



中船海洋与防务装备股份有限公司

CSSC OFFSHORE & MARINE ENGINEERING (GROUP) COMPANY LIMITED  
H Stock Code: 00317 A Stock Code: 600685

**2018**

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**Annual Report**



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- I. **The Board, the Supervisory Committee and the Directors, Supervisors and senior management of the Company warrant that there are no false statements, misleading information or material omissions in this annual report and are jointly and severally responsible for the truthfulness, accuracy and completeness of the contents of this quarterly report.**
- II. **All Directors of the Company attended the 12th meeting of the ninth session of the Board held on 22 March 2019, of which Mr. Chen Zhongqian, executive Director, appointed Mr. Chen Ji, executive Director, to attend and vote on his behalf. The annual report for 2018 was unanimously approved at the meeting.**
- III. **ShineWing has audited this annual financial report and issued standard auditors' report without qualifying opinions.**
- IV. **Han Guangde, the person in charge of the Company, Hou Zengquan, the person in charge of accounting, and Xie Weihong, the head of accounting department (accountant in charge), have declared that they guarantee the truthfulness, accuracy and completeness of the financial statements contained in this annual report.**
- V. **Profit distribution proposal or proposal for capitalisation of capital reserves of the Company for the Reporting Period considered by the Board**

In accordance with the section (3)4 of article 215 of the Articles of Association of CSSC Offshore & Marine Engineering (Group) Company Limited relating to the profit distribution policy, in view of the net profit attributable to shareholders of the Company for 2018 being negative, the Company will not make profit distribution or issue new bonus shares by capitalisation of capital reserve for 2018. The profit distribution proposal is subject to the approval at the 2018 annual general meeting.
- VI. **This annual report contains forward-looking statements that involve future plans and development strategies which do not constitute a commitment by the Company to its investors. Investors should be aware of the investment risks.**
- VII. **No controlling shareholder or related party of the Company has misappropriated funds of the Company and no guarantee has been provided by the Company in violation of the required decision-making procedures.**
- VIII. **This annual report is prepared in both Chinese and English. In case of any discrepancy, the Chinese version shall prevail.**

# SECTION I DEFINITIONS AND IMPORTANT RISK WARNINGS

## I. DEFINITIONS

Unless otherwise stated in context, the following terms should have the following meanings in this report:

### Definitions of frequently used terms

DWT (deadweight tonnage)	deadweight capacity with ton as unit
CSSC	China State Shipbuilding Corporation Limited
Company	CSSC Offshore & Marine Engineering (Group) Company Limited
Group	CSSC Offshore & Marine Engineering (Group) Company Limited and its subsidiaries
CSSC (Hong Kong) Shipping	CSSC (Hong Kong) Shipping Company Limited, an overseas wholly-owned subsidiary of China State Shipbuilding Corporation Limited
CSSC Finance	CSSC Finance Company Limited, a non-banking financial institution wholly-owned by China State Shipbuilding Corporation Limited
CSSC Holdings	China CSSC Holdings Limited, a listed company controlled by China State Shipbuilding Corporation Limited
CSSC International	CSSC International Holding Company Limited, an overseas wholly-owned subsidiary of China State Shipbuilding Corporation Limited
Huangpu Wenchong	CSSC Huangpu Wenchong Shipbuilding Company Limited, a 69.02%-owned subsidiary of the Company during the Reporting Period
GSI	Guangzhou Shipyard International Company Limited, a 76.42%-owned subsidiary of the Company during the Reporting Period
Chengxi Yangzhou	CSSC Chengxi Yangzhou Shipbuilding Company Limited, a company owned as to 49% by the Company
Wenchong Shipyard	Guangzhou Wenchong Shipyard Co., Ltd, a wholly-owned subsidiary of Huangpu Wenchong
Wenchong Dockyard	Guangzhou Wenchong Dockyard Co., Ltd., a wholly-owned subsidiary of GSI
Zhongshan GSI	Zhongshan GSI Marine Engineering Company Limited, a wholly-owned subsidiary of GSI
United Steel	Guangzhou United Steel Structures Limited, a wholly-owned subsidiary of GSI
Wenchuan Heavy Industrial	Guangzhou Wenchuan Heavy Industrial Co., Ltd., a wholly-owned subsidiary of Huangpu Wenchong
ShineWing	ShineWing Certified Public Accountants LLP
SSE	the Shanghai Stock Exchange
Stock Exchange	The Stock Exchange of Hong Kong Limited
PRC	The Peoples' Republic of China

## II. IMPORTANT RISK WARNINGS

The relevant risks which might exist have been described in this report in details, please refer to Section IV "Report of the Board" for the risks that the Company might face.

## SECTION II COMPANY OVERVIEW AND MAJOR FINANCIAL INDICATORS

### I. INFORMATION OF THE COMPANY

Chinese name of the Company	中船海洋與防務裝備股份有限公司
Chinese abbreviation	中船防務
English name of the Company	CSSC OFFSHORE & MARINE ENGINEERING(GROUP)COMPANY LIMITED
English abbreviation	COMEC
Legal representative of the Company	Han Guangde

### II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to the Board	Authorised Securities Representative
Name	Li Zhidong	Yu Wenbo
Contact address	40 South Fangcun Main Road, Liwan District, Guangzhou City, the People's Republic of China	40 South Fangcun Main Road, Liwan District, Guangzhou City, the People's Republic of China
Telephone	020-81636688	020-81636688
Fax	020-81896411	020-81896411
E-mail	lizd@comec.cssc.net.cn	yuwb@comec.cssc.net.cn

### III. GENERAL INFORMATION

Registered address of the Company	40 South Fangcun Main Road, Liwan District, Guangzhou City, the People's Republic of China
Postal code	510382
Office address of the Company	40 South Fangcun Main Road, Liwan District, Guangzhou City, the People's Republic of China
Postal code	510382
Website	comec.cssc.net.cn
E-mail	comec@comec.cssc.net.cn

### IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Name of media designated for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website designated by the CSRC for publishing annual reports	www.sse.com.cn
HKEXnews website of the Stock Exchange	www.hkexnews.hk
Place for inspection of the annual report of the Company	Office of the Board

### V. INFORMATION ON THE COMPANY'S SHARES

#### Information on the Company's shares

Class of shares	Stock exchange on which the shares are listed	Stock abbreviation	Stock code	Stock abbreviation before change
A Shares	Shanghai Stock Exchange	COMEC	600685	GSI
H Shares	The Stock Exchange of Hong Kong Limited	COMEC	00317	GUANGZHOU SHIP

## SECTION II COMPANY OVERVIEW AND MAJOR FINANCIAL INDICATORS

### VI. OTHER RELATED INFORMATION

Accounting firm engaged by the Company (domestic)	Name Office address Names of signing accountant	ShineWing 8/F, Block A, Fu Hua Mansion No. 8 Chao Yang Men Bei Da Jie, Dong Cheng District, Beijing, the PRC Chen Gang, Song Yong
Accounting firm engaged by the Company (overseas)	Name Office address Names of signing accountant	ShineWing 8/F, Block A, Fu Hua Mansion No. 8 Chao Yang Men Bei Da Jie, Dong Cheng District, Beijing, the PRC Chen Gang, Song Yong
Financial advisor performing continuous monitoring and guidance duties during the Reporting Period	Name Office address Signing officers of financial advisors Period of continuous monitoring and guidance	CITIC Securities Company Limited A/F, Merchants Bank Tower, No. 7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province Zhu Yexin, He Yang From 1 January 2018 to 31 December 2018
Legal adviser appointed by the Company (domestic)	Name Office address	ETR Law Firm 29/F, CTF Finance Centre (Guangzhou East Tower), 6 Zhujiang Road East, Zhujiang New Town, Guangzhou
Legal adviser appointed by the Company (Hongkong)	Name Office address	Herbert Smith Freehills 23/F, Gloucester Tower, 15 Queen's Road Central, Hong Kong
Share registrar and transfer office	A Shares Office address H Shares Office address	China Securities Depository and Clearing Corporation Limited Shanghai Branch 3/F, China Insurance Building, 166 Lujiazui East Road, Pudong New Area, Shanghai Hong Kong Registrars Limited 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

### VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST THREE YEARS

#### (i) Major accounting data

Unit: Yuan Currency: RMB

Major accounting data	2018	2017		Change (%)	2016	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Operating income	19,213,596,394.03	22,920,207,488.39	22,313,381,938.04	-16.17	23,938,800,312.32	23,349,604,897.69
Net profit attributable to shareholders of the Company	-1,869,014,160.08	-50,507,587.08	87,796,591.29	Not applicable	-84,356,731.59	71,224,250.43
Net profit attributable to shareholders of the Company after deduction of non-recurring gains and losses	-1,757,531,417.38	-1,036,245,149.98	-1,036,245,149.98	Not applicable	-95,996,520.60	-95,996,520.60
Net cash flows from operating activities	-1,544,910,134.23	-811,263,061.73	-847,216,894.16	Not applicable	-3,574,791,407.72	-3,761,073,635.17
	At the end of 2018	At the end of 2017		Change (%)	At the end of 2016	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Net assets attributable to shareholders of the Company	9,727,437,689.21	10,809,092,281.78	10,414,542,658.54	-10.01	10,880,779,928.54	10,347,803,098.94
Total assets	47,475,344,086.37	46,753,104,355.82	44,157,662,027.63	1.54	48,752,726,789.26	46,268,585,829.63

## SECTION II COMPANY OVERVIEW AND MAJOR FINANCIAL INDICATORS

### (ii) Key financial indicators

Key financial indicators	2018	2017		Change (%)	2016	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Basic earnings per share (RMB/share)	-1.3223	-0.0357	0.0621	Not applicable	-0.0597	0.0504
Diluted earnings per share (RMB/share)	-1.3223	-0.0357	0.0621	Not applicable	-0.0597	0.0504
Basic earnings per share after deduction of non-recurring gains and losses (RMB/share)	-1.2434	-0.7331	-0.7331	Not applicable	-0.0679	-0.0679
Weighted average return on equity (%)	-17.23	-0.47	0.84	Decrease of 16.76 percentage points	-0.79	0.69
Weighted average return on equity after deduction of non-recurring gains and losses (%)	-16.64	-9.97	-9.97	Decrease of 6.67 percentage points	-0.93	-0.93

**Explanation on the major accounting data and financial indicators of the Company for the past three years as at the end of the Reporting Period**

- During the Reporting Period, GSI, a subsidiary of the Company, acquired 100% equity interest in Wenchong Dockyard and included Wenchong Dockyard in the scope of combination. Such combination falls under business combination under common control. In preparing the consolidated financial statements, retrospective treatments were applied to the financial statements for the comparable periods in accordance with the accounting principles for business combination under common control.
- For business combination under common control during the Reporting Period, in calculating weighted average returns on net assets, net assets of the acquiree were weighted starting from the beginning of the Reporting Period; in calculating weighted average returns on net assets after deduction of exceptional items, net assets of the acquiree were weighted starting from the next month of the date of combination. In calculating weighted average returns on equity during the comparative period, net profit and net assets of the acquiree were weighted starting from the beginning of the comparative period; in calculating weighted average returns on equity after deduction of exceptional items during comparative period, net assets of the acquiree shall not be weighted (weighting is zero).

### VIII. MAJOR FINANCIAL DATA FOR 2018 BY QUARTER

Unit: Yuan Currency: RMB

	First quarter (From January to March)	Second quarter (From April to June)	Third quarter (From July to September)	Fourth quarter (From October to December)
Operating income	3,092,596,293.75	5,372,230,394.80	3,633,675,737.80	7,115,093,967.68
Net profit attributable to shareholders of the Company	-34,418,212.89	-336,123,914.67	-319,279,073.97	-1,179,192,958.55
Net profit attributable to shareholders of the Company, net of non-recurring gains and losses	-648,992,617.82	86,859,399.72	-128,255,380.20	-1,067,142,819.07
Net cash flows from operating activities	-1,840,563,072.84	-675,855,356.34	361,303,732.23	610,204,562.72

#### Description of differences between quarterly data and data in disclosed regular reports

During the Reporting Period, GSI, a subsidiary of the Company, acquired 100% equity interest in Wenchong Dockyard and included Wenchong Dockyard in the scope of combination. Such combination falls under business combination under common control. Adjustments were made to the major financial data by quarter for previous periods in accordance with the accounting principles for business combination under common control.

## SECTION II COMPANY OVERVIEW AND MAJOR FINANCIAL INDICATORS

### IX. EXTRAORDINARY ITEMS AND THEIR AMOUNTS

Unit: Yuan Currency: RMB

Extraordinary items	Amount for 2018	Note (where applicable)	Amount for 2017	Amount for 2016
Gain or loss on disposal of non-current assets	-4,393,192.94		-2,270,814.27	-8,419,716.70
Tax relief and reduction with approval exceeding authority or without formal approval or of non-recurring nature	-		-	-
Government grants included in current profit or loss, other than on-going government grants which are closely related to the Company's normal operation, meet the requirements of government policies and are subject to certain limits and conditions	83,710,709.80		144,268,243.87	125,739,665.59
Capital occupation fee received from non-financial entities included in current profit or loss	-		-	-
Gain from the excess of the fair value of the identifiable net assets of investee companies on acquisition of the investment over the cost of investment in the Company's subsidiaries, associates and joint ventures	-		-	-
Gain or loss on exchange of non-monetary assets	-		-	-
Gain or loss on entrusted investments or assets under management	36,316,916.16		64,625,451.49	75,873,758.87
Provision for impairment on assets due to force majeure events, such as natural disasters			-	-
Gain or loss on debt restructuring			-	-
Corporate restructuring costs, such as employee redundancy pay and integration costs			-	-
Gain or loss on transactions with obviously unfair transaction price for amount which exceeds fair value			-	-
Net gains or losses of subsidiaries for the current period from the beginning of the period to the date of combination arising from business combination under common control	-190,256,411.61		-138,304,178.37	-155,580,982.02
Gain or loss on other contingencies which are not related to the Company's normal operations		-	-	
Gain or loss on changes in fair value of financial assets held-for-trading and financial liabilities held-for-trading, and investment income from disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets, except for effective hedging transactions that are closely related to the Company's normal operation	/		11,450,439.60	14,222,799.15
Gain or loss on changes in fair value of financial assets held-for-trading, derivative financial assets, financial liabilities held-for-trading and derivative financial liabilities, and investment income from disposal of financial assets held-for-trading, derivative financial assets, financial liabilities held-for-trading, derivative financial liabilities and other debt investments, except for effective hedging transactions that are closely related to the Company's normal operation	-604,509,137.37			
Reversal of the provision for impairment of receivables which are tested individually for impairment				106,000.00
Reversal of the provision for impairment of receivables and contract assets which are tested individually for impairment			-	-
Gain or loss on entrusted loans			-	-
Gain or loss arising from changes in fair value of investment properties under fair value model on subsequent measurement			-	-
Effect of one-off adjustment to current profit or loss according to the requirements of tax and accounting laws and regulations on current profit or loss			-	-
Entrusted fee income from entrusted operations			-	-
Other non-operating income and expenses apart from the aforesaid items	490,568,264.39		849,352,673.89	-60,166,333.22
Other gain or loss items meeting the definition of non-recurring gains or losses			74,229,303.45	26,896,200.00
Effect of minority interests	48,846,860.71		-688,182.25	-241,527.82
Effect of income tax	28,233,248.16		-16,925,374.51	-6,790,074.84
Total	-111,482,742.70	-	985,737,562.90	11,639,789.01



## SECTION II COMPANY OVERVIEW AND MAJOR FINANCIAL INDICATORS

### X. ITEMS MEASURED AT FAIR VALUE

Unit: Yuan Currency: RMB

Name of item	Beginning balance	Ending balance	Change	Amount of impact on profit for the period
1. Financial assets held-for-trading	6,602,255.91	11,685,155.01	5,082,899.10	-604,509,137.37
2. Financial liabilities held-for-trading	-3,366,294.31	-431,894,056.78	-428,527,762.47	
3. Investments in other equity instruments	44,726,104.08	63,403,225.93	18,677,121.85	945,450.54
<b>Total</b>	<b>47,962,065.68</b>	<b>-356,805,675.84</b>	<b>-404,767,741.52</b>	<b>-603,563,686.83</b>

Note: Amount of impact on profit for the year includes gain or loss on change in fair value and investment income.

### I. PRINCIPAL ACTIVITIES, BUSINESS MODEL AND INDUSTRY OVERVIEW OF THE COMPANY DURING THE REPORTING PERIOD

#### (1) Principal activities

COMEC is a large comprehensive marine and defense equipment enterprise group incorporating four sectors of maritime equipment being maritime defense equipment, maritime transport equipment, maritime development equipment and maritime expedition equipment. Currently, the Company has two major subsidiaries, namely GSI and Huangpu Wenchong, and their principal activities cover four major segments including defense equipment, shipbuilding, offshore engineering and non-ship business, with principal products of shipbuilding and marine products including military ships, special supporting ships, public service ships, oil tankers, feeder container ships, ro-ro passenger ships, semi-submerged ships and polar module carriers, offshore platform, as well as non-ship products including steel structures and sets of electromechanical equipment. During the Reporting Period, the Group's principal activities have not been changed.

#### (2) Business model

As a holding company, COMEC currently focuses on asset operation and investment management. Its subsidiaries conduct independent production and operation and are engaged in manufacturing and providing customers with high-quality products through research and development of ships, seeking orders and implementing customised order production. The Company is mainly engaged in assembly and construction in the shipbuilding and offshore engineering industrial chain. It has extended to shipbuilding and offshore supporting products at the front end of the industrial chain and full life guarantee at the back end of the industrial chain. During the Reporting Period, the Group's business model has not been changed.

#### (3) Industry overview

The shipbuilding industry in which the Group operates is highly cyclical and is mainly subject to factors including the global economic and trading trend, cyclical fluctuation in the shipping market and international raw oil prices. In recent years, with the downturn and in-depth adjustments in the international shipbuilding market, the PRC shipbuilding industry took measures such as active reduction of excessive production capacity and acceleration of industrial optimisation and upgrading and has been stabilising and pushing forward the development of the global shipbuilding industry. For details of the shipbuilding industry during the Reporting Period, please refer to section IV of this report.

The Group is the most important production and support facility of military ships, special supporting ships and public service ships of the PRC navy in southern China, and the largest and strongest production base of dredging engineering ships and feeder containerhips in the PRC in terms of civil products. As for full range of oil tanker products, the Group occupies the leading position in the PRC and is at the first-class level in the world. Its ro-ro passenger ships, semi-submerged ships and polar module carriers enjoy great reputation in the shipbuilding and high-end building steel structure market.

#### (4) Production capacity

The Group's production capacity is mainly reflected in the core shipbuilding business. In 2018, the Group's designed shipbuilding capacity was 4,500,000 DWT, representing a decrease of 500,000 DWT from 2017, mainly due to the completion of relocation of the Liwan Plant. The completed ships were mainly military ships, public service ships, middle- and small-sized oil tankers, ro-ro passenger ships, dredgers, feeder container ships and offshore engineering platform ships, and the Company's existing shipbuilding capacity had been effectively utilised.

### II. EXPLANATION FOR MATERIAL CHANGES IN MAJOR ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

1. During the Reporting Period, GSI and Huangpu Wenchong, both subsidiaries of the Company, implemented market-based debt-to-equity conversion through introducing new shareholders. The capital increase was completed on 24 February 2018, following which their registered capital was RMB8,556,970,805 and RMB2,859,897,696, respectively. For details, please refer to the announcement dated 25 January 2018 on the increase of capital of certain subsidiaries of CSSC Offshore & Marine Engineering (Group) Company Limited and the announcement dated 12 February 2018 on the poll results of the first extraordinary general meeting of 2018 of CSSC Offshore & Marine Engineering (Group) Company Limited published by the Company on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).
2. During the Reporting Period, GSI, a subsidiary of the Company, acquired 100% equity interest in Wenchong Dockyard in cash at a consideration of RMB498,290,590.06. The procedures for industrial and commercial registration in respect of the equity transfer were completed on 24 December 2018. For details, please refer to the announcement and the circular of COMEC dated 19 October 2018 and 14 November 2018, respectively, on the connected transaction in relation to acquisition of assets in cash by a subsidiary and the announcement of COMEC dated 5 December 2018 on the poll results of the second extraordinary general meeting of 2018 published by the Company on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

### III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

- (1) **Product advantage.** COMEC is a large comprehensive marine and defense equipment enterprise group incorporating four sectors of maritime equipment being maritime defense equipment, maritime transport equipment, maritime development equipment and maritime expedition equipment. It is leading in military ship, civil ship and offshore engineering business. By adhering to the principle of continuous innovation and quality first, the Group continued to expand and grow. Led by the government and with products with competitiveness strengths as a platform, the Group continued to improve and optimise ship models, improve product performance and better met the needs of customers. In addition, it extended product offering based on its products with competitive strengths to create product series in order to actively guide the market and deeply explore and meet customers' needs.
- (2) **Technical advantage.** The Group has three national enterprise technical centres, a postdoctoral workstation, a national measurement centre and 1,788 designers. Through continuous research and development and independent innovations, the Group overcame difficulties in advanced technologies and conducted research and development of multiple types of new green, energy-saving and environment-friendly ships such as like oil tanker, chemical cargo ship, ro-ro ship, ro-ro passenger ship, semi-submerged ship, pipe laying and lifting ship and large rescue ship. As at the end of 2018, the Group owned 1,183 valid patents and developed ships which rank No.1 in several high-tech areas including the world's first smart public service ship, the world's first polar heavy-load deck ship, the largest semi-submerged ship in Asia and the first luxury ro-ro passenger ship in the PRC. Several technical indicators of the Group are leading in the industry, and the Group's research and development, design and manufacturing technologies of ship products have reached advanced level in the world and high level of self-development in shipbuilding and have provided strong support for the expansion of operation of the Company.
- (3) **Brand advantage.** In terms of military products, the Group is the most important production and support facility of military ships and special supporting ships of the PRC navy in southern China, the largest manufacturer of military auxiliary ships in the PRC, and an important public service ship manufacturer in the PRC. For civil products, the Group enjoys great reputation. GSI is known for manufacturing ships such as handy-size tankers, semi-submerged ships and ro-ro passenger ships, and has developed polar module carriers and polar condensate tankers based on its semi-submerged ships, which can sail through icy area by breaking ice. Huangpu Wenchong occupies leading position in terms of multi-purpose deepwater survey ships, feeder containerships and dredgers. The Group's steel structure brand is well-known in the world. It has undertaken major projects including the "City of Dreams" project in Macau and the Hong Kong-Zhuhai-Macau Bridge and has established a good reputation in the industry.
- (4) **Market advantage.** The Group's principal business and products have high market share in domestic and overseas markets, which has laid a solid foundation in the market. In particular, it occupies the leading position in the world in terms of tankers, semi-submerged ships, ro-ro passenger ships, feeder containerships and dredging engineering ships and the leading position in the PRC in terms of military ships, public service ships, over 1,000-ton maritime police ship series and a new generation of large ocean rescue ships.

Such strengths have contributed to the sustainable development of the Company. In addition, against the background of accelerated industry upgrading in the shipbuilding industry and elimination of backward production capacity, the Company will focus on continuously developing core competitiveness including research and development capability and building technologies, explore new growth drivers, improve profitability and provide higher returns to shareholders.

### I. MANAGEMENT'S DISCUSSION AND ANALYSIS

#### 1. The results of the business work are remarkable, and the secured orders are greatly increased

In 2018, against the background of continuing poor performance of global shipbuilding industry, fierce competition among domestic and overseas shipbuilding enterprises and low profit earning capacity of shipbuilding enterprises, the Company implemented high quality development strategies, and actively made use of its own strengths and took the initiative to adopt corresponding measures. It adhered to the principle of "military products first", strengthened its operations and management of civil products, focused on improving productivity, which has enabled the Company to record growth of operational orders and delivery while maintaining stability in the doldrums for the industry and ensured the normal and sustainable development of the Group.

In 2018, the Group captured the opportunities of the recovery of orders in the shipbuilding market at the beginning of the year, fully exerted its core competitiveness, and achieved certain results in the fields of a number of sub-segments in ro-ro passenger ships, oil tankers, public service ships, scientific exploration ships, etc. The Company achieved operational orders of RMB24,129 million, representing a year-on-year increase of 78.02%, and secured orders of 71 ships, which accounted for a substantial increase compared to 43 ships in 2017, and exceeded the annual plan. The Group has successfully received high-tech vessels such as 5,000-ton integrated resupply transport vessels, 10,000-ton sea-patrol vessels and new geophysical comprehensive scientific research vessels.

In face of the sluggish market environment, the Group's entities strived to overcome a series of difficulties such as unbalanced production and tight production cycle. The entities focused on strengthening production process control, vigorously promoted the construction of ships and defended the markets of key products so as to ensure the successful delivery of ships. This resulted in the successful delivery of a series of cutting-edge ships, such as the Gotland ro-ro passenger ship, condensate tanker, submarine pipeline inspection vessel and 1,600-ton deep submerged wind power engineering ship, etc.

#### 2. Practicing supply-side reform, reducing gearing ratio

In order to implement the government's policies relating to the supply-side structural reform of "cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening areas of weakness" and promote the reform of state-owned enterprises, combined with the actual situation of the Company, the Company carried out market-oriented debt-to-equity conversion projects in respect of certain equity interests in GSI and Huangpu Wenchong since 27 September 2017. During the Reporting Period, the capital increase of the market-oriented debt-to-equity conversion project has been completed, and 9 investors including Huarong Ruitong Equity Investment Management Co., Ltd. have increased their capital by contributing RMB2.4 billion to GSI and Huangpu Wenchong, a total increase of RMB4.8 billion. COMEC's consolidated gearing ratio has improved, effectively reducing financial risks, optimizing the capital structure and enhancing the strength of enterprises, which is in line with the government's policy of deleveraging, reducing corporate costs on supply side structural reforms. At present, the work related to the issuance of shares is in progress.

#### 3. Strengthening the integration of ship production and capacity in the south of China and expanding the types of business

Against the background of the completion of relocation of the Company's entity, GSI, from Liwan plant area to Nansha Longxue shipbuilding facility, and further improvement of its production, operation and management, during the Reporting Period, GSI completed the purchase of 100% equity interests of Wenchong Dockyard project, effectively alleviating the actual shortage of its wharf resources, which was conducive to improving production efficiency. At the same time, through the synergy for production resources and product structure, efforts in expanding of ship maintenance and the addition and modification business, and modularizing non-ship businesses and the environmental protection business, will further enhance the Company's market competitiveness.

## II. PRINCIPAL OPERATION DURING THE REPORTING PERIOD

During the Reporting Period, the Group completed 52 ships/2,034,000 DWT, and realised operating income of RMB19.214 billion, representing a 16.17% year-on-year decrease, total profit of RMB-2.46 billion, representing a year-on-year decrease of RMB2.482 billion, net profit attributable to the shareholders of the Company of RMB-1.869 billion.

### (i) Analysis of principal business

Table of movement analysis on the related items in income statement and cash flow statement

Unit: Yuan Currency: RMB

Item	Current period	Corresponding period of last year	Change (%)
Operating income	19,213,596,394.03	22,920,207,488.39	-16.17
Operating cost	19,262,469,746.28	21,501,523,820.76	-10.41
Selling expenses	86,255,214.60	187,801,076.38	-54.07
Administrative expenses	892,844,116.09	953,865,433.81	-6.40
Research and development expenses	497,562,636.51	408,186,557.71	21.90
Finance cost	118,473,501.83	625,785,077.16	-81.07
Net cash flows from operating activities	-1,544,910,134.23	-811,263,061.73	Not applicable
Net cash flows from investing activities	-1,792,361,694.28	2,072,753,688.11	-186.47
Net cash flows from financing activities	180,100,901.84	591,477,078.06	-69.55
Research and development expense	665,830,255.36	636,897,127.00	4.54
Loss on impairment of assets	677,141,653.24	203,038,462.10	233.50
Credit impairment loss	39,371,984.45	-	Not applicable
Other income	24,448,764.78	61,421,306.20	-60.19
Investment income	-123,820,055.10	147,443,555.81	-183.98
Gain on change in fair value	-423,444,863.37	3,235,961.60	-13,185.60
Gain on disposal of assets	-1,303,386.17	-	Not applicable
Non-operating income	553,503,531.77	864,146,362.48	-35.95
Non-operating expenses	63,787,435.36	12,968,552.72	391.86
Income tax expense	13,924,817.73	67,842,358.71	-79.47

## SECTION IV REPORT OF THE BOARD

### 1. Analysis of income and cost

The Group's operating income is mainly derived from shipbuilding products, offshore engineering products, ship maintenance and modification, steel structure engineering, electromechanical products and others. For details of the policies and methods for revenue recognition, please refer to the notes to financial statements.

During the Reporting Period, GSI completed the acquisition of 100% equity interests in Wenchong Dockyard, and expanded its ship maintenance, retrofitting and modification, modular non-ship business and environmental protection business. The acquisition constituted business combination under common control, and comparative figures for the previous year had been adjusted accordingly.

(1). Principal business by industry, by product and by region

Unit: Yuan Currency: RMB

#### Principal business by industry

By industry	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income over last year (%)	Increase/decrease in operating costs over last year (%)	Increase/decrease in gross profit margin over last year (%)
Shipbuilding industry	19,002,635,540.52	19,149,600,183.64	-0.77	-16.20	-10.18	Decrease of 6.76 percentage points

#### Principal businesses by product

By product	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income over last year (%)	Increase/decrease in operating costs over last year (%)	Increase/decrease in gross profit margin over last year (%)
(i) Shipbuilding products	15,074,500,138.56	15,211,331,860.89	-0.91	-16.34	-9.34	Decrease of 7.80 percentage points
1. Bulk carriers	838,481,272.71	802,765,072.63	4.26	16.77	11.85	Increase of 4.21 percentage points
2. Oil tankers	2,914,177,181.01	3,103,672,217.45	-6.50	-26.74	-17.94	Decrease of 11.41 percentage points
3. Containerships	1,948,012,116.47	1,862,609,466.00	4.38	28.33	36.43	Decrease of 5.67 percentage points
4. Special ships and others	9,373,829,568.37	9,442,285,104.81	-0.73	-20.60	-13.48	Decrease of 8.29 percentage points
(ii) Offshore engineering products	1,431,752,144.31	1,585,077,615.70	-10.71	-33.39	-30.37	Decrease of 4.80 percentage points
(iii) Ship maintenance and modification	907,948,316.47	791,950,320.34	12.78	6.97	-0.89	Increase of 6.92 percentage points
(iv) Steel structure engineering	724,839,574.41	679,623,834.29	6.24	-28.19	-23.33	Decrease of 5.94 percentage points
(v) Electromechanical products and others	863,595,366.77	881,616,552.42	-2.09	33.10	52.29	Decrease of 12.86 percentage points

## Principal business by region

By region	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income over last year (%)	Increase/decrease in operating costs over last year (%)	Increase/decrease in gross profit margin over last year (%)
China (including Hong Kong, Macau and Taiwan)	11,334,631,302.20	11,319,324,405.91	0.14	-25.83	-20.02	Decrease of 7.25 percentage points
Other regions in Asia	639,604,362.49	620,733,098.94	2.95	-69.59	-68.43	Decrease of 3.56 percentage points
Europe	3,945,030,525.19	4,196,153,405.24	-6.37	0.75	8.69	Decrease of 7.76 percentage points
Oceania	682,924,110.56	685,780,641.07	-0.42	85.73	73.36	Increase of 7.16 percentage points
North America	1,351,863,663.92	1,250,418,744.55	7.50	72.20	58.81	Increase of 7.80 percentage points
Africa	890,489,400.31	924,798,353.00	-3.85	1,217.52	3,004.26	Decrease of 59.78 percentage points
South America	158,092,175.85	152,391,534.93	3.61	1.51	20.16	Decrease of 14.96 percentage points
Total	19,002,635,540.52	19,149,600,183.64	-0.77	-16.20	-10.18	Decrease of 6.76 percentage points

## Description of principal business by industry, by product and by region

During the Reporting Period, the Group's income from its principal business amounted to RMB19.003 billion, representing a year-on-year decrease of 16.20%, among them, income from the shipbuilding, offshore engineering and steel structure businesses recorded significant year-on-year decreases of 16.34%, 33.39% and 28.19%, respectively; income from ship maintenance and modification and electromechanical products and others recorded year-on-year increases of 6.97% and 33.10%, respectively. Gross profit from principal business amounted to RMB-147 million, and gross profit margin amounted to -0.77%, representing a year-on-year decrease of 6.76 percentage points. Except the year-on-year increase in gross profit margin of the ship maintenance and modification business, the gross profits of other businesses have all decreased year-on-year.

As for the structure of products, the percentage of income from the marine business remained stable at 87% to 89% of total income in both years. During the year, the shipbuilding business contributed 79.33% of income, representing a year-on-year decrease of 0.14 percentage point, the offshore engineering business contributed 7.53% of income, representing a year-on-year decrease of 1.94 percentage points; the percentage of income from ship maintenance, steel structure engineering and electromechanical products remained substantially consistent with last year.

## 1) Shipbuilding business

Income from the shipbuilding business amounted to RMB15.075 billion, representing a year-on-year decrease of 16.34%. The main reason for the year-on-year change in income was the decrease in income from the shipbuilding business due to later-than-expected undertaking of some ship orders, the construction of first-hand vessels and short production preparations, and the adverse impact on shipbuilding production caused by the relocation of GSI, a subsidiary controlled by the Company, during the Reporting Period. With the commencement of new secured orders and the gradual elimination of the impact of relocation, the shipbuilding output has gradually increased from the fourth quarter of 2018, the production and materials lines have gradually become balanced, and provide a solid foundation for increasing production speed.

## 2) Offshore engineering business

Income from the offshore engineering business amounted to RMB1.432 billion, representing a year-on-year decrease of 33.39%, mainly due to the global marine engineering equipment market. Huangpu Wenchong sold some of its finished products to, subsidiaries controlled by Huangpu Wenchong, Wah Loong International Marine Limited and Wah Shun International Marine Limited for operation and leasing.

## 3) Ship maintenance and modification business

Income from the business of ship maintenance and modification amounted to RMB908 million, representing a year-on-year increase of 6.97%, mainly due to the expansion of full life support business of the Group during the Reporting Period.

### 4) Steel structure engineering business

Income from steel structure engineering business amounted to RMB725 million, representing a year-on-year decrease of 28.19%, the main reason for the year-on-year change in income was the fact that the production capacity could not be released due to the relocation of United Steel, a subsidiary of GSI to Zhongshan. During the Reporting Period, for the steel structure engineering business, the Group achieved major breakthroughs in operation and production with undertaking the Shenzhen-Zhongshan Channel immersed-tube steel-shell project, other plant structures, wind power jackets and bridges, which have further consolidated the Group's advantages in the non-ship industry.

### 5) Electromechanical products and others business

Income from electromechanical products and others businesses amounted to RMB864 million, representing a year-on-year increase of 33.10%, mainly because of the significant growth of the planer, high-power and large-format laser cutting machine, incinerator, old buildings with elevators and ship elevator business resulting from the investment in the research and development of electromechanical products during the Reporting Period.

By geographic region, during the Reporting Period, operating income from China (including Hong Kong, Macau and Taiwan) decreased by 25.83% and operating income from overseas markets increased by 3.69% compared with last year. The Group will actively respond to the adverse effects arising from the fact that the global shipbuilding industry remained at a slump and competition among domestic and foreign shipbuilders intensified. The Company will make use of its own strengths, take active initiatives, resolutely perform the main responsibility of "improving military products", strengthen the operation and management of civil products, and vigorously develop domestic and overseas markets.

### (2). Analysis of production and sales volume

Principal product	Production volume	Sales volume	Inventory volume	Increase/decrease in production volume over last year (%)	Increase/decrease in sales volume over last year (%)	Increase/decrease in inventory volume over last year (%)
Shipbuilding (Ten thousand of DWT)	200.92	200.92	0	-42.96	-42.96	0
Offshore engineering (Ten thousand of DWT)	2.48	2.48	0	43.88	43.88	0
Steel structure engineering (Ten thousand of DWT)	6.24	6.24	0	-35.74	-35.74	0
Electromechanical products	-	-	-	-	-	-
Including: Decompression beds/unit	589	479	121	21.69	-4.58	-
Elevators/unit	400	400	0	-10.63	-3.38	-

### Description of production and sales volume

The completed tonnage of shipbuilding recorded a significant year-on-year decrease, mainly due to the fact that the number of ships completed during the Reporting Period was 13 less than that for the last year, of which middle- and small-sized ships completed accounted for a larger portion. The completed tonnage of offshore engineering recorded a significant year-on-year increase, mainly due to the fact that the number of offshore engineering products increased by one during the Reporting Period. The completed tonnage of steel structures recorded a significant year-on-year decrease, mainly due to the impacts of the relocation of Liwan Plant on the production.



## (3). Cost analysis

Unit: RMB in ten thousand

## By industry

By industry	Components of cost	Amount for current period	Proportion among total cost for the period (%)	Amount for the corresponding period of last year	Proportion among total cost during the corresponding period of last year (%)	Change (%)	Description
Shipbuilding industry	Direct materials	1,209,363.10	63.15	1,334,729.57	62.61	-9.39	
	Processing cost	735,522.66	38.41	809,003.18	37.95	-9.08	
	Impairment loss	-29,925.74	-1.56	-11,797.38	-0.55	153.66	Note 1

## By product

By product	Components of cost	Amount for current period	Proportion among total cost for the period (%)	Amount for the corresponding period of last year	Proportion among total cost during the corresponding period of last year (%)	Change (%)	Description
Shipbuilding products	Direct materials	981,354.33	51.25	1,083,904.47	50.84	-9.46	
	Processing cost	562,687.43	29.38	605,731.12	28.41	-7.11	
	Impairment loss	-22,908.57	-1.20	-11,797.38	-0.55	94.18	Note 1
Offshore engineering products	Direct materials	113,506.95	5.93	161,494.74	7.58	-29.71	
	Processing cost	51,763.24	2.70	66,160.31	3.10	-21.76	
	Impairment loss	-6,762.43	-0.35	0.00	-		
Ship maintenance and modification	Direct materials	18,880.52	0.99	20,796.82	0.98	-9.21	
	Processing cost	60,314.51	3.15	59,111.55	2.77	2.04	
	Impairment loss	0.00	0.00	0.00	-		
Steel structure engineering	Direct materials	40,202.98	2.10	49,343.26	2.31	-18.52	
	Processing cost	27,759.40	1.45	39,300.33	1.84	-29.37	
	Impairment loss	0.00	0.00	0.00	-		
Electromechanical products and others	Direct materials	55,418.32	2.89	19,190.29	0.90	188.78	Note 2
	Processing cost	32,998.08	1.72	38,699.86	1.82	-14.73	
	Impairment loss	-254.74	-0.01	0.00	-		

## Description

The table above set out the breakdown of cost of principal business of the Group by product. The analysis focuses on the cost of principal business only.

Note 1: "Impairment loss" was negative as the provision for impairment of inventories previously made was reversed to offset the cost of principal business upon recognition of gross profit when the contract performance progress under long-term performing contracts reaches 30% (for non-first-made shipbuilding contracts) or 50% (for first-made shipbuilding contracts) during the Reporting Period. The reversal of provision for impairment of construction-in-progress was RMB299,257,400 during the Reporting Period, representing a year-on-year increase of RMB181,283,600, mainly due to the year-on-year increase in the provision made for loss-making shipbuilding contracts under construction for which the condition to revenue recognition has been met during the Reporting Period.

Note 2: During the Reporting Period, the direct material cost of electromechanical products and others businesses segment incurred was RMB554,183,200, representing a year-on-year increase of 188.78%; processing cost incurred was RMB329,980,800, representing a year-on-year decrease of 14.73% mainly due to the facts that, on the one hand, the increase in sales of this segment during the Reporting Period, income increased by 33.10% year on year, and cost of materials consumed and processing cost increased accordingly; on the other hand, cost of materials consumed accounted for a large portion of cost during the Reporting Period as a result of the difference in product structure during the Reporting Period.

## SECTION IV REPORT OF THE BOARD

### (4). Information on major customers and major suppliers

Sales to five largest customers amounted to RMB7,698,496,000, representing 40.51% of total annual sales, of which sales to related parties were RMB nil, representing 0% of total annual sales.

Procurement from five largest suppliers amounted to RMB3,650,527,400, representing 19.06% of total annual procurement cost, of which procurement from related parties was RMB2,948,673,100, representing 15.40% of total annual procurement cost.

Other explanations

The main raw materials of the ship products of the Company comprise materials and equipment, which are mainly procured through open tenders or competitive negotiations. Materials mainly comprise steel, pipes, paint, and cables, and equipment mainly comprise machinery-mounted equipment, ship-mounted equipment, electrical equipment, and outfitting equipment. The main raw materials procured overseas mainly comprise certain machinery-mounted equipment and outfitting equipment, which generally account for no more than 25% of total raw materials procured. During the year, the range of major raw materials price fluctuations against last year was no more than 30%.

## 2. Expenses

During the Reporting Period, the Group's total expenses amounted to RMB1.595 billion, representing a decrease of 26.68% from last year, details of which are as follows:

Unit: RMB in ten thousand

Item	Current period	Corresponding period of last year	Change	Change (%)
Selling expenses	8,625.52	18,780.11	-10,154.59	-54.07
Administrative expenses	89,284.41	95,386.54	-6,102.13	-6.40
Research and development expenses	49,756.26	40,818.66	8,937.60	21.90
Finance cost	11,847.35	62,578.51	-50,731.16	-81.07

Description

- (1) Selling expenses amounted to RMB86,255,200, representing a year-on-year decrease of 54.07%, mainly due to the decrease in the provision for ship maintenance made as income decreased and the receipt of the first set of insurance subsidies to offset selling expense during the Reporting Period;
- (2) Administrative expenses amounted to RMB892,844,100, representing a year-on-year decrease of 6.40%, mainly due to the year-on-year decrease of rental, repair fees and legal fees during the Reporting Period;
- (3) Research and development expenses amounted to RMB497,562,600, representing a year-on-year increase of 21.90%, mainly due to the strengthened investment in technical research and development during the Reporting Period;
- (4) Finance costs amounted to RMB118,473,500, representing a year-on-year decrease of 81.07%, mainly due to the decrease in exchange loss as a result of exchange rate fluctuation and the decrease in interest expense as a result of reduced borrowing during the Reporting Period.

### 3. Research and development expenses

Breakdown of research and development expenses

Unit: Yuan

Research and development expense recorded in expenses during the period	665,830,255.36
Capitalised research and development expenses for current period	–
Total research and development expenses	665,830,255.36
Percentage of total research and development expenses over operating income (%)	3.47
Number of research and development staff	2,320
Number of research and development staff over total number of staff (%)	14.63
Percentage of capitalised research and development expenses (%)	–

Description

In 2018, the Group actively pushed forward technological innovations and deeply explored its technological potential. As a result, its overall technological research and development capability continued to improve, with a total of 175 technological research and development projects, including 41 key technological research and development projects for the year. In respect of external projects, the cooperation with scientific research institutes was strengthened. In addition, in light of the requirements for the strategic transformation of the Company, it continued to facilitate the research and development of new products, process improvement and digital and smart manufacturing technologies; and the efforts and support for maritime engineering equipment, polar ships, semi-submersible engineering ships, luxury ro-ro passenger ships, next-generation energy-saving and environmentally-friendly ships, smart ships and non-ship products were reinforced.

### 4. Cash Flows

During the Reporting Period, the increase in net cash and cash equivalent of the Group amounted to RMB-3,098 million, representing a year-on-year decrease of RMB4,717 million. Details of the composition of the cash flows from operating activities, investing activities and financing activities are as follows:

Unit: RMB in ten thousand

Item	Current period	Corresponding period of last year	Change	Change (%)
Net cash flows from operating activities	-154,491.01	-81,126.31	-73,364.70	Not applicable
Net cash flows from investing activities	-179,236.17	207,275.37	-386,511.54	-186.47
Net cash flows from financing activities	18,010.09	59,147.71	-41,137.62	-69.55

Description

- (1) Net cash flows from operating activities amounted to RMB-1,545 million, representing a year-on-year decrease of RMB734 million, mainly due to the poor collection of receivables for civil ships under construction, and the decrease in advances for ship progress fees during the Reporting Period as the collection was mainly concentrated at the delivery node;
- (2) Net cash flows from investing activities amounted to RMB-1,792 million, representing a year-on-year decrease of RMB3,865 million, mainly due to the decrease in net pledged fixed deposits as a result of release of deposits during the Reporting Period;
- (3) Net cash flows from financing activities amounted to RMB180 million, representing a year-on-year decrease of RMB411 million, mainly because subsidiaries introduced external investors to repay borrowings during the Reporting Period.

## SECTION IV REPORT OF THE BOARD

### 5. Others

Details of other items with significant changes in the composition or source of profit of the Group during the Reporting Period are as follows:

Unit: RMB in ten thousand

Item	Current period	Corresponding period of last year	Change	Change (%)
Loss on impairment of assets	67,714.17	20,303.85	47,410.32	233.50
Credit impairment loss	3,937.20	–	3,937.20	Not applicable
Other income	2,444.88	6,142.13	-3,697.25	-60.19
Investment income	-12,382.01	14,744.36	-27,126.37	-183.98
Gain on change in fair value	-42,344.49	323.60	-42,668.09	-13,185.60
Gain on disposal of assets	-130.34	–	-130.34	Not applicable
Non-operating income	55,350.35	86,414.64	-31,064.29	-35.95
Non-operating expenses	6,378.74	1,296.86	5,081.88	391.86
Income tax expense	1,392.48	6,784.24	-5,391.76	-79.47

#### Description

- (1) Loss on impairment of assets amounted to RMB677,141,700, representing a year-on-year increase of 233.5%, mainly due to the decrease in the consolidated gross profit of certain ships under construction, with net realizable value expected to be lower than the book value, and increased provision for impairment is made based on the test results during the Reporting Period;
- (2) Credit impairment loss amounted to RMB39,372,000, mainly because the credit impairment loss was adjusted according to the format of financial statements specified in Cai Kuai [2018] No. 15 during the Reporting Period;
- (3) Other income amounted to RMB24,448,800, representing a year-on-year decrease of 60.19%, mainly due to the decrease in government grants received for this item during the Reporting Period;
- (4) Investment income amounted to RMB-123,820,100, representing a year-on-year decrease of 183.98%, mainly due to the realised loss on financial derivatives in the amount of RMB180 million as a result of wide exchange rate fluctuations during the Reporting Period and the gain on disposal of equity interest in GSI Yangzhou during the corresponding period of last year in the amount of RMB74 million;
- (5) Gain on change in fair value amounted to RMB-423,444,900, representing a year-on-year decrease of RMB-426,680,900, mainly due to the increase in the unrealised loss on financial derivatives as a result of wide exchange rate fluctuations during the Reporting Period;
- (6) Gain on disposal of assets amounted to RMB-1,303,400, mainly due to the increase in the loss on disposal of fixed assets during the Reporting Period;
- (7) Non-operating income amounted to RMB553,503,500, representing a year-on-year decrease of 35.95%, mainly due to the GSI's recognition of net income from compensation for relocation in the amount of RMB538 million during the Reporting Period compared to GSI's recognition of land compensation in the amount of RMB827 million last year;
- (8) Non-operating expenses amounted to RMB63,787,400, representing a year-on-year increase of 391.86%, mainly due to the recognition of contractual loss during the Reporting Period as a result of the settlement of the contract dispute of Huangpu Wenchong, a subsidiary controlled by the Company;
- (9) Income tax expenses amounted to RMB13,924,800, representing a year-on-year decrease of 79.47%, mainly due to the decrease in profit for the Reporting Period and the resulting decrease in current and deferred income tax expenses.

#### (ii) Explanation for material change in profit due to non-principal business

On 9 November 2015, GSI and Guangzhou Shipyard Shipping, both subsidiaries of the Company, entered into the Agreement in relation to Compensation to GSI for Assets Relocation (for details, please refer to the announcements of the Company dated 16 December 2015 and 17 December 2015 headed "Announcement of CSSC Offshore & Marine Engineering (Group) Company Limited on the Progress of Connected Transaction in relation to the Public Listing for Sale of 100% Equity Interest in Guangzhou Shipyard Shipping Co., Ltd." and "Supplemental Announcement on the Progress of Connected Transaction in relation to the Public Listing for Sale of 100% Equity Interest in Guangzhou Shipyard Shipping Co., Ltd.", respectively, published by the Company on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Pursuant to the agreement, GSI recognised income from compensation for assets relocation of RMB1,040 million (discounted) during the Reporting Period, and net gain after deducting of relocation expenses amounted to RMB538 million, which contributed revenue from non-principal business of RMB538 million to the Company during the Reporting Period.

## (iii) Analysis of assets and liabilities

## 1. Assets and liabilities

Unit: RMB

Name of item	Amount at the end of current period	Proportion among total assets at the end of current period (%)	Amount at the end of last period	Proportion among total assets at the end of last period (%)	Change of amount at the end of current period compared with that of the end of last period (%)	Description
Financial assets held-for-trading	11,685,155.01	0.02	-	-	Not applicable	Adjustments to the presentation of statement items <sup>Notes</sup> ; Foreign exchange forward contracts/swap contracts were entered into during the year, and their fair values were determined based on agreed exchange rates/forward exchange rates at the end of the period
Financial assets at fair value through profit or loss	-	-	6,602,255.91	0.01	-100.00	
Notes and accounts receivable	2,693,105,872.48	5.67	1,818,643,780.17	3.89	48.08	Increase in settlement of progress payment as at the end of the year
Other receivables	326,086,350.28	0.69	184,559,239.76	0.39	76.68	Receivables from profit or loss on settlement date of the acquisition of Wenchong Dockyard as at the end of the year, and increase in refundable deposits
Inventories	4,955,993,857.79	10.44	10,436,569,035.60	22.32	-52.51	Adjustments to the presentation of statement items <sup>Notes</sup>
Contract assets	6,860,770,802.28	14.45	-	-	Not applicable	
Non-current assets due within one year	463,415,968.00	0.98	1,033,143,116.08	2.21	-55.15	Decrease in entrusted wealth management products due within one year
Other current assets	365,378,116.05	0.77	1,851,997,385.43	3.96	-80.27	Receipt of value-added tax refunds during the year and decrease in debit balance of taxes payable/value-added tax payable as at the end of the year
Long-term receivables	1,976,516,046.20	4.16	460,059,537.09	0.98	329.62	Recognition of compensation for relocation by GSI, a subsidiary of the Company
Available-for-sale financial assets	-	-	21,029,995.04	0.04	-100.00	Adjustments to the presentation of statement items <sup>Notes</sup> ; Change in fair value of investments in equity instruments not held for trading
Investments in other equity instruments	63,403,225.93	0.13	-	-	Not applicable	
Other non-current assets	80,251,531.97	0.17	199,020,072.23	0.43	-59.68	Carrying forward of relocation expenses to current profit or loss during the year
Short-term borrowings	4,304,387,255.88	9.07	2,970,414,975.00	6.35	44.91	New short-term borrowings
Financial liabilities held-for-trading	431,894,056.78	0.91	-	-	Not applicable	Adjustments to the presentation of statement items <sup>Notes</sup> ; Foreign exchange forward contracts/swap contracts were entered into during the year, and their fair values were determined based on agreed exchange rates/forward exchange rates at the end of the period
Financial liabilities at fair value through profit or loss	-	-	3,366,294.31	0.01	-100.00	
Advances from customers	-	-	642,156,792.96	1.37	-100.00	Adjustments to the presentation of statement items <sup>Notes</sup> ; Following adjustment, "other current liabilities" increased by 32.74% as compared with the beginning of the period, mainly due to the increases in the sales tax to be transferred and the advances from customers for shipbuilding orders cancelled
Contract liabilities	7,112,391,961.78	14.98	-	-	Not applicable	
Estimated liabilities	802,016,709.10	1.69	540,745,308.48	1.16	48.32	
Other current liabilities	182,190,818.20	0.38	5,544,483,602.13	11.86	-96.71	

## SECTION IV REPORT OF THE BOARD

Unit: RMB

Name of item	Amount at the end of current period	Proportion among total assets at the end of current period (%)	Amount at the end of last period	Proportion among total assets at the end of last period (%)	Change of amount at the end of current period compared with that of the end of last period (%)	Description
Taxes payable	48,140,024.18	0.10	76,628,685.72	0.16	-37.18	Decrease in outstanding balance of property tax, land use tax and enterprise income tax as at the end of the year
Long-term borrowings	4,339,619,500.00	9.14	9,795,157,000.00	20.95	-55.70	Repayment of long-term borrowings
Deferred tax liabilities	8,950,648.02	0.02	1,412,563.62	0.00	533.65	Adjustments to the presentation of statement items <sup>Note</sup>
Special reserve	1,226,639.50	0.00	2,096,705.90	0.00	-41.50	Decrease in the balance of provision for production safety fee made during the year
Undistributed profit	-2,153,702,475.37	-4.54	-255,300,411.53	-0.55	743.60	Operating loss for the year
Minority interests	4,628,972,858.86	9.75	1,510,397,568.26	3.23	206.47	Introduction of new shareholders for GSI and Huangou Wenchong, both subsidiaries of the Company

Note: As a result of the adoption by the Group of the Accounting Standard for Business Enterprises No. 14 – Revenue (Amendment) (the “New Revenue Standard”), the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Amendment), the Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (Amendment), the Accounting Standard for Business Enterprises No. 24 – Hedging Accounting (Amendment), and the Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (Amendment) (the “New Standards for Financial Instruments”) in 2018, relevant items in the balance sheet were re-measured and presented, and the data in the comparative financial statements was not adjusted. For details of the significant accounting policies and changes in accounting estimates, please refer to the notes to the financial statements. The impacts on the relevant statement items in the table above are as follows (Unit: RMB)

Items affected	1 January 2018 (Consolidated)		
	Before adjustment	Adjustment under the New Revenue Standard	After adjustment
<b>Assets:</b>			
Inventories	10,436,569,035.60	-5,585,336,649.54	4,851,232,386.06
Contract assets		6,131,763,949.38	6,131,763,949.38
<b>Liabilities:</b>			
Advances from customers	642,156,792.96	-642,156,792.96	
Contract liabilities		6,411,599,314.91	6,411,599,314.91
Other current liabilities	5,544,483,602.13	-5,407,233,010.85	137,250,591.28
Estimated liabilities	540,745,308.48	213,765,630.11	754,510,938.59

Items affected	1 January 2018 (Consolidated)		
	Before adjustment for Financial Instruments	Adjustment under the New Standards	After adjustment
<b>Assets:</b>			
Financial assets held-for-trading		6,602,255.91	6,602,255.91
Financial assets at fair value through profit or loss	6,602,255.91	-6,602,255.91	
Available-for-sale financial assets	21,029,995.04	-21,029,995.04	
Investments in other equity instruments		44,726,104.08	44,726,104.08
<b>Liabilities:</b>			
Financial liabilities held-for-trading		3,366,294.31	3,366,294.31
Financial liabilities at fair value through profit or loss	3,366,294.31	-3,366,294.31	
Deferred tax liabilities	1,412,563.62	5,995,510.20	7,408,073.82

## 2. Major restricted assets at the end of the Reporting Period

As at the end of the Reporting Period, the Group had bank deposits pledged to secure borrowings, term deposits with maturity of over 3 months, letters of guarantees/bills/letter of credit amounting to RMB1,801,071,803.41 in total. The restrictions on ownership will be lifted after the relevant contracts have been fulfilled.

### (iv) Analysis of industry operation

#### Landscape and competition trends in the shipbuilding market

- 2018 witnessed the slower rebound momentum in the global shipping market. Affected by uncertainties including Sino-US trade disputes and geopolitics and increasing potential risks, the sluggish recovery of global economy and the slowdown of international trade growth, ship owners are increasingly cautious about new ship investment, and orders of new ships recorded decrease rather than increase. According to statistics of Clarkson Research Services Limited of the United Kingdom, the total number of orders of new ships during the year was 1,195 ships/76,850,000 DWT, representing a year-on-year decrease of 12.5%. Despite the drop in the new ship orders and the intensifying market competition, the on-going operation of major shipyards had been guaranteed due to the overall stable demand of the new ships, coupled with the environmental protection regulations and support of high supply costs such as the rising steel price, the prices of new ships registered a stable performance with good momentum for growth. According to statistics of Clarkson Research Services Limited of the United Kingdom, the December Clarkson Index reached to 130 points, representing an increase of 4 points as compared to the beginning of the year.
- In terms of the global shipbuilding market, the Clarkson Index continued to surge in fluctuations, with an average annual value of US\$12,080/day, representing a year-on-year increase of 12.2%. The BDI index basically remained a range between 1,000-1,700 points, with an average of 1,350 points, representing an increase of 17.5% as compared to the same period last year. Amidst the obvious decline in global trade growth, the constrained growth of the shipping market was mainly due to the decline in the delivery of new ships, the relatively smooth scrapped tonnages, the effective control of the fleet's total capacity and the effective consolidation of fundamental supply and demand. The increase in shipbuilding operating income provided supports for the rebound of the new ship market.
- In terms of the major ship types market, the market trend was uneven and divergent. For the bulk carriers, despite the significant good momentum in the shipping market, the demand for new ships fell from a high level with global accumulated volume amounting to 283 ships with 30,930,000 DWT, representing a year-on-year decrease of 24.1%. For oil tankers, its shipping market was relatively sluggish, and capital speculation decreased; global accumulated transaction volume with a capacity of over 10,000 tons was 186 oil tankers/23,300,000 DWT, representing a year-on-year decrease of 31.5%. For containerships, its shipbuilding market continued to strengthen; the global accumulated transaction volume was 194 ships/1,214,000 TEUs, representing a further year-on-year increase of 42.1%.
- In terms of the competition landscape of major shipbuilding countries, in 2018, the global shipbuilding industry continued the competitive landscape featuring "three major shipbuilding countries" of China, Japan and Korea since the financial crisis. China, Japan and South Korea accounted for 43%, 25% and 25% of the global ship completion volume of 80,120,000 DWT respectively, 39%, 15% and 42% of new orders with 76,850,000 DWT respectively, and 43%, 21% and 30% of orders on hand with 207,580,000 DWT respectively. During the year, in addition to consolidating the market position of the bulk carrier market and the middle- and small-sized ships market, Chinese shipyards, characterized as the diversified orders, continued to make breakthroughs in the high-end ship types such as orders of luxury liners, and undertook some orders of crude oil ships, liquefied gas carriers, large container ships and special ships of considerable scale. Korean shipyards benefited from the government's policy support and fiscal subsidies for the shipping industry and shipbuilding industry, nearly monopolizing large crude oil ships, large liquefied gas carriers, and achieving good results in the large container ship market. Japanese shipyards have an outstanding brand reputation in the bulk carriers and container ship markets.

#### Analysis of shipbuilding industry operation

- Orders received by the Company during the Reporting Period

Item	Ship transportation equipment manufacturing – three major shipbuilding indicators		
	Shipbuilding orders completed	New orders received	Orders on hand
2018	51 ships + 1 platform/ 2,034,000 DWT	69 ships + 2 platforms/ 2,933,600 DWT	146 ships + 8 platforms/ 5,743,000 DWT
2017	65 ships + 1 platform/ 3,539,600 DWT	41 ships + 2 platforms/ 1,958,600 DWT	131 ships + 7 platforms/ 4,843,800 DWT

## SECTION IV REPORT OF THE BOARD

### 2. Ships with high added-values

Item	Current year	
	Percentage of total income of the Company	Percentage of profit of the Company
Ships with high added-values	57.55%	Not applicable

Note: The Group classifies intelligent, energy-saving and environmentally-friendly products with high gross profit margin and products with high-tech ship certificates into ships with high added-values and high technology, which include military ships, public service ships, ro-ro passenger ships and scientific exploration ship etc.

### 3. Profit during the Reporting Period

Unit: RMB in ten thousand Currency: RMB

Item	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease	Increase/decrease	Increase/decrease
				in operating income over last year (%)	in operating costs over last year (%)	in gross profit margin over last year (%)
(i) Shipbuilding products	1,507,450.01	1,521,133.19	-0.91	-16.34	-9.34	-7.80
Bulk carriers	83,848.13	80,276.51	4.26	16.77	11.85	4.21
Oil tankers	291,417.72	310,367.22	-6.50	-26.74	-17.94	-11.41
Containerships	194,801.21	186,260.95	4.38	28.33	36.43	-5.67
Special ships and others	937,382.96	944,228.51	-0.73	-20.60	-13.48	-8.29
(ii) Offshore engineering products	143,175.21	158,507.76	-10.71	-33.39	-30.37	-4.80
(iii) Ship maintenance and modification	90,794.83	79,195.03	12.78	6.97	-0.89	6.92
(iv) Steel structure engineering	72,483.96	67,962.38	6.24	-28.19	-23.33	-5.94
(v) Electromechanical products and others	86,359.54	88,161.66	-2.09	33.10	52.29	-12.86
<b>Total</b>	<b>1,900,263.55</b>	<b>1,914,960.02</b>	<b>-0.77</b>	<b>-16.20</b>	<b>-10.18</b>	<b>-6.76</b>

### 4. Information on business contributing more than 10% income of principal business of the Company during the Reporting Period

Item	Completed shipbuilding	
	Production volume	Sales volume
Shipbuilding	46 ships/2,009,200 DWT	46 ships/2,009,200 DWT

### 5. Information on maintenance and modification during the Reporting Period

Item	Ship transportation equipment manufacturing	
	Number of ships repaired	Repair cycle
Bulk carriers	53	17 days
Containerships	47	24 days
Oil tankers	50	34 days
Offshore engineering	5	33 days
LPG/LNG ships	2	32 days
Other ships (including dredgers, barges, cranes ships, rescue ships, semi-submersible ships, official law enforcement ships, etc.)	78	28 days



According to the relevant requirements of classification societies, for ship maintenance, dock inspection is usually conducted in the second or third year, and two dock inspections must be conducted within five years, with an interval of no more than 24 months. Such requirement also applies to the period from the sixth to tenth year, i.e. so-called minor overhaul in the ship maintenance industry. For bulk carriers, containership and oil tankers, an overhaul is generally required after 15 years. Certain classification societies also require these ships to undergo dock inspection each year. However, each classification society has different requirements. Save for the mandatory maintenance above, whether a ship needs maintenance is irrelevant to the age of ships and mainly depends on the operation status of ships and the intention of their owners.

(v) **Analysis of investments**

**1. General analysis of external equity investments**

The Company is an investment holding company, and details of its external investments are set out in the notes to the financial statements. As at the end of the Reporting Period, the balance of the long-term equity investments of the Group was RMB740,935,300, comprising mainly investments in joint ventures and associates and representing an increase of 0.40% from the beginning of the year.

(1) *Material equity investments*

On 30 September 2018, Huangpu Wenchong established CSSC Industrial Internet Co., Ltd. in Huangpu district, Guangzhou, Guangdong Province, with a registered capital of RMB50 million through self-owned capital. It was 100%-owned by Huangpu Wenchong. Its scope of business is mainly internet and related services.

On 24 December 2018, GSI completed the acquisition of 100% equity interest in Wenchong Dockyard with its own capital at a consideration of RMB498 million. Wenchong Dockyard has a registered office located in Nansha district, Guangzhou, Guangdong Province and a registered capital of RMB1,643,841,000. Its scope of business is railway, ship, aerospace and other transportation equipment manufacturing. For details of the transaction, please refer to the announcement of COMEC dated 19 October 2018 on the connected transaction in relation to acquisition of assets in cash by a subsidiary and the announcement of COMEC dated 5 December 2018 on the poll results of the second extraordinary general meeting of 2018 published by the Company on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

(2) *Financial assets measured at fair value*

During the Reporting Period, the Group's financial assets measured at fair value included financial assets held-for-trading and financial liabilities held-for-trading such as forward exchange contracts, foreign exchange swaps and foreign exchange option trading portfolio contracts, as well as investments in other equity instruments. In particular, for financial assets held-for-trading and financial liabilities held-for-trading, at measurement date, the public quotations from 3 banks before adjustment were obtained. According to prudence principle, one quotation is chosen to be input value. The debt rate published by the PBC is chosen to be discount rate (please refer to the notes to the financial statements for details). For investments in other equity instruments, the shares held in listed companies were measured at their closing market prices, and those without public market quotations were measured using valuation techniques. The breakdown of items measured at fair value during the Reporting Period is as follows:

Unit: Yuan Currency: RMB

Name of item	Beginning balance	Ending balance	Change	Amount of impact on profit for the period
1. Financial assets held-for-trading	6,602,255.91	11,685,155.01	5,082,899.10	-604,509,137.37
2. Financial liabilities held-for-trading	-3,366,294.31	-431,894,056.78	-428,527,762.47	
3. Investments in other equity instruments	44,726,104.08	63,403,225.93	18,677,121.85	945,450.54
<b>Total</b>	<b>47,962,065.68</b>	<b>-356,805,675.84</b>	<b>-404,767,741.52</b>	<b>-603,563,686.83</b>

Description:

- (i) The Group attaches great importance to the research of exchange risk management policies and strategies. To prevent exchange rate risks, the Group entered into forward exchange contracts (forward exchange settlement), foreign exchange swaps and foreign exchange options trading portfolio contracts. As at the end of the Reporting Period, the Group had a total of 65 outstanding forward settlement foreign exchange contracts with total amount of US\$667 million and latest settlement date of 24 December 2020, and recognised gains on change in fair value of RMB-123,280,000 as at the end of the year; the Group had a total of 2 outstanding exchange swaps with total amount of US\$15 million and latest settlement date of 29 March 2019, and recognised gain on change in fair value of RMB8,327,600 as at the end of the year; the Group had a total of 98 outstanding option portfolios with total amount of US\$965 million and latest settlement date of 10 July 2020, and recognised gain on change of fair value of RMB-305,256,500 as at the end of the year.
- (ii) As at the end of the Reporting Period, the original cost of investment in other equity instruments was RMB18,295,500, and their fair value as at the end of the period was RMB63,403,200, representing an increase of RMB18,677,100 from the beginning of the year.

During the Reporting Period, the Group held financial assets measured at fair value, and their impact on profit for the period (including gain or loss on change of fair value and investment income) amounted to RMB-603,563,700.

## (vi) Analysis of major subsidiaries and associates

### 1. Analysis of direct subsidiaries and associates

Unit: RMB in ten thousand Currency: RMB

Name of enterprise	Principal activities	Registered capital	Shareholding by the Company (%)	Total assets at the end of the period	Net assets at the end of the period	Net profit/loss for the period
Guangzhou Shipyard International Company Limited	Technical design, manufacture, repair of ships, electrical machinery, general machinery, steel structure	855,697.08	76.42	1,970,964.17	705,630.91	-105,732.93
CSSC Huangpu Wenchong Shipbuilding Company Limited	Manufacturing of equipment for railways, ships, aerospace and other transportation facilities	285,989.77	69.02	2,114,378.56	592,924.93	-106,301.12
Nanfeng Environment Co., Ltd.	Cleaning, collection and transport services for municipal solid waste; recycling and wholesale of regenerated materials; air pollution treatment, sewage treatment and related regeneration and utilisation	50,000	60	8,688.91	8,455.67	-1,268.59
CSSC Chengxi Yangzhou Shipbuilding Company Limited	Manufacturing of ships, ship equipment, metal structures and electric motors	130,284	49	169,946.03	130,740.80	65.53

Description

During the Reporting Period, GSI and Huangpu Wenchong, both subsidiaries of the Company, implemented market-based debt-to-equity conversion through introducing new shareholders. The business change registration following capital increase was completed on 24 February 2018, following which their registered capital were RMB8,556,970,805 and RMB2,859,897,696, respectively. For details, please refer to the announcement dated 25 January 2018 on the increase of capital of certain subsidiaries of CSSC Offshore & Marine Engineering (Group) Company Limited and the announcement dated 12 February 2018 on the poll results of the first extraordinary general meeting of 2018 of CSSC Offshore & Marine Engineering (Group) Company Limited published by the Company on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

## 2. Indirect subsidiaries

Unit: RMB in ten thousand Currency: RMB

Name of enterprise	Principal activities	Registered capital	Shareholding by the Company (%)	Total assets at the end of the period	Net assets at the end of the period	Net profit/loss for the period
Guangzhou Wenchong Shipyard Co., Ltd	Metal shipbuilding; nonmetallic shipbuilding; ship outfitting manufacture and installation; ship conversion and removal; ship repair; ship design services; etc.	142,017.85	100	576,350.52	118,098.98	112.37
Guangzhou Huangchuan Ocean Engineering Co., Ltd	Metal shipbuilding; nonmetallic shipbuilding; ship outfitting manufacture and installation; ship conversion and removal; ship repair; ship design services; etc.	6,800	100	38,253.69	-5,662.41	-12,436.66
Guangzhou Wenchuan Heavy Industrial Co., Ltd.	Manufacturing of equipment for railways, ships, aerospace and other transportation facilities	11,000	100	66,209.10	10,988.99	716.01
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	Repair, debugging and maintenance of shipboard equipment and system	200	80.5	455.32	389.07	71.72
Guangzhou Xinhang Human Resources Service Co., Ltd.	Human resources development and management consulting; professional intermediary services; personnel leasing; personnel training; personnel recommendation; labor dispatch services	200	75	984.97	381.76	32.12
Guangzhou Xingji Maritime Engineering Design Co., Ltd.	Ship design services, metal structure design services, engineering and technical consulting services	500	37.5	647.99	533.33	22.47
Guangzhou Wenchong Bingshen Co., Ltd.	Manufacturing of equipment for railways, ships, aerospace and other transportation facilities	560	60	1,006.24	309.65	2.96
CSSC (Guangzhou) New Energy Co., Ltd.	New energy investment; new energy technology development and application; new energy engineering design and installation; new energy consulting; new energy research and development, technology promotion services, technical consulting, technology transfer; development and sales of new energy products and accessories development etc.	1,800	40	167.18	127.08	-216.64
Wah Loong International Marine Limited	Ship leasing	HK\$1 million	99	48,249.67	954.49	845.64
Wah Shun International Marine Limited	Ship leasing	HK\$1 million	99	17,314.08	139.05	50.75
CSSC Industrial Internet Co., Ltd.	Information transmission, software and information technology services	5,000	100	977.57	977.57	-22.43
Guangdong GSI Elevator Co., Ltd.	Production and sale of elevators	11,000	100	10,097.48	6,460.69	11.43
Zhongshan GSI Marine Engineering Company Limited	Designing, processing, installing, manufacturing and selling: ships and auxiliaries (fishing use excluded), metal structures and components, general machines, cast and forged components, fiberglass, marine cables, marine pipelines, marine tools, furniture, mechanical equipment, and marine engineering equipment, import and export of goods and technology	70,000	100	86,201.34	40,375.51	106.89
Guangzhou Guangji Shipbuilding Human Resources Service Company Limited	Providing labor services, as well as installation, welding, derusting, and painting of ships	500	100	3,912.17	408.47	-358.54
Guangzhou Hongfan Technology Co., Ltd.	Development of computer software, system system integration, and hardware sales, etc.	500	51	3,939.25	3,751.53	229.56
Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd.	Designing, processing, installing and selling: auxiliary machines of ships, large-scale complete-set mechanical and electrical equipment, wind power generation equipment, shearing press, shield machine, hydraulic machinery, injection molding machine, and metal structure	18,861	100	31,509.62	11,717.51	-486.73
Guangzhou United Steel Structures Limited	Large steel structures	US\$8.85 million	100	41,907.86	12,488.69	-2,739.71
Glory Group Development Limited	Trading	HK\$30 million	100	14,267.20	9,740.12	1,463.48
Forkwang Development Limited	General trading	HK\$200,000	80	9,607.10	6,068.91	120.99
Guangzhou Hongfan Hotel Co., Ltd.	Tourism and catering	11,940	100	13,744.33	12,142.55	89.95
Guangzhou Longxue Pipe Co., Ltd.	Black metal refining and rolling industry	7,000	42.86	10,759.76	5,702.28	88.72
Guangzhou Wenchong Dockyard Co., Ltd.	Ship maintenance and modification	164,384.1	100	237,486.41	404.95	-21,228.64

## SECTION IV REPORT OF THE BOARD

### Description

The Group's overseas subsidiaries include Wah Loong International Marine Limited, Wah Shun International Marine Limited, Glory Group Development Limited and Fonkwang Development Limited, which are principally engaged ship leasing and general trading business etc. and recorded operating income of approximately RMB70 million during the Reporting Period, representing an insignificant portion.

### 3. Subsidiaries with net profit accounting for over 10% of net profit of the Group

Unit: RMB in ten thousand Currency: RMB

Name of entity	Income from principal business	Profit from principal business	Net profit
CSSC Huangpu Wenchong Shipbuilding Company Limited	941,502	-16,865	-106,301
Guangzhou Shipyard International Company Limited	600,577	-18,592	-105,733
Guangzhou Wenchong Dockyard Co., Ltd.	60,223	1,141	-21,229

### 4. Subsidiaries the operational results of which experienced wide fluctuations and were material to the operational results of the Group during the Reporting Period

Unit: RMB in ten thousand Currency: RMB

	Current period	Net profit for corresponding period of last year	Change (%)
CSSC Huangpu Wenchong Shipbuilding Company Limited	-106,301	2,216	-4,897.80
Guangzhou Shipyard International Company Limited	-105,733	-3,212	Not applicable
Guangzhou Wenchong Dockyard Co., Ltd.	-21,229	-13,251	Not applicable

### Description

- (1) During the Reporting Period, Huangpu Wenchong's net profit decreased by RMB1,085 million year-on-year, and the main reason for the significant year-on-year change in operating results was as follows: (i) Impact of principal business: The Company undertook certain shipbuilding orders later than expected, constructed more first-made ships with short production preparation hours, which caused imbalanced production and delayed progress and in turn the decrease in the income realised, the increase cost of ship products and the sharp decrease in the overall gross profit during the Reporting Period; based on the estimates of revenue and costs, the Company made a provision for impairment for certain products, and its assets impairment losses recorded a significant year-on-year increase; (ii) Impact of non-recurring gains and losses: Due to the wide fluctuations in exchange rates, financial assets held-for-trading generated a loss of approximately RMB104 million during the year.
- (2) During the Reporting Period, GSI's net profit decreased by RMB1,025 million year-on-year, and the main reason for the significant year-on-year change in operating results was as follows: (i) Impact of principal business: The Company undertook certain shipbuilding orders later than expected and the plant relocation had material adverse impacts on the shipbuilding production, which caused imbalanced production and delayed progress and in turn the decrease in the income realised the increase cost of ship products and the sharp decrease in the overall gross profit during the Reporting Period; based on the estimates of revenue and costs, the Company made a provision for impairment for certain products, and its assets impairment losses recorded a significant year-on-year increase; (ii) Impact of non-recurring gains and losses: Due to the wide fluctuations in exchange rates, financial assets held-for-trading generated a loss of approximately RMB425 million during the year; net gain on compensation for relocation of approximately RMB538 million was recognised.
- (3) During the Reporting Period, Wenchong Dockyard's profit decreased by RMB80 million year-on-year, mainly due to the increase in production cost as a result of market environment and the restrictions on production process of certain products.

### III. DISCUSSION AND ANALYSIS OF THE COMPANY CONCERNING THE FUTURE DEVELOPMENT OF THE COMPANY

#### (i) Industry landscape and trends

##### 1. *The shipbuilding market is expected to recover*

In the long run, firstly, the global shipping industry and shipbuilding industry have experienced a decade long depression. With the slow growth of capacity and the rebound of international oil prices, the international shipping market and offshore engineering market are expected to further improve. What's more, the gradual implementation of regulations, conventions and standards of shipbuilding industry's energy conservation and environmental protection will promote the upgrading of marine products and make low-emission, low-energy and environmentally-friendly ships the first choice for ship owners at home and abroad. It is expected that the demand of global civilian ship construction market will increase steadily and the prices of new and environmentally-friendly ships will rise. Secondly, the national development strategy of building a maritime power and a manufacturing power, and the principle of a strong military must first reinforce its equipment, as well as the rapid development in the fields of offshore wind power, marine pastures, marine mining, marine technology and equipment, brought about good opportunities for the construction of defense equipment such as naval equipment and maritime rights enforcement equipment and the development of offshore wind power product manufacturing, installation and operation business.

In the short term, it is expected that the international environment will remain complicated in 2019, and the overall economic and trade situation in the world is not optimistic. The global new ship volume will remain at a range between 70,000,000-80,000,000 DWT. From the perspective of subdivided ship types, the bulk carrier market is expected to be relatively stable, the crude oil ship market will further weaken, the product oil tanker market may be in a booming trend, and the polarization of the container ship market will continue. In addition, the liquefied gas vessel market is expected to maintain a certain popularity, but on the other hand, in the situation that the shipbuilding capacity is still excessive, the shipyards' competition for orders will also continue. Shipbuilding cost factors such as raw material prices and exchange rate trends will remain the key factors that affect the prices of new ships.

##### 2. *Shipbuilding enterprises transform and upgrade to high-quality development*

The "Special Management Measures for Foreign Investment Access (Negative List) (2018 Version)", China's "Action Plan for Improving the Smart Transformation of Shipbuilding Construction Project (2019-2021)", and "Action Plan for Smart Ship Development (2019-2021)", have comprehensively accommodated the development needs of the transformation of China's shipbuilding industry in the new era, fully considered the current development trend of smart manufacturing and economic globalization and strengthened the leading role of innovation to promote the shipbuilding enterprises to accelerate their innovation pace, inserting positive impacts on the informatization and intelligence-based and high-quality development of the shipbuilding industry.

#### (ii) Development strategies of the Company

The Group is committed to becoming a leading enterprise in the global marine and heavy equipment market with leading technologies and prominent services and a building and supporting facility for Chinese marine defence equipment.

In the face of the new normal development status of the ship market, the Group, by adhering to its corporate values of "innovation, efficiency and win-win cooperation", will fully implement the major strategies of the "Belt and Road Initiative", integrated development of military, and building strong manufacturing power and marine power. With "optimising structure, deepening reform and innovative development" as the main theme, the Group will further make its core shipbuilding and maritime activities stronger, better and bigger, while vigorously developing emerging industries, accelerating transformation and upgrading to realize high-quality development.

The Company is committed to developing maritime equipment manufacturing and strives to improve its military product business in terms of strategic planning, technical innovations, military product management, full life support and military culture. It will strengthen the research of marine business, keep a close eye on market demand, and accelerate the pace of innovation. It will conduct research of advanced technologies, further strengthen its advantageous products, focus on the areas including smart ships, polar module carriers, luxury Ro-Ro passenger ships, special ships and overseas wind farms, and continue to facilitate the transformation and upgrading of its product mix. It will accelerate the in-depth integration of military products and civil products in innovative elements including technology, talents and fund to realize the coordinated and innovative development of military and civil products. It will deeply facilitate the "moderate, limited and related diversification" by actively establishing presence in emerging industries, accelerating the development and cultivation of high-quality resources, and strive to achieve new growth, in order to provide new driving forces for the Company to withstand market risks and improve financial performance. In the meantime, the Group will comprehensively improve its management in terms of the integration of military and civil products, coordination of resource allocation, staff structure optimisation and enhanced cost management and control, promote the improvement in quality and performance, and further expand its room for profit.

#### (iii) Business plan

In 2018, the Group recorded an operating income of RMB19.214 billion, representing 89.24% of the annual target; and secured orders with contract value of RMB24.129 billion, representing exceeding 3.46% of the annual target.

## SECTION IV REPORT OF THE BOARD

In 2019, the Group plans to realize operating income of RMB21.6 billion and to secure orders with contract value of RMB29 billion. The Group will continue to deepen reform, strengthen innovations, and actively cope with challenges to ensure steady growth of production and operation. It will continue to advance diversified development, accelerate expansion into emerging industries, and strive to improve quality and performance through cost control, optimised management and resource consolidation and other means in order to realize the business plan for 2019.

The business objectives above do not represent the profit forecast of the Company for 2019, nor do they constitute undertakings to investors in respect of the performance of the Company. Actual business performance of the Company is subject to various internal and external factors and involves uncertainties. Investors are reminded of investing risks.

### (iv) Potential risks

#### 1. Financial risks

- (1) Exchange rate risk: The Group's exchange rate risk arises from the possibility of the increase or decrease in the value of assets (or creditor's rights) and liabilities (or debts) denominated in foreign currencies due to exchange rate fluctuations. It is mainly concentrated on export shipbuilding orders denominated in United States dollars. The Group will continue to adhere to the aim of risk prevention. Based on the exchange rates at the time of the undertaking of orders by it, the Group will strengthen the analysis of exchange rate trend and formulate exchange rate risk prevention plans.
- (2) Interest rate risk: The Group's interest rate risk is generated by bank borrowings and mainly comes from the uncertainty caused by changes in market interest rates. Floating interest rate may expose the Group to interest rate risk of cash flow, while fixed interest rate may expose the Group to interest rate risk of fair value. The Group carefully considers the changes in domestic and overseas market and economic environment and national monetary policies and formulates and timely adjusts effective interest rate risk management plans in light of its own production status.

For the extent of impact of change in exchange rate and interest rate on the Company, please refer to notes to financial statements.

#### 2. Customer risk

As a result of global economy and shipping trade, certain ship owners may experience difficulties in financing and financial position, resulting in default in shipbuilding payment, deferred recognition of delivery and amendment of contracts, which subject the Company's orders on hand to default risk.

The Group will strengthen its investigation into the creditworthiness of ship owners and project process management, increase ship owners' default cost and strengthen the early warning and monitoring of contractual performance. It will also develop innovative business models and assist ship owners in obtaining financing so as to successfully deliver ships to ship owners.

#### 3. Cost risk

In view of the development of the shipbuilding and shipping market, the Group continued to optimise its product mix. With the increase in the percentage of high-tech products of the Group such as ro-ro passenger ships and the increase in the number of first-made ship models, the Group has a growing demand for advanced technicians and skilled workers, which may cause the cost of the Company to rise. As a result of the trade frictions between China and the United States, the increase in tariffs will increase the cost burden of the Group's products exported to the United States. In addition, the Group's cost is subject to the prices of raw materials due to its production on an order basis, and the Company is subject to cost risk.

The Group will prevent cost risk from the source of production through improved management, cost control with quality and efficiency to boost performance. It will keep materials cost under control, closely monitor the price trends of its materials and make procurement arrangements in a timely manner.

### (v) Others

#### 1. Management contracts

There were no contracts entered into by the Company in relation to the management or administration of all or any major business, nor did such contract exist at any time in 2018.

#### 2. Environmental policies and performance

The Group is committed to maintaining the sustainability of the environment and community in which it operates. By adhering to an attitude to protect environment, the Group strives to comply with the laws and regulations relating to environment protection and has adopted effective measures to realise efficient utilisation of resources, save energy and reduce emission of wastes.

### 3. **Compliance with laws and regulations**

During the Reporting Period, so far as the Company is aware, the Company has been in compliance with the relevant laws and regulations which have material impacts on the Company's operation in all material respects.

### 4. **Relationship with stakeholders**

The Company has always adhered to the concept that with great virtue one can take charge of the world. It actively delivers returns to shareholders, practices honesty towards customers, cares for employees and contributes to the community. As such, while accelerating its own development, the Company also actively participates in public service activities and contributes to the community. It attaches great importance to the harmonious and win-win development of the Group, its employees and the community.

By order of the Board  
**Han Guangde**  
*Chairman*

### I. PROFIT DISTRIBUTION PLAN OR PLAN TO CONVERT CAPITAL RESERVES INTO SHARE CAPITAL

#### (i) Formulation, implementation or adjustment of cash dividend policy

In accordance with the article 215 of the “Articles of Association of CSSC Offshore & Marine Engineering (Group) Company Limited”, the Company’s profit distribution policy shall be:

##### (I) Profit distribution principle

The Company shall implement a continuous and stable profit distribution policy and the profit distribution of the Company shall be made in accordance with the statutory sequence of distribution. It attaches importance to providing reasonable and stable investment returns for its shareholders and maintaining the Company’s long-term and sustainable development. In principle, the Company shall distribute its distributable profit on a yearly basis and it can also declare interim dividends.

##### (II) Ways of profit distribution

The Company may distribute its dividends by ways of cash, shares or a combination of both, with dividend distribution in cash taking priority. In distributing profits by means of shares, the Company should give due regard to the actual and reasonable factors such as growth and dilution to the net assets per share, etc. The distribution of profits shall not exceed the limit of cumulative distributable profits.

##### (III) Conditions and proportion of dividend distribution

1. On the premise of satisfying the criteria for distribution of cash dividends, in principle, the Company shall distribute dividends in cash on a yearly basis. The Board can recommend to the Company to declare interim dividends based on the Company’s profits and capital needs;
2. On the premise of satisfying the criteria for distribution of cash dividends, in principle, the Company shall distribute cash dividends based on a fixed proportion of distributable profits achieved in a year. The cumulative profit distribution in cash for the last three years shall not be less than 30% of the average distributable profit for the last three years;
3. The Company can use increased distribution of share dividends as an additional means for profit distribution, and the sum of cash dividends and share dividends shall not be less than 50% of the distributable profits for the year. In determining the specific amount for distributing profits by means of shares, the Company should give due regard to whether the total share capital after profit distribution by means of shares corresponds to the Company’s current scale of operations and profit growth rate, and consider the impact on the debt financing cost of future loans, so to ensure that the profit distribution plan is in line with the overall interests and long-term interests of shareholders as a whole.
4. In principle, in distributing cash dividends, the Company shall at the same time satisfy the following criteria:
  - (i) The Company has made a profit for that year, and after compensating for losses in previous years and withdrawing reserves from the provident fund according to law, the cumulative undistributed profits shall be positive, and the earnings per share shall not be less than RMB0.05;
  - (ii) Auditors issue a standard audit report opinion without qualifications for the Company’s financial report for the year;
  - (iii) The Company’s asset-liability ratio shall not exceed 70%;
  - (iv) The Company does not have material investment plan or material cash expenditures. Material investment plan or material cash expenditures refer to: The Company intends to make external investment, acquire assets or purchase equipment in the following 12 months with a cumulative expenditure reaching or over 10% of its latest audited net assets of and exceeding RMB500,000,000;
  - (v) If the Board does not propose to distribute profits in cash in the year when the Company is profitable, it shall state the reason why the profits are not distributed in its annual report for the year, and the use and plans of use in respect of the undistributed capital reserve. Independent directors shall express independent opinions on such non-distribution of profits and disclose their opinions to the public. If the Company does not propose to distribute profits in cash when it is profitable during the reporting period, it shall provide online voting platforms to its shareholders in addition to an on-site meeting when it holds general meetings.

During the Reporting Period, no adjustments were made to the Company’s policy for distribution of profit for ordinary shares. The Company will actively implement the cash dividend policy and create reasonably return for investors. For details of the Company’s policy for profit distribution, please refer to the Circular to Shareholders or the Fourth Extraordinary Meeting of Shareholders for 2014 dated 5 December 2014 and the Company’s Articles of Association at the websites of the Stock Exchange, the Shanghai Stock Exchange and the Company.

As considered and passed at the twelfth meeting of the ninth session of the Board, the proposal for profit distribution of the Company for 2018 is as follows: In accordance with the section (3)4 of article 215 of the Articles of Association of CSSC Offshore & Marine Engineering (Group) Company Limited relating to the profit distribution policy, in view of the net profit attributable to shareholders of the Company for 2018 being negative, the Company will not make profit distribution or issue new bonus shares by capitalisation of capital reserve for 2018.



(ii) **Dividends distribution plan or pre-arranged plan or plan or pre-arranged plan to convert capital reserves into share capital in the previous three years (inclusive of the Reporting Period)**

*Unit: Yuan Currency: RMB*

Year of distribution	Number of shares to be distributed for every ten shares (share)	Amount to be distributed for every ten shares (RMB) (tax inclusive)	Number of shares to be converted into share capital for every ten shares (share)	Amount of cash dividend (inclusive of tax)	Net profit attributable to ordinary shareholders of listed company in the consolidated financial statement during the year of distribution	Percentage of the net profit attributable to ordinary shareholders of the listed companies in the consolidated financial statement (%)
2018	0	0	0	0-1,869,014,160.08	0	
2017	0	0	0	0 87,796,591.29	0	
2016	0	0.16	0	22,616,102.05 71,224,250.43	31.75	

## II. FULFILLMENT OF UNDERTAKINGS

(i) **Undertakings made by the actual controller, shareholders, connected persons, buyers and the relevant parties of the Company made or effective during the Reporting Period**

Background	Type of undertaking	Undertaking party	Content of undertaking	Date and duration of undertaking	Whether there is a deadline for performance	Whether strictly performed in a timely manner
	Solving the issues concerning competition in the same industry	CSSC	1. CSSC will, within 5 years upon the completion of this re-organization, be restructured and integrated through asset re-organization, equity merger and acquisition, business combination that comply with laws, regulations and to the benefits of listed companies and the shareholders, to eliminate the competition in the same industry. 2. CSSC will not, and will prevent ad avoid that CSSC controlled enterprises (excluding COMEC and the subsidiaries under its control). 3. If CSSC violates the commitments above, resulting in any damage to the interests of COMEC, CSSC agrees to assume the liabilities for all economic compensations. 4. The commitments shall be governed by the laws of the PRC, and any disputes arising from the execution, validity, explanation and performance shall be governed by the laws of the PRC.	From 8 April 2015 to 9 April 2020	Yes	Yes
Undertaking relating to the material asset reorganisation	Settlement of connected transactions	CSSC	CSSC and entities under its control will make great efforts to reduce or avoid connected transactions with the Company in the future operating activities. In case of any connected transaction that is not avoidable, the terms and conditions for such transactions shall be conducted in accordance with normal business standards. The pricing policies of connected transactions shall comply with the market-based principal of equality, fairness and openness.	Made on 31 October 2014	No	Yes
	Others	CSSC	Upon the completion of the transaction, CSSC will completely separate from the Company in terms of personnel, assets, business, institutions and finance in accordance with the relevant laws, regulations and normative documents, and will not engage in any act that may affect the independence of the Company's personnel, or the financial independence or damage the interests of COMEC and other shareholders, to practically guarantee the independence of the Company in personnel, assets, business, institutions and finance.	Made on 31 October 2014	No	Yes
	Selling restriction for shares	CSSC	A shares received by CSSC from this asset subscription will not be transferred in any way within 36 months since the listing of such shares, including but not limited to public transfer on the securities market or transfer through agreement. Upon expiry of such period, the transfer shall comply with the relevant rules of the China Securities Regulatory Commission and the Shanghai Stock Exchange.	From 8 April 2015 to 9 April 2018	Yes	Yes

## SECTION V SIGNIFICANT EVENTS

Background	Type of undertaking	Undertaking party	Content of undertaking	Date and duration of undertaking	Whether there is a deadline for performance	Whether strictly performed in a timely manner
	Solving the defects on titles to lands	CSSC	<p>Arrangements for supporting the relocation and upgrading of Huangpu Wenchong and Wenchong Shipyard. Pursuant to overall planning of Guangzhou Municipal Government, a land parcel of Huangpu Wenchong at Changzhou Street ("Changzhou Plant") and a land parcel located at Wenchong Plant owned by Guangzhou Wenchong Shipyard Co., Ltd. ("Wenchong Shipyard"), a subsidiary of Huangpu Wenchong, are no longer suitable for industrial use in shipbuilding in accordance with the planning for the regions in which they are located, and will be recovered as reserve by Guangzhou Municipal Government. As such, in accordance with the relevant requirements for management of state-owned assets, these two parcels of land and buildings thereon will be transferred to Guangzhou Ship Industrial Co., Ltd. under CSSC for free. As for the transfer and subsequent matters, it was agreed as follows: 1. The transfer of land and buildings thereon was because the adjustment to urban planning caused these assets to be no longer suitable for incorporation into the Company. As such, in order to maintain normal production and operation of Huangpu Wenchong and Wenchong Shipyard, it was agreed that the land of Changzhou Plant, Wenchong Plant and other relevant ancillary domestic area and buildings thereon, of which the ownership has been transferred to Guangzhou Ship Industrial Co., Ltd. under CSSC, will be leased to Huangpu Wenchong and Wenchong Shipyard for continued use, and the rent will be paid based on existing land amortisation, property depreciation and relevant taxes and expenses. In addition, CSSC will spare no efforts to facilitate Guangzhou Municipal Government in finalising the land for new plants and complete the relocation from Changzhou Plant and Wenchong Plant as soon as practicable. 2. Given there are certain granted land and properties without ownership certificates in Changzhou Plant, Wenchong Plant and other relevant ancillary domestic area and buildings thereon, if such land or properties cannot continued to be utilised due to these arrangements, causing adverse impact to the production and operation of Huangpu Wenchong and Wenchong Shipyard, CSSC will actively coordinate in solving the issue and fully indemnify Huangpu Wenchong and Wenchong Shipyard in cash against any economic losses incurred. 3. CSSC will actively assist Huangpu Wenchong and Wenchong Shipyard in future communication with Guangzhou Municipal Government in compensation for the relocation.</p>	Made on 31 October 2014	No	Yes

Background	Type of undertaking	Undertaking party	Content of undertaking	Date and duration of undertaking	Whether there is a deadline for performance	Whether strictly performed in a timely manner
	Others	CSSC	1. CSSC will actively assist Huangpu Wenchong, Wenchong Shipyard in communicating with Guangzhou Municipal Government for compensation for the relocation; 2. If any expenses incurred by Huangpu Wenchong and Wenchong Shipyard due to removal, transportation and installation of some of the assets to be demolished due to relocation shall be included in the government subsidies in accordance with the law and compensated to Huangpu Wenchong and Wenchong Shipyard; 3. If relevant government compensation is less than the expenses actually incurred by Huangpu Wenchong and Wenchong Shipyard due to the relocation and demolition of some assets, the Company will make full supplements in cash within 90 days after relevant government compensation is in place.	Made on 3 March 2015	No	Yes
	Others	CSSC	CSSC does not have any plan to reduce its shareholding in COMEC during the period from the date of resumption of trading for the reorganisation to the date of completion of the reorganisation.	Made on 26 February 2018	Yes	Yes

### III. ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS AND IMPACT OF THE CHANGE IN ACCOUNTING POLICY, ACCOUNTING ESTIMATES OR CORRECTION OF SIGNIFICANT ACCOUNTING ERRORS

#### (i) Analysis and explanation of the Company on the reasons and impact of the change in accounting policy and accounting estimates

##### 1. Changes in significant accounting policies

###### (1) Details of and reason for changes

The Ministry of Finance of the PRC issued the following amendments to and interpretations of the Accounting Standards for Business Enterprises in 2017 and 2018:

- (i) Accounting Standard for Business Enterprises No. 14 – Revenue (Amendment) (the “New Revenue Standard”)
- (ii) Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Amendment), Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (Amendment), Accounting Standard for Business Enterprises No. 24 – Hedging Accounting (Amendment), and Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (Amendment) (collectively, the “New Standards for Financial Instruments”)
- (iii) Circular on the Format of Financial Statements of General Enterprises for 2018 (Cai Kuai [2018] No. 15)

The Group has adopted the aforesaid amendments to and interpretations of the Accounting Standards for Business Enterprises with effect from 1 January 2018 and has adjusted its relevant accounting policies.

###### (2) Principal impacts of changes

- (i) New Revenue Standard

The New Revenue Standard replaces the Accounting Standard for Business Enterprises No. 14 – Revenue and the Accounting Standard for Business Enterprises No. 15 – Construction Contracts (collectively, the “Previous Revenue Standards”) issued by the Ministry of Finance of the PRC in 2006.

## SECTION V SIGNIFICANT EVENTS

Under the Previous Revenue Standards, for the shipbuilding services and offshore engineering products and large steel structure products provided by the Group, their revenue and cost were recognised in accordance with the requirements of the Accounting Standard for Business Enterprises No. 15 – Construction Contracts. When the outcome of a construction contract can be estimated reliably at the balance sheet date, contract related economic benefits will probably flow into the Group, the incurred contract cost can be clearly identified and reliably measured, the percentage of completion and estimated future costs could be reliably measured, contract revenue and contract expenses will be recognised by using the percentage of completion method. The revenue and cost of electromechanical products and other steel structure products are recognised in accordance with the requirements for sale of goods, and the timing of revenue recognition was determined based on the timing of transfer of risks and rewards.

Under the New Revenue Standard, the principles for recognition and methods of measurement of revenue of the Group upon change are as follows: At the date of contract, the Group shall assess the contract, identify each of the performance obligations in the contract, as well as ensure whether each of the performance obligations is to be fulfilled over time or at a particular point in time, and subsequently confirm the revenue accordingly upon the complete fulfilment of each of the performance obligations. For the performance obligations to be fulfilled at a point in time, the Group recognises revenue at contractual price when the customer has obtained the control over the relevant goods. For the performance obligations to be fulfilled over time, the Group recognises revenue based on the performance progress during such period. The Group adopts the input method to determine the appropriate progress of performance, which is determined by the total actual contract cost incurred in proportion to the total estimated contract cost. When the performance progress cannot be reasonably determined, the incurred cost expected to be compensated is recognised as revenue, until the performance progress can be reasonably determined.

In accordance with the requirements of the New Revenue Standard, the Group presents contract assets or contract liabilities in the balance sheet based on the relationship between the performance of obligations and the payment by customers.

The Group reviews the sources of revenue and the performance of obligations by customers to assess the impacts of the New Revenue Standard on its financial statements. The Group's revenue is mainly from shipbuilding and offshore engineering products. Based on the assessment of contracts with customers, most of the shipbuilding and offshore engineering products meet the condition to "performance over time", and their venue continue to be recognised based on the performance progress. A small portion of shipbuilding and offshore engineering products does not meet the condition to "performance over time", and the Group changed them to performance at a particular point in time. In accordance with the transitional provisions of the New Revenue Standard, the accumulated impact of the first time adoption of the New Revenue Standard was that undistributed profit as at the beginning of 2018 decreased by RMB29,547,841.37, without adjusting comparative period figures.

The impacts on the relevant items in the consolidated financial statements are as follows (Unit: RMB):

Items affected	1 January 2018 (Consolidated)		
	Before adjustment	Adjustment under the New Revenue Standard	After adjustment
Total assets	46,753,104,355.82	546,427,299.84	47,299,531,655.66
Including: Inventories	10,436,569,035.60	-5,585,336,649.54	4,851,232,386.06
Contract assets		6,131,763,949.38	6,131,763,949.38
Total liabilities	34,433,614,505.78	575,975,141.21	35,009,589,646.99
Including: Advances			
from customers	642,156,792.96	-642,156,792.96	
Contract liabilities		6,411,599,314.91	6,411,599,314.91
Other current liabilities	5,544,483,602.13	-5,407,233,010.85	137,250,591.28
Estimated liabilities	540,745,308.48	213,765,630.11	754,510,938.59
Total owners' equity	12,319,489,850.04	-29,547,841.37	12,289,942,008.67
Including: Undistributed profit	-255,300,411.53	-29,547,841.37	-284,848,252.90

## SECTION V SIGNIFICANT EVENTS

The impacts on the relevant items in the financial statements of the Company are as follows (Unit: RMB):

Items affected	1 January 2018 (the Company)		
	Before adjustment	Adjustment under the New Revenue Standard	After adjustment
Total liabilities	856,982,812.13		856,982,812.13
Including: Advances			
from customers	55,310,128.61	-55,310,128.61	
Contract liabilities		55,310,128.61	55,310,128.61

(ii) New Standards for Financial Instruments

The New Standards for Financial Instruments revised the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets, and the Accounting Standard for Business Enterprises No. 24 – Hedging Accounting issued by the Ministry of Finance of the PRC in 2006, as well as the Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments amended by the Ministry of Finance of the PRC in 2014 (collectively, the “Previous Standards for Financial Instruments”).

The New Standards for Financial Instruments classify financial assets into three types: (1) financial assets at amortised cost; (2) financial assets at fair value through other comprehensive income; and (3) financial assets at fair value through profit or loss. Under the New Standards for Financial Instruments, the classification of financial assets is determined based on the business model under which the Group manages financial assets and the characteristics of contractual cash flows of the assets. The New Standards for Financial Instruments removed the classification of loans and receivables, held-to-maturity investments and available-for-sale financial assets under the Previous Standards for Financial Instruments.

The New Standards for Financial Instruments replaced the “incurred loss” model under the Previous Standards for Financial Instruments with the “expected credit loss” model. The “expected credit loss” model requires continuous assessment of credit risks of financial assets.

In accordance with the requirements of the New Standards for Financial Instruments, the Group designates investments in equity instruments not held for trading as financial assets at fair value through other comprehensive income and makes retrospective adjustments. Based on the difference between the carrying value of financial instruments previously reported and the new carrying value of financial instruments at the date of adoption of the New Standards for Financial Instruments, being 1 January 2018, the Group increased other comprehensive income as at the beginning of 2018 by RMB17,736,432.06, without adjusting comparative financial statement figures.

## SECTION V SIGNIFICANT EVENTS

The impacts on the relevant items in the consolidated financial statements are as follows (Unit: RMB):

Items affected	1 January 2018 (Consolidated)		
	Before adjustment	New financial instruments Standard adjustment	After adjustment
Total assets	46,753,104,355.82	23,731,942.26	46,776,836,298.08
Including: Financial assets held-for-trading		6,602,255.91	6,602,255.91
Financial assets at fair value through profit or loss	6,602,255.91	-6,602,255.91	
Available-for-sale financial assets	21,029,995.04	-21,029,995.04	
Investments in other equity instruments		44,726,104.08	44,726,104.08
Deferred tax assets	460,427,215.85	35,833.22	460,463,049.07
Total liabilities	34,433,614,505.78	5,995,510.20	34,439,610,015.98
Including: Financial liabilities held-for-trading		3,366,294.31	3,366,294.31
Financial liabilities at fair value through profit or loss	3,366,294.31	-3,366,294.31	
Deferred tax liabilities	1,412,563.62	5,995,510.20	7,408,073.82
Total owners' equity	12,319,489,850.04	17,736,432.06	12,337,226,282.10
Including: Other comprehensive income	-60,327,829.23	17,736,432.06	-42,591,397.17

There were no impacts on the items in the financial statements of the Company.

## SECTION V SIGNIFICANT EVENTS

### (iii) Presentation of financial Statements

The Group has prepared its annual financial statements for 2018 in accordance with the format of financial statements set out in Cai Kuai [2018] No. 15 and has changed the presentation of the relevant financial statements using retrospective adjustment method.

The impacts on the relevant items in the consolidated financial statements are as follows (Unit: RMB):

<b>Affected items in the consolidated balance sheet</b>	<b>Before adjustment</b>	<b>31 December 2017 Presentation and reclassification</b>	<b>After adjustment</b>
Total assets	46,753,104,355.82		46,753,104,355.82
Including: Notes receivable	167,534,216.21	-167,534,216.21	
Accounts receivable	1,651,109,563.96	-1,651,109,563.96	
Notes and accounts receivable		1,818,643,780.17	1,818,643,780.17
Interest receivable	46,434,534.12	-46,434,534.12	
Other receivables	138,124,705.64	46,434,534.12	184,559,239.76
Fixed assets	11,746,529,227.03	31,132.31	11,746,560,359.34
Disposal of fixed assets	31,132.31	-31,132.31	
Total liabilities	34,433,614,505.78		34,433,614,505.78
Including: Notes payable	1,774,884,568.59	-1,774,884,568.59	
Accounts payable	7,855,669,851.50	-7,855,669,851.50	
Notes and accounts payable		9,630,554,420.09	9,630,554,420.09
Interest payable	15,896,189.07	-15,896,189.07	
Dividends payable	383,540.92	-383,540.92	
Other payables	265,789,880.66	16,279,729.99	282,069,610.65
Long-term payables		99,370,000.00	99,370,000.00
Special payables	99,370,000.00	-99,370,000.00	
<b>Affected items in the consolidated income statement</b>	<b>Before adjustment</b>	<b>2017 Presentation and reclassification</b>	<b>After adjustment</b>
Administrative expenses	1,362,051,991.52	-408,186,557.71	953,865,433.81
Research and development expenses		408,186,557.71	408,186,557.71
Other income	61,379,130.19	42,176.01	61,421,306.20
Non-operating income	864,188,538.49	-42,176.01	864,146,362.48
Net profit	-45,856,889.17		-45,856,889.17

## SECTION V SIGNIFICANT EVENTS

The impacts on the relevant items in the financial statements of the Company are as follows (Unit: RMB):

Affected items in the balance sheet of the Company	Before adjustment	31 December 2017 Presentation and reclassification	After adjustment
Total assets	9,635,378,787.06		9,635,378,787.06
Including: Notes receivable	100,000.00	-100,000.00	
Accounts receivable	34,815,043.87	-34,815,043.87	
Notes and accounts receivable		34,915,043.87	34,915,043.87
Interest receivable	403,909.69	-403,909.69	
Other receivables	9,128,338.88	403,909.69	9,532,248.57
Fixed assets	76,749,497.88	31,132.31	76,780,630.19
Disposal of fixed assets	31,132.31	-31,132.31	
Total liabilities	856,982,812.13		856,982,812.13
Including: Accounts payable	65,977,190.78	-65,977,190.78	
Notes and accounts payable		65,977,190.78	65,977,190.78
Interest payable	339,166.67	-339,166.67	
Dividends payable	383,540.92	-383,540.92	
Other payables	29,876,357.49	722,707.59	30,599,065.08
Long-term payables		99,370,000.00	99,370,000.00
Special payables	99,370,000.00	-99,370,000.00	

### 2. Changes in significant accounting estimates

During the year, there were no changes in accounting estimates that are required to be disclosed.

### 3. Information on the adjustment to the relevant items in financial statements as at the beginning of the year as a result of the implementation of the New Standards for Financial Instruments or the New Revenue Standard

(i) Consolidated Balance Sheet

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current assets:			
Cash at bank and on hand	12,210,331,068.62	12,210,331,068.62	
Settlement reserve			
Placements with banks and non-bank financial institutions			
Financial assets held-for-trading	Not applicable	6,602,255.91	6,602,255.91
Financial assets at fair value through profit or loss	6,602,255.91	Not applicable	-6,602,255.91
Derivative financial assets			
Notes and accounts receivable	1,818,643,780.17	1,818,643,780.17	
Including: Notes receivable	167,534,216.21	167,534,216.21	
Accounts receivable	1,651,109,563.96	1,651,109,563.96	
Prepayments	2,527,490,871.22	2,527,490,871.22	
Insurance premium receivable			
Reinsurance premium receivable			
Reserves for reinsurance contract receivable			
Other receivables	184,559,239.76	184,559,239.76	
Including: Interest receivable	46,434,534.12	46,434,534.12	
Dividends receivable			
Financial assets purchased under agreements to resell			
Inventories	10,436,569,035.60	4,851,232,386.06	-5,585,336,649.54
Contract assets	Not applicable	6,131,763,949.38	6,131,763,949.38



## SECTION V SIGNIFICANT EVENTS

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Assets held for sale			
Non-current assets due			
within one year	1,033,143,116.08	1,033,143,116.08	
Other current assets	1,851,997,385.43	1,851,997,385.43	-
Total current assets	30,069,336,752.79	30,615,764,052.63	546,427,299.84
Non-current assets:			
Loans and advances to customers			
Debt investments	Not applicable		
Available-for-sale financial assets	21,029,995.04	Not applicable	-21,029,995.04
Other debt investments	Not applicable		
Held-to-maturity investments		Not applicable	
Long-term receivables	460,059,537.09	460,059,537.09	
Long-term equity investments	738,018,660.57	738,018,660.57	
Investments in other equity instruments	Not applicable	44,726,104.08	44,726,104.08
Other non-current financial assets	Not applicable		
Investment properties	22,251,363.68	22,251,363.68	
Fixed assets	11,746,560,359.34	11,746,560,359.34	
Construction in progress	697,131,740.77	697,131,740.77	
Productive biological assets			
Oil and gas assets			
Intangible assets	2,106,502,925.06	2,106,502,925.06	
Development expenses			
Goodwill	144,231,195.67	144,231,195.67	
Long-term prepaid expenses	88,534,537.73	88,534,537.73	
Deferred tax assets	460,427,215.85	460,463,049.07	35,833.22
Other non-current assets	199,020,072.23	199,020,072.23	
Total non-current assets	16,683,767,603.03	16,707,499,545.29	23,731,942.26
Total assets	46,753,104,355.82	47,323,263,597.92	570,159,242.10
Current liabilities:			
Short-term borrowings	2,970,414,975.00	2,970,414,975.00	
Loans from central bank			
Deposits from customers and other banks			
Placements from banks and other financial institutions			
Financial liabilities held-for-trading	Not applicable	3,366,294.31	3,366,294.31
Financial liabilities at fair value through profit or loss	3,366,294.31	Not applicable	-3,366,294.31
Derivative financial liabilities			
Notes and accounts payable	9,630,554,420.09	9,630,554,420.09	
Advances from customers	642,156,792.96		-642,156,792.96
Contract liabilities	Not applicable	6,411,599,314.91	6,411,599,314.91
Securities sold under agreements to repurchase			
Fee and commission payable			
Employee benefits payable	43,914,558.18	43,914,558.18	
Taxes payable	76,628,685.72	76,628,685.72	
Other payables	282,069,610.65	282,069,610.65	
Including: Interest payable	15,896,189.07	15,896,189.07	
Dividends payable	383,540.92	383,540.92	
Reinsured accounts payable			
Brokerage for securities trading			
Brokerage for underwriting securities			
Liabilities held for sale			
Non-current liabilities due			
within one year	4,482,400,000.00	4,482,400,000.00	
Other current liabilities	5,544,483,602.13	137,250,591.28	-5,407,233,010.85
Total current liabilities	23,675,988,939.04	24,038,198,450.14	362,209,511.10

## SECTION V SIGNIFICANT EVENTS

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Non-current liabilities:			
Reserves for insurance contracts			
Long-term borrowings	9,795,157,000.00	9,795,157,000.00	
Bonds payable			
Including: Preference shares			
Perpetual bonds			
Long-term payables	99,370,000.00	99,370,000.00	
Long-term employee benefits payable	273,426,011.04	273,426,011.04	
Estimated liabilities	540,745,308.48	754,510,938.59	213,765,630.11
Deferred income	47,514,683.60	47,514,683.60	
Deferred tax liabilities	1,412,563.62	7,408,073.82	5,995,510.20
Other non-current liabilities			
Total non-current liabilities	10,757,625,566.74	10,977,386,707.05	219,761,140.31
Total liabilities	34,433,614,505.78	35,015,585,157.19	581,970,651.41
Owners' equity:			
Share capital	1,413,506,378.00	1,413,506,378.00	
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserve	8,746,675,613.33	8,746,675,613.33	
Less: Treasury shares			
Other comprehensive income	-60,327,829.23	-42,591,397.17	17,736,432.06
Special reserve	2,096,705.90	2,096,705.90	
Surplus reserve	962,441,825.31	962,441,825.31	
Provision for general risks			
Undistributed profit	-255,300,411.53	-284,848,252.90	-29,547,841.37
Total equity attributable to owners of the Company	10,809,092,281.78	10,797,280,872.47	-11,811,409.31
Minority interests	1,510,397,568.26	1,510,397,568.26	
Total owners' equity	12,319,489,850.04	12,307,678,440.73	-11,811,409.31
Total liabilities and owners' equity	46,753,104,355.82	47,323,263,597.92	570,159,242.10

For details of the adjustments to the consolidated balance sheet, please refer to the notes to the financial statements.

(2) *Balance Sheet of the Company*

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current assets:			
Cash at bank and on hand	513,258,307.19	513,258,307.19	
Financial assets held-for-trading	Not applicable		
Financial assets at fair value through profit or loss		Not applicable	
Derivative financial assets			
Notes and accounts receivable	34,915,043.87	34,915,043.87	
Including: Notes receivable	100,000.00	100,000.00	
Accounts receivable	34,815,043.87	34,815,043.87	
Prepayments	1,861,905.00	1,861,905.00	
Other receivables	9,532,248.57	9,532,248.57	
Including: Interest receivable	403,909.69	403,909.69	
Dividends receivable			
Inventories	131,196,488.58	131,196,488.58	
Contract assets	Not applicable		
Assets held for sale			
Non-current assets due within one year	650,000,000.00	650,000,000.00	
Other current assets	282,058,591.92	282,058,591.92	
Total current assets	1,622,822,585.13	1,622,822,585.13	

## SECTION V SIGNIFICANT EVENTS

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Non-current assets:			
Debt investments	Not applicable		
Available-for-sale financial assets		Not applicable	
Other debt investments	Not applicable		
Held-to-maturity investments		Not applicable	
Long-term receivables			
Long-term equity investments	7,902,205,154.63	7,902,205,154.63	
Investments in other equity instruments	Not applicable		
Other non-current financial assets	Not applicable		
Investment properties			
Fixed assets	76,780,630.19	76,780,630.19	
Construction in progress			
Productive biological assets			
Oil and gas assets			
Intangible assets	10,792,029.90	10,792,029.90	
Development expenses			
Goodwill			
Long-term prepaid expenses	2,344.24	2,344.24	
Deferred tax assets	20,000,000.00	20,000,000.00	
Other non-current assets	2,776,042.97	2,776,042.97	
Total non-current assets	8,012,556,201.93	8,012,556,201.93	
Total assets	9,635,378,787.06	9,635,378,787.06	
Current liabilities:			
Short-term borrowings	100,000,000.00	100,000,000.00	
Financial liabilities held-for-trading	Not applicable		
Financial liabilities at fair value through profit or loss		Not applicable	
Derivative financial liabilities			
Notes and accounts payable	65,977,190.78	65,977,190.78	
Advances from customers	55,310,128.61		-55,310,128.61
Contract liabilities	Not applicable	55,310,128.61	55,310,128.61
Employee benefits payable	1,611,226.23	1,611,226.23	
Taxes payable	4,115,201.43	4,115,201.43	
Other payables	30,599,065.08	30,599,065.08	
Including: Interest payable	339,166.67	339,166.67	
Dividends payable	383,540.92	383,540.92	
Liabilities held for sale			
Non-current liabilities due within one year	500,000,000.00	500,000,000.00	
Other current liabilities			
Total current liabilities	757,612,812.13	757,612,812.13	
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual bonds			
Long-term payables	99,370,000.00	99,370,000.00	
Long-term employee benefits payable			
Estimated liabilities			
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities	99,370,000.00	99,370,000.00	
Total liabilities	856,982,812.13	856,982,812.13	
Owners' equity:			
Share capital	1,413,506,378.00	1,413,506,378.00	
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserve	6,147,927,729.10	6,147,927,729.10	-
Less: Treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	472,670,941.45	472,670,941.45	-
Undistributed profit	744,290,926.38	744,290,926.38	-
Total owners' equity	8,778,395,974.93	8,778,395,974.93	-
Total liabilities and owners' equity	9,635,378,787.06	9,635,378,787.06	-

## SECTION V SIGNIFICANT EVENTS

For details of the adjustments to the balance sheet of the Company, please refer to the notes to the financial statements.

#### 4. **Description of the retrospective adjustments to comparative data for last period arising from the first-time adoption of the New Standards for Financial Instruments**

In accordance with the transitional provisions of the new accounting standards, the accumulated impact of the first-time adoption of the New Revenue Standard was that other comprehensive income as at the beginning of 2018 increased by RMB17,736,432.06, and undistributed profits as at the beginning of 2018 decreased by RMB29,547,841.37. It will not adjust the listed company figures during the comparable period.

### IV. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS

Unit: Yuan Currency: RMB

	<b>Currently appointed</b>
Name of domestic accounting firm	ShineWing
Compensation of domestic accounting firm	2,020,000
Number of years of audit by domestic accounting firm	1 year
Name of overseas accounting firm	–
Compensation of overseas accounting firm	–
Number of years of audit by overseas accounting firm	–

	<b>Name</b>	<b>Compensation</b>
Accounting firm for internal control audit	ShineWing	400,000

#### Description of appointment and dismissal of accounting firms

- (i) It was considered and passed at the annual general meeting of 2017 of the Company that, ShineWing was appointed as the Company's domestic and international financial report auditor. As at 31 December 2018, ShineWing had provided audit services for the Company for 8 years successively. The financial statements in the Company's annual report 2018 were prepared according to the Accounting Standards for Business Enterprises of the PRC, and audited by ShineWing; and for this, the Company paid RMB2.02 million (inclusive of tax) to the auditor as remuneration for its annual audit work. The signing CPAs of the auditors' report in the Company's annual report 2018 are Mr. Chen Gang and Mr. Song Yong. ShineWing will retire upon expiry of term and offer themselves for re-appointment.
- (ii) It was considered and passed at the 5th meeting of the ninth session of the Board that, the Company re-appoint ShineWing as the Company's internal control auditor for 2018. The Company's annual internal control self-evaluation report for 2018 has been audited by ShineWing, and for this, the Company has paid RMB400,000 (inclusive of tax) to it as remuneration for its annual audit work.

In addition to the above mentioned audit matters, ShineWing (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) also provided the Company with special audit services on connected transactions, connected external guarantee and appropriation of fund, etc., without providing non-auditing work, during the Reporting Period.

### V. MATERIAL LITIGATIONS AND ARBITRATIONS

#### (i) **The Company has no material litigations or arbitrations during the year**

#### (ii) **Other explanations**

On 31 December 2010, the Company and its subsidiary Guangzhou Guangli Shipbuilding Human Resources Service Company Limited ("Guangli") filed four lawsuits at the Zhenjiang Intermediate People's court of Jiangsu province, being a case on the Company's claim against Jiangsu Shenghua for return of properties, a case on technical service contract dispute, and the cases on Guangli's claim against Jiangsu Shenghua for 79,600-ton bulk carriers 1# and 2# installment work contract disputes. On 4 June 2013, Wuhan Maritime Court mediated the litigation between the Company and Jiangsu Shenghua, and Jiangsu Shenghua had returned all the related assets. As for the case that the Company sued Jiangsu Shenghua in relation to a dispute over technical service contract, and the case that Guangli sued Jiangsu Shenghua in relation to a dispute over the Contract for Installation Engineering of 1# and 2# 79,600-ton bulk carriers, please refer to the "Significant Events – (I) Significant Litigations and Arbitrations" in the annual report of the Company for the year 2011 for details.

The Company attended the second meeting of creditors for bankruptcy on 27 April 2017 and received on 17 May 2017 a ruling made by Zhenjiang Intermediate Court which approved the proposal for bankruptcy and realization of properties of Jiangsu Shenghua. The valuation of the existing properties, land and structures erected thereon and machinery and equipment of Jiangsu Shenghua was completed, and its ships under construction were still under valuation. Its land, properties, machinery and other relevant assets had been auctioned at RMB77.65 million. The third meeting of debtors for bankruptcy is expected to be held within 2019.

## VI. MATERIAL CONNECTED TRANSACTIONS

### (i) Connected transactions in the ordinary course of business

#### *Matters disclosed in extraordinary announcements with progress or change in the follow-up implementation*

The Company's continuing connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange consisted of routine connected transactions, particulars of these transactions have been disclosed in the notes to the financial statements in accordance with Rule 14A.71.

The Company's financial report auditor and Directors (including four independent non-executive Directors) have reviewed the routine connected transactions and confirm that such transactions are conducted in the Company's ordinary course of business on normal commercial terms and in accordance with related contractual provisions; the transaction terms are fair and reasonable, and in the shareholders' interests as a whole; and the transactions did not exceed the cap amount for year 2018, as approved in the shareholders' meeting.

The Company's auditor has issued a letter with unqualified opinions on the findings and conclusion of the Group's above mentioned continuing connected transactions under Rule 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange.

In accordance with Chapter 14A of the Listing Rules, certain related transaction set out in notes to the financial statements (prepared under the Accounting Standards for Business Enterprises in the PRC) also constitute continuing connected transactions and the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

## SECTION V SIGNIFICANT EVENTS

### Connected transactions in the ordinary course of business for 2018 (from January to December)

Unit: RMB in ten thousand

No.	Content and type of transaction	Cap approved at general meeting	Actual transaction amount	Proportion of total amount of transactions of the same type (%)	Pricing basis
1	<b>Products and services provided by the Group to the CSSC Group</b>				
1.1	Provision of electrical and mechanical engineering equipment, and metallic accessories	426,957.00	101,691.00	5.46	Market price
1.2	Supply of utilities	8,301.00	3,251.00	76.72	Cost plus a 20-25% management fee or on terms no less favourable to the Group than terms available from independent third parties
1.3	Labour and technical services	18,927.00	2,761.96	4.93	On terms no less favourable to the Group than terms available from independent third parties
2	<b>Products, leasing services and labour services provided by the CSSC Group to the Group</b>				
2.1	Provision of electrical and mechanical engineering equipment and metallic materials, shipbuilding accessories and equipment for use on ships	1,239,625.00	470,629.10	38.92	Market price or on terms no less favourable to the Group than terms available from independent third parties
2.2	Leasing, labour and technical services	84,616.00	18,906.45	2.57	On terms no less favourable to the Group than terms available from independent third parties or cost plus 10% management fee or market price
3	<b>Financial services provided by the CSSC Group</b>				
3.1	Deposits (amount)	780,000.00	388,700.80	37.60	Benchmark deposit interest rate set by the People's Bank of China plus reasonable upward adjustment
3.2	Interest on deposits	17,550.00	4,449.43	18.88	
3.3	Loans (amount)	1,010,000.00	372,669.20	28.54	No more than benchmark loan interest rate set by the People's Bank of China
3.4	Loan interest	49,490.00	12,655.89	34.18	
3.5	Others and bank facilities (credit limit)	850,000.00	223,335.61	21.50	On terms no less favourable to the Group than terms available from independent third parties
3.6	Others and bank facilities (interest amount)	1,320.00	258.82	18.69	On terms no less favourable to the Group than terms available from independent third parties
3.7	Forward exchange settlement (amount)	850,000.00	171,580.00	15.18	On terms no less favourable to the Group than terms available from independent third parties
3.8	Entrusted assets management services (amount)	550,000.00	40,000.00	100.00	On terms no less favourable to the Group than terms available from independent third parties
3.9	Entrusted assets management services (interest)	27,500.00	4,387.89	100.00	
4	<b>Guarantees</b>				
4.1	Maximum guarantee amount provided by the Company for the CSSC Group and its members	-	-	-	None
4.2	Expenses incurred in relation to the guarantee amount provided by the Company for the CSSC Group and its members	-	-	-	
4.3	Maximum guarantee amount provided by the CSSC Group and its members for the Company	750,000.00	-	-	Guarantee fee of no more than 0.6%
4.4	Expenses incurred in relation to the guarantee amount provided by the CSSC Group and its members for the Company	4,500.00	-	-	
5	<b>Ship sales agency services provided by the CSSC Group</b>				
5.1	Ship sales agency	11,900.00	4,470.07	32.35	Follow the global industry practice and will not exceed 0.25-1.5% of the contract price and be paid according to the shipbuilding progress of the vessel in question
6	<b>Materials purchase agency services provided by the CSSC Group</b>				
6.1	Materials purchase agency	1,610.00	594.03	100.00	1-2% of the contract price

(ii) **Connected transactions in relation to the acquisition or disposal of assets or equity interests**

*Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation*

**Summary of matter**

**Index for details**

At the tenth meeting of the ninth session of the Board and the second extraordinary general meeting of 2018 of the Company held on 19 October and 5 December 2018, the Resolution on the Connected Transaction in relation to the Acquisition of 100% equity interest in Guangzhou Wenchong Dockyard Co., Ltd. by a Subsidiary of the Company was considered and passed, pursuant to which GSI was authorised to acquire 100% equity interest in Wenchong Dockyard with self-owned funds in the aggregate amount of RMB498,290,590.06, including 74.96% equity interest in Wenchong Dockyard held by CSSC at a consideration of RMB373,518,626.31 and 25.04% equity interest in Wenchong Dockyard held by China United Shipbuilding Company Limited (“China United Shipbuilding”) at a consideration of RMB124,771,963.75. pursuant to an equity transfer agreement dated 19 October 2018 between CSSC and China United Shipbuilding as transferors and GSI as transferee. CSSC is the controlling shareholder of the Company and the actual controller of China United Shipbuilding. It is expected that the transaction would alleviate the issue of insufficient wharf resources of GSI, improve its productivity, expand its ship maintenance and modification business, modular non-ship business and environmental production business, and to increase its competitiveness.

For details, please refer to the announcement of COMEC dated 19 October 2018 on the connected transaction in relation to acquisition of assets in cash by a subsidiary and the announcement of COMEC dated 5 December 2018 on the poll results of the second extraordinary general meeting of 2018 published by the Company on the websites of the Shanghai Stock Exchange (www.sse.com.cn) and the Stock Exchange (www.hkexnews.hk).

(iii) **Related creditor’s right and debt transactions**

Details of the related creditor’s right and debt transactions of the Company for 2018 are set out in the notes to the financial statements.

## VII. CONTRACTS OF SIGNIFICANCE AND THEIR PERFORMANCE

(i) **Leases**

*Unit: RMB in ten thousand Currency: RMB*

Name of lessor	Name of lessee	Leased assets	Amount of lease assets	Date of commencement of lease	Date of expiry of lease	Rental income	Basis for determination of rental income	Impact of rental income on the Company	Whether connected transaction or not	Relationship
Guangzhou Ship Industrial Co., Ltd.	Huangpu Wenchong	Land, buildings and structures	-	2014.5.1	The date on which the relocation is completed and production commences at the new plant	-	-	-	Yes	Sister company of the Group
Guangzhou Ship Industrial Co., Ltd.	Wenchong Shipyard	Land, buildings and structures	-	2014.5.1	The date on which the relocation is completed and production commences at the new plant	-	-	-	Yes	Sister company of the Group

## SECTION V SIGNIFICANT EVENTS

### Description of leases

In 2014, Guangzhou Ship Industrial Co., Ltd., Huangpu Wenchong and Wenchong Shipyard entered into a lease agreement in relation to land use right, pursuant to which Guangzhou Company shall lease the land use right owned by it in relation to the land at the Changzhou Plant and part of the land at the Wenchong Plant to Huangpu Wenchong and Wenchong Shipyard for use in operation. The rent for the land use right shall be determined based on the principle of asset depreciation, amortisation and taxes. The rent shall be paid on an annual basis in the form of cash at bank and on hand. The term for the aforesaid lease of land use right commenced on 1 May 2014 and will end on the date on which the relocation of Huangpu Wenchong and Wenchong Shipyard is completed and they commence formal production at the new plant.

### (ii) Guarantees

Unit: Yuan Currency: RMB

#### Guarantees provided by the Company and its subsidiaries for subsidiaries

Total amount of guarantees provided for its subsidiaries during the Reporting Period	2,300,000,000.00
Total balance of guarantees provided for its subsidiaries at the end of the Reporting Period	1,032,000,000.00

#### Total amount of guarantees provided by the Company (including those provided for its subsidiaries)

Total amount of guarantees	1,032,000,000.00
Total amount of guarantees as a percentage of the Company's net assets (%)	7.19
Including:	
Amount of debt guarantees provided directly or indirectly for companies with gearing ratio of over 70%	1,032,000,000.00

#### Description of guarantees

During the Reporting Period, the Group provided guarantee with a total balance of guarantee of RMB1,032 million, all of which represented guarantees provided by Huangpu Wenchong, a subsidiary of the Company, for Wenchong Shipyard, a wholly-owned subsidiary of the Company, for financing projects and bank credit limits. The cap set out in the framework for the proposed guarantees between the Company and its subsidiaries for the year 2018 and their amounts has not been exceeded.

### (iii) Cash assets entrusted to be managed by others

#### 1. Entrusted wealth management

##### (1) Overview of entrusted wealth management

Unit: Yuan Currency: RMB

Type	Source of funding	Amount incurred	Outstanding balance	Amount overdue unrecovered
Entrusted assets	Self-owned funds	1,001,000,000.00	400,000,000.00	-



(2) Individual entrusted wealth management

Unit: Yuan Currency: RMB

Trustee	Type of entrusted wealth management	Amount of entrusted wealth management	Date of commencement of entrusted wealth management	Date of expiry of entrusted wealth management	Source of funding	Uses	Method of determination of remuneration	Annualised rate of return (if any)	Expected return (if any)	Actual gain or loss	Status of recovery	Whether statutory procedures have been performed	Whether there are any future plans for entrusted wealth management	Amount of provision made for impairment (if any)
CSSC Finance	Entrusted assets	200,000,000.00	2016/6/17	2018/6/20	Self-owned funds	Mainly utilised in low risk products such as central bank bills, treasury bonds, corporate bonds, convertible bonds, trust products, short-term financing bills, medium-term notes, bank financial products, brokerage asset management plan, money funds, bond funds and deposits	Payment of principal and interest upon maturity	4.15%	16,600,000.00	16,688,219.18	200,000,000.00	Yes		-
CSSC Finance	Entrusted assets	70,000,000.00	2016/6/27	2019/7/10	Self-owned funds			4.15%	3,008,465.75			Yes	Yes	-
CSSC Finance	Entrusted assets	200,000,000.00	2018/8/6	2019/8/8	Self-owned funds			5.19%	10,436,876.71			Yes		
CSSC Finance	Entrusted assets	130,000,000.00	2018/9/27	2019/10/10	Self-owned funds			3.80%	5,115,945.21			Yes		
CSSC Finance	Entrusted assets	301,000,000.00	2016/7/7	2018/6/25	Self-owned funds			5.19%	30,730,203.29	30,730,203.29	301,000,000.00	Yes		
CSSC Finance	Entrusted assets	200,000,000.00	2016/6/17	2018/6/17	Self-owned funds			5.80%	23,200,000.00	23,200,000.00	200,000,000.00	Yes	Yes	-
CSSC Finance	Entrusted assets	200,000,000.00	2016/9/26	2018/9/26	Self-owned funds			6.10%	24,400,000.00	24,400,000.00	200,000,000.00	Yes	Yes	-
CSSC Finance	Entrusted assets	100,000,000.00	2016/11/8	2018/11/8	Self-owned funds			5.80%	11,600,000.00	11,600,000.00	100,000,000.00	Yes	Yes	-

Description:

1. In the table above, the "expected return" represents the total returns expected to be obtained during the term of entrusted wealth management, and the "actual gain or loss" represents the gains or losses obtained as agreed under the contract during the elapsed period of entrusted wealth management.
2. Huangpu Wenchong and GSI have utilised surplus capital in entrusted asset management. As at the end of the Reporting Period, the balance of entrusted assets was RMB400 million, which mainly represents low risk products such as central bank bills, treasury bonds, corporate bonds, convertible bonds, trust products, short-term financing bills, medium-term notes, bank financial products, brokerage asset management plan, money funds, bond funds and deposits, and generates return higher than income from bank deposit for the same period while having their risk under control. Based on past cooperation experiences, CSSC Finance makes prudent investments and has not been unable to make payment at lowest annual rate of return.

# SECTION V SIGNIFICANT EVENTS

## 2. Entrusted loans

### (1) Overview of entrusted loans

Type	Source of funding	Amount incurred	Outstanding balance	Amount overdue unrecovered
Consolidation of internal working capital loans of subsidiaries	Self-owned funds	1,762,000,000.00	1,712,000,000.00	-

Unit: Yuan Currency: RMB

### (2) Individual entrusted loans

Trustee	Type of entrusted loans	Amount of entrusted loans	Date of commencement of entrusted loans	Date of termination of entrusted loans	Source of funding	Uses	Method of determination of remuneration	Annualised rate of return	Expected return (if any)	Actual gain or loss	Status of recovery	Whether statutory procedures have been performed	Whether there are any future plans for entrusted loans	Amount of provision made for impairment (if any)
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	15,000,000.00	2016/5/24	2018/5/23	Self-owned funds	Replenishment of working capital of Zhongshan CSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	15,000,000.00	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	40,000,000.00	2016/5/26	2018/5/25	Self-owned funds	Replenishment of working capital of Zhongshan CSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	40,000,000.00	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2016/8/12	2018/8/11	Self-owned funds	Replenishment of working capital of Zhongshan CSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	20,000,000.00	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2016/10/21	2018/10/20	Self-owned funds	Replenishment of working capital of Zhongshan CSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	30,000,000.00	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	10,000,000.00	2016/12/1	2018/11/30	Self-owned funds	Replenishment of working capital of Zhongshan CSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	10,000,000.00	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	35,000,000.00	2017/3/1	2019/02/28	Self-owned funds	Replenishment of working capital of Zhongshan CSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	-	Yes		

Unit: Yuan Currency: RMB

## SECTION V SIGNIFICANT EVENTS

Unit: Yuan Currency: RMB

Trustee	Type of entrusted loans	Amount of entrusted loans	Date of commencement of entrusted loans	Date of termination of entrusted loans	Source of funding	Uses	Method of determination of remuneration	Annualised rate of return	Expected return (if any)	Actual gain or loss	Status of recovery	Whether statutory procedures have been performed	Whether there are any future plans for entrusted loans	Amount of provision made for impairment (if any)
CSSC-France	Consolidation of internal working capital loans of subsidiaries	85,000,000.00	2017/4/21	2019/04/20	Self-owned funds	Replenishment of working capital of Zhongshian GSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	85,000,000.00	2017/5/31	2019/05/30	Self-owned funds	Replenishment of working capital of Zhongshian GSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	55,000,000.00	2018/5/23	2020/5/23	Self-owned funds	Replenishment of working capital of Zhongshian GSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2018/8/15	2020/8/14	Self-owned funds	Replenishment of working capital of Zhongshian GSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2018/10/17	2020/10/16	Self-owned funds	Replenishment of working capital of Zhongshian GSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	10,000,000.00	2018/11/26	2020/11/25	Self-owned funds	Replenishment of working capital of Zhongshian GSI	Payment of interest on a quarterly basis and principal upon maturity	0.00%	-	-	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2018/4/19	2019/4/18	Self-owned funds	Replenishment of working capital of United Steel	Payment of interest on a quarterly basis and principal upon maturity	4.00%	808,888.89	546,666.66	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2018/6/27	2019/4/18	Self-owned funds	Replenishment of working capital of United Steel	Payment of interest on a quarterly basis and principal upon maturity	4.00%	963,333.33	590,000.00	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2018/9/13	2019/9/12	Self-owned funds	Replenishment of working capital of United Steel	Payment of interest on a quarterly basis and principal upon maturity	4.00%	1,213,333.33	330,000.00	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2018/12/4	2019/12/3	Self-owned funds	Replenishment of working capital of United Steel	Payment of interest on a quarterly basis and principal upon maturity	4.00%	1,213,333.33	56,666.67	Yes	Yes		

# SECTION V SIGNIFICANT EVENTS

Unit: Yuan Currency: RMB

Trustee	Type of entrusted loans	Amount of entrusted loans	Date of commencement of entrusted loans	Date of termination of entrusted loans	Source of funding	Uses	Method of determination of remuneration	Annualised rate of return	Expected return (if any)	Actual gain or loss	Status of recovery	Whether statutory procedures have been performed	Whether there are any future plans for entrusted loans	Amount of provision made for impairment (if any)
CSSC-France	Consolidation of internal working capital loans of subsidiaries	22,000,000.00	2018/4/19	2019/4/18	Self-owned funds	Replenishment of working capital of Guangzhou Guanghuan Large-scale Machinery and Equipment Co., Ltd.	Payment of interest on a quarterly basis and principal upon maturity	4.00%	889,777.78	601,333.33	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2018/7/17	2019/7/16	Self-owned funds	Replenishment of working capital of Guangzhou Guanghuan Large-scale Machinery and Equipment Co., Ltd.	Payment of interest on a quarterly basis and principal upon maturity	4.00%	808,888.89	348,888.89	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2018/8/13	2019/7/16	Self-owned funds	Replenishment of working capital of Guangzhou Guanghuan Large-scale Machinery and Equipment Co., Ltd.	Payment of interest on a quarterly basis and principal upon maturity	4.00%	1,123,333.33	433,333.33	Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	200,000,000.00	2018/12/27	2019/12/26	Self-owned funds	Replenishment of working capital of Merchong Dockyard	Payment of interest on a quarterly basis and principal upon maturity	4.00%	8,088,888.89		Yes	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	50,000,000.00	2017/3/20	2019/3/19	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	3,041,666.67	1,516,666.67	-	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	50,000,000.00	2017/8/28	2019/3/19	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	3,008,333.33	1,516,666.67	-	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2017/8/25	2019/8/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	1,215,000.00	606,666.67	-	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2017/8/22	2019/8/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	1,168,333.33	606,666.67	-	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	50,000,000.00	2017/10/23	2019/8/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	2,791,666.67	1,516,666.67	-	Yes		
CSSC-France	Consolidation of internal working capital loans of subsidiaries	10,000,000.00	2017/11/15	2019/8/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	539,166.67	303,333.33	-	Yes		

## SECTION V SIGNIFICANT EVENTS

Unit: Yuan Currency: RMB

Trustee	Type of entrusted loans	Amount of entrusted loans	Date of commencement of entrusted loans	Date of termination of entrusted loans	Source of funding	Uses	Method of determination of remuneration	Annualised rate of return	Expected return (if any)	Actual gain or loss	Status of recovery	Whether statutory procedures have been performed	Whether there are any future plans for entrusted loans	Amount of provision made for impairment (if any)
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	10,000,000.00	2017/12/11	2019/9/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	517,500.00	303,333.33	-	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2018/2/26	2019/9/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	906,666.67	495,000.00	-	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	20,000,000.00	2018/8/3	2019/9/23	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	3.000%	643,333.33	231,666.67	-	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	30,000,000.00	2018/6/7	2021/6/6	Self-owned funds	Replenishment of working capital of Guangzhou-Huangshan Ocean Engineering Co., Ltd.	Payment of interest on a quarterly basis and principal upon maturity	4.275%	3,304,500.00	698,250.00	-	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	10,000,000.00	2016/12/27	2020/12/26	Self-owned funds	Replenishment of working capital of Merchuan Heavy Industrial	Payment of interest on a quarterly basis and principal upon maturity	4.000%	812,222.22	-	-	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	120,000,000.00	2017/1/13	2018/11/2	Self-owned funds	Replenishment of working capital of GSI	Payment of interest on a quarterly basis and principal upon maturity	4.000%	4,853,333.33	4,853,333.33	120,000,000.00	Yes		
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	150,000,000.00	2017/1/13	2018/11/2	Self-owned funds	Replenishment of working capital of Huangpu Shipyard	Payment of interest on a quarterly basis and principal upon maturity	4.000%	6,066,666.67	6,066,666.67	150,000,000.00	Yes		
Bank of Communications	Consolidation of internal working capital loans of subsidiaries	15,000,000.00	2017/11/24	2018/12/24	Self-owned funds	Replenishment of working capital of GSI	Payment of interest on a quarterly basis and principal upon maturity	4.000%	658,333.33	668,333.33	15,000,000.00			
Bank of Communications	Consolidation of internal working capital loans of subsidiaries	35,000,000.00	2017/11/24	2018/12/24	Self-owned funds	Replenishment of working capital of Huangpu Wanchong	Payment of interest on a quarterly basis and principal upon maturity	4.000%	1,536,111.11	1,536,111.11	35,000,000.00			
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	150,000,000.00	2018/2/9	2020/2/8	Self-owned funds	Replenishment of working capital of GSI	Payment of interest on a quarterly basis and principal upon maturity	4.000%	12,150,000.00	5,238,333.33	-			

# SECTION V SIGNIFICANT EVENTS

Unit: Yuan Currency: RMB

Trustee	Type of entrusted loans	Amount of entrusted loans	Date of commencement of entrusted loans	Date of termination of entrusted loans	Source of funding	Uses	Method of determination of remuneration	Annualised rate of return	Expected return (if any)	Actual gain or loss	Status of recovery	Whether statutory procedures have been performed	Whether there are any future plans for entrusted loans	Amount of provision made for impairment (if any)
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	150,000,000.00	2018/2/9	2022/2/8	Self-owned funds	Replenishment of working capital of Huangpu Wenchong	Payment of interest on a quarterly basis and principal upon maturity	4.000%	12,150,000.00	5,233,333.33				
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	50,000,000.00	2018/4/19	2019/4/18	Self-owned funds	Replenishment of working capital of Huangpu Wenchong	Payment of interest on a quarterly basis and principal upon maturity	4.000%	2,022,222.22	1,361,111.11				
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	50,000,000.00	2018/5/10	2019/5/9	Self-owned funds	Replenishment of working capital of GSI	Payment of interest on a quarterly basis and principal upon maturity	4.000%	2,022,222.22	1,244,444.44				
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	185,000,000.00	2018/11/8	2021/11/7	Self-owned funds	Replenishment of working capital of Huangpu Wenchong	Payment of interest on a quarterly basis and principal upon maturity	4.000%	22,508,333.33	863,333.33				
CSSC Finance	Consolidation of internal working capital loans of subsidiaries	135,000,000.00	2018/11/8	2021/11/7	Self-owned funds	Replenishment of working capital of GSI	Payment of interest on a quarterly basis and principal upon maturity	4.000%	16,425,000.00	630,000.00				

### Description:

1. In the table above, the "expected return" represents the total returns expected to be obtained during the term of loan, and the "actual gain or loss" represents the gains or losses obtained as agreed under the contract during the elapsed period of loan.
2. During the Reporting Period, in order to support the operation and development of its subsidiaries and replenish their working capital for production and operation, the Group provided entrusted loans to its relevant subsidiaries with CSSC Finance/Bank of Communications Co., Ltd. as entrusted financial institution. As all the entrusted loans of the Group during the Reporting Period are internal working capital loans of consolidated subsidiaries, the actual returns received have been eliminated, and the "expected return" and "actual gain or loss" at the Group level are nil.

## VIII. PERFORMANCE OF SOCIAL RESPONSIBILITIES

### (i) Poverty alleviation measures of the Company

#### 1. Targeted poverty alleviation plan

During the Reporting Period, in accordance with the arrangements of the central government for targeted poverty alleviation and under the leadership of the management, the provincial government of Guangdong Province and governments at various levels, the Group actively carried out targeted poverty alleviation to improve the self-development ability of receipts of aid and get out of poverty as soon as practicable.

#### 2. Annual summary of targeted poverty alleviation

In 2018, the Group conscientiously implemented the spirit of the central poverty alleviation and development work conference and the central enterprise poverty alleviation and development work conference by actively responding to the call of CSSC and furthering “targeted poverty alleviation”:

- (1) In view of the operation of the Company and its subsidiaries, the Company organised employees to purchase free-range chicken from Heqing County, Yunnan Province at a total consideration of RMB3,200,000 and provided targeted help to support the industrial development of Heqing County. It provided financial assistance in the amount of RMB43,500 for vocational skills training fees of poor students in Heqing County and further implemented targeted poverty alleviation measures.
- (2) In accordance with the requirements of the Circular of Guangdong Provincial Party Committee and Guangdong Provincial Government on the Work Plan for Poverty Alleviation in Relatively Poor Villages in New Era and the Circular on Providing Poverty Alleviation Funds in Guangzhou in 2018 issued by our regional company, and in order to further promote targeted poverty alleviation, donations in the amount of RMB380,000 were made to Dashi Village, Heqing County, Yunnan Province, and donations in the amount of RMB443,958.79 were made and subsidies of RMB10,500 in total were provided to 35 receipts of aid at He’an Village, Xuwen County, Guangdong Province.

## SECTION V SIGNIFICANT EVENTS

### 3. Results of targeted poverty alleviation

Unit: RMB in ten thousand Currency: RMB

Indicator	Number and relevant information
I. General information	
Including: 1. Fund	407.80
2. Materials	0
3. Number of records established for poor people (person)	493
II. Investment by project	
1. Poverty alleviation through industrial development	
	<input checked="" type="checkbox"/> Agriculture and forestry industry poverty alleviation <input type="checkbox"/> Tourism poverty alleviation <input type="checkbox"/> E-commerce poverty alleviation <input type="checkbox"/> Assets income poverty alleviation <input type="checkbox"/> Technology poverty alleviation <input type="checkbox"/> Others
Including: 1.1 Types of industrial poverty alleviation projects	
1.2 Number of industrial poverty alleviation projects	4
1.3 Amount of investment in industrial poverty alleviation projects	402.40
1.4. Number of records established for poor people who have got out of poverty (person)	493
2. Job transfer poverty alleviation	
Including: 2.1 Amount of investment in vocational skills training	4.35
2.2 Number of persons receiving vocational skills training	50
2.3. Number of records established for poor people who have become employed (person)	118
9. Other projects	
Including: 9.1 Number of projects	1
9.2 Amount of investment	1.05
9.3. Number of records established for poor people who have got out of poverty (person)	-
9.4 Notes on other projects	Visits

### 4. Subsequent targeted poverty alleviation plan

In 2019, the Group will support and help with the industrial development, education, infrastructure development, labour training and pairing with receipts of aids in accordance with the deployments and arrangements of higher authorities.

#### (ii) Social responsibility work

For details about the performance of the social responsibilities of the Company and the requirements of the Hong Kong Stock Exchange for the environmental, social and governance reporting guidelines, please refer to the "Corporate Governance Report for the year 2018", which was published on the websites of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)), the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Company ([comec.cssc.net.com](http://comec.cssc.net.com)) on 22 March 2019.



## (iii) Environmental information

**1. Description of the environment protection of the Company and its major subsidiaries falling under key waste water emission entities announced by the environment protection authorities of the PRC**

According to the Circular on the List of the Key Pollution Discharge Entities in Guangzhou for 2018 (Sui Huan [2018] No. 40) issued by Guangzhou Environmental Protection Bureau in March 2018, six members of the Group, namely the Company, GSI, Huangpu Wenchong, Longxue Pipe, Wenchong Shipyard and Huangchuan Ocean Engineering, were included as key pollution discharge entities in Guangzhou for 2018. According to a circular issued on 29 March 2017 (Sui Nan Huan Shui [2017] No. 75), Wenchong Dockyard was included as a key pollution discharge entity in Nansha District.

Special note: The Company is a holding company and its assets that were included in the list of pollution discharge entities prepared by Guangzhou Environmental Protection Bureau had been transferred to GSI in 2016 (for details, please refer to the announcements published by the Company on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) on 5 November 2015 and 29 December 2015). As such, the Company was no longer involved in the key pollution discharge entities. The Company will further communicate with and explain to Guangzhou Environmental Protection Bureau in the future.

*(1) Information on pollution discharge*

## 1) GSI

The main pollutants discharged in the production process of GSI are waste gas, waste water, solid waste and noise.

## (i) Waste gas

The waste gas generated by GSI mainly represents dust and organic waste gas. GSI has established waste gas treatment devices to ensure that the emission concentration of the air pollutant emitted reaches the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, no waste gas emissions of GSI had not met the standard.

## (ii) Waste water

The waste water generated by GSI includes production waste water and domestic sewage. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves and the pipeline oil intermingling process. The domestic sewage is from the sewage generated at the production area and the office area. During the Reporting Period, GSI discharged a total of 483,383 tonnes of waste water, the water pollutant emission concentration of which has reached the level I, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province.

## (iii) Solid waste (including hazardous waste)

The solid waste generated by GSI is mainly classified into two types, being production solid waste and domestic refuse. GSI collects and separates the solid waste generated. Recyclable solid waste such as waste metal is utilised by waste material recycling companies, and non-recyclable solid waste is sorted by environmental protection authorities and then delivered to qualified landfill sites for disposal. Domestic refuse is collected and disposed of by local environmental sanitation authorities. Entities with permits to conduct hazardous waste operation are appointed to treat hazardous waste. During the Reporting Period, GSI disposed of a total of 406.64 tonnes of solid waste.

## (iv) Noise

The noise generated by GSI is mainly production noise. It conducts noise emission detection at boundary on a regular basis to ensure that the noise at boundary meets the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary.

## SECTION V SIGNIFICANT EVENTS

### 2) Longxue Pipe

The main pollutants discharged in the production process of Longxue Pipe are waste gas, waste water, solid waste and noise.

#### (i) Waste gas

The waste gas generated by Longxue Pipe include dust gas, organic waste gas and acid mist gas, and the emission concentration of the air pollutant emitted met the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, No waste gas emissions of Longxue Pipe had not met the standard.

#### (ii) Waste water

The waste water generated by Longxue Pipe is mainly acid and alkali-containing flushing waste water. During the Reporting Period, Longxue Pipe discharged a total of 12,568 tonnes of waste water, and the emission concentration of water pollutants met the level III, period II standard set out in the Emission Limits of Water Pollutants of Guangdong Province. During the Reporting Period, no waste water discharged by Longxue Pipe had not met the standard.

#### (iii) Solid waste (including hazardous waste)

The solid waste generated by Longxue Pipe include hazardous waste (phosphate slag sludge etc.), general industrial solid waste and domestic refuse. Qualified entities are appointed to dispose of hazardous waste generated by it. During the Reporting Period, Longxue Pipe disposed of a total of 810.10 tonnes of solid waste.

#### (iv) Noise

The noise generated by Longxue Pipe represents mainly production noise. The noise at boundary met the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary.

### 3) Huangpu Wenchong

The main pollutants discharged in the production process of Huangpu Wenchong are waste gas, waste water, solid waste and noise.

#### (i) Waste gas

The waste gas generated by Huangpu Wenchong mainly represents dust and organic waste gas. It has established waste gas treatment devices to ensure that the emission concentration of the air pollutant emitted meets the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, no waste gas emissions of Huangpu Wenchong had not met the standard.

#### (ii) Waste water

The waste water generated by Huangpu Wenchong includes production waste water and domestic sewage. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves, workshop industrial waste water, and cabin-cleaning oily waste water. The domestic sewage is from the sewage generated at the production area and the office area. The cabin-cleaning oily waste water following disposal at the oily water disposal station, together with domestic sewage and other industrial waste water, is discharged into municipal sewage pipelines. During the Reporting Period, Huangpu Wenchong discharged a total of 248,214 tonnes of waste water, the water pollutant emission concentration of which has met the level III, period II standard set out in the Emission Limits of Water Pollutants of Guangdong Province.

#### (iii) Solid waste (including hazardous waste)

The solid waste generated by Huangpu Wenchong is mainly divided into two categories, being production solid waste and domestic refuse, which are further divided into three types based on the characteristics of solid waste, namely recyclable solid waste, non-recyclable solid waste (industrial refuse) and hazardous waste.

Huangpu Wenchong collects and separates solid waste. Recyclable solid waste such as waste metal is utilised by waste material recycling companies, and non-recyclable solid waste (industrial refuse) is delivered to Guangzhou Shijie Environment Protection Equipment Co., Ltd. for transportation and disposal. Domestic refuse is delivered to the environmental sanitation authority of Changzhou Street, and Zhaoqing Xin Rong Chang Environmental Protection Co., Ltd., which is qualified, is appointed to dispose of hazardous waste. During the Reporting Period, 4,890 tonnes of solid waste (industrial refuse) and 150.738 tonnes of hazardous waste were disposed of.

(iv) Noise

The noise generated by Huangpu Wenchong represents mainly production noise and mechanical noise. The noise at boundary met the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary (GB12348-2008).

4) Wenchong Shipyard

The main pollutants discharged in the production process of Wenchong Shipyard are waste gas, waste water, solid waste and noise.

(i) Waste gas

The waste gas generated by Wenchong Shipyard mainly represents organic waste gas and dust. It has five sets of organic waste gas purification treatment devices and seven filter dust removers to ensure that the emission concentration of the air pollutant emitted meets the level II, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province (DB44/27-2001). During the Reporting Period, all of the waste gas emissions generated by Wenchong Shipyard met the standard.

(ii) Waste water

The waste water generated by Wenchong Shipyard includes production waste water and domestic sewage. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves and the pipeline oil intermingling process. The domestic sewage is from the sewage generated at the production area and the office area. The emission concentration of its water pollutants met the level B limit set out in the table 1 in the Wastewater Quality Standards for Discharge to Municipal Sewers (CJ343-2010). During the Reporting Period, Wenchong Shipyard discharged a total of 275,692 tonnes of waste water.

(iii) Solid waste (including hazardous waste)

The solid waste generated by Wenchong Shipyard include hazardous waste, general industrial solid waste and domestic refuse. Qualified entities are appointed to dispose of hazardous waste generated by it. During the Reporting Period, Wenchong Shipyard disposed of 5,519.64 tonnes of general industrial waste and 666.21 tonnes of hazardous waste.

(iv) Noise

The noise generated by Wenchong Shipyard represents mainly production noise and mechanical noise. The noise at boundary met the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary (GB12348-2008).

5) Huangchuan Ocean Engineering

The main pollutants discharged in the production process of Huangchuan Ocean Engineering are waste gas, waste water, solid waste and noise.

(i) Waste gas

The waste gas generated by Huangchuan Ocean Engineering mainly represents dust and organic waste gas. It has established waste gas treatment devices to ensure that the emission concentration of the air pollutant emitted meets the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, no waste gas emissions of Huangchuan Ocean Engineering had not met the standard.

(ii) Waste water

The waste water generated by Huangchuan Ocean Engineering includes production waste water and domestic sewage. The production waste water represents mainly the oily waste water generated in the mooring experiments of ship wharves and the pipeline oil intermingling process. The domestic sewage is from the sewage generated at the production area and the office area. During the Reporting Period, Huangchuan Ocean Engineering discharged a total of 197,946 tonnes of waste water, the water pollutant emission concentration of which has met the level I, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province, and no standard had not been met.

(iii) Solid waste (including hazardous waste)

The solid waste generated by Huangchuan Ocean Engineering include mainly three types, namely recyclable solid waste, non-recyclable solid waste and hazardous waste. Huangchuan Ocean Engineering collects and separates the solid waste generated. Recyclable solid waste such as waste metal is utilised by waste material recycling companies. Qualified entities are appointed to treat non-recyclable solid waste and hazardous waste. During the Reporting Period, Huangchuan Ocean Engineering disposed of 4,311 tonnes of non-recyclable solid waste and 153 tonnes of hazardous waste.

(iv) Noise

The noise generated by Huangchuan Ocean Engineering is mainly production noise. It conducts noise emission detection at boundary on a regular basis to ensure that the noise at boundary meets the level II standard set out in the Emission Standard for Industrial Enterprise Noise at Boundary. No standard had not been met.

6) Wenchong Dockyard

The main pollutants discharged in the production process of Wenchong Dockyard are waste gas, waste water, solid waste and noise.

(i) Waste gas

The waste gas generated by Wenchong Dockyard mainly represents dust and organic waste gas. Electromechanical organic waste gas comes from the production process of dipping paint and baking paint and is discharged through a 15-metre exhaust funnel; acid mist exhaust comes from the side suction hood alongside the acid tank of chemical cleaning yard of electromechanical general workshop, and waste gas is pumped to a KTXD-20K fiberglass purification tower by a fan for purification treatment and then discharged through a 15-metre exhaust funnel. The emission concentration of the air pollutant emitted meets the level II, period II standard for type II control region set out in the Emission Limits of Air Pollutants of Guangdong Province. During the Reporting Period, no waste gas emissions of Wenchong Dockyard had not met the standard.

(ii) Waste water

The waste water generated by Wenchong Dockyard includes production waste water and domestic sewage. The production waste water mainly comes from docks, ship maintenance wharves, hatch cover repair yard, electromechanical general workshop, pipe processing workshop and air compressor station. The domestic sewage is from the sewage generated at the production area and the office area. During the Reporting Period, Wenchong Dockyard discharged a total of 88,300 tonnes of waste water, the water pollutant emission concentration of which has met the level I, period II standard set out in the Emission Limits of Air Pollutants of Guangdong Province, and no standard had not been met.

(iii) Solid waste (including hazardous waste)

It mainly includes: waste steel, waste copper ore, waste welding materials, waste mineral oil, oily wastewater, waste acid and wastewater treatment sludge, paint residue and industrial refuse. Qualified entities are appointed to recover various wastes for comprehensive utilisation or disposal. A general industrial solid waste dump and a hazardous waste temporary storage are set up in the plant area. During the Reporting Period, Wenchong Dockyard disposed of 48,000 tonnes of solid waste and 638 tonnes of hazardous waste.

## (iv) Noise

It mainly comes from production processes such as sandblasting derusting, steel plate correction, plasma cutting and electric welding and fixed equipment such as air compressor, fan, water pump and transformer. The sources of noise are mainly located at docks, ship maintenance wharves/hatch cover repair yard, hull workshop, pipe workshop, water supply pump room, sewage lift pump room, air compressor station and substation, etc. By optimising plant layout, giving priority to adopting low noise equipment and setting up dedicated machine rooms equipped with sound insulation/silencing/vibration reduction measures, the impact of noise on the external environment was mitigated.

## (2) Construction and operation of pollution prevention facilities

## 1) GSI

GSI has established 26 sets of cyclone + filter cartridge dust collectors and 24 sets of sinking dust collectors for dust discharged, 10 sets of activated carbon adsorption + catalytic combustion purification treatment devices for organic waste gas, and a domestic sewage treatment station and an oily wastewater treatment station for the waste water generated. For production noise, it mainly reduces the impacts of production noise through equipment selection, building enclosure, establishing sound insulation covers, installing damping pads and mufflers. In addition, it conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise in strict compliance with the requirements of the Regulations on Prevention and Control of Environmental Pollution of GSI to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

## 2) Longxue Pipe

Longxue Pipe has established water filter dust removers for hot dip zinc dust discharged, activated carbon adsorption catalytic combustion purification devices for organic waste gas, and acid mist disposal towers for acid mist waste gas, sewage treatment station for production waste water, and reduces the impacts of production noise through establishing separate machine rooms and installing damping pads and mufflers. It conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

## 3) Huangpu Wenchong

Huangpu Wenchong has established 5 sets of cyclone + filter cartridge dust collectors for the 2-metre and 3-metre steel plate pretreatment lines and painting rooms which generate dust, 3 sets of activated carbon adsorption + catalytic combustion purification treatment devices for the 2-metre and 3-metre steel plate pretreatment lines and painting rooms which generate organic waste gas, and a domestic sewage treatment station and an oily wastewater treatment station for the waste water generated. For production noise, it mainly reduces the impacts of production noise through equipment selection, building enclosure, establishing sound insulation covers, installing damping pads and mufflers. In addition, it conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise in strict compliance with the requirements of the Environmental Protection Management Measures of Huangpu Wenchong to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

## 4) Wenchong Shipyard

For waste gas emission, Wenchong Shipyard has established 5 sets of activated carbon adsorption + catalytic combustion desorption treatment devices and 7 sets of cyclone dust removal and filter cartridge dust collectors at the painting workshop and the steel plate pretreatment workshop. For waste water emission, it completed the rain and sewage diversion project (for shipbuilding space), and production waste water and domestic sewage are directly discharged to the waste water treatment plant through municipal pipelines. For noise, it adopts measures including installing sound insulation and noise elimination facilities to reduce the impacts of production noise, and conducts day-to-day operation inspection, repair and maintenance of pollutant treatment facilities for waste water, waste gas, solid waste and noise to ensure that the facilities operate normally and the pollutants are not discharged until treated and meeting the standard.

5) Huangchuan Ocean Engineering

Huangchuan Ocean Engineering has established a sewage treatment station to treat production waste water and domestic sewage, installed cyclone + filter cartridge dust collectors at the steel pretreatment line and sandblasting room, and 12 sets of activated carbon adsorption + catalytic combustion purification treatment devices for organic waste gas. All these facilities operate normally. For production noise, it mainly reduces the impacts of production noise through equipment selection, building enclosure, establishing sound insulation covers, installing damping pads and mufflers.

6) Wenchong Dockyard

Wenchong Dockyard has 6 sets of sewage treatment systems. Oily wastewater is treated at the oily wastewater treatment station and then discharged into the sewage treatment station in the dock area for further treatment. Chemical cleaning wastewater is treated at the chemical cleaning wastewater treatment station and then discharged into the sewage treatment station in the wharf area for further treatment. General production waste water and domestic sewage are delivered to the sewage treatment station in the dock area and the sewage treatment station in the wharf area. Slurry water generated by high pressure water cleaning operation undergoes flocculation and sedimentation treatment. Welding flue gas at hull workshop is treated by mobile welding flue gas purifier. Welding flue gas at pipe workshop is filtered by a welding flue gas treatment system. Organic waste gas generated by immersion and drying at the electromechanical general workshop is purified by an activated carbon absorption device. Acid mist waste gas generated by chemical cleaning is purified by a fiberglass acid mist purification tower. The above environmental treatment equipment is in good condition and operates effectively.

(3) *Environmental impact assessment for construction projects and other administrative permission for environmental protection*

1) GSI

GSI strictly complies with the requirements of the relevant environmental laws and regulations and conducts the "Three simultaneousness" work for the environmental protection for construction projects. On 11 January 2006, the former State Environmental Protection Administration issued a reply to the Environmental Impact Report on the Civil Product Shipbuilding Area Project of Phase I of the CSSC Longxue Shipbuilding Base (Huan Shen [2006] No. 22), and the project passed the inspection and acceptance of the Ministry of Environmental Protection on 27 July 2010. The Nansha Environmental Protection Bureau of Guangzhou issued the Letter of Review Opinions for the Environment Report for the General Warehouse Technical Upgrade Project of Guangzhou Shipyard International Company Limited on 18 August 2015, and the project passed the inspection and acceptance of Nansha Environmental Protection and Water Affairs Bureau of Guangzhou on 29 December 2016. GSI has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

2) Longxue Pipe

Longxue Pipe strictly complies with the requirements of the relevant environmental laws and regulations and conducts the "Three simultaneousness" work for the environmental protection for construction projects. Nansha Environmental Protection Bureau of Guangzhou issued a reply to the Environmental Impact Report on the Phase I Construction Project of Guangzhou Longxue Pipe Co., Ltd. (Sui Nan Qu Huan Guan Ying [2010] No. 104) on 30 August 2010, and the project passed the inspection and acceptance of Nansha Environmental Protection Bureau of Guangzhou in 2012. Longxue Pipe has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

3) Huangpu Wenchong

The construction of the environmental protection facilities of the general technical upgrade project of Huangpu Wenchong was substantially completed. Currently the environmental acceptance report has been prepared and it is in the process of applying for on-site inspection and acceptance for environmental protection in accordance with the procedures. Huangpu Wenchong has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

4) Wenchong Shipyard

Wenchong Shipyard owns environmental protection administrative licenses including the Pollutant Discharge Permit of Guangdong Province, the Drainage permit and the Radiation Safety License. In 2018, the Company conducted the construction project environmental impact assessment and completed the preparation of environmental impact report for painting workshop E/F and the temporary storage site for hazardous wastes, which is under review. Wenchong Shipyard has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

## 5) Huangchuan Ocean Engineering

The acceptance approvals for the offshore engineering Phase I, offshore engineering production capacity expansion and offshore engineering supplementary projects of Huangchuan Ocean Engineering, all of which were completed, had been obtained. The pollutant discharge permit had been obtained in 2014. A reply from Nansha Environmental Protection and Water Affairs Bureau to the environment impact assessment of the newly-built Longxue Gas Cylinder Transfer Station (Sui Nan Qu Huan Shui Guan Ying (2017) No. 93) was obtained, and the inspection and acceptance report is being prepared. A reply to the investment project was obtained from Nansha Environmental Protection Bureau (Sui Nan Kai Huan Guan Ying [2014] No. 190) in 2014, and the project is currently under construction. During the period of project construction in 2018, the treatment of sewage, sludge, dust, waste gas, noise and construction waste pollution had been duly carried out in accordance with the relevant requirements of the environmental impact assessment approval and the relevant requirements for civilized construction management in Guangzhou. Huangchuan Ocean Engineering has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

## 6) Wenchong Dockyard

Wenchong Dockyard received the phase 1 and phase 2 environmental impact assessment approvals (Huan Shen [2006] No. 681 and Huan Shen [2007] No. 526) in 2006 and 2007, respectively. In June 2011, China National Environmental Monitoring Centre prepared the Monitoring Report on Completion Acceptance for Environmental Protection of the Ship Maintenance Project of Longxue Shipbuilding Facility of CSSC, and the Ministry of Environmental Protection issued an approval (Huan Yan [2010] No. 208). The Environmental Protection Bureau of Nansha District also issued approvals for the environmental impact assessment of construction of a new special pipe workshop and the extension of 2# dock (Sui Nan Kai Huan Guan Ying [2015] No. 143 and Sui Nan Qu Huan Shui Guan Ying [2017] No. 231). Wenchong Dockyard has obtained the pollutant discharge permit in accordance with the requirements of environmental protection laws and regulations.

(4) *Emergency plans for sudden environmental events*

## 1) GSI and Longxue Pipe

Both GSI and Longxue Pipe have prepared the Emergency Plan for Sudden Environmental Events in accordance with the relevant requirements for safety and environmental protection in the PRC, which were filed with the environmental protection authorities in the first half of 2017.

Both GSI and Longxue Pipe have established an emergency rescue leading team and an emergency rescue professional team. The emergency plan sets out clear emergency response procedures, the position responsibilities of emergency personnel and the emergency response measures for various environmental risks in day-to-day operation (such as safety training, file drills and material support).

## 2) Huangpu Wenchong

The emergency plan for sudden environmental events developed by Huangpu Wenchong passed expert review and was filed with Huangpu Environmental Protection Bureau in 2015. A retrospective review will be conducted in the second half of 2018 to assess its applicability and effectiveness.

Huangpu Wenchong has established an emergency rescue leading team and an emergency rescue professional team. The emergency plan sets out clear emergency response procedures, the position responsibilities of emergency personnel and the emergency response measures for various environmental risks in day-to-day operation (such as safety training, file drills and material support).

## 3) Wenchong Shipyard

The Emergency Plan for Sudden Environmental Events and the Risk Assessment Report for Sudden Environmental Events developed by Wenchong Shipyard passed expert review and was filed with Huangpu Environmental Protection Bureau in 2016. A further review will be conducted in the second half of 2018 to assess its applicability and effectiveness and it will be re-filed. Currently it is in the process of online application and approval in accordance with the procedures.

## 4) Huangchuan Ocean Engineering

The Emergency Plan for Sudden Environmental Events developed by Huangchuan Ocean Engineering passed expert review and was filed with Nansha Environmental Protection Bureau in 2014. Another review was conducted in later 2016 to re-assess its applicability and effectiveness, and it was re-filed with Nansha Environmental Protection and Water Affairs Bureau in January 2017. There was no environment pollution event and two emergency drills for sudden environmental events were conducted in 2018.

## SECTION V SIGNIFICANT EVENTS

### 5) Wenchong Dockyard

The Emergency Plan for Sudden Environmental Events and the Risk Assessment Report for Sudden Environmental Events developed by Wenchong Dockyard passed expert review and was filed with the Environmental Protection and Water Affairs Bureau of Nansha District in August 2017. No environmental pollution incidents had occurred in 2018. An emergency drill for sudden environmental events was organised once a year.

### (5) Environment self-monitoring solutions

The Group's key pollutant discharge entities appoint qualified testing institutions on a regular basis to monitor the discharge of pollutants including waste water, waste gas, noise and radiation as well as whether the pollutants discharged have met the relevant standards, which are subject to ad-hoc regulatory supervision by environmental protection authorities.

## IX. OTHERS

### 1. Reserves

Details of movement of reserves of the Company during the year are set out in notes to financial statements, of which details of the reserve distributable to equity shareholders are set out in notes to financial statements.

### 2. Property, plant and equipment

For details of the Group's property, plant and equipment during the year, please refer to notes to financial statements.

### 3. Bank loans and other loans

Details of the Company's bank loans and other loans as at 31 December 2018 are set out in notes to financial statements.

### 4. Purchase, disposal or redemption of listed securities of the Company

During the Reporting Period, none of the Company or its subsidiaries had purchased, disposed of redeemed any listed securities of the Company.

### 5. Pre-emptive right

Under the Articles of Association and PRC laws, there are no requirements under which the Company is not required to issue new shares to its existing shareholders in proportion to their shareholding.

### 6. Service contracts with Directors and Supervisors

Each Director and Supervisor has entered into a service contract with the Company. No Director or Supervisor has entered into any service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

### 7. Remuneration of Directors and Supervisors

Details of the remuneration of Directors and Supervisors are set out in notes to financial statements.

### 8. Directors' and Supervisors' interest in contracts

During the financial year ended 31 December 2018, none of the Company or any of its subsidiaries has entered into any contract which has significant effect on the Company's business, in which Directors or Supervisors have direct or indirect significant interest and which is still in effect during the financial year ended 31 December 2018.

### 9. Directors' interest in competing business

No Directors have any interest in any competing business.

### 10. Management contracts

There were no contracts entered into by the Company in relation to the management or administration of all or any major business, nor did such contract exist at any time in 2018.

### 11. Major customers and suppliers

During the year ended 31 December 2018, the purchase made by the Group from its top five suppliers (as defined in the Listing Rules) in total did not exceed 19.06% of the Group's total purchase of goods and services for the year.

During the year ended 31 December 2018, the sales made by the Group to its top five customers in total accounted for 40.51% of the Group's total sales for the year, of which the Group's sales to its largest customer accounted for 31.91% of the Group's total sales for the year.



During the year, so far as the Directors are aware, none of the Directors, their close associates or any shareholder who holds 5% or more issued share capital of the Company has any interest in the top five suppliers of customers of the Company for the year.

### **12. Remuneration policies**

As at 31 December 2018, the total number of employees of the Group was 15,858. The remuneration of employees have been determined based on the complexity and responsibility of their positions and their work performance. The remuneration of Directors, supervisors and senior management of the Company consists mainly of the following:

The Company pays an annual remuneration of RMB200,000 (before tax) to each independent Director. The Company also reimburses the independent Directors for the expenses they incur in attending board meetings and general meetings and other reasonable expenses they incur while fulfilling their obligations under the Company Law and the Company's Articles of Association (including travelling expenses and administrative expenses). Besides these, the Company does not give the independent Directors any other benefit.

### **13. Retirement and employee benefit plans**

Details of the retirement and employee benefit plans of the Company are set out in notes to financial statements.

### **14. Audit Committee**

The Audit Committee of the Company has reviewed the Group's annual results for 2018 and the financial statements for the year ended 31 December 2018 prepared under the Accounting Standards for Business Enterprises in the PRC.

## SECTION VI CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

### I. CHANGES IN ORDINARY SHARES

#### (i) Statement of changes in ordinary shares

There was no change in the total number of ordinary shares and structure of share capital of the Company during the Reporting Period.

#### (ii) Changes in trade-restricted shares

Unit: Share

Name of shareholder	Number of shares subject to selling restriction at the beginning of the year	Number of shares with selling restriction removed during the year	Number of shares with selling restriction imposed during the year	Number of shares subject to selling restriction at the end of the year	Reason for selling restriction	Date of removal of selling restriction
CSSC	272,099,300	272,099,300	0	0	Subscribed for A shares and undertook not to transfer within 36 months	9 April 2018
Total	272,099,300	272,099,300	0	0	/	/

### II. TOTAL NUMBER OF SHAREHOLDERS AND SHAREHOLDING

#### (i) Total number of shareholders

Total number of ordinary shareholders at the end of the Reporting Period	64,080
Total number of ordinary shareholders as at the end of the month preceding the date of publication of annual report	65,863

#### (ii) Shareholding of top ten shareholders, top ten shareholders of circulating shares (or holders of shares not subject to selling restriction) at end of the Reporting Period

Unit: Share

Name of shareholder (full name)	During the Reporting Period Change	Shareholding of top ten shareholders		Number of shares held subject to selling restriction	Pledged or frozen Share status		Shareholders Nature
		Number of shares held at the end of the period Number	Percentage (%)		Share status	Number	
HKSCC Nominees Limited	-98,600	589,110,727	41.68	0	None	0	Overseas legal person
China State Shipbuilding Corporation Limited	0	501,745,100	35.50	0	None	0	State-owned legal-person
China Securities Finance Corporation Limited	2,180,960	28,189,403	1.99	0	None	0	State-owned legal-person
Central Huijin Asset Management Ltd.	0	15,126,100	1.07	0	None	0	State-owned legal-person
Wu Zhizhuan	9,113,100	9,113,108	0.64	0	None	0	Domestic natural person
China Construction Bank Corporation – Fullgoal China Securities Military Index Grading Securities Investment Fund	-253,300	7,189,758	0.51	0	None	0	Others
Xie Chuanrong	4,022,413	7,022,413	0.50	0	None	0	Domestic natural person
Yangzhou Kejin Shipyard Co., Ltd.	0	6,500,000	0.46	0	Pledged	6,500,000	Domestic non-state-owned legal person
Xi'an Investment Holding Co., Ltd.	0	5,291,159	0.37	0	None	0	Domestic non-state-owned legal person
Golden Eagle Fund – ICBC – Golden Eagle Suitong No. 9 Asset Management Plan	-22,700	5,164,479	0.37	0	None	0	Others

## Top ten shareholders of shares not subject to selling restrictions

Name of shareholder	Number of tradable shares held not subject to selling restrictions	Class and number of shares	
		Class	Number
HKSCC Nominees Limited	589,110,727	Overseas listed foreign shares	589,110,727
China State Shipbuilding Corporation Limited	501,745,100	Ordinary shares denominated in RMB	501,745,100
China Securities Finance Corporation Limited	28,189,403	Ordinary shares denominated in RMB	28,189,403
Central Huijin Asset Management Ltd.	15,126,100	Ordinary shares denominated in RMB	15,126,100
Wu Zhizhuan	9,113,108	Ordinary shares denominated in RMB	9,113,108
China Construction Bank Corporation – Fullgoal China Securities Military Index Grading Securities Investment Fund	7,189,758	Ordinary shares denominated in RMB	7,189,758
Xie Chuanrong	7,022,413	Ordinary shares denominated in RMB	7,022,413
Yangzhou Kejin Shipyard Co., Ltd.	6,500,000	Ordinary shares denominated in RMB	6,500,000
Xi'an Investment Holding Co., Ltd.	5,291,159	Ordinary shares denominated in RMB	5,291,159
Golden Eagle Fund – ICBC – Golden Eagle Suitong No. 9 Asset Management Plan	5,164,479	Ordinary shares denominated in RMB	5,164,479
Explanation on the relationship or acting in concert among the aforesaid shareholders	–		
Explanation on shareholders of preference shares with restoration of voting rights and their shareholding	–		

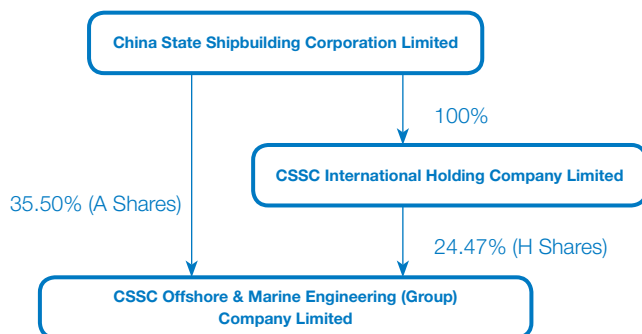
## III. CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLERS

### (i) Controlling shareholders

#### 1. Legal persons

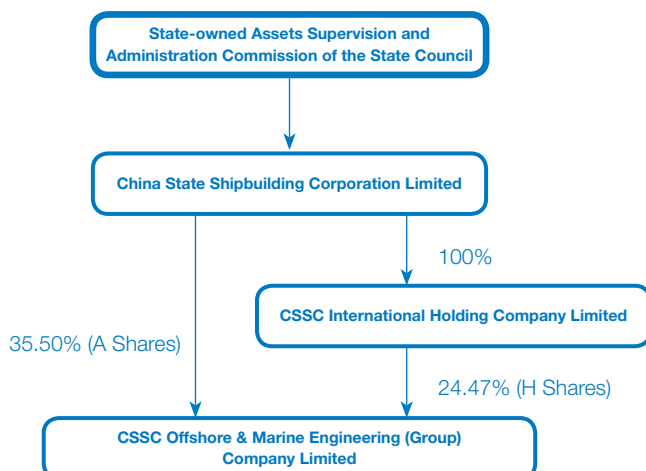
Name	China State Shipbuilding Corporation Limited
The person in charge of the unit or legal representative	Lei Fanpei
Date of establishment	29 June 1999
Principal businesses	State-owned assets investment and management, industrial investment, investment management within the scope of authorisation of the State Council; research and development, design, production, sale and maintenance services; research and development, design, manufacture, repair, lease, management of ships, offshore engineering and marine transportation, marine development, marine protection equipment; research and development, design, manufacture, repair, lease, management of large engineering equipment, power equipment, mechanical and electrical equipment, information and control products; import and export of goods and technology, domestic trading; completed equipment warehousing logistics, exploration, development and investment management of complete equipment, ship leasing business, liner investment and management; survey and design, project contracting, project construction, construction and installation, project supervision business. Development, transfer and consulting of military technology, civil technology and technology for both military and civil uses, technical services, investment in and management of technical training business.
Shareholdings in other domestic and overseas listed companies of which it has holding rights and joint-stocks during the Reporting Period	As at 31 December 2018, the Company directly and indirectly held a total of 52.85% equity interest in China CSSC Holdings Limited, and directly and indirectly held a total of 41.28% equity interest in CSSC Science & Technology Co., Ltd..
Notes on other matters	CSSC and CSSC International entered into the Parties Acting in Concert Agreement on 28 September 2018, in which it was agreed that CSSC International shall authorise CSSC to exercise its shareholder's rights so far as CSSC remains the controlling shareholder or actual controller of CSSC International (For details, please refer to the Announcement in relation to the Entering into the Parties Acting in Concert Agreement by Substantial Shareholders of the Company published on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange by the Company on 28 September 2018).

## 2. Ownership and controlling relationship between the Company and controlling shareholders



### (ii) Information on actual controllers

#### Ownership and controlling relationship between the Company and actual controllers



## IV. OTHER LEGAL PERSON SHAREHOLDERS WITH 10% OR MORE SHAREHOLDING

Unit: Hong Kong dollars in ten thousand

Name of legal person shareholder	The person in charge of the unit or legal representative	Date of establishment	Code of organisation	Registered capital	Principal business or management activities
CSSC International Holding Company Limited	Li Chaokun	24 August 2018	None	100	Engaged in overseas financing business; providing centralized overseas fund management services for members of CSSC; engaged in business cooperation; other business authorized by CSSC; and other business permitted by the law.
Description	CSSC and CSSC International entered into the Parties Acting in Concert Agreement on 28 September 2018, in which it was agreed that CSSC International shall authorise CSSC to exercise its shareholder's rights so far as CSSC remains the controlling shareholder or actual controller of CSSC International (For details, please refer to the Announcement in relation to the Entering into the Parties Acting in Concert Agreement by Substantial Shareholders of the Company published on the websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange by the Company on 28 September 2018).				

## SECTION VI CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

### V. INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the following persons (other than directors, supervisors or members of senior management of the Company) has the following interests and short positions in the shares and underlying shares of the Company that are required to be notified to the Company and the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) (the "SFO") or are required to be entered in the register to be kept by the Company under section 336 of the SFO:

Name of shareholder	Class of shares	Number of long positions held (share)	Capacity	Approximate shareholding percentage of issued H Shares (%)	Approximate shareholding percentage of issued A Shares (%)	Percentage of total issued share capital (%)
China State Shipbuilding Corporation Limited	A Shares	501,745,100(L)	Beneficial owner	–	61.08	35.50
CSSC International Holding Company Limited	H Shares	345,940,890(L)	Beneficial owner	58.43	–	24.47

Save as disclosed above, so far as the Directors are aware, there were no other persons or companies who owned any interests or short positions in the shares and underlying shares in issue of the Company that are required to be notified to the Company and the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or are required to be entered in the register to be kept by the Company under section 336 of the SFO as at 31 December 2018.

### VI. DIRECTORS' AND SUPERVISORS' INTEREST

As at 31 December 2018, none of the Directors, Supervisors and chief executive of the Company has any interests or short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interest and/or short position taken or deemed to be held under the relevant provisions of the SFO), or are required to be recorded in the register required to be kept under Section 352 of the SFO, or are required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers.

### VII. OTHER INFORMATION

#### (i) Warrants and others

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

#### (ii) 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 Reporting Period.

#### (iii) Public float of H shares

Based on the information that is publicly available to the Company as at the latest practicable date for publication of this annual report and within the knowledge of the Directors, there was a sufficient public float of the Company's shares as required under the Listing Rules.

# SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

## I. CHANGE IN SHAREHOLDING AND REMUNERATION

Change in shareholding and remuneration of current and the resigned Directors, Supervisors and Senior Management Officers during the Reporting Period

Unit: share

Name	Position (note)	Gender	Age	Date of appointment	Date of expiry of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Change in the number of shares held in the year	Reason for change	Total remuneration before tax received from the Company during the Reporting Period (RMB in ten thousand)	Whether receiving compensation from related parties of the Company or not
Han Guangde	Executive Director	Male	57	2004-6-25	2020-5-31	0	0	0	-	58.15	Yes
Chen Zhongqian	Executive Director	Male	55	2013-11-25	2020-5-31	0	0	0	-	77.79	No
Chen Liping	Executive Director	Male	52	2016-8-10	2020-5-31	0	0	0	-	83.25	No
Sheng Jigang	Executive Director	Male	51	2018-12-5	2020-5-31	0	0	0	-	3.96	No
Xiang Huming	Executive Director	Male	53	2015-5-8	2020-5-31	0	0	0	-	80.92	No
Chen Ji	Executive Director	Male	52	2016-8-10	2020-5-31	0	0	0	-	84.11	No
Shi Jun	Non-executive Director	Male	44	2018-2-12	2020-5-31	0	0	0	-	0	Yes
Wang Yichu	Independent non-executive Director	Male	60	2015-11-5	2020-5-31	0	0	0	-	20	No
Min Weiguao	Independent non-executive Director	Male	54	2015-11-5	2020-5-31	0	0	0	-	20	No
Liu Renhui	Independent non-executive Director	Male	78	2018-2-12	2020-5-31	0	0	0	-	17.61	No
Yu Shiyou	Independent non-executive Director	Male	63	2018-2-12	2020-5-31	0	0	0	-	17.61	No
Wu Guangjun	Chairman of the Supervisory Committee	Male	53	2016-8-10	2020-5-31	0	300	300	Personal reason	0	Yes
Fu Xiaosi	External supervisor	Male	60	2008-5-13	2020-5-31	0	0	0	-	9	No
Zhu Zhengfu	External supervisor	Male	55	2011-5-31	2020-5-31	0	0	0	-	9	No
Mai Rongzhi	Employee supervisor	Male	56	2018-2-12	2020-5-31	0	0	0	-	62.84	No
Zhang Shan	Employee supervisor	Male	48	2018-2-12	2020-5-31	0	0	0	-	41.37	No
Li Zhidong	Secretary to the Board	Male	53	2016-10-14	2020-5-31	0	0	0	-	68.93	No
Hou Zengquan	Chief financial officer	Male	48	2017-11-10	2020-5-31	0	0	0	-	57.40	No
Yang Li	Non-executive Director	Male	51	2013-6-24	2018-9-18	0	0	0	-	0	Yes
Wang Guozhong	Non-executive Director	Male	56	2015-5-8	2018-2-12	0	0	0	-	0	Yes
Song Dejin	Independent non-executive director	Male	62	2014-12-22	2018-2-12	0	0	0	-	2.39	No
Zhu Mingyou	Independent non-executive Director	Male	66	2014-12-22	2018-2-12	0	0	0	-	0	No
Chen Shaolong	Employee supervisor	Male	45	2011-5-31	2018-2-12	0	0	0	-	8.47	
Ding Qianfang	Employee supervisor	Female	49	2016-12-15	2018-2-12	0	0	0	-	9.89	
<b>Total</b>	/	/	/	/	/	0	300	300	/	732.69	/

## SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

Name	Main work experiences
Han Guangde	Male, born in May 1962, senior engineer (researcher level). He graduated from Huazhong University of Science and Technology (華中工學院) in 1983 and joined Guangzhou Shipyard in the same year, and obtained a master of engineering in industrial engineering in 2002. He successively served as deputy head of the production management department under the shipbuilding division, deputy manager and manager of the shipbuilding division of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); deputy general manager, general manager, chairman of the board of directors and party secretary of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); chairman of the board of directors of CSSC Guangzhou Longxue Shipbuilding Co., Ltd. (廣州中船龍穴造船有限公司); chairman of the board of directors and party secretary of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); and chairman of the board of directors of Guangzhou Shipyard Co., Ltd. (廣州造船廠有限公司). He is currently chairman of the board of directors and party secretary of Guangzhou Ship Industrial Co., Ltd. (廣州船舶工業有限公司) and Chairman of the Board.
Chen Zhongqian	Male, born in September 1963, senior engineer (researcher level). He graduated from Wuhan University of Water Transportation Engineering College (湖北武漢水運工程學院) in 1983 and joined Guangzhou Wenchong Shipyard Co., Ltd. (廣州文沖船廠有限責任公司) in the same year. In 2002, Mr. Chen obtained a master's degree in business administration. He successively served as deputy head and head of the outfitting department, assistant to general manager and deputy general manager of Guangzhou Wenchong Shipyard Co., Ltd. (廣州文沖船廠有限責任公司); general manager, party secretary, vice chairman and chairman of the board of directors of Guangzhou Huangpu Shipyard Co., Ltd. (廣州黃埔造船有限公司); and chairman of the board of directors and party secretary of CSSC Huangpu Wenchong Shipbuilding Company Limited (中船黃埔文沖船舶有限公司). He is currently chairman of the board of directors and party secretary of Guangzhou Shipyard International Company Limited (廣船國際有限公司) and vice Chairman of the Board.
Chen Liping	Male, born in November 1967, senior accountant and senior economist. He graduated from Harbin Institute of Technology (哈爾濱工業大學), majoring in precision instrument, with a bachelor's degree in engineering in July 1989, and graduated from South China University of Technology (華南理工大學), majoring in business administration, with a master's degree in 2002. He successively served as deputy manager of the finance department, deputy chief accountant and chief accountant of Guangzhou Wenchong Shipyard Co., Ltd. (廣州文沖船廠有限責任公司); chief accountant, secretary to the board of directors, and executive director of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); deputy director of the audit department of China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司); and chief accountant of Guangzhou Shipyard International Company Limited (廣船國際有限公司). He is currently an executive director and general manager of the Company.
Sheng Jigang	Male, born in October 1968, senior engineer (researcher level). He graduated from Shanghai Jiao Tong University in August 1991, majoring in ship engineering. He successively served as deputy general manager of Jiangnan Shipbuilding (Group) Co., Ltd. (江南造船(集團)有限責任公司), deputy general manager of Shanghai Jiangnan Changxing Heavy Industry Co., Ltd. (上海江南長興重工有限責任公司), general manager of CSSC Jiangnan Heavy Industry Co., Ltd. (中船江南重工股份有限公司), chairman of CSSC Hua Hai Ships Equipment Co., Ltd. (中船華海船用設備有限公司), general manager of CSSC Steel Structure Engineering Co., Ltd. (中船鋼構工程股份有限公司), director of ship and marine engineering department of China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司), and general manager and deputy party secretary of Shanghai Waigaoqiao Shipbuilding Co., Ltd. (上海外高橋造船有限公司). He is currently chairman and party secretary of CSSC Huangpu Wenchong Shipbuilding Company Limited (中船黃埔文沖船舶有限公司).
Xiang Huiming	Male, born in March 1966, senior engineer (researcher level). He graduated from Huazhong University of Science and Technology (華中理工大學) in 1988 and joined Guangzhou Wenchong Shipyard Co., Ltd. (廣州文沖船廠有限責任公司) in the same year, and obtained a master's degree in business administration in 2004. He successively served as engineering head of the production section, deputy director of general office and deputy head of the enterprise management department, manager of the enterprise management department, assistant to general manager, deputy general manager, party secretary, general manager and chairman of Guangzhou Wenchong Shipyard Co., Ltd. (廣州文沖船廠有限責任公司). He is currently general manager and deputy party secretary of CSSC Huangpu Wenchong Shipbuilding Company Limited (中船黃埔文沖船舶有限公司); and an executive Director of the Company.
Chen Ji	Male, born in September 1967, senior engineer. He graduated from Shanghai Jiaotong University (上海交通大學), majoring in ship engineering, with a bachelor's degree in engineering in 1989, and graduated from South China University of Technology (華南理工大學), majoring in business administration, with a master's degree in 2001. He successively served as assistant to manager of the ship maintenance division and deputy manager of the heavy mechanical engineering division of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); director, deputy general manager, deputy party secretary, secretary to the discipline inspection commission and chairman of the labor union of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); and secretary to the discipline inspection commission of Guangzhou Shipyard International Company Limited (廣船國際有限公司). He is currently party secretary of Guangzhou Shipyard Co., Ltd. (廣州造船廠有限公司); general manager and deputy party secretary of Guangzhou Shipyard International Company Limited (廣船國際有限公司); and an executive Director of the Company.



## SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

- Shi Jun** Male, born in April 1974, senior engineer. He graduated from Harbin Engineering University (哈爾濱工程大學) in 1996 and joined Guangzhou Huangpu Shipyard (廣州黃埔造船廠) in the same year. He successively served as deputy director of the production management department and deputy manager of the marine engineering department of the shipbuilding division of Guangzhou CSSC Huangpu Shipbuilding Company Limited (廣州中船黃埔造船有限公司); assistant to general manager of Guangzhou Huangchuan Ocean Engineering Co., Ltd. (廣州黃船海洋工程有限公司); and head of the operation planning section of the operation management department of China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司). He is currently deputy director of the operation management department of China State Shipbuilding Corporation Limited (中國船舶工業集團有限公司); and a non-executive Director of the Company.
- Wang Yichu** Male, born in May 1959, senior accountant. He graduated from Jinan University (暨南大學), majoring in accounting, in July 1984, and obtained a graduate diploma in political economics in 2007. He successively served as financial accountant of South China No. 2 Sewing Machine Factory (華南縫紉機二廠), financial accountant of Guangzhou Jintong Industrial Co., Ltd. (廣州金通實業有限公司), auditor, department manager and deputy chief accountant of BDO China Guang Dong Shu Lun Pan Certified Public Accountants (立信羊城會計師事務所有限公司). He is currently a partner of BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合夥)); and an independent non-executive director of the Company.
- Min Weiguo** Male, born in March 1965. He graduated from Wuhan University with a bachelor's degree in law in June 1987 and obtained a master's degree in business administration in 2005. He served as director of Zhuhai Xiangzhou Economy and Trade Law Firm (珠海市香洲區經貿律師事務所), partner and director of D&S Law Firm (德賽律師事務所) in Guangdong, director of Toronto office of D&S Law Firm, and senior partner of Guangdong Nanguo D&S Law Firm (廣東南國德賽律師事務所). He is currently chief partner of Guangdong Nanguo D&S Law Firm; and an independent non-executive Director of the Company.
- Liu Renhuai** Male, born in July 1940, professor and academician of Chinese Academy of Engineering. He graduated from Lanzhou University in August 1963 (蘭州大學), majoring in mathematics and mechanics. He successively served as lecturer, associate professor, professor, deputy head of teaching and research section, deputy department director, deputy editor-in-chief of college journal of University of Science and Technology of China (中國科技大學); vice president, first dean of the economic management school and director of projection and consulting institute of Shanghai University of Technology (上海工業大學); professor and doctoral supervisor of Shanghai Institute of Applied Mathematics and Mechanics (上海應用數學和力學研究所); vice president, president and party secretary of Jinan University (暨南大學); vice chairman of Guangdong Provincial Association for Science and Technology, standing member of the eighth and ninth sessions of Guangdong Provincial Political Consultative Conference, deputy director of the committee of education, science, culture, health and sports of Guangdong Provincial Political Consultative Conference, counselor of the People's Government of Guangdong Province; chairman of Chinese Society for Vibration Engineering (中國振動工程學會), vice chairman of the Chinese Society of Theoretical and Applied Mechanics (中國力學學會), vice chairman of China Society of Compound Technology Sciences (中國複合技術科學會), vice chairman of the National Higher-school Teaching Research Association (全國高等學校教學研究會); director of the Higher-school Teaching Guiding Committee of the Ministry of Education (教育部高等學校力學教學指導委員會), head of the Management Department of the Science & Technology Commission of the Ministry of Education (教育部科技委管理學部), deputy head of the Engineering Management Department of Chinese Academy of Engineering (中國工程院工程管理學部), and member of the China Standardization Expert Committee of the General Administration of Quality Supervision, Inspection and Quarantine of China (國家質監總局中國標準化專家委員會). He is currently an academician of the Department of Mechanical and Transportation Engineering of Chinese Academy of Engineering (中國工程院機械與運輸工程學部), academician of the Engineering Management Department of Chinese Academy of Engineering (中國工程院工程管理學部), professor, director of institute of applied mechanics and director of strategic management research centre of Jinan University (暨南大學); president of the Federation of Guangdong Academicians (廣東院士聯合會); and an independent non-executive Director of the Company.
- Yu Shiyou** Male, born in March 1956, professor. He graduated from Huazhong University of Science and Technology (華中理工大學) in 1987 with a master's degree, majoring in western economics. He successively served as deputy secretary of the Communist Youth League of Wuhan Camera Shutter Plant (武漢照相機快門廠); associate professor and deputy dean of the economics school of Huazhong University of Science and Technology; professor, director of international finance and trading department, director of international business department, and deputy dean of Lingnan College, Sun Yat-Sen University (中山大學嶺南學院); director of finance and state-owned assets administration department, assistant to president, standing member of party committee, vice president, deputy party secretary and secretary of commission for discipline inspection of Sun Yat-Sen University. He is currently dean of Lingnan College, Sun Yat-Sen University (中山大學嶺南學院); and an independent non-executive Director of the Company.

## SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

- Wu Guangjun** Male, born in July 1966, senior policy advisor and senior economist. He graduated from Zhanjiang Aquatic College (湛江水產學院) in July 1988 and obtained a graduate diploma in July 1999 and a master's degree in November 2006. Mr. Wu successively served as general manager of Wanda Woods Co., Ltd. (萬達木業有限公司), manager of the human resources department, assistant to general manager, general counsel, and head of the risk management department of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司); director of the party and masses relationship department, head of the disciplinary inspection and audit department, assistant to general manager, and general counsel of CSSC Guangzhou Longxue Shipbuilding Co., Ltd. (廣州中船龍穴造船有限公司); assistant to general manager, chief legal advisor and head of the risk management department of Guangzhou Shipyard International Company Limited (廣州廣船國際有限公司). He is currently deputy party secretary, secretary to the disciplinary inspection committee and chairman of the labour union of Guangzhou Ship Industrial Co., Ltd. (廣州船舶工業有限公司), and chairman of the supervisory committee of the Company.
- Fu Xiaosi** Male, born in July 1959, senior accountant with bachelor's degree, Certified Public Accountant. He graduated from Huazhong University of Science and Technology (華中工學院) in 1986. He served as deputy managing accountant (senior partner) of Zhongqin Wanxin Public Accountants Limited (中勤萬信會計師事務所), chief accountant of Hubei Tri-ring Company Limited (湖北三環股份有限公司), chief accountant of Tri-ring Group. He is currently deputy general manager and chief financial controller of Hubei Jiu Zhi Yang Infrared System Company Limited (湖北久之洋紅外系統股份有限公司) of China Shipbuilding Industry Corporation, and a supervisor of the Company.
- Zhu Zhengfu** Male, born in September 1964, senior lawyer with a doctoral degree. He graduated from the Law School of Wuhan University (武漢大學) in 1987 and obtained a juris doctorate degree from Wuhan University in 1999. He successively served as director of the Finance & Property Department in Guangdong Economic and Trade Law Firm (廣東經濟貿易律師事務所), partner of Guangdong Dalu Law Firm (廣東大陸律師事務所), deputy director of Guangdong Property Law Advisory Services Center of the Department of Land and Resources of Guangdong Province (廣東省國土廳廣東地產法律諮詢服務中心). He is currently director and executive partner of Guangdong Kunlun Law Firm (廣東東方昆侖律師事務所) and a supervisor of the Company.
- Mai Rongzhi** Male, born in August 1962, senior engineer (researcher level). He graduated from South China University of Technology (華南工學院) in 1983. He successively served as ship design engineer, head of the outer fitting section, assistant to director and head of the management section, deputy director and director of the second design studio of the assembly branch of Guangzhou Shipyard (廣州造船廠); director of the second design studio and deputy director of the engineering department of the shipbuilding division, director of the ship research institute of the technology centre, assistant to manager and deputy manager of the shipbuilding division, deputy director of the technology centre of the ship design company, deputy chief engineer and head of general engineering office, assistant to general manager and standing deputy director of the technology centre, chief engineer and director of the technology centre of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司). He is currently deputy party secretary and chairman of labour union of Guangzhou Shipyard International Company Limited (廣州廣船國際有限公司); and an employee supervisor of the Company.
- Zhang Shan** Male, born in December 1970, with a bachelor's degree, senior accountant. He started his career in August 1990. He successively served as director of the production protection department of the labour union, head of the enterprise management section of the general management department, assistant to manager of the economy operation department, party secretary of the production support department, party secretary and deputy director of the general office, and secretary to the board of directors of Guangzhou Huangpu Shipyard (廣州黃埔造船廠). He is currently director and party secretary of the enterprise management and planning department of CSSC Huangpu Wenchong Shipbuilding Company Limited (中船黃埔文沖船舶有限公司); and an employee supervisor of the Company.
- Li Zhidong** Male, born in April 1966, senior engineer. He graduated from Shanghai Jiaotong University with a bachelor's degree, majored in ship engineering, in engineering in July 1987 and obtained a master degree in November 1997. He served as head of general office, chief legal advisor, assistant to general manager, board secretary and secretary of Hong Kong company of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司). He is currently secretary to the Board of the Company.
- Hou Zengquan** Male, born in May 1970, senior accountant, certified public accountant, certified management accountant and certified internal auditor. He graduated from Jiujiang Ship Industry School (九江船舶工業學校) in July 1989, majoring in industrial accounting and graduated from Jinan University (暨南大學) in December 1992, major in accounting. He successively served as assistant to director and director of the finance centre of Guangzhou Shipyard International Company Limited (廣州廣船國際股份有限公司), as well as deputy chief accountant of Guangzhou Shipyard International Company Limited (廣州廣船國際有限公司). He is currently deputy chief accountant and chief financial officer of the Company.

## SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

### II. POSITIONS OF CURRENT AND THE RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD

#### (i) Positions held at shareholders

Name	Name of shareholder	Positions held at shareholders	Date of appointment	Date of expiry of office
Han Guangde	Guangzhou Ship Industrial Co., Ltd.	Chairman, party secretary	2018.08	Not applicable
Chen Ji	Guangzhou Shipyard Co., Ltd.	Party secretary	2013.09	Not applicable
Shi Jun	China State Shipbuilding Corporation Limited	Deputy director	2013.03	Not applicable
Wu Guangjun	Guangzhou Ship Industrial Co., Ltd.	Deputy party secretary, secretary of disciplinary committee, chairman of labour union	2016.04	Not applicable
Yang Li	CSSC HK	Chairman	2013.09	Not applicable
Yang Li	China United Shipbuilding Company Limited	Chairman	2013.09	Not applicable
Wang Guozhong	CSSC No.11 Research Institute	Director	2016.11	Not applicable
Description of positions held at shareholders	–			

#### (ii) Positions held at other entities

Name	Name of other entities	Positions held at other entities	Date of appointment	Date of expiry of office
Wang Yichu	BDO China Shu Lun Pan Certified Public Accountants LLP	Partner	2012.12	Not applicable
Min Weiguo	Guangdong Nanguo D&S Law Firm	General partner	2014.09	Not applicable
Liu Renhuai	Jinan University	Professor, academician	1991.11	Not applicable
Liu Renhuai	AviChina Industry & Technology Company Limited	Independent director	2014.06	Not applicable
Liu Renhuai	Guangdong Hongda Blasting Co., Ltd.	Independent director	2013.09	Not applicable
Liu Renhuai	Guangdong Recycleclean Low-carbon Technology Co., Ltd.	Chairman	2013.05	Not applicable
Liu Renhuai	Federation of Guangdong Academicians	President	2018.05	Not applicable
Fu Xiaosi	Hubei Jiu Zhi Yang Infrared System Company Limited	Deputy general manager and chief financial officer	2012.12	Not applicable
Fu Xiaosi	Chigo Holding Ltd.	Independent director	2008.08	Not applicable
Fu Xiaosi	Hubei Xingfa Chemical Group Co., Ltd.	Independent director	2015.04.	Not applicable
Fu Xiaosi	Xiangyang Automobile Bearing Co., Ltd.	Independent director	2015.08	Not applicable
Fu Xiaosi	Guangdong Sunwill Precising Plastic Co., Ltd.	Independent director	2017.06	Not applicable
Zhu Zhengfu	Kunlun Law Firm	Director, executive partner	1998.03	Not applicable
Zhu Zhengfu	Guangzhou Daily Media Co., Ltd.	Independent director	2013.06	Not applicable
Zhu Zhengfu	Poly Real Estate (Group) Co., Ltd.	Independent director	2014.04	Not applicable
Zhu Zhengfu	Beijing Honggao Creative Construction Co., Ltd.	Independent director	2014.11	Not applicable
Zhu Zhengfu	E Fund Management Co., Ltd.	Independent director	2016.04	Not applicable
Zhu Zhengfu	Dongjiang Environmental Co. Ltd.	Independent director	2016.10	Not applicable
Zhu Zhengfu	Wuhan Sante Cableway Group Co., Ltd.	Independent director	2017.03	Not applicable
Song Dejin	International Management Development Centre of the Hong Kong government	Senior advisor	1997.12	Not applicable
Song Dejin	Real Estate Research Centre of Fudan University	Researcher	1999.09	Not applicable
Song Dejin	BCD Company of the Chinese Academy of Sciences	Chief advisor	2006.02	2018.01
Song Dejin	Nanjing University of Aeronautics and Astronautics	Professor	2009.01	Not applicable
Notes on positions held at other entities	–			

## SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

### III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process of remuneration of Directors, Supervisors and Senior Management	1. In accordance with the Proposal for Remuneration for the Ninth Session of Directors, Supervisors and Senior Management, the Emolument and Examination Committee assessed the performance of executive Directors and senior management for the previous year, determined their performance coefficients and performance salaries, and reported to the Board for approval.  2. The Emolument and Examination Committee makes recommendations to the Board on special annual rewards to be issued to executive Directors, internal supervisors and senior management based on prevailing market conditions, performance of the Company and total amount of performance salaries.
Basis for determination of remuneration of Directors, Supervisors and Senior Management	The remuneration of existing Directors, Supervisors and senior management of the Company has been determined based on the Proposal for Remuneration for the Ninth Session of Directors, Supervisors and Senior Management. According to a resolution passed at the first extraordinary general meeting of the Company for 2015, the remuneration for independent Directors has been adjusted from RMB120,000/year (inclusive of tax) to RMB200,000/year (inclusive of tax).
Actual payment for the remuneration of Directors, Supervisors and Senior Management Officers	For details, please refer to the section headed “Changes in the shareholding and remuneration of the Directors, Supervisors and Senior Management” in this chapter
Total actual remuneration of all Directors, Supervisors and Senior Management Officers at the end of the Reporting Period	For details, please refer to the section headed “Changes in the shareholding and remuneration of the Directors, Supervisors and Senior Management” in this chapter

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Reason for change
Yang Li	Non-executive Director	Resigned	Work
Song Dejin	Independent non-executive Director	Resigned	Change of session of the Board
Zhu Mingyou	Independent non-executive Director	Resigned	Change of session of the Board
Chen Shaolong	Employee supervisor	Resigned	Change of session of the Supervisory Committee
Ding Qianfang	Employee supervisor	Resigned	Change of session of the Supervisory Committee
Sheng Jigang	Executive Director	Elected	Supplement
Liu Renhuai	Independent non-executive Director	Elected	Change of session of the Board
Yu Shiyou	Independent non-executive Director	Elected	Change of session of the Board
Mai Rongzhi	Employee supervisor	Elected	Change of session of the Supervisory Committee
Zhang Shan	Employee supervisor	Elected	Change of session of the Supervisory Committee

# SECTION VII DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OFFICERS AND EMPLOYEES

## V. DETAILS OF STAFF OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

### (i) Details of staff

Number of existing employees of the Company	26
Number of existing employees of major subsidiaries	15,832
Total number of existing employees	15,858
Number of retired staff who incurred expenses of the Company and major subsidiaries	3,495

#### Functions

Type of functions	Number of employees
Production staff	9,445
Sales staff	102
Technical staff	3,785
Finance staff	135
Administrative staff	2,391
<b>Total</b>	<b>15,858</b>

#### Educational Background

Education background level	Number of employees
Master's degree or above	308
Bachelor's degree	4,284
Associate degree	2,955
Secondary technical graduates and below	8,311
<b>Total</b>	<b>15,858</b>

### (ii) Remuneration policies

The remuneration of the employees of the Company and its subsidiaries includes salary, reward, and other welfare programs regulated by the PRC government. Subject to the relevant PRC laws and regulations, the Company implements salary system according to employees' position and performance, etc. There was no change during the Reporting Period.

### (iii) Training plan

The Company and its subsidiaries have formulated training plans for implementation in view of changes in strategic development and product structure and the needs of staff development. Through arranging all staff to participate in learning all kinds of business knowledge and comprehensive improvement of their integrated quality and position competence, human resources have been provided to support effective operation of the Company. There was no change during the Reporting Period.

### (iv) Labour outsourcing

Total working hours for labour outsourcing	33,289,500 hours
Total remuneration paid for labour outsourcing	RMB1,662,738,500

### I. INFORMATION ON CORPORATE GOVERNANCE

#### (i) Corporate governance

The Company always strictly conforms to the Company Law of the PRC 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 by continuously improving its corporate governance structure and standardizing its operations. During the Reporting Period, the Company's governance had no material deviations from the Company Law and relevant regulations issued by the China Securities Regulatory Commission. The Company has adopted the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "CG Code") as the corporate governance code of the Company. During the Reporting Period, the Company has been in strict compliance with the principles and code provisions and certain recommended best practices set out in the CG Code.

During the Reporting Period, the Company had been in compliance with Rule 3.10(1) of the Listing Rules which prescribes that there shall be at least three independent non-executive directors and Rule 3.10A of the Listing Rules which prescribes that at least one-third of the board of directors shall comprise independent non-executive directors. In addition, the Company has received annual confirmation of independence issued by each independent non-executive director in accordance with Rule 3.13 of the Listing Rules. As such, the Company considers that all independent non-executive directors have complied with the independence requirement under the Listing Rules.

#### **Board of Directors**

The Board comprises 11 directors, including 6 executive directors, 1 independent non-executive director and 4 independent non-executive directors. Members of the Board have different industry backgrounds and expertise in corporate governance, finance and accounting, investment strategies, maritime engineering and equipment and legal affairs. Details of the members of the Board are set out in the section headed "Directors, supervisors, senior management and staff" in this report.

On the diversity of Board members, the Company fully understands the benefits of diversity of Board members to its development and has adopted a Board diversity policy. It has further enriched the composition of the Board members at the re-election of a new session of the Board. The current composition of the Board members reflects differentiation and diversification in various aspects such as expertise, industry experience, age, qualification and background.

The Board reports to shareholders' general meetings, fully represents the interests of shareholders and formulates the Company's development strategies in strict compliance with the "Rules of Proceedings for Board Meetings" within its terms of reference as stipulated in the Articles of Associations. The Board also monitors the implementation of the Group's operation management and its financial performance, makes recommendations on the appointment of directors, and decides on important contracts and trading, as well as other important policies and financial matters. The Board has delegated daily responsibilities to executive directors and senior management. The management makes recommendations on the Company's daily operation and management. The positions of chairman and general manager of the Company are occupied by different persons in order to ensure the independence of the decision-making of the Board, and the daily operation and management activities of the management. The chairman of the Company is Mr. Han Guangde, who is mainly responsible for leading the Board in the development of overall development strategies of the Company and ensuring that the Board operates effectively in performing its duties, establishing sound corporate governance system and practices and that the Board acts in the best interests of the Company and its shareholders as a whole. Mr. Chen Liping is the general manager of the Company and is mainly responsible for administrative affairs of the Company, including implementing the resolutions passed by the Board, establishing basic management rules and making decisions in respect of daily operation of the Company.

In 2018, the Company held a total of 13 Board meetings, including 4 on-site meetings and 9 meetings held by communication equipment, issued 4 regular reports and 65 temporary announcements, conveyed related information to the market such as operational conditions, market conditions, important resolutions passed at meetings, significant personnel changes and connected transaction in a timely manner. All resolutions considered at the Board meetings during the year 2018 had been submitted to the party organisation and the general manager office meeting of the Company for consideration and decision-making before submitted to the Board for discussion, and the relevant opinions were carefully listened. No fault has been made in respect of the announcements disclosed in respect of resolutions considered and approved at the Board meetings during the year. The decision-making procedures and the relevant decisions are in compliance with the listing rules of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Articles of Association and the requirements of applicable laws and regulations, and the resolutions passed are legal and valid.

The dates of periodic Board meetings each year are determined in advance, and the notice of periodic meetings is given 14 days prior to the meeting, while the notice of extraordinary meetings is given in reasonable time, so that more directors can attend the meeting. The secretary to the Board assists the chairman in preparing agenda of meetings and ensuring the observance of all applicable rules and regulations. The agenda and attached documents relating to the resolution to be proposed by the Board are generally sent to all directors at least 7 days before the periodic Board meetings (if feasible, it is also applicable to other Board meetings). The secretary to the Board is responsible for recording and maintaining the minutes and related meeting documents of the Board and committees thereunder, which are available for the directors' inspection at any time. Minutes reflects the information of review and voting, and directors' opinions at the meeting objectively and in detail, and is confirmed by each attending director by signing. When considering connected transactions, the connected directors abstained from voting.

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

The Board reviews internal control once annually in order to ensure the effectiveness of its internal control system.

### Directors

The executive directors are appointed for a term of three years, and may offer themselves for re-election after the terms expired. Term of service for non-executive directors (including independent non-executive directors) is three years and is renewable. Independent non-executive directors are eligible for re-election subject to a maximum of six consecutive years. There is no relationship among Board members, including financial, operational, family or other relevant material relations.

Through the secretary to the Board, all directors can obtain timely information and updates relating to statutory, regulatory and other ongoing obligations that directors of a listed company must comply with, ensuring the directors' understanding of their duties and duly implementation of procedures for the Board in compliance with applicable laws and regulations.

The Company has strictly complied with the relevant restrictive provisions imposed by Hong Kong and PRC regulatory organizations in relation to securities transactions by directors, supervisors and senior management. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as the code of conduct for the securities trading of shares by the Company's directors. The Company has made specific inquiries of all directors and supervisors and they have confirmed that they have fully complied with the Model Code, and have not traded in the shares of the Company during the period before the publication of price-sensitive information such as periodic reports, announcements, profit warning, and other significant events announcements in 2018.

The directors have confirmed that they have the responsibility to prepare the annual financial statements for the year ended 31 December 2018 in order to give a true and fair view of the Company and the Group's financial position and results of operations.

The Company encourages directors, supervisors and senior management to take part in the overall and professional development and learning on related listing rules and code on corporate governance practices organized by the China Securities Regulatory Commission, the Shanghai Stock Exchange, the Hong Kong Stock Exchange and The Hong Kong Institute of Chartered Secretaries, arranged directors and supervisors to receive periodic trainings for directors and supervisors. Through Monthly Board Reports, important areas of securities regulation are conveyed to Directors, supervisors and senior management to continue to expand the professional qualities of Directors, supervisors and senior management.

During the Reporting Period, Mr. Li Zhidong, company secretary of the Company, had duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules and satisfied the requirement of 15 hours of training per year.

In addition, during the Reporting Period, there was a change of session of the Board and independent non-executive directors of the Company, details of which are set out below. The Company has received annual confirmation of independence issued by Wang Yichu, Min Weiguo, Liu Renhuai and Yu Shiyou, all independent non-executive Directors, in accordance with Rule 3.13 of the Listing Rules, and consider them independent as at the date of this report. As such, the Company considers that all independent non-executive directors have complied with the independence requirement under the Listing Rules.

During the Reporting Period, the existing and resigned directors of the Company are as follows:

Name of Director	Term of office
Han Guangde Chen Zhongqian Chen Liping Sheng Jigang Xiang Huiming Chen Ji	Appointed as executive Director on 5 December 2018
Shi Jun Wang Yichu Min Weiguo	Appointed as non-executive Director on 12 February 2018
Liu Renhuai Yu Shiyou Yang Li	Appointed as independent non-executive Director on 12 February 2018 Appointed as independent non-executive Director on 12 February 2018 Appointed as non-executive Director on 24 June 2013 and resigned on 18 September 2018
Wang Guozhong Song Dejin	Appointed as non-executive Director on 8 May 2015 and resigned on 12 February 2018 Appointed as independent non-executive Director on 22 December 2014 and resigned on 12 February 2018
Zhu Mingyou	Appointed as independent non-executive Director on 22 December 2014 and resigned on 12 February 2018

### (ii) Specialized committees under the Board

The Board has set up four specialized committees. The Board selects and appoints members of each committee by taking into account the expertise and experience of each director so that each committee can carry out its functions with high efficiency. Each committee has established a work team, consisting of employees of the relevant functional departments of the Company, to assist the committee's work. The Company's directors and specialized committees under the Board have the right to appoint an independent professional institution to provide services for them at the expense of the Company, in order to facilitate their performance of functions and duties in view of business needs.

#### 1. **Audit Committee**

The principal responsibility of the Audit Committee is assisting the Board in reviewing the financial reporting procedures, the effectiveness of the internal control and risk management system, monitoring the audit procedures, making normal and transparent arrangements for maintaining proper relationship with the Company's auditor, and communicate with internal audit department and external auditors independently. As at the end of the Reporting Period, members of the Audit Committee were Wang Yichu (chairman), Liu Renhuai and Yu Shiyou, all independent non-executive Directors.

In 2018, the Audit Committee under the ninth session of the Board held a total of 8 meetings, at which they listened to the financial reports, financial position, internal control self-assessment reports for 2017, the first quarter of 2018, the first half of 2018 and the third quarter of 2018 passed resolutions on these matters following thorough discussion and reported in time to the Board. Wang Yichu, Liu Renhuai and Yu Shiyou attended the above meetings.

In addition, in accordance with the Implementation Rules for the Audit Committee, the Audit Committee communicated timely with the auditors, reviewed the financial statements of 2018 prepared by the Company before and after the auditors visits the Company and after the auditors have prepared their reports and formed a written opinion.

#### 2. **Nomination Committee**

The Nomination Committee is principally responsible for selecting the candidates for Directors and managers, determining selection criterion and procedures and making recommendations to the Board. As at the end of the Reporting Period, members of the Nomination Committee were Min Weiguo (chairman), Wang Yichu, both independent non-executive Directors, and Shi Jun, non-executive Director.

In 2018, the Nomination Committee under the ninth session of the Board held a total of two meetings, at which the resolutions on the nomination of Mr. Sheng Jigang as candidate for executive Director, Mr. Chen Liping as candidate for general manager of the Company, Mr. Li Zhidong as candidate for secretary to the Board, Mr. Hou Zengquan as candidate for chief financial officer of the Company and the election of chairman of the Nomination Committee under the ninth session of the Board were considered and approved. Min Weiguo, Wang Yichu and Shi Jun attended these meetings.

#### 3. **Emolument and Examination Committee**

The Emolument and Examination Committee is responsible for developing assessment standards for senior management, carrying out assessment and making recommendations, as well researching and reviewing the emolument policies and programs for senior management. As at the end of the Reporting Period, members of the Emolument and Examination Committee were Yu Shiyou (chairman) and Min Weiguo, both independent non-executive Directors.

In 2018, the Emolument and Examination Committee under the ninth session of the Board held two meetings, at which the resolutions on the remuneration of senior management of the Company for 2017 and the election of chairman of the Emolument and Examination Committee under the ninth session of the Board were considered. Yu Shiyou and Min Weiguo attended these two meetings.

#### 4. **Strategy Committee**

The Strategy Committee is responsible for the review of the strategic development of the Company. It implements the strategic planning of the Company, monitors the execution of the strategic planning, and timely adjusts the strategic and governance structure of the Company. As at the end of the Reporting Period, members of the Strategy Committee included Han Guangde, Chen Zhongqian, Chen Liping, Xiang Huiming and Chen Ji, all executive Directors.



### (iii) Corporate Governance Function

The Board is responsible for corporate governance functions collectively, including:

- Formulating, considering and analyzing the Company's corporate governance policy, principle, convention, practice and process, comparing them with the regulations of all guidelines (the "Guidelines") formulated by all competent regulatory bodies from time to time, and making recommendations on improvement;
- Suggesting necessary changes to the Board in order to respond to and meet the requirements of the Guidelines;
- Reviewing and monitoring the Company's policies and practices for observing laws and regulatory requirements;
- Reviewing the Company's internal policies annually;
- Examining and monitoring the training and sustained professional development of directors and senior management;
- Developing, examining and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors;
- Reviewing the Company's compliance with applicable laws and rules for corporate governance, (including but not limited to) the CG Code, as well as the requirements of the China Securities Regulatory Commission on corporate governance, and the Company's disclosure on the corporate governance in its annual reports and interim reports.

## II. SHAREHOLDERS AND GENERAL MEETINGS

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

The Company issues notice of general meeting 45 days prior to the date of general meeting, and issues announcement and dispatches circulars in accordance with the relevant rules, setting out the matters to be considered and voting procedures at the meetings. Separate resolutions are proposed at the general meeting and voted on by way of poll on each separate issue, including the election of individual directors. The chairman of the Board attends and presides over the general meeting and arranges for representatives of independent non-executive directors and the management of the Company to answer questions raised by shareholders at the meeting. The voting method and procedures at general meetings are set out in the Articles of Association and the Rules of Proceedings for General Meetings, contained in the shareholders' circular and explained at the meeting. For information of directors' attendance at general meetings, please refer to the sub-section headed "Attendance of Directors at Board meetings and general meetings" in this section.

### (i) Policy on Communication with Shareholders

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

- (1) The Company's corporate communications published in printed form and available for inspection at the HKEXnews websites of the Hong Kong Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([comec.cssc.net.cn](http://comec.cssc.net.cn)), such as annual report, interim report and circular;
- (2) Announcement made periodically through The Stock Exchange of Hong Kong Limited, and set out at the websites of the Hong Kong Stock Exchange and the Company respectively;
- (3) The Company's information and the Articles of Association are available at the Company's website;
- (4) Board members (in particular the chairmen or their representatives of each specialized committee under the Board), proper administrative personnel and external auditors will attend the annual general meeting and answer shareholders' questions;
- (5) In case of any doubt about the shares held by them, shareholders may bring forward such questions to the Company's share registrar (H Shares) or securities business department (A Shares) making transaction rules.

### (ii) Shareholders' Rights

#### ***Ways for shareholders to convene extraordinary general meeting***

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

The Board shall give a written reply on whether or not to agree with the proposal on convening extraordinary general meeting as soon as possible and in any event within 10 days after receiving the request in accordance with the requirements of laws, administrative rules and the Articles of Association.

If the Board agrees with the proposal on convening extraordinary shareholders' meeting, the Board shall give a notice on convening general meeting within 30 days after receiving the written request, and any alteration of the original request in the notice shall be subject to the consent of the relevant shareholders.

If the Board does not agree with the proposal on convening extraordinary general meeting, or if it fails to give a reply within 10 days after receiving the request or fails to give a notice on convening general meeting within 30 days after receiving the written request, the shareholders making the proposal may convene general meeting within four months after the Board receives the request, and the convening procedures shall, to the extent possible, be the same as that for the Board to convene general meeting.

In case shareholders convene general meeting themselves, they shall notify the Board in writing, and shall report to the local branch of the China Securities Regulatory Commission and the stock exchange of the jurisdiction where the Company is located.

The necessary expenses for general meeting convened by shareholders shall be borne by the Company.

#### ***Procedures for shareholders to raise inquiry to the Board and related information***

After making a reasonable payment, shareholders have the right to inspect and obtain related information in accordance with the Company's Articles of Association, including:

- (1) All registers of shareholders;
- (2) Personal information of the Company's directors, supervisors, managers and other members of senior management;
- (3) The Company's share capital and bonds register;
- (4) The report on the total book value, quantity, highest price and lowest price of each class of its own shares repurchased by the Company since the end of the previous fiscal year, and the total expenses paid by the Company for purchasing such stocks;
- (5) Minutes of general meetings, resolutions passed at Board meetings, resolutions passed at meetings of the Supervisory Committee, and financial and accounting reports.

In order to make enquiries about/inspect the aforesaid related information or requesting documents, shareholders shall make the request through the Company's address in Mainland China (40 South Fangcun Main Road, Liwan District, Guangzhou, the People's Republic of China) or Hong Kong (54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong), and provide the Company with written documents evidencing the class and number of shares of the Company held by them. After checking and verifying shareholders' identity, the Company will provide related information or documents.

#### ***Procedures for putting forward proposals at general meeting***

At a general meeting, shareholders holding more than 5% (including 5%) of the Company's shares with voting rights shall have the right to put forward new proposals in writing to the Company at least 10 days before the general meeting. Within 2 days after receiving the proposal, the Company shall give a supplementary notice on general meeting stating the contents of the proposal, and shall include matters within the responsibility scope of general meeting in the agenda of this meeting.

All shareholders who appear on the shareholders register on the record date shall have the right to attend in person or by one or more proxies, who need not to be shareholders, and vote at the general meeting. Shareholders and their proxies shall have the right to speak and vote at the general meeting.

### (iii) The Company's Independence from the Controlling Shareholder

In 2018, the controlling shareholder of the Company had never been involved in any acts of bypassing the general meeting or interfering, whether directly or indirectly, with the Company's decision-making or operation. The Company and CSSC are independent of each other in terms of personnel, assets, finance, organization and business.

The connected transactions between the Company and CSSC were carried out in strict compliance with the listing rules of the relevant stock exchanges with the prior approval of independent non-executive directors and were reviewed by the Audit Committee. For material connected transactions, independent financial advisors were appointed to express their opinions. It is the policy of the Company and CSSC to conduct monthly monitoring of continuing connected transactions and report to the Board of Directors on a monthly basis and to Directors on the safety of connected deposits on an annual basis. The total value of continuing connected transactions in 2018 did not exceed the cap approved at general meetings.

### (iv) General Meetings

Meeting	Date of meeting	Index for details on websites designated for publishing resolutions	Date of disclosure
First extraordinary general meeting of 2018	2018.2.12	Announcement on website of the Shanghai Stock Exchange and the Stock Exchange, website of the Company	2018.2.13
Annual general meeting of 2017	2018.5.29	Announcement on website of the Shanghai Stock Exchange and the Stock Exchange, website of the Company	2018.5.30
Second extraordinary general meeting of 2018	2018.12.5	Announcement on website of the Shanghai Stock Exchange and the Stock Exchange, website of the Company	2018.12.6

Notes on general meetings

1. First extraordinary general meeting of 2018: at the meeting, the resolution on the increase in the capital of Guangzhou Shipyard International Company Limited, the resolution on the increase in the capital of CSSC Huangpu Wenchong Shipbuilding Company Limited, the resolution on the election of Directors and the resolution on the election of supervisors of the Company were considered.
2. Annual general meeting of 2017: at the meeting, the report of the Board for 2017, the report of the Supervisory Committee for 2017, the annual report for 2017 (including the financial statements for 2017), the profit distribution proposal for 2017 and the resolution on the proposed provision of guarantee by the Company and its subsidiaries for 2018 and the amount, and the resolution in relation to the appointment of the auditors of the Company for financial reports for 2018 were considered.
3. Second extraordinary general meeting of 2018: at the meeting, the resolution on the connected transaction in relation to the acquisition of 100% equity interest in Guangzhou Wenchong Dockyard Co., Ltd. by a subsidiary of the Company and the resolution on the appointment of Mr. Sheng Jigang as an executive Director were considered.

## III. PERFORMANCE OF DUTIES BY DIRECTORS

### (i) Attendance of directors at Board meetings and general meetings

Name of Directors	Independent or not	Attendance at Board meetings						Attendance at general meetings
		Required attendance during the year	Attendance in person	Attendance by communication equipment	Attendance by proxy	Number of absence	Absence from two consecutive meetings or not	Attendance at general meetings
Han Guangde	No	13	3	9	1	0	No	3
Chen Zhongqian	No	13	2	9	2	0	No	0
Chen Liping	No	13	3	9	1	0	No	3
Sheng Jigang	No	0	0	0	0	0	No	0
Xiang Huiming	No	13	1	9	3	0	No	0
Chen Ji	No	13	3	9	1	0	No	1
Shi Jun	No	10	3	6	1	0	No	1
Wang Yichu	Yes	13	4	9	0	0	No	2
Min Weiguo	Yes	13	2	9	2	0	No	1
Liu Renhuai	Yes	11	4	7	0	0	No	1
Yu Shiyou	Yes	11	3	7	1	0	No	2
Yang Li	No	10	1	7	2	0	No	0
Wang Guozhong	No	2	0	2	0	0	No	0
Song Dejin	Yes	2	0	2	0	0	No	0
Zhu Mingyou	Yes	2	0	2	0	0	No	0
Number of Board meetings during the year					13			
Including: Number of on-site meetings					4			
Number of meetings convened by communication equipment					9			
Number of meetings both on-site and by communication equipment					0			

## IV. DURING THE REPORTING PERIOD, NO MEMBERS OF THE SPECIAL COMMITTEES UNDER THE BOARD HAD RAISED ANY OBJECTION IN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD

## V. SUPERVISORY COMMITTEE'S DESCRIPTION ON RISKS IDENTIFIED IN THE COMPANY

During the Reporting Period, no risk had been identified by the Supervisory Committee in monitoring the operation of the Company.

## VI. OTHERS – INSIDERS REGISTRATION MANAGEMENT

During the Reporting Period, no Directors, supervisor, senior management or other insiders had been found to have traded shares of the Company using inside information prior to the disclosure of regular reports of the Company.

## VII. CONCLUSION

The Board of the Company considers that, raising the level of corporate governance is not just for applying and observing the CG Code, but also for pushing forward and developing moral and sound corporate culture. The Company will strive to constantly review and improve its practices at appropriate time by monitoring the changes and developments based on its own experience. In addition, shareholders are welcome to bring forward any opinions and recommendations in order to promote and improve the transparency of corporate governance.

### I. STATEMENT ON INTERNAL CONTROL

The Company has established an effective internal control system in accordance with the Guidelines for Internal Control of Listed Companies issued by Shanghai Stock Exchange and the listing rules of the Stock Exchange. The Board evaluates the effectiveness of internal control system once a year. During the Reporting Period, the Company completed internal control self-assessment report for 2018. The Board has evaluated and validated the risk management and internal control system of the Group and has not found any violation of laws, regulations and rules or any significant deficiencies in compliance monitoring and risk management or any major mistakes. The Board considers the risk management and internal control system of the Group effective.

The full text of the Internal Control Self-Assessment Report for 2018 had been uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 22 March 2019.

### II. AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

ShineWing has conducted independent audit of the effectiveness of the Company's internal control for 2018 and issued an internal control auditors' report without qualifying opinions. For details, please refer to the internal control auditors' report of the Company disclosed on the website of the SSE ([www.sse.com.cn](http://www.sse.com.cn)) on 22 March 2019.

### III. ACCOUNTABILITY SYSTEM FOR SIGNIFICANT ERRORS IN ANNUAL REPORT AND ITS IMPLEMENTATION

The Information Disclosure Management System of the Company set out the rules for accountability for significant errors in its annual reports, which stipulate that Directors, Supervisors, senior management and other staff involved in the disclosure of information in its annual reports shall be held responsible for any significant errors in information disclosed in its annual reports arising from their violation of relevant laws and regulations, regulatory document and rules of the Company or failing to perform their duties with due diligence or at all in accordance with the system. There were no significant errors in the annual report of the Company during the Reporting Period.



信永中和會計師事務所

ShineWing  
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## AUDITORS' REPORT

XYZH/2019BJGX0004

### TO ALL SHAREHOLDERS OF CSSC OFFSHORE & MARINE ENGINEERING (GROUP) COMPANY LIMITED,

#### I. AUDITORS' OPINION

We have audited the financial statements of CSSC Offshore & Marine Engineering (Group) Company Limited ("COMEC" and the "Company"), which comprise the consolidated and the Company's balance sheets as at 31 December 2018, and the Company's and consolidated income statements, the Company's and consolidated cash flows statements and the Company's and consolidated statements of changes in owners' equity for 2018 and the notes to the financial statements.

In our opinion, the accompanying financial statements of COMEC present fairly, in all material aspects, COMEC's and consolidated financial position as at 31 December 2018 and its and consolidated results of operations and cash flows for the year 2018 in accordance with the Accounting Standards for Business Enterprises.

#### II. BASIS FOR AUDITORS' OPINION

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of COMEC in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our auditors' opinion.

#### III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

##### 1. Recognition of revenue from compensation for relocation of GSI

###### Key audit matters

In 2018, Guangzhou Shipyard International Company Limited ("GSI", a subsidiary of COMEC) completed the relocation from its Lilan plant and recognised net revenue from compensation for relocation of RMB583 million, which was included in "non-operating income" for 2018, in accordance with an agreement in relation to the compensation for relocation of assets of GSI entered into with Guangzhou Shipyard Shipping Co., Ltd. ("Guangzhou Shipyard Shipping"). As such matter is special and significant to the profit or loss of COMEC for 2018, we considered it a key audit matter.

For details of the relevant information disclosed, please refer to note VI.57(1).

###### How the matter is addressed in auditing

Our key procedures include:

- (1) We understood the policies, system and relevant internal control for the determination of the revenue from compensation for relocation and the allocation of expenses.
- (2) We obtained the agreements and documents on the compensation for relocation, and understood the background of the transaction and the source of fund and recoverability of the compensation for relocation.
- (3) We inquired about and examined the overall relocation progress to determine whether the time of point for carrying forward of revenue had arrived.
- (4) We examined the allocation of relocation cost and the recognition of revenue from relocation, and tested the accuracy of the calculation of the discounted cash flow model of receivables for compensation for relocation.
- (5) We checked whether the presentation and disclosure relating to the transaction are appropriate.

## 2. Revenue recognised based on contract performance progress

### Key audit matters

In 2018, COMEC recorded a consolidated revenue of RMB19,262 million, of which the revenue recognised based on contract performance progress in accordance with the contract “performed over time” was RMB15,937 million, representing 82.94% of its consolidated revenue, which is significant in both amount and percentage of consolidated revenue. COMEC adopts the input method to determine the appropriate contract performance progress for its principal activities including shipbuilding and offshore engineering product, which is determined by the total actual contract cost incurred in proportion to the total estimated contract cost.

The contract performance progress involves significant judgment and estimates of management, and also requires re-assessment of whether there has been any change in the contract performance progress to ensure that the contract performance progress reflects the status of contract performance, which may affect COMEC’s ability to recognise revenue for the appropriate period based on the contract performance progress. As such, we considered the revenue recognised based on contract performance progress as a key audit matter.

For details of the relevant information disclosed, please refer to note IV.29.(2).1), note IV.36.h and note VI.45.

### How the matter is addressed in auditing

Our key procedures include:

- (1) We understood and tested the policies, procedures, methods and relevant internal controls for the determination of contract performance progress and the determination of total revenue and total cost and the relevant changes.
- (2) Through the changes in expected total revenue and cost from contracts recognised in the year and previous years, we identified and understood the reason for change.
- (3) We obtained a list of projects under construction, reviewed the relevant construction contracts, and checked the implementation of the contracts including the identification of the basis for determination of the obligation of “performance over time”, the settlement and collection.
- (4) We obtained and reviewed a breakdown of expected total cost for projects under construction.
- (5) We tested the accounting estimates made by the management and the relevant basis and data.
- (6) In accordance with the audit procedures for contract cost, we conducted on-site counting and cut-off tests for contracts uncompleted as at the end of the year.

## IV. OTHER INFORMATION

The management of COMEC (the management) is responsible for the other information. The other information comprises the information included in the 2018 annual report of COMEC, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## V. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing COMEC’s ability to continue as a going concern, disclosure of matters regarding going concern, and using the going concern basis of accounting unless the management either intend to liquidate COMEC or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing COMEC’s manila reporting process.

## VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENT

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to affect the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on COMEC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause COMEC to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within COMEC to express our auditors' opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our auditors' opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**ShineWing Certified Public Accountants LLP**

Beijing, the PRC

**Certified Public Accountant of China: Chen Gang (Project Partner)**

**Certified Public Accountant of China: Song Yong**

22 March 2019



# CONSOLIDATED BALANCE SHEET

31 December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	31 December 2018	31 December 2017
<b>Current assets:</b>			
Cash at bank and on hand	VI.1	10,337,887,158.50	12,210,331,068.62
Settlement reserve		-	-
Placements with banks and non-bank financial institutions		-	-
Financial assets held-for-trading	VI.2	11,685,155.01	-
Financial assets at fair value through profit or loss		-	6,602,255.91
Derivative financial assets		-	-
Notes and accounts receivable	VI.3	2,693,105,872.48	1,818,643,780.17
Including: Notes receivable		130,810,712.06	167,534,216.21
Accounts receivable		2,562,295,160.42	1,651,109,563.96
Prepayments	VI.4	3,020,857,780.23	2,527,490,871.22
Insurance premium receivable		-	-
Reinsurance premium receivable		-	-
Reserves for reinsurance contract receivable		-	-
Other receivables	VI.5	326,086,350.28	184,559,239.76
Including: Interest receivable		46,907,817.53	46,434,534.12
Dividends receivable		-	-
Financial assets purchased under agreements to resell		-	-
Inventories	VI.6	4,955,993,857.79	10,436,569,035.60
Contract assets	VI.7	6,860,770,802.28	-
Assets held for sale		-	-
Non-current assets due within one year	VI.8	463,415,968.00	1,033,143,116.08
Other current assets	VI.9	365,378,116.05	1,851,997,385.43
<b>Total current assets</b>		<b>29,035,181,060.62</b>	<b>30,069,336,752.79</b>
<b>Non-current assets:</b>			
Loans and advances granted		-	-
Debt investments		-	-
Available-for-sale financial assets		-	21,029,995.04
Other debt investments		-	-
Held-to-maturity investments		-	-
Long-term receivables	VI.10	1,976,516,046.20	460,059,537.09
Long-term equity investments	VI.11	740,935,298.11	738,018,660.57
Investments in other equity instruments	VI.12	63,403,225.93	-
Other non-current financial assets		-	-
Investment properties	VI.13	21,622,651.52	22,251,363.68
Fixed assets	VI.14	12,046,436,020.38	11,746,560,359.34
Construction in progress	VI.15	762,567,676.87	697,131,740.77
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets	VI.16	2,084,830,278.97	2,106,502,925.06
Development expenses		-	-
Goodwill	VI.17	144,231,195.67	144,231,195.67
Long-term prepaid expenses	VI.18	79,285,603.23	88,534,537.73
Deferred tax assets	VI.19	440,083,496.90	460,427,215.85
Other non-current assets	VI.20	80,251,531.97	199,020,072.23
<b>Total non-current assets</b>		<b>18,440,163,025.75</b>	<b>16,683,767,603.03</b>
<b>Total assets</b>		<b>47,475,344,086.37</b>	<b>46,753,104,355.82</b>

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**

# CONSOLIDATED BALANCE SHEET

31 December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	31 December 2018	31 December 2017
<b>Current liabilities:</b>			
Short-term borrowings	VI.21	<b>4,304,387,255.88</b>	2,970,414,975.00
Loans from central bank		-	-
Deposits from customers and other banks		-	-
Placements from banks and other financial institutions		-	-
Financial liabilities held-for-trading	VI.22	<b>431,894,056.78</b>	-
Financial liabilities at fair value through profit or loss		-	3,366,294.31
Derivative financial liabilities		-	-
Notes and accounts payable	VI.23	<b>10,689,228,547.46</b>	9,630,554,420.09
Advances from customers		-	642,156,792.96
Contract liabilities	VI.24	<b>7,112,391,961.78</b>	-
Securities sold under agreements to repurchase		-	-
Fee and commission payable		-	-
Employee benefits payable	VI.25	<b>41,351,166.51</b>	43,914,558.18
Taxes payable	VI.26	<b>48,140,024.18</b>	76,628,685.72
Other payables	VI.27	<b>336,922,424.57</b>	282,069,610.65
Including: Interest payable		<b>16,734,825.58</b>	15,896,189.07
Dividends payable		<b>304,042.49</b>	383,540.92
Reinsured accounts payable		-	-
Reserves for insurance contracts		-	-
Brokerage for securities trading		-	-
Brokerage for underwriting securities		-	-
Liabilities held for sale		-	-
Non-current liabilities due within one year	VI.28	<b>4,414,000,000.00</b>	4,482,400,000.00
Other current liabilities	VI.29	<b>182,190,818.20</b>	5,544,483,602.13
<b>Total current liabilities</b>		<b>27,560,506,255.36</b>	23,675,988,939.04
<b>Non-current liabilities:</b>			
Long-term borrowings	VI.30	<b>4,339,619,500.00</b>	9,795,157,000.00
Bonds payable		-	-
Including: Preference shares		-	-
Perpetual bonds		-	-
Long-term payables	VI.31	<b>99,370,000.00</b>	99,370,000.00
Long-term employee benefits payable	VI.32	<b>248,554,297.66</b>	273,426,011.04
Estimated liabilities	VI.33	<b>802,016,709.10</b>	540,745,308.48
Deferred income	VI.34	<b>59,916,128.16</b>	47,514,683.60
Deferred tax liabilities	VI.19	<b>8,950,648.02</b>	1,412,563.62
Other non-current liabilities		-	-
<b>Total non-current liabilities</b>		<b>5,558,427,282.94</b>	10,757,625,566.74
<b>Total liabilities</b>		<b>33,118,933,538.30</b>	34,433,614,505.78

# CONSOLIDATED BALANCE SHEET

31 December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	31 December 2018	31 December 2017
<b>Owners' equity:</b>			
Share capital	VI.35	<b>1,413,506,378.00</b>	1,413,506,378.00
Other equity instruments		-	-
Including: Preference shares		-	-
Perpetual bonds		-	-
Capital reserve	VI.36	<b>9,549,580,748.34</b>	8,746,675,613.33
Less: Treasury shares		-	-
Other comprehensive income	VI.37	<b>-45,615,426.57</b>	-60,327,829.23
Special reserve	VI.38	<b>1,226,639.50</b>	2,096,705.90
Surplus reserve	VI.39	<b>962,441,825.31</b>	962,441,825.31
Provision for general risks		-	-
Undistributed profit	VI.40	<b>-2,153,702,475.37</b>	-255,300,411.53
<b>Total equity attributable to shareholders of the Company</b>		<b>9,727,437,689.21</b>	10,809,092,281.78
Minority interests	VI.41	<b>4,628,972,858.86</b>	1,510,397,568.26
<b>Total equity</b>		<b>14,356,410,548.07</b>	12,319,489,850.04
<b>Total liabilities and equity</b>		<b>47,475,344,086.37</b>	46,753,104,355.82

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**

# BALANCE SHEET OF THE COMPANY

31 December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	31 December 2018	31 December 2017
<b>Current assets:</b>			
Cash at bank and on hand	XVII.1	<b>99,371,121.05</b>	513,258,307.19
Financial assets held-for-trading		-	-
Financial assets at fair value through profit or loss		-	-
Derivative financial assets		-	-
Notes and accounts receivable	XVII.2	<b>46,428,670.20</b>	34,915,043.87
Including: Notes receivable		-	100,000.00
Accounts receivable		<b>46,428,670.20</b>	34,815,043.87
Prepayments	XVII.3	<b>2,100,230.64</b>	1,861,905.00
Other receivables	XVII.4	<b>9,520,031.06</b>	9,532,248.57
Including: Interest receivable		<b>558,431.55</b>	403,909.69
Dividends receivable		-	-
Inventories	XVII.5	<b>98,897,393.27</b>	131,196,488.58
Contract assets		-	-
Assets held for sale		-	-
Non-current assets due within one year	XVII.6	-	650,000,000.00
Other current assets	XVII.7	<b>761,163,163.71</b>	282,058,591.92
<b>Total current assets</b>		<b>1,017,480,609.93</b>	1,622,822,585.13
<b>Non-current assets:</b>			
Debt investments		-	-
Available-for-sale financial assets		-	-
Other debt investments		-	-
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	XVII.8	<b>7,921,435,986.83</b>	7,902,205,154.63
Investments in other equity instruments		-	-
Other non-current financial assets		-	-
Investment properties		-	-
Fixed assets	XVII.9	<b>70,839,970.49</b>	76,780,630.19
Construction in progress		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets	XVII.10	<b>10,468,726.74</b>	10,792,029.90
Development expenses		-	-
Goodwill		-	-
Long-term prepaid expenses	XVII.11	-	2,344.24
Deferred tax assets	XVII.12	<b>20,000,000.00</b>	20,000,000.00
Other non-current assets	XVII.13	<b>633,860,105.78</b>	2,776,042.97
<b>Total non-current assets</b>		<b>8,656,604,789.84</b>	8,012,556,201.93
<b>Total assets</b>		<b>9,674,085,399.77</b>	9,635,378,787.06

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**

# BALANCE SHEET OF THE COMPANY

31 December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	31 December 2018	31 December 2017
<b>Current liabilities:</b>			
Short-term borrowings	XVII.14	650,000,000.00	100,000,000.00
Financial liabilities held-for-trading		-	-
Financial liabilities at fair value through profit or loss		-	-
Derivative financial liabilities		-	-
Notes and accounts payable	XVII.15	58,845,591.58	65,977,190.78
Advances from customers		-	55,310,128.61
Contract liabilities	XVII.16	65,497,566.97	-
Employee benefits payable	XVII.17	-	1,611,226.23
Taxes payable	XVII.18	3,217,292.29	4,115,201.43
Other payables	XVII.19	41,994,848.71	30,599,065.08
Including: Interest payable		731,881.94	339,166.67
Dividends payable		304,042.49	383,540.92
Liabilities held for sale		-	-
Non-current liabilities due within one year	XVII.20	-	500,000,000.00
Other current liabilities	XVII.21	77,418.16	-
<b>Total current liabilities</b>		<b>819,632,717.71</b>	<b>757,612,812.13</b>
<b>Non-current liabilities:</b>			
Long-term borrowings		-	-
Bonds payable		-	-
Including: Preference shares		-	-
Perpetual bonds		-	-
Long-term payables	XVII.22	99,370,000.00	99,370,000.00
Long-term employee benefits payable		-	-
Estimated liabilities		-	-
Deferred income		-	-
Deferred tax liabilities		-	-
Other non-current liabilities		-	-
<b>Total non-current liabilities</b>		<b>99,370,000.00</b>	<b>99,370,000.00</b>
<b>Total liabilities</b>		<b>919,002,717.71</b>	<b>856,982,812.13</b>
<b>Owners' equity:</b>			
Share capital	XVII.23	1,413,506,378.00	1,413,506,378.00
Other equity instruments		-	-
Including: Preference shares		-	-
Perpetual bonds		-	-
Capital reserve	XVII.24	6,147,927,729.10	6,147,927,729.10
Less: Treasury shares		-	-
Other comprehensive income		-	-
Special reserve		-	-
Surplus reserve	XVII.25	472,670,941.45	472,670,941.45
Undistributed profit	XVII.26	720,977,633.51	744,290,926.38
Total equity		<b>8,755,082,682.06</b>	<b>8,778,395,974.93</b>
Total liabilities and equity		<b>9,674,085,399.77</b>	<b>9,635,378,787.06</b>

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**

# CONSOLIDATED INCOME STATEMENT

From January to December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	2018	2017
<b>I. Total operating income</b>		<b>19,213,596,394.03</b>	22,920,207,488.39
including: Operating income	VI.45	<b>19,213,596,394.03</b>	22,920,207,488.39
Interest income		-	-
Premium earned		-	-
Fee and commission income		-	-
<b>II. Total operating costs</b>		<b>21,639,418,283.11</b>	23,961,500,652.22
Including: Operating cost	VI.45	<b>19,262,469,746.28</b>	21,501,523,820.76
Interest expense		-	-
Fee and commission expenses		-	-
Refunded premiums		-	-
Net amount of compensation payout		-	-
Net increase in insurance contracts reserve		-	-
Policy dividend payment		-	-
Reinsured expenses		-	-
Taxes and surcharges	VI.46	<b>65,299,430.11</b>	81,300,224.30
Selling expenses	VI.47	<b>86,255,214.60</b>	187,801,076.38
Administrative expenses	VI.48	<b>892,844,116.09</b>	953,865,433.81
Research and development expenses	VI.49	<b>497,562,636.51</b>	408,186,557.71
Finance cost	VI.50	<b>118,473,501.83</b>	625,785,077.16
Including: Interest expenses		<b>370,303,935.69</b>	477,943,243.68
Interest income		<b>235,693,676.79</b>	173,183,322.73
Loss on impairment of assets	VI.51	<b>677,141,653.24</b>	203,038,462.10
Credit impairment loss	VI.52	<b>39,371,984.45</b>	-
Add: Other income	VI.53	<b>24,448,764.78</b>	61,421,306.20
Investment income (loss expressed with "-")	VI.54	<b>-123,820,055.10</b>	147,443,555.81
Including: Income from investment in associates and joint ventures		<b>-8,308,324.83</b>	-1,600,524.97
Net gain on exposure hedging (loss expressed with "-")		-	-
Gain on change in fair value (loss expressed with "-")	VI.55	<b>-423,444,863.37</b>	3,235,961.60
Gain on disposal of assets (loss expressed with "-")	VI.56	<b>-1,303,386.17</b>	-
Exchange gain (loss expressed with "-")		-	-
<b>III. Operating profit (loss expressed with "-")</b>		<b>-2,949,941,428.94</b>	-829,192,340.22
Add: Non-operating income	VI.57	<b>553,503,531.77</b>	864,146,362.48
Less: Non-operating expenses	VI.58	<b>63,787,435.36</b>	12,968,552.72
<b>IV. Total profit (total loss expressed with "-")</b>		<b>-2,460,225,332.53</b>	21,985,469.54
Less: Income tax expense	VI.59	<b>13,924,817.73</b>	67,842,358.71
<b>V. Net profit (net loss expressed with "-")</b>		<b>-2,474,150,150.26</b>	-45,856,889.17
(i) By continuity of operations			
1. Net profit from continuing operations (net loss expressed with "-")		<b>-2,474,150,150.26</b>	-50,491,244.29
2. Net profit from discontinued operations (net loss expressed with "-")		-	4,634,355.12
(ii) By ownership			
1. Gain or loss attributable to minority interests		<b>-605,135,990.18</b>	4,650,697.91
2. Net profit attributable to shareholders of the Company		<b>-1,869,014,160.08</b>	-50,507,587.08

# CONSOLIDATED INCOME STATEMENT

From January to December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	2018	2017
<b>VI. Net other comprehensive income after tax</b>	VI.60	<b>-740,992.56</b>	<b>112,712.71</b>
Net other comprehensive income after tax attributable to owners of the Company		<b>-2,864,091.79</b>	113,388.22
(i) Other comprehensive income that may not be subsequently reclassified to profit and loss		<b>-1,421,831.33</b>	-
1. Change in remeasurement of defined benefit plans		-	-
2. Other comprehensive income that may not be reclassified to profit or loss under equity method		-	-
3. Change in fair value of investments in other equity instruments		<b>-1,421,831.33</b>	-
4. Change in fair value of own credit risk		-	-
5. Others		-	-
(ii) Other comprehensive income that will be subsequently reclassified to profit or loss		<b>-1,442,260.46</b>	113,388.22
1. Other comprehensive income that may be reclassified to profit or loss under equity method		-	-
2. Change in fair value of other debt investments		-	-
3. Gain or loss on change in fair value of available-for-sale financial assets		-	180,263.16
4. Amount included in other comprehensive income on reclassification of financial assets		-	-
5. Gain or loss on re-classification of held-to-maturity investment into available-for-sale financial assets		-	-
6. Provision for credit impairment of other debt investments		-	-
7. Cash flow hedges reserve (Effective portion of gain or loss on cash flow hedges)		-	-
8. Exchange differences arising from translation of foreign currency financial statements		<b>-1,442,260.46</b>	-66,874.94
9. Others		-	-
Net other comprehensive income after tax attributable to minority interests		<b>2,123,099.23</b>	-675.51
<b>VII. Total comprehensive income</b>		<b>-2,474,891,142.82</b>	<b>-45,744,176.46</b>
Total comprehensive income attributable to owners of the Company		<b>-1,871,878,251.87</b>	-50,394,198.86
Total comprehensive income attributable to minority interests		<b>-603,012,890.95</b>	4,650,022.40
<b>VIII. Earnings per share:</b>			
(i) Basic earnings per share (RMB/share)	VI.66	<b>-1.3223</b>	-0.0357
(ii) Diluted earnings per share (RMB/share)	VI.66	<b>-1.3223</b>	-0.0357

For business combinations under common control during the period, net realized profit of the acquiree prior to the combination is RMB-191,474,373.07. Net realized profit of the acquiree for the last year is RMB-146,496,040.45.

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**

# INCOME STATEMENT OF THE COMPANY

From January to December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	2018	2017
<b>I. Operating income</b>	XVII.30	<b>207,969,649.39</b>	160,111,825.52
Less: Operating cost	XVII.30	<b>221,503,003.20</b>	167,104,576.80
Taxes and surcharges	XVII.31	<b>2,112,282.31</b>	2,689,987.40
Selling expenses	XVII.32	<b>3,724,331.10</b>	3,756,904.29
Administrative expenses	XVII.33	<b>21,819,871.85</b>	20,998,331.71
Research and development expenses	XVII.34	<b>625,000.00</b>	–
Finance cost	XVII.35	<b>-26,863,462.00</b>	-4,117,668.03
Including: Interest expenses		<b>10,735,743.06</b>	11,889,076.42
Interest income		<b>38,396,447.96</b>	16,193,823.73
Loss on impairment of assets	XVII.36	<b>-3,340,528.00</b>	-5,510,754.29
Credit impairment loss	XVII.37	<b>1,660,722.40</b>	–
Add: Other income	XVII.38	<b>114,028.44</b>	19,256,097.30
Investment income (loss expressed with “–”)	XVII.39	<b>-10,099,639.37</b>	105,903,507.33
Including: Income from investment in associates and joint ventures		<b>-10,099,639.37</b>	825,284.83
Net gain on exposure hedging (loss expressed with “–”)		–	–
Gain on change in fair value (loss expressed with “–”)		–	–
Gain on disposal of assets (loss expressed with “–”)		–	–
<b>II. Operating profit (loss expressed with “–”)</b>		<b>-23,257,182.40</b>	100,350,052.27
Add: Non-operating income	XVII.40	<b>23,927.58</b>	1,402,500.00
Less: Non-operating expenses	XVII.41	<b>80,038.05</b>	181,716.34
<b>III. Total profit (loss expressed with “–”)</b>		<b>-23,313,292.87</b>	101,570,835.93
Less: Income tax expense		–	–
<b>IV. Net profit (net loss expressed with “–”)</b>		<b>-23,313,292.87</b>	<b>101,570,835.93</b>
(i) Net profit from continuing operations (net loss expressed with “–”)		<b>-23,313,292.87</b>	101,570,835.93
(ii) Net profit from discontinued operations (net loss expressed with “–”)		–	–
<b>V. Net other comprehensive income after tax</b>		–	–
(i) Other comprehensive income that may not be subsequently reclassified to profit and loss		–	–
1. Change in remeasurement of defined benefit plans		–	–
2. Other comprehensive income that may not be reclassified to profit or loss under equity method		–	–
3. Change in fair value of investments in other equity instruments		–	–
4. Change in fair value of own credit risk		–	–
5. Others		–	–
(ii) Other comprehensive income that will be subsequently reclassified to profit or loss		–	–
1. Other comprehensive income that may be reclassified to profit or loss under equity method		–	–
2. Change in fair value of other debt investments		–	–
3. Gain or loss on change in fair value of available-for-sale financial assets		–	–
4. Amount included in other comprehensive income on reclassification of financial assets		–	–
5. Gain or loss on re-classification of held-to-maturity investment into available-for-sale financial assets		–	–
6. Provision for credit impairment of other debt investments		–	–
7. Cash flow hedges reserve (Effective portion of gain or loss on cash flow hedges)		–	–
8. Exchange differences arising from translation of foreign currency financial statements		–	–
9. Others		–	–
<b>VI. Total comprehensive income</b>		<b>-23,313,292.87</b>	101,570,835.93
<b>VII. Earnings per share</b>			
(i) Basic earnings per share (RMB/share)			
(ii) Diluted earnings per share (RMB/share)			

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**



# CONSOLIDATED CASH FLOW STATEMENT

From January to December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	2018	2017
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		<b>16,923,312,942.46</b>	20,675,163,541.92
Net increase in deposits from customers and deposits from other banks		-	-
Net increase in loans from central bank		-	-
Net increase in placements from other financial institutions		-	-
Cash receipts of premium for direct insurance contracts		-	-
Net cash received from reinsurance business		-	-
Net increase in deposits from insurance policy holders and investment		-	-
Net increase in disposal of financial assets at fair value through profit or loss		-	-
Cash receipts of interest, fees and commissions		-	-
Net increase in placements from other financial institutions		-	-
Net increase in sales and repurchase operations		-	-
Cash received from tax refund		<b>2,342,160,714.55</b>	841,832,313.45
Other cash receipts relating to operating activities	VI.69	<b>621,756,406.29</b>	1,376,005,605.30
<b>Sub-total of cash inflows from operating activities</b>		<b>19,887,230,063.30</b>	22,893,001,460.67
Cash paid for goods and services		<b>18,016,394,572.45</b>	20,419,876,240.20
Net increase in loans and advances to customers		-	-
Net increase in central bank and interbank deposits		-	-
Cash paid for claims of direct insurance contracts		-	-
Cash paid for interest, fees and commissions		-	-
Cash paid for dividends of insurance policies		-	-
Cash paid to and on behalf of employees		<b>2,117,084,358.28</b>	2,253,111,752.91
Payments of taxes		<b>157,091,811.24</b>	277,229,315.22
Other cash payments relating to operating activities	VI.69	<b>1,141,569,455.56</b>	754,047,214.07
<b>Sub-total of cash outflows from operating activities</b>		<b>21,432,140,197.53</b>	23,704,264,522.40
<b>Net cash flow from operating activities</b>		<b>-1,544,910,134.23</b>	-811,263,061.73
<b>II. Cash flows from investing activities:</b>			
Cash receipts from disposal of investments		<b>999,425,000.00</b>	501,875,000.00
Cash receipts from investment income		<b>14,298,810.80</b>	60,897,959.25
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>847,560.03</b>	2,902,384.39
Net cash received from disposal of subsidiaries and other business units		<b>119,781.64</b>	469,927,404.87
Other cash receipts relating to investing activities	VI.69	<b>894,996,962.96</b>	2,912,865,141.44
<b>Sub-total of cash inflows from investing activities</b>		<b>1,909,688,115.43</b>	3,948,467,889.95
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		<b>785,467,723.81</b>	688,021,948.98
Cash paid for investments		<b>892,033,674.31</b>	229,983,128.40
Net increase in pledged loans		-	-
Net cash paid for acquisition of subsidiaries and other business units		-	-
Other cash payments relating to investing activities	VI.69	<b>2,024,548,411.59</b>	957,709,124.46
<b>Sub-total of cash outflows from investing activities</b>		<b>3,702,049,809.71</b>	1,875,714,201.84
<b>Net cash flow from investing activities</b>		<b>-1,792,361,694.28</b>	2,072,753,688.11

# CONSOLIDATED CASH FLOW STATEMENT

From January to December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	2018	2017
<b>III. Cash flows from financing activities:</b>			
Cash receipts from receiving investments		4,801,010,000.00	–
Including: Cash received by subsidiaries from receiving investments made by minority interest		1,010,000.00	–
Cash receipts from borrowings obtained		9,900,757,500.00	10,270,420,395.40
Cash receipts from issuance of bonds		–	–
Other cash receipts relating to financing activities	VI.69	116,790,000.00	168,640,000.00
<b>Sub-total of cash inflows from financing activities</b>		<b>14,818,557,500.00</b>	10,439,060,395.40
Cash paid for repayment of debts		14,206,367,596.69	9,327,604,887.80
Cash paid for dividends, profit distribution or interest expenses		431,085,601.47	518,662,429.54
Including: Dividends and profits paid by subsidiaries to minority interests		61,526.88	6,876,000.00
Other cash payments relating to financing activities	VI.69	1,003,400.00	1,316,000.00
<b>Sub-total of cash outflows from financing activities</b>		<b>14,638,456,598.16</b>	9,847,583,317.34
<b>Net cash flow from financing activities</b>		<b>180,100,901.84</b>	591,477,078.06
<b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>		<b>59,404,170.35</b>	-233,578,145.33
<b>V. Net increase in cash and cash equivalents</b>		<b>-3,097,766,756.32</b>	1,619,389,559.11
Add: Beginning balance of cash and cash equivalents		11,634,582,111.41	10,015,192,552.30
<b>VI. Ending balance of cash and cash equivalents</b>		<b>8,536,815,355.09</b>	11,634,582,111.41

Legal representative:  
**Han Guangde**

Person in charge of accounting:  
**Hou Zengquan**

Head of accounting department:  
**Xie Weihong**

# CASH FLOW STATEMENT OF THE COMPANY

From January to December 2018

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Unit: RMB

Item	Note	2018	Last year
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		228,310,357.17	177,319,751.75
Cash received from tax refund		-	13,883,686.22
Other cash receipts relating to operating activities	XVII.47	22,705,205.23	84,961,536.15
<b>Sub-total of cash inflows from operating activities</b>		<b>251,015,562.40</b>	276,164,974.12
Cash paid for goods and services		189,111,561.88	153,777,564.74
Cash paid to and on behalf of employees		33,800,636.87	39,097,799.92
Payments of taxes		4,666,833.89	9,007,025.04
Other cash payments relating to operating activities	XVII.47	32,644,854.60	77,569,461.44
<b>Sub-total of cash outflows from operating activities</b>		<b>260,223,887.24</b>	279,451,851.14
<b>Net cash flow from operating activities</b>		<b>-9,208,324.84</b>	-3,286,877.02
<b>II. Cash flows from investing activities:</b>			
Cash receipts from disposal of investments		-	741,158,500.00
Cash receipts from investment income		669,528.43	29,280,048.42
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	288,200.00
Net cash received from disposal of subsidiaries and other business units		-	-
Other cash receipts relating to investing activities	XVII.47	956,513,027.80	544,064,076.41
<b>Sub-total of cash inflows from investing activities</b>		<b>957,182,556.23</b>	1,314,790,824.83
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		768,301.67	236,787.22
Cash paid for investments		30,000,000.00	30,000,000.00
Net cash paid for acquisition of subsidiaries and other business units		-	-
Other cash payments relating to investing activities	XVII.47	1,370,023,184.47	820,000,000.00
<b>Sub-total of cash outflows from investing activities</b>		<b>1,400,791,486.14</b>	850,236,787.22
<b>Net cash flow from investing activities</b>		<b>-443,608,929.91</b>	464,554,037.61
<b>III. Cash flows from financing activities:</b>			
Cash receipts from receiving investments		-	-
Cash receipts from borrowings obtained		650,000,000.00	500,000,000.00
Cash receipts from issuance of bonds		-	-
Other cash receipts relating to financing activities		-	-
<b>Sub-total of cash inflows from financing activities</b>		<b>650,000,000.00</b>	500,000,000.00
Cash paid for repayment of debts		600,000,000.00	500,000,000.00
Cash paid for dividends, profit distribution or interest expenses		10,422,526.22	34,619,605.32
Other cash payments relating to financing activities		-	-
<b>Sub-total of cash outflows from financing activities</b>		<b>610,422,526.22</b>	534,619,605.32
<b>Net cash flow from financing activities</b>		<b>39,577,473.78</b>	-34,619,605.32
<b>IV. Effect of change in foreign exchange rate on cash and cash equivalents</b>		<b>-647,405.17</b>	-1,417,482.60
<b>V. Net increase in cash and cash equivalents</b>		<b>-413,887,186.14</b>	425,230,072.67
Add: Beginning balance of cash and cash equivalents		513,258,307.19	88,028,234.52
<b>VI. Ending balance of cash and cash equivalents</b>		<b>99,371,121.05</b>	513,258,307.19

Legal representative:  
Han Guangde

Person in charge of accounting:  
Hou Zengquan

Head of accounting department:  
Xie Weihong

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

From January to December 2018

Unit: RMB

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Item	Equity attributable to shareholders of the Company										Total equity			
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Treasury shares	Less: comprehensive income	Other comprehensive income	Special reserve	Surplus reserve		Provision for general risks	Undistributed profit	Minority interests
<b>I. Ending balance of last year</b>	1,413,506,378.00	-	-	-	8,746,675,613.33	-	-	-	2,086,705.90	962,441,825.31	-	-255,300,411.53	4,510,387,569.26	12,319,489,850.04
Add: Changes in accounting policies	-	-	-	-	-	-	17,736,422.06	-	-	-	-	-29,547,841.37	-	-11,811,403.31
Correction of previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Beginning balance of the year</b>	1,413,506,378.00	-	-	-	8,746,675,613.33	-	-	-	2,086,705.90	962,441,825.31	-	-284,848,252.90	4,510,387,569.26	12,307,678,440.73
<b>III. Increase/decrease for the year</b>														
<b>(Decrease expressed with "+")</b>														
(i) Total comprehensive income	-	-	-	-	802,905,185.01	-	-3,024,029.40	-870,066.40	-	-	-	-1,888,854,222.47	3,118,575,290.60	2,048,732,107.34
(ii) Capital paid in and reduced by shareholders	-	-	-	-	802,905,185.01	-	-2,884,091.79	-	-	-	-	-1,869,014,160.08	-603,012,890.95	-2,474,891,142.82
1. Ordinary shares paid by shareholders	-	-	-	-	802,905,185.01	-	-	-	-	-	-	-	3,726,301,380.43	4,529,406,516.44
2. Capital paid by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	4,912,010,000.00	4,912,010,000.00
3. Amount of share-based payments recognised in owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	802,905,185.01	-	-	-	-	-	-	-	-1,186,509,619.57	-382,602,484.56
(ii) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-	-4,761,406.06	-4,761,406.06
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer to provision for general risks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-4,761,406.06	-4,761,406.06
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Transfer within owners' equity	-	-	-	-	-	-	-159,837.61	-	-	-	-	159,837.61	-	-
1. Capitalization of capital reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capitalization of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Loss offset by surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Transfer to related earnings arising from change in defined benefit plans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-159,837.61	-	-	-	-	159,837.61	-	-
6. Others	-	-	-	-	-	-	-	-870,066.40	-	-	-	-	-151,792.82	-1,021,859.22
(iv) Special reserve	-	-	-	-	-	-	-	61,917,251.20	-	-	-	-	24,617,530.84	86,534,782.04
1. Transfer in the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Utilisation in the year	-	-	-	-	-	-	-	-82,787,317.60	-	-	-	-	-24,769,326.66	-87,556,644.26
(v) Others -	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Ending balance of the year</b>	1,413,506,378.00	-	-	-	9,549,580,798.34	-	-45,615,426.57	1,226,639.50	962,441,825.31	-	-2,153,702,475.37	4,628,872,869.86	14,556,410,548.07	

Head of accounting department:  
**Xie Weihong**

Person in charge of accounting:  
**Hou Zengquan**

Legal representative:  
**Han Guangde**

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

From January to December 2018

Unit: RMB

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Item	Equity attributable to shareholders of the Company										Total equity			
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Treasury shares	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve		Provision for general risks	Undistributed profit	Minority interests
<b>I</b>														
Ending balance of last year	1,413,506,378.00	-	-	-	6,897,386,279.63	-	-60,441,217.45	929,231.60	952,294,741.72	-	1,173,657,686.44	62,896,345.75	10,410,799,444.69	
Add: Changes in accounting policies														
Correction of previous errors														
Business combination under common control														
Others														
<b>II.</b>														
Beginning balance of the year	1,413,506,378.00				8,746,311,377.55		-60,441,217.45	1,138,287.53	952,294,741.72		-172,019,638.81	49,896,566.51	10,930,766,495.05	
<b>III.</b>														
Increase/decrease for the year (Decrease expressed with "-")														
(i) Total comprehensive income					364,265.78		113,888.22	988,418.37	10,157,083.59		-83,280,772.72	1,460,411,001.75	1,388,725,054.99	
(ii) Capital paid in and reduced by shareholders							113,888.22				-50,507,687.08	4,650,022.40	-45,744,176.46	
1. Ordinary shares paid by shareholders					364,265.78							1,461,616,316.68	1,461,880,652.46	
2. Capital paid by holders of other equity instruments												1,906,572.10	1,906,572.10	
3. Amount of state-based payments recognised in owners' equity														
4. Others					364,265.78									
(iii) Profit distribution									10,157,083.59		-32,773,185.64	-5,765,337.33	1,459,897,390.06	
1. Transfer to surplus reserve									10,157,083.59					
2. Transfer to provision for general risks														
3. Distribution to shareholders														
4. Others														
(iv) Transfer within owners' equity														
1. Capitalization of capital reserve														
2. Capitalization of surplus reserve														
3. Loss offset by surplus reserve														
4. Transfer to retained earnings arising from change in defined benefit plans														
5. Transfer from other comprehensive income to retained earnings														
6. Others														
(v) Special reserve								988,418.37					988,418.37	
1. Transfer in the year								81,616,395.86					82,010,476.13	
2. Utilisation in the year								-80,688,518.49					-80,688,518.49	
(vi) Others														
Ending balance of the year	1,413,506,378.00				8,746,675,613.33		-60,327,829.23	2,098,705.90	962,441,825.31		-255,300,411.53	1,510,397,568.26	12,319,489,850.04	

Head of accounting department:  
Xie Weihong

Person in charge of accounting:  
Hou Zengquan

Legal representative:  
Han Guangde

# STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE COMPANY

From January to December 2018

Unit: RMB

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Item	2018										
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	Total equity
I. Ending balance of last year	1,413,506,378.00	-	-	-	6,147,927,729.10	-	-	-	472,670,941.45	744,230,926.38	8,778,995,974.93
Add: Changes in accounting policies											
Correction of previous errors											
Others											
II. Beginning balance of the year	1,413,506,378.00	-	-	-	6,147,927,729.10	-	-	-	472,670,941.45	744,230,926.38	8,778,995,974.93
III. Increase/Decrease for the year (Decrease expressed with "-")											
(i) Total comprehensive income											
(ii) Capital paid in and reduced by shareholders											
1. Ordinary shares paid by shareholders											
2. Capital paid by holders of other equity instruments											
3. Amount of share-based payments recognised											
4. Transfer from other owners' equity											
Others											
(iii) Profit distribution											
1. Transfer to surplus reserve											
2. Distribution to shareholders											
3. Others											
Others											
(iv) Transfer within owners' equity											
1. Capitalization of capital reserve											
2. Capitalization of surplus reserve											
3. Loss offset by surplus reserve											
4. Transfer to retained earnings arising from change in defined benefit plans											
5. Transfer from other comprehensive income to retained earnings											
Others											
(v) Special reserve											
1. Transfer in the year											
2. Utilisation in the year											
Others -											
IV. Ending balance of the year	1,413,506,378.00	-	-	-	6,147,927,729.10	-	-	-	472,670,941.45	720,977,633.51	8,755,082,682.06

Head of accounting department:  
**Xie Weihong**

Person in charge of accounting:  
**Hou Zengquan**

Legal representative:  
**Han Guangde**

# STATEMENT OF CHANGES IN OWNERS' EQUITY OF THE COMPANY

From January to December 2018

Unit: RMB

Prepared by: CSSC Offshore & Marine Engineering (Group) Company Limited

Item	2017										Total equity
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserve	Less: Treasury shares	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profit	
<b>I. Ending balance of last year</b>	1,413,506,378.00	-	-	-	6,147,927,729.10	-	-	-	62,411,586.54	674,572,834.25	8,698,416,527.89
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-
Correction of previous errors	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-
<b>II. Beginning balance of the year</b>	1,413,506,378.00	-	-	-	6,147,927,729.10	-	-	-	462,411,586.54	674,572,834.25	8,698,416,527.89
<b>III. Increase/Decrease for the year (Decrease expressed with "-")</b>											
(i) Total comprehensive income	-	-	-	-	-	-	-	-	10,293,354.91	63,718,092.13	73,977,447.04
(ii) Capital paid in and reduced by shareholders	-	-	-	-	-	-	-	-	-	101,570,835.99	101,570,835.99
1. Ordinary shares paid by shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital paid by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payments recognised	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
(iii) Profit distribution	-	-	-	-	-	-	-	-	10,157,083.59	-32,773,185.64	-22,616,102.05
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-	10,157,083.59	-10,157,083.59	-
2. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-22,616,102.05	-22,616,102.05
3. Others	-	-	-	-	-	-	-	-	-	-	-
(iv) Transfer within owners' equity	-	-	-	-	-	-	-	-	-	-	-
1. Capitalization of capital reserve	-	-	-	-	-	-	-	-	-	-	-
2. Capitalization of surplus reserve	-	-	-	-	-	-	-	-	-	-	-
3. Loss offset by surplus reserve	-	-	-	-	-	-	-	-	-	-	-
4. Transfer to retained earnings arising from change in defined benefit plans	-	-	-	-	-	-	-	-	-	-	-
5. Transfer from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-
(v) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Transfer in the year	-	-	-	-	-	-	-	-	-	-	-
2. Utilisation in the year	-	-	-	-	-	-	-	-	-	-	-
(vi) Others	-	-	-	-	-	-	-	-	102,271.32	920,441.84	1,022,713.16
<b>IV. Ending balance of the year</b>	1,413,506,378.00	-	-	-	6,147,927,729.10	-	-	-	472,670,944.45	744,290,266.38	8,778,395,974.93

Head of accounting department:  
**Xie Weihong**

Person in charge of accounting:  
**Hou Zengquan**

Legal representative:  
**Han Guangde**

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## I. BASIC INFORMATION ON THE COMPANY

CSSC Offshore & Marine Engineering (Group) Company Limited (the “Company”, together with its subsidiaries, the “Group”), formerly known as Guangzhou Shipyard International Company Limited, is a joint-stock company with limited liability independently established by Guangzhou Shipyard in 1993 as approved by Guo Jia Ti Gai Sheng [1993] No. 83. On 5 July 1993, it was converted into a public joint-stock company with limited liability as approved by Guo Jia Ti Gai Sheng [1993] No. 110. The Company was established on 7 June 1993, with its registered address at 40 South Fangcun Main Road, Liwan District, Guangzhou City and its headquarters located at 40 South Fangcun Main Road, Liwan District, Guangzhou City.

As approved by Circular (1993) No.31 issued by the China Securities Regulatory Commission, Zheng Jian Fa Shen (1993) No.26 issued by the China Securities Regulatory Commission and Circular Shang Zheng Shang (1993) No.2076 issued by the Shanghai Stock Exchange, the Company publicly issued 337,279,600 A shares on 22 September 1993 which became listed on the Shanghai Stock Exchange on 28 October 1993, publicly issued 157,398,000 H shares on 28 October 1993, which are listed on the Shanghai Stock Exchange, and publicly issued 157,398,000 H shares on 21 July 1993, which became listed and traded on The Stock Exchange of Hong Kong Limited on 6 August 1993. Its total share capital following public offering amounted to 494,677,600 shares.

Pursuant to the annual general meeting of 2010 and revised Articles of Association of the Company, the Company’s paid-up capital (share capital) transferred from capital reserves increased by RMB148,403,274, and relevant procedures of H shares and A shares were completed on 15 July 2011 and 19 July 2011, respectively. The registered capital was therefore increased to RMB643,080,854.

Based on the approval for Guangzhou Shipyard International Company Limited to list overseas for issuing foreign stocks capital (CSRC permitted [2014] No.117) issued by CSRC, the Company completed on 11 February 2014 the issuance of 345,940,890, 31,134,680 and 10,378,227 H Shares with face value of RMB1 per share to CSSC (Hong Kong) Shipping Company Limited (“CSSC HK”), Baosteel Resources International Co., Ltd. (“Baosteel International”) and China Shipping (H.K.) Holdings Co., Ltd. (“China Shipping HK”), respectively. All issued shares are ordinary shares, and the registered capital has been therefore increased to RMB1,030,534,651.

According to the Replies on Approval of Issue of Shares by Guangzhou Shipyard International Company Limited to Parties including China State Shipbuilding Corporation for Purchase of Assets and Raising of Related Financing (Zheng Jian Xu Ke [2015] No. 330) issued by the China Securities Regulatory Commission, on 8 April 2015, the Company placed 272,099,300 ordinary shares of RMB1 each to China State Shipbuilding Corporation Limited (“CSSC”) for purchase of CSSC’s 85% equity interest in CSSC Huangpu Wenchong Shipbuilding Company Limited (“Huangpu Wenchong”) and paid cash to CSSC for acquisition of 15% equity interest in Huangpu Wenchong; placed 68,313,338 ordinary shares of RMB1 each to Yangzhou Kejin Shipyard Co., Ltd. for purchase of its relevant shipbuilding assets; and placed 42,559,089 ordinary shares of RMB1 each to 7 specific investors. The registered capital upon change is RMB1,413,506,378.

On 8 May 2015, a resolution on change of the name of the Company was considered and passed at the first extraordinary general meeting of the Company for 2015, and the name of the Company was changed to “CSSC Offshore & Marine Engineering (Group) Company Limited” from “Guangzhou Shipyard International Company Limited”.

On 29 December 2015, the Company received a new business license issued by Guangzhou Administration for Industry and Commerce (uniform social credit code: 91440101190499390U), with legal representative as Han Guangde.

The Company is engaged in the manufacturing of equipment for railways, ships, aerospace and other transportation facilities, and its scope of business is metal shipbuilding; marine equipment manufacturing; container manufacturing; metal structures manufacturing; metal pressure vessel manufacturing; mechanical parts processing; tempered glass manufacturing; cutting tool manufacturing; other furniture manufacturing; ship maintenance; general equipment repairs; engineering survey and design; machinery technology transfer services; interior decoration and design; water transport equipment rental services; container leasing services; machinery and equipment leasing; construction general contracting services; overseas dispatch of all kinds of labour service personnel (excluding seamen); provision of docks, barge anchorages, floats and other facilities for ships.

The Company’s controlling shareholder is CSSC which is a wholly state-owned company incorporated in the PRC, while the ultimate controlling party of the Company is the State-owned Assets Supervision and Administration Commission of the State Council.



# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements of the Group include the Company and its 24 subsidiaries, including: Guangzhou Shipyard International Company Limited (“GSI”), Guangzhou Longxue Pipe Co., Ltd. (“Pipe Company”), Guangzhou United Steel Structures Limited (“United Steel”), Guangdong GSI Elevator Co., Ltd. (“GSI Elevator”), Guangzhou Hongfan Computer Technology Co., Ltd. (“Hongfan Technology”), Guangzhou Guangli Shipbuilding Human Resources Service Company Limited (“Guangli”), Guangzhou Hongfan Hotel Limited (“Hongfan Hotel”), Glory Group Development Limited (“Glory Group”), Fonkwang Development Limited (“Fonkwang”), Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd. (“Large-scale Machinery”), Zhongshan GSI Marine Engineering Company Limited (“Zhongshan GSI”), Guangzhou Wenchong Dockyard Co., Ltd. (“Wenchong Dockyard”), CSSC Huangpu Wenchong Shipbuilding Company Limited (“Huangpu Wenchong”), Guangzhou Huangchuan Ocean Engineering Co. Ltd (“Huangchuan Ocean Engineering”), Zhanjiang Nanhai Ship Hi-Tech Services Ltd. (“Zhanjiang Nanhai”), Guangzhou Xinhang Human Resources Service Co., Ltd. (“Xinhang”), Guangzhou Wenchong Shipyard Co. Ltd. (“Wenchong Shipyard”), Guangzhou CSSC Wenchong Bingshen Facilities Co., Ltd. (“Wenchong Bingshen”), Guangzhou Wenchuan Heavy Industrial Co. Ltd. (“Wenchuan Heavy Industrial”), Guangzhou Xingji Maritime Engineering Design Co., Ltd. (“Xingji”), Wah Shun International Marine Limited (“Wah Shun”), Wah Loong International Marine Limited (“Wah Loong”), CSSC (Guangzhou) New Energy Co., Ltd. (“CSSC New Energy”) and CSSC Industrial Internet Co., Ltd. (“CSSC Internet”). Compared to last year, the number of subsidiaries decreased by 2 due to the liquidation of Guangzhou Xingshun Marine Services Co., Ltd. (“Xingshun”) and Guangzhou Longxue Properties Co., Ltd. (“Longxue Properties”) and increased by 1 due to the establishment of CSSC Internet and by 1 due to the acquisition of Wenchong Dockyard which represented a business combination under common control.

Please refer to “VII. Change in the Scope of Consolidation” and “VIII. Interest in Other Entities” for details.

## III. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

### (1) Basis for preparation

Based on going-concern assumption and transactions and events actually occurred, the consolidated financial statements of the Group have been prepared in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC, (hereinafter referred to as the “Accounting Standards for Business Enterprises”), and No. 15 of regulations on information disclosures of companies that issue public offering shares – General Rules of preparing financial reports (revised in 2014) issued by China Securities Regulatory Commission (CSRC), the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and regulations of Hong Kong Companies Ordinance as well as the accounting policies and estimation as described in IV Significant Accounting Policies and Estimation to this note.

### (2) Going Concern

The management of the Company has assessed its ability to operate on a continuing basis for the 12 months from 31 December 2018 and is of the view that its existing financial position should be sufficient to meet the production and operation of the Group. As such, these financial statements are prepared on a going concern basis.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Notes on specific accounting policies and accounting estimates: The Group adopts accounting policies and accounting estimates based on the features of its own production and operation, which cover the recognition and measurement of provision for bad debts for receivables, measurement of inventories delivered, methods for classification and depreciation of fixed assets, amortisation of intangible assets, amortisation of long-term prepaid expenses, and recognition and measurement of revenue.

### 1. Statement of compliance with Accounting Standards for Business Enterprises

The financial statements have been prepared by the Company in accordance with the Accounting Standards for Business Enterprises, and reflect a true and fair view of the financial position, the operating results and cash flows of the Company and the Group.

### 2. Accounting period

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

### 3. Operating cycle

The Group’s operating cycle is 12 months, which is used for the separation of current and non-current assets and liabilities.

### 4. Reporting currency

The reporting currency of the Group is Renminbi (“RMB”).

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 5. Accounting treatments for business combinations under and not under common control

The assets and liabilities obtained by the Group (as the acquirer) by business combination under common control, are measured at the carrying amounts as recorded by the enterprise being combined at the date of combination in the consolidated financial statements of the ultimate controller. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combinations adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For identifiable net assets, liabilities and contingent liabilities of the acquiree obtained on the acquisition date through business combination under common control are measured at fair value. The cost of business combination is the fair value of consideration paid including cash and non-cash assets, liabilities undertaken, debts and equity securities issued for the controlling interest of the acquiree at the acquisition date and the sum of all expenses incurred during the business combination (For business combination achieved in stages, the cost of combination is the sum of cost for each single transaction). Goodwill is recognised by the difference between the cost of business combination over the fair value of net identifiable assets acquired. In case the cost of business combination is smaller than the fair value of net identifiable assets of the acquiree acquired, firstly, fair values of each identifiable assets, liabilities and contingent liabilities obtained during combination, and fair values of those non-cash assets or equity securities have to reviewed. The excess of the fair value of net identifiable assets of the acquiree acquired over the cost of business combination will be recognised in the consolidated non-operating for current period after review.

## 6. Preparation of consolidated financial statements

The Group includes all of its subsidiaries under its control in the scope of consolidated financial statements.

When preparing the consolidated financial statements, when the accounting policy and the accounting period that subsidiaries adopted are inconsistent with the Company, necessary adjustments are made to the financial statements of those subsidiaries according to the accounting policies or accounting period of the Company.

When preparing consolidated financial statements, all significant internal transactions, balances and unrealized profits within the scope of combination shall be offset. Proportion of shareholder's equity of the subsidiaries which do not belong to the Company, and proportion of profit or loss for current period, other comprehensive income and total comprehensive income which belong to the equity of minority shareholders, which shall be listed under "equity of minority shareholders, gain or loss attributable to minority interests, other comprehensive income attributable to minor shareholders and total comprehensive income attributable to the minority shareholders" in the consolidated financial statements.

For subsidiaries acquired through business combination under common control, the operating results and cash flows of the acquiree shall be consolidated into the consolidated financial statements since the beginning of the period of combination. When preparing comparative consolidated financial statements, adjustment shall be made to the related items in the financial statements for the last year, regarding as the reporting subject which was formed after combination has existed since the ultimate controller started control.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, shall be regarded as the ultimate controller started the control and adjustment was made under current status. When preparing comparative financial statements, time limit is the time not earlier than the Group and the acquiree are both under the control of ultimate controller, related assets and liabilities of the acquiree shall be included into the comparative statements of the consolidated financial statements of the Group, and net assets increased due to combination adjusted related items under shareholder's equity in the comparative statements. In order to prevent double calculation of the value of net assets of the acquiree, for long-term equity investment held by the Group before combination, from the date of obtaining original shareholding and the date on which the Group and the acquiree are under the same control, whichever is earlier, to the date of combination, the related profit or loss recognised, other comprehensive income and other change in assets, shall be written off retained earnings at the beginning of the comparative period and profit or loss for current period.

For subsidiaries acquired through business combination not under common control, its operating results and cash flows shall be included in the consolidated financial statements since the Group obtained its control. When preparing consolidated financial statements, adjustment shall be made to financial statements of the subsidiaries using the fair values of each identifiable assets, liabilities and contingent liabilities as basis, which were determined on date of acquisition.

Shareholding acquired through different transactions in stages and obtained shareholding of the investee under common control and finally become business combination, when preparing consolidated financial statements, for shareholding of the acquiree which was holding before the date of acquisition, have to be re-measured according to the fair value of such shareholding on the date of acquisition, difference between the fair value and the carrying value shall be included as the investment income for current period. Other comprehensive income involving equity calculated under equity method which it holds before the related date of acquisition, and change in equity of other shareholders, besides net profit or loss, other comprehensive income and profit distribution, and change to investment profit or loss during the period which date of acquisition belong, except other comprehensive income incurred by the change in net liabilities or net assets from the newly measured defined benefit plan.

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Proceeds from disposal of part of the equity investment in the subsidiaries without losing control and the disposal of long-term equity investment should enjoy the difference between the proportion of net assets calculated from the date of acquisition or date of combination in the consolidated financial statements, and adjust the share premium. In case the capital reserve is insufficient for offset, retained earnings will be adjusted.

When the Group loss control in the acquiree due to reasons such as disposal of part of the equity investment, remaining shareholding will be re-measured based on the fair value on the date of loss of control when preparing the consolidated financial statements. The sum of proceeds obtained from the disposal of equity and fair value of the remaining shareholding, and less the difference of the proportion of net assets of the subsidiary calculated from the date of acquisition or combination according to the original shareholding proportion, and included into the investment profit or loss of loss of control for current period, and also goodwill will be written off. Other comprehensive income related to the original equity investment in the subsidiary, will be changed to investment profit or loss for current period upon loss of control.

For loss of control by the Group through different transactions and disposed shareholding in subsidiaries in stages, in case when each transaction that the Group loss control through disposal of shareholding in subsidiaries belongs to a series of transactions, accounting treatment for each transaction shall be treated as one transaction which involves disposal of subsidiary with loss of control. However, the difference between the proceeds for each disposal before loss of control and the proportion of net assets corresponding to the disposal of such subsidiary, shall be recognised as other comprehensive income in the consolidated financial statements, and transfer to investment profit or loss of loss of control for current period upon loss of control.

## 7. Classification of joint arrangement and accounting method for joint operation

Joint arrangement of the Group includes joint operation and joint venture. As for joint operation projects, the Group, as the joint venture party in the joint operation, recognises assets and liabilities that it holds and assumes individually, and the assets and liabilities that it holds or assume in proportion, and related income and fees will be recognised according to the related agreed individual or in proportion assets and liabilities. For assets transactions that are purchased or sale under joint operation that do not constitute business, only when profit or loss incurred from that transaction attributable to the other parties under the joint operation.

## 8. Cash and cash equivalents

Cash in the cash flow statement of the Group represents the cash on hand and the deposit in bank available for payment at any time. Cash equivalents cash flow statement are terms which are less than three months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

## 9. Foreign currency transactions and translation of foreign currency financial statements

### (1) Foreign currency transaction

Transactions by foreign currency of the Group are translated into RMB at the spot exchange rate of the transaction date. On the balance sheet date, monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance sheet date. Except for from the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalised, the exchange difference is directly included in profit and loss for the period.

### (2) Translation of foreign currency financial statements

The Group prepares and presents the financial statements of operating entities for which foreign currency are their functional currencies within the scope of consolidation in Renminbi through translation.

- 1) Assets and liabilities items in foreign currency balance sheet date are translated using the exchange rate as at the balance sheet date. Owners' equity items, other than "undistributed profit", are translated using the exchange rate as at the date on which the business takes place.
- 2) Income and expenses items in the income statement are translated using the average of the exchange rates at the beginning of the year and the end of the year.
- 3) The translation difference arising from such translation into foreign currency statements is shown under other comprehensive income.
- 4) Foreign currency cash flows are translated using the average of the exchange rates at the beginning of the year and the end of the year. The effect of changes in exchange rates on cash and cash equivalents is presented separately in the statement of cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 10. Financial assets and financial liabilities

When the Group becomes a party in the financial instrument contract, a financial asset or financial liability will be recognised.

### (1) Financial assets

#### 1) Classification of financial assets, basis of recognition and method of measurement

Based on the business model under which the Group manages assets and the characteristics of contractual cash flows of financial assets, the Group divides financial assets into financial assets at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

The Group classifies financial assets meeting both of the following conditions into financial assets at amortised cost: (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value, and the relevant transaction expenses are included in the initially recognised amount; they are subsequently measured at amortised cost. Except for those designated as hedging items, the difference between the initial amount and the due amount shall be amortised according to the effective interest rate method, and the amortisation, impairment, exchange gains and losses as well as gains or losses arising from derecognition shall be included in profit or loss.

The Group classifies financial assets meeting both of the following conditions into financial assets at fair value through other comprehensive income: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value, and the relevant transaction expenses are included in the initially recognised amount. Except for those designated as hedging items, other gains or losses arising from such financial assets are included in other comprehensive income, other than credit impairment losses or gains, exchange gains or losses and interest of such financial assets calculated using the effective interest rate method. Upon derecognition of financial assets, accumulated gains or losses previously included in other comprehensive income shall be transferred from other comprehensive income to profit or loss.

The Group recognises interest income using the effective interest rate method. Interest income is determined by multiplying the book balance of financial assets by the actual interest rate, except: (i) For the purchased or internally generated credit-impaired financial assets, the Group recognises interest income based on amortised cost and credit-adjusted effective interest rate of such financial assets since initial recognition. (ii) For the purchased or internally generated financial assets without credit impairment but subsequently becoming credit-impaired, the Group subsequently recognises their interest income based on amortised costs and effective interest rate of such financial assets.

The Group designates equity instruments not held for trading as financial assets at fair value through other comprehensive income. Once the designation is made, it cannot be revoked. Equity instruments not held for trading of the Group designated as at fair value through other comprehensive income are initially measured at fair value, and the relevant transaction costs are included in the initially recognised amount. Except for dividends received (other than the recovered part of investment cost) which are included in profit or loss, other related gains or losses (including exchange gains or losses) are included in other comprehensive income and shall not be subsequently transferred to profit or loss. Upon derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred to retained earnings from other comprehensive income.

Financial assets other than the above financial assets classified as at amortised cost and financial assets classified as at fair value through other comprehensive income. The Group classifies them as financial assets at fair value through profit or loss. Such financial assets are initially measured at fair value, and the relevant transaction costs are directly included in profit or loss. Gains or losses on such financial assets are included in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2) *Basis for recognition and measurement method of transfer of financial assets*

The Group derecognises financial assets if any of the following conditions is met: (1) the right to receive cash flows from the financial asset expires, (2) the financial asset has been transferred and the Group has transferred substantially all risks and rewards relating to the financial asset to the transferee, (3) the financial asset has been transferred to the transferee, and the Group has not transferred or retained substantially all risks and rewards relating to the financial asset, nor does it maintain the control over the financial asset.

In case the overall transfer of the financial asset meets the criteria for de-recognition, the difference between the carrying amount of financial asset being transferred and the sum of the consideration received as a result of the transfer and the part of derecognised part in the accumulated changes in fair value which were previously directly included in other comprehensive income (the contractual terms of the financial asset involved in transfer provide that the cash flows generated on a particular date represent solely the payment of principal and interest on outstanding principal) is charged to profit or loss.

In case where the transfer of only part of the financial asset meets the criteria for de-recognition, the carrying amount of financial asset being transferred is allocated between the portions to be derecognised and the portion that continued to be recognised according to their relative fair value. The difference between the sum of the amount of consideration received for the transfer and the amount corresponding to the derecognised part of the accumulated changes in fair value which were previously included in other comprehensive income (the contractual terms of the financial asset provide that the cash flows generated on a particular date represent solely the payment of principal and interest on outstanding principal) and the aforesaid allocated overall carrying amount of the financial asset is charged to profit or loss.

## (2) **Financial liabilities**

### 1) *Classification of financial liabilities, recognition basis and measure method*

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

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The Group classifies financial liabilities into financial liabilities at amortised cost, save for the following: (i) financial liabilities at fair value through profit or loss, including financial liabilities held-for-trading (including derivatives within the scope of financial liabilities) and financial liabilities designated at fair value through profit or loss. (ii) financial liabilities arising from the transfer of financial assets which do not meet the conditions for derecognition or the continued involvement in the transferred financial assets. (iii) financial guarantee contracts not falling under (i) or (ii) above, and loan commitments at a rate lower than market rate not falling under (i) above.

### 2) *Conditions for derecognition of financial liabilities*

A financial liability (or a part of financial liability) is derecognised when and only when the obligation specified in the contract is discharged or cancelled. An agreement between the Group and a lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. As for substantive changes made by the Group to the contract terms (whole or in part) of the existing financial liabilities, the existing financial liabilities (or part of it) will be derecognised. And financial liabilities after term revision will be recognised as a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss for the period.

## (3) **Method for determination of fair values of financial assets and financial liabilities**

Fair values of financial assets and financial liabilities of the Group are measured by fair values of principal market to calculate fair values of financial assets and financial liabilities of the Group. In case there is no principal market, fair values of financial assets and financial liabilities are calculated using the price which is the most beneficial to the market, and using valuation technology which is the most appropriate at that time and with sufficient available data and other information. The inputs used for fair value measurement are divided into three levels. Level 1 input is the unadjusted offer of the same asset or liability that is available on the measurement day in the active market; level 2 input is the input value that can be observed directly or indirectly of the relevant asset or liability other than those in level 1; level 3 input is the unobservable input of the relevant asset or liability. The Group uses level 1 inputs first and level 3 inputs last. In measuring fair value using valuation techniques, the Group uses level 1 inputs for the shares of listed companies held, level 2 inputs for forward exchange contracts, and level 3 inputs for investments in other equity instruments in non-listed companies. The level of the fair value measurement is determined by the lowest level of the input value which is of great significance to the whole of the fair value measurement.

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (4) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities of the Group are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied: (1) the Group currently has a legally enforceable right to set off the recognised amounts; and (2) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

## (5) Distinction between financial liabilities and equity instruments and related treatment methods

The Group distinguishes between financial liabilities and equity instruments according to the following principles: (1) If the Group cannot unconditionally avoid the performance of a contractual obligation by paying cash or delivering other financial assets, the contractual obligation meets the definition of financial liabilities. Some financial instruments, although not explicitly containing the terms and conditions of delivery of cash or other financial assets obligations, may indirectly form contractual obligations through other terms and conditions. (2) If a financial instrument must or may be settled with the Group's own equity instrument, it shall be taken into account whether the Group's own equity instrument used for settling the instrument is the substitute of cash or other financial assets, or is used to entitle the instrument holder with the remaining equity in the assets of the issuer after netting of all the liabilities. In the former case, this instruments the financial liability of the issuer, while in the latter case, it is the equity instrument of the issuer. In some cases, a financial instrument contract requires the Group to settle the financial instrument with its own equity instrument, where the amount of contractual or contractual obligations equals the number of equity instruments available or to be delivered multiplied by its settlement. The fair value of the contract is classified as a financial liability, regardless of whether the amount of the contractual rights or obligations is fixed or is based, in whole or in part, on changes in variables (for example, interest rate, prices of certain goods or certain financial instrument) other than the market price of the Group's own equity instruments.

When the Group classifies financial instruments (or their components) in a consolidated statement, it considers all the terms and conditions between the Group's members and the holders of financial instruments. If the Group as whole entity assumes the obligation to deliver cash, other financial assets or other obligations causing the instrument to be settled as a financial liability, the instrument shall be classified as a financial liability.

Where a financial instrument or a component thereof is a financial liability, the Group includes the relevant interest, dividends, gains or losses and the gains or losses arising from redemption or refinancing in profit or loss.

Where a financial instrument or a component thereof is an equity instrument, the Group's issuance (including refinancing), repurchase, sale or cancellation is treated as a change in equity and does not recognise changes in the fair value of the equity instrument.

## 11. Notes and accounts receivable

For the Group's receivables which arise from transactions regulated by the "Accounting Standards for Business Enterprises No. 14 – Revenue Standards" and which do not contain significant financing components, their loss allowance is always measured at the amount of the expected credit losses for the lifetime.

Judgment of whether the credit risk has increased significantly since the initial confirmation. The Group determines whether the credit risk of the financial instrument has increased significantly by comparing the probability of default of the financial instrument on initial recognition and the probability of default of the instrument during the expected lifetime determined on the balance sheet date. However, if the Group determines that the financial instrument has only a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not increased significantly since initial recognition. In general, if the overdue period exceeds 30 days, it indicates that the credit risk of the financial instrument has increased significantly. Unless the Group obtains reasonable and evidenced information without unnecessary additional costs or effort, it proves that even if the overdue period exceeds 30 days, the credit risk has not increased significantly since initial recognition. In determining whether the credit risk has increased significantly since initial recognition, the Group considers reasonable and evidence-based information, including forward-looking information, that can be obtained without unnecessary additional costs or effort. The information considered by the Group includes significant changes in overdue information, borrower's expected performance and repayment behaviour, adverse changes in business, financial or external economic conditions that are expected to lead to significant changes in the borrower's ability to meet its debt-paying obligations, etc.

Assessment on a collective basis. For notes and accounts receivable, the Group cannot obtain sufficient evidence of significant increase in credit risk at a reasonable cost at the level of individual instruments, and it is feasible to evaluate whether credit risk increases significantly on a collective basis. Therefore, the Group classifies notes receivable according to the maturity of notes as a common risk characteristic and considers whether credit risk increases significantly on a collective basis. According to the common risk characteristics of the borrower type and date of initial recognition, the Group classifies accounts receivable and considers whether credit risk has significantly increased on a collective basis.

Measurement of expected credit losses. The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate, that is, the present value of all cash shortages.

# NOTES TO THE FINANCIAL STATEMENTS

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The Group calculates the expected credit loss of notes and accounts receivable on the balance sheet date. If the expected credit loss is greater than the carrying amount of the current provision for impairment of other receivables, the Group recognises the difference as impairment losses of other receivables, and it will debit "credit impairment loss" and credit "provision for bad debts". Otherwise, the Group recognises the difference as an impairment gain and makes the opposite accounting record.

If the Group incurs credit impairment and determines that the relevant notes and accounts receivable are unrecoverable, subject to the approval for writing off, it will debit "provision for bad debts" and credit "notes receivable" or "accounts receivable" based on the approved amount for writing-off. If the written-off amount is greater than the loss allowance made, the "credit impairment loss" is debited for the difference.

## **(1) Method of determination of expected credit loss of notes receivable and accounting treatment methods**

For notes receivable obtained by the Group, if the maturity date of the notes is within one year and the Group determines that there is no difference between the cash flows of the notes receivable and the cash flows expected to be received for the notes receivable, no provision for impairment is recognised for the notes receivable. If the maturity date of the notes exceeds one year, the Group recognises expected credit loss of notes receivable and make provision for bad debts based on the difference between the carrying amount of the notes receivable and the present value of the cash flows expected to be received for the notes receivable.

## **(2) Method of determination of expected credit loss of accounts receivable and accounting treatment methods**

According to the common risk characteristics of the borrower type and date of initial recognition, the Group classifies accounts receivable, considers whether credit risk has significantly increased on a collective basis and determines expected credit loss.

- 1) For receivables among entities in the scope of consolidated financial statements of the Group, the Group determines that no expected credit loss exists and no provision for bad debts is made.
- 2) The Group determines the accounts receivable with an ageing of over one year since date of initial recognition and for which there are indications of impairment to be the accounts receivable the credit risk of which has significantly increased since initial recognition, and determine expected credit loss and make provision for bad debts based on the difference between the carrying amount of the accounts receivable and the present value of the cash flows expected to be received for the accounts receivable.
- 3) The Group determines the accounts receivable which have not been tested individually for impairment to be the accounts receivable the credit risk of which has not significantly increased since initial recognition. Based on the actual credit loss for previous years and considering forwarding information for the year, the Group expects the default loss ratio to be 0.5%, determines the expected credit loss of accounts receivable and makes provision for bad debts based on 0.5% of the balance at the balance sheet date.

## **12. Other receivables**

Method of determination of expected credit loss of other receivables and accounting treatment methods:

The Group measures loss allowance for other receivables according to the following circumstances: (i) the Group measures loss allowance for the financial assets the credit risk of which has not significantly increased since initial recognition based on the amount of expected credit loss for the next 12 months; (ii) the Group measures loss allowance for the financial assets the credit risk of which has significantly increased since initial recognition based on the amount of expected credit loss during the lifetime of the financial instrument; (iii) the Group measures loss allowance for the financial assets which have been credit-impairment since purchase or origination based on the amount of expected credit loss during the lifetime of the financial assets.

Assessment on a collective basis. For other receivables, the Group cannot obtain sufficient evidence of significant increase in credit risk at a reasonable cost at the level of individual instruments, and it is feasible to evaluate whether credit risk increases significantly on a collective basis. Therefore, the Group classifies other receivables according to the type of borrowers and date of initial recognition as a common risk characteristic and considers whether credit risk increases significantly on a collective basis.

- 1) For other receivables among entities in the scope of consolidated financial statements of the Group, the Group determines that no expected credit loss exists and no provision for bad debts is made.
- 2) The Group determines other receivables with an ageing of over one year and for which there are indications of impairment to be other receivables the credit risk of which has significantly increased since initial recognition, and determine expected credit loss and make provision for bad debts based on the difference between the carrying amount of other receivables and the present value of the cash flows expected to be received for other receivables.
- 3) The Group determines other receivables which have not been tested individually for impairment to be other receivables the credit risk of which has not significantly increased since initial recognition. Based on the actual credit loss for previous years and considering forwarding information for the year, the Group expects the default loss ratio to be 0.5%, determines the expected credit loss of other receivables and make provision for bad debts based on 0.5% of the balance at the balance sheet date.

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## 13. Inventories

The inventories of the Group mainly include raw materials, low-value consumables, work in progress and finished goods.

The Group maintains a perpetual inventory system. Inventories are recorded at cost of purchase when received. Actual cost is calculated using weighted average method when the inventories are acquired. Low-value consumables and packaged goods are amortised using one-time resale method.

The net realisable value of finished goods, work in process and materials for sale, is determined by estimated price deducting estimated selling costs and related taxes. The net realisable value of production materials is determined by estimated price deducting estimated completion cost, sale expenses and related sales taxes.

## 14. Contract assets

### (1) Method and standards for recognition of contract assets

A contract asset represents the Group's right to receive consideration in exchange for goods that the Group has transferred to a customer. If the Group sells two clearly distinguishable goods to customers, it is entitled to receive payment for one of the goods that has been delivered, but the payment is also dependent on the delivery of the other of the goods, the Group regards the right to receive payment as a contract asset.

### (2) Method of determination of expected credit loss of contract assets and accounting treatment methods

Method of determination of expected credit loss of contract assets. For contract assets arising from the Group's normal performance of contracts, if contractual payment is no more than 30 days past due, the Group determines that there is no difference between the cash flows receivable for the contract and the cash flows expected to be received, and no provision for impairment of contract assets is recognised. If contractual payment is no less than 30 days past due, the Group recognises provision for impairment of contract assets based on the expected credit losses of the contract assets for the entire duration of the contract. For the method of determination, please refer to the description in "11. Notes and accounts receivable" above.

Accounting treatment method. The Group calculates the expected credit loss of contract assets on the balance sheet date. If the expected credit loss is greater than the carrying amount of the current provision for contract assets, the Group recognises the difference as impairment losses, and it will debit "credit impairment loss" and credit "provision for impairment of contract assets". Otherwise, the Group recognises the difference as an impairment gain and makes the opposite accounting record.

If the Group incurs credit loss and determines that the relevant contract assets are unrecoverable, subject to the approval for writing off, it will debit "provision for impairment of contract assets" and credit "contract assets" based on the approved amount written-off. If the written-off amount is greater than the loss allowance made, the "credit impairment loss" is debited for the difference.

## 15. Contract costs

### (1) Method of determination of amount of assets relating to contract costs

The Group's assets relating to contract costs include contract performance cost and contract acquisition cost.

Contract performance cost refers to the cost incurred by the Group to perform a contract which does not fall under the scope of the Accounting Standards for Business Enterprises and meets all of the following conditions, and is recognised as an asset as contract performance cost: the costs relate directly to an existing contract or to a specifically identifiable anticipated contract, including direct labour, direct materials, allocations of overheads (or similar costs), costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract; the costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; the costs are expected to be recovered.

Contract acquisition cost refers to the incremental cost for the Group to obtain a contract which is expected to be recoverable and is recognised as an asset as contract acquisition cost. If the amortisation period is no more than one year, the contract acquisition cost is included in profit or loss as incurred. Incremental cost refers to the cost which will not be incurred by the Group had no contract been acquired (such as commission etc.). Other expenses incurred by the Group to obtain contracts (other than the incremental cost which is expected to be recoverable) (such as travelling expenses which will be incurred regardless of whether the contract will be obtained) are included in profit or loss as incurred, save for those expressly to be borne by customers.



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## (2) Amortisation of assets relating to contract costs

The Group's assets relating to contract costs are amortised using the same basis as that for recognition of the revenue from goods relating to the assets, which are included in profit or loss.

## (3) Impairment of assets relating to contract costs

In determining the loss on impairment of assets relating to contract costs, the Group first determines the impairment loss for other assets relating to contract costs recognised in accordance with the relevant Accounting Standards for Business Enterprises and then makes provision for impairment based on the excess of its carrying value over the sum of the remaining consideration expected to be received from transfer of the goods relating to the asset and the cost expected to be incurred for transfer of the relevant goods, which is recognised as loss on impairment of assets.

If there is any change in the factors causing impairment in the previous periods, resulting in the said difference higher than the carrying value of the asset, the provision for impairment of assets previously made is reversed and is included in profit or loss. However, the carrying value of the asset following reversal shall not exceed the carrying value of the asset as at the date of reversal had no provision for impairment been made.

The Group normally reviews the shipbuilding and offshore engineering product contracts at the end of each quarter. If the total estimated cost of the contracts is higher than the total estimated income from the contracts, a provision shall be made for the excess, and the loss on impairment of assets and contract performance cost shall increase at the same time. If gross profit is not recognised before the performance progress reaches 30% (for non-first-made ships) or 50% (for first-made ships), the provision for impairment of contract performance cost is not reversed. If gross profit is recognised after the performance progress reaches 30% (for non-first-made ships) or 50% (for first-made ships), the provision made for impairment of contract performance cost is reversed to reduce the cost of principal business. Generally, at the end of each quarter, in respect of uncompleted ships with provision made for impairment of contract performance cost in the last period, if underprovision is made in the previous period, it is necessary to make supplementary provision and increase the assets impairment loss and the provision for impairment of contract performance cost. If overprovision is made in the last period, it is necessary to reverse the overprovision and reduce the assets impairment loss and the provision for impairment of contract performance cost. Upon ship delivery, the balance of provision for impairment of contract performance cost reversed to reduce the cost of principal business. At the balance sheet date, the carrying value of contract cost (being book balance net of balance of provision for impairment) is analysed. If the carry value is negative, it will be reclassified and presented under estimated liabilities. If the carrying value is positive, it will be presented under inventories.

## 16. Long-term equity investments

Long-term equity investments of the Group are the investments in subsidiaries and investment in associates and investment in joint ventures.

Basis for determination in respect of common control is that all participated parties or a group of participated parties control such arrangement, and that policies of such related business of such arrangement have to obtain unanimous agreement by all parties that are control such arrangement.

When the Group directly or indirectly throughout its subsidiary owns 20% (inclusive) or more but less than 50% shares with voting rights in the investee, it is generally considered that the Group has significant influence on the investee. For voting rights less than 20% in the investee, the board or representative in similar authority in the investee or the implementation processes of financial or operation policies of investee have also been taken into account, or significant transaction with the investee, or management personnel send to the investee, or significant technology information provided to the investee which have significant influence to the investee.

If the Group has control over an investee, it is a subsidiary of the Group. For long-term equity investments obtained through business combination under common control, proportion of carrying value of net assets obtained on the date of combination in the consolidated financial statements of the ultimate controller shall be accounted as the initial investment cost of the long-term investment. For carrying value of net assets of the acquiree which is negative on the date of combination, investment cost of long-term equity investment is calculated as zero.

For equity interests in investees under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not fall under a series of transactions, according to proportion of fair value of net assets of acquiree after the combination in the consolidated financial statements of the ultimate controller, and accounted as the initial investment cost of long-term equity investment on the date of combination. Difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

For long-term equity investment acquired through business combination not under common control, cost of combination will be treated as the initial investment cost.

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For equity interests in investees not under common control acquired in a series of transaction which constitute business combination, supplementary disclosure on the accounting of cost of long-term equity investments in the financial statements of the Company for the reporting period in which the control is acquired. For example, for equity interests in investees not under common control acquired in a series of transactions which constitute business combination and a package of transactions, the Group accounts for each transaction as a transaction in which the control has been obtained. If it does not belong to a series of transaction, initial investment cost will be the sum of the carrying value of the equity investment which it originally holds, and initial investment cost will change to cost method. For shareholding which it holds before the date of acquisition which uses equity method, other related comprehensive income which use equity method for accounting shall not be adjusted, such investment shall use the same accounting basis as the investee when it directly disposes of related assets or liabilities upon disposal. For shareholding which it holds before acquisition and accounted for under fair value method in the available-for-sale financial assets, the accumulated change in fair value which is originally included in other comprehensive income shall be change to profit or loss for current period on the date of combination.

Apart from the long-term equity investments acquired through business combination mentioned above, the long-term equity investments acquired by cash payment is expensed as the cost of investment based on the actual amount of cash paid for the purchase. For long-term equity investments acquired by issuing equity securities, the cost of investment is the fair value of the equity securities issued. For long-term equity investments invested in the Group by the investor, the investment cost is the agreed consideration as specified in the contract or agreement.

Investments in subsidiaries are accounted for the Group using cost method, while investments in the associates and joint ventures are accounted for under equity method.

For long-term equity investments for which the subsequent measure is accounted for using cost method, when making additional investment, carrying value of the long-term equity investments will be increased according to the fair value of cost of additional investment and the related expenses incurred by related transactions. For cash dividend or profit paid by the investee, it shall be recognised as investment income for current period using the amount which it entitles.

For long-term equity investment for which the subsequent measurement is accounted for under equity method, carrying value of long-term equity investment shall be increased or decreased accordingly according to the change in the shareholders' equity of the investee. When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, and after offsetting profit or loss incurred in internal transaction between associates and joint ventures, and calculate the proportion which is attributable to the investing company according to the shareholding, and recognised after adjustment is made to the net profit of the investee.

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

When the Group loss control in the investee due to reasons such as disposal of part of the equity investment, remaining shareholding after disposal of will be accounted for under available-for-sale financial assets, difference between fair value and the carry value on the date of loss of common control or significant influence will be included in the profit or loss for current period. Other comprehensive income recognised in the original equity investment which is accounted for using equity method, upon it will no longer be accounted for under equity method, it shall be using the same accounting basis as the investee directly disposing related assets or liabilities.

For loss of control in the investee due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the investee after disposal, shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence after disposal, it can be accounted as under available-for-sale financial assets, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

If the transactions from the step-by-step disposal of equity to the loss of controlling equity do not fall under a series of transactions, the Group shall separately carry out accounting treatment for each transaction. If the transaction fall under a series of transactions, each transaction is accounted for as a disposal of subsidiary with control lost. However, the difference between the consideration for each transaction before losing control and the carrying value of the long-term equity investments corresponding to the equity disposed of is recognised as other comprehensive income and transferred to profit or loss upon loss of control.

## 17. Long-term receivables

For the long-term receivables from sale of goods with financing nature by using deferred methods, the discount value of contract or agreement prices receivable (contract or agreement prices receivable less unrealized financing income) are taken as its initial recognised amount. At the end of the year, the Group separately carries out impairment test for long-term receivables, and credit impairment loss is recognised and provision for bad debts is made based on the difference from the present value of future cash flows lower than its book value.

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## 18. Investment properties

The investment properties of the Group include leased buildings and structures, which are measured through the cost pattern.

The investment properties of the Group are depreciated or amortised using the straight-line method. The estimated useful life, net residual value ratio and annual depreciation (amortisation) rate are as follows:

Type	Useful life (year)	Estimated residual value ratio (%)	Annual depreciation rate (%)
Buildings and structures	45-70	3	1.39-2.16

## 19. Fixed assets

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

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets of the Group comprise buildings and structures, machinery equipment, transportation equipment and other equipment.

Apart from fixed assets which are provided in full and continue to be in use, the Group made provision for all the fixed assets. The Group made provision for depreciation using straight-line method. The useful life, estimated residual value ratio and depreciation rate of fixed assets of the Group are classified as below:

Type	Useful life (year)	Estimated residual value ratio (%)	Annual depreciation rate (%)
Buildings and structures	8-50	3-10	1.8-12.13
Machinery and equipment	6-20	3-10	4.5-16.17
Transportation equipment	10-15	3-10	6.00-9.7
Other equipment	3-50	3-10	1.80-32.33

The Group makes the assessment on the estimated useful life, estimated rate of salvage value and the depreciation method of fixed assets at each financial year-end. If any changes occur, they will be regarded as changes on accounting estimates.

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses are recognised in profit or loss for current period.

## 20. Construction in progress

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

## 21. Borrowing costs

Borrowing cost incurred from fixed assets, investment properties and inventories which require construction or production activities for over one year, and can reach usable or sale condition after that. Borrowing costs incurred during assets expense is incurred, and when construction or production activities started in order to make assets to reach the expected usable or sale condition, capitalization starts; When construction or assets that fulfil the capitalization conditions, and reached the expected usable or sale condition, capitalization have to be terminated. Borrowing costs incurred afterward are included into the profit or loss for current period. If assets that fulfil capitalization conditions interrupted abnormally during construction or production progress, and such interruption occurred for more than three consecutive months, capitalization of borrowing costs have to terminate, until construction of assets or production activities resumed.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalised is 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 borrowings, the Group determines the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

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## 22. Intangible assets

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

The Group amortises land use right on the basis of its useful life by straight-line method since it is acquired. The non-patent technology is amortised on the basis of shorter of estimated useful life, stipulated beneficial year by contract, and legal available year. The amortisation amount is accounted into related assets and current profit and loss. The Group makes the assessment on the estimated useful life and amortisation method of intangible assets with limited useful life at each financial year-end and makes adjustment if needed. If any changes occur, they will be regarded as changes on accounting estimates.

The Group would assess the estimated useful life of intangible assets with uncertain useful life during each accounting period.

The Group's principal research and development projects include those on shipbuilding and design and construction technologies.

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

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

Expenditure on the development phase will be recognised as intangible assets while satisfying the following conditions:

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

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

## 23. Impairment of long-term assets

The Group would assess intangible assets such as long-term equity investment, investment properties measured by the cost model, fixed assets, construction in progress and intangible assets with limited useful lives at each of the balance sheet date. When there is indication that there is impairment, the Group would perform impairment test. Impairment test should be made for goodwill and intangible assets with uncertain useful life, at the period end regardless of whether there is indication of impairment loss.

The difference should be accrued as impairment and accounted for impairment losses if the result of impairment test indicates that the book value of assets over recoverable amount. Recoverable amount should be measured at the higher of the fair value after subtracting the costs of disposal of the net and the present value of estimated future cash flows. Provision for asset impairment is determined and recognised on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

After the impairment test, if the carrying value of such assets is higher than its recoverable amount, the difference is recognised as impairment loss. The above assets impairment loss once recognised, cannot be transferred in the subsequent accounting period.

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## 24. Long-term prepaid expenses

The Group's long-term prepaid expenses included plant renovation expense and berth slideway renovation expense. The expenses are amortised evenly over the estimated benefit period. If the long-term prepaid expenses are no longer beneficial to the subsequent accounting periods, the unamortised balance is then fully transferred to profit or loss for the period. The amortisation period of plant renovation expense and berth slideway renovation expense ranges from 2-6 years.

## 25. Contract liabilities

Contract liabilities represent the Group's obligations to transfer goods to customers for the consideration received or receivable from customers. If before the Group transfers goods to a customer, the customer has paid the contract consideration or the Group has received the right to unconditionally receive the contract consideration, contract liabilities are recognised based on the amount received or receivable at the payment of consideration by the customer or the maturity of the consideration payable, whichever is earlier.

## 26. Employee benefits

Employee benefits of the Group include short-term compensation, post-employment benefits, termination benefits and other long-term benefits.

Short-term compensation mainly includes wages, bonuses, medical insurance, injury insurance, maternity insurance, supplemental medical insurance, housing fund, union funds and workers education, outsourcing labour compensation and others. Short-term compensation actually incurred shall be recognised as liabilities during the accounting period which the labour provided services, and included into the profit or loss or related assets cost of the current period of beneficiary.

Post-employment benefits refer to the compensation and benefits provided, after employees' retirement and termination of employment, by the Group in order to obtain services from employees, except for the short-term compensation and termination benefits, which mainly include basic pension insurance and unemployment insurance and are classified into defined contribution plans and defined benefit plans in view of the risks and obligations borne by the Company. For defined contribution plans, contributions made to a separate entity as at balance sheet date in exchange for the services provided by employees during the accounting period, are included in current profit or loss or the cost of relevant assets based on the beneficiary.

The Group's defined contribution plan represents the basic endowment insurance, unemployment insurance and enterprise annuity paid for its employee in accordance with the relevant provisions of the local government. During the accounting period when the staff provides service, the Group will calculate the amount payable in accordance with the local stipulated basis and proportions which will be recognised as liabilities, and the liabilities would be charged into current profit and loss or costs of assets.

There are defined benefit plans for Huangpu Wenchong, Wenchong Shipyard and Wenchong Dockyard, being subsidiaries of the Company. The welfare responsibilities generated from defined benefit plan based on the formula determined by projected unit credit method would be vested to the service period of the staff and charged into current profits and loss or relevant costs of assets. The deficit or surplus generated from the present value of obligations of the defined benefit plan minus the fair value of the assets of defined benefit plan is recognised as net liabilities or net assets. When the defined benefit plan has surplus, the Group will measure the net assets of the defined benefit plan at the lower of the surplus of defined benefit plan and the upper limit of the assets.

All defined benefit plans obligations, including the expected duty of payment within 12 months after the end of annual Reporting Period during which the staff provided service, were discounted based on the bond market yield of sovereign bond matching the term of defined benefit plans obligations and currency or corporate bonds of high quality in the active market on the balance sheet date.

The service cost incurred by defined benefit plan and the net interest of the net liabilities and net assets of the defined benefit plan would be charged into the current profit and loss or relevant costs of assets. The changes generated from the re-calculation of the net liabilities or net assets of the defined benefit plan would be included in the other comprehensive income and are not reversed to profit or loss in a subsequent accounting period.

When the defined benefit plan is settled, the gain or loss is confirmed based on the difference between the present value of obligations and the settlement price of the defined benefit plan as at the balance sheet date.

Termination benefits are the compensation to employees when the Group terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. The compensation liability for the termination of employment relationship with employee are charged to the profit or loss for the year at the earlier of the following dates: (i) when the Group cannot unilaterally withdraw from the termination plan or the redundancy offer. (ii) when the Group recognises and pays the related costs for a restructuring of termination benefits.

Other long-term employee welfare refers to the employee compensation except for short-term compensation, post-employment benefits, and termination benefits.

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## 27. Estimated liabilities

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

The initial measurement of estimated liabilities is based on the best estimate of the outflow of present obligation by considering relevant risks, uncertainties and time value of money, etc. If the effect from time value of currency is significant, the most appropriate estimation will be discounted into present value. The increase amount of book value of estimated liabilities due to over time discounted is recognised as interest expenses.

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

## 28. Production safety fee

According to the regulation for accrued production safety fees and usage (Cai Qi [2012] No.16), the Group's shipbuilding companies and supporting manufacturing enterprises should standardize the production safety fees accrual and usage.

The production safety fees set aside by the Group are included in the cost of the relevant products and the "Special reserve" item. When writing off production safety fees within specified range, it should directly write off specific reserves when accounted for as expenses; if capitalizing production safety fees into Fixed assets, it should be pooled in work in progress and transfer to Fixed assets when the projects reach intended use state, the cost of which should write off Special reserves, and recognise accumulated depreciation at the same amount. This fixed asset would not be depreciated in subsequent periods.

The balance of production safety fees can be transferred to next fiscal year. If the production safety fees are not enough, the difference can be recorded as normal costs or expenses, and no supplementary production safety fees would be accrued.

## 29. Principles for recognition of and methods for measurement of revenue

### (1) Principles for recognition of revenue

At the effective date of contract, the Group shall assess the contract, identify each of the performance obligations in the contract, as well as ensure whether each of the performance obligations is to be fulfilled over time or at a particular point in time, and subsequently confirm the revenue accordingly upon the complete fulfilment of each of the performance obligations.

The performance obligations are discharged over time if any of the following condition has been met, otherwise are discharged at a particular point in time. (i) customers obtain and consume the economic benefits from the performance by the Group of its obligations at the time of performance; (ii) customers are able to control the goods under development in the process of performance by the Group of its obligations; (iii) the goods generated in the course of performance by the Group of its obligations has irreplaceable use and the Group has the right to receive payment for the part of obligations which have been performed during the whole contractual term.

For the performance obligations to be fulfilled over time, the Group recognises revenue based on the performance progress during such period. When the performance progress cannot be reasonably determined, the incurred cost expected to be compensated is recognised as revenue, until the performance progress can be reasonably determined.

For the performance obligations to be fulfilled at a point in time, the Group recognises revenue at contractual price when the customer has obtained the control over the relevant goods. In determining whether customers have obtained control over goods, the Group considers the following: (i) whether the Group has the existing right to receive payment for the goods; (ii) whether the Group has transferred the legal ownership of the goods to customers; (iii) whether Group has physically delivered the goods to customers; (iv) whether the Group has transferred the major risks and rewards relating to the ownership of goods to customers; (v) whether the customers have accepted the goods; (vi) other indications that customers have obtained control over the goods.

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## (2) **Methods of revenue recognition**

The Group's operating income is mainly derived from shipbuilding and offshore engineering products, ship maintenance, electromechanical products and steel structures. The policies and methods for revenue recognition are as follows:

### 1) *Shipbuilding and offshore engineering products*

The Group operates shipbuilding and offshore engineering product business. It assesses contracts at their effective dates and determines whether the relevant contract performance obligations meet the condition to "performance over time".

For contracts meeting the condition to "performance over time", the Group recognises revenue based on the contract performance progress during such period. The Group adopts the input method to determine the appropriate progress of performance, which is determined by the total actual contract cost incurred in proportion to the total estimated contract cost. When the performance progress cannot be reasonably determined, the incurred cost expected to be compensated for is recognised as revenue, until the performance progress can be reasonably determined. If the incurred cost is expected to be unrecoverable, it is recognised as expense upon occurrence, without recognising revenue.

When the revenue from a contract can be estimated reliably, contract-related economic benefits could probably flow into the Group, the incurred contract cost can be clearly identified and reliably measured, and the percentage of completion and estimated future costs could be reliably measured, the outcome of a contract is deemed to be reasonably foreseeable and the performance progress can be reasonably determined. For long-term shipbuilding and offshore engineering product contracts, in case of first-made ships, the outcome of the contract is reasonably foreseeable when the performance progress reaches 50%; and in case of non-first made ships under bulk production, the outcome of the contract is reasonably foreseeable when the performance progress reaches 30%.

If the condition to "performance over time" is not met, the Group recognises revenue based on the transaction price specified in the contract or ship delivery documents when the ships and offshore engineering products are completed and delivered.

Foreign currency revenue is recognised based upon contracted currency. For the foreign currency received when revenue recognised, the revenue is subject to the received amount; for the foreign currency not received when revenue recognised, the revenue is subject to the amount calculated by spot rate at the date of recognition of accounts receivable. The amount of combination is recognised as accumulated RMB revenue. The accumulated RMB revenue less prior accounting period accumulated RMB revenue is recognised as current year RMB revenue.

### 2) *Ship maintenance*

The Group provides general ship maintenance business. Due to the short repair cycle, the Group recognises revenue and cost when the ship maintenance and the relevant settlement procedures are completed.

### 3) *Steel structures and electromechanical products*

For the manufacturing and installation contracts for large steel structures provided by the Group, if they meet the condition to "performance over time", the Group recognises their revenue based on performance progress during such period. The performance progress is determined using the input method, based on the percentage of total accumulated incurred contract cost to total expected contract cost. For the steel structure manufacturing and delivery contracts not meeting the condition to "performance over time", the Group recognises revenue according to workload confirmation after the steel structures are completed and delivered to customers, pass inspections and are accepted by customers.

Revenue from electromechanical products provided by the Group is recognised upon completion and delivery.

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 30. Government grants

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

The government grants received by the Group include research grant, construction grant, insurance grant and interest subsidy, etc. Government grants relating to assets are the government subsidy used in the generation of long-term assets through construction or others. Grants relating to revenue are the government subsidy other than grants relating to assets. If related government documents do not specify the objective of the grants, the Group will make determination in accordance with the aforesaid principles. If they are difficult to determine, they will be classified as government grants relating to revenue.

If a government grant is a monetary asset, it is measured at actual received amount; if the amount is fixed or there is reasonable evidence as at the end of the year which indicates legal compliance is satisfied and amount is likely to be received in the future, it is measured at receivable amount. If the fair value of a non-monetary asset cannot be determined in a reliable way, it is measured at its nominal amount (RMB1).

Government grants relating to assets such as construction and investment grants are recognised as deferred income, which are included in profit or loss for the current period by instalments over the useful life of the assets using the average useful life method.

If the relevant asset is sold, transferred, scrapped or damaged before the end of its useful life, the relevant deferred income balance that has not been allocated is transferred to the profit or loss for the current period for disposal of the asset.

Government grants relating to revenue such as research grant and insurance grant which are utilised to cover the relevant costs or losses for future periods are recognised as deferred income and are included in the profit or loss for the period in which the relevant costs or losses are recognised or offset the relevant costs. Government grants relating to day-to-day activities are included in other income or offset the relevant costs based on the substance of economic activities. Government grants not relating to day-to-day activities are included in non-operating income.

Where the Group has obtained loan interest subsidy, different accounting treatment will be applied to two categories, being the payment of interest subsidy to the lending bank and the allocation of interest subsidy to the Group, in accordance with the following principles:

- (1) Where the interest subsidy is paid to the lending bank which provides loan to the Group at a preferential interest rate, the Group recognises the loan at the actual amount of loan received and the interest expense is calculated based on the principal of the loan and the preferential interest rate.
- (2) Where the interest subsidy is directly paid to the Group, the interest subsidy is utilised to offset the interest expense.

If any government grant recognised by the Group is required to be returned, the accounting treatments shall be conducted for the period of return in accordance with the following:

- 1) if the government grant is utilised to offset the carrying value of the relevant assets at initial recognition, the carrying value of the assets shall be adjusted.
- 2) any deferred income is utilised to offset the book balance of the relevant deferred income and any excess is included in profit or loss for the current period.
- 3) under any other circumstances, they are directly included in profit for loss for the current period.

## 31. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities of the Group are calculated and recognised based on the differences between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax assets are recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 32. Leases

Leases of the Group include financial leases and operational leases.

The Group, as the lessee under the financial lease, on the start date of financial lease, according to the lower of the fair value of leasing assets on the start date of leasing and the present value of the minimum lease payments, to be the recorded value of leasing fixed assets. The minimum lease payment shall be the recorded value of the long-term payable, the difference between the two recorded as unrecognised financial expense.

The Group, as the lessee under operational lease, rental during the leasing term in each of the period, shall be included in the cost of related assets or profit or loss for the period using straight-line method directly.

## 33. Held-for-sale

- (1) The Group classifies non-current assets or disposal group that meet the following criteria as available-for-sale: 1) Disposable immediately under current conditions based on similar transactions for disposals of such assets or practices for the disposal group; 2) Probable disposal; that is, a decision has been made on a plan for disposal and an undertaking to purchase has been obtained, and the disposal is expected to be completed within a year. Relevant approval is required for disposals requiring approval of relevant authorities or regulators as required by relevant regulations. Before the Group classifies non-current assets or disposal groups as held for sale for the first time, the book value of each asset and liability of the non-current assets or disposal group is measured according to the requirements of the relevant accounting standards. On initial measurement or remeasurement on the balance sheet date of held as available-for-sale non-current assets or disposal group, where book value is higher than the net value of fair value less disposal expenses, the difference between book value and the net value of fair value less disposal expenses is recognised as asset impairment loss in profit and loss in the current period, and at the same time, provision is made for impairment of assets held for sale.
- (2) Non-current assets or disposal groups which the Group acquired specifically for disposal, satisfy the requirement of “expected completion of disposal within one year” on the date of acquisition, and is probable to satisfy conditions of other available-for-sale classifications in the short term (usually within 3 months) are classified as available-for-sale on the date of acquisition. At initial measurement, the initial measurement assuming that it is not classified as held-for-sale and the net value of fair value less disposal expenses are compared, and the lower of the two is measured. Other than non-current assets or disposal groups acquired through corporate merger, the difference arising from recognising the net value of fair value of non-current assets or disposal groups less disposal expenses as initial measurement is recognised in profit and loss in the current period.
- (3) Where the Group has lost control of a subsidiary due to reasons such as disposal of investment in a subsidiary, regardless of the Group retaining part equity investment after the disposal, upon the investment in subsidiary intended to be disposed of satisfying the conditions for classification as held as available-for-sale, the investment in subsidiary will be generally classified as held as available-for-sale in the parent’s separate financial statements, and all assets and liabilities of the subsidiary is classified as held as available-for-sale in the consolidated financial statements.
- (4) Where there is increase in net value of fair value less disposal expenses for non-current assets held as available-for-sale on subsequent balance sheet dates, the previously charged difference should be recovered and reversed in asset impairment loss recognised after classification as held as available-for-sale investment, with the reversal amount recognised in profit and loss in the current period. Asset impairment loss recognised before classification as held as available-for-sale investment is not reversible.
- (5) Asset impairment loss recognised for disposal groups held as available-for-sale is first offset against the book value of goodwill of the disposal group and then offset against the book values proportionally according to the share of book value of each non-current asset.

Where there is increase in net value of fair value less disposal expenses of held as available-for-sale disposal groups subsequent to the balance sheet date, the previously charged difference should be recovered and reversed in asset impairment loss of non-current assets recognised as required by the appropriate relevant measurement after classification as held as available-for-sale investment, with the reversal amount recognised in profit and loss in the current period. Offset goodwill book value and asset impairment loss recognised before classification as held as available-for-sale investment are not reversible.

Reversal amount after recognition of asset impairment loss of held as available-for-sale disposal group other than goodwill in the disposal group should be added proportionally based on the book value share to the book value of each non-current asset.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- (6) No provision for depreciation or amortisation of non-current assets held as available-for-sale non-current assets or disposal groups, and interest on liabilities and other expenses of disposal groups held as available for sale continues to be recognised.
- (7) When non-current assets or disposal groups held for sale are no longer classified as held as available for sale or non-current assets are removed from disposal groups held as available-for-sale, measurement is performed based on the lower of the following: (1) book value prior to classification as held as available-for-sale adjusted by recognition of depreciation, amortisation or impairment assuming there was no classification as held as available-for-sale; (2) recoverable amount.
- (8) Upon derecognition of non-current assets or disposal groups held for sale, unrecognised gain or loss is recognised in profit or loss in the current period.

## 34. Discontinued operations

Discontinued operations refer to components of the Group which satisfies the following conditions and can be independently distinguished, and such components has been disposed of or classified as held as available-for-sale: (1) the component represents an independent major business or an independent major region of activity; (2) the component is an intended disposal of part of a relevant plan of an independent major business or an independent major region of activity; (3) the component is a subsidiary acquired specifically for resale.

## 35. Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions:

- (1) the segment can generate revenue and incur expense from day-to-day activities;
- (2) the management of the Group evaluates operating outcomes of the segment periodically in order to make decisions concerning resource distributions and operating result assessments;
- (3) the Group has access to information on the financial position, results of operation and cash flows of the segment.

The Group determines reportable segments based on operating segments. Inter-segment revenue is measured based on the actual transaction price of these transactions.

## 36. Other significant accounting policies and accounting estimates

When preparing financial statements, the management of the Group needs to use assumptions and evaluations, which might influence accounting policy application and the amounts of assets, liabilities revenues and expenses. The effective results might differ from these estimates. The management of the Group continues to evaluate the uncertain factors and key assumptions that affect estimates. The changes on accounting estimates effects should be recognised in the current year or carry forward.

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

### a. Provision for bad debts of receivables

As stated in Note IV.11 and Note IV.12, the Group assesses on the balance sheet date whether the credit risk of receivables has significantly increased since initial recognition to determine the expected credit loss on receivables. The objective evidence for impairment includes data which indicate that the future cash flow for individual or combined receivables has significant decreased; data which indicate that the debtors for individual or combined accounts receivable experienced negative financial issues. If there is objective evidence indicating that the value of the receivables is recovered and the recovery is related objectively to events occurring after the impairment was recognised, the previously recognised expected credit loss is reversed.

### b. Provision for impairment of inventories

As stated in Note IV.13, the Group estimates net realisable value of inventories on a regular basis, and the difference of inventory cost higher than net realisable value is recognised as loss on impairment of inventories. The Group estimates the net realisable value of inventories based on estimated price of similar goods, net of costs, selling expenses and related taxes. If the effective price is different from estimated price, the management would adjust the net realisable value. Therefore, the estimation according to current experience would be different from the actual value, resulting in adjustment to book value of Inventories in the balance sheet. Provision for impairment of inventories could be revised because of the above issues. The adjustment for provision for impairment of inventories could affect the current profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

**c. Provision for impairment of assets relating to contract costs**

As stated in Note IV.15, the Group reviews the shipbuilding contracts and the contracts for offshore engineering products at the balance sheet date. If the total estimated cost of the contracts is higher than the total estimated income from the contracts, provision shall be made for the excess, and the loss on impairment of assets and contract performance cost shall also increase. The accounting estimates for shipbuilding and offshore engineering products are made by the management based on their past experiences in building similar assets, estimated production schedule, market price trend and production technology upgrading and with reference to existing economic situations and industry conditions. In case of any material changes in previous estimates, the revenue, cost and estimated loss on contracts for future periods will be adjusted accordingly.

**d. Provision for impairment of long-term receivables**

As stated in Note IV.17, the Group separately carries out impairment test for long-term receivables on each balance sheet date, and the impairment loss is recognised and provision for bad debts are made based on the differences from the present value of future cash flows lower than its book value.

**e. Accounting estimates for provision for impairment of fixed assets**

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

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

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

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

**f. Accounting estimates for deferred tax assets recognised**

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

**g. Useful life for fixed assets and intangible assets**

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

**h. Estimated total contract cost**

The Group reviews the estimated total contract cost on a regular basis. The estimated cost of uncompleted part that might incur in the future would be revised constantly based on the total cost of the same type ships, which have completed, actual cost and progress of the ships in progress, changes in materials and employees and others.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 37. Changes in significant accounting policies and accounting estimates

### (1) Changes in significant accounting policies

#### 1) Details of and reason for changes

The Ministry of Finance of the PRC issued the following amendments to and interpretations of the Accounting Standards for Business Enterprises in 2017 and 2018:

- (i) Accounting Standard for Business Enterprises No. 14 – Revenue (Amendment) (the “New Revenue Standard”)
- (ii) Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (Amendment), Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets (Amendment), Accounting Standard for Business Enterprises No. 24 – Hedging Accounting (Amendment), and Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (Amendment) (collectively, the “New Standards for Financial Instruments”)
- (iii) Circular on the Format of Financial Statements of General Enterprises for 2018 (Cai Kuai [2018] No. 15)

The Group has adopted the aforesaid amendments to and interpretations of the Accounting Standards for Business Enterprises with effect from 1 January 2018 and has adjusted its relevant accounting policies.

#### 2) Principal impacts of changes

##### (i) New Revenue Standard

The New Revenue Standard replaces the Accounting Standard for Business Enterprises No. 14 – Revenue and the Accounting Standard for Business Enterprises No. 15 – Construction Contracts (collectively, the “Previous Revenue Standards”) issued by the Ministry of Finance of the PRC in 2006.

Under the Previous Revenue Standards, the Group provides shipbuilding services, offshore engineering products and large-scale steel structure products, of which revenue and costs were recognised in accordance with the requirements of the Accounting Standard for Business Enterprises No. 15 – Construction Contracts. When the outcome of a construction contract can be estimated reliably at the balance sheet date, contract related economic benefits will probably flow into the Group, the actual contract costs incurred can be clearly distinguished and measured in a reliable way, the percentage of completion and estimated future costs could be reliably measured, contract revenue and contract expenses will be recognised by using the percentage of completion method. The revenue and cost of electromechanical products and other steel structure products are recognised in accordance with the requirements for sale of goods, and the point of time of revenue recognition is determined based on the transfer time of risks and rewards.

Under the New Revenue Standard, the Group’s principles for recognition and methods of measurement of revenue upon the changes are as follows: At the date of contract, the Group shall assess the contract, at the date when the contract is entered into, of which each of performance obligations should be identified, make sure whether the performance obligations is to be fulfilled within a period of time or at a particular point in time, and subsequently confirm the revenue accordingly upon the complete fulfilment of each of the performance obligations. For the performance obligations to be fulfilled at a point in time, the Group recognises revenue at contractual price when the customer has obtained the control over the relevant goods. For the performance obligations to be fulfilled within a period of time, the Group recognises revenue based on the performance progress during such period. The Group adopts the input method to determine the appropriate progress of performance, i.e. the percentage of completion, which is the percentage of the total actual contract cost incurred to the total estimated contract cost. When the performance progress cannot be reasonably determined, the incurred cost expected to be compensated is recognised as revenue, until the performance progress can be reasonably determined.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

In accordance with the requirements of the New Revenue Standard, the Group presents contract assets or contract liabilities in the balance sheet based on the relationship between the performance of obligations and the payment by customers.

The Group reviews the sources of revenue and the performance of obligations by customers through assessing the impacts of the New Revenue Standard on its financial statements. The Group's revenue is mainly from shipbuilding and offshore engineering products. Based on the assessment of contracts with customers, most of the shipbuilding and offshore engineering products meet the condition to "performance within a period of time", and their venue continue to be recognised based on the performance progress. A small portion of shipbuilding and offshore engineering products does not meet the condition to "performance within a period of time", and the Group changed this portion to performance at a particular point in time. In accordance with the transitional provisions of the New Revenue Standard, the accumulated impact of the first-time adoption of the New Revenue Standard was that undistributed profit as at the beginning of 2018 decreased by RMB29,547,841.37, without adjusting comparative period figures.

The impacts on the relevant items in the consolidated financial statements are as follows (Unit: RMB):

Items affected	1 January 2018 (Consolidated) Adjustment under the New Revenue Standard		
	Before adjustment	Revenue Standard	After adjustment
Total assets	46,753,104,355.82	546,427,299.84	47,299,531,655.66
Including: Inventories	10,436,569,035.60	-5,585,336,649.54	4,851,232,386.06
Contract assets		6,131,763,949.38	6,131,763,949.38
Total liabilities	34,433,614,505.78	575,975,141.21	35,009,589,646.99
Including: Advances			
from customers	642,156,792.96	-642,156,792.96	
Contract liabilities		6,411,599,314.91	6,411,599,314.91
Other current liabilities	5,544,483,602.13	-5,407,233,010.85	137,250,591.28
Estimated liabilities	540,745,308.48	213,765,630.11	754,510,938.59
Total owners' equity	12,319,489,850.04	-29,547,841.37	12,289,942,008.67
Including: Undistributed profit	-255,300,411.53	-29,547,841.37	-284,848,252.90

The impacts on the relevant items in the financial statements of the Company are as follows (Unit: RMB):

Items affected	1 January 2018 (the Company) Adjustment under the New Revenue Standard		
	Before adjustment	Revenue Standard	After adjustment
Total liabilities	856,982,812.13		856,982,812.13
Including: Advances			
from customers	55,310,128.61	-55,310,128.61	
Contract liabilities		55,310,128.61	55,310,128.61

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (ii) New Standards for Financial Instruments

The New Standards for Financial Instruments revised the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets, and the Accounting Standard for Business Enterprises No. 24 – Hedging Accounting issued by the Ministry of Finance of the PRC in 2006, as well as the Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments amended by the Ministry of Finance of the PRC in 2014 (collectively, the “Previous Standards for Financial Instruments”).

The New Standards for Financial Instruments have financial assets divided into three types: (1) financial assets measured at amortised cost; (2) financial assets measured at fair value and changes included in other comprehensive income; and (3) financial assets measured at fair value and changes recorded into current period profit or loss. Under the New Standards for Financial Instruments, the classification of financial assets is determined based on the business model under which the Group manages financial assets and the characteristics of contractual cash flows of the assets. The New Standards for Financial Instruments removed the classification of loans and receivables, held-to-maturity investments and available-for-sale financial assets under the Previous Standards for Financial Instruments.

The New Standards for Financial Instruments replaced the “incurred loss” model under the Previous Standards for Financial Instruments with the “expected credit loss” model. The “expected credit loss” model requires continuous assessment of credit risks of financial assets.

In accordance with the requirements of the New Standards for Financial Instruments, the Group designates investments in equity instruments not held for trading as financial assets at fair value and changes included in other comprehensive income and makes retrospective adjustments. Based on the difference between the carrying value of financial instruments previously reported and the new carrying value of financial instruments at the date of adoption of the New Standards for Financial Instruments, being 1 January 2018, the Group increased other comprehensive income as at the beginning of 2018 by RMB17,736,432.06, without adjusting comparative financial statement figures.

The impacts on the relevant items in the consolidated financial statements are as follows (Unit: RMB):

Items affected	1 January 2018 (Consolidated)		
	Before adjustment	New financial instruments Standard adjustment	After adjustment
Total assets	46,753,104,355.82	23,731,942.26	46,776,836,298.08
Including: Financial assets			
held-for-trading		6,602,255.91	6,602,255.91
Financial assets at fair value through profit or loss	6,602,255.91	-6,602,255.91	
Available-for-sale financial assets	21,029,995.04	-21,029,995.04	
Investments in other equity instruments		44,726,104.08	44,726,104.08
Deferred tax assets	460,427,215.85	35,833.22	460,463,049.07
Total liabilities	34,433,614,505.78	5,995,510.20	34,439,610,015.98
Including: Financial liabilities			
held-for-trading		3,366,294.31	3,366,294.31
Financial liabilities at fair value through profit or loss	3,366,294.31	-3,366,294.31	
Deferred tax liabilities	1,412,563.62	5,995,510.20	7,408,073.82
Total owners' equity	12,319,489,850.04	17,736,432.06	12,337,226,282.10
Including: Other comprehensive income	-60,327,829.23	17,736,432.06	-42,591,397.17

There were no impacts on the items in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

(iii) Presentation of financial statements

The Group has prepared its annual financial statements for 2018 in accordance with the format of financial statements set out in Cai Kuai [2018] No. 15 and has changed the presentation of the relevant financial statements using retrospective adjustment method.

The impacts on the relevant items in the consolidated financial statements are as follows (Unit: RMB):

Affected items in the consolidated balance sheet	31 December 2017		
	Before adjustment	Presentation and reclassification	After adjustment
Total assets	46,753,104,355.82		46,753,104,355.82
Including: Notes receivable	167,534,216.21	-167,534,216.21	
Accounts receivable	1,651,109,563.96	-1,651,109,563.96	
Notes and accounts receivable		1,818,643,780.17	1,818,643,780.17
Interest receivable	46,434,534.12	-46,434,534.12	
Other receivables	138,124,705.64	46,434,534.12	184,559,239.76
Fixed assets	11,746,529,227.03	31,132.31	11,746,560,359.34
Disposal of fixed assets	31,132.31	-31,132.31	
Total liabilities	34,433,614,505.78		34,433,614,505.78
Including: Notes payable	1,774,884,568.59	-1,774,884,568.59	
Accounts payable	7,855,669,851.50	-7,855,669,851.50	
Notes and accounts payable		9,630,554,420.09	9,630,554,420.09
Interest payable	15,896,189.07	-15,896,189.07	
Dividends payable	383,540.92	-383,540.92	
Other payables	265,789,880.66	16,279,729.99	282,069,610.65
Long-term payables		99,370,000.00	99,370,000.00
Special payables	99,370,000.00	-99,370,000.00	
Affected items in the consolidated income statement	2017		
	Before adjustment	Presentation and reclassification	After adjustment
Administrative expenses	1,362,051,991.52	-408,186,557.71	953,865,433.81
Research and development expenses		408,186,557.71	408,186,557.71
Other income	61,379,130.19	42,176.01	61,421,306.20
Non-operating income	864,188,538.49	-42,176.01	864,146,362.48
Net profit	-45,856,889.17		-45,856,889.17

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

The impacts on the relevant items in the financial statements of the Company are as follows (Unit: RMB):

Affected items in the balance sheet of the Company	31 December 2017		
	Before adjustment	Presentation and reclassification	After adjustment
Total assets	9,635,378,787.06		9,635,378,787.06
Including: Notes receivable	100,000.00	-100,000.00	
Accounts receivable	34,815,043.87	-34,815,043.87	
Notes and accounts receivable		34,915,043.87	34,915,043.87
Interest receivable	403,909.69	-403,909.69	
Other receivables	9,128,338.88	403,909.69	9,532,248.57
Fixed assets	76,749,497.88	31,132.31	76,780,630.19
Disposal of fixed assets	31,132.31	-31,132.31	
Total liabilities	856,982,812.13		856,982,812.13
Including: Accounts payable	65,977,190.78	-65,977,190.78	
Notes and accounts payable		65,977,190.78	65,977,190.78
Interest payable	339,166.67	-339,166.67	
Dividends payable	383,540.92	-383,540.92	
Other payables	29,876,357.49	722,707.59	30,599,065.08
Long-term payables		99,370,000.00	99,370,000.00
Special payables	99,370,000.00	-99,370,000.00	

## (2) Changes in significant accounting estimates

During the year, there were no changes in accounting estimates that are required to be disclosed.



# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (3) Information on the adjustment to the relevant items in financial statements as at the beginning of the year as a result of the first-time adoption of the New Standards for Financial Instruments or the New Revenue Standard

### 1) Consolidated Balance Sheet

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current assets:			
Cash at bank and on hand	12,210,331,068.62	12,210,331,068.62	
Settlement reserve			
Placements with banks and non-bank financial institutions			
Financial assets held-for-trading	Not applicable	6,602,255.91	6,602,255.91
Financial assets at fair value through profit or loss	6,602,255.91	Not applicable	-6,602,255.91
Derivative financial assets			
Notes and accounts receivable	1,818,643,780.17	1,818,643,780.17	
Including: Notes receivable	167,534,216.21	167,534,216.21	
Accounts receivable	1,651,109,563.96	1,651,109,563.96	
Prepayments	2,527,490,871.22	2,527,490,871.22	
Insurance premium receivable			
Reinsurance premium receivable			
Reserves for reinsurance contract receivable			
Other receivables	184,559,239.76	184,559,239.76	
Including: Interest receivable	46,434,534.12	46,434,534.12	
Dividends receivable			
Financial assets purchased under agreements to resell			
Inventories	10,436,569,035.60	4,851,232,386.06	-5,585,336,649.54
Contract assets	Not applicable	6,131,763,949.38	6,131,763,949.38
Assets held for sale			
Non-current assets due within one year	1,033,143,116.08	1,033,143,116.08	
Other current assets	1,851,997,385.43	1,851,997,385.43	-
Total current assets	30,069,336,752.79	30,615,764,052.63	546,427,299.84
Non-current assets:			
Loans and advances to customers			
Debt investments	Not applicable		
Available-for-sale financial assets	21,029,995.04	Not applicable	-21,029,995.04
Other debt investments	Not applicable		
Held-to-maturity investments		Not applicable	
Long-term receivables	460,059,537.09	460,059,537.09	
Long-term equity investments	738,018,660.57	738,018,660.57	
Investments in other equity instruments	Not applicable	44,726,104.08	44,726,104.08
Other non-current financial assets	Not applicable		
Investment properties	22,251,363.68	22,251,363.68	
Fixed assets	11,746,560,359.34	11,746,560,359.34	
Construction in progress	697,131,740.77	697,131,740.77	
Productive biological assets			
Oil and gas assets			
Intangible assets	2,106,502,925.06	2,106,502,925.06	
Development expenses			
Goodwill	144,231,195.67	144,231,195.67	
Long-term prepaid expenses	88,534,537.73	88,534,537.73	
Deferred tax assets	460,427,215.85	460,463,049.07	35,833.22
Other non-current assets	199,020,072.23	199,020,072.23	
Total non-current assets	16,683,767,603.03	16,707,499,545.29	23,731,942.26
Total assets	46,753,104,355.82	47,323,263,597.92	570,159,242.10

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current liabilities:			
Short-term borrowings	2,970,414,975.00	2,970,414,975.00	
Loans from central bank			
Deposits from customers and other banks			
Placements from banks and other financial institutions			
Financial liabilities held-for-trading	Not applicable	3,366,294.31	3,366,294.31
Financial liabilities at fair value through profit or loss	3,366,294.31	Not applicable	-3,366,294.31
Derivative financial liabilities			
Notes and accounts payable	9,630,554,420.09	9,630,554,420.09	
Advances from customers	642,156,792.96		-642,156,792.96
Contract liabilities	Not applicable	6,411,599,314.91	6,411,599,314.91
Securities sold under agreements to repurchase			
Fee and commission payable			
Employee benefits payable	43,914,558.18	43,914,558.18	
Taxes payable	76,628,685.72	76,628,685.72	
Other payables	282,069,610.65	282,069,610.65	
Including: Interest payable	15,896,189.07	15,896,189.07	
Dividends payable	383,540.92	383,540.92	
Reinsured accounts payable			
Brokerage for securities trading			
Brokerage for underwriting securities			
Liabilities held for sale			
Non-current liabilities due within one year	4,482,400,000.00	4,482,400,000.00	
Other current liabilities	5,544,483,602.13	137,250,591.28	-5,407,233,010.85
Total current liabilities	23,675,988,939.04	24,038,198,450.14	362,209,511.10
Non-current liabilities:			
Reserves for insurance contracts			
Long-term borrowings	9,795,157,000.00	9,795,157,000.00	
Bonds payable			
Including: Preference shares			
Perpetual bonds			
Long-term payables	99,370,000.00	99,370,000.00	
Long-term employee benefits payable	273,426,011.04	273,426,011.04	
Estimated liabilities	540,745,308.48	754,510,938.59	213,765,630.11
Deferred income	47,514,683.60	47,514,683.60	
Deferred tax liabilities	1,412,563.62	7,408,073.82	5,995,510.20
Other non-current liabilities			
Total non-current liabilities	10,757,625,566.74	10,977,386,707.05	219,761,140.31
Total liabilities	34,433,614,505.78	35,015,585,157.19	581,970,651.41

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Owners' equity:			
Share capital	1,413,506,378.00	1,413,506,378.00	
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserve	8,746,675,613.33	8,746,675,613.33	
Less: Treasury shares			
Other comprehensive income	-60,327,829.23	-42,591,397.17	17,736,432.06
Special reserve	2,096,705.90	2,096,705.90	
Surplus reserve	962,441,825.31	962,441,825.31	
Provision for general risks			
Undistributed profit	-255,300,411.53	-284,848,252.90	-29,547,841.37
Total equity attributable to owners of the Company	10,809,092,281.78	10,797,280,872.47	-11,811,409.31
Minority interests	1,510,397,568.26	1,510,397,568.26	
Total owners' equity	12,319,489,850.04	12,307,678,440.73	-11,811,409.31
Total liabilities and owners' equity	46,753,104,355.82	47,323,263,597.92	570,159,242.10

For details of the adjustments to the consolidated balance sheet, please refer to Note IV.37.(1).

## 2) Balance Sheet of the Company

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Current assets:			
Cash at bank and on hand	513,258,307.19	513,258,307.19	
Financial assets held-for-trading	Not applicable		
Financial assets at fair value through profit or loss		Not applicable	
Derivative financial assets			
Notes and accounts receivable	34,915,043.87	34,915,043.87	
Including: Notes receivable	100,000.00	100,000.00	
Accounts receivable	34,815,043.87	34,815,043.87	
Prepayments	1,861,905.00	1,861,905.00	
Other receivables	9,532,248.57	9,532,248.57	
Including: Interest receivable	403,909.69	403,909.69	
Dividends receivable			
Inventories	131,196,488.58	131,196,488.58	
Contract assets	Not applicable		
Assets held for sale			
Non-current assets due within one year	650,000,000.00	650,000,000.00	
Other current assets	282,058,591.92	282,058,591.92	
Total current assets	1,622,822,585.13	1,622,822,585.13	
Non-current assets:			
Debt investments	Not applicable		
Available-for-sale financial assets		Not applicable	
Other debt investments	Not applicable		
Held-to-maturity investments		Not applicable	
Long-term receivables			
Long-term equity investments	7,902,205,154.63	7,902,205,154.63	
Investments in other equity instruments	Not applicable		
Other non-current financial assets	Not applicable		
Investment properties			
Fixed assets	76,780,630.19	76,780,630.19	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Unit: RMB

Item	31 December 2017	1 January 2018	Adjustment
Construction in progress			
Productive biological assets			
Oil and gas assets			
Intangible assets	10,792,029.90	10,792,029.90	
Development expenses			
Goodwill			
Long-term prepaid expenses	2,344.24	2,344.24	
Deferred tax assets	20,000,000.00	20,000,000.00	
Other non-current assets	2,776,042.97	2,776,042.97	
Total non-current assets	8,012,556,201.93	8,012,556,201.93	
Total assets	9,635,378,787.06	9,635,378,787.06	
Current liabilities:			
Short-term borrowings	100,000,000.00	100,000,000.00	
Financial liabilities held-for-trading	Not applicable		
Financial liabilities at fair value through profit or loss		Not applicable	
Derivative financial liabilities			
Notes and accounts payable	65,977,190.78	65,977,190.78	
Advances from customers	55,310,128.61		-55,310,128.61
Contract liabilities	Not applicable	55,310,128.61	55,310,128.61
Employee benefits payable	1,611,226.23	1,611,226.23	
Taxes payable	4,115,201.43	4,115,201.43	
Other payables	30,599,065.08	30,599,065.08	
Including: Interest payable	339,166.67	339,166.67	
Dividends payable	383,540.92	383,540.92	
Liabilities held for sale			
Non-current liabilities due within one year	500,000,000.00	500,000,000.00	
Other current liabilities			
Total current liabilities	757,612,812.13	757,612,812.13	
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preference shares			
Perpetual bonds			
Long-term payables	99,370,000.00	99,370,000.00	
Long-term employee benefits payable			
Estimated liabilities			
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities	99,370,000.00	99,370,000.00	
Total liabilities	856,982,812.13	856,982,812.13	
Owners' equity:			
Share capital	1,413,506,378.00	1,413,506,378.00	
Other equity instruments			
Including: Preference shares			
Perpetual bonds			
Capital reserve	6,147,927,729.10	6,147,927,729.10	-
Less: Treasury shares			
Other comprehensive income			
Special reserve			
Surplus reserve	472,670,941.45	472,670,941.45	-
Undistributed profit	744,290,926.38	744,290,926.38	-
Total owners' equity	8,778,395,974.93	8,778,395,974.93	-
Total liabilities and owners' equity	9,635,378,787.06	9,635,378,787.06	-

For details of the adjustments to the balance sheet of the Company, please refer to Note IV.37.(1).

**(4) Description of the retrospective adjustments to comparative data for last period arising from the first-time adoption of the New Standards for Financial Instruments**

In accordance with the transitional provisions of the New Revenue Standard, the accumulated impact of the first-time adoption by the Group of the New Revenue Standard was that other comprehensive income as at the beginning of 2018 increased by RMB17,736,432.06, and undistributed profits as at the beginning of 2018 decreased by RMB29,547,841.37, without adjusting comparative period figures. It will not adjust the listed company figures during the comparable period.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## V. TAXATION

### 1. Main taxes and rates

Type	Tax basis	Tax rate
PRC enterprises:		
–Value-added tax <sup>Note</sup>	Domestic sales; provision of processing, repair and repair services; rental income	16%
	Revenue from construction and installation business	10%
	Modern services industry	6%
–City maintenance and construction tax	Turnover tax payable	7%
–Educational surcharge	Turnover tax payable	3%
–Local education surcharge	Turnover tax payable	2%
–Enterprise income tax	Taxable income	15%, 20%, 25%
Hong Kong profits tax	Taxable income	16.5%

Note: In accordance with the Circular on the Adjustment to the Rates of Value-added Tax (Cai Shui [2018] No. 32), with effect from 1 May 2018, the rates of value-added tax for the taxable sales or imports of goods of the Group had been changed from 17% and 11% to 16% and 10%, respectively.

Notes on taxpayers subject to different enterprise income tax rates:

Name of entity	Tax rate	Remarks
The Company	25%	
Guangzhou Hongfan Computer Technology Co., Ltd.	15%	
CSSC Huangpu Wenchong Shipbuilding Company Limited	15%	
Guangzhou Wenchong Dockyard Co., Ltd.	15%	
Glory Group Development Limited	16.5%	Incorporated in Hong Kong
Fonkwang Development Limited	16.5%	Incorporated in Hong Kong
Wah Shun International Marine Limited	16.5%	Incorporated in Hong Kong
Wah Loong International Marine Limited	16.5%	Incorporated in Hong Kong
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	20%	Small low-profit enterprise
Other subsidiaries	25%	

### 2. Preferential taxation treatment

#### (1) Value-added tax

Revenue from export: The Group is an enterprise engaged in production and operation. Tax relief, credit and rebate policy is applicable to all of its self-produced goods for export. The tax rebate rate is 16% (changed from 17% to 16% with effect from 1 May 2018) for ship products, 9% for steel structure products and 15% for large equipment.

Revenue from military products: Value-added tax is exempted for military production (order) contracts upon completion of the relevant procedures for tax relief.

Revenue from software: In accordance with the Circular of the State Administration of Taxation of the Ministry of Finance on the Value-added Tax Policy of Software Products (Cai Shui [2011] No. 100), for sales of self-developed software by a value-added tax general taxpayer, the portion of actual value-added tax burden in excess of 3% may be recovered upon payment in accordance with the relevant policy.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Enterprise income tax

Hongfan Technology, a subsidiary of the Company, passed the certification of first batch of high-tech enterprises of Guangdong Province in 2017 with a validity period of three years. Its income tax for 2018 continued to be paid at a rate of 15%.

Huangpu Wenchong, a subsidiary of the Company, passed the certification of second batch of high-tech enterprises of Guangdong Province in 2015 with a validity period of three years. In 2018, Huangpu Wenchong re-applied for the high-tech enterprise certification, and the National High-tech Enterprise Certification Management Leading Group Office published the list of proposed high-tech enterprises online on 28 November 2018 for public notice for a period of 10 working days. Currently the public notice period has expired. As at the date of this report, it has not received the high-tech enterprise certificate. However, it considered that it will be able to obtain the certificate before the tax payment. As such, its income tax for 2018 continued to be paid at 15%.

On 10 October 2015, Wenchong Dockyard, a subsidiary of the Company, obtained a high-tech enterprise certificate for a term of three years. In 2018, Wenchong Dockyard re-applied for the high-tech enterprise certification, and the National High-tech Enterprise Certification Management Leading Group Office published the list of proposed high-tech enterprises online on 28 November 2018 for public notice for a period of 10 working days. Currently the public notice period has expired. As at the date of this report, it has not received the high-tech enterprise certificate. However, it considered that it will be able to obtain the certificate before the tax payment. As such, its income tax for 2018 continued to be paid at 15%.

GSI and Wenchong Shipyard, both subsidiaries of the Company, passed the certification of third batch of high-tech enterprises of Guangzhou in 2016 with a validity period of three years, enterprise income tax for 2018 continued to be paid at a rate of 25% as it did not choose preferential taxation treatments.

## (3) Property tax

On 26 December 2018, the State Administration of Taxation Guangzhou Huangpu District Tax Bureau issued the Notice of Taxation Matter (Sui Pu Shui Shui Tong [2018] No. 32604), which states that Wenchong Shipyard, a subsidiary of the Company, is eligible for a reduced rate of property tax subject to a total reduction limit of RMB2,032,465.46 for the period from 1 January 2018 to 31 December 2018 in accordance with the Provisional Regulations of the People's Republic of China on Real Estate Tax.

## (4) Land use tax

On 26 December 2018, the State Administration of Taxation Guangzhou Huangpu District Tax Bureau issued the Notice of Taxation Matter (Sui Pu Shui Shui Tong [2018] No. 32603), which states that Wenchong Shipyard, a subsidiary of the Company, is eligible for a reduced rate of land use tax subject to a total reduction limit of RMB1,437,247.31 for the period from 1 January 2018 to 31 December 2018 in accordance with the Decision of the State Council on Amending the Provisional Regulations of the People's Republic of China on Urban Land Use Tax.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018  
(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## VI. NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

For the following disclosed financial statement data, unless otherwise noted, "Beginning Balance" refers to the balance as at 1 January 2018; and "Ending Balance" refers to the balance as at 31 December 2018. "Current Year" refers to the period from 1 January 2018 to 31 December 2018; "Last Year" refers to the period from 1 January 2017 to 31 December 2017. The currency is in RMB.

Note: There are differences between the balances as at 1 January 2018 and the balances as at 31 December 2017 due to the adoption of new accounting standards during the year. The beginning balances stated in the notes to these financial statements represent the explanations for the balances as at 1 January 2018 disclosed in Note IV.37.(3), rather than the explanations for the balances as at 31 December 2017 disclosed in financial statements.

### 1. Cash at bank and on hand

Item	Ending balance	Beginning balance
Cash	194,222.57	240,346.75
Bank deposits	8,536,592,047.52	11,634,264,779.66
Other cash at bank and on hand	1,801,100,888.41	575,825,942.21
<b>Total</b>	<b>10,337,887,158.50</b>	<b>12,210,331,068.62</b>
Including: Total amount deposited overseas	110,172,735.06	119,318,183.64

Note 1: Breakdown of restricted cash at bank and on hand

Item	Ending balance	Beginning balance
Deposit for bank acceptance bills	771,994.40	200,000,000.00
Deposit for letters of guarantee and letters of credit	246,777,070.05	142,303,833.84
Foreign exchange forward contract bond	11,048,448.82	9,474,590.00
Fixed deposits pledged to secure long- and short-term borrowings	1,522,000,000.00	204,916,860.00
Fixed deposits with a term of over 3 months	6,423,779.98	-
Project security deposit	13,245,001.02	6,423,779.98
Special housing fund for employees	805,509.14	12,629,893.39
Other deposits		
<b>Total</b>	<b>1,801,071,803.41</b>	<b>575,748,957.21</b>

Note 2: The amount deposited overseas of the Group at the end of the year is the deposit of its Hong Kong subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2. Financial assets held-for-trading

### (1) Types of financial assets held-for-trading

Item	Ending balance	Beginning balance
Financial assets held-for-trading	<b>11,685,155.01</b>	6,602,255.91
Including: Forward exchange contracts	<b>11,685,155.01</b>	6,602,255.91
<b>Total</b>	<b>11,685,155.01</b>	6,602,255.91

### (2) Financial assets held-for-trading are analysed as follows:

Item	Fair value at the end of the year	Fair value at the beginning of the year
Listed		
Unlisted	<b>11,685,155.01</b>	6,602,255.91
<b>Total</b>	<b>11,685,155.01</b>	6,602,255.91

The Group's financial assets at fair value through profit or loss are all forward exchange contracts. At measurement date, the public price of 3 banks before adjustment were obtained. According to prudence principle, one price is chosen to be input value. The prevailing benchmark loan interest rate promulgated by the People's Bank of China is chosen to be discount rate. The fair value is calculated according to the formula as follows.

As for forward foreign exchange settlement contract, choose the highest price to be input value, fair value = exchange price x (contract rate – quoted price)/discount rate<sup>Number of years</sup>.

As for forward foreign exchange purchase contract, choose the lowest quoted price to be input value, fair value = exchange price x (quoted price – contract rate)/discount rate<sup>Number of years</sup>.

If the fair value derived is positive, the Company discloses it under "Financial assets held-for-trading"; if negative, then discloses it under "Financial liabilities held-for-trading".

## 3. Notes and accounts receivable

Item	No.	Ending balance	Beginning balance
Notes receivable	(1)	<b>130,810,712.06</b>	167,534,216.21
Accounts receivable	(2)	<b>2,562,295,160.42</b>	1,651,109,563.96
<b>Total</b>		<b>2,693,105,872.48</b>	1,818,643,780.17



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (1) Notes receivable

- 1) Types of notes receivable

Item	Ending balance	Beginning balance
Bank acceptance bills	83,544,762.52	55,041,718.21
Commercial acceptance bills	47,265,949.54	112,492,498.00
<b>Total</b>	<b>130,810,712.06</b>	167,534,216.21

Among the aforesaid notes receivable of the Group as at the end of the year, notes receivable with an ageing of no more than 180 days amounted to RMB115,351,182.52, and notes receivable with an ageing of 181 to 360 days amounted to RMB15,459,529.54.

- 2) Notes receivable pledged as at the end of the year: None.  
 3) Notes receivable which have been endorsed or discounted at the end of the year to other party but not yet expired at the balance sheet date

Item	Amount derecognised as at the end of the year	Amount not derecognised as at the end of the year
Bank acceptance bills	154,112,561.81	
<b>Total</b>	<b>154,112,561.81</b>	

- 4) Notes transferred to accounts receivable at the end of year due to non-performance of drawers: None.  
 5) Disclosure by the method using which the provision for bad debts is made

Type	Ending balance				
	Book balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis					
Provision for bad debts made on a collective basis	130,810,712.06	100.00			130,810,712.06
Including: Due within one year	130,810,712.06	100.00			130,810,712.06
<b>Total</b>	130,810,712.06	/		/	130,810,712.06

(Continued)

Type	Beginning balance				
	Book balance		Provision for bad debts		Carrying value
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis					
Provision for bad debts made on a collective basis	167,534,216.21	100.00			167,534,216.21
Including: Due within one year	167,534,216.21	100.00			167,534,216.21
<b>Total</b>	167,534,216.21	/		/	167,534,216.21

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Accounts receivable

Name of item	Ending balance	Beginning balance
Accounts receivable	<b>2,599,936,504.41</b>	1,682,696,988.86
Less: Provision for bad debts	<b>37,641,343.99</b>	31,587,424.90
<b>Net amount</b>	<b>2,562,295,160.42</b>	1,651,109,563.96

- 1) The ageing analysis of accounts receivable as at the transaction date (including accounts receivable from related parties) is as follows:

Ageing	Ending balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	2,081,143,908.20	11,024,919.02	0.53
1-2 years	367,021,421.08	5,658,962.57	1.54
2-3 years	89,601,945.13	945,758.24	1.06
3-4 years	38,876,710.70	1,367,823.98	3.52
4-5 years	7,008,378.15	4,324,220.61	61.70
Over 5 years	16,284,141.15	14,319,659.57	87.94
<b>Total</b>	<b>2,599,936,504.41</b>	<b>37,641,343.99</b>	<b>1.45</b>

(Continued)

Ageing	Beginning balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	1,273,838,249.55	5,989,220.90	0.47
1-2 years	264,116,875.26	3,977,277.92	1.51
2-3 years	114,219,351.03	3,435,187.01	3.01
3-4 years	7,008,378.15	4,081,276.19	58.23
4-5 years	12,063,633.73	8,531,819.11	70.72
Over 5 years	11,450,501.14	5,572,643.77	48.67
<b>Total</b>	<b>1,682,696,988.86</b>	<b>31,587,424.90</b>	<b>1.88</b>

- 2) Credit period of accounts receivable

Business	Credit period
Shipbuilding	One month after issue of invoices
Other business	Generally 1 to 6 months

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

3) Breakdown of accounts receivable by the method using which the provision for bad debts is made

Type	Ending balance				
	Book balance		Provision for bad debts		Net amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis	25,848,053.85	0.99	24,818,059.11	96.02	1,029,994.74
Including: Accounts receivable of which the credit risk has significantly increased since initial recognition	25,848,053.85	0.99	24,818,059.11	96.02	1,029,994.74
Provision for bad debts made on a collective basis	2,574,088,450.56	99.01	12,823,284.88	0.50	2,561,265,165.68
Including: Accounts receivable of which the credit risk has not significantly increased since initial recognition	2,574,088,450.56	99.01	12,823,284.88	0.50	2,561,265,165.68
<b>Total</b>	<b>2,599,936,504.41</b>	<b>-</b>	<b>37,641,343.99</b>	<b>-</b>	<b>2,562,295,160.42</b>

(Continued)

Type	Beginning balance				
	Book balance		Provision for bad debts		Net amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis	18,380,635.66	1.09	18,380,635.66	100.00	
Including: Accounts receivable of which the credit risk has significantly increased since initial recognition	18,380,635.66	1.09	18,380,635.66	100.00	
Provision for bad debts made on a collective basis	1,664,316,353.20	98.91	13,206,789.24	0.79	1,651,109,563.96
Including: Accounts receivable of which the credit risk has not significantly increased since initial recognition	1,664,316,353.20	98.91	13,206,789.24	0.79	1,651,109,563.96
<b>Total</b>	<b>1,682,696,988.86</b>	<b>-</b>	<b>31,587,424.90</b>	<b>-</b>	<b>1,651,109,563.96</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

a) Provision for bad debts in respect of accounts receivable made on an individual basis

Name of entity	Accounts receivable	Provision for bad debts	Ending balance	
			Percentage of provision (%)	Reasons for provision
TENOVA AUSTRALIA PTY LTD	4,192,440.28	4,192,440.28	100	Very little chance of recovery
VARADA ONE PTE LTD	3,586,022.00	3,586,022.00	100	CITIC Insurance has paid for it, and the remaining debts cannot be recovered
Guangzhou Huayu Electromechanical Equipment Co., Ltd.	3,549,843.68	3,549,843.68	100	The counterparty lost the suit but has no executable property
CONTSHIP MANAGEMENT INC	2,882,544.00	2,058,960.00	71.43	Very little chance of recovery
WHL-FONKWANG	2,793,485.84	2,793,485.84	100	Long overdue and there are signs of impairment
FAIRLAND ENTERPRISES LIMITED	1,708,936.80	1,708,936.80	100	CITIC Insurance has paid for it, and the remaining debts cannot be recovered
evalendshippingco.s.a.	1,365,804.25	1,365,804.25	100	The balance cannot be recovered
Guangzhou Nanfang Special Coating Co., Ltd.	1,186,418.63	1,186,418.63	100	The balance cannot be recovered
Chongqing Yuandong Fushi Electromechanical Company	894,670.00	894,670.00	100	Very little chance of recovery
Fuzhou Hongjia Electronic Technology Company	533,118.00	533,118.00	100	Very little chance of recovery
SCHIFFFAHRTSGESELLSCHAFT MERK	480,424.00	480,424.00	100	The shipowner went bankrupt and the balance could not be recovered
dianikrossshippingcorporations.a.	412,821.48	206,410.74	50	A half can be recovered
GOLDENPACIFIC INTERNATIONAL & HOLDING(S) PTE LTD	400,718.91	400,718.91	100	CITIC Insurance has paid for it, and the remaining debts cannot be recovered
Chongqing South Group Company	263,698.87	263,698.87	100	As agreed in contract, the accounts receivable shall be offset against with properties, and there are disputes about the amount owed
Qingdao Haier Special Freezer Co., Ltd.	208,000.00	208,000.00	100	Long ageing, with risk of collection.
Hisense Rongshen (Yangzhou) Refrigerator Co., Ltd.	179,579.35	179,579.35	100	Long ageing, with risk of collection.
China Refrigeration Industry Co., Ltd.	166,510.00	166,510.00	100	Long ageing, with risk of collection.
Swan (Jingzhou) Electric Co., Ltd.	120,985.49	120,985.49	100	Long ageing, with risk of collection.
Hefei Hualing Co., Ltd.	117,000.00	117,000.00	100	Long ageing, with risk of collection.
Wuhan Yujia Property Co., Ltd.	105,500.00	105,500.00	100	Long ageing, with risk of collection.
25 other companies	699,532.27	699,532.27	100	Long ageing, with risk of collection.
<b>Total</b>	<b>25,848,053.85</b>	<b>24,818,059.11</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

b) Accounts receivable for which provision for bad debts is made on a collective basis

Ageing	Ending balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	2,214,415,347.65	11,024,919.35	0.50
1-2 years	237,856,204.59	1,189,281.03	0.50
2-3 years	80,788,645.51	403,943.21	0.50
3-4 years	35,832,021.17	179,160.11	0.50
4-5 years	3,022,271.09	15,111.36	0.50
Over 5 years	2,173,960.55	10,869.82	0.50
<b>Total</b>	<b>2,574,088,450.56</b>	<b>12,823,284.88</b>	<b>-</b>

4) Provision for bad debts

Type	Beginning balance	Change in the year			Change in the scope of combination	Ending balance
		Provision made	Recovered or reversed	Offset or written off		
Provision for bad debts in respect of accounts receivable	31,587,424.90	7,837,972.59	-60,000.00	-1,419,841.00	-304,212.50	37,641,343.99
<b>Total</b>	<b>31,587,424.90</b>	<b>7,837,972.59</b>	<b>-60,000.00</b>	<b>-1,419,841.00</b>	<b>-304,212.50</b>	<b>37,641,343.99</b>

Significant provision for bad debts recovered or reversed during the year:

Name of entity	Amount collected or reversed	Collection method
Fuzhou Hongjia Electronic Technology Company	60,000.00	Cash receipts through negotiations
<b>Total</b>	<b>60,000.00</b>	<b>/</b>

5) Accounts receivable written-off during the year

Item	Amount written-off
Accounts receivable written-off	1,419,841.00

Significant accounts receivable written-off

Name of entity	Nature of accounts receivable	Amount written-off	Reason for writing-off	Procedures for writing-off performed	Whether arising from related party transaction
Qingdao Haier Special Freezer Co., Ltd.	Payment for construction project	1,395,941.00	Unrecoverable	Required writing-off procedures had been completed	No

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

6) Top five accounts receivable by ending balance of debtors

Name of entity	Relationship with the Group	Ending balance	Ageing	Percentage of ending balance of total accounts receivable (%)	Ending balance of provision for bad debts
Entity 1	Third party	389,492,300.00	1-2 years	14.98	1,947,461.50
Entity 2	Third party	240,212,000.00	Within 2 years	9.24	1,201,060.00
Entity 3	Third party	177,650,317.57	Within 4 years	6.83	888,251.59
Entity 4	Third party	162,451,944.00	Within one year	6.25	812,259.72
Entity 5	Third party	131,544,592.72	1-2 years	5.06	657,722.96
Total		1,101,351,154.29		42.36	5,506,755.77

7) Accounts receivable derecognised arising from transfer of financial assets: None.

8) Amounts of assets and liabilities transferred from accounts receivable with continuing involvement: None.

## 4. Prepayments

### (1) Ageing of prepayments

Item	Ending balance		Beginning balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	1,689,616,762.17	55.93	1,354,233,776.72	53.58
1-2 years	605,644,396.66	20.05	357,144,558.51	14.13
2-3 years	147,780,467.68	4.89	621,257,327.82	24.58
Over 3 years	577,816,153.72	19.13	194,855,208.17	7.71
Total	3,020,857,780.23	-	2,527,490,871.22	-

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Reason for unsettled significant prepayments aged over one year

Name of entity	Relationship with the Company	Amount	Of which aged over one year	Amount aged over 1 year as a percentage of total prepayments (%)	Ageing	Reason for unsettlement
EMER INTERNATIONAL LIMITED	Third party	291,276,770.70	291,276,770.70	9.64	Over 3 years	Large equipment received in batches and not inspected and accepted
China Shipbuilding Trading Shanghai Co., Ltd.	Under common control of CSSC	239,894,266.37	239,894,266.37	7.94	Over 3 years	Large equipment received in batches and not inspected and accepted
China Shipbuilding Industry Corporation 712 Research Institute	Third party	115,995,000.00	94,050,000.00	3.11	1-3 years	Project unsettled
WARTSILA Company (Finland)	Third party	60,009,867.92	7,621,902.46	0.25	1-3 years	Project unsettled
China North Industries Corporation	Third party	40,161,104.39	40,161,104.39	1.33	2-3 years	Large equipment received in batches and not inspected and accepted
The China Engineers, Limited	Third party	32,324,779.99	32,324,779.99	1.07	0-3 years	Large equipment received in batches and not inspected and accepted
Marinequip China Co., Ltd	Under common control of CSSC	30,654,917.94	104,315.60	0	0-2 years	Large equipment received in batches and not inspected and accepted
MTU Asia Pte. Ltd.	Third party	30,515,329.20	12,397,055.55	0.41	0-2 years	Large equipment received in batches and not inspected and accepted
Tognum Aisa Ltd.	Third party	28,854,422.00	28,854,422.00	0.96	Over 3 years	Large equipment received in batches and not inspected and accepted
ABB SHANGHAI FREE TRADE ZONE INDUSTRIAL CO., LTD	Third party	24,098,227.98	24,098,227.98	0.8	2-3 years	Large equipment received in batches and not inspected and accepted

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Name of entity	Relationship with the Company	Amount	Of which aged over one year	Amount aged over 1 year as a percentage of total prepayments (%)	Ageing	Reason for unsettlement
Xinchang Machinery Engineering Co. Ltd.	Third party	17,129,272.60	11,642,859.27	0.39	0-3 years	Large equipment received in batches and not inspected and accepted
Shaanxi Diesel Engine Co., Ltd.	Third party	12,878,174.00	5,829,069.00	0.19	0-2 years	Large equipment received in batches and not inspected and accepted
Dalian CRRC Diesel Engine Special Equipment Co., Ltd.	Third party	12,480,000.00	12,480,000.00	0.41	2-3 years	Large equipment received in batches and not inspected and accepted
ABB AS	Third party	11,700,616.72	11,700,616.72	0.39	1-2 years	Project unsettled
China Shipbuilding NDRI Engineering Co., Ltd.	Under common control of CSSC	7,953,674.18	7,953,674.18	0.26	Over 3 years	Project uncompleted and unsettled
CSSC Marine Power Co. Ltd.	Under common control of CSSC	6,971,558.48	3,863,500.00	0.13	1-2 years	Project unsettled
Nexans Hong Kong Limited	Third party	2,653,996.44	2,653,996.44	0.09	1-2 years	Project unsettled
<b>Total</b>		<b>965,551,978.91</b>	<b>826,906,560.65</b>	<b>27.37</b>		

### (3) Top five prepayments by supplier based on ending balance

Name of entity	Ending balance	Ageing	Percentage of total ending balance of advances to suppliers (%)
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	864,776,667.75	Within one year	28.63
EMER INTERNATIONAL LIMITED	291,276,770.70	Over 3 years	9.64
China Shipbuilding Trading Shanghai Co., Ltd.	239,894,266.37	Over 3 years	7.94
China Shipbuilding Industry Corporation A Research Institute	115,995,000.00	1-3 years	3.84
China National Machinery Import & Export Corporation	81,317,272.60	Within one year	2.69
<b>Total</b>	<b>1,593,259,977.42</b>	<b>-</b>	<b>52.74</b>



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 5. Other receivables

Item	No.	Ending balance	Beginning balance
Interest receivable	(1)	46,907,817.53	46,434,534.12
Other receivables	(2)	279,178,532.75	138,124,705.64
<b>Total</b>		<b>326,086,350.28</b>	184,559,239.76

### (1) Interest receivable

#### 1) Breakdown of interest receivable

Item	Ending balance	Beginning balance
Fixed deposit	40,612,815.45	31,860,882.74
Entrusted wealth management products	6,295,002.08	14,573,651.38
<b>Total</b>	<b>46,907,817.53</b>	46,434,534.12

#### 2) Significant overdue interest

As at the end of the year, the Group had no overdue interest receivable.

#### 3) Information on provision for bad debts made for interest receivable

The Group's interest receivable as at the end of the year represented interest on deposits with bank and other financial institutions and entrusted wealth management products and will be recovered within one year when due. No provision for bad debts had been made by the Group.

### (2) Other receivables

Name of item	Ending balance	Beginning balance
Other receivables	320,145,263.97	155,315,095.31
Less: Provision for bad debts	40,966,731.22	17,190,389.67
<b>Net amount</b>	<b>279,178,532.75</b>	138,124,705.64

#### 1) Breakdown of other receivables by nature

Nature of amount	Book balance as at the end of the year	Book balance as at the beginning of the year
Refundable deposit	145,653,939.07	55,806,103.96
Temporary payments receivable	1,135,358.52	1,479,359.92
Grants receivable		17,490,508.43
Reserve funds	14,462,154.23	14,845,495.67
Receivable from former shareholders of Wenchong Dockyard for its profit or loss during the transition period attributable to them	69,907,298.04	
Other current account	88,986,514.11	65,693,627.33
<b>Total</b>	<b>320,145,263.97</b>	155,315,095.31

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2) Provision for bad debts made for other receivables

Provision for bad debts	Stage 1 Expected credit losses for next 12 months	Stage 2 Expected credit losses during the whole life span (not credit impaired)	Stage 3 Expected credit losses during the whole life span (credit impaired)	Total
Balance as at 1 January 2018		4,080,491.63	13,109,898.04	17,190,389.67
Book balance of other receivables as at 1 January 2018	-	-	-	-
- Transfer to stage 2				
- Transfer to stage 3		-3,347,207.57	3,347,207.57	
- Transfer back to stage 2				
- Transfer back to stage 1				
Provision made during the year		312,049.12	24,356,514.53	24,668,563.65
Reversed during the year				
Offset during the year				
Written off during the year		-5,095.00	-163,810.00	-168,905.00
Other changes		-1,509.80	-721,807.30	-723,317.10
Balance as at 31 December 2018		1,038,728.38	39,928,002.84	40,966,731.22

(i) Information on the book balance of provision for bad debts made for other receivables on a collective basis at stage 2:

Name of portfolio	Ending balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Within one year (including one year)	203,557,730.69	666,867.64	0.33
1-2 years	62,715,750.39	313,578.75	0.50
2-3 years	3,476,026.41	17,380.13	0.50
3-4 years	713,296.82	3,566.48	0.50
4-5 years	266,264.69	1,331.32	0.50
Over 5 years	7,200,812.50	36,004.06	0.50
<b>Total</b>	<b>277,929,881.50</b>	<b>1,038,728.38</b>	-

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- (ii) Information on the book balance of provision for bad debts made for other receivables on an individual basis at stage 3:

Name of entity	Book balance	Amount of bad debts	Percentage of provision (%)	Reasons for provision
Guangzhou Nanfang Special Coating Co., Ltd.	22,710,790.62	22,710,790.62	100.00	Note 1
Konwin International Limited	10,340,232.15	10,340,232.15	100.00	Note 2
Guangzhou Yuyi Marine Engineering Co., Ltd.	3,876,005.54	1,588,625.91	40.99	Unrecoverable
Dongguan Qianyang Electromechanical Equipment Co., Ltd.	3,347,207.57	3,347,207.57	100	Unrecoverable
Yantai Jiatai Ship Engineering Co., Ltd.	1,757,548.59	1,757,548.59	100	Unrecoverable
Guangzhou Zhicheng Electromechanical Equipment Leasing Co., Ltd.	59,400.00	59,400.00	100	Unrecoverable
Municipal Urban Construction Archives	57,600.00	57,600.00	100	Unrecoverable
Nantong Jintong Marine Engineering Co., Ltd.	24,350.00	24,350.00	100	Unrecoverable
Yantai Chenming Machinery Co., Ltd.	20,000.00	20,000.00	100	Unrecoverable
Guangdong Machinery Import & Export Co., Ltd.	9,500.00	9,500.00	100	May be unable to recover
Reserve funds	9,098.00	9,098.00	100	Unrecoverable
Guangzhou Huafeng Electromechanical Equipment Co., Ltd.	3,650.00	3,650.00	100	The enterprise went bankrupt
<b>Total</b>	<b>42,215,382.47</b>	<b>39,928,002.84</b>	<b>-</b>	<b>-</b>

Note 1: Guangzhou Nanfang Special Coating Co., Ltd., a subsidiary of Wenchong Dockyard, applied on 2 May 2018 to the People's Court of Huangpu District, Guangzhou for bankruptcy, which issued a civil ruling ((2018) Yue 0112 Po Shen No. 3) and accepted the application made by Guangzhou Nanfang Special Coating Co., Ltd. for bankruptcy and liquidation in accordance with the law on 12 May 2018. Currently such company is insolvent and Wenchong Dockyard expects to be unable to recover such debts and has made full provision for bad debts.

Note 2: Pursuant to a debt restructuring agreement between the Company and Guangzhou International Trust and Investment Corporation ("Guangzhou Investment"), most of the trust deposits of the Company at Guangzhou Investment had been exchanged for assets. On 17 August 2005, the Company, Guangzhou Investment and Konwin International Limited ("Konwin") entered into a debt transfer agreement, pursuant to which Guangzhou Investment transferred the creditor's right of Guangzhou Guoxin Economic Development Co., Ltd., its subsidiary, against Konwin of RMB10,640,000 to the Company. A debt settlement agreement was also entered into with Konwin at the same time, pursuant to which Konwin settled part of the debts with seven cars owned by it, due to deliver by the end of September 2005. The remaining debts will be settled with part of equity interest in Konwin Optoelectronic Technology (Shenzhen) Co., Ltd. for which it has the right to dispose of. Under the final judgement delivered by the Higher People's Court of Guangdong Province on 21 September 2009, Konwin shall repay the principal amount and corresponding interest to the Group within ten days after the judgment has taken effect. As reviewed and verified by the court, Konwin had no assets available for execution as at the end of the year. Guangzhou Intermediate People's Court had ordered the suspension of execution. The Company expects that it will be unable to recover the amount.

- 3) Ageing analysis of other receivables

Ageing	Ending balance		Percentage of provision (%)
	Other receivables	Provision for bad debts	
Within one year (including one year)	203,557,730.69	666,867.64	0.33
1-2 years	62,715,750.39	313,578.75	0.50
2-3 years	3,476,026.41	17,380.13	0.50
3-4 years	1,907,364.38	1,197,634.04	62.79
4-5 years	266,264.69	1,331.32	0.50
Over 5 years	48,222,127.41	38,769,939.34	80.40
<b>Total</b>	<b>320,145,263.97</b>	<b>40,966,731.22</b>	<b>12.80</b>

(Continued)

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Ageing	Beginning balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Within one year (including one year)	124,854,045.99	575,956.82	0.46
1-2 years	5,170,559.65	797,675.35	15.43
2-3 years	1,936,406.02	1,196,325.45	61.78
3-4 years	266,264.69	35,161.32	13.21
4-5 years	1,241,823.73	6,209.12	0.50
Over 5 years	21,845,995.23	14,579,061.61	66.74
<b>Total</b>	<b>155,315,095.31</b>	<b>17,190,389.67</b>	<b>11.07</b>

4) Provision for bad debts for other receivables

Type	Change in the year					Ending balance
	Beginning balance	Provision made	Recovered or reversed	Offset or written off	Change in the scope of combination	
Provision for bad debts of other receivables	17,190,389.67	24,668,563.65		-168,905.00	-723,317.10	<b>40,966,731.22</b>
<b>Total</b>	<b>17,190,389.67</b>	<b>24,668,563.65</b>		<b>-168,905.00</b>	<b>-723,317.10</b>	<b>40,966,731.22</b>

(i) Other receivables written-off during the year

Item	Amount written-off
Other receivables written-off	<u>168,905.00</u>

Significant other receivables written-off:

Name of entity	Nature of other receivables	Amount written-off	Reason for writing-off	Procedures for writing-off performed	Whether arising from related party transaction
Yantai Chenming Machinery Co., Ltd.	Reserve funds	163,810.00	Unrecoverable	Written off due to impairment	No
Situ Guoliang, Zhu Airan	Reserve funds	5,095.00	Unrecoverable	Written off due to impairment	No
<b>Total</b>		<b>168,905.00</b>	<b>-</b>	<b>-</b>	<b>-</b>

5) Top five other receivables by ending balance of debtors

Name of entity	Nature of amount	Ending balance	Ageing	Percentage of ending balance of total other receivables (%)	Provision for bad debts Ending balance
Shenzhen-Zhongshan Channel Management Centre	Refundable deposit	<b>87,331,334.20</b>	Within one year	27.28	436,656.67
CSSC	Equity transfer payment	<b>69,991,705.62</b>	Within one year	21.86	
Changjiang Waterway Bureau	Performance bonds	<b>47,980,000.00</b>	Within one year	14.99	239,900.00
Guangzhou Nanfang Special Coating Co., Ltd.	Other current account	<b>22,710,790.62</b>	Over 3 years	7.09	22,710,790.62
Konwin International Limited	Other current account	<b>10,340,232.15</b>	Over 5 years	3.23	10,340,232.15
<b>Total</b>		<b>238,354,062.59</b>		<b>74.45</b>	<b>33,727,579.44</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- 6) Other receivables relating to government grants: None.
- 7) Other receivables derecognised arising from transfer of financial assets: None.
- 8) Amount of assets and liabilities transferred from other receivables with continuing involvement: None.
- 9) Advance to employees receivable: None.

## 6. Inventories

### (1) Breakdown of inventories

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment of inventories/ provision for impairment of contract performance cost	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials	1,714,660,355.45	27,743,733.93	1,686,916,621.52	1,529,727,466.19	30,149,480.00	1,499,577,986.19
Work in progress	209,583,991.74	31,824,883.03	177,759,108.71	207,215,887.14		207,215,887.14
Finished goods	27,602,398.78	15,951.95	27,586,446.83	24,168,786.16	15,951.95	24,152,834.21
Goods in transit	33,716,554.71		33,716,554.71	45,289,423.40		45,289,423.40
Contract performance cost	3,309,009,919.39	278,994,793.37	3,030,015,126.02	3,198,217,822.12	123,221,567.00	3,074,996,255.12
<b>Total</b>	<b>5,294,573,220.07</b>	<b>338,579,362.28</b>	<b>4,955,993,857.79</b>	<b>5,004,619,385.01</b>	<b>153,386,998.95</b>	<b>4,851,232,386.06</b>

### (2) Provision for impairment of inventories and provision for impairment of contract performance cost

Item	Beginning balance	Increase for the year		Decrease for the year		Ending balance
		Provision made	Others	Reversal or writing-off	Other transfer-out	
Raw materials	30,149,480.00	997,333.16		3,403,079.23		27,743,733.93
Work in progress		31,824,883.03				31,824,883.03
Finished goods	15,951.95					15,951.95
Contract performance cost	123,221,567.00	248,447,882.33		92,674,655.96		278,994,793.37
<b>Total</b>	<b>153,386,998.95</b>	<b>281,270,098.52</b>		<b>96,077,735.19</b>		<b>338,579,362.28</b>

### (3) Provision for impairment of inventories made

Item	Basis for determination of net realisable value	Reason for reversal or offsetting during the year
Raw materials	Book cost higher than net realisable value (estimated disposal proceeds less taxes)	Production and reuse
Work in progress	Book cost higher than net realisable value (estimated selling price less related costs and expenses)	Completed for sale
Finished goods	Book cost higher than net realisable value (estimated selling price less taxes)	

### (4) Note on capitalised borrowing costs included in ending balance of inventory

None.

### (5) Note on amount of amortisation of contract performance cost for the year

The amount of amortisation of contract performance cost for the year was transferred to operating cost.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 7. Contract assets

### (1) Information on contract assets

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets relating to shipbuilding	5,258,556,215.16		5,258,556,215.16	4,808,193,501.38		4,808,193,501.38
Contract assets relating to offshore engineering products	1,531,398,974.80		1,531,398,974.80	1,270,367,117.50		1,270,367,117.50
Contract assets relating to steel structure engineering	70,815,612.32		70,815,612.32	53,203,330.50		53,203,330.50
<b>Total</b>	<b>6,860,770,802.28</b>		<b>6,860,770,802.28</b>	<b>6,131,763,949.38</b>		<b>6,131,763,949.38</b>

### (2) Amount and reason for significant changes in carrying values of contract assets during the year

Item	Amount of change	Reason for change
Contract assets relating to shipbuilding	450,362,713.78	The contract is being performed and the date of recognition of contract revenue recognised based on contract performance progress is earlier than the date of receipt of consideration on due date
Contract assets relating to offshore engineering products	261,031,857.30	
Contract assets relating to steel structure engineering	17,612,281.82	
<b>Total</b>	<b>729,006,852.90</b>	/

### (3) Information on provision for impairment of contract assets during the year

As at the end of the year, all of the balances of contract assets of the Group arose from normal performance of contracts, and the date due for contractual payment had not arrived. No provision for impairment was made.

## 8. Non-current assets due within one year

Item	Ending balance	Beginning balance	Remarks
Long-term entrusted wealth management products due within one year	400,000,000.00	1,001,000,000.00	Note
Long-term receivables due within one year	63,415,968.00	32,143,116.08	
<b>Total</b>	<b>463,415,968.00</b>	<b>1,033,143,116.08</b>	

Note: The breakdown of the long-term entrusted wealth management products due within one year is as follows:

Client	Trustee	Amount	Date of commencement	Date of ending
Guangzhou Shipyard International Company Limited	CSSC Finance Company Limited	70,000,000.00	2018/6/27	2019/7/10
Guangzhou Shipyard International Company Limited	CSSC Finance Company Limited	200,000,000.00	2018/8/6	2019/8/8
Guangzhou Shipyard International Company Limited	CSSC Finance Company Limited	130,000,000.00	2018/9/27	2019/10/10
<b>Total</b>		<b>400,000,000.00</b>		

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Description: GSI, a wholly-owned subsidiary of the Company, entered into an entrusted asset management contract and supplemental agreement with CSSC Finance Company Limited ("CSSC Finance"), pursuant to which they appointed CSSC Finance to manage their funds. CSSC Finance are appointed to invest in the following: central bank bills, treasury bonds, corporate bonds, convertible bonds, trust products, short-term financing bonds, medium-term notes, bank wealth management products, brokerage asset management plans, currency funds, bond funds and deposits. The investment income is allocated on a calendar year basis, with the principal and unallocated income for the outstanding term allocated upon maturity, or the principal and income are recovered on a one-off basis upon maturity. The record date for income is 20 December of each calendar year. GSI recognised the income from entrusted wealth management products confirmed by CSSC Finance as investment income and interest receivable for the period.

## 9. Other current assets

Item	Ending balance	Beginning balance
Value-added tax credit	364,283,638.86	1,851,875,566.76
Prepaid enterprise income tax	1,094,477.19	121,818.67
<b>Total</b>	<b>365,378,116.05</b>	<b>1,851,997,385.43</b>

## 10. Long-term receivables

### (1) Information on long-term receivables

Item	Ending balance			Beginning balance			Range of discount rate
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value	
Receipt in instalments for sale of goods	1,044,512,529.12	123,575,049.90	920,937,479.22	582,380,488.37	122,320,951.28	460,059,537.09	4.5%
Compensation for assets relocation	1,061,249,916.57	5,671,349.59	1,055,578,566.98				3.07%
<b>Total</b>	<b>2,105,762,445.69</b>	<b>129,246,399.49</b>	<b>1,976,516,046.20</b>	<b>582,380,488.37</b>	<b>122,320,951.28</b>	<b>460,059,537.09</b>	

Description: Compensation for assets relocation represents the present value of the compensation for assets relocation discounted recognised by GSI, a subsidiary of the Company which completed the relocation from Liwan Plant during the year, based on the expected future cash flows of GSI in accordance with the Agreement in relation to Compensation for Assets Relocation of GSI dated 9 November 2015 with Guangzhou Shipyard Shipping Co., Ltd. and the relevant premise (asset) handover confirmation.

### (2) Provision for bad debts made

Provision for bad debts	Stage 1 Expected credit losses for next 12 months	Stage 2 Expected credit losses during the whole life span (not credit impaired)	Stage 3 Expected credit losses during the whole life span (credit impaired)	Total
Balance as at 1 January 2018		68,005.54	122,252,945.74	122,320,951.28
Book balance of long-term receivables as at 1 January 2018	-	-	-	-
-Transfer to stage 2				
-Transfer to stage 3		-68,005.54	68,005.54	
-Transfer back to stage 2				
-Transfer back to stage 1				
Provision made during the year		5,999,845.27	925,602.94	6,925,448.21
Reversed during the year				
Offset during the year				
Written off during the year				
Other changes				
Balance as at 31 December 2018		5,999,845.27	123,246,554.22	129,246,399.49

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- (i) Information on the book balance of provision for bad debts made for long-term receivables on a collective basis at stage 2:

Name of portfolio	Ending balance		
	Long-term receivables	Provision for bad debts	Percentage of provision (%)
Long-term receivables not overdue	1,196,548,676.57	5,999,845.27	0.5
<b>Total</b>	<b>1,196,548,676.57</b>	<b>5,999,845.27</b>	<b>-</b>

- (ii) Information on the book balance of provision for bad debts made for long-term receivables on an individual basis at stage 3:

Name of entity	Book balance	Amount of bad debts	Percentage of provision (%)	Reasons for provision
ZHONGXINMARINECOMPANYLIMITED	124,573,877.18	34,792,076.60	27.93	Note
Guangdong Yuanyang Transportation Co., Ltd.	147,551,968.44	29,850,393.69	20.23	
SHAOSHANEIGHTSHIPPINGLIMITED	133,250,562.41	29,395,778.58	22.06	
Shenzhen Shunchang Ocean Fishery Co., Ltd.	17,328,000.00	10,876,800.00	62.77	
Lomar Shipping	203,169,925.17	17,786,197.97	8.75	
BUSS	28,023,997.37	545,307.38	1.95	
<b>Total</b>	<b>653,898,330.57</b>	<b>123,246,554.22</b>	<b>-</b>	<b>-</b>

Note: The above long-term receivables had been overdue, for which the Group recognised provision for bad debts based on the expected future net recoverable cash flows.

- (3) Long-term receivables derecognised arising from transfer of financial assets: None.
- (4) Amounts of assets and liabilities transferred from long-term receivables with continuing involvement: None.

## 11. Long-term equity investments

### (1) Breakdown of long-term equity investments

Investee	Beginning balance	Increase in investment	Decrease in investment	Change for the year				Ending balance	Provision for impairment
				Investment gain or loss recognised using equity method	Adjustment to other comprehensive income	Other changes in equity	Declaration and payment of cash dividend or profit		
I. Joint ventures	28,345,549.91	30,051,000.00		-10,164,902.41				48,231,647.50	
Guangzhou Zhongdan Ship Design Co., Ltd.		51,000.00		255,828.15				306,828.15	
Nanfeng Environment Co., Ltd.	28,345,549.91	30,000,000.00		-10,420,730.56				47,924,819.35	
II. Associates	709,673,110.66	2,000,000.00		1,856,577.58		60,169.87	-850,113.22	692,703,650.61	
CSSC Liner Technology Development Co., Ltd.	19,175,594.85			860,499.43				20,036,094.28	
Zhenjiang Modern Power Generation Equipment Co., Ltd.	45,368,687.49			1,300,646.31		60,169.87		46,729,503.67	
South China Special Coating Industrial Co., Ltd. in Guangzhou Economic and Technological Development District	3,629,189.25			231,778.42			-180,584.79	3,680,382.88	
CSSC Chengxi Yangzhou Shipbuilding Company Limited	641,499,639.07			321,091.19			-669,528.43	641,151,201.83	
CSSC Huangpu Zhengli Offshore Engineering Co., Ltd.		2,000,000.00		-857,437.77				1,142,562.23	
<b>Total</b>	<b>738,018,660.57</b>	<b>32,051,000.00</b>		<b>-8,308,324.83</b>		<b>60,169.87</b>	<b>-850,113.22</b>	<b>740,935,298.11</b>	



# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Analysis of long-term equity investments

Item	Ending balance	Beginning balance
<b>Listed</b>		
<b>Unlisted</b>	<b>740,935,298.11</b>	738,018,660.57
<b>Total</b>	<b>740,935,298.11</b>	738,018,660.57

## 12. Investments in other equity instruments

### (1) Information on investments in other equity instruments

Item	Ending balance	Beginning balance
Investments in other equity instruments	<b>63,403,225.93</b>	44,726,104.08
Including: At fair value through other comprehensive income	<b>63,403,225.93</b>	44,726,104.08
<b>Total</b>	<b>63,403,225.93</b>	44,726,104.08

### (2) Analysis of other equity instruments

Item	Ending balance	Beginning balance
Listed	<b>6,813,766.56</b>	10,317,771.48
Including: China (except Hong Kong)	<b>6,813,766.56</b>	10,317,771.48
Unlisted	<b>56,589,459.37</b>	34,408,332.60
<b>Total</b>	<b>63,403,225.93</b>	44,726,104.08

### (3) Breakdown of other equity instruments

Item	Ending balance			Beginning balance		
	Book cost	Change in fair value	Carrying value	Book cost	Change in fair value	Carrying value
Shares in Chongqing Iron and Steel	6,925,546.56	-3,274,579.08	3,650,967.48	6,925,546.56		6,925,546.56
Shares in Bank of Communications	1,155,497.30	2,007,301.78	3,162,799.08	1,155,497.30	2,236,727.62	3,392,224.92
<b>Sub-total of listed</b>	<b>8,081,043.86</b>	<b>-1,267,277.30</b>	<b>6,813,766.56</b>	<b>8,081,043.86</b>	<b>2,236,727.62</b>	<b>10,317,771.48</b>
CSSC Finance Company Limited	5,828,000.00	23,958,931.26	29,786,931.26	5,828,000.00	20,152,821.49	25,980,821.49
Huangpu Hongshan Community Health Service Center	1,200,000.00	-430,964.83	769,035.17	1,200,000.00	3,223,802.40	4,423,802.40
China Shipbuilding IT Co., Ltd.	1,700,000.00	2,184,104.82	3,884,104.82	1,700,000.00	-380,107.10	1,319,892.90
CSIC Yuanzhou (Beijing) Science & Technology Co., Ltd.	1,000,000.00	-315,451.34	684,548.66	1,000,000.00	-48,752.48	951,247.52
Guangzhou Wenchuan Industrial Co., Ltd.	380,040.46	807,916.19	1,187,956.65	380,040.46	391,025.16	771,065.62
Guangzhou Xinzhou Service Co., Ltd.	106,425.00	134,363.53	240,788.53	106,425.00	169,157.67	275,582.67
Shanghai Yangzi International Travel Agent Co., Ltd.				497,758.10	188,161.90	685,920.00
CSSC Liner Technology Development Co., Ltd.	20,036,094.28		20,036,094.28			
CSSC Heavy Equipment Co., Ltd.						
Nanjing Tongchuang Computer Co., Ltd.						
Guangzhou Nanfang Special Coating Co., Ltd.						
<b>Sub-total of unlisted</b>	<b>30,250,559.74</b>	<b>26,338,899.63</b>	<b>56,589,459.37</b>	<b>10,712,223.56</b>	<b>23,696,109.04</b>	<b>34,408,332.60</b>
<b>Total</b>	<b>38,331,603.60</b>	<b>25,071,622.33</b>	<b>63,403,225.93</b>	<b>18,793,267.42</b>	<b>25,932,836.66</b>	<b>44,726,104.08</b>

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Description: As at 31 December 2017, the Group's investment in CSSC Heavy Equipment Co., Ltd. had a carrying value of RMB0 (investment cost of RMB15,000,000.00, provision for impairment of RMB15,000,000.00), and its investment in Nanjing Tongchuang Computer Co., Ltd. had a carrying value of RMB0 (investment cost of RMB4,716,310.26, provision for impairment of RMB4,716,310.26). As at 1 January 2018 (being the effective date of the standard for financial instruments), the Group recognised their book cost at original carrying amount of RMB0. In 2018, Guangzhou Nanfang Special Coating Co., Ltd., a subsidiary of Wenchong Dockyard, entered bankruptcy liquidation process in accordance with the law. On 31 December 2018, the Group's investment in Guangzhou Nanfang Special Coating Co., Ltd. had a carrying value of RMB0 (investment cost of RMB3,270,000.00, provision for impairment of RMB3,270,000.00).

#### (4) Information on investments in equity instruments not held for trading

Item	Dividend income recognised during the year	Accumulated gain	Accumulated loss	Amount of retained earnings transferred from other comprehensive income	Reason for designation as at fair value through other comprehensive income	Reason for transfer from other comprehensive income to retained earnings
Shares in Chongqing Iron and Steel			3,274,579.08		Investments not held for trading	
Shares in Bank of Communications	159,210.54	2,007,301.78			Investments not held for trading	
<b>Sub-total of listed</b>	159,210.54	2,007,301.78	3,274,579.08	0.00	-	-
CSSC Finance Company Limited	786,240.00	23,958,931.26			Investments not held for trading	
Huangpu Hongshan Community Health Service Center			430,964.83		Investments not held for trading	
China Shipbuilding IT Co., Ltd.		2,184,104.82			Investments not held for trading	
CSIC Yuanzhou (Beijing) Science & Technology Co., Ltd.			315,451.34		Investments not held for trading	
Guangzhou Wenchuan Industrial Co., Ltd.		807,916.19			Investments not held for trading	
Guangzhou Xinzhou Service Co., Ltd.		134,363.53			Investments not held for trading	
Shanghai Yangzi International Travel Agent Co., Ltd.		0.00		159,937.61	Investments not held for trading	Disposal during the period
CSSC Liner Technology Development Co., Ltd.		0.00			Investments not held for trading	
CSSC Heavy Equipment Co., Ltd.		0.00			Investments not held for trading	
Nanjing Tongchuang Computer Co., Ltd.		0.00			Investments not held for trading	
<b>Sub-total of unlisted</b>	786,240.00	27,085,315.80	746,416.17	159,937.61	-	-
<b>Total</b>	945,450.54	29,092,617.58	4,020,995.25	159,937.61	-	-

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 13. Investment properties

### (1) Investment properties measured at cost

Item	Buildings and structures	Total
I. Original carrying amount		
1. Beginning balance	<b>29,171,739.00</b>	29,171,739.00
2. Increase for the year		
3. Decrease for the year		
4. Ending balance	<b>29,171,739.00</b>	29,171,739.00
II. Accumulated depreciation and amortisation		
1. Beginning balance	<b>6,920,375.32</b>	6,920,375.32
2. Increase for the year	<b>628,712.16</b>	628,712.16
(1) Provision made or amortisation	<b>628,712.16</b>	628,712.16
3. Decrease for the year		
4. Ending balance	<b>7,549,087.48</b>	7,549,087.48
III. Provision for impairment		
1. Beginning balance		
2. Increase for the year		
3. Decrease for the year		
4. Ending balance		
IV. Carrying value		
1. Carrying value at the end of the year	<b>21,622,651.52</b>	21,622,651.52
2. Carrying value at the beginning of the year	<b>22,251,363.68</b>	22,251,363.68

The depreciation and amortisation of investment properties recognised in profit or loss during the year is RMB628,712.16 (last year: RMB628,712.16).

The provision for impairment of investment properties made for the year is RMB0.00 (last year: RMB0).

Investment properties analysed by region and ageing are as follows:

Item	Ending balance	Beginning balance
Within China	<b>21,622,651.52</b>	22,251,363.68
Medium term (10-50 years)	<b>21,622,651.52</b>	22,251,363.68
<b>Total</b>	<b>21,622,651.52</b>	22,251,363.68

### (2) Investment properties without property ownership certificates: None.

## 14. Fixed assets

Item	No.	Ending balance	Beginning balance
Fixed assets	(1)	<b>12,046,436,020.38</b>	11,746,529,227.03
Disposal of fixed assets	(2)		31,132.31
<b>Total</b>		<b>12,046,436,020.38</b>	11,746,560,359.34

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## (1) Fixed assets

### 1) Breakdown of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation equipment	Other equipment	Total
I. Original carrying amount					
1. Beginning balance	10,394,301,815.16	6,213,577,994.28	558,470,067.33	423,921,590.95	17,590,271,467.72
2. Increase for the year	402,132,685.14	62,508,842.13	613,276,172.33	38,274,030.87	1,116,191,730.47
(1) Additions	26,626,075.60	24,871,080.45	138,840.28	24,072,069.97	75,708,066.30
(2) Transfer from construction in progress	375,506,609.54	37,637,761.68	2,089,280.25	14,201,960.90	429,435,612.37
(3) Transfer from inventories			611,048,051.80		611,048,051.80
3. Decrease for the year	17,267,313.31	256,749,225.09	17,901,924.34	12,652,015.35	304,570,478.09
(1) Disposal or retirement	17,267,313.31	253,239,481.97	17,601,984.34	12,001,854.58	300,110,634.20
(2) Transfer out arising from the decrease in scope of consolidation		3,509,743.12	299,940.00	650,160.77	4,459,843.89
4. Ending balance	10,779,167,186.99	6,019,337,611.32	1,153,844,315.32	449,543,606.47	18,401,892,720.10
II. Accumulated depreciation					
1. Beginning balance	2,342,987,275.54	2,944,456,644.43	286,075,178.72	263,924,807.95	5,837,443,906.64
2. Increase for the year	330,075,250.41	309,310,884.35	37,081,308.50	34,112,440.57	710,579,883.83
(1) Provision made	330,075,250.41	309,310,884.35	37,081,308.50	34,112,440.57	710,579,883.83
3. Decrease for the year	6,361,913.25	233,884,816.63	14,380,665.30	11,606,360.93	266,233,756.11
(1) Disposal or retirement	6,361,913.25	230,865,595.52	14,104,934.72	11,014,528.46	262,346,971.95
(2) Transfer out arising from the decrease in scope of consolidation		3,019,221.11	275,730.58	591,832.47	3,886,784.16
4. Ending balance	2,666,700,612.70	3,019,882,712.15	308,775,821.92	286,430,887.59	6,281,790,034.36
III. Provision for impairment					
1. Beginning balance		6,192,828.25		105,505.80	6,298,334.05
2. Increase for the year			67,424,958.03		67,424,958.03
(1) Transfer from provision for impairment of inventories			67,424,958.03		67,424,958.03
3. Decrease for the year		56,626.72			56,626.72
(1) Disposal or retirement		56,626.72			56,626.72
4. Ending balance		6,136,201.53	67,424,958.03	105,505.80	73,666,665.36
IV. Carrying value					
1. Carrying value at the end of the year	8,112,466,574.29	2,993,318,697.64	777,643,535.37	163,007,213.08	12,046,436,020.38
2. Carrying value at the beginning of the year	8,051,314,539.62	3,262,928,521.60	272,394,888.61	159,891,277.20	11,746,529,227.03

Note 1: The depreciation of fixed assets recognised in profit or loss during the year is RMB710,579,883.83 (last year: RMB743,500,056.36).

Note 2: Included in fixed assets added during the year is capitalised construction in progress of RMB429,435,612.37.

Note 3: During the year, inventories of RMB611,048,051.80 were transferred to fixed assets and provision for impairment of inventories of RMB67,424,958.03 was transferred to provision for impairment of fixed assets, as Huangpu Wenchong sold completed ships to Wah Shun and Wah Loong, both subsidiaries of the Company, for operating lease as fixed assets.

### 2) Fixed assets temporarily unutilised:

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Carrying value	Remarks
Buildings and structures	33,997,245.19	27,031,509.66		6,965,735.53	Plant to be relocated
Machinery and equipment	41,076,437.49	27,450,839.77	8,840.63	13,616,757.09	Plant to be relocated
<b>Total</b>	<b>75,073,682.68</b>	<b>54,482,349.43</b>	<b>8,840.63</b>	<b>20,582,492.62</b>	

### 3) Fixed assets leased through finance leases: None.

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4) *Fixed assets leased out through operating leases*

Item	Carrying value
Buildings and structures	9,503,841.72
Machinery and equipment	12,846,714.35
Transportation vehicles	637,191,792.85
Other equipment	50,567.22
<b>Total</b>	<b>659,592,916.14</b>

5) *Buildings and structures are analysed by region and ageing as follows:*

Item	Ending balance	Beginning balance
Within China	<b>8,098,414,952.13</b>	8,036,979,533.82
Medium term (10-50 years)	<b>7,950,529,444.02</b>	7,881,323,515.25
Short term (within 10 years)	<b>147,885,508.11</b>	155,656,018.57
Outside China	<b>14,051,622.16</b>	14,335,005.80
Medium term (10-50 years)	<b>14,051,622.16</b>	14,335,005.80
<b>Total</b>	<b>8,112,466,574.29</b>	8,051,314,539.62

6) *Fixed assets without property ownership certificates*

As at the end of the year, included in fixed assets were properties with carrying amount of RMB255,111,265.47 for which the property ownership certificates were being applied for. Given the aforesaid properties were in compliance with the relevant legal procedures, the Board believes that the transfer of its title will not meet any substantial obstacle or affect their normal use by the Group and will have no material impact on the normal operation of the Group. As such, no provision for impairment is required for investment properties and there will be no additional material costs.

Item	Carrying value	Reason for failure to obtain property ownership certificates
Hull joint workshop	121,932,706.50	In the process of obtaining ownership certificates
Production workshop	95,197,620.45	In the process of obtaining ownership certificates
Production and living support building	13,878,216.68	In the process of obtaining ownership certificates
Office building	6,599,540.08	In the process of obtaining ownership certificates
1# air pressure station, 1# distribution and transformer substation	5,018,247.51	In the process of obtaining ownership certificates
East auxiliary building of new platform ship at Longxue Plant	4,452,115.37	In the process of obtaining ownership certificates
7#-1-905, Yue Lan Xuan, 7 Hejing Dinglan Hai'an	4,115,049.52	In the process of obtaining ownership certificates
Paint and oil chemicals storage	2,437,458.79	In the process of obtaining ownership certificates
Oily waste storage room	843,743.46	In the process of obtaining ownership certificates
1# natural gas blending station	636,567.11	In the process of obtaining ownership certificates
<b>Total</b>	<b>255,111,265.47</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Disposal of fixed assets

Item	Ending balance	Beginning balance
Machinery and equipment		31,132.31
<b>Total</b>		<b>31,132.31</b>

## 15. Construction in progress

Item	Carrying value as at the end of the year	Carrying value as at the beginning of the year
Construction in progress	<b>762,567,676.87</b>	697,131,740.77
<b>Total</b>	<b>762,567,676.87</b>	<b>697,131,740.77</b>

## (1) Construction in progress

### 1) Breakdown of construction in progress

Project	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Nansha Plant upgrading project	178,366,510.18		178,366,510.18	109,487,545.91		109,487,545.91
Residential project for workers	95,354,067.40		95,354,067.40	95,354,153.17		95,354,153.17
Project 8	92,132,160.15		92,132,160.15	85,500,049.11		85,500,049.11
Maritime engineering equipment production facilities improvement project at Longxue Plant	74,217,653.65		74,217,653.65	80,316,686.72		80,316,686.72
Platform project	40,937,324.32		40,937,324.32	11,783,702.87		11,783,702.87
Project 7	37,438,272.86		37,438,272.86	43,119,608.99		43,119,608.99
Offshore platform project	33,315,621.31		33,315,621.31	36,250,674.82		36,250,674.82
Workers' dormitory phase II	28,555,426.27		28,555,426.27	2,763,020.01		2,763,020.01
Project 5	22,510,650.87		22,510,650.87	8,658,331.70		8,658,331.70
Offshore engineering project phase I	19,239,228.15		19,239,228.15	19,227,375.29		19,227,375.29
Special payment for Shenzhen-Zhongshan Bridge	14,102,805.23		14,102,805.23			
Project 3	12,923,609.12		12,923,609.12	7,155,003.51		7,155,003.51
Project 9	10,891,104.32		10,891,104.32			
Elevator and decompression bed construction project	7,696,374.29		7,696,374.29	48,817,551.70		48,817,551.70
Confidential information construction system project	5,269,275.45		5,269,275.45	1,839,182.90		1,839,182.90
Outfitting integrated workshop, improvement workshop, quality control centre project	1,318,156.17		1,318,156.17	2,437,788.77		2,437,788.77
Dock 2 expansion and upgrading project				39,637,924.83		39,637,924.83
Project 6				10,976,525.62		10,976,525.62
<b>Others</b>	<b>88,299,437.13</b>		<b>88,299,437.13</b>	<b>93,806,614.85</b>		<b>93,806,614.85</b>
<b>Total</b>	<b>762,567,676.87</b>		<b>762,567,676.87</b>	<b>697,131,740.77</b>		<b>697,131,740.77</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2) Changes in material construction in progress

Name of project	Beginning balance	Increase for the year	Decrease for the year		Ending balance
			Transfer to fixed assets	Other decrease	
Nansha Plant upgrading project	109,487,545.91	98,112,040.49	29,233,076.22		178,366,510.18
Residential project for workers	95,354,153.17	-85.77			95,354,067.40
Project 8	85,500,049.11	67,531,216.47	60,899,105.43		92,132,160.15
Maritime engineering equipment production facilities improvement project at Longxue Plant	80,316,686.72	59,493,639.63	65,592,672.70		74,217,653.65
Platform project	11,783,702.87	47,473,287.20	18,319,665.75		40,937,324.32
Project 7	43,119,608.99	19,581,638.17	25,262,974.30		37,438,272.86
Offshore platform project	36,250,674.82		2,935,053.51		33,315,621.31
Workers' dormitory phase II	2,763,020.01	25,792,406.26			28,555,426.27
Project 5	8,658,331.70	41,122,442.65	27,270,123.48		22,510,650.87
Offshore engineering project phase I	19,227,375.29	11,852.86			19,239,228.15
Special payment for Shenzhen-Zhongshan Bridge		14,102,805.23			14,102,805.23
Project 3	7,155,003.51	13,673,987.52	7,905,381.91		12,923,609.12
Project 9		10,891,104.32			10,891,104.32
Elevator and decompression bed construction project	48,817,551.70	19,367,042.47	59,437,217.94	1,051,001.94	7,696,374.29
Confidential information construction system project	1,839,182.90	3,430,092.55			5,269,275.45
Outfitting integrated workshop, improvement workshop, quality control centre project	2,437,788.77	60,915,049.35	62,034,681.95		1,318,156.17
Project 6	10,976,525.62	-3,334,911.27	7,641,614.35		
<b>Total</b>	<b>563,687,201.09</b>	<b>478,163,608.13</b>	<b>366,531,567.54</b>	<b>1,051,001.94</b>	<b>674,268,239.74</b>

(Continued)

Name of project	Budget amount	Ratio of project investment to budget (%)	Project progress	Accumulated interest capitalised	Of which: Interest capitalised during the year	Interest capitalisation ratio for the year (%)	Source of funding
Nansha Plant upgrading project	1,333,760,000.00	43.55	Under construction	4,847,996.61	1,860,504.15	1.08	Self-financed
Residential project for workers		25.71	Under construction				
Project 8	453,000,000.00	79.19	Under construction				Self-financed
Maritime engineering equipment production facilities improvement project at Longxue Plant	653,000,000.00	83.32	Under construction				Self-financed
Platform project	93,989,932.79	70	Under construction				Self-financed
Project 7	424,940,000.00	90	Under construction	6,066,078.94	1,015,799.38	16.75	State-subsidized/loan/ Self-financed
Offshore platform project	278,630,000.00	42.97	Under construction	22,039,060.45	612,688.48	2.78	Self-financed/loan
Workers' dormitory phase II	82,520,000.00	34.61	Under construction				Self-financed
Project 5	119,420,000.00	98	Under construction	3,045,377.25			State-subsidized/loan
Offshore engineering project phase I	770,000,000.00	91	Under construction	65,765,865.93			Self-financed/loan
Special payment for Shenzhen-Zhongshan Bridge	47,200,000.00	29.88	Under construction				State-subsidized/ self-financed
Project 3	278,630,000.00	91.91	Under construction	24,728,995.32			Self-financed/loan
Project 9	216,900,000.00	5.02	Under construction				State-subsidized/ self-financed
Elevator and decompression bed construction project	123,730,000.00	74.26	Under construction				Self-financed
Confidential information construction system project	8,430,000.00	62.51	Under construction				Self-financed
Outfitting integrated workshop, improvement workshop, quality control centre project	77,600,000.00	81.64	Under construction				Self-financed
Project 6	201,000,000.00	100	Completed				State-subsidized/ self-financed
<b>Total</b>	<b>5,162,749,932.79</b>	<b>-</b>	<b>-</b>	<b>126,493,374.50</b>	<b>3,488,992.01</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

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## 16. Intangible assets

### (1) Breakdown of intangible assets

Item	Land use rights	Shoreline use rights	Software	Others	Total
I. Original carrying amount					
1. Beginning balance	2,252,519,485.51	145,232,000.00	185,081,113.45	2,423,934.00	2,585,256,532.96
2. Increase for the year			38,097,835.25	9,000.00	38,106,835.25
(1) Additions			38,097,835.25	9,000.00	38,106,835.25
3. Decrease for the year					
4. Ending balance	2,252,519,485.51	145,232,000.00	223,178,948.70	2,432,934.00	2,623,363,368.21
II. Accumulated amortisation					
1. Beginning balance	299,745,946.01	25,415,599.65	153,559,185.68	32,876.56	478,753,607.90
2. Increase for the year	45,683,445.73	2,904,639.96	11,184,222.25	7,173.40	59,779,481.34
(1) Provision made	45,683,445.73	2,904,639.96	11,184,222.25	7,173.40	59,779,481.34
3. Decrease for the year					
4. Ending balance	345,429,391.74	28,320,239.61	164,743,407.93	40,049.96	538,533,089.24
III. Provision for impairment					
1. Beginning balance					
2. Increase for the year					
3. Decrease for the year					
4. Ending balance					
IV. Carrying value					
1. Carrying value at the end of the year	1,907,090,093.77	116,911,760.39	58,435,540.77	2,392,884.04	2,084,830,278.97
2. Carrying value at the beginning of the year	1,952,773,539.50	119,816,400.35	31,521,927.77	2,391,057.44	2,106,502,925.06

There were no intangible assets arising from internal research and development of the Company during the year.

Land use rights analysed by region and term:

Item	Ending balance	Beginning balance
Within China		
Medium term (10-50 years)	<b>1,907,090,093.77</b>	1,952,773,539.50
<b>Total</b>	<b>1,907,090,093.77</b>	1,952,773,539.50

The depreciation and amortisation of intangible assets recognised in profit or loss during the year is RMB59,779,481.34 (last year: RMB67,123,210.49).

### (2) Land use rights without real estate certificates: None.

## 17. Goodwill

### (1) Original carrying amount of goodwill

Name of investee	Beginning balance	Increase for the year Arising from business combination	Decrease for the year Disposal	Ending balance
Wenchong Dockyard	144,231,195.67			<b>144,231,195.67</b>
<b>Total</b>	144,231,195.67			<b>144,231,195.67</b>

Description: The goodwill arising from the combination of Wenchong Dockyard was arising from a business combination not under common control of CSSC in 2012. On 31 December 2018, GSI, a subsidiary of the Company, completed the acquisition of 100% equity interest in Wenchong Dockyard, which represented a business combination under common control. In accordance with the relevant requirements of the Interpretation of Accounting Standards for Business Enterprises No. 6, it was measured at the carrying value of CSSC on the date of combination, and retrospective adjustments had been made to the comparative financial statements by increasing the beginning balance of goodwill by RMB144,231,195.67.



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Provision for impairment of goodwill

As at the end of the year, the balance of provision for impairment of goodwill of the Group was RMB0.

## (3) Information on the asset group or combination of asset groups to which the goodwill belongs

The Group conducted comprehensive analysis of the reasons for the generation of goodwill arising from the combination of Wenchong Dockyard. It considered all assets and liabilities of Wenchong Dockyard as an asset group and made adjustments to the carrying value of the goodwill and asset group attributable to minority shareholders in view of the increase in capital of Wenchong Dockyard following the date of purchase. As at the end of the year, the net carrying amount of the goodwill asset group arising from the combination of Wenchong Dockyard was RMB491,351,600.

The asset group to which goodwill belongs is consistent with the asset group determined for goodwill impairment test for previous years.

## (4) Explanations for the process of goodwill impairment test, parameters and method for determination of goodwill impairment loss

As at the end of the year, the Group carried out an impairment test on the said goodwill. According to the test results, the Group was not required to make provision for impairment of goodwill during the year.

In accordance with the Accounting Standards for Business Enterprises No. 8 – Asset Impairment, the recoverable amount shall be determined based on the higher of the net amount of the fair value of the asset less the cost of disposal and the present value of the expected future cash flows of the asset. According to an asset valuation report (Dong Zhou Ping Bao Zi [2019] No. 0270) issued by Shanghai Orient Appraisal Co., Ltd. on 21 March 2019, the Group determined the recoverable amount of the asset group of Wenchong Dockyard based on its fair value as at 31 December 2018 assessed using the asset-based approach of RMB511,108,600. The Group's method of determining the recoverable amount of goodwill is consistent with that of last year.

## (5) Impacts of goodwill impairment tests

None.

## 18. Long-term prepaid expenses

Item	Beginning balance	Increase for the year	Amortisation for the year	Other decreases for the year	Ending balance
Channel dredging project	43,699,027.46		1,053,034.63		42,645,992.83
Longxue industrial decoration	20,937,176.34		3,173,457.30	1,962,632.97	15,801,086.07
13-metre total steel beam	6,288,440.81		722,222.23		5,566,218.58
Reconstruction cost of Phase II plant	4,025,959.59		1,072,075.00		2,953,884.59
Steel pipe frame fastener	4,044,626.27		2,612,450.52		1,432,175.75
Scaffold apportionment	3,532,092.41			3,532,092.41	
1025 import technology design fee	4,253,039.47		4,253,039.47		
Enclosure project for waterway wharf at Liwan Plant	93,680.15		93,680.15		
Improvement expenses for leased fixed assets	263,774.45		263,774.45		
CCS certification fee	30,000.00		30,000.00		
Others	1,366,720.78	12,955,837.17	3,436,312.54		10,886,245.41
<b>Total</b>	<b>88,534,537.73</b>	<b>12,955,837.17</b>	<b>16,710,046.29</b>	<b>5,494,725.38</b>	<b>79,285,603.23</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 19. Deferred tax assets and deferred tax liabilities

### (1) Deferred tax assets not offset

Item	Ending balance		Beginning balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible tax loss	1,491,305,305.98	295,720,912.90	1,164,292,329.54	291,073,082.39
Provision for impairment of assets	380,181,751.96	61,718,071.28	343,688,581.83	63,061,210.00
Estimated liabilities	95,972,670.05	17,840,413.76	326,827,934.23	56,335,762.31
Payroll for retiring employees	197,114,274.80	45,178,536.33	213,441,982.56	48,397,486.95
Change in fair value of financial assets held-for-trading	109,244,559.10	16,592,552.56	3,293,017.52	812,182.06
Difference in the time of amortisation of long-term prepaid expenses	2,341,298.04	585,324.51	2,950,278.56	737,569.64
Change in fair value of investments in other equity instruments	9,716,310.26	2,447,685.56	179,166.11	35,833.22
Prepaid housing subsidy			39,690.00	9,922.50
<b>Total</b>	<b>2,285,876,170.19</b>	<b>440,083,496.90</b>	2,054,712,980.35	460,463,049.07

### (2) Deferred tax liabilities not offset

Item	Ending balance		Beginning balance	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Change in fair value of financial assets held-for-trading	8,395,594.00	1,259,339.10	5,627,497.12	844,124.57
Change in fair value of investments in other equity instruments	27,942,151.71	6,868,918.68	26,361,696.29	6,554,692.11
Valuation of financial instruments held-for-trading and derivative financial instruments	3,289,561.01	822,390.24	37,028.56	9,257.14
<b>Total</b>	<b>39,627,306.72</b>	<b>8,950,648.02</b>	32,026,221.97	7,408,073.82

### (3) Breakdown of unrecognised deferred tax assets

Item	Ending balance	Beginning balance
Deductible temporary difference	293,463,661.59	398,462,131.93
Deductible tax loss	3,428,432,706.30	4,046,993,452.54
<b>Total</b>	<b>3,721,896,367.89</b>	4,445,455,584.47

### (4) Deductible loss for which no deferred tax assets are recognised will become due in the following years

Year	Ending balance	Beginning balance	Remarks
2018		880,640,278.15	
2019	1,326,107,227.63	1,453,733,279.51	
2020	466,832,079.49	650,770,433.84	
2021	862,791,156.77	958,626,911.75	
2022	110,971,774.32	103,222,549.29	
2023	661,730,468.09		
<b>Total</b>	<b>3,428,432,706.30</b>	4,046,993,452.54	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 20. Other non-current assets

Item	Ending balance	Beginning balance
Relocation expenses to be written off	13,860,105.78	199,020,072.23
Advances for non-current assets	66,391,426.19	
<b>Total</b>	<b>80,251,531.97</b>	199,020,072.23

Note: Relocation expenses to be written off represented the assets disposal expense and labour costs incurred as a result of the relocation of plant of Nanhai mechanical and electrical branch of the Company, which will be used to offset the compensation for relocation upon completion of the relocation.

## 21. Short-term borrowings

### (1) Breakdown of short-term borrowings

Type of borrowings	Ending balance	Beginning balance
Secured borrowings		103,380,475.00
Guaranteed borrowings	295,000,000.00	314,505,750.00
Credit loans	4,009,387,255.88	2,552,528,750.00
<b>Total</b>	<b>4,304,387,255.88</b>	2,970,414,975.00

Information on guarantees: As at the end of the year, short-term borrowing of RMB295,000,000.00 was guaranteed by CSSC for Wenchong Dockyard, a subsidiary of the Company.

### (2) Outstanding overdue short-term borrowings: None.

### (3) As at the end of the year, the weighted average annual interest rate of short-term borrowings was 2.84%.

## 22. Financial liabilities held-for-trading

Item	Ending balance	Beginning balance
Financial liabilities held-for-trading	431,894,056.78	3,366,294.31
Including: Forward exchange contracts	431,894,056.78	3,366,294.31
<b>Total</b>	<b>431,894,056.78</b>	3,366,294.31

Description: Please refer to Note VI.2.(2) for details of fair value measurement.

## 23. Notes and accounts payable

Item	No.	Ending balance	Beginning balance
Notes payable	(1)	2,730,396,298.20	1,774,884,568.59
Accounts payable	(2)	7,958,832,249.26	7,855,669,851.50
<b>Total</b>		<b>10,689,228,547.46</b>	9,630,554,420.09

### (1) Notes payable

Types of notes	Ending balance	Beginning balance
Bank acceptance bills	2,286,572,893.25	1,599,584,847.84
Commercial acceptance bills	443,823,404.95	175,299,720.75
<b>Total</b>	<b>2,730,396,298.20</b>	1,774,884,568.59

Total notes payable due and unpaid as at the end of the year amounted to RMB0 (RMB0 as at the beginning of the year).

Among the above notes payable of the Group as at the end of the year, RMB2,577,084,998.20 had an ageing of less than 180 days, and RMB153,311,300.00 had an ageing of 181-360 days.

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Accounts payable

### 1) Breakdown of accounts payable

Item	Ending balance	Beginning balance
Materials purchased	4,074,770,064.65	4,790,480,409.64
Payment for projects under construction	114,327,903.77	158,868,281.50
Balance of product payment	552,199,468.38	555,746,780.21
Retention money	1,485,763,195.74	1,408,866,073.78
Other construction and labour services	1,731,771,616.72	941,708,306.37
<b>Total</b>	<b>7,958,832,249.26</b>	<b>7,855,669,851.50</b>

### 2) The ageing analysis of accounts payable based on the transaction date (including accounts payable to connected persons) is as follows:

Ageing	Ending balance	Beginning balance
Within one year	4,318,781,010.73	6,587,208,356.79
1-2 years	2,967,761,937.65	839,403,219.29
2-3 years	417,041,372.35	200,550,136.60
Over 3 years	255,247,928.53	228,508,138.82
<b>Total</b>	<b>7,958,832,249.26</b>	<b>7,855,669,851.50</b>

### 3) Significant accounts payable aged over one year

Name of entity	Ending balance	Including: Amount aged over one year	Reason for unsettlement or carrying forward
CSSC Systems Engineering Research Institute	613,823,660.69	456,715,900.00	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation A Research Institute	438,060,136.11	253,717,211.11	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation B Research Institute	171,197,500.00	24,657,500.00	Equipment warranty and provisional estimates
Aviation Technology Research Institute of China Aerospace Science and Industry	151,049,200.00	151,049,200.00	Equipment warranty and provisional estimates
Shanghai Academy of Spaceflight Technology	112,760,000.00	108,735,000.00	Equipment warranty and provisional estimates
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	439,898,643.35	94,878,351.89	Provisional estimates for equipment
China Shipbuilding Industry Corporation C Research Institute	80,803,399.98	31,699,799.98	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation D Research Institute	71,143,000.00	64,024,924.53	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation E Research Institute	65,166,911.11	58,256,256.73	Equipment warranty and provisional estimates
Technology Department of a certain division of the People's Liberation Army	62,275,000.00	57,555,000.00	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation F Research Institute	61,260,701.73	43,126,600.00	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation G Research Institute	58,826,530.00	58,826,530.00	Equipment warranty and provisional estimates
Drass Energy Srl	47,356,646.10	31,239,119.69	Equipment warranty and provisional estimates
AL NEHRA PETROME FZE	45,017,175.95	45,017,175.95	Equipment warranty and provisional estimates
Changshu Electronic Instrument Plant	44,599,372.93	6,420,771.20	Equipment warranty and provisional estimates
China Shipbuilding Industry Corporation H Research Institute	39,337,000.00	39,337,000.00	Equipment warranty and provisional estimates
Wenzhou Bohong Electric Co., Ltd.	68,744,310.00	47,169,130.00	Equipment warranty and provisional estimates
<b>Total</b>	<b>2,571,319,187.95</b>	<b>1,572,425,471.08</b>	-

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## 24. Contract liabilities

### (1) Information on contract liabilities

Item	Ending balance	Beginning balance
Shipbuilding products	6,157,664,531.11	5,881,629,414.41
Offshore engineering products	405,001,767.59	189,476,442.14
Steel structures	323,059,779.75	18,622,418.06
Ship maintenance and modification	22,086,654.41	98,579,418.81
Electromechanical products and others	204,579,228.92	223,291,621.49
<b>Total</b>	<b>7,112,391,961.78</b>	<b>6,411,599,314.91</b>

### (2) Amount and reason for significant changes in carrying value during the Reporting Period

Item	Amount of change	Reason for change
Shipbuilding products	276,035,116.70	There was a difference between the collection progress and the progress of revenue confirmation. The collection progress exceeds the progress of revenue confirmation, resulting in the increase in the balance of contract liabilities
Offshore engineering products	215,525,325.45	
Steel structures	304,437,361.69	
Ship maintenance and modification	-76,492,764.40	
Electromechanical products and others	-18,712,392.57	
<b>Total</b>	<b>700,792,646.87</b>	<b>-</b>

## 25. Employee benefits payable

### (1) Breakdown of employee benefits payable

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Short-term remuneration	43,914,558.18	3,948,322,080.73	3,950,885,472.40	<b>41,351,166.51</b>
Post-employment benefits – defined contribution plans		250,250,719.73	250,250,719.73	
Termination benefits		2,372,296.21	2,372,296.21	
<b>Total</b>	<b>43,914,558.18</b>	<b>4,200,945,096.67</b>	<b>4,203,508,488.34</b>	<b>41,351,166.51</b>

### (2) Short-term remuneration

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Salaries, bonuses, allowances and subsidies	6,459,437.23	1,625,423,966.02	1,631,883,403.25	<b>5,072,421.30</b>
Employee benefits	5,072,421.30	95,223,102.84	95,223,102.84	
Social insurance contribution Including: Medical insurance contribution		139,022,419.27	139,022,419.27	
Work-related injury insurance contribution		120,921,975.80	120,921,975.80	
Maternity insurance contribution		4,860,746.93	4,860,746.93	
Housing fund	2,862.00	13,239,696.54	13,239,696.54	<b>2,754.00</b>
Labour union & employee education funds	31,005,008.60	186,323,800.40	186,323,908.40	
Outsourcing labour costs and others	31,005,008.60	36,814,610.69	38,310,000.14	<b>29,509,619.15</b>
	1,374,829.05	1,865,514,181.51	1,860,122,638.50	<b>6,766,372.06</b>
<b>Total</b>	<b>43,914,558.18</b>	<b>3,948,322,080.73</b>	<b>3,950,885,472.40</b>	<b>41,351,166.51</b>

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## (3) Defined contribution plans

As required, the Group participates in the social insurance plans established by the government authorities. The Group makes contributions to these plans as required by local governments. The Group has no further payment obligations other than the contributions. The relevant expenses are included in current profit or loss or as the cost of the relevant assets.

The pension, annuity and unemployment plan contributions made by the Group during the year were as follows:

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Basic pension insurance		221,750,626.62	221,750,626.62	
Unemployment insurance contribution		7,637,852.59	7,637,852.59	
Enterprise annuity contribution		20,862,240.52	20,862,240.52	
<b>Total</b>		<b>250,250,719.73</b>	<b>250,250,719.73</b>	

The defined benefit plan contributions payable by the Group for the year amounted to RMB250,250,719.73 (last year: RMB271,003,827.17). As at the end of the year, contribution payable of the Group amounting to RMB0 (as at the beginning of the year: RMB0) was due and outstanding during the Reporting Period, which had been paid subsequent to the end of the Reporting Period.

## 26. Taxes payable

Item	Ending balance	Beginning balance
Value-added tax	<b>9,922,449.47</b>	12,265,607.37
Enterprise income tax	<b>19,495,886.90</b>	27,863,434.79
City maintenance and construction tax	<b>700,595.14</b>	2,322,419.73
Property tax	<b>1,632,008.74</b>	5,095,857.96
Land use tax	<b>2,212,416.52</b>	12,141,855.40
Individual income tax	<b>11,421,836.30</b>	14,270,234.29
Educational surcharge	<b>500,425.01</b>	1,658,799.64
Other taxes	<b>2,254,406.10</b>	1,010,476.54
<b>Total</b>	<b>48,140,024.18</b>	76,628,685.72

Note 1: As at the end of the year, the Group reclassified the debit balance of "Input tax" and "Unpaid value-added tax" under "Taxes payable" into "Other current assets" or "Other non-current assets" and reclassified the credit balance of "Sales tax to be transferred" under "Taxes payable" into "Other current liabilities" in accordance with the Notice of the Ministry of Finance on the Provisions Concerning the Accounting Treatments on Value-Added Tax (Cai Kuai [2016] No. 22).

Note 2: As at the end of the year, included in the enterprise income tax under taxes payable was Hong Kong profits tax payable of RMB0 (as at the beginning of the year: RMB1,313,567.59).

## 27. Other payables

Item	No.	Ending balance	Beginning balance
Interest payable	(1)	<b>16,734,825.58</b>	15,896,189.07
Dividends payable	(2)	<b>304,042.49</b>	383,540.92
Other payables	(3)	<b>319,883,556.50</b>	265,789,880.66
<b>Total</b>		<b>336,922,424.57</b>	282,069,610.65

### (1) Interest payable

Item	Ending balance	Beginning balance
Interest on long-term borrowings for which the interest is paid in instalments and the principal is repaid when due	<b>9,852,098.31</b>	13,169,259.03
Interest payable on short-term borrowings	<b>6,882,727.27</b>	2,726,930.04
<b>Total</b>	<b>16,734,825.58</b>	15,896,189.07

As at the end of the year, the Group had no overdue outstanding interest.

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## (2) Dividends payable

Item	Ending balance	Beginning balance
Dividends payable for A shares	66,091.17	145,589.60
Dividends payable for H shares	237,951.32	237,951.32
<b>Total</b>	<b>304,042.49</b>	<b>383,540.92</b>

## (3) Other payables

### 1) Other payables by nature

Nature of amount	Ending balance	Beginning balance
Deposits received	100,646,387.39	111,997,211.44
Withholding amount for employees	35,720,714.50	33,198,534.72
Payables for temporary receipts	82,096,661.93	120,594,134.50
Payables for equity transfer payment	101,419,792.68	
<b>Total</b>	<b>319,883,556.50</b>	<b>265,789,880.66</b>

### 2) Significant other payables aged over one year

Name of entity	Ending balance	Reason for unsettlement or carrying forward
China Shipbuilding NDRI Engineering Co., Ltd.	5,024,235.50	Performance bonds
Wuxue Zhanye Marine Engineering Co., Ltd.	2,925,000.00	Security deposit
Dalian Shipbuilding Industry Engineering Company, Shipbuilding Plant Branch	1,701,000.00	Security deposit
Xuzhou Guangda Marine Engineering Co., Ltd.	810,000.00	Security deposit
Jiujiang Tongguang Marine Engineering Co., Ltd.	300,000.00	Security deposit for service fees
Ruichang Changtai Steel Structure Co., Ltd.	240,000.00	Security deposit for service fees
Guangzhou Jiurui Steel Structures Co., Ltd.	200,000.00	Security deposit for service fees
<b>Total</b>	<b>11,200,235.50</b>	

## 28. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term borrowings due within one year	4,414,000,000.00	4,482,400,000.00
<b>Total</b>	<b>4,414,000,000.00</b>	<b>4,482,400,000.00</b>

## 29. Other current liabilities

### (1) Breakdown of other current liabilities

Item	Ending balance	Beginning balance
Short-term deferred income	6,210,049.38	6,212,549.77
Including: Government grants	6,210,049.38	6,212,549.77
Output value-added tax payable	82,666,981.35	34,779,914.08
Commercial acceptance bills endorsed and undue		79,659,400.00
Advances from customers for shipbuilding orders cancelled	93,313,787.47	16,598,727.43
<b>Total</b>	<b>182,190,818.20</b>	<b>137,250,591.28</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Government grants

Item	Beginning balance	New grants received during the year	Decrease for the year			Other changes	Ending balance	Relating to assets/ relating to revenue
			Included in non-operating income	Included in other income	Offsetting cost and expenses			
Offshore expansion projects	3,500,000.00			3,499,999.65		3,499,999.65	<b>3,500,000.00</b>	Relating to assets
Offshore engineering phase I	1,500,000.00			1,500,000.00		1,500,000.00	<b>1,500,000.00</b>	Relating to assets
Offshore platform project	300,000.00			300,000.00		300,000.00	<b>300,000.00</b>	Relating to assets
Enterprise technology centre innovation capability development project	300,000.00			300,000.00		300,000.00	<b>300,000.00</b>	Relating to assets
Self-propelled hydraulic flatbed trailer	166,666.68			166,666.68		166,666.68	<b>166,666.68</b>	Relating to assets
Coating technology process and transformation	153,698.64			153,698.64		153,698.64	<b>153,698.64</b>	Relating to assets
Technical upgrading for new ship research equipment	142,191.84			142,191.84		142,191.84	<b>142,191.84</b>	Relating to assets
Base construction subsidy	62,182.78		62,182.80			62,182.80	<b>62,182.78</b>	Relating to assets
No. 1 dock adaptive transformation (1)	33,333.36			33,333.36		33,333.36	<b>33,333.36</b>	Relating to assets
No. 1 dock adaptive transformation	26,666.64			26,666.64		26,666.64	<b>26,666.64</b>	Relating to assets
Other items relating to assets	27,809.83	41,402.11		69,211.94		25,309.44	<b>25,309.44</b>	Relating to assets
Immediately refunded value-added tax		1,257,284.11		1,257,284.11				Relating to revenue
Special funds for fair trade in imports and exports		300,000.00	300,000.00					Relating to revenue
Post-R&D grant		275,600.00			275,600.00			Relating to revenue
Trade friction response research fund		165,000.00	165,000.00					Relating to revenue
Rewards for high-tech enterprises		120,000.00			120,000.00			Relating to revenue
Other items relating to revenue		331,602.83	9,000.00	322,602.83				Relating to revenue
<b>Total</b>	<b>6,212,549.77</b>	<b>2,490,889.05</b>	<b>536,182.80</b>	<b>7,771,655.69</b>	<b>395,600.00</b>	<b>6,210,049.05</b>	<b>6,210,049.38</b>	-

Note: "Other changes" represent government grants carried forward within one year of reclassification from deferred income items.

## 30. Long-term borrowings

Type of borrowings	Ending balance	Beginning balance
Guaranteed borrowings	<b>332,000,000.00</b>	1,982,000,000.00
Credit loans	<b>8,421,619,500.00</b>	12,295,557,000.00
<b>Total</b>	<b>8,753,619,500.00</b>	14,277,557,000.00
<b>The carrying amount of the above borrowings shall be repaid:</b>		
Within one year	<b>4,414,000,000.00</b>	4,482,400,000.00
Over one year but less than two years after balance sheet date	<b>579,900,000.00</b>	5,107,800,000.00
Over two years but less than five years after balance sheet date	<b>2,026,562,500.00</b>	2,942,500,000.00
Over five years after balance sheet date	<b>1,733,157,000.00</b>	1,744,857,000.00
<b>Less: Amount due within one year, as shown under current liabilities</b>	<b>4,414,000,000.00</b>	4,482,400,000.00
<b>Amount shown under non-current liabilities</b>	<b>4,339,619,500.00</b>	9,795,157,000.00

Note: Interest rates of long-term borrowings range from 1.08% to 4.28%.



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Details of guarantee:

As at the end of the year, long-term borrowing of RMB332,000,000.00 was guaranteed by Huangpu Wenchong for Wenchong Shipyard in the amount of RMB332,000,000.00.

Details of interest rates: As at the end of the year, weighted average annual interest rate of long-term borrowings was 2.46%.

## 31. Long-term payables

Item	Ending balance	Beginning balance
Special payables	99,370,000.00	99,370,000.00
<b>Total</b>	<b>99,370,000.00</b>	<b>99,370,000.00</b>

### (1) Special payables

Project	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Project A	17,850,000.00			17,850,000.00
Project B	6,720,000.00			6,720,000.00
Project C	26,600,000.00			26,600,000.00
Project D	4,500,000.00			4,500,000.00
Project E	43,700,000.00			43,700,000.00
Project F		19,000,000.00	19,000,000.00	
Project G		42,000,000.00	42,000,000.00	
Project H		50,000,000.00	50,000,000.00	
<b>Total</b>	<b>99,370,000.00</b>	<b>111,000,000.00</b>	<b>111,000,000.00</b>	<b>99,370,000.00</b>

Note 1: The above are state funds allocated to the projects, and as the capital investment in the Company or its subsidiaries from the state, they belong to the state exclusively when the projects have been completed and approved as qualified.

Note 2: The decrease for the year was mainly due to the transfer of government grants for GSI and Huangpu Wenchong, both subsidiaries of the Company, to the capital reserve of CSSC, which was included in "minority interests" in the financial statements.

Note 3: The breakdown of projects completed, inspected and accepted as at the end of the year is as follows:

Project	Ending balance
Project A	17,850,000.00
Project B	6,720,000.00
Project C	26,600,000.00
Project D	4,500,000.00
Project E	43,700,000.00
<b>Total</b>	<b>99,370,000.00</b>

Upon increase in the registered capital of the Company, these special payables for the projects completed, inspected and accepted will be converted into the capital contribution to the Company made by the CSSC Group.

## 32. Long-term employee benefits payable

### 1) Breakdown of long-term employee benefits payable

Item	Ending balance	Beginning balance
Post-employment benefits – net liabilities for defined benefit plans <sup>Note</sup>	196,350,606.96	213,246,318.37
Monetary housing allowance for retired employees	42,471,060.70	48,648,155.58
Financial assistance for property purchase	9,732,630.00	10,585,318.28
Medical insurance for retirees		946,218.81
<b>Total</b>	<b>248,554,297.66</b>	<b>273,426,011.04</b>

Note: The Group's defined benefit plans represent the expenses of "three kinds of persons" (being retire, retired and retreated employees) recognised by Huangpu Wenchong, Wenchong Shipyard and Wenchong Dockyard, all subsidiaries of the Company, in accordance with the relevant requirements of the State-owned Assets Supervision and Administration Commission.

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## 2) Changes in defined benefit plans – present value of obligations under defined benefit plans

Item	Amount for the year
Beginning balance	213,246,318.37
Cost of defined benefits included in profit or loss for the period	6,758,526.24
1. Service cost for current period	
2. Service cost for previous period	
3. Gains on settlement (Loss expressed with “-”)	
4. Net interest	6,758,526.24
Cost of defined benefits included in other comprehensive income	
1. Gains on settlement (Loss expressed with “-”)	
Other changes	-23,654,237.65
1. Liabilities eliminated upon settlement	
2. Benefits paid	-23,654,237.65
Ending balance	196,350,606.96

## 3) Changes in defined benefit plans – Net liabilities (net assets) under defined benefit plans

Item	Amount for the year
Beginning balance	213,246,318.37
Cost of defined benefits included in profit or loss for the period	6,758,526.24
Cost of defined benefits included in other comprehensive income	
Other changes	-23,654,237.65
Ending balance	196,350,606.96

## 33. Estimated liabilities

Item	Ending balance	Beginning balance	Reason for occurrence
Product quality warranty	<b>365,730,923.58</b>	400,945,036.17	Warranty cost of ships and electromechanical products
Expected loss on shipbuilding and offshore engineering products contracts	<b>436,285,785.52</b>	283,926,531.04	Note
Others		69,639,371.38	
<b>Total</b>	<b>802,016,709.10</b>	754,510,938.59	

Note: The expected loss on ships and offshore engineering products represent the expected contract loss recognised by the Group in accordance with the effective ship and offshore engineering product contracts signed and based on the difference between the expected contract revenue and expected total contract cost, which is written off based on the progress of product completion.

## 34. Deferred income

### (1) Breakdown of deferred income

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Government grants	47,514,683.60	180,152,454.93	167,751,010.37	<b>59,916,128.16</b>
<b>Total</b>	47,514,683.60	180,152,454.93	167,751,010.37	<b>59,916,128.16</b>

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From 1 January 2018 to 31 December 2018

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## (2) Projects with government grants

Item	Decrease for the year Beginning balance	New grants received during the year	Included in non-operating income	Included in other income	Offsetting cost and expenses	Other changes	Ending balance	Relating to assets/ relating to revenue
Mother ship renovation project	15,249,117.33			7,277,346.81		-623,000.00	<b>7,348,770.52</b>	Relating to revenue
Offshore expansion projects	7,000,000.00					-3,499,999.65	<b>3,500,000.35</b>	Relating to assets
Separation and transfer of water, power and gas supply and property management business	6,042,226.86		1,820,129.88				<b>4,222,096.98</b>	Relating to assets
Offshore engineering phase I	3,000,000.00					-1,500,000.00	<b>1,500,000.00</b>	Relating to assets
Research of comprehensive building process and technology	2,461,960.44	3,000,000.00			2,480,972.96		<b>2,980,987.48</b>	Relating to revenue
Others	2,443,063.31	4,826,560.89	253,000.00	2,275,912.28	2,714,188.63	-25,309.44	<b>2,001,213.85</b>	Relating to revenue
Research of the information and industrialization integration system and the development of new ability	1,600,000.00	500,000.00			2,100,000.00			Relating to revenue
Base construction subsidy	1,561,117.79					-62,182.80	<b>1,498,934.99</b>	Relating to assets
Offshore platform project	1,500,000.00					-300,000.00	<b>1,200,000.00</b>	Relating to assets
09E013	1,400,000.00						<b>1,400,000.00</b>	Relating to revenue
13D01	616,900.00						<b>616,900.00</b>	Relating to revenue
No. 1 dock adaptive transformation (1)	599,999.68					-33,333.36	<b>566,666.32</b>	Relating to assets
Advanced ship welding technology enterprise key laboratory in Guangdong Province	560,000.00				560,000.00			Relating to revenue
Self-propelled hydraulic flatbed trailer	541,666.55					-166,666.68	<b>374,999.87</b>	Relating to assets
Special grant for the research of large liners	515,481.96				515,481.96			Relating to revenue
Coating technology process and transformation	486,712.24					-153,698.64	<b>333,013.60</b>	Relating to assets
No. 1 dock adaptive transformation	480,000.64					-26,666.64	<b>453,334.00</b>	Relating to assets
Technical upgrading for new ship research equipment	426,574.80					-142,191.84	<b>284,382.96</b>	Relating to assets
Seventh batch of science and technology funds of Nansha District Finance Bureau in 2011	369,862.00			70,050.00			<b>299,812.00</b>	Relating to assets
Research of advanced solid/fusion welding technologies for thin-walled ship hull	360,000.00	480,000.00			600,000.00		<b>240,000.00</b>	Relating to revenue
Enterprise technology centre innovation capability development project	300,000.00					-300,000.00		Relating to assets
Interest subsidy for transformation into civil development		31,070,000.00	-	-	31,070,000.00	-	-	Relating to revenue
Grant for insurance maintained for first piece (set)		41,590,000.00	-	-	41,590,000.00	-	-	Relating to revenue
Grant for special treatment of state-owned enterprises with special financial difficulties		11,307,100.00			11,307,100.00			Relating to revenue
Research of common key processes and technologies for smart manufacturing of ships		9,800,000.00			4,800,000.00		<b>5,000,000.00</b>	Relating to revenue
Post-utilisation grant for research and development expenses of enterprises of Nansha District, Guangzhou for 2017		8,498,800.00			8,498,800.00			Relating to revenue
National skilled personnel training in 2018		8,000,000.00					<b>8,000,000.00</b>	Relating to revenue

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Item	Decrease for the year Beginning balance	New grants received during the year	Included in non-operating income	Included in other income	Offsetting cost and expenses	Other changes	Ending balance	Relating to assets/ relating to revenue
Research of technologies for management and control of smart ship block workshops	-	8,700,000.00	-	-	3,979,416.06	-	<b>4,720,583.94</b>	Relating to revenue
Subsidy for high-quality projects		5,790,000.00	16,083.30				<b>5,773,916.70</b>	Relating to revenue
Self-development of dual-fuel ships		5,700,000.00			5,700,000.00			Relating to revenue
Self-development of ships		2,637,000.00			361,084.79		<b>2,275,915.21</b>	Relating to revenue
Enterprise research and development financial subsidy project fund of Guangdong Province for 2017 issued by Nansha District Finance Bureau of Guangzhou		2,541,200.00			2,541,200.00			Relating to revenue
Research of energy-saving and environment-friendly manufacturing system and key processes		2,400,000.00			1,107,989.03		<b>1,292,010.97</b>	Relating to revenue
Research of key hull welding technologies	-	2,400,000.00	-	-	2,400,000.00	-	-	Relating to revenue
District quality subsidy of Nansha District Finance Bureau of Guangzhou 2016-2017		3,000,000.00		3,000,000.00				Relating to revenue
Nansha District Finance Bureau of Guangzhou/others		2,000,000.00			2,000,000.00			Relating to revenue
Research of smart management technologies for digital production and logistics of shipyards based on the Internet of Things	-	1,400,000.00	-	-	1,400,000.00	-	-	Relating to revenue
Key technology of overall process		1,800,000.00			300,000.00		<b>1,500,000.00</b>	Relating to revenue
Special fund for economic development advancement of Guangdong Province for 2018 issued by the Economy and Information Bureau of Guangzhou Development Zone		1,650,000.00					<b>1,650,000.00</b>	Relating to revenue
Research on ship modification technologies		1,600,000.00			1,600,000.00			Relating to revenue
Reward for use of onshore power by berthing ships 2016-2018 issued by Guangzhou Port Authority	-	2,540,000.00	-	1,200,000.00	1,340,000.00	-	-	Relating to revenue
Coordinated innovative research and application of composite wear resistant components for high-end equipment		1,320,000.00			1,320,000.00			Relating to revenue
Government grants for poverty-stricken enterprises		1,254,800.00	1,254,800.00					Relating to revenue
Research and development of intelligent blank production lines for shipbuilding		1,200,000.00			1,200,000.00			Relating to revenue
Research of key technologies for icebreakers		1,160,000.00			1,160,000.00			Relating to revenue
Intelligent ship 1.0 project – demonstration application of very large intelligent ore carriers		1,000,000.00			1,000,000.00			Relating to revenue
Special post-R&D grant for enterprises in Guangzhou for 2016		977,900.00		977,900.00				Relating to revenue
Development of intelligent system for equipment operation and maintenance		876,000.00			876,000.00			Relating to revenue
First batch of grant for technology innovation advancement and industry development support of Nansha District Finance Bureau of Guangzhou for 2018		840,700.00		840,700.00				Relating to revenue
Research of key common technology for smart ship manufacturing		800,000.00			268,172.28		<b>531,827.72</b>	Relating to revenue
Research and application of key technologies for ship quality comprehensive test platform		720,000.00			669,239.30		<b>50,760.70</b>	Relating to revenue

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Item	Decrease for the year Beginning balance	New grants received during the year	Included in non-operating income	Included in other income	Offsetting cost and expenses	Other changes	Ending balance	Relating to assets/ relating to revenue
Development and application of marine waterjet propulsion system		700,000.00			700,000.00			Relating to revenue
Localized research and development and application of Aluminum alloy (Russian series) and its supporting materials		620,000.00			620,000.00			Relating to revenue
Research of technologies for smart service production scheduling for complex shipbuilding environment		550,000.00			550,000.00			Relating to revenue
Research and development of key technologies for berthing and navigation dynamic positioning		540,000.00			540,000.00			Relating to revenue
Development of ships design and construction technical standards		500,000.00			500,000.00			Relating to revenue
Maine low-speed machine innovation project (Phase 1)		500,000.00			500,000.00			Relating to revenue
Aided ship autopilot system development		490,000.00			490,000.00			Relating to revenue
Job stabilization subsidy		487,194.04			487,194.04			Relating to revenue
Post-utilisation grant for research and development expenses of enterprises in Guangzhou for 2017		735,200.00		735,200.00				Relating to revenue
Multiple power sources of unmanned supply ships and their intelligent management system		360,000.00			360,000.00			Relating to revenue
Research on key technologies for dual-phase stainless steel twin-wire CMT welding of chemical tankers		360,000.00			360,000.00			Relating to revenue
Development of integrated energy efficiency intelligent management system for ships		330,000.00			330,000.00			Relating to revenue
Research on friction stir welding technology for fillet welds of ship aluminum alloy ribbed wall plates		300,000.00					300,000.00	Relating to revenue
Research on industrialization of green and environmental protection coating equipment		300,000.00		300,000.00				Relating to revenue
<b>Total</b>	47,514,683.60	180,152,454.93	3,344,013.18	16,677,109.09	140,896,839.05	-6,833,049.05	<b>59,916,128.16</b>	-

Note: Among "Other changes" during the year, RMB-6,210,049.05 represented the transfer of government grants expected to be recognised in the income statement within one year to "Other current liabilities", and the remaining RMB-623,000.00 represented the amount of deferred income which was mistakenly included in this item and transferred out during the year.

# NOTES TO THE FINANCIAL STATEMENTS

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## 35. Share capital

Changes in the authorised, issued and paid-up share capital of the Company are as follows. All the shares in the Company are ordinary shares with nominal value of RMB1 each.

### Current year

Name/type of shareholder	Beginning balance		Increase or decrease (+, -) during the year				Ending balance		
	Amount	Percentage (%)	Issue of new shares	Bonus issue	Conversion from reserve	Others	Sub-total	Amount	Percentage (%)
<b>Shares not subject to selling restriction</b>									
Ordinary shares denominated in RMB	549,335,881.00	38.87				272,099,300.00	272,099,300.00	821,435,181.00	58.12
Overseas listed foreign shares	592,071,197.00	41.88						592,071,197.00	41.88
<b>Shares subject to selling restriction</b>									
Ordinary shares denominated in RMB	272,099,300.00	19.25				-272,099,300.00	-272,099,300.00	0.00	
Shares held by foreign investors Including: Shares held by overseas legal persons									
<b>Total number of shares</b>	<b>1,413,506,378.00</b>	<b>100.00</b>						<b>1,413,506,378.00</b>	<b>100.00</b>

Description: On 9 April 2018, the lock-up period of 272,099,300.00 shares held by CSSC expired and the restriction was lifted.

### Last year

Name/type of shareholder	Beginning balance		Increase or decrease (+, -) during the year				Ending balance		
	Amount	Percentage (%)	Issue of new shares	Bonus issue	Conversion from reserve	Others	Sub-total	Amount	Percentage (%)
<b>Shares not subject to selling restriction</b>									
Ordinary shares denominated in RMB	549,335,881.00	38.87						549,335,881.00	38.87
Overseas listed foreign shares	246,130,307.00	17.41				345,940,890.00	345,940,890.00	592,071,197.00	41.88
<b>Shares subject to selling restriction</b>									
Ordinary shares denominated in RMB	272,099,300.00	19.25						272,099,300.00	19.25
Shares held by foreign investors Including: Shares held by overseas legal persons	345,940,890.00	24.47				-345,940,890.00	-345,940,890.00		
	345,940,890.00	24.47				-345,940,890.00	-345,940,890.00		
<b>Total number of shares</b>	<b>1,413,506,378.00</b>	<b>100.00</b>						<b>1,413,506,378.00</b>	<b>100.00</b>

Note: During the last year, the lock-up period for 345,940,890 shares held by CSSC HK expired and the restriction was lifted.

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 36. Capital reserve

### Current year

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Share premium	8,662,345,192.52	1,112,378,477.92	309,530,453.06	<b>9,465,193,217.38</b>
Other capital reserve	66,069,542.02	57,110.15		<b>66,126,652.17</b>
Capital reserves transferred from the original system	18,260,878.79			<b>18,260,878.79</b>
<b>Total</b>	<b>8,746,675,613.33</b>	<b>1,112,435,588.07</b>	<b>309,530,453.06</b>	<b>9,549,580,748.34</b>

Note 1: During the year, share premium increased by RMB1,112,378,477.92, of which share premium increased by RMB1,111,978,750.28 based on the difference between the net assets attributable in proportion to the shareholding before the capital increase and the net assets attributable in proportion to the shareholding after the capital increase arising from the introduction of new shareholders and implementation of market-based debt-to-equity conversion and the capital increase in cash for GSI and Huangpu Wenchong, both subsidiaries of the Company; and share premium increased by RMB399,727.64 arising from the dilution in shareholding due to additional contribution by a minority shareholder of CSSC New Energy, a subsidiary of the Company. Share premium decreased by RMB309,530,453.06 during the year, details of which are set out in Note VII.1.(4).

Note 2: Other capital reserve increased by RMB57,110.15 during the year, as a result of change in equity other than comprehensive income of Zhenjiang Modern Power Generation Equipment Co., Ltd., an associate of the Company, for the year.

### Last year

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Share premium	8,662,322,393.02	22,799.50		<b>8,662,345,192.52</b>
Other capital reserve	65,728,105.74	341,436.28		<b>66,069,542.02</b>
Capital reserves transferred from the original system	18,260,878.79			<b>18,260,878.79</b>
<b>Total</b>	<b>8,746,311,377.55</b>	<b>364,235.78</b>		<b>8,746,675,613.33</b>

Note 1: Share premium increased by RMB22,799.50 during last year, due to the difference between the consideration for the transfer of certain equity interest in Xingji by Huangpu Wenchong, a subsidiary of the Company, without loss of control, and the share of the net assets of Xingji.

Note 2: Other capital reserve increased by RMB341,436.28 during last year, as a result of change in equity other than comprehensive income of Zhenjiang Modern Power Generation Equipment Co., Ltd., an associate of the Company, for 2017.

Note 3 For details of adjustments to the beginning balance of share premium for the last year, please refer to Note VII.1.(4).

# NOTES TO THE FINANCIAL STATEMENTS

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## 37. Other comprehensive income

### Current year:

Item	Beginning balance	Amount for the year					Ending balance
		Amount for the year before income tax	Less: Net amount previously included in other comprehensive income and transferred to profit or loss/retained earnings for the period	Less: Income tax expense	Amount attributable to the Company after tax	Amount attributable to minority interests after tax	
I. Other comprehensive income that may not be subsequently reclassified to profit and loss	-42,524,522.23	-673,052.43	159,937.61	378,284.07	-1,581,768.94	370,494.83	-44,106,291.17
Including: 1. Change in remeasurement of defined benefit plans	-61,938,500.00						-61,938,500.00
2. Change in fair value of investments in other equity instruments	19,413,977.77	-673,052.43	159,937.61	378,284.07	-1,581,768.94	370,494.83	17,832,208.83
II. Other comprehensive income that will be subsequently reclassified to profit or loss	-66,874.94	310,343.94			-1,442,260.46	1,752,604.40	-1,509,135.40
Including: 1. Exchange differences arising from translation of foreign currency financial statements	-66,874.94	310,343.94			-1,442,260.46	1,752,604.40	-1,509,135.40
<b>Total other comprehensive income</b>	<b>-42,591,397.17</b>	<b>-362,708.49</b>	<b>159,937.61</b>	<b>378,284.07</b>	<b>-3,024,029.40</b>	<b>2,123,099.23</b>	<b>-45,615,426.57</b>

Note 1: As a result of the disposal of investments in equity instruments not held for trading during the year, the change in their fair value in the amount of RMB159,937.61 was directly transferred to undistributed profit.

Note 2: Details of the reason for the increase in the beginning balance of other comprehensive income compared to the ending balance as at the end of last year were stated in Note IV.37.(1).

### Last year:

Item	Beginning balance	Amount for the year					Ending balance
		Amount incurred for the period before income tax	Less: Amount previously included in other comprehensive income and transferred to profit or loss for the period	Less: Income tax expense	Amount attributable to the Company after tax	Amount attributable to minority interests after tax	
I. Other comprehensive income that may not be subsequently reclassified to profit and loss	-61,938,500.00						-61,938,500.00
Including: Changes in net liabilities or net assets arising from the re-measurement of defined benefit plans	-61,938,500.00						-61,938,500.00
II. Other comprehensive income that will be subsequently reclassified to profit or loss	1,497,282.55	172,800.43		60,087.72	113,388.22	-675.51	1,610,670.77
Including: Gains and losses from changes in fair value of available-for-sale financial assets	1,497,282.55	240,350.88		60,087.72	180,263.16		1,677,545.71
Exchange differences arising from translation of foreign currency financial statements		-67,550.45			-66,874.94	-675.51	-66,874.94
<b>Total other comprehensive income</b>	<b>-60,441,217.45</b>	<b>172,800.43</b>		<b>60,087.72</b>	<b>113,388.22</b>	<b>-675.51</b>	<b>-60,327,829.23</b>



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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 38. Special reserve

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Production safety fee	2,096,705.90	61,917,251.20	62,787,317.60	<b>1,226,639.50</b>
<b>Total</b>	<b>2,096,705.90</b>	<b>61,917,251.20</b>	<b>62,787,317.60</b>	<b>1,226,639.50</b>

Note: The increase in production safety fee in the year was due to normal withdrawal of production safety fee in accordance with the Management Measures for the Withdrawal and Utilisation of Production Safety Fee, and the decrease was mainly due to safety protection equipment expense and production safety education and training expense.

Last year

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Production safety fee	1,138,287.53	81,616,936.86	80,658,518.49	<b>2,096,705.90</b>
<b>Total</b>	<b>1,138,287.53</b>	<b>81,616,936.86</b>	<b>80,658,518.49</b>	<b>2,096,705.90</b>

## 39. Surplus reserve

### Current year

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Statutory surplus reserve	942,521,055.08			<b>942,521,055.08</b>
Discretionary surplus reserve	19,920,770.23			<b>19,920,770.23</b>
<b>Total</b>	<b>962,441,825.31</b>			<b>962,441,825.31</b>

### Last year

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Statutory surplus reserve	932,363,971.49	10,157,083.59		<b>942,521,055.08</b>
Discretionary surplus reserve	19,920,770.23			<b>19,920,770.23</b>
<b>Total</b>	<b>952,284,741.72</b>	<b>10,157,083.59</b>		<b>962,441,825.31</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 40. Undistributed profit

Item	Current year	Last year
<b>Undistributed profits as at the end of last year before adjustment</b>	<b>-255,300,411.53</b>	1,173,657,685.44
Add: Beginning adjustment to undistributed profits	<b>-29,547,841.37</b>	-1,345,677,324.25
Including: Retrospective adjustment according to the new requirements of the Accounting Standards for Business Enterprises		
Accounting policy change	<b>-29,547,841.37</b>	
Correction of significant previous errors		
Changes in the scope of business combination under common control		-1,345,677,324.25
Other adjustments		
<b>Undistributed profits as at the beginning of the year after adjustment</b>	<b>-284,848,252.90</b>	-172,019,638.81
Add: Net profit attributable to owners of the Company for the year	<b>-1,869,014,160.08</b>	-50,507,587.08
Add: Transfer from other comprehensive income to retained earnings	<b>159,937.61</b>	
Less: Statutory surplus reserve set aside		10,157,083.59
Discretionary surplus reserve set aside		
Provision for general risks		
Dividends payable on ordinary shares		22,616,102.05
<b>Undistributed profits as at the end of the year</b>	<b>-2,153,702,475.37</b>	-255,300,411.53

Description: Details of the reason for the adjustment to the balance of undistributed profit as at the beginning of the year against the balance as at the end of last year are set out in Note IV.37.(1).

## 41. Minority interests

Name of subsidiary	Minority shareholding percentage (%)	Ending balance	Beginning balance
Guangzhou Hongfan Computer Technology Co., Ltd.	49	<b>18,382,507.36</b>	17,257,656.48
Guangzhou Longxue Pipe Co., Ltd.	57.14	<b>32,584,467.25</b>	32,077,509.07
Guangzhou CSSC Wenchong Bingshen Facilities Co., Ltd.	40	<b>1,238,615.64</b>	1,226,756.86
Fonkwang Development Limited	20	<b>12,137,810.70</b>	16,631,831.30
Zhanjiang Nanhai Ship Hi-Tech Services Ltd.	19.5	<b>804,428.98</b>	618,830.56
Guangzhou Xinhang Human Resources Service Co., Ltd.	25	<b>954,409.41</b>	899,525.07
Guangzhou Xingji Maritime Engineering Design Co., Ltd.	62.5	<b>3,333,325.17</b>	3,192,897.17
Wah Shun International Marine Limited	1	<b>13,642.40</b>	8,037.37
Wah Loong International Marine Limited	1	<b>95,186.23</b>	8,049.41
Guangzhou Nanfang Special Coating Co., Ltd.	47		-21,133,269.61
CSSC (Guangzhou) New Energy Co., Ltd.	21.91	<b>278,411.58</b>	
Guangzhou Shipyard International Company Limited	23.58	<b>1,537,241,300.04</b>	
CSSC Huangpu Wenchong Shipbuilding Company Limited	30.98	<b>1,451,299,009.52</b>	
Guangzhou Shipyard International Company Limited (solely state-owned)	Note	<b>343,640,000.00</b>	293,640,000.00
CSSC Huangpu Wenchong Shipbuilding Company Limited (solely state-owned)	Note	<b>1,226,969,744.58</b>	1,165,969,744.58
<b>Total</b>	-	<b>4,628,972,858.86</b>	1,510,397,568.26

Note: The minority interests (solely owned) of Huangpu Wenchong and GSI, both subsidiaries of the Company, represented capital reserve solely owned by CSSC, details of which are set out in Note VI. 30 Special payables.

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## 42. Net current assets

Item	Ending balance	Beginning balance
Current assets	29,035,181,060.62	30,615,764,052.63
Less: Current liabilities	27,560,506,255.36	24,038,198,450.14
<b>Net current assets</b>	<b>1,474,674,805.26</b>	6,577,565,602.49

## 43. Total assets less current liabilities

Item	Ending balance	Beginning balance
Total assets	47,475,344,086.37	47,323,263,597.92
Less: Current liabilities	27,560,506,255.36	24,038,198,450.14
<b>Total assets less current liabilities</b>	<b>19,914,837,831.01</b>	23,285,065,147.78

## 44. Borrowings

Details of the borrowings of the Group are as follows:

Item	Ending balance	Beginning balance
Short-term borrowings	4,304,387,255.88	2,970,414,975.00
Non-current liabilities due within one year	4,414,000,000.00	4,482,400,000.00
Long-term borrowings	4,339,619,500.00	9,795,157,000.00
<b>Total</b>	<b>13,058,006,755.88</b>	17,247,971,975.00

### (1) Analysis of borrowings

Item	Ending balance	Beginning balance
Bank borrowings		
– Bank borrowings repayable within 5 years	7,598,157,755.88	9,645,714,975.00
– Bank borrowings repayable after 5 years	1,733,157,000.00	1,744,857,000.00
Other borrowings		
– Other borrowings repayable within 5 years	3,726,692,000.00	5,857,400,000.00
– Other borrowings repayable after 5 years		
<b>Total</b>	<b>13,058,006,755.88</b>	17,247,971,975.00

### (2) Analysis of maturity of borrowings

Item	Ending balance	Beginning balance
On demand or within one year	8,718,387,255.88	7,452,814,975.00
1-2 years	579,900,000.00	5,107,800,000.00
2-5 years	2,026,562,500.00	2,942,500,000.00
Over 5 years	1,733,157,000.00	1,744,857,000.00
<b>Total</b>	<b>13,058,006,755.88</b>	17,247,971,975.00

# NOTES TO THE FINANCIAL STATEMENTS

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## 45. Operating income & Operating costs

### (1) Information on operating income and operating cost

Item	Amount for the year	Amount for last year
Income from principal business	19,002,635,540.52	22,676,214,094.43
Income from other business	210,960,853.51	243,993,393.96
<b>Total</b>	<b>19,213,596,394.03</b>	<b>22,920,207,488.39</b>
Costs of principal business	19,149,600,183.64	21,319,353,718.09
Costs of other business	112,869,562.64	182,170,102.67
<b>Total</b>	<b>19,262,469,746.28</b>	<b>21,501,523,820.76</b>

Gross profit from principal business

Item	Amount for the year	Amount for last year
Income from principal business	19,002,635,540.52	22,676,214,094.43
Costs of principal business	19,149,600,183.64	21,319,353,718.09
Gross profit	-146,964,643.12	1,356,860,376.34

#### 1) Principal business – by product

Product name	Amount for the year	Amount for last year
<b>Operating income</b>		
Ship products	15,074,500,138.56	18,019,685,451.60
Including:		
Bulk carriers	838,481,272.71	718,031,951.87
Oil tankers	2,914,177,181.01	3,977,669,314.23
Containerships	1,948,012,116.47	1,517,928,544.39
Special ships and others	9,373,829,568.37	11,806,055,641.11
Offshore engineering products	1,431,752,144.31	2,149,511,747.39
Steel structures	724,839,574.41	1,009,381,917.95
Ship maintenance and modification	907,948,316.47	848,804,750.75
Electromechanical products and others	863,595,366.77	648,830,226.74
<b>Total</b>	<b>19,002,635,540.52</b>	<b>22,676,214,094.43</b>
<b>Operating costs</b>		
Ship products	15,211,331,860.89	16,778,382,132.50
Including:		
Bulk carriers	802,765,072.63	717,705,118.10
Oil tankers	3,103,672,217.45	3,782,356,738.95
Containerships	1,862,609,466.00	1,365,249,047.05
Special ships and others	9,442,285,104.81	10,913,071,228.40
Offshore engineering products	1,585,077,615.70	2,276,550,433.21
Steel structures	679,623,834.29	886,436,024.23
Ship maintenance and modification	791,950,320.34	799,083,646.82
Electromechanical products and others	881,616,552.42	578,901,481.33
<b>Total</b>	<b>19,149,600,183.64</b>	<b>21,319,353,718.09</b>

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2) *Principal business – by region*

Region	Amount for the year	Amount for last year
<b>Operating income</b>		
China (including Hong Kong, Macau and Taiwan)	<b>11,334,631,302.20</b>	15,281,256,077.93
Other regions in Asia	<b>639,604,362.49</b>	2,103,340,112.95
Europe	<b>3,945,030,525.19</b>	3,915,533,865.27
Oceania	<b>682,924,110.56</b>	367,697,785.00
North America	<b>1,351,863,663.92</b>	785,053,651.23
Africa	<b>890,489,400.31</b>	67,588,288.81
South America	<b>158,092,175.85</b>	155,744,313.24
<b>Total</b>	<b>19,002,635,540.52</b>	22,676,214,094.43
<b>Operating costs</b>		
China (including Hong Kong, Macau and Taiwan)	<b>11,319,324,405.91</b>	14,152,564,419.37
Other regions in Asia	<b>620,733,098.94</b>	1,966,459,193.67
Europe	<b>4,196,153,405.24</b>	3,860,760,648.74
Oceania	<b>685,780,641.07</b>	395,581,284.12
North America	<b>1,250,418,744.55</b>	787,374,155.93
Africa	<b>924,798,353.00</b>	29,791,295.74
South America	<b>152,391,534.93</b>	126,822,720.52
<b>Total</b>	<b>19,149,600,183.64</b>	21,319,353,718.09

3) *Other operating income and other operating costs*

Product name	Amount for the year	Amount for last year
<b>Income from other business</b>		
Sale of materials	<b>51,391,513.56</b>	44,519,401.01
Sales of scrap materials	<b>86,867,023.16</b>	83,165,597.08
Service income	<b>14,717,773.14</b>	11,464,649.60
Rental income	<b>3,284,341.02</b>	48,945,800.53
Energy income	<b>42,375,194.40</b>	30,663,832.72
Others	<b>12,325,008.23</b>	25,234,113.02
<b>Total</b>	<b>210,960,853.51</b>	243,993,393.96
<b>Costs of other business</b>		
Sale of materials	<b>35,672,292.89</b>	49,543,955.59
Sales of scrap materials	<b>39,501,596.38</b>	58,922,799.99
Service income	<b>8,604,005.09</b>	6,101,068.21
Rental income	<b>978,822.95</b>	28,694,220.05
Energy income	<b>24,484,850.94</b>	31,206,632.85
Others	<b>3,627,994.39</b>	7,701,425.98
<b>Total</b>	<b>112,869,562.64</b>	182,170,102.67

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## (2) Information on revenue from contracts

Breakdown of contracts	Shipbuilding and related business segment	Steel structure business segment	Ship maintenance and related business segment	Others segment	Total
<b>Product type</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
Ship products	15,074,500,138.56				15,074,500,138.56
Offshore engineering products	1,431,752,144.31				1,431,752,144.31
Steel structures		674,694,317.16		50,145,257.25	724,839,574.41
Ship maintenance and modification	301,609,452.27		606,338,864.20		907,948,316.47
Electromechanical products and others	402,084,865.71	42,001,699.98		419,508,801.08	863,595,366.77
Other business	70,080,066.91	45,265,005.47	43,452,375.96	52,163,405.17	210,960,853.51
<b>By region of operation</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
Domestic	10,217,640,685.47	516,435,662.29	290,561,336.86	520,954,471.09	11,545,592,155.71
Overseas	7,062,385,982.29	245,525,360.32	359,229,903.30	862,992.41	7,668,004,238.32
<b>Type of market or customer</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
State-owned enterprises	8,484,910,740.74	465,482,640.49	200,644,185.99	200,233,090.33	9,351,270,657.55
Private enterprises	895,986,745.02	61,836,490.38	89,917,150.87	321,126,949.63	1,368,867,335.90
Foreign enterprises	7,899,129,182.00	234,641,891.74	359,229,903.30	457,423.54	8,493,458,400.58
<b>Type of contracts</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
Fixed price	17,280,026,667.76	761,961,022.61	649,791,240.16	521,817,463.50	19,213,596,394.03
Cost plus					
<b>By date of transfer of goods</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
Performed over time	15,516,431,882.61	320,265,431.68			15,836,697,314.29
Performed at a point in time	1,763,594,785.15	441,695,590.93	649,791,240.16	521,817,463.50	3,376,899,079.74
<b>By contract term</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
Short-term	6,985,581,480.13	761,961,022.61	649,791,240.16	493,873,966.11	8,891,207,709.01
Long-term	10,294,445,187.63			27,943,497.39	10,322,388,685.02
<b>By sales channel</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>
Direct sales	17,280,026,667.76	761,961,022.61	649,791,240.16	521,817,463.50	19,213,596,394.03
Sale through distributors					
<b>Total</b>	<b>17,280,026,667.76</b>	<b>761,961,022.61</b>	<b>649,791,240.16</b>	<b>521,817,463.50</b>	<b>19,213,596,394.03</b>

## (3) Note on contract performance obligations

The Group's contract performance obligations represent mainly the construction, delivery and maintenance of ships and ancillary products. The time of contract performance obligation substantially corresponds to the ship completion progress, mainly includes those for construction commencement, closure, docking, launch, trial sailing and delivery. The time and proportion of progress payment are set out in the contracts between the Group and its customers, and the parties perform the relevant obligations in accordance with the terms of the contracts. In case of any default or failure by any party to timely perform a contract, the Group is required to return the advance payment from the customer and contract assets which have been generated if it is the Group's default, and the Group has the right to request the customer to continue to perform the contract or compensate the Group for the cost and profit for contract performance if it is the customer's default. The warranty period of a contract is generally one year. The Group is required to provide repair services free of charge for any defects arising from unintentional reason, navigation risk and natural damages.

## (4) Note on allocation to remaining contract performance obligations

The amount of revenue corresponding to the contract performance obligations for which contracts had been entered into and which had not been performed or fully performed as at the end of the year was RMB41,191,327,900, of which RMB17,146,228,100 is expected to be recognised as revenue in 2019.

# NOTES TO THE FINANCIAL STATEMENTS

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## (5) Top five customers by operating income

Customers	Relationship with the Group	Current year	Percentage of total income from principal business (%)
Customer 1	Third party	6,064,256,325.70	31.91
Customer 2	Third party	488,596,591.54	2.57
Customer 3	Third party	436,461,017.71	2.30
Customer 4	Third party	366,562,894.56	1.93
Customer 5	Third party	342,619,179.84	1.80
<b>Total</b>		<b>7,698,496,009.35</b>	<b>40.51</b>

## (6) Purchase amounts from top five suppliers

Suppliers	Relationship with the Group	Amount for the year	Percentage of total costs of principal business (%)
First	Under common control of CSSC	2,154,256,417.44	11.25
Second	Under common control of CSSC	548,554,200.00	2.86
Third	Third party	466,874,300.00	2.44
Fourth	Under common control of CSSC	245,862,522.60	1.28
Fifth	Third party	234,980,000.00	1.23
<b>Total</b>		<b>3,650,527,440.04</b>	<b>19.06</b>

## 46. Taxes and surcharges

Item	Amount for the year	Amount for last year
City maintenance and construction tax	<b>9,393,536.10</b>	17,565,240.33
Educational surcharge	<b>6,709,163.10</b>	12,550,596.33
Property tax	<b>28,026,523.85</b>	29,198,050.92
Land use tax	<b>4,955,795.75</b>	11,942,785.40
Stamp duty	<b>14,294,556.15</b>	9,719,109.40
Vehicle usage tax	<b>203,745.71</b>	324,441.92
Environmental protection tax	<b>1,709,736.32</b>	
Resource tax	<b>6,373.13</b>	
<b>Total</b>	<b>65,299,430.11</b>	81,300,224.30

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 47. Selling expenses

Item	Amount for the year	Amount for last year
Product quality warranty	36,249,734.13	137,431,728.52
Employee benefits	27,975,212.49	27,316,847.61
Transportation fees	2,764,765.46	2,815,881.34
Business expenditure	3,648,272.97	3,616,701.12
Advertising publicity fee	3,248,261.98	2,121,799.41
Exhibition fees	5,490,430.28	2,988,201.59
Depreciation charge	66,014.62	68,101.05
Packaging fees	28,512.12	30,967.53
Insurance premium	609,632.07	5,569,385.82
Travelling expense	2,595,540.07	2,440,427.56
Other selling expenses	3,578,838.41	3,401,034.83
<b>Total</b>	<b>86,255,214.60</b>	<b>187,801,076.38</b>

## 48. Administrative expenses

Item	Amount for the year	Amount for last year
Employee benefits	458,160,571.71	417,126,445.27
Repairing expenses	133,612,000.73	181,287,596.32
Amortisation of intangible assets	54,864,858.92	58,778,349.29
Depreciation charge	53,857,744.78	51,680,527.73
Lease expenses	21,706,144.37	32,855,610.66
Security, firefighting and safety activity fee	14,381,758.06	16,021,478.72
Environmental protection fee	13,890,457.15	18,705,834.79
Utilities expense	6,431,303.53	8,809,290.27
Travelling expense	9,607,841.72	10,907,374.73
Information management fee	5,816,143.81	5,582,208.77
Business entertainment expense	6,483,652.76	7,121,335.89
Litigation fees	5,732,258.13	26,596,025.54
Office expenses	4,871,675.34	4,382,771.23
Insurance premium	3,055,486.90	3,401,851.32
Intermediary fee	7,251,210.25	4,688,007.12
Consulting fee	7,801,692.26	5,632,796.70
Board meeting fee	4,935,172.38	3,799,818.47
Warehouse fee	1,110,895.58	759,585.79
Logistics service fee	6,440,176.39	4,434,325.91
Other administrative expenses	72,833,071.32	91,294,199.29
<b>Total</b>	<b>892,844,116.09</b>	<b>953,865,433.81</b>



# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 49. Research and development expenses

Item	Amount for the year	Amount for last year
Research and development of North Africa ro-ro passenger ships	<b>26,941,547.91</b>	6,623,993.09
Research and development of high-speed marine police ships	<b>24,548,187.41</b>	13,034,981.01
Research and development of key technologies for smart manufacturing	<b>21,547,016.37</b>	2,419,898.82
Research and development of design and building technology for large trenching ships	<b>18,419,669.76</b>	75,000.00
Research of key technologies for designing and building of deep diving subsea multifunctional wind power engineering ships	<b>18,209,232.16</b>	0.00
Research on new process and tooling and research on application of new materials for ships (phase I)	<b>17,095,168.54</b>	0.00
Research and development of processes and technologies for underwater acoustic ships (14 sub-items)	<b>16,050,991.22</b>	1,423,792.44
Research and development of luxury ro-ro passenger ships	<b>12,714,725.96</b>	0.00
Self-development of dual-fuel high-speed luxury ro-ro passenger ships	<b>11,594,223.95</b>	20,395,693.41
Ship research and development	<b>11,291,506.64</b>	0.00
Research of key technologies for saturation diving supporting ships	<b>11,105,178.69</b>	7,288,148.90
Ship model design and optimisation	<b>10,877,156.01</b>	615,460.84
Research and manufacturing of oil tankers	<b>10,850,127.65</b>	3,692,714.13
Research of polar module carriers	<b>9,957,680.99</b>	0.00
Research of key technologies for designing and building of submarine pipeline patrol ships	<b>9,939,050.07</b>	1,549,249.85
Research and development of manufacturing process and fitting for marine engineering equipment (1)	<b>9,624,728.94</b>	7,034,957.14
Marine and experimental application of manned submersibles	<b>8,438,827.10</b>	6,978,615.13
Research of key technologies for designing and building of law enforcement ships	<b>8,305,896.62</b>	0.00
Research of key technologies for designing and building of marine police remould ships	<b>7,924,697.89</b>	0.00
Research of new process and technologies of marine ships	<b>7,597,466.70</b>	0.00
Research and industrial application of key FPSO upgrading technology	<b>6,655,387.08</b>	20,689,031.28
Coordinated innovative research and application of composite wear resistant components for high-end equipment	<b>6,595,791.74</b>	2,390,747.95
Development and application of marine waterjet propulsion system	<b>5,730,116.28</b>	1,560,399.20
Research and development of intelligent blank production lines for shipbuilding	<b>5,586,342.89</b>	210,821.94
Research of key welding technologies for polar condensate tanker hull	<b>5,544,855.54</b>	6,246,808.25
Special key common technology for smart ship manufacturing	<b>5,433,135.99</b>	2,604,224.36
Research and development of Antarctic krill ships	<b>5,258,101.02</b>	2,333,019.78
Advanced ship welding technology enterprise key laboratory in Guangdong Province	<b>5,247,438.60</b>	0.00
Research and development of manufacturing process and fitting for advanced ships (1)	<b>4,738,340.62</b>	5,642,915.83
Research and development of energy-saving and environment-friendly VLOC ships	<b>4,033,911.74</b>	5,302,958.94
Research and development and industrial application of design and building technology for super deep-water floating production, storage and offloading ("FPSO") domestic module units	<b>2,464,401.59</b>	11,700,372.05

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Item	Amount for the year	Amount for last year
Research and development of key technologies for design and building of jack-up wind power installation platform	1,887,780.06	16,609,184.39
Research and development of multi-purpose heavy lift ships	1,378,868.07	8,756,283.83
Research and development and industrial application of offshore oil spill recovery ships	483,135.61	27,096,086.96
Research and manufacture of drilling wave compensation device	160,263.46	8,827,019.78
Smart ship demonstration project (Project Dawn)	100,000.00	7,103,799.07
Research and development of dual fuel containerships	98,819.44	6,416,882.36
Research and development and industrial application of upgrading technology for super deep-water floating production, storage and offloading devices ("FPSO")	67,924.53	5,244,912.77
Development and industrialization of intelligent manufacturing integrated platform for marine products	54,811.63	5,353,439.27
Self-development of diving support ships	11,811.11	8,586,411.13
Research and development of design and building technology for salvage ships	8,941.00	5,004,169.06
Research of building process for hydroacoustics monitoring ships	8,914.00	8,809,641.33
Research and development of key technologies for meter deep-water drillships	7,146.41	91,877,542.33
Other scientific and research projects	162,973,317.52	78,687,381.09
<b>Total</b>	<b>497,562,636.51</b>	<b>408,186,557.71</b>

## 50. Finance costs

### (1) Breakdown of finance costs

Item	Amount for the year	Amount for last year
Interest expenses	370,303,935.69	477,943,243.68
Less: Interest income	235,693,676.79	173,183,322.73
Less: Net exchange gains	29,984,211.01	
Add: Net exchange losses		308,435,002.45
Add: Other expenses	13,847,453.94	12,590,153.76
<b>Total</b>	<b>118,473,501.83</b>	<b>625,785,077.16</b>

### (2) Breakdown of interest expenses

Item	Current year	Last year
Interest on bank borrowings and overdraft		
Interest on bank borrowings due within 5 years	186,423,630.74	277,310,855.10
Other borrowings		
Interest on other borrowings due within 5 years	211,029,404.94	247,824,749.99
Other interest expenses	7,409,892.02	8,341,547.15
Sub-total	404,862,927.70	533,477,152.24
Less: Interest capitalised	3,488,992.01	10,463,908.56
Less: Finance interest discount	31,070,000.00	45,070,000.00
<b>Total</b>	<b>370,303,935.69</b>	<b>477,943,243.68</b>

### (3) Breakdown of interest income

Item	Current year	Last year
Interest income from bank deposits	213,995,186.14	173,183,322.73
Interest income from receivables	21,698,490.65	
<b>Total</b>	<b>235,693,676.79</b>	<b>173,183,322.73</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

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## 51. Loss on impairment of assets

Item	Amount for the year	Amount for last year
Loss on bad debts		-8,212,792.90
Loss on impairment of inventories	<b>31,736,732.79</b>	206,212,999.55
Loss on impairment of available-for-sale financial assets		5,038,255.45
Loss on impairment of assets in respect of contract performance cost	<b>642,134,920.45</b>	
Loss on impairment of investments in other equity instruments	<b>3,270,000.00</b>	
<b>Total</b>	<b>677,141,653.24</b>	203,038,462.10

## 52. Credit impairment loss

Item	Amount for the year	Amount for last year
Loss on bad debts of notes and accounts receivable	<b>7,777,972.59</b>	—
Loss on bad debts of other receivables	<b>24,668,563.65</b>	—
Loss on bad debts of long-term receivables	<b>6,925,448.21</b>	—
<b>Total</b>	<b>39,371,984.45</b>	—

## 53. Other income

Item	Current year	Last year	Source and basis	Relating to assets/relating to revenue
Mother ship renovation project	7,277,346.81	5,387,738.95	National government subsidy	Relating to revenue
Offshore expansion projects	3,499,999.65	3,500,000.00	Huangpu District Government	Relating to assets
District quality subsidy of Nansha District Finance Bureau of Guangzhou 2016-2017	3,000,000.00		Nansha District Finance Bureau of Guangzhou	Relating to revenue
Offshore engineering phase I	1,500,000.00	1,500,000.00	Huangpu District Government	Relating to assets
Immediately refunded value-added tax	1,257,284.11	1,435,301.70	Refund immediately upon payment	Relating to revenue
Reward for use of onshore power by berthing ships 2016-2018 issued by Guangzhou Port Authority	1,200,000.00		Treasury Payment Branch of Guangzhou Municipal Finance Bureau	Relating to revenue
Special post-R&D grant for enterprises in Guangzhou for 2016	977,900.00	1,059,200.00	Nansha District Finance Bureau of Guangzhou	Relating to revenue
First batch of grant for technology innovation advancement and industry development support of Nansha District Finance Bureau of Guangzhou for 2018	840,700.00		Nansha District Finance Bureau of Guangzhou	Relating to revenue
Post-utilisation grant for research and development expenses of enterprises in Guangzhou for 2017	735,200.00	6,970,600.00	Guangzhou Technological Innovation Committee	Relating to revenue
Offshore platform project	300,000.00	300,000.00	Huangpu District Government	Relating to assets
Enterprise technology centre innovation capability development project	300,000.00	300,000.00	National government subsidy	Relating to assets
Grant for research on industrialization of green and environmental protection coating equipment	300,000.00	200,000.00	Shanghai Shipbuilding Technology Research Institute	Relating to revenue
Refund of individual income tax	462,143.15		Finance bureaus of Huangpu and Nansha Districts	Relating to revenue
Patent grant from Guangzhou Intellectual Property Office	280,300.00		Guangzhou Intellectual Property Office	Relating to revenue
Award for passing high-tech enterprise certification for 2016 by Guangzhou Shipyard International Company Limited issued by the Industry, Technology and Information Bureau of Nansha District	280,000.00		Nansha Technology and Information Bureau	Relating to revenue
Subsidy for high-tech enterprise certification	200,000.00		Zhong Shan Ke Fa [2018] No. 136	Relating to revenue
Special funds for advancing development of service outsourcing and economic and trading development in Nansha, Guangzhou	200,000.00	715,400.00	Guangzhou Municipal Commission of Commerce	Relating to revenue
Patent grant from Guangzhou Intellectual Property Office	188,650.00	10,000.00	Guangzhou Intellectual Property Office	Relating to revenue
Self-propelled hydraulic flatbed trailer	166,666.68	166,666.68	National government subsidy	Relating to assets
Grant for ship pipes high-efficiency production technology upgrading project	155,699.52	51,899.84	Sui Gong Xin Han [2017] No. 1829	Relating to revenue
Coating technology process and transformation	153,698.64	153,698.64	Guangzhou Municipal Finance Bureau	Relating to assets
Technical upgrading for new ship research equipment	142,191.84	142,191.84	Commission for Science, Technology and Industry for National Defence	Relating to assets
Subsidy for high-tech enterprise certification of Guangzhou Technological Innovation Committee for 2016	120,000.00		Guangzhou Technological Innovation Committee	Relating to revenue
Ship optimisation payment contract subsidy from Guangzhou Technological Innovation Committee	120,000.00		Guangzhou Technological Innovation Committee	Relating to revenue

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Item	Current year	Last year	Source and basis	Relating to assets/relating to revenue
Special post-R&D grant for enterprises in Guangzhou for 2016		16,247,400.00	National government subsidy	Relating to revenue
Subsidy for offshore engineering maintenance and modification facility construction and technical upgrading project		5,000,000.00	Treasury Payment Branch of Guangzhou Municipal Finance Bureau	Relating to revenue
Subsidy for intelligent manufacturing equipment development		4,500,000.00	China State Shipbuilding Corporation	Relating to revenue
Post-R&D grant for 2015		3,057,800.00	Nansha District Finance Bureau of Guangzhou	Relating to revenue
Innovation and development fund for advanced manufacturing industry in Guangzhou for 2017		3,000,000.00	National government subsidy	Relating to assets
Special funds for central foreign economic and trade development for 2016		1,254,200.00	Nansha District Finance Bureau of Guangzhou	Relating to revenue
Special fund for supporting large core enterprise development from the Industry and Information Technology Commission of Guangzhou Municipality		1,000,000.00	Industry and Information Technology Commission of Guangzhou Municipality	Relating to revenue
Pre-research grant for the integration of military and civil products from Guangzhou Industry and Information Bureau		1,000,000.00	Guangzhou Municipal Finance Bureau	Relating to revenue
Special grant of Nansha Development Zone for transformation and upgrading of processing trade for 2016 from Guangzhou Nansha Development Zone Finance Bureau (Measurement and Inspection Centre)		1,000,000.00	Nansha Development District Finance Bureau	Relating to revenue
High-tech enterprise award for 2015		700,000.00	Nansha District Finance Bureau of Guangzhou	Relating to revenue
Special funds for services and trade for foreign economic and trade development for 2016		500,000.00	Treasury Payment Branch of Guangzhou Municipal Finance Bureau	Relating to revenue
Special funds for development of service outsourcing in Nansha, Guangzhou		478,700.00	Guangzhou Municipal Finance Bureau	Relating to revenue
Subsidies for 7 projects including marine passenger/medical cargo elevators		360,400.00	Implementation Proposal for Special Post-Utilisation Grant for Research and Development Expenses of Enterprises in Guangzhou (Sui Ke Xin [2014] No. 2)	Relating to revenue
Special fund for domestic and overseas economy and trading development and port construction from Guangzhou Municipal Commission of Commerce for 2016		300,000.00	Guangzhou Municipal Finance Bureau	Relating to revenue
Award for cultivation of high-tech enterprises for 2016		300,000.00	Guangzhou Municipal Finance Bureau	Relating to revenue
Other government grants	703,174.55	725,001.01	Local finance bureau	Relating to revenue
Other government grants	87,809.83	105,107.54	Local finance bureau	Relating to assets
<b>Total</b>	<b>24,448,764.78</b>	61,421,306.20	-	-

## 54. Investment income

Item	Amount for the year	Amount for last year
Gain on long-term equity investments accounted for using equity method	<b>-8,308,324.83</b>	-1,600,524.97
Investment income from disposal of long-term equity investments		74,229,303.45
Investment income from disposal of financial assets at fair value through profit or loss		8,214,478.00
Investment income from available-for-sale financial assets		1,024,478.82
Gain on re-measurement of remaining equity interest upon loss of control at fair value	<b>28,432,071.85</b>	
Dividend income received during the period of holding investments in other equity instruments	<b>945,450.54</b>	
Dividend income received during the period of holding other debt investments	<b>36,175,021.34</b>	64,625,451.49
Investment income from disposal of financial assets held-for-trading	<b>-181,064,274.00</b>	
Others		950,369.02
<b>Total</b>	<b>-123,820,055.10</b>	147,443,555.81

The investment income from listed and unlisted investments for the year amounted to RMB159,210.54 (last year: RMB150,980.73) and RMB-123,979,265.64 (last year: RMB147,292,575.08), respectively.

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## 55. Gain/loss on change in fair value

Item	Amount for the year	Amount for last year
Change in fair value of financial assets held-for-trading	5,082,899.10	6,602,255.91
Change in fair value of financial liabilities held-for-trading	-428,527,762.47	-3,366,294.31
<b>Total</b>	<b>-423,444,863.37</b>	3,235,961.60

## 56. Gain on disposal of assets (loss expressed with "-")

Item	Amount for the year	Amount for last year	Amount included in non-recurring gains and losses for the year
Gain on disposal of non-current assets	-1,303,386.17		-1,303,386.17
Including: Gain on disposal of non-current assets not classified as held-for-sale	-1,303,386.17		-1,303,386.17
Including: Gain on disposal of fixed assets	-1,303,386.17		-1,303,386.17
<b>Total</b>	<b>-1,303,386.17</b>		-1,303,386.17

## 57. Non-operating income

### (1) Breakdown of non-operating income

Item	Amount for the year	Amount for last year	Amount included in non-recurring gains and losses for the year
Gain on retirement of damaged non-current assets	491,470.55	1,799,716.73	491,470.55
Including: Gain on retirement of damaged fixed assets	491,470.55	1,799,716.73	491,470.55
Government grants not relating to day-to-day activities of enterprises	3,880,195.98	11,836,275.93	3,880,195.98
Compensation for assets relocation Note	538,425,711.69		538,425,711.69
Transfer from claims under the balance of social security fund	6,452,562.32		6,452,562.32
Penalty income	232,889.26	697,800.71	232,889.26
Land compensation for GSI		826,965,300.00	
Shipbuilding order cancellation compensation		15,908,360.00	
Compensation income		4,906,165.35	
Others	4,020,701.97	2,032,743.76	4,020,701.97
<b>Total</b>	<b>553,503,531.77</b>	864,146,362.48	553,503,531.77

The amount included in non-recurring gains and losses for the year was RMB553,503,531.77 (last year: RMB864,146,362.48).

Note: On 9 November 2015, GSI, a subsidiary of the Company, and Guangzhou Shipyard Shipping Co., Ltd. ("Guangzhou Shipyard Shipping") entered into an agreement in relation to the compensation for relocation of assets of GSI for the implementation of relocation, demolition and resettlement of a parcel of land of Guangzhou Shipyard Shipping. Pursuant to the agreement, the total compensation for relocation of assets will be RMB1,134,000,000 and will be paid within three years of delivery of the land.

GSI completed the overall relocation of Liwan Plant in 2018. The Company recognised gain on compensation for relocation of assets in the amount of RMB1,039,598,000 in accordance with the compensation amount and date of payment agreed in the contract on a discount basis. After deducting the relevant relocation expenses, net gain amounted to RMB538,425,700.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Breakdown of government grants not relating to day-to-day activities of enterprises

Item	Current year	Last year	Source and basis	Relating to assets /relating to revenue
Subsidy for separation and transfer of water, power and gas supply and property management business	1,820,129.88	5,537,773.14	Huangpu District Finance Bureau	Relating to revenue
Government grants for poverty-stricken enterprises	1,254,800.00		Chuan Gong Cai [2018] No. 794	Relating to revenue
Special funds for fair trade in imports and exports	300,000.00		Yue Shang Wu Jiu Ji Han [2017] No. 24	Relating to revenue
Medical expense subsidy for retired cadres	250,000.00		National government subsidy	Relating to assets
Trade friction response research fund	165,000.00		Yue Shang Wu Jiu Ji Han [2017] No. 24	Relating to assets
Steady industrial growth bonus		2,000,000.00	National government subsidy	Relating to revenue
Incentive subsidy for contribution to local economic development by headquarters		1,400,000.00	National government subsidy	Relating to revenue
Export credit insurance subsidy for polar condensate tankers		1,195,800.00	Guangzhou Municipal Finance Bureau	Relating to revenue
Other projects	90,266.10	1,702,702.79	Relating to revenue	
<b>Total</b>	<b>3,880,195.98</b>	<b>11,836,275.93</b>	-	-

## (3) Description of profit from disposal of properties

Non-operating income of the Group for the year included profit from disposal of properties of RMB0 (amount for last year: RMB0).

## 58. Non-operating expenses

Item	Current year	Last year	Amount included in non-recurring gains and losses for the year
Loss on retirement of damaged non-current assets	4,334,382.06	7,663,668.26	4,334,382.06
External donation expenses	991,811.10	325,192.60	991,811.10
Penalty and late payment fee	1,644,891.58	684,831.97	1,644,891.58
Accident loss		3,730,303.24	
Others	56,816,350.62	564,556.65	56,816,350.62
<b>Total</b>	<b>63,787,435.36</b>	<b>12,968,552.72</b>	<b>63,787,435.36</b>

Note 1: Non-operating expenses – others mainly includes the contract loss recognised by Huangpu Wenchong, a subsidiary of the Company, of RMB56,730,535.50 during the year under the settlement agreement between Huangpu Wenchong and four single-ship companies under KC Maritime Limited (“KCM”) in relation to the contract dispute arbitration in respect of four 64,000-tonne bulk carriers (with ship numbers of H3067, H3068, H3069 and H3070).

Note 2: The amount included in non-recurring gains and losses for the year was RMB63,787,431.26 (last year: RMB12,968,552.72).

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 59. Income tax expense

### (1) Income tax expense

Item	Amount for the year	Amount for last year
Current income tax – PRC enterprise income tax	-7,619,024.57	24,714,547.15
1. China	-7,619,024.57	13,754,887.95
2. Hong Kong		10,922,990.12
3. Macau income tax		36,669.08
Deferred tax	21,543,842.30	43,127,811.56
<b>Total</b>	<b>13,924,817.73</b>	<b>67,842,358.71</b>

### (2) Reconciliation sheet between income tax expenses and total profit

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

Item	Amount for the year
Total consolidated profit for the year	-2,460,225,332.53
Income tax expenses calculated at statutory/applicable tax rate	-615,056,333.13
Impact of different tax rates for subsidiaries	115,360,584.91
Impact of adjustment for income tax for previous period	-8,494,811.23
Impact of non-taxable income	-1,785,159.17
Impact of non-deductible costs, expenses and losses	35,937,324.82
Impact of utilisation of deductible loss for which no deferred tax assets were previously recognised	-3,481,104.15
Impact of deductible temporary differences for which no deferred tax assets are recognised for the year or deductible losses	492,057,611.55
Other (including the effect of deduction)	-613,295.87
Income tax expense	13,924,817.73

## 60. Other comprehensive income

Please refer to Note VI.37 “Other comprehensive income” for details.

## 61. Audit fees and auditors

The audit fees charged for 2018 are RMB2.42 million (2017: RMB2.42 million). The auditors engaged by the Company are ShineWing Certified Public Accountants LLP, and there has not been any change of auditors since 2011.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 62. Depreciation and amortisation

Item	Current year	Last year
Depreciation of investment properties	628,712.16	628,712.16
Depreciation of fixed assets	710,579,883.83	743,500,056.36
Amortisation of intangible assets	59,779,481.34	67,123,210.49
Amortisation of long-term prepaid expenses	16,710,046.29	18,019,286.84
<b>Total</b>	<b>787,698,123.62</b>	829,271,265.85

## 63. Gain (or loss) on disposal of investments or properties

Included in gain on disposal of investments during the year was the investment income in the amount of RMB28,432,071.85 recognised for the difference of the value of South Special Coating, a subsidiary of the Company whose control was lost by the Company as it applied for bankruptcy, of nil and the carrying value of its net assets (last year: RMB0).

Gain (or loss) on disposal of properties during the year amounted to RMB0 (last year: RMB0).

## 64. Operating rental expense

Operating rental expense for the year is RMB49,695,529.86 (last year: RMB220,106,781.76), of which rental expense for machinery and equipment is RMB12,892,340.60 (last year: RMB38,043,561.73).

## 65. Rental income

Operating rental income for the year is RMB50,937,102.83 (last year: RMB52,732,594.46), including rental income from land and buildings of RMB32,745,231.01 (last year: RMB25,580,646.17).

## 66. Earnings per share

Basic earnings per share shall be calculated by profit or loss attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares outstanding during the period.

The numerator of the diluted earnings per share attributable to ordinary shareholders is the Company's net profit after adjustment of the following factors: (1) the recognised interest expense of dilutive potential ordinary shares; (2) income or expense that would result from the conversion of dilutive potential ordinary shares; and (3) the related income tax effects of the above adjustments.

The denominator of diluted earnings per share is equal to the sum of: (1) the weighted average number of issued ordinary shares of the Company in basic earnings per share; and (2) the weighted average number of shares after conversion of the dilutive potential ordinary shares into ordinary shares.

In calculating the weighted average number of shares increased after conversion of dilutive potential ordinary shares into issued ordinary shares, the dilutive potential ordinary shares which were converted in previous periods are assumed to be converted at the beginning of current year and the dilutive potential ordinary shares which were converted during current period are assumed to be converted at the date of issue.



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

The calculation of basic earnings per share and diluted earnings per share are as follows:

Item	No.	Current year	Last year
Net profit attributable to shareholders of the Company	1	-1,869,014,160.08	-50,507,587.08
Non-recurring gains and losses attributable to the Company	2	-111,482,742.70	-985,737,562.90
Net profit attributable to shareholders of the Company, net of non-recurring gains and losses	3=1-2	-1,757,531,417.38	-1,036,245,149.98
Total number of shares at the beginning of the year	4	1,413,506,378.00	1,413,506,378.00
Number of shares increased due to transferring capital reserve into share capital or dividend distribution of shares (I)	5		
Number of shares increased due to issuance of new shares or debt for equity swap (II)	6		
Number of months from the month following the month in which the number of shares is increased to the end of the year (II)	7		
Number of shares decreased due to stock repurchase	8		
Number of months from the month following the month in which the number of shares is decreased to the end of the year	9		
Number of shares decreased due to capital reduction	10		
Number of months in the Reporting Period	11	12.00	12.00
Weighted average number of ordinary shares outstanding	12	1,413,506,378.00	1,413,506,378.00
Weighted average number of ordinary shares outstanding following adjustments in relation to business combination under common control for the purposes of earnings per share after deduction of non-recurring gains and losses	13	1,413,506,378.00	1,413,506,378.00
Basic earnings per share (I)	14=1÷12	-1.3223	-0.0357
<b>Basic earnings per share (II)</b>	15=3÷13	-1.2434	-0.7331
Potential diluted interests of ordinary shares recognised as expense	16		
Transfer fee	17		
Income tax rate	18	0.25	0.25
Weighted average amount of ordinary shares increased due to warrant, share options, and convertible bonds, etc.	19		
<b>Diluted earnings per share (I)</b>	20=[1+(16-18)×(1-17)]÷(12+19)	-1.3223	-0.0357
<b>Diluted earnings per share (II)</b>	21=[3+(16-18)×(1-17)]÷(13+19)	-1.2434	-0.7331

## 67. Dividends

Details of dividends declared and paid and proposed during the track record period were as follows:

### (1) Year ended 31 December 2017

Pursuant to the Proposal for Profit Distribution for 2016 approved at the annual general meeting of 2016 of the Company held on 26 May 2017, the Company distributed cash dividends of RMB0.16 (inclusive of tax) for every 10 shares to all shareholders, totalling RMB22,616,102.05 based on the number of issued shares of 1,413,506,378.

### (2) Year ended 31 December 2018

Pursuant to a resolution of the annual general meeting of 2017 of the Company held on 29 May 2018, the Company will not distribute dividend or increase its share capital by way of capitalisation of capital reserve for 2017.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 68. Supplementary information on consolidated income statement

The breakdown of expenses (including operating costs, selling expenses, administrative expenses and research and development expenses) by nature:

Item	Amount for the year	Amount for last year
Raw materials consumed	12,494,462,968.47	13,589,101,634.98
Employee compensation expenses	4,200,945,096.67	4,592,062,852.54
Depreciation expenses	711,208,595.99	744,128,768.52
Amortisation expenses	76,489,527.63	85,142,497.33
Fuel power fee	320,999,299.61	429,769,549.83
Product fee	2,254,288,601.90	2,292,496,671.05
Balance of product payment	350,670,207.17	318,743,209.27
Others	330,067,416.04	999,931,705.14
<b>Total</b>	<b>20,739,131,713.48</b>	<b>23,051,376,888.66</b>

## 69. Items in cash flow statement

### (1) Other cash receipts/payments relating to operating/investing /financing activities

#### 1) Other cash receipts relating to operating activities

Item	Amount for the year	Amount for last year
Income from other current accounts received	348,967,468.45	164,093,719.48
Government grants	127,531,614.71	237,217,183.36
Receipt/recovery of deposit	98,934,114.75	27,976,226.39
Interest income	43,251,784.98	117,577,733.76
Other non-operating income	3,071,423.40	2,175,442.31
Land compensation for GSI		826,965,300.00
<b>Total</b>	<b>621,756,406.29</b>	<b>1,376,005,605.30</b>

#### 2) Other cash payments relating to operating activities

Item	Amount for the year	Amount for last year
Payment of other current accounts	348,358,881.12	204,275,171.97
Security deposit	271,554,329.84	54,051,529.67
Administrative expense	167,952,229.59	222,017,126.14
Reserve funds	101,827,286.10	90,014,725.35
Non-operating expenses	74,465,985.27	407,429.24
Relocation expenses	42,738,803.76	60,770,433.59
Selling expenses	25,861,433.98	10,926,072.04
Bank charges	7,045,822.10	6,736,619.25
Warranty expenses	101,764,683.80	104,848,106.82
<b>Total</b>	<b>1,141,569,455.56</b>	<b>754,047,214.07</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

3) *Other cash receipts relating to investing activities*

Item	Amount for the year	Amount for last year
Release of pledge on fixed deposits	776,608,680.74	2,706,161,830.52
Interest income from fixed deposits and other interest income	98,289,104.14	157,528,631.24
Gain on entrusted wealth management products	20,099,178.08	49,174,679.68
<b>Total</b>	<b>894,996,962.96</b>	<b>2,912,865,141.44</b>

4) *Other cash payments relating to investing activities*

Item	Amount for the year	Amount for last year
Pledge of fixed deposit	1,870,441,400.15	836,166,045.64
Entrusted wealth management products	70,000,000.00	
Fixed assets upgrading expense	69,115,260.46	121,543,078.82
Forward instrument delivery expenses	13,157,255.00	
Long-term prepaid expenses	1,834,495.98	
<b>Total</b>	<b>2,024,548,411.59</b>	<b>957,709,124.46</b>

5) *Other cash receipts relating to financing activities*

Item	Amount for the year	Amount for last year
State-subsidized	116,790,000.00	168,640,000.00
<b>Total</b>	<b>116,790,000.00</b>	<b>168,640,000.00</b>

6) *Other cash payments relating to financing activities*

Item	Amount for the year	Amount for last year
Loan handling fee	1,003,400.00	1,316,000.00
<b>Total</b>	<b>1,003,400.00</b>	<b>1,316,000.00</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Supplementary information on consolidated cash flow statement

Item	Current year	Last year
1. Reconciliation of net profit and cash flows from operating activities:	-	-
Net profit	<b>-2,474,150,150.26</b>	-45,856,889.17
Add: Provision for impairment of assets	<b>677,141,653.24</b>	203,038,462.10
Loss on impairment of credit assets	<b>39,371,984.45</b>	
Depreciation of fixed asset, consumption of oil and gas assets, depreciation of productive biological assets	<b>711,208,595.99</b>	743,500,056.36
Amortisation of intangible assets	<b>59,779,481.34</b>	67,123,210.49
Amortisation of long-term prepaid expenses	<b>16,710,046.29</b>	18,019,286.84
Loss on disposal of fixed assets, intangible assets and other long-term assets (gain expressed with "-")	<b>-1,303,386.17</b>	
Loss on disposal of fixed assets (gain expressed with "-")	<b>3,842,911.51</b>	6,346,470.50
Loss on changes in fair value (gain expressed with "-")	<b>423,444,863.37</b>	-3,235,961.60
Finance cost (gain expressed with "-")	<b>342,413,880.22</b>	-46,526,467.31
Loss on investments (gain expressed with "-")	<b>123,820,055.10</b>	-147,443,555.81
Decrease in deferred tax assets (increase expressed with "-")	<b>22,791,404.51</b>	42,259,724.02
Increase in deferred tax liabilities (decrease expressed with "-")	<b>1,228,347.63</b>	1,099,984.67
Decrease in inventories (increase expressed with "-")	<b>-289,953,835.06</b>	1,854,323,472.30
Decrease in operating receivables (increase expressed with "-")	<b>-3,003,025,187.49</b>	-1,178,503,266.86
Increase in operating payables (decrease expressed with "-")	<b>1,801,769,201.10</b>	-2,325,407,588.26
Others		
Net cash flows from operating activities	<b>-1,544,910,134.23</b>	-811,263,061.73
2. Significant investing and financing activities not involving cash receipts or payments	-	-
Conversion of debts into capital		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance lease arrangement		
3. Net changes in cash and cash equivalents	-	-
Ending balance of cash	<b>8,536,815,355.09</b>	11,634,582,111.41
Less: Beginning balance of cash	<b>11,634,582,111.41</b>	10,015,192,552.30
Add: Ending balance of cash equivalents		
Less: beginning balance of cash equivalents		
Net increase in cash and cash equivalents	<b>-3,097,766,756.32</b>	1,619,389,559.11

## (3) Net cash paid for acquisition of subsidiaries during the year

Item	Current year
Cash and cash equivalents paid during the year in relation to business combinations occurred during the year	373,518,626.31
Including: Wenchong Dockyard	373,518,626.31
Less: Cash and cash equivalents held by subsidiaries at the date of acquisition	144,377,032.44
Including: Wenchong Dockyard	144,377,032.44
Add: Cash and cash equivalents paid during the year in relation to business combinations occurred during previous periods	
Including: Wenchong Dockyard	
Net cash paid for acquisition of subsidiaries	229,141,593.87

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (4) Cash and cash equivalents

Item	Ending balance	Beginning balance
Cash	<b>8,536,815,355.09</b>	11,634,582,111.41
Including: Cash on hand	<b>194,222.57</b>	240,346.75
Bank deposits available for use on demand	<b>8,536,592,047.52</b>	11,634,260,919.66
Other cash at bank and on hand for use on demand	<b>29,085.00</b>	80,845.00
Cash equivalents		
Including: Bond investments due within three months		
Cash and cash equivalents at the end of the year	<b>8,536,815,355.09</b>	11,634,582,111.41

Including: Cash and cash equivalents of the Company or its subsidiaries subject to restrictions on use

## 70. Assets subject to restrictions in ownership or use right

Item	Carrying value as at the end of the year	Reasons for restrictions
Cash at bank and on hand	<b>1,801,071,803.41</b>	Borrowing pledge, fixed deposits with maturity of over 3 months, letters of guarantee/bills/forward exchange settlement deposit, etc.

## 71. Foreign currency monetary items

Item	Ending balance of foreign currency	Translation rate	Ending balance denominated in RMB
Cash at bank and on hand	–	–	2,148,162,959.11
Including: USD	292,532,826.34	6.8632	2,007,711,293.63
EUR	5,938,372.46	7.8473	46,600,204.54
JPY	125,329.00	0.0619	7,756.23
HKD	107,093,975.05	0.8762	93,835,740.95
Norwegian Krone	6.49	0.7827	5.08
GBP	917.30	8.6762	7,958.68
Accounts receivable	–	–	702,970,717.60
Including: USD	99,824,027.48	6.8632	685,112,265.40
EUR	234,772.30	7.8473	1,842,328.67
HKD	18,279,072.74	0.8762	16,016,123.53
Interest receivable	–	–	1,399,195.44
Including: USD	171,081.93	6.8632	1,174,169.83
HKD	256,819.92	0.8762	225,025.61
Other receivables	–	–	3,164,159.02
Including: USD	151,500.50	6.8632	1,039,778.23
EUR	55,200.00	7.8473	433,170.96
HKD	2,424,538.69	0.8762	2,124,380.79
Long-term receivables due within one year	–	–	63,415,968.00
Including: USD	9,240,000.00	6.8632	63,415,968.00
Long-term receivables	–	–	430,253,078.80
Including: USD	62,689,864.61	6.8632	430,253,078.80
Accounts payable	–	–	24,158,492.36
Including: USD	3,441,968.13	6.8632	23,622,915.66
EUR	29,904.00	7.8473	234,665.66
HKD	343,427.35	0.8762	300,911.04
Other payables	–	–	416,960.04
Including: USD	42,991.42	6.8632	295,058.71
HKD	139,125.00	0.8762	121,901.33
Interest payable	–	–	446,108.00
Including: USD	65,000.00	6.8632	446,108.00
Short-term borrowings	–	–	419,387,255.88
Including: USD	60,843,270.00	6.8632	417,579,530.66
EUR	230,362.70	7.8473	1,807,725.22

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 72. Government grants

### (1) Basic information on government grants

Type	Amount	Item presented	Amount included in profit or loss
Interest subsidy for transformation into civil development	31,070,000.00	Finance costs	31,070,000.00
Grant for insurance maintained for first piece (set)	41,590,000.00	Selling expenses	41,590,000.00
Grant for special treatment of state-owned enterprises with special financial difficulties	11,307,100.00	Administrative expenses	11,307,100.00
Mother ship renovation project	7,277,346.81	Other income	7,277,346.81
Mother ship renovation project	7,348,770.52	Deferred income	
Research of common key processes and technologies for smart manufacturing of ships	5,000,000.00	Deferred income	
Research of common key processes and technologies for smart manufacturing of ships	4,800,000.00	Research and development expenses	4,800,000.00
Research of technologies for management and control of smart ship block workshops	4,720,583.94	Deferred income	
Research of technologies for management and control of smart ship block workshops	3,979,416.06	Research and development expenses	3,979,416.06
Post-utilisation grant for research and development expenses of enterprises of Nansha District, Guangzhou for 2017	8,498,800.00	Research and development expenses	8,498,800.00
Subsidy for high-quality projects	5,773,916.70	Deferred income	
Self-development of dual-fuel ships	5,700,000.00	Research and development expenses	5,700,000.00
Separation and transfer of water, power and gas supply and property management business	4,222,096.98	Deferred income	-
Separation and transfer of water, power and gas supply and property management business	1,820,129.88	Non-operating income	1,820,129.88
Research of comprehensive building process and technology	2,480,972.96	Research and development expenses	2,480,972.96
Research of comprehensive building process and technology	2,980,987.48	Deferred income	-
Offshore platform project	300,000.00	Other current liabilities	-
Offshore platform project	1,200,000.00	Deferred income	-
Offshore platform project	300,000.00	Other income	300,000.00
Offshore expansion projects	3,500,000.00	Other current liabilities	-
Offshore expansion projects	3,500,000.35	Deferred income	-
Offshore expansion projects	3,499,999.65	Other income	3,499,999.65
Offshore engineering phase I	1,500,000.00	Other current liabilities	-
Offshore engineering phase I	1,500,000.00	Other income	1,500,000.00
Offshore engineering phase I	1,500,000.00	Deferred income	-
Key technology of overall process	1,500,000.00	Deferred income	-
Key technology of overall process	300,000.00	Research and development expenses	300,000.00
Enterprise research and development financial subsidy project fund of Guangdong Province for 2017 issued by Nansha District Finance Bureau of Guangzhou	2,541,200.00	Research and development expenses	2,541,200.00
Self-development of ships	361,084.79	Research and development expenses	361,084.79
Self-development of ships	2,275,915.21	Deferred income	-
Research of key hull welding technologies	2,400,000.00	Research and development expenses	2,400,000.00
District quality subsidy of Nansha District Finance Bureau of Guangzhou 2016-2017	2,100,000.00	Other income	2,100,000.00
Research of the information and industrialization integration system and the development of new ability	2,100,000.00	Research and development expenses	2,100,000.00

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Type	Amount	Item presented	Amount included in profit or loss
Research of smart management technologies for digital production and logistics of shipyards based on the Internet of Things	1,400,000.00	Research and development expenses	1,400,000.00
Base construction subsidy	1,498,934.99	Deferred income	–
Base construction subsidy	62,182.78	Other current liabilities	–
Base construction subsidy	62,182.80	Non-operating income	62,182.80
Special fund for economic development advancement of Guangdong Province for 2018 issued by the Economy and Information Bureau of Guangzhou Development Zone	1,650,000.00	Deferred income	–
Reward for use of onshore power by berthing ships 2016-2018 issued by Guangzhou Port Authority	1,340,000.00	Administrative expenses	1,340,000.00
Reward for use of onshore power by berthing ships 2016-2018 issued by Guangzhou Port Authority	1,200,000.00	Other income	1,200,000.00
Coordinated innovative research and application of composite wear resistant components for high-end equipment	1,320,000.00	Research and development expenses	1,320,000.00
Research on ship modification technologies	1,600,000.00	Research and development expenses	1,600,000.00
Immediately refunded value-added tax	1,257,284.11	Other income	1,257,284.11
Research of energy-saving and environment-friendly manufacturing system and key processes	1,107,989.03	Research and development expenses	1,107,989.03
Research of energy-saving and environment-friendly manufacturing system and key processes	1,292,010.97	Deferred income	–
Research of technologies for smart service production scheduling for complex shipbuilding environment	550,000.00	Research and development expenses	550,000.00
Research of key technologies for icebreakers	1,160,000.00	Research and development expenses	1,160,000.00
Intelligent ship 1.0 project – demonstration application of very large intelligent ore carriers	1,000,000.00	Research and development expenses	1,000,000.00
Award for pillar high-quality enterprise in Nansha District 2015-2016 issued by Nansha District Finance Bureau of Guangzhou (please refer to 20 March circular)	900,000.00	Other income	900,000.00
First batch of grant for technology innovation advancement and industry development support of Nansha District Finance Bureau of Guangzhou for 2018	840,700.00	Other income	840,700.00
No. 1 dock adaptive transformation (1)	33,333.36	Other income	33,333.36
No. 1 dock adaptive transformation (1)	33,333.36	Other current liabilities	–
No. 1 dock adaptive transformation (1)	566,666.32	Deferred income	–
No. 1 dock adaptive transformation	26,666.64	Other income	26,666.64
No. 1 dock adaptive transformation	26,666.64	Other current liabilities	–
No. 1 dock adaptive transformation	453,334.00	Deferred income	–
Research and application of key technologies for ship quality comprehensive test platform	669,239.30	Research and development expenses	669,239.30
Research and application of key technologies for ship quality comprehensive test platform	50,760.70	Deferred income	–
Coating technology process and transformation	153,698.64	Other income	153,698.64
Coating technology process and transformation	153,698.64	Other current liabilities	–
Coating technology process and transformation	333,013.60	Deferred income	–
Development of intelligent system for equipment operation and maintenance	876,000.00	Research and development expenses	876,000.00
Research of advanced solid/fusion welding technologies for thin-walled ship hull	600,000.00	Research and development expenses	600,000.00

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Type	Amount	Item presented	Amount included in profit or loss
Research of advanced solid/fusion welding technologies for thin-walled ship hull	240,000.00	Deferred income	–
Enterprise technology centre innovation capability development project	300,000.00	Other income	300,000.00
Enterprise technology centre innovation capability development project	300,000.00	Other current liabilities	–
Advanced ship welding technology enterprise key laboratory in Guangdong Province	560,000.00	Research and development expenses	560,000.00
Technical upgrading for new ship research equipment	142,191.84	Other income	142,191.84
Technical upgrading for new ship research equipment	142,191.84	Other current liabilities	–
Technical upgrading for new ship research equipment	284,382.96	Deferred income	–
Research and development of key technologies for berthing and navigation dynamic positioning	540,000.00	Research and development expenses	540,000.00
Special grant for the research of large liners	515,481.96	Research and development expenses	515,481.96
Maine low-speed machine innovation project (Phase 1)	500,000.00	Research and development expenses	500,000.00
Development of ships design and construction technical standards	500,000.00	Research and development expenses	500,000.00
Liwan steel structure engineering technology research and development centre	500,000.00	Deferred income	–
Localized research and development and application of Aluminum alloy (Russian series) and its supporting materials	620,000.00	Research and development expenses	620,000.00
Self-propelled hydraulic flatbed trailer	166,666.68	Other income	166,666.68
Self-propelled hydraulic flatbed trailer	166,666.68	Other current liabilities	–
Self-propelled hydraulic flatbed trailer 13D01	374,999.87	Deferred income	–
Self-propelled hydraulic flatbed trailer 13D01	616,900.00	Deferred income	–
Development and application of marine waterjet propulsion system	700,000.00	Research and development expenses	700,000.00
09E013	1,400,000.00	Deferred income	–
National skilled personnel training in 2018	8,000,000.00	Deferred income	–
Post-utilisation grant for research and development expenses of enterprises in Guangzhou for 2017	431,900.00	Other income	431,900.00
Special post-R&D grant for enterprises in Guangzhou for 2016	977,900.00	Other income	977,900.00
Production-college-research patent cultivation and conversion centre cultivation plan of Guangdong Province for 2016	360,000.00	Research and development expenses	360,000.00
Others	16,242,278.31	–	13,584,115.30
<b>Total</b>	<b>235,747,577.35</b>	<b>–</b>	<b>169,621,399.81</b>

## (2) Information on return of government grants

There were no returns by the Group of government grants during the year.



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## VII. CHANGES IN SCOPE OF CONSOLIDATION

### 1. Business combination under common control

#### (1) Business combination under common control during the year

Unit: RMB in ten thousand

Name of acquiree	Percentage of equity interest acquired under business combination	Basis for constituting business combination under common control	Date of combination	Basis for determination of date of combination	Revenue of the acquiree for the year from the beginning of the year of combination to the date of combination	Net profit of the acquiree for the year from the beginning of the year of combination to the date of combination	Revenue of the acquiree for the period of comparison	Net profit of the acquiree for the period of comparison
Wenchong Dockyard	100%	Same actual controller	31 December 2018	Acquisition of control	66,001.52	-19,147.44	65,154.00	-14,649.60

Basis for constituting business combination under common control:

Established on 24 November 2005 and formerly known as Guangzhou CSSC Yuanhang Dockyard Co., Ltd., Wenchong Dockyard is currently a member of CSSC and a limited liability company (joint venture between Taiwan, Macau or Hong Kong and the PRC) and has a registered capital of RMB1,643,841,000, of which RMB1,232,142,800 or 74.96% was contributed by CSSC and RMB411,698,200 or 25.04% was contributed by China United Shipbuilding Company Limited ("China United Shipbuilding"). Wenchong Dockyard is principally engaged in ship maintenance and modification. There was one subsidiary in the scope of consolidation of Wenchong Dockyard as at the beginning of 2018. Guangzhou Nanfang Special Coating Co., Ltd. ("South Special Coating") applied on 2 May 2018 to the People's Court of Huangpu District, Guangzhou for bankruptcy, which issued on 12 May 2018 a civil ruling ((2018) Yue 0112 Po Shen No. 3) and accepted the application made by South Special Coating for bankruptcy in accordance with the law and designated on 25 June 2018 administrators to conduct bankruptcy and liquidation management. Since July 2018, Wenchong Dockyard no longer includes South Special Coating in its scope of consolidation.

Before the equity transfer of Wenchong Dockyard, its controlling shareholder was CSSC (holding 74.96% equity interest) and its actual controller was CSSC, which is also the actual controller of the Company. Upon completion of the equity acquisition, the Company held 100% shareholding as well as voting rights in Wenchong Dockyard. The Company has control over its major operations and financial decision-making. The combination is business combination under common control. The actual controller under common control is CSSC.

#### (2) Consideration for combination

Unit: RMB in ten thousand

Item	Wenchong Dockyard
Cash consideration payable based on appraised value	49,829.06
Adjustments to gains or loss for the transition period	-9,325.95
<b>Total consideration for combination</b>	<b>40,503.11</b>

Note on recognition of consideration for combination

GSI has engaged the relevant intermediaries to conduct the relevant auditing and asset valuation work, with 31 May 2018 as the date of valuation. ShineWing Certified Public Accountants LLP, which is qualified to carry out securities and futures related business, has issued the Audit Report on Guangzhou Wenchong Dockyard Co., Ltd. for the Period from January to May 2018 and the Year 2017. Shanghai Orient Appraisal Co., Ltd. has issued the Valuation Report on All the Equity Interest Involved in the Proposed Transfer by China State Shipbuilding Corporation Limited and China United Shipbuilding Company Limited of Equity Interest in Guangzhou Wenchong Dockyard Co., Ltd. to Guangzhou Shipyard International Company Limited (Dong Zhou Ping Bao Zi [2018] No. 1075) (the said valuation report has been filed with competent state-owned assets supervision authorities). The valuation results are: the appraised value of net assets of Wenchong Dockyard is RMB498,290,590.06. Based on the appraised value, the acquisition price for GSI's acquisition of 74.96% equity interest in Wenchong Dockyard held by CSSC was RMB373,518,626.31; the acquisition price for GSI's acquisition of 25.04% equity interest in Wenchong Dockyard held by China United Shipbuilding was RMB124,771,963.75.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

The gains and losses of Wenchong Dockyard during the period from the date of valuation to the closing date of equity transfer shall be enjoyed or assumed by its existing shareholders in proportion to their existing shareholding. As confirmed by a special audit report issued by ShineWing Certified Public Accountants LLP (No. XYZH/2019BJA100305), profit or loss of Wenchong Dockyard during the transition period (from 1 June 2018 to 31 December 2018) was RMB-93,259,500, which shall be paid by CSSC and China United Shipbuilding to GSI in proportion to their existing shareholding.

### (3) Carrying value of assets and liabilities of the acquiree at the date of combination

Unit: RMB in ten thousand

Item	Wenchong Dockyard	
	Date of combination	End of last year
Assets:	258,243.74	266,197.16
Cash at bank and on hand	17,163.35	20,505.53
Notes and accounts receivable	19,041.67	12,882.19
Prepayments	2,047.15	9,914.72
Other receivables	635.04	891.82
Inventories	7,593.99	9,663.27
Other current assets	0.00	1,074.19
Long-term equity investments	0.00	6.84
Fixed assets	163,252.15	161,092.76
Construction in progress	2,285.24	6,201.25
Intangible assets	21,640.24	22,183.49
Goodwill	14,423.12	14,423.12
Long-term prepaid expenses	6,070.30	7,357.97
Other non-current assets	4,091.49	0.00
Liabilities:	237,081.46	227,771.38
Short-term borrowings	49,500.00	29,500.00
Financial liabilities held-for-trading	539.05	0.00
Notes and accounts payable	14,218.61	21,180.47
Advances from customers	0.00	3,701.52
Contract liabilities	5,104.17	0.00
Employee benefits payable	815.84	1,171.59
Taxes payable	134.61	414.89
Other payables	2,019.23	3,450.35
Other current liabilities	104.11	0.00
Long-term borrowings	162,656.25	165,230.00
Long-term employee benefits payable	896.90	967.63
Estimated liabilities	327.84	593.04
Deferred income	764.86	1,561.90
Net assets	21,162.28	38,425.78
Less: Minority interests	0.00	-2,113.32
Net assets acquired	21,162.28	40,539.10

Description: The carrying value of the assets and liabilities of the acquiree as at the date of combination was determined based on the carrying value of Wenchong Dockyard on the date of combination plus the adjustments to the carrying value of Wenchong Dockyard by CSSC arising from the combination. As at the end of 2018, the carrying value of fixed assets of Wenchong Dockyard increased by RMB3,700,100; the carrying value of its intangible assets increased by RMB76,438,100; the carrying value of its goodwill increased by RMB144,231,200; the carrying value of its long-term prepaid expenses increased by RMB9,395,900; its net assets increased by RMB207,573,300.

### (4) Basis for determination of date of combination and accounting treatment method

Pursuant to the Resolution on the Connected Transaction in relation to the Acquisition of 100% equity interest in Guangzhou Wenchong Dockyard Co., Ltd. by a Subsidiary of the Company considered and passed at the secondary extraordinary general meeting of 2018 of the Company held on 5 December 2018, GSI, a subsidiary of the Company, acquired 100% equity interest in Wenchong Dockyard held by CSSC and China United Shipbuilding. On 24 December 2018, Wenchong Dockyard completed the business change registration and its shareholders changed from CSSC and China United Shipbuilding to GSI as to 100% shareholding. 31 December 2018 was determined to be the date of combination.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

As at the end of 2018, GSI had fully paid the consideration for the equity transfer of RMB373,518,626.31, representing 74.96% of the total consideration for the transaction, to CSSC. The consideration for equity transfer of RMB124,771,963.75 payable to China United Shipbuilding had yet to be paid and was recognised as other repayable as it involved overseas payment. In addition, for the audited profit or loss of Wenchong Dockyard during the transition period (from 1 June 2018 to 31 December 2018) in the amount of RMB-93,259,469.11, GSI recognised other receivables from CSSC in the amount of RMB69,907,298.04 and offset other payables to China United Shipbuilding in the amount of RMB23,352,171.07 in proportion to the shareholding of former shareholders. In the financial statements of GSI, net assets of Wenchong Dockyard (as increased) as at the date of combination in the amount of RMB211,622,765.56 was recognised as investment cost, and the difference in the amount of RMB193,408,355.39 between the consideration for combination of RMB405,031,120.95 and the investment cost offset the capital reserve – share premium in its financial statements.

In preparing the consolidated financial statements, the Company included the income statement and cash flows of Wenchong Dockyard from the beginning of the period of combination to the date of combination in accordance with the accounting principles for business combination under common control, and made retrospective adjustments to 100% equity interest in Wenchong Dockyard in the financial statements for last year. Capital reserve as at the beginning of last year increased by RMB1,878,445,097.92; special reserve as at the end of last year increased by RMB209,055.93; undistributed profit as at the beginning of last year decreased by RMB1,345,677,324.25; minority interests as at the beginning of last year decreased by RMB13,009,779.24; net profit for last year decreased by RMB146,496,040.45, of which net profit attributable to the Company for last year decreased by RMB138,304,178.37 and profit or loss attributable to minority interests for last year decreased by RMB8,191,862.08. In preparing the consolidated financial statements for the year, the consideration for combination of RMB405,031,120.95 was used to offset the capital reserve in the consolidated financial statements by RMB309,530,453.06 and offset minority interests by RMB95,500,667.89 based on the 76.4214% equity interest in GSI held by the Company.

## 2. Change in scope of consolidation for any other reasons

### (1) Liquidation of Longxue Properties, a subsidiary of the Company

In accordance with a document of CSSC (Chuan Gong Jing [2017] No. 359), Huangpu Wenchong conducted liquidation of Longxue Properties, a subsidiary of the Company, in view of its ownership structure. On 15 March 2018, the establishment of a liquidation committee was approved by a resolution passed at a general meeting of Longxue Properties. On 30 May 2018, the liquidation of Longxue Properties was completed and it was no longer included in the scope of consolidation.

### (2) Liquidation of Xingshun, a subsidiary of the Company

In accordance with a document of CSSC (Chuan Gong Jing [2017] No. 359), GSI conducted liquidation of Xingshun, a subsidiary of the Company, in view of its ownership structure. On 15 March 2018, the establishment of a liquidation committee was approved by a resolution passed at a general meeting of Xingshun. On 16 November 2018, the liquidation of Xingshun was completed and it was no longer included in the scope of consolidation.

### (3) Liquidation of South Special Coating, a subsidiary of the Company

South Special Coating, a subsidiary of Wenchong Dockyard, applied on 2 May 2018 to the People's Court of Huangpu District, Guangzhou for bankruptcy, which issued on 12 May 2018 a civil ruling ((2018) Yue 0112 Po Shen No. 3) and accepted the application made by South Special Coating for bankruptcy in accordance with the law and designated on 25 June 2018 administrators to conduct bankruptcy and liquidation management. Since June 2018, Wenchong Dockyard no longer includes South Special Coating in its scope of consolidation. In preparing the consolidated financial statements, the Company recognised the difference between the value of its equity interest calculated of RMB0 and its net assets as investment income of RMB28,432,071.85, and made provision for bad debts for its receivables of RMB22,710,790.62 and provision for bad debts for its long-term equity investments of RMB3,270,000.00.

### (4) Establishment of CSSC Internet, a subsidiary of the Company

In September 2018, Huangpu Wenchong established CSSC Internet in accordance with the approval from CSSC for the establishment of CSSC Industrial Internet Technology Co., Ltd. (Chuan Gong Gui [2018] No. 561). CSSC Internet has a registered capital of RMB50 million and its scope of business mainly includes Internet search service, Internet production service platform, Internet technology innovation platform, Internet public service platform, other Internet platforms, Internet security services, Internet data services, other Internet services, basic software development, software development support, application software development, other software development, information system integration services, Internet of Things technical services, operation and maintenance services, information processing and storage support services, information technology consulting services, science and technology intermediary services, entrepreneurship space services, and other science and technology promotion services. As at the end of 2018, Huangpu Wenchong paid capital contribution of RMB10 million and held 100% equity interest in CSSC Internet.

## 3. Save for the above matters, there were no changes in the scope of consolidation for the Group during the Reporting Period.

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## VIII. INTERESTS IN OTHER ENTITIES

### 1. Interests in subsidiaries

#### (1) Composition of the Group

Name of subsidiary	Place of registration and principal operation	Business Nature	Registered capital (RMB in ten thousand)	Percentage of shareholding (%)		Acquisition method
				Direct	Indirect	
<b>Subsidiaries indirectly held through two-level structures</b>						
GSI	Guangzhou	Shipbuilding	855,697.08	76.42		Business combination under common control
Huangpu Wenchong	Guangzhou	Shipbuilding	285,989.77	69.02		Business combination under common control
<b>Subsidiaries indirectly held through three-level structures</b>						
Longxue Pipe <sup>Note 1</sup>	Guangzhou	Pipe processing	7,000		42.86	Business combination under common control
United Steel <sup>Note 4</sup>	Guangzhou	Steel structures	US\$8.85 million		100.00	Establishment through investment
GSI Elevator	Guangzhou	Manufacturing of elevators	11,000		100.00	Establishment through investment
Hongfan Technology	Guangzhou	Software development	500		51.00	Establishment through investment
Guangji	Guangzhou	Provision of services	500		100.00	Establishment through investment
Hongfan Hotel	Guangzhou	Catering services	11,940		100.00	Establishment through investment
Glory Group	Hong Kong	General trading	HK\$30 million		100.00	Establishment through investment
Large-scale Machinery	Guangzhou	Equipment manufacturing	18,861		100.00	Establishment through investment
Zhongshan GSI	Zhongshan	Equipment manufacturing	70,000		100.00	Establishment through investment
Huangchuan Ocean Engineering	Guangzhou	Shipbuilding	6,800		100.00	Business combination under common control
Zhanjiang Nanhai	Zhanjiang	Provision of services	200		80.50	Business combination under common control
Xinhang	Guangzhou	Provision of services	200		75.00	Business combination under common control
Wenchong Shipyard	Guangzhou	Shipbuilding	142,017.8455		100.00	Business combination under common control
Xingji <sup>Note 4</sup>	Guangzhou	Professional technical services	500		37.50	Establishment through investment
Wenchuan Heavy Industrial	Guangzhou	Equipment manufacturing	11,000		100.00	Business combination under common control
Wenchong Bingshen <sup>Note 4</sup>	Guangzhou	Equipment manufacturing	560		60.00	Business combination under common control
Wah Shun	Hong Kong	Other operating leases relating to machinery and equipment	HK\$1 million		99.00	Establishment through investment
Wah Loong	Hong Kong	Other operating leases relating to machinery and equipment	HK\$1 million		99.00	Establishment through investment
CSSC Internet	Guangzhou	Information electronic technology services	5,000.00		100.00	Establishment through investment
Wenchong Dockyard	Guangzhou	Ship maintenance and modification	164,384.10		100.00	Business combination under common control
Fonkwang	Hong Kong	General trading	HK\$200,000		80.00	Establishment through investment
<b>Subsidiaries indirectly held through four-level structures</b>						
CSSC New Energy <sup>Note 3</sup>	Guangzhou	Liquefied petroleum production and supply	1,800		40.00	Establishment through investment

# NOTES TO THE FINANCIAL STATEMENTS

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Note 1: Longxue Pipe has three shareholders and is held as to 42.86% by GSI and as to 28.57% by each of CSSC Science & Technology Co., Ltd. and Shanghai Shipbuilding Technology Research Institute (both under the common control of CSSC). GSI has appointed three out of five directors of Longxue Pipe and is in a position to control the relevant activities of Longxue Pipe. As such, Longxue Pipe is included in the scope of consolidation.

Note 2: Xingji has three shareholders and is held as to 37.5% by Huangpu Wenchong, as to 37.5% by Shanghai Merchant Vessel Design and Research Institute (both under the common control of CSSC), and as to 25% by Yuzhong International Co., Ltd.. Its chairman is appointed by Huangpu Wenchong, which is also responsible for the operation and management of Xingji. Huangpu Wenchong is in a position to control the relevant activities of Xingji. As such, Xingji is included in the scope of consolidation.

Note 3: CSSC New Energy has three shareholders. In accordance with the agreement on acting in concert entered into between Wenchuan Heavy Industrial and Jutin and Yinfang, Wenchuan Heavy Industrial owns 100% voting rights of CSSC New Energy and has actual control over CSSC New Energy.

Note 4: United Steel, Xingji and Wenchong Bingshen are all sino-foreign joint ventures.

## (2) Significant non-wholly-owned subsidiaries

Name of subsidiary	Percentage of minority interests	Gain or loss attributable to minority interests for the year	Dividends declared to minority interests for the year	Ending balance of minority interests
GSI	23.58%	-274,626,589.19		1,537,241,300.04
Huangpu Wenchong	30.98%	-331,504,395.89		1,451,299,009.52
Fonkwang	20.00%	241,979.41	4,736,000.00	12,137,810.70

## (3) Major financial information on significant non-wholly-owned subsidiaries (Unit: RMB in ten thousand)

Name of subsidiary	Ending balance						Beginning balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
GSI	1,062,515.17	1,116,386.11	2,178,901.28	1,154,511.78	331,750.40	1,486,262.18	1,232,112.75	1,052,877.46	2,284,990.21	1,091,997.30	576,775.72	1,668,773.02
Huangpu Wenchong	1,834,699.26	648,404.63	2,483,103.89	1,609,096.68	282,078.61	1,891,175.29	1,774,392.82	541,384.54	2,315,777.36	1,343,273.71	511,025.95	1,854,299.66
Fonkwang	9,571.58	35.52	9,607.10	3,538.20		3,538.20	13,388.23	5.77	13,374.01	5,058.09		5,058.09

(Continued)

Name of subsidiary	Amount for the year				Amount for last year			
	Operating income	Net comprehensive profit	Total comprehensive income	Cash flows from operating activities	Operating income	Net profit	Total comprehensive income	Cash flows from operating activities
GSI	739,854.24	-129,525.64	-129,736.57	-93,279.76	1,061,163.60	-12,606.62	-12,606.62	157,685.64
Huangpu Wenchong	1,174,224.77	-115,872.33	-115,735.50	-60,290.42	1,225,894.70	297.86	309.13	-242,757.84
Fonkwang	4,777.74	120.99	120.99	1,245.47	14,718.67	4,852.71	4,852.71	-3,831.32

## (4) Material restrictions on the use of assets of the enterprise group and settlement of debts of the enterprise group:

None.

## (5) Financial or other assistance provided to structured entities included in the consolidated financial statements:

None.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2. Transactions resulting in the change in percentage of owner's equity in subsidiaries without losing control

### (1) Changes in the proportion of ownership interest in subsidiaries

#### 1) Increase in the capital of GSI and Huangpu Wenchong

The first extraordinary general meeting of 2018 of the Company was held on 12 February 2018, at which the Resolution on the Capital Increase of Guangzhou Shipyard International Company Limited and the Resolution on the Capital Increase of CSSC Huangpu Wenchong Shipbuilding Company Limited were passed, pursuant to which new shareholders including New China Life Insurance Company Ltd. were introduced for market-based debt-to-capital conversion and capital increase in cash in the total amount of RMB4.8 billion, of which the capital of GSI, a subsidiary of the Company, increased by RMB2.4 billion, representing 23.58% equity interest in GSI, and the capital of Huangpu Wenchong, a subsidiary of the Company, increased by RMB2.4 billion, representing 30.98% equity interest in Huangpu Wenchong. As at the end of February 2018, new investors had made their capital contribution, and the business change registration of these companies was completed. As a result of the capital increase, the Company's equity interest in GSI and Huangpu Wenchong, both subsidiaries of the Company, was diluted by 23.58% and 30.98%, respectively, but the Company still maintained control over both subsidiaries.

#### 2) Increase in the capital of CSSC New Energy

In 2018, CSSC New Energy successively received contributions from other shareholders of RMB1,010,000 in total. As such, the Group's effective shareholding percentage in CSSC New Energy changed from 100% to 78.09%. The Group still maintained the control over CSSC New Energy.

### (2) Impacts of changes in ownership interest in subsidiaries on equity

Unit: RMB in ten thousand

Item	Total	GSI	Huangpu Wenchong	Guangzhou New Energy
Cash	480,101.00	240,000.00	240,000.00	101.00
Total consideration for disposal	480,000.01	240,000.00	240,000.00	0.01
Less: Share of net assets of subsidiary based on the shareholding percentage acquired/disposed of	368,762.17	190,743.78	178,058.35	-39.96
Difference	111,237.84	49,256.22	61,941.65	39.97
Including: Adjustment to capital reserves	111,237.84	49,256.22	61,941.65	39.97

## 3. Interests in joint ventures or associates

### (1) Significant joint ventures or associates

Name of joint venture or associate	Principal place of business	Place of incorporation	Business nature	Percentage of shareholding (%)		Accounting method for investment in joint ventures or associates
				Direct	Indirect	
Nanfang Environment Co., Ltd.	Guangzhou	Guangzhou	Ecological environment protection and environmental governance	60%		Equity method
CSSC Chengxi Yangzhou Shipbuilding Company Limited	Yangzhou	Yangzhou	Shipbuilding	49%		Equity method

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Key financial information of significant joint ventures

Nanfeng Environment Co., Ltd.		
Item	Ending balance/ Amount for the year	Beginning balance/ Amount for last year
Current assets:	<b>309,033,123.33</b>	40,282,660.01
Including: Cash and cash equivalents	<b>55,834,125.49</b>	37,800,402.33
Non-current assets	<b>41,913,960.29</b>	7,795,393.90
Total assets	<b>350,947,083.62</b>	48,078,053.91
Current liabilities:	<b>256,950,786.46</b>	835,470.73
Non-current liabilities		
Total liabilities	<b>256,950,786.46</b>	835,470.73
Minority interests	<b>14,121,598.24</b>	
Equity attributable to shareholders of the Company	<b>79,874,698.92</b>	47,242,583.18
Share of net assets based on shareholding percentage	<b>47,924,819.35</b>	28,345,549.91
Adjustments		
– Goodwill		
– Unrealized profit from intra-group transactions		
– Others		
Carrying amount of equity investments in joint ventures	<b>47,924,819.35</b>	28,345,549.91
Fair value of investments in joint ventures		
with public quoted prices		
Operating income	<b>411,139,657.94</b>	
Finance costs	<b>1,122,959.73</b>	-158,433.03
Income tax expense	<b>1,403,981.88</b>	
Net profit	<b>-21,866,286.02</b>	-2,757,416.82
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income	<b>-21,866,286.02</b>	-2,757,416.82
Dividends received from joint ventures during the year		

## (3) Key financial information of significant associates

GSI Yangzhou		
Item	Ending balance/ Amount for the year	Beginning balance/ Amount for last year
Current assets:	<b>683,829,891.75</b>	285,549,047.64
Including: Cash and cash equivalents	<b>47,877,556.08</b>	272,130,556.08
Non-current assets	<b>1,015,630,437.96</b>	1,034,516,277.75
Total assets	<b>1,699,460,329.71</b>	1,320,065,325.39
Current liabilities:	<b>392,052,311.71</b>	11,946,210.98
Non-current liabilities		
Total liabilities	<b>392,052,311.71</b>	11,946,210.98
Minority interests		
Equity attributable to shareholders of the Company	<b>1,307,408,018.00</b>	1,308,119,114.41
Share of net assets based on shareholding percentage	<b>640,629,928.82</b>	640,978,366.06
Adjustments		
– Goodwill		
– Unrealized profit from intra-group transactions		
– Others	<b>521,273.01</b>	521,273.01
Carrying amount of equity investments in associates	<b>641,151,201.83</b>	641,499,639.07
Fair value of investments in associates		
with public quoted prices		
Operating income	<b>677,329,815.95</b>	77,294,323.82
Finance costs	<b>-3,665,490.77</b>	-6,021,167.33
Income tax expense	<b>319,346.48</b>	1,689,939.51
Net profit	<b>655,288.14</b>	5,060,683.52
Net profit from discontinued operations		
Other comprehensive income		
Total comprehensive income	<b>655,288.14</b>	5,060,683.52
Dividends received from associates during the year	<b>669,528.43</b>	1,864,982.72

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (4) Aggregated financial information of insignificant joint ventures and associates

Item	Ending balance/ Amount for the year	Beginning balance/ Amount for last year
<b>Joint ventures:</b>		
Total carrying amount of investments	<b>306,828.15</b>	
Amounts in aggregate in proportion to the shareholdings		
– Net profit	<b>255,828.15</b>	
– Other comprehensive income		
– Total comprehensive income	<b>255,828.15</b>	
<b>Associates:</b>		
Total carrying amount of investments	<b>51,552,448.78</b>	68,173,471.59
Amounts in aggregate in proportion to the shareholdings		
– Net profit	<b>1,535,486.39</b>	-561,599.25
– Other comprehensive income		
– Total comprehensive income	<b>1,535,486.39</b>	-561,599.25

(1) Major restrictions on the ability of joint venture or associate to transfer funds to the Company

None.

## IX. RISKS RELATING TO FINANCIAL INSTRUMENTS

The Group's major financial instruments include borrowings, receivables, payables, investment in equity instruments not held for trading and forward exchange contracts. For details for each financial instrument, please see Note VI. The risks related to these financial instruments, and the Group's risk management policies for risk mitigation are stated as below. The management and supervision on the risk exposure by the management of the Group is to ensure that these risks mentioned above are controlled within a reasonable range.

### 1. Various risk management objectives and policies

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

#### (1) Market risk

##### 1) Foreign currency risk

The Group's foreign exchange exposure is mainly related to USD, HKD and EUR. Except that the Group is using foreign currencies including USD, HKD and EUR for sales and purchase transactions in respect of shipbuilding business, other main business operations of the Company are denominated and settled in RMB. As at the end of the year, except for assets and liabilities with balances in USD, HKD, MOP, EUR, GBP and JPY set out below, all other assets and liabilities of the Group were denominated in RMB. The recognised assets and liabilities in USD and the unrecognised ship settlement in USD shown in the table below, leading to foreign currency risk, may affect the results of operation of the Group.

Item	Ending balance	Beginning balance
Cash and cash equivalents-USD	<b>292,532,826.34</b>	530,001,719.81
Cash and cash equivalents-HKD	<b>107,093,975.05</b>	143,364,895.73
Cash and cash equivalents-EUR	<b>5,938,372.46</b>	11,114,049.06
Cash and cash equivalents-JPY	<b>125,329.00</b>	125,725.04
Cash and cash equivalents-GBP	<b>917.30</b>	917.30
Cash and cash equivalents-Norwegian Krone	<b>6.49</b>	6.48
Accounts receivable-USD	<b>99,824,027.48</b>	33,887,391.74
Accounts receivable-HKD	<b>18,279,072.74</b>	32,607,841.90
Accounts receivable-MOP		3,277,585.17
Accounts receivable-EUR	<b>234,772.30</b>	627,325.43
Other receivables-USD	<b>151,500.50</b>	151,500.50
Other receivables-HKD	<b>2,424,538.69</b>	2,815,836.12
Other receivables-EUR	<b>55,200.00</b>	1,500.00
Interest receivable-USD	<b>171,081.93</b>	523,948.24
Interest receivable-HKD	<b>256,819.92</b>	327,175.80
Long-term receivables due within one year-USD	<b>9,240,000.00</b>	
Long-term receivables-USD	<b>62,689,864.61</b>	
Accounts payable-USD	<b>3,441,968.13</b>	1,870,054.51
Accounts payable-EUR	<b>29,904.00</b>	
Accounts payable-HKD	<b>343,427.35</b>	10,432,955.51
Other payables-USD	<b>42,991.42</b>	42,991.42
Other payables-HKD	<b>139,125.00</b>	222,962.83
Interest payable-USD	<b>65,000.00</b>	
Short-term borrowings-USD	<b>60,843,270.00</b>	2,500,000.00
Short-term borrowings-EUR	<b>230,362.70</b>	



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The Group pays close attention to the impact of exchange rate changes on the Group, and attaches importance to the study of exchange rate risk management policies and strategies. It adjusts the structure of foreign currency assets or liabilities in view of the trend of exchange rate changes or enters into forward exchange trading contracts (forward exchange settlement), exchange swaps, exchange option trading portfolio contracts with banks to reduce the impact of exchange rate risk.

## 2) *Interest rate risk*

The interest rate risk of the Group is generated from bank borrowings with interest rate. Floating-rate financial liabilities expose the Group to cash flow interest rate risk, and fixed-rate financial liabilities expose the Group to fair value interest rate risk. The Group adjusts the relative percentage of contracts with floating rates and fixed rates in view of the then market environment. As at the end of the year, the Group's bank borrowings mainly included fixed interest rate contracts denominated in RMB and USD with total amount of RMB7,775,444,255.88 (at the beginning of the year: RMB12,205,766,225.00) and floating interest rate contracts denominated in RMB and USD with total amount of RMB5,282,562,500.00 (at the beginning of the year: RMB5,042,205,750.00).

The risk of changes in fair value of financial instrument of the Group caused by changes in interest rate is mainly related to bank borrowings with fixed interest rate. As for the borrowings with fixed interest rate, the goal of the Group is to keep these borrowings with floating interest rate.

The risk of changes in cash flows of financial instrument of the Group caused by changes in interest rate is mainly related to bank borrowings with floating interest rate. It is the policy of the Group to keep these borrowings with floating interest rate, in order to eliminate the risk in fair value related to changes in interest rate.

## 3) *Price risk*

The Group undertakes sales orders for shipbuilding and ship maintenance, offshore engineering products and electromechanical products at market price, and is subject to the price fluctuations.

## (2) **Credit risk**

As at the end of the year, the Group's potential maximum exposure to credit risk is mainly because of the counterparties' failure to perform their obligations leading to losses or financial guarantee related to the Group and the financial burden assumed by the Group, including:

Book value of the recognised financial assets in the consolidated balance sheet; as for financial instruments measured at fair value, book value reflects their exposures to risks, but not the maximum exposure to risks which shall be changed as changes in fair value occurs.

To reduce credit risk, a team, responsible for confirming credit limitations, reviewing paper work related to credit and executing supervisory procedures, has been established within the Group in order to ensure that necessary measures have been taken to retrieve expired claims. In addition, the Group reviews the collection of each single receivable at the balance sheet date to ensure sufficient provision for bad debts is made for unrecoverable amounts. Therefore, the management considers that credit risks facing the Group have been reduced significantly.

The current funds of the Group are deposited in financial institutions including banks with high credit ratings, thus the credit risk of current funds is relatively low.

The Group has adopted necessary policies to ensure that all clients have good credit history. The Group has no other significant concentration of credit risk except for the top five accounts receivable and long-term receivables.

Top five accounts receivable amounted to RMB1,101,351,154.29 (at the beginning of the year: RMB591,049,273.52) in total; long-term receivables amounted to RMB2,105,762,445.69 (at the beginning of the year: RMB582,380,488.37) in total.

## (3) **Liquidity risk**

Liquidity risk refers to the risk that the Group could not meet its financial obligations at the maturity date. The method of the Group to manage liquidity risk is to ensure adequate cash flows to perform obligations at maturity, so that not to cause any unacceptable losses or damages of reputation of the Group. The analysis of liabilities structure and durations is made periodically to ensure the cash is adequate. The Group monitors the usage of bank borrowings and ensures compliance with the borrowing agreements. In the meantime, the Group would make the financing negotiations with financial institutes to remain the credit lines and reduce liquidity risks

The sources of funding of the Group are mainly from bank borrowings. As at the end of the year, the unutilised bank facilities of the Group were RMB36,161 million (at the beginning of the year: RMB40,122 million).

# NOTES TO THE FINANCIAL STATEMENTS

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The analysis of financial assets and financial liabilities held by the Group by maturity of undiscounted remaining contractual obligations is as follows:

Ending balance:

Item	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>Financial assets</b>	<b>13,910,788,579.48</b>	<b>385,216,480.74</b>	<b>1,371,744,590.54</b>	<b>412,204,600.34</b>	<b>16,079,954,251.10</b>
Cash at bank and on hand	10,337,887,158.50				10,337,887,158.50
Financial assets held-for-trading	11,685,155.01				11,685,155.01
Notes receivable	130,810,712.06				130,810,712.06
Accounts receivable	2,599,936,504.41				2,599,936,504.41
Other receivables	320,145,263.97				320,145,263.97
Interest receivable	46,907,817.53				46,907,817.53
Long-term receivables	63,415,968.00	385,216,480.74	1,371,744,590.54	348,801,374.41	2,169,178,413.69
Entrusted wealth					
management products	400,000,000.00				400,000,000.00
Investments in other equity instruments				63,403,225.93	63,403,225.93
<b>Financial liabilities</b>	<b>20,350,800,745.67</b>	<b>600,424,775.57</b>	<b>2,088,136,826.71</b>	<b>1,838,087,096.16</b>	<b>24,877,449,444.11</b>
Short-term borrowings	4,304,387,255.88				4,304,387,255.88
Financial liabilities held-for-trading	431,894,056.78				431,894,056.78
Notes payable	2,730,396,298.20				2,730,396,298.20
Accounts payable	7,958,832,249.26				7,958,832,249.26
Other payables	343,235,727.57				343,235,727.57
Dividends payable	304,042.49				304,042.49
Interest payable	16,734,825.58				16,734,825.58
Employee benefits payable	41,351,166.51				41,351,166.51
Taxes payable	48,140,024.18				48,140,024.18
Long-term employee benefits payable	61,525,099.22	20,524,775.57	61,574,326.71	104,930,096.16	248,554,297.66
Long-term borrowings	4,414,000,000.00	579,900,000.00	2,026,562,500.00	1,733,157,000.00	8,753,619,500.00

## 2. Sensitivity analysis

The Group adopts sensitivity analysis of reasonableness and the probable change effect of risk variables on equity or profit or loss. Since risk variables rarely change in isolation, the correlation between the variables can bring significant influence to the financial statement. The following sensitivity analysis is assumed the risk variable is independently carried out.

### (1) Exchange rate risk sensitivity analysis

The assumption of exchange risk sensitivity analysis: all overseas net operational investment hedge and cash flow hedge are highly effective.

Based on the above assumptions, with other variables unchanged, the exchange rate might float within a reasonable range, the after-tax effect of reasonable exchange rate fluctuations on current profit or loss is as follows:

Item	Change in exchange rate	Current year		Last year	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
USD	Strengthen by 5% against RMB	326,013,248.69	326,013,248.69	318,422,502.55	318,422,502.55
USD	Weaken by 5% against RMB	-318,591,405.39	-318,591,405.39	-310,989,659.25	-310,989,659.25

### (2) Interest rate risk sensitivity analysis

The interest rate risk sensitivity analysis is based on the following assumptions:

Changes in market interest rate affect the interest income or expenses of floating-rate financial instruments;

For fixed-rate financial instruments measured at fair value, the changes in market value affect their interest income or expenses only;

Changes in fair value of derivative financial instruments and other financial assets and liabilities are calculated using cash flow discount method and the market interest rate at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Based on the above assumptions, with other variables unchanged, the after-tax effect of reasonable interest rate fluctuations on current profit or loss is as follows:

Item	Change in exchange rate	Current year		Last year	
		Effect on net profit	Effect on owners' equity	Effect on net profit	Effect on owners' equity
Floating-rate borrowings	Increase by 1%	-51,623,841.25	-51,623,841.25	-76,295,211.25	-76,295,211.25
Floating-rate borrowings	Decrease by 1%	51,623,841.25	51,623,841.25	76,295,211.25	76,295,211.25

## X. DISCLOSURE OF FAIR VALUE

### 1. Fair value of assets and liabilities measured at fair value at the end of the year and fair value measurement hierarchy

Item	Fair value at the end of the year			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
<b>I. Fair value measurement on a recurring basis</b>				
(i) Financial assets at fair value through profit or loss		11,685,155.01		11,685,155.01
1. Financial assets held-for-trading		11,685,155.01		11,685,155.01
(ii) Financial assets at fair value through other comprehensive income	6,813,766.56		56,589,459.37	63,403,225.93
1. Investment in equity instruments	6,813,766.56		56,589,459.37	63,403,225.93
<b>Total assets measured at fair value on a recurring basis</b>	<b>6,813,766.56</b>	<b>11,685,155.01</b>	<b>56,589,459.37</b>	<b>75,088,380.94</b>
(i) Financial liabilities at fair value through profit or loss		431,894,056.78		431,894,056.78
1. Financial liabilities held-for-trading		431,894,056.78		431,894,056.78
<b>Total liabilities measured at fair value on a recurring basis</b>		<b>431,894,056.78</b>		<b>431,894,056.78</b>

### 2. Basis for determination of level 1 fair value measurement on recurring and non-recurring basis

Of the investments in equity instruments not held for trading measured at fair value, the fair value of the shares of listed companies held by the Group was determined based on the closing price at 31 December 2018.

### 3. Basis for determination of level 2 fair value measurement on recurring and non-recurring basis

For forward exchange contracts measured at fair value out of financial assets held-for-trading and financial liabilities held-for-trading, for the sake of prudence, the Company chooses quotations from one bank as inputs and recognises their fair values based on the difference between the quoted exchange rate at the balance sheet date from the bank and the contract exchange rate, using the benchmark loan interest rate for the corresponding term published by the People's Bank of China as the discount rate.

### 4. Valuation techniques and qualitative and quantitative information for level 3 items continuing or not continuing to be measured at fair value

For the equity investments held by the Group in unlisted companies out of investments in equity instruments not held for trading measured at fair value, the Group determines their fair values using valuation techniques. The valuation model adopted is mainly the discounted cash flows model, and the inputs to valuation techniques mainly included expected yield, expected term and weighted average capital cost.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

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## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (i) Relationship with related parties

#### 1. Controlling shareholder and ultimate controller

(1) Controlling shareholder and ultimate controller

Name of controlling shareholder and ultimate controller	Place of incorporation	Business nature	Registered capital	Shareholding percentage in the Company (%)	Percentage of voting rights in the Company (%)
CSSC	Shanghai	Shipbuilding	RMB32 billion	35.50	59.97

(2) Controlling shareholder's registered capital and its changes

Controlling shareholder	Beginning balance	Increase for the year	Decrease for the year	Ending balance
CSSC	RMB32 billion			RMB32 billion

(3) Shareholding of controlling shareholder and its parties acting in concert and changes

Controlling shareholder	Shareholding amount		Percentage of shareholding (%)		Remarks
	Ending balance	Beginning balance	Percentage at the end of the year	Percentage at the beginning of the year	
CSSC	501,745,100.00	501,745,100.00	35.50	35.50	
CSSC International	345,940,890.00		24.47		Parties acting in concert
CSSC HK		345,940,890.00		24.47	Parties acting in concert
<b>Total</b>	<b>847,685,990.00</b>	<b>847,685,990.00</b>	<b>59.97</b>	<b>59.97</b>	

Description: CSSC HK, a H shareholder of the Company, transferred 345,940,890 H shares of the Company to CSSC International Holding Company Limited ("CSSC International", a wholly-owned subsidiary of CSSC) on 28 September 2018. CSSC and CSSC International entered into a new acting in concert agreement (the "Agreement") on 28 September 2018 to replace the acting in concert agreement entered into between CSSC and CSSC HK on 25 April 2014. The Agreement provides that during the period in which CSSC is the controlling shareholder or actual controller of CSSC International, the voting right, right of proposal, right to nominate candidates for Directors (including independent Directors) and Supervisors (including independent Supervisors) and right to convene an extraordinary general meeting enjoyed by CSSC International as a shareholder of the Company shall be exercised by CSSC.

#### 2. Subsidiaries

Please refer to Note VIII.1(1) "Composition of the Group" for details of the subsidiaries of the Company.

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## 3. Other related parties

Type of relationship	Name of related party	Content of major transactions	Code of organisation
<b>Other enterprises under common control of controlling shareholder and actual controller</b>			
	Guangzhou Shipyard Co., Ltd.	Purchase of goods, marine accessories and technical labour services	190440532
	CSSC Southern China Ship Machinery Co., Ltd.	Marine accessories and technical labour services	199124798
	CSSC Jiujiang Fire Fighting Equipment Co., Ltd.	Marine accessories	769750177
	Jiujiang Haitian Equipment Manufacture Co., Ltd.	Marine accessories	769756704
	CSSC Nanjing Luzhou Machine Co., Ltd.	Product and equipment	134905382
	Shanghai Merchant Vessel Design and Research Institute	Marine accessories and technical labour services	717810086
	China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	Marine accessories	56586979
	Anqing CSSC Diesel Engine Co., Ltd.	Product and equipment	151306277
	CSSC Marine Power Co. Ltd.	Marine accessories, products and equipment	731778430
	China Shipbuilding Trading (Guangzhou) Co., Ltd.	Marine accessories	190550010
	China Shipbuilding NDRI Engineering Co., Ltd.	Labour and technical services	425014619
	Guangzhou Ship Industrial Co., Ltd.	Purchase of goods and receipt of services	190506722
	China State Shipbuilding Corporation No.11 Research Institute	Marine accessories, products and equipment	71780666-9
	Marine Design and Research Institute of China	Purchase of goods and receipt of services	425007603
	Eastern Shanghai Heavy Machinery Co., Ltd.	Marine accessories, products and equipment	669401543
	CSSC Xijiang Shipbuilding Co., Ltd.	Purchase of goods	198600924
	CSSC Guijiang Shipbuilding Co., Ltd.	Purchase of goods and receipt of services, sales of goods and provision of services	199125619
	Shanghai CSSC Lingang ship Equipment Co., Ltd.	Technical labour services	67464709-7
	China United Shipbuilding Company Limited	Purchase of goods and receipt of services	Overseas company
	Jiujiang CSSC Chang'an Fire Equipment Manufacture Co., Ltd.	Marine accessories	792801606
	China Ship Power Station Equipment Co., Ltd.	Product and equipment	756976070
	Shanghai CSSC Ship Design Technology and National Engineering Research Center Co., Ltd.	Purchase of goods and receipt of services	766907124
	China Shipbuilding Industry Institute of Engineering Investigation & Design Co. Ltd.	Purchase of goods and receipt of services	132943529
	China Shipbuilding Technology Institute	Purchase of goods and receipt of services	400000472
	Jiangxi Chaoyang Machinery Factory	Purchase of goods and receipt of services	158261489
	CSSC Heavy Equipment Co., Ltd.	Technical labour services	799437720
	Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	Technