total assets		**10,251,665**	11,029,129	**9,886,231**	10,808,333

BALANCE SHEETS

(Prepared in accordance with HKFRS)

		Group		Company	
		As at 31 December		As at 31 December	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
EQUITY					
Capital and reserves attributable to the shareholders of the Company					
Share capital	20	**1,146,655**	1,146,655	**1,146,655**	1,146,655
Other reserves	21	**368,607**	568,281	**367,431**	567,105
Retained earnings	22	**1,232,098**	736,573	**1,128,547**	678,090
– Proposed dividend	38	**222,605**	247,339	**222,605**	247,339
– Others		**1,009,493**	489,234	**905,942**	430,751
		2,747,360	2,451,509	**2,642,633**	2,391,850
Minority interests in equity		**95,505**	75,848	**–**	–
Total equity		**2,842,865**	2,527,357	**2,642,633**	2,391,850
LIABILITIES					
Non-current liabilities					
Borrowings	23	**207,632**	387,468	**207,632**	387,468
Retirement benefit obligations	24	**4,839**	3,173	**4,839**	3,173
Deferred income tax liabilities	25	**48,629**	190,943	**50,778**	193,753
		261,100	581,584	**263,249**	584,394
Current liabilities					
Amounts due to subsidiaries		**–**	–	**13,595**	10,839
Due to customers on construction contracts	16	**4,278,333**	4,871,825	**4,279,122**	4,872,544
Trade payables	26	**976,578**	624,390	**929,606**	589,079
Other payables and accruals	27	**323,176**	440,661	**241,167**	403,792
Dividends payable		**35**	9	**35**	9
Current income tax liabilities		**105,720**	255,649	**102,175**	251,242
Borrowings	23	**1,371,508**	1,654,374	**1,322,299**	1,631,304
Derivative financial instruments	14	**5,200**	11,628	**5,200**	11,628
Provisions for warranty and legal claims	28	**87,150**	61,652	**87,150**	61,652
		7,147,700	7,920,188	**6,980,349**	7,832,089
Total liabilities		**7,408,800**	8,501,772	**7,243,598**	8,416,483
Total equity and liabilities		**10,251,665**	11,029,129	**9,886,231**	10,808,333
Net current assets		**1,400,406**	1,030,453	**1,159,442**	884,165
Total assets less current liabilities		**3,103,965**	3,108,941	**2,905,882**	2,976,244

Li Zhushi
Director

Han Guangde
Director

The notes on pages 164 to 243 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT – BY FUNCTION OF EXPENSE

(Prepared in accordance with HKFRS)

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Revenue		**6,984,088**	5,906,793
Cost of construction contracts		**(5,164,588)**	(4,352,338)
Cost of goods sold and services rendered		**(987,759)**	(663,653)
Cost of sales	30	**(6,152,347)**	(5,015,991)
Gross profit		**831,741**	890,802
Other (losses)/gains – net	29	**(2,784)**	291,309
Selling and marketing costs	30	**(8,760)**	(15,041)
Administrative expenses	30	**(260,091)**	(290,509)
Other income	31	**80,134**	291,585
Other expenses		**(4,835)**	(9,216)
Operating profit		**635,405**	1,158,930
Finance income – net	32	**282,070**	180,545
Share of profit of associates		**3,811**	1,489
Profit before income tax		**921,286**	1,340,964
Income tax expense	34	**(81,113)**	(380,615)
Profit for the year		**840,173**	960,349
Attributable to:			
Shareholders of the Company		**820,396**	938,560
Minority interests		**19,777**	21,789
		840,173	960,349
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
– basic & diluted	37	**1.6584**	1.8973
Dividends	38	**222,605**	247,339

The notes on pages 164 to 243 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Prepared in accordance with HKFRS)

	Note	Attributable to shareholders of the Company				Minority interests	Total
		Share capital	Other reserves	Retained earnings/ (Accumulated losses)	Total		
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	21	–	251,302	–	251,302	–	251,302
Profit for the year		–	–	938,560	938,560	21,789	960,349
Total recognized income and expense for 2007		–	251,302	938,560	1,189,862	21,789	1,211,651
Profit transferred to surplus reserves	21	–	75,344	(75,344)	–	–	–
Disposal of interest in a subsidiary		–	–	–	–	(4,518)	(4,518)
Dividend paid by a subsidiary		–	–	–	–	(490)	(490)
Acquisition of interest in subsidiaries		–	–	–	–	(2,337)	(2,337)
Balance at 31 December 2007		1,146,655	568,281	736,573	2,451,509	75,848	2,527,357
Balance at 1 January 2008		1,146,655	568,281	736,573	2,451,509	75,848	2,527,357
Fair value losses, net of tax:							
– available-for-sale financial assets	21	–	(266,323)	–	(266,323)	–	(266,323)
Disposal of available-for-sale financial assets		–	(10,883)	–	(10,883)	–	(10,883)
Profit for the year		–	–	820,396	820,396	19,777	840,173
Total recognized income and expense for 2008		–	(277,206)	820,396	543,190	19,777	562,967
Profit transferred to surplus reserves	21	–	77,532	(77,532)	–	–	–
Dividends relating to 2007		–	–	(247,339)	(247,339)	–	(247,339)
Dividend paid by a subsidiary		–	–	–	–	(120)	(120)
Balance at 31 December 2008		**1,146,655**	**368,607**	**1,232,098**	**2,747,360**	**95,505**	**2,842,865**

The notes on pages 164 to 243 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(Prepared in accordance with HKFRS)

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	39	**71,725**	(1,333,418)
Interest paid		**(183,045)**	(70,386)
Interest received		**199,076**	87,875
PRC enterprise income tax paid		**(262,822)**	(39,897)
Net cash used in operating activities		**(175,066)**	(1,355,826)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(275,516)**	(144,166)
Purchase of land use right and leasehold land		**(1,837)**	–
Purchase of intangible assets		**(980)**	(17,085)
Proceeds from sale of property, plant and equipment, investment properties and land use rights and leasehold land	39	**3,263**	1,303
Increase in investment in associated company		**(11,200)**	–
Acquisition of interest in subsidiaries, net of cash acquired		**–**	(18,592)
Disposal of interest in a subsidiary, net of cash disposed		**–**	(10,712)
Purchase of held-to-maturity financial assets		**–**	(248,520)
Proceeds from redemption of discounted government bonds		**–**	550,000
Proceeds from sale of available-for-sale financial assets		**9,576**	857
Dividends received from associates		**722**	465
Dividends received from available-for-sale financial assets		**4,113**	1,878
Net cash (used in)/generated from investing activities		**(271,859)**	115,428
Cash flows from financing activities			
Proceeds from borrowings		**3,837,515**	1,392,516
Repayments of borrowings		**(4,111,314)**	(946,061)
Dividends paid to shareholders of the Company		**(247,313)**	–
Dividends paid to minority interests		**(120)**	(490)
Net cash (used in)/generated from financing activities		**(521,232)**	445,965
Net decrease in cash and cash equivalents		**(968,157)**	(794,433)
Cash and cash equivalents at beginning of the year		**1,457,792**	2,255,879
Exchange losses on cash and cash equivalents		**(5,349)**	(3,654)
Cash and cash equivalents at end of the year	19	**484,286**	1,457,792

The notes on pages 164 to 243 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

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 10 March 2009.

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"). They 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 Group'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.

(a) Amendments and interpretations effective in 2008

The HKAS 39, "Financial instruments: Recognition and measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, "Financial instruments: Disclosures", introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements as the Group has not reclassified any financial assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 "Segment reporting" 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). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

HKAS 23 (Revised), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise 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 (Revised) retrospectively from 1 January 2009. Management is currently assessing the impact of HKAS 23 (Revised).

HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

HKFRS 1 (Amendment), "First time adoption of HKFRS" and HKAS 27, "Consolidated and separate financial statements" (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment does not have a significant impact to the Group.

HKFRS 3 (Revised), "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

HKICPA's improvements to HKFRS published in October 2008:

- HKAS 1 (Amendment), "Presentation of financial statements" (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, "Financial instruments: Recognition and measurement" are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

- HKAS 19 (Amendment), "Employee benefits" (effective from 1 January 2009).

  – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- HKAS 37, "Provisions, contingent liabilities and contingent assets" requires contingent liabilities to be disclosed, not recognized. HKAS 19 has been amended to be consistent.

The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 "Financial instruments: Recognition and measurement". This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

- HKAS 28 (Amendment), "Investments in associates" (and consequential amendments to HKAS 32, "Financial Instruments: Presentation" and HKFRS 7, "Financial instruments: Disclosures") (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

- HKAS 36 (Amendment), "Impairment of assets" (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- HKAS 38 (Amendment), "Intangible assets" (effective from 1 January 2009). A prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply HKAS 38 (Amendment) from 1 January 2009. Management is currently assessing the impact of HKAS 38 (Amendment).

- HKAS 39 (Amendment), "Financial instruments: Recognition and measurement" (effective from 1 January 2009).

  – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  – The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, "Operating segments" which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker) but the Group will not formally document and test this hedging relationship.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

– When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

- HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. The Group will apply HKAS 40 (Amendment) from 1 January 2009, and it will not have a material impact on Group's financial statement because the Group chooses to apply cost model for its Investment property.

- There are a number of minor amendments to HKFRS 7, "Financial instruments: Disclosures", HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue", HKAS 34, "Interim financial reporting" and HKAS 40, "Investment property" which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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 consolidated income statement.

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 in the consolidated financial statements 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) 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 consolidated 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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(b) 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.

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 functional currency of the Company and all group entities and the presentation currency of the Group.

(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 consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains-net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

Property, plant and equipment is 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 charged in the consolidated 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 their costs less accumulated impairment losses 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 and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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, 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 the proceeds with carrying amount and are recognized in the consolidated income statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment property

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

Investment property is initially recognized at 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 subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation on investment properties is calculated using the straight-line method to allocate the depreciable amounts over their estimated useful lives. The principal annual rate of depreciation for investment property 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 are charged in the consolidated income statement during the financial period in which they are incurred.

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriated, at each balance sheet day.

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).

Rental income from investment property in recognized in the consolidated income statement on a straight-line basis over the term of the lease.

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated income statement on a straight-line basis over the period of the lease.

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

2.10.1 Classification

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.

(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 for derivative financial instruments, when they are intended to be settled after 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial Assets (continued)

2.10.1 Classification (continued)

(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. The Group's loans and receivables comprise "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; which 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.

2.10.2 Recognition and measurement

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 are initially recognized at fair value, and transaction costs are expensed in the consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial Assets (continued)

2.10.2 Recognition and measurement (continued)

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 consolidated income statement within "other gains/(losses) – 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 consolidated income statement as "other income".

Dividends on available-for-sale financial assets are recognized in the consolidated 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 analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.13.

2.11 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 the Group's derivative instruments that do not qualify for hedge accounting are recognized immediately in the consolidated income statement within "other (losses)/gains – net".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 receivables 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 consolidated income statement within "selling and marketing costs". When a 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 consolidated 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.

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 consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

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 recognized, 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 only 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.

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 for warranty and legal claims 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits

(a) 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 consolidated 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.

(b) 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.

(c) Housing benefit

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

(d) Medical insurance

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

(f) Dividend income

Dividend income is recognized when the right to receive payment is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 instruments. 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 and foreign currency loans 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 17, 18, 19, 23, 26 and 27 respectively.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

At 31 December 2008, 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 RMB74,336,000 (2007: RMB79,941,000) 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.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities 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 2008, approximately RMB1,476,621,000 (2007: RMB1,568,294,000) 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 23.

The Group has not used any financial instrument to hedge its exposure to interest rate risk.

At 31 December 2008, 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 RMB7,280,000 (2007: RMB6,305,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 are publicly traded in the Shanghai Stock Exchange.

At 31 December 2008, 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 RMB31,058,000 (2007: RMB85,588,000), mainly as a result of losses/gains on equity securities classified as available-for-sale.

(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 and available-for-sale financial assets (excluding equity securities) 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 does not expect any losses from non-performance by these financial 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.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Management monitors the Group's undrawn borrowing facility (Note 23) and bank balances and cash (Note 19) on the basis of expected cash flow.

The table below analysis 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.

	Less than1 year	**Between 1 and 2 years**
	RMB'000	*RMB'000*
Group		
At 31 December 2008		
Borrowings	**1,371,508**	**221,085**
Derivative financial liabilities	**5,200**	**–**
Trade payables, other payables and accruals	**1,080,978**	**–**
At 31 December 2007		
Borrowings	1,654,374	404,827
Derivative financial liabilities	11,628	–
Trade payables, other payables and accruals	814,829	–
Company		
At 31 December 2008		
Borrowings	**1,322,299**	**221,085**
Derivative financial liabilities	**5,200**	**–**
Trade payables, other payables and accruals	**1,025,251**	**–**
At 31 December 2007		
Borrowings	1,631,304	404,827
Derivative financial liabilities	11,628	–
Trade payables, other payables and accruals	758,580	–

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 debt/equity 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 debt/equity ratios at 31 December 2008 and 2007 are as follows:

	2008	2007
	RMB'000	*RMB'000*
Total borrowings (Note 23)	**1,579,140**	2,041,842
Total equity attributable to the shareholders of the Company	**2,747,360**	2,451,509
Total capital	**4,326,500**	4,493,351
Debt/equity ratio	**36%**	45%

The decrease in the debt/equity ratio during 2008 primarily reflected a profitable operation of the year and reduced borrowings to a lower level.

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 carrying value less impairment provision of trade receivables and payables are assumed to approximate 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.

(a) 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 and is revisited on a monthly basis. The key components of the 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 2008, 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.

(b) 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 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 34.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.2 Critical judgments in applying the entity's accounting policies

(a) 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.

(b) Revenue recognition for steel structure projects

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 considers that after these stages the economic benefit associated with such transactions will probably flow to the Group.

5. SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2008, 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.

Turnover consists of revenue from shipbuilding and steel structure and other manufacturing segments, which are RMB5,904,445,000 and RMB811,099,000 for the year ended 31 December 2008 and RMB5,134,589,000 and RMB584,129,000 for the year ended 31 December 2007 respectively.

Other operations of the Group mainly comprise the trading of computers, painting services and ship repairing services, none of which are of a sufficient size to be reported separately.

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2008 are as follows:

Business segment	Shipbuilding RMB'000	Steel structure and other manufacturing RMB'000	Other operations RMB'000	Elimination RMB'000	Group RMB'000
Total segment revenue	5,904,445	846,305	333,437	(100,099)	6,984,088
Inter-segment revenue	–	(35,206)	(64,893)	100,099	–
Revenue	5,904,445	811,099	268,544	–	6,984,088
Segment results	802,843	59,387	71,252	(24,064)	909,418
Unallocated revenue					31,091
Unallocated costs and expenses					(305,104)
Operating profit					635,405
Finance income-net					282,070
Share of profits of associates			3,811		3,811
Profit before income tax					921,286
Income tax expense					(81,113)
Profit for the year					840,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

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	Shipbuilding	Steel structure and other manufacturing	Other operations	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	5,134,589	639,814	269,006	(136,616)	5,906,793
Inter-segment revenue	–	(55,685)	(80,931)	136,616	–
Revenue	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 revenue					41,204
Unallocated costs and expenses					(329,902)
Operating profit					1,158,930
Finance income-net					180,545
Share of profits of associates			1,489		1,489
Profit before income tax					1,340,964
Income tax expense					(380,615)
Profit for the year					960,349

Unallocated revenue represents mainly dividend income and subsidy income. Unallocated costs and expenses 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)

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (continued)

Other segment items for the year ended 31 December 2008 are as follows:

	Shipbuilding *RMB'000*	**Steel structure and other manufacturing** *RMB'000*	**Other operations** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Depreciation and amortization	**44,118**	**8,007**	**12,542**	**36,805**	**101,472**
Reversal of inventory impairment	**(1,308)**	**(2,395)**	**–**	**–**	**(3,703)**
Capital expenditure	**120,330**	**112,401**	**11,036**	**42,278**	**286,045**

Other segment items for the year ended 31 December 2007 are as follows:

	Shipbuilding *RMB'000*	Steel structure and other manufacturing *RMB'000*	Other operations *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
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	121,276	19,952	19,886	8,762	169,876

Capital expenditure comprises additions to property, plant and equipment (Note 6), land use right and leasehold land (Note 8) and intangible assets (Note 9), excluding additions from acquisition of subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (continued)

The segment assets and liabilities at 31 December 2008 are as follows:

	Shipbuilding	Steel structure and other manufacturing	Other operations	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**6,408,429**	**850,896**	**252,547**	**(58,477)**	**7,453,395**
Interest in associates			**33,708**		**33,708**
Unallocated assets					**2,764,562**
Total assets					**10,251,665**
Segment liabilities	**5,329,392**	**239,722**	**115,675**	**(58,477)**	**5,626,312**
Unallocated liabilities					**1,782,488**
Total liabilities					**7,408,800**

The segment assets and liabilities at 31 December 2007 are as follows:

	Shipbuilding	Steel structure and other manufacturing	Other operations	Elimination	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

Segment assets consist primarily of operating cash, property, plant and equipment, inventories, derivatives financial instruments and receivables, and mainly exclude investment properties, land use right and leasehold land, intangible assets, deferred income tax assets and available-for-sale financial assets.

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

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 – shipbuilding, steel structure, other manufacturing and services
Greece – shipbuilding
Liberia – shipbuilding
Denmark – shipbuilding
Malta – shipbuilding
Sweden – shipbuilding
United States of America – steel structure and other manufacturing
Other countries – shipbuilding, steel structure, other manufacturing and services

Revenue	**2008** ***RMB'000***	2007 *RMB'000*
Denmark	**2,114,264**	723,882
Mainland China	**1,665,444**	2,206,058
Malta	**1,248,504**	347,930
Greece	**532,199**	918,020
Sweden	**399,079**	325,342
United States of America	**357,014**	269,820
Liberia	**–**	1,008,570
Other countries	**667,584**	107,171
	6,984,088	5,906,793

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

5. SEGMENT INFORMATION (CONTINUED)

Secondary reporting format – geographical segments (continued)

Total assets	**2008** **RMB'000**	2007 RMB'000
Mainland China	**10,186,071**	10,977,057
Hong Kong	**31,886**	32,653
	10,217,957	11,009,710
Interest in associates	**33,708**	19,419
	10,251,665	11,029,129

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

Capital expenditures	**2008** **RMB'000**	2007 RMB'000
Mainland China	**286,045**	169,876

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

Analysis of revenue by category	**2008** **RMB'000**	2007 RMB'000
Construction contracts	**5,904,445**	5,134,589
Sales of goods	**904,487**	644,613
Provision of services	**175,156**	127,591
	6,984,088	5,906,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007					
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	32,936	536,942	391,091	20,598	981,567
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	105,089	536,041	388,352	20,471	1,049,953
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	105,089	536,041	388,352	20,471	1,049,953
Year ended 31 December 2008					
Opening net book amount	**105,089**	**536,041**	**388,352**	**20,471**	**1,049,953**
Additions	**275,470**	**2,160**	**5,598**	**–**	**283,228**
Transfers	**(118,464)**	**16,254**	**93,474**	**8,736**	**–**
Disposals	**–**	**(377)**	**(4,748)**	**(332)**	**(5,457)**
Depreciation	**–**	**(27,085)**	**(64,622)**	**(4,239)**	**(95,946)**
Closing net book amount	**262,095**	**526,993**	**418,054**	**24,636**	**1,231,778**
At 31 December 2008					
Cost	**262,095**	**771,692**	**937,333**	**55,725**	**2,026,845**
Accumulated depreciation	**–**	**(244,699)**	**(519,279)**	**(31,089)**	**(795,067)**
Net book amount	**262,095**	**526,993**	**418,054**	**24,636**	**1,231,778**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

6. PROPERTY, PLANT AND EQUIPMENT – COMPANY

	Construction-in-progress *RMB'000*	Buildings, developments and structures *RMB'000*	Machinery, vehicles, equipment and transmission systems *RMB'000*	Instruments, meters and power systems *RMB'000*	Total *RMB'000*
At 1 January 2007					
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	32,936	534,597	358,623	20,566	946,722
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	100,517	528,389	356,992	20,455	1,006,353
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	100,517	528,389	356,992	20,455	1,006,353
Year ended 31 December 2008					
Opening net book amount	**100,517**	**528,389**	**356,992**	**20,455**	**1,006,353**
Additions	**275,288**	**2,558**	**3**	**–**	**277,849**
Transfers	**(113,891)**	**16,254**	**88,901**	**8,736**	**–**
Disposals	**–**	**(508)**	**(4,105)**	**(332)**	**(4,945)**
Depreciation	**–**	**(24,671)**	**(59,560)**	**(4,233)**	**(88,464)**
Closing net book amount	**261,914**	**522,022**	**382,231**	**24,626**	**1,190,793**
At 31 December 2008					
Cost	**261,914**	**762,252**	**838,019**	**55,674**	**1,917,859**
Accumulated depreciation	**–**	**(240,230)**	**(455,788)**	**(31,048)**	**(727,066)**
Net book amount	**261,914**	**522,022**	**382,231**	**24,626**	**1,190,793**

7. INVESTMENT PROPERTIES

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
At 1 January	**94,161**	98,721
Disposal	**(2,939)**	(338)
Depreciation	**(2,085)**	(2,170)
Impairment	**–**	(2,052)
At 31 December	**89,137**	94,161
Representing:		
Cost	**97,151**	102,316
Accumulated depreciation and impairment	**(8,014)**	(8,155)
Net book amount	**89,137**	94,161
Fair value of investment properties	**116,797**	128,940

The fair value of investment properties was determined at 31 December 2008 by management with reference to the current prices in an active market.

7. INVESTMENT PROPERTIES (CONTINUED)

The following amounts have been recognized in the income statement:

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
Rental income	**798**	2,048

The future minimum lease income receivable under non-cancellable operating leases are as follows:

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
Within 1 year	**1,800**	2,048
1 to 2 years	**1,800**	1,800
2 to 5 years	**5,400**	5,400
Over 5 years	**8,250**	9,000
	17,250	18,248

The Company leased out properties under an agreement which will expire from 2009 to 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In Hong Kong:				
Lease of between 10 to 50 years	**7,980**	8,237	**7,980**	8,237
In Mainland China:				
Lease of between 10 to 50 years	**67,216**	67,871	**61,459**	58,383
	75,196	76,108	**69,439**	66,620

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**76,108**	67,784	**66,620**	67,784
Additions	**1,837**	–	**5,370**	–
Disposal	**(1,259)**	–	**(1,259)**	–
Acquisition of subsidiary	**–**	9,507	**–**	–
Amortization	**(1,490)**	(1,183)	**(1,292)**	(1,164)
End of the year	**75,196**	76,108	**69,439**	66,620

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

9. INTANGIBLE ASSETS

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
Computer software		
At 1 January	**15,921**	–
Additions	**980**	17,085
Amortization	**(1,951)**	(1,164)
At 31 December	**14,950**	15,921
Representing:		
Cost	**18,065**	17,085
Accumulated amortization	**(3,115)**	(1,164)
Net book amount	**14,950**	15,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	*RMB'000*
Unlisted shares, at costs	**121,709**	84,476

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place of incorporation and legal entity form	Principal activities	Issued and fully paid-up capital	Interest held 2008 Direct %	Interest held 2008 Indirect %	Interest held 2007 Direct %	Interest held 2007 Indirect %
MasterWood Company Limited	PRC, Sino-foreign equity joint venture	Manufacture of furniture	RMB3,315,180	**51**	**25**	51	25
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	16.18
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**	80	15.20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

10. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

				Interest held			
				2008		2007	
Name	**Place of incorporation and legal entity form**	**Principal activities**	**Issued and fully paid-up capital**	**Direct %**	**Indirect %**	Direct %	Indirect %
Guangdong Structure Pipe & Peg Company Limited (Note a)	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**	–	99.11
Glory Group Development Company Limited (Note b)	Hong Kong, Company with limited liability	Intermediate holding company	HKD30,000,000	**100**	**–**	100	–
Fon Kwang Development Limited	Hong Kong, Company with limited liability	Trading of equipment and materials	HKD200,000	**–**	**70**	–	70
Guangzhou GSI Large-size Mechanical Equipment Co., Ltd. (Note c)	PRC, Company with limited liability	Large-size mechanical equipment and steel structure	RMB30,000,000	**100**	**–**	–	–

Notes:

(a) Guangdong Structure Pipe & Peg Company Limited was liquidated in 2008.

(b) The share capital of Glory Group Development Company Limited was increased from HKD10,000 to HKD30,000,000 in 2008.

(c) Guangzhou GSI Large-size Mechanical Equipment Co., Ltd. was set up in 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

11. INTEREST IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted				
Beginning of the year	**19,419**	18,611	**2,522**	2,522
Additions	**11,200**	–	**–**	–
Disposal	**–**	(216)	**–**	–
Share of profit of associates	**3,811**	1,489	**–**	–
Dividend	**(722)**	(465)	**–**	–
End of the year	**33,708**	19,419	**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 are as follows:

Name	**Assets**	**Liabilities**	**Revenues**	**Profit**	**Interest held**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*%*
2008					
Guangzhou Economic and Technical Development Zone South China Marine and Industrial Special Coating Limited ("South China Special Coating")	**16,871**	**2,901**	**26,017**	**3,476**	**25**
Zhanjiang Nanhai Naval New Technology & Service Company Limited ("Nanhai Naval")	**2,054**	**35**	**3,542**	**65**	**40**
Zhenjiang CSSC Hyundai Generator Equipment Company Limited ("Zhengjiang CSSC Hyundai")	**144,205**	**52,122**	**98,009**	**9,111**	**32**
	163,130	**55,058**	**127,568**	**12,652**	
2007					
South China Special Coating	15,033	1,672	17,842	3,188	25
Nanhai Naval	3,407	1,452	2,640	45	40
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)

12. FINANCIAL INSTRUMENTS BY CATEGORY

Group

	Loans and receivables	Derivative financial instruments at fair value through profit or loss	Available-for-sale	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets as per consolidated balance sheet				
31 December 2008				
Available-for-sale financial assets (Note13)	**–**	**–**	**187,350**	**187,350**
Derivative financial instruments (Note 14)	**–**	**157,361**	**–**	**157,361**
Trade receivables (Note 17)	**392,667**	**–**	**–**	**392,667**
Other receivables (excluding prepayment) (Note 18)	**192,064**	**–**	**–**	**192,064**
Bank balances and cash (Note 19)	**6,274,889**	**–**	**–**	**6,274,889**
Total	**6,859,620**	**157,361**	**187,350**	**7,204,331**
31 December 2007				
Available-for-sale financial assets (Note13)	–	–	577,074	577,074
Derivative financial instruments (Note 14)	–	294,310	–	294,310
Trade receivables (Note 17)	314,323	–	–	314,323
Other receivables (excluding prepayment) (Note 18)	213,206	–	–	213,206
Bank balances and cash (Note 19)	6,904,323	–	–	6,904,323
Total	7,431,852	294,310	577,074	8,303,236

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Group (continued)

	Derivative financial instruments at fair value through profit or loss	Other financial liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*
Liabilities as per consolidated balance sheet			
31 December 2008			
Borrowings (Note 23)	**–**	**1,579,140**	**1,579,140**
Derivative financial instruments (Note 14)	**5,200**	**–**	**5,200**
Trade payables (Note 26)	**–**	**976,578**	**976,578**
Other payables and accruals (excluding advance received) (Note 27)	**–**	**104,400**	**104,400**
Total	**5,200**	**2,660,118**	**2,665,318**
31 December 2007			
Borrowings (Note 23)	–	2,041,842	2,041,842
Derivative financial instruments (Note 14)	11,628	–	11,628
Trade payables (Note 26)	–	624,390	624,390
Other payables and accruals (excluding advance received) (Note 27)	–	190,439	190,439
Total	11,628	2,856,671	2,868,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	Loans and receivables	Derivative financial instruments at fair value through the profit and loss	Available-for-sale	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets as per balance sheet				
31 December 2008				
Available-for-sale financial assets (Note 13)	**–**	**–**	**186,450**	**186,450**
Derivative financial instruments (Note 14)	**–**	**157,361**	**–**	**157,361**
Amounts due from subsidiaries (Note a)	**45,470**	**–**	**–**	**45,470**
Trade receivables (Note 17)	**235,066**	**–**	**–**	**235,066**
Other receivables (excluding prepayment) (Note 18)	**188,726**	**–**	**–**	**188,726**
Bank balances and cash (Note 19)	**6,150,478**	**–**	**–**	**6,150,478**
Total	**6,619,740**	**157,361**	**186,450**	**6,963,551**
31 December 2007				
Available-for-sale financial assets (Note 13)	–	–	576,174	576,174
Derivative financial instruments (Note 14)	–	294,310	–	294,310
Amounts due from subsidiaries (Note a)	54,659	–	–	54,659
Trade receivables (Note 17)	196,757	–	–	196,757
Other receivables (excluding prepayment) (Note 18)	212,025	–	–	212,025
Bank balances and cash (Note 19)	6,845,597	–	–	6,845,597
Total	7,309,038	294,310	576,174	8,179,522

12. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company (continued)

	Derivative financial instruments at fair value through the profit and loss	Other financial liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*
Liabilities as per balance sheet			
31 December 2008			
Borrowings (Note 23)	**–**	**1,529,931**	**1,529,931**
Derivative financial instruments (Note 14)	**5,200**	**–**	**5,200**
Trade payables (Note 26)	**–**	**929,606**	**929,606**
Other payables and accruals (excluding advance received) (Note 27)	**–**	**82,050**	**82,050**
Amounts due to subsidiaries (Note a)	**–**	**13,595**	**13,595**
Total	**5,200**	**2,555,182**	**2,560,382**
31 December 2007			
Borrowings (Note 23)	–	2,018,772	2,018,772
Derivative financial instruments (Note 14)	11,628	–	11,628
Trade payables (Note 26)	–	589,079	589,079
Other payables and accruals (excluding advance received) (Note 27)	–	169,501	169,501
Amounts due to subsidiaries (Note a)	–	10,839	10,839
Total	11,628	2,788,191	2,799,819

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)

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**577,074**	220,665	**576,174**	219,765
Disposal	**(12,867)**	(857)	**(12,867)**	(857)
Fair value(losses)/gains transferred to reserve (Note 21)	**(376,857)**	357,266	**(376,857)**	357,266
End of the year	**187,350**	577,074	**186,450**	576,174
Less non-current portion:	**(1,900)**	(577,074)	**(1,000)**	(576,174)
Current portion	**185,450**	–	**185,450**	–

Available-for-sale financial assets include the following:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Securities listed in Shanghai Stock Exchange				
– Corporate shares of China Merchants Bank	**144,096**	441,884	**144,096**	441,884
– Corporate shares of China Merchants Energy Shipping Co., Ltd.	**38,600**	128,700	**38,600**	128,700
	182,696	570,584	**182,696**	570,584
Others	**4,654**	6,490	**3,754**	5,590
Total	**187,350**	577,074	**186,450**	576,174
Market value of listed securities	**182,696**	570,584	**182,696**	570,584

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

In 2008, the Group disposed of certain available-for-sale financial assets amounting to RMB12,867,000 (2007: RMB857,000) at market price. There were no impairment provisions on available-for-sale financial assets as at 31 December 2008 or 2007.

The fair value losses, net of tax, amounting to RMB266,323,000 for the year ended 31 December 2008 were debited to the reserves.

As at 31 December 2008, current portion of the available-for-sale financial assets represented the listed corporate shares and golf club membership to be disposed of within 12 months.

Available-for-sale financial assets are denominated in RMB.

None of the available-for-sale financial assets is either past due or impaired.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	Assets		Liabilities	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Forward foreign exchange contracts	**157,361**	294,310	**(5,200)**	(11,628)
Less non-current portion:				
Forward foreign exchange contracts	**44,890**	245,852	**–**	–
Current portion	**112,471**	48,458	**(5,200)**	(11,628)

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2008 are RMB2,189,465,000 (2007: RMB4,033,832,200).

The credit quality of derivative financial assets is as follows:

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
The mega four state-controlled commercial banks	**58,730**	98,236
Nationwide joint-stock commercial banks	**83,945**	152,248
Foreign invested commercial banks	**14,686**	43,826
	157,361	294,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**453,891**	433,980	**444,143**	415,849
Work in progress	**373,382**	284,762	**310,723**	197,880
Finished goods	**5,410**	6,681	**5,158**	5,365
	832,683	725,423	**760,024**	619,094

The cost of inventories recognized as expense and included in "cost of goods sold" amounted to RMB823,413,000 (2007: RMB561,451,000).

16. CONSTRUCTION CONTRACTS IN PROGRESS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contract costs incurred plus attributable profits	**3,148,054**	2,831,179	**3,144,689**	2,827,851
Less: progress billings to date	**(7,143,373)**	(7,473,077)	**(7,143,373)**	(7,473,077)
	(3,995,319)	(4,641,898)	**(3,998,684)**	(4,645,226)
Representing:				
Due from customers on construction contracts	**283,014**	229,927	**280,438**	227,318
Due to customers on construction contracts	**(4,278,333)**	(4,871,825)	**(4,279,122)**	(4,872,544)
	(3,995,319)	(4,641,898)	**(3,998,684)**	(4,645,226)

At 31 December 2008, there was no retention monies held by customers for contract works (2007: nil).

At 31 December 2008, there were advances for construction contract amounting to RMB44,355,000 (2007: RMB154,388,000) (Note 27).

17. TRADE RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables due from third parties	**202,743**	270,212	**49,629**	151,060
Less: provision for impairment of trade receivables	**(4,701)**	(5,081)	**(2,119)**	(2,426)
Trade receivables – net	**198,042**	265,131	**47,510**	148,634
Amounts due from related parties	**194,625**	49,192	**187,556**	48,123
	392,667	314,323	**235,066**	196,757

The carrying amounts of trade receivables approximate their fair value.

The general credit terms of trade receivables are:

Operations	**Credit terms**
Shipbuilding	Within one month after issue of invoice
Other operations (including steel structure and other manufacturing)	Normally one to six months

At 31 December 2008 and 2007, the ageing analysis of the trade receivables due from third parties are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not exceeding 1 year	**170,991**	250,878	**33,211**	146,265
More than 1 year but not exceeding 2 years	**21,966**	11,682	**12,386**	1,708
More than 2 years but not exceeding 3 years	**3,979**	160	**1,770**	111
More than 3 years	**1,106**	2,411	**143**	550
	198,042	265,131	**47,510**	148,634

17. TRADE RECEIVABLES (CONTINUED)

At 31 December 2008 and 2007, the ageing analysis of the trade receivables due from related parties are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not exceeding 1 year	**190,397**	49,192	**183,361**	48,123
More than 1 year but not exceeding 2 years	**4,228**	–	**4,195**	–
	194,625	49,192	**187,556**	48,123

The carrying amounts of the trade receivables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**247,339**	228,016	**219,079**	191,172
USD	**130,439**	82,583	**7,703**	2,150
HKD	**2,943**	3,259	**2,693**	2,970
EURO	**7,060**	465	**5,591**	465
Other currency	**4,886**	–	**–**	–
	392,667	314,323	**235,066**	196,757

17. TRADE RECEIVABLES (CONTINUED)

The credit quality of trade receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired:				
Existing customers without history of defaults	**362,347**	288,154	**217,380**	183,674
Past due but not impaired:				
Past due less than 1 year	**24,953**	19,526	**15,609**	10,463
Past due over 1 year	**5,296**	6,552	**2,077**	2,620
	30,249	26,078	**17,686**	13,083
Past due and impaired:				
Past due less than 1 year	**3,248**	3,625	**1,182**	959
Past due over 1 year	**1,524**	1,547	**937**	1,467
	4,772	5,172	**2,119**	2,426
Total trade receivables	**397,368**	319,404	**237,185**	199,183

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)

17. TRADE RECEIVABLES (CONTINUED)

Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**(5,081)**	(8,430)	**(2,426)**	(5,721)
Provision for receivable impairment	**(352)**	(3,140)	**(203)**	(815)
Receivables written off during the year as uncollectible	**–**	4,131	**–**	3,589
Unused amounts reversed	**732**	2,358	**510**	521
End of the year	**(4,701)**	(5,081)	**(2,119)**	(2,426)

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

18. OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments for trading materials, equipment and subcontract fee				
– prepayments to third party	**132,048**	31,699	**39,001**	29,064
– prepayments to related parties	**354,820**	483,282	**354,667**	483,282
Other taxes recoverable	**89,214**	100,081	**89,214**	99,317
Amounts due from non-banking financial institutions	**10,340**	13,694	**10,340**	13,694
Less: provision for non-recovery	**(8,360)**	(8,748)	**(8,360)**	(8,748)
	1,980	4,946	**1,980**	4,946
Subsidy receivables	**40,904**	83,332	**40,904**	83,332
Deposit for acquisition (Note a)	**50,000**	–	**50,000**	–
Others	**9,966**	24,847	**6,628**	24,430
	678,932	728,187	**582,394**	724,371

Note:

(a) Cash deposit was paid to China Beijing Equity Exchange for the purpose of tendering for the equity interests in Guangzhou Wenchong shipbuilding limited.

18. 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**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**526,425**	648,089	**522,901**	646,117
USD	**45,334**	40,157	**43,617**	40,157
HKD	**838**	1,844	**–**	–
EURO	**106,335**	38,097	**15,876**	38,097
	678,932	728,187	**582,394**	724,371

The credit quality of other receivables qualified as financial assets is as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired:				
With no history of default	**190,084**	208,260	**186,746**	207,079
Past due and impaired:				
Past due over 3 years	**10,340**	13,694	**10,340**	13,694
Total other receivables	**200,424**	221,954	**197,086**	220,773

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

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19. BANK BALANCES AND CASH

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in bank and in hand	**255,166**	1,010,335	**130,755**	966,489
Bank deposits (Note a)	**6,019,723**	5,893,988	**6,019,723**	5,879,108
Bank balances and cash	**6,274,889**	6,904,323	**6,150,478**	6,845,597
Less: Restricted balance and cash (Note b)	**(935,463)**	(114,776)	**(919,572)**	(97,323)
– Current	**(723,463)**	(114,776)	**(707,572)**	(97,323)
– Non-current	**(212,000)**	–	**(212,000)**	–
Term deposits with initial term of over three months	**(4,855,140)**	(5,331,755)	**(4,855,140)**	(5,331,755)
Cash and cash equivalents	**484,286**	1,457,792	**375,766**	1,416,519

Notes:

(a) The average effective annual interest rate on bank deposits was 3.93% (2007: 4.5%); These deposits have an average maturity of 164 days (2007: 240 days).

(b) The restricted cash was held in bank accounts as guarantee deposits for forward contract transactions and bank borrowings.

The bank balances and cash are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**6,202,067**	6,872,282	**6,123,973**	6,839,777
USD	**48,979**	30,154	**25,960**	5,644
HKD	**16,240**	1,640	**322**	34
EURO	**7,603**	234	**223**	129
GBP	**–**	13	**–**	13
	6,274,889	6,904,323	**6,150,478**	6,845,597

19. BANK BALANCES AND CASH (CONTINUED)

The credit quality of bank balances and cash are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The mega four state-controlled commercial banks	**1,497,784**	2,320,155	**1,444,154**	2,299,752
Policy banks	**253,527**	305,451	**253,527**	305,451
Nationwide joint-stock commercial banks	**3,726,247**	3,941,653	**3,690,120**	3,923,908
Foreign invested commercial banks	**778,214**	308,372	**743,698**	289,242
A related financial institution	**18,674**	26,881	**18,674**	26,881
Other financial institutions and cash in hand	**443**	1,811	**305**	363
	6,274,889	6,904,323	**6,150,478**	6,845,597

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 Poor's within a range from A- to A+.

20. SHARE CAPITAL

	As at 1 January 2007, 31 December 2007 and 2008	
	Number of shares *(thousands)*	**Amount** *RMB'000*
Share capital registered, issued and fully paid		
Circulating State Shares subject to exchange restrictions	176,651	176,651
Ordinary A Shares	160,629	160,629
Ordinary H Shares	157,398	157,398
	494,678	494,678
Share premium		651,977
Total		1,146,655

Note: The circulating state share subject to trading restriction will be tradable at the Shanghai Stock Exchange three years after completion of the PRC State Share Reform on 24 May 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

21. OTHER RESERVES

	Surplus reserves (Note a)			
	Statutory surplus reserve (Note i) *RMB'000*	Discretionary surplus reserve (Note ii) *RMB'000*	Fair value reserve for available-for-sale financial assets *RMB'000*	Total *RMB'000*
Group				
Balance at 1 January 2007	79,522	20,626	141,487	241,635
Revaluation – gross (Note 13)	–	–	357,266	357,266
Revaluation – tax (Note 25)	–	–	(105,964)	(105,964)
Profit transferred to surplus reserves (Note 22)	75,344	–	–	75,344
Balance at 31 December 2007	154,866	20,626	392,789	568,281
Revaluation – gross (Note 13)	–	–	(376,857)	(376,857)
Revaluation – tax (Note 25)	–	–	110,534	110,534
Disposal of available-for-sale financial assets	–	–	(10,883)	(10,883)
Profit transferred to surplus reserves (Note 22)	77,532	–	–	77,532
Balance at 31 December 2008	**232,398**	**20,626**	**115,583**	**368,607**
Company				
Balance at 1 January 2007	78,903	20,626	141,487	241,016
Revaluation – gross (Note 13)	–	–	357,266	357,266
Revaluation – tax (Note 25)	–	–	(105,964)	(105,964)
Profit transferred to surplus reserves (Note 22)	74,787	–	–	74,787
Balance at 31 December 2007	153,690	20,626	392,789	567,105
Revaluation – gross (Note 13)	–	–	(376,857)	(376,857)
Revaluation – tax (Note 25)	–	–	110,534	110,534
Disposal of available-for-sale financial assets	–	–	(10,883)	(10,883)
Profit transferred to surplus reserves (Note 22)	77,532	–	–	77,532
Balance at 31 December 2008	**231,222**	**20,626**	**115,583**	**367,431**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

21. OTHER RESERVES (CONTINUED)

(a) Surplus reserves are part of shareholders' funds and comprise statutory surplus reserve and discretionary surplus reserve.

(i) Statutory surplus reserve

In accordance with the Company Law in the PRC, the Company is required to transfer 10% of the profit after taxation (after setting off accumulated losses of previous years) as determined under the PRC accounting regulations 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) 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.

(b) Profit appropriations

In accordance with the Company's Articles of Association, profit after income tax shall be appropriated in the following sequence:

– Offset accumulated losses;

– Transfer 10% to statutory surplus reserve (Note a(i));

– Transfer to discretionary surplus reserve (Note a(ii)); and

– Distributed to shareholders.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

22. RETAINED EARNINGS/(ACCUMULATED LOSSES)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**736,573**	(126,643)	**678,090**	(163,162)
Profit for the year	**820,396**	938,560	**775,328**	916,039
Profit transferred to surplus reserves	**(77,532)**	(75,344)	**(77,532)**	(74,787)
Dividends relating to 2007	**(247,339)**	–	**(247,339)**	–
End of the year	**1,232,098**	736,573	**1,128,547**	678,090

23. BORROWINGS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Long term bank borrowings				
– guaranteed (Note a)	**–**	387,468	**–**	387,468
– secured (Note b)	**172,738**	–	**172,738**	–
– unsecured	**34,894**	–	**34,894**	–
	207,632	387,468	**207,632**	387,468
Current				
Short term bank borrowings				
– secured (Note b)	**170,865**	–	**170,865**	–
– unsecured	**307,160**	494,297	**257,951**	471,227
	478,025	494,297	**428,816**	471,227
Current portion of long term bank borrowings				
– guaranteed (Note a)	**502,986**	1,160,077	**502,986**	1,160,077
– secured (Note b)	**390,497**	–	**390,497**	–
	893,483	1,160,077	**893,483**	1,160,077
	1,371,508	1,654,374	**1,322,299**	1,631,304
Total borrowings	**1,579,140**	**2,041,842**	**1,529,931**	**2,018,772**

23. BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2008, bank borrowings of RMB502,986,000 (2007: RMB1,547,545,000) are guaranteed by CSSC, the immediate shareholder of the Company

(b) As at 31 December 2008, bank borrowings of RMB734,100,000 (2007: nil) are secured by restricted cash amounting to RMB837,571,000 (2007: nil).

The maturity of borrowings is as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,371,508**	1,654,374	**1,322,299**	1,631,304
Between 1 and 2 years	**207,632**	387,468	**207,632**	387,468
	1,579,140	2,041,842	**1,529,931**	2,018,772

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
6 months or less	**1,472,537**	1,632,396	**1,423,328**	1,629,343
6 to 12 months	**106,603**	409,446	**106,603**	389,429
	1,579,140	2,041,842	**1,529,931**	2,018,772

The effective interest rates at the balance sheet date are as follows:

	2008			2007		
	EURO	**HKD**	**USD**	EURO	RMB	USD
Short term bank borrowings	**5.09%**	**6.05%**	**5.73%**	4.65%	6.89%	5.37%
Long term bank borrowings	**–**	**–**	**6.48%**	–	–	4.55%

23. BORROWINGS (CONTINUED)

The carrying amounts of borrowings approximate their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**–**	23,070	**–**	–
HKD	**52,914**	–	**52,914**	–
USD	**1,477,017**	1,981,438	**1,477,017**	1,981,438
EURO	**49,209**	37,334	**–**	37,334
	1,579,140	2,041,842	**1,529,931**	2,018,772

The Group has the following undrawn borrowing facilities:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Expiring within one year	**11,878,115**	1,999,830
Expiring beyond one year	**1,000,000**	–
	12,878,115	1,999,830

Undrawn borrowing facility of RMB159,090,000 (2007: RMB159,090,000) is secured by the property, plant and equipment with net book amount of RMB124,858,000 (2007: RMB132,589,000).

24. RETIREMENT BENEFIT OBLIGATIONS

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
Balance sheet obligations for:		
– Early retirement scheme (Note a)	**3,205**	4,754
– Medical insurance scheme (Note b)	**3,791**	1,555
	6,996	6,309
Less: current portion included in other payables and accruals	**(2,157)**	(3,136)
	4,839	3,173

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) Early 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 Group 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

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24. 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 Group 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.

(c) The movements in the liabilities recognized in the balance sheet are as follows:

	Group and Company			
	Early retirement scheme		**Medical insurance**	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**4,754**	7,062	**1,555**	4,597
Total expense, included in employee benefit expense	**–**	–	**3,791**	–
Amounts paid	**(1,549)**	(2,308)	**(1,555)**	(3,042)
End of the year	**3,205**	4,754	**3,791**	1,555

25. 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	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax liabilities:				
– To be settled after more than 12 months	**(3,496)**	(179,745)	**(3,496)**	(179,745)
– To be settled within 12 months	**(45,133)**	(11,198)	**(47,282)**	(14,008)
	(48,629)	(190,943)	**(50,778)**	(193,753)

Deferred taxation is provided on temporary differences under the liability method using a principal taxation rate of 15% (2007: 25%).

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**(190,943)**	2,264	**(193,753)**	2,264
Recognized in the income statement (Note 34)	**31,780**	(87,243)	**32,441**	(90,053)
Charged directly to equity (Note 21)	**110,534**	(105,964)	**110,534**	(105,964)
End of the year	**(48,629)**	(190,943)	**(50,778)**	(193,753)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. 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**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	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
Recognized in the income statement	(1,427)	–	(2,422)	(3,849)
At 31 December 2008	**5,393**	**–**	**1,418**	**6,811**

	Company			
	Provision and Impairment of assets	**Tax losses**	**Staff benefit**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	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
Recognized in the income statement	(767)	–	(2,422)	(3,189)
At 31 December 2008	**3,244**	**–**	**1,418**	**4,662**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

25. DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities:

	Group and Company			
	Fair value gains on derivative financial instruments	**Fair value gains on available-for-sale financial assets**	**Unrealized exchange gain**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	(21)	(24,968)	–	(24,989)
Recognized in the income statement	(70,650)	–	–	(70,650)
Charged directly to equity (Note 21)	–	(105,964)	–	(105,964)
At 31 December 2007	(70,671)	(130,932)	–	(201,603)
Recognized in the income statement	47,847	–	(12,218)	35,629
Charged directly to equity (Note 21)	–	110,534	–	110,534
At 31 December 2008	**(22,824)**	**(20,398)**	**(12,218)**	**(55,440)**

The deferred income tax charged to equity represents fair value reserve for available-for-sale financial assets (Note 21).

26. TRADE PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due to third parties	**655,979**	419,974	**609,228**	394,941
Amounts due to related parties	**320,599**	204,416	**320,378**	194,138
	976,578	624,390	**929,606**	589,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

26. TRADE PAYABLES (CONTINUED)

The carrying amounts of trade payables approximate their fair value.

At 31 December 2008 and 2007, the ageing analysis of the trade payables due to third parties are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not exceeding 1 year	**646,998**	413,561	**602,283**	388,825
More than 1 year but not exceeding 2 years	**7,884**	5,932	**6,130**	5,635
More than 2 years but not exceeding 3 years	**759**	362	**478**	362
More than 3 years	**338**	119	**337**	119
	655,979	419,974	**609,228**	394,941

At 31 December 2008 and 2007, the ageing analysis of the trade payables due to related parties are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not exceeding 1 year	**320,070**	204,416	**319,849**	194,138
More than 1 year but not exceeding 2 years	**529**	–	**529**	–
	320,599	204,416	**320,378**	194,138

The carrying amounts of the trade payables are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**945,616**	622,968	**898,890**	589,079
USD	**30,716**	1,161	**30,716**	–
HKD	**246**	261	**–**	–
	976,578	624,390	**929,606**	589,079

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payables and accruals to third parties	**98,990**	189,428	**78,785**	168,490
Payables and accruals to related parties	**5,410**	1,011	**3,265**	1,011
Advance from third parties for construction contract	**40,755**	137,070	**40,755**	137,070
Advance from related parties for construction contract	**3,600**	17,318	**3,600**	17,318
Advance from third parties for other projects	**76,165**	–	**18,430**	–
Advance from related parties for other projects	**98,256**	95,834	**96,332**	79,903
	323,176	440,661	**241,167**	403,792

The carrying amounts of the other payables and accruals approximate their fair value.

The carrying amounts of the other payables and accruals are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**217,469**	395,655	**189,534**	394,532
USD	**71,627**	20,504	**47,711**	254
HKD	**5,825**	6,656	**40**	9
EURO	**28,255**	17,846	**3,882**	8,997
	323,176	440,661	**241,167**	403,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

28. PROVISIONS FOR WARRANTY AND LEGAL CLAIM

	Group			
	2008	2007		
	Warranty (Note a)	Legal claim	Warranty (Note a)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	**61,652**	1,384	37,258	38,642
Additional/(reversal) provisions	**45,520**	(1,384)	42,720	41,336
Surplus amounts written-back	**(6,842)**	–	(6,042)	(6,042)
Used during the year	**(13,180)**	–	(12,284)	(12,284)
At 31 December	**87,150**	–	61,652	61,652

	Company	
	2008	2007
	Warranty (Note a)	Warranty (Note a)
	RMB'000	*RMB'000*
At 1 January	**61,652**	37,258
Additional provisions	**45,520**	42,720
Surplus amounts written-back	**(6,842)**	(6,042)
Used during the year	**(13,180)**	(12,284)
At 31 December	**87,150**	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. The provision is estimated based on the historical data of the level of repairs and replacement.

29. OTHER (LOSSES)/GAINS – NET

	2008 RMB'000	2007 RMB'000
Net foreign exchange transaction gain/(losses) – net (Note 35)	**6,511**	(25,316)
Forward foreign exchange contracts not qualified for hedge accounting		
– realized gains on derivative financial instruments	**116,666**	9,969
– fair value (losses)/gains on derivative financial instruments	**(130,521)**	282,540
Other financial assets at fair value through profit or loss:		
– realized fair value gains on listing securities	**4,560**	24,116
	(2,784)	291,309

30. EXPENSES BY NATURE

	2008 RMB'000	2007 RMB'000
Change in construction contracts in progress relating to cost recognition variance	**(21,720)**	266,025
Changes in inventories of finished goods and work in progress	**(87,350)**	(180,278)
Depreciation and amortization charges (Notes 6, 7, 8 and 9)	**101,472**	85,911
Impairment for investment properties (Note 7)	**–**	2,052
(Reversal)/provision of impairment for trade receivables	**(380)**	782
(Reversal)/provision of impairment for inventories	**(3,703)**	10,977
Raw materials and consumables used	**4,064,793**	3,438,874
Employee benefit expense, include directors' emoluments (Note 33)	**708,659**	546,466
Provisions for warranty (Note 28)	**45,520**	42,720
Surplus warranty written-back (Note 28)	**(6,842)**	(6,042)
Auditors' remuneration	**3,674**	2,736
Research and development cost	**45,178**	17,442
Subcontract cost	**1,081,266**	608,783
Vessel design fee	**9,476**	36,300
Vessel inspection fee	**57,764**	39,501
Commission and agent fee	**153,553**	156,178
VAT input transfer out	**72,648**	32,490
Taxes and duty	**23,357**	16,027
Other expenses	**173,833**	204,597
Total cost of sales, selling and marketing costs and administrative expenses	**6,421,198**	5,321,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

31. OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Dividend income from available-for-sale financial assets	**4,113**	1,878
Subsidy income for shipbuilding	**40,902**	211,753
Subsidy income for compensations related to income	**25,050**	27,443
Compensation from customer for a contract termination	**–**	45,904
Gain on disposal of available-for-sale financial assets	**7,592**	–
Others	**2,477**	4,607
	80,134	291,585

32. FINANCE INCOME – NET

	2008	2007
	RMB'000	*RMB'000*
Interest income from bank deposit	**291,455**	137,790
Interest income from held-to-maturity financial assets	**–**	4,860
Interest expense for bank borrowings	**(199,162)**	(73,930)
Interest expense for amounts due to suppliers	**(4,034)**	(300)
Other incidental borrowing costs	**(11,783)**	(13,011)
Net foreign exchange gains arising from borrowings (Note 35)	**205,594**	125,136
	282,070	180,545

33. EMPLOYEE BENEFIT EXPENSE

	2008	2007
	RMB'000	*RMB'000*
Wages and salaries	**500,629**	366,522
Pension cost	**63,662**	39,578
Housing fund (Note a)	**36,971**	20,022
Medical insurance and other welfare	**48,344**	37,918
Compensatory housing subsidy (Note b)	**–**	44,369
Other staff costs	**59,053**	38,057
	708,659	546,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

33. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(a) Housing fund

The Company and its subsidiaries in the PRC are obliged to make contribution to a housing fund 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 12% based on the standard salaries of its employees since July 2007.

(b) Compensatory housing subsidy

In year 2007, the Board of Directors of the Company resolved to provide a monetary housing subsidy to qualified staff whose living housing area entitlement is below certain standard. This is one-off welfare to those staff. The Company has paid off the housing subsidy in 2008.

(c) Directors' and supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2008 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	260	–	–	260
Director Mr. Yu Baoshan	67	–	–	67
Director Mr. Han Guangde	1,246	71	15	1,332
Director Mr. Chen Jingqi	1,141	64	15	1,220
Director Mr. Zhong Jian	995	60	15	1,070
Director Mr. Pan Zunxian (iii)	53	–	–	53
Director Mr. Miao Jian	67	–	–	67
Director Mr. Wang Xiaojun	87	–	–	87
Director Mr. Li Xinliang	87	–	–	87
Director Mr. Chen Xin (iii)	67	–	–	67
Director Mr. Peng Xiaolei (iii)	67	–	–	67
Director Mr. Wu Fabo (ii)	20	–	–	20
Director Mr. Bo Miaojin (ii)	20	–	–	20
Director Mr. Li Junfeng (ii)	13	–	–	13
Supervisor Mr. Wang Shusen	165	–	–	165
Supervisor Mr. Liang Mianhong	898	61	15	974
Supervisor Mr. Fu Xiaosi (iii)	53	–	–	53
Supervisor Mr. Ye Weiming	67	–	–	67
Supervisor Mr. Liu Shibai	831	61	15	907
Supervisor Mr. Wang Shiming (ii)	13	–	–	13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

33. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(c) Directors' and supervisors' emoluments (continued)

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:

(i) Other benefits include various subsidies, allowance, housing fund and other social insurance.

(ii) Resigned on 13 May 2008

(iii) Appointed on 13 May 2008.

During 2008, no director of the Company (1) received any emolument from the Group as an inducement to join or upon joining the Group; or (2) received any compensation for loss of office as a director or management of any member of the Group; or (3) waived or agreed to waive any emoluments (2007: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

33. EMPLOYEE BENEFIT EXPENSE (CONTINUED)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: two) individuals during the year are as follows:

	2008	2007
	RMB'000	*RMB'000*
Salary and bonus	**3,062**	2,152
Other benefits	**184**	62
Employer's contribution to pension scheme	**45**	32
	3,291	2,246

The emoluments of the 3 individuals (2007: 2) are fall within the bands from RMB1,000,001 to RMB1,500,000 in 2008.

34. 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.

	2008	2007
	RMB'000	*RMB'000*
Current income tax – the PRC enterprise income tax	**112,893**	293,372
Deferred income tax (Note 25)	**(31,780)**	87,243
	81,113	380,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

34. 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:

	2008	2007
	RMB'000	*RMB'000*
Profit before income tax	**921,286**	1,340,964
Tax calculated at domestic tax rates applicable to profits in the respective areas	**139,769**	438,862
Income not subject to tax	**(1,912)**	(8,936)
Expenses not deductible for tax purposes	**527**	2,028
Tax losses for which no deferred income tax assets was recognized	**146**	1,441
Tax refund in a subsidiary	**(10,238)**	–
Effect of deferred tax – change in PRC statutory tax rate in 2007	**–**	(52,780)
Effect of deferred tax – being entitled to preferential tax rate arising from qualification as New/High Tech Enterprise	**(47,179)**	–
Income tax expense	**81,113**	380,615

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%. Accordingly, 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 effect. In accordance with the advice of the in-charge tax authority, the Company's income tax rate for year 2007 was 33%. Management of the Company has assessed the implication of prior year income tax and considers 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 should be 25% from 1 January 2008.

Pursuant to an approval granted by the local tax authorities, the Company is qualified as Guangdong New/High Tech Enterprise ("NHTE"), and is entitled to the 15% preferential income tax rate from 2008 to 2010.

The weighted average applicable tax rate was 15.2% (2007: 32.7%). The lower rate was caused by the decrease in the income tax rate for the Company from 33% to 15%.

35. NET FOREIGN EXCHANGE GAINS/(LOSSES)

The exchange differences recognized in the consolidated income statement are included as follows:

	2008	2007
	RMB'000	*RMB'000*
Other (losses)/gains – net (Note 29)	**6,511**	(25,316)
Finance income – net (Note 32)	**205,594**	125,136
	212,105	99,820

36. 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 RMB775,328,000 (2007: RMB916,039,000).

37. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB820,396,000 (2007: RMB938,560,000) and the weighted average number of 494,677,580 (2007: 494,677,580) ordinary shares in issue during the year.

38. DIVIDENDS

A dividend in respect of the year ended 31 December 2008 of RMB0.45 per share, amounting to a total amount of RMB222,605,000 is to be proposed at the Annual General Meeting of 2009. These financial statements do not reflect this dividend payable.

	Group and Company	
	2008	2007
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.45 (2007: RMB0.50) per ordinary share	**222,605**	247,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

39. CASH GENERATED/(USED IN) FROM OPERATIONS

	2008 RMB'000	2007 RMB'000
Profit for the year	**840,173**	960,349
Adjustments for:		
– Income taxation expense (Note 34)	**81,113**	380,615
– Depreciation and amortization (Note 30)	**101,472**	85,911
– Impairment of investment properties (Note 30)	**–**	2,052
– Loss on sale of property, plant and equipment, investment properties and land use rights and leasehold land (Note (a))	**6,392**	8,504
– Reversal of provision for amount due from non-bank institution	**(388)**	–
– Fair value losses/(gains) on derivative financial instruments (Note 29)	**130,521**	(282,540)
– Interest income from bank deposits (Note 32)	**(291,455)**	(137,790)
– Dividend income from available-for-sale financial assets (Note 31)	**(4,113)**	(1,878)
– Interest expense	**199,162**	74,284
– Interest income from held-to-maturity financial assets (Note 32)	**–**	(4,860)
– Gain on disposal of available-for-sale financial assets (Note 31)	**(7,592)**	–
– Share of profit from associates (Note 11)	**(3,811)**	(1,489)
– Exchange gains on borrowings (Note 32)	**(205,594)**	(125,136)
– Exchange losses on cash and cash equivalent	**5,349**	3,654
Changes in working capital:		
– Inventories	**(107,260)**	(306,288)
– Construction contracts in progress	**(646,579)**	1,322,440
– Trade and other receivables, restricted cash, and term deposits with initial term of over three months	**(280,394)**	(3,848,695)
– Trade and other payables and accruals, provision for warranties and legal claims and current income tax liability	**254,729**	537,449
Cash generated/(used in) from operations	**71,725**	(1,333,418)

(a) In the cash flow statement, proceeds from sale of property, plant and equipment, investment properties and land use rights and leasehold land comprise:

	2008 RMB'000	2007 RMB'000
Net book amount	**9,655**	9,807
Loss on sale of property, plant and equipment, investment properties and land use right and leasehold land	**(6,392)**	(8,504)
Proceeds from sale of property, plant and equipment, investment properties and land use right and leasehold land	**3,263**	1,303

40. CAPITAL COMMITMENTS

Capital expenditure of the Group and Company at the balance sheet date but not yet incurred are as follows:

	2008	2007
	RMB'000	*RMB'000*
Contracted but not provided for	**102,381**	44,851
Authorized but not contracted for	**31,944**	148,739
Total commitments of property, plant and equipment	**134,325**	193,590

41. SIGNIFICANT RELATED-PARTY TRANSACTIONS

CSSC, the immediate shareholder of the Company which owns 35.71% (2007: 35.71%) of the Company's shares, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CSSC group companies, directly or indirectly controlled by the PRC government are also 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

	2008	2007
	RMB'000	*RMB'000*
Sales of goods		
– to companies controlled by CSSC (Note a)	**165,416**	69,339
– to other state-controlled enterprises (Note a)	**1,103,503**	1,414,280
	1,268,919	1,483,619
Sales of services		
– to companies controlled by CSSC (Note b)	**83,367**	59,666

Notes:

(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%.

41. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(ii) Purchases of goods and services

	2008 RMB'000	2007 RMB'000
Purchases of goods:		
– from companies controlled by CSSC (Note a)	**441,960**	186,349
– from other state-controlled enterprises (Note a)	**1,488,776**	1,344,693
	1,930,736	1,531,042
Purchase of services:		
– from companies controlled by CSSC (Note b)	**53,049**	43,118
– from other state-controlled enterprises (Note a)	**33,967**	14,118
	87,016	57,236

Notes:

(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

	2008 RMB'000	2007 RMB'000
Vessel sales commissions payable:		
– to companies controlled by CSSC (Note a)	**51,024**	43,623
– to other state-controlled enterprises (Note b)	**10,401**	1,780
Other expenses payable:		
– to companies controlled by CSSC (Note c)	**21,452**	22,972
Interest expense payable:		
– to state-controlled banks (Note d)	**160,237**	35,444
	243,114	103,819

41. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(iii) Payment of expenses and other charges (continued)

Notes:

(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 amounting to RMB7,823,000 (2007: RMB7,617,000) 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 2008 and 2007 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

	2008	2007
	RMB'000	*RMB'000*
Interest income from held-to-maturity financial assets		
– from state-controlled banks (Note a)	**–**	4,860
Interest income from bank balances and cash		
– from state-controlled banks (Note a)	**227,774**	85,296
Realized income from forward foreign exchange contracts		
– from state-controlled banks (Note a)	**97,668**	8,020
	325,442	98,176

Note:

(a) Interest income and other income are calculated at market price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared in accordance with HKFRS)

41. SIGNIFICANT RELATED-PARTY TRANSACTIONS (CONTINUED)

(v) Key management compensation

	2008	2007
	RMB'000	*RMB'000*
Emolument, salaries and other short-term employee benefits	**11,765**	11,775
Post-employment benefits	**150**	152
	11,915	11,927

(vi) Year-end balances

	2008	2007
	RMB'000	*RMB'000*
Receivables from related parties (Note 17 & Note 18):		
– CSSC and companies controlled by CSSC	**222,520**	333,808
– other state-controlled enterprises	**378,905**	203,612
	601,425	537,420
Payables to related parties (Note 26 & Note 27):		
– CSSC and companies controlled by CSSC	**175,867**	193,404
– other state-controlled enterprises	**251,998**	125,175
	427,865	318,579
Other financial instruments		
Financial derivatives – forward foreign exchange contracts		
– with state-controlled banks	**142,675**	249,199
Bank balances and cash		
– with financial institution controlled by CSSC	**18,674**	26,881
– with state-controlled banks	**4,705,444**	5,759,920
Borrowings		
– with state-controlled banks	**928,098**	406,403

The receivables from related parties are unsecured in nature and bear no interest. The payables to related parties bear no interest.

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", 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.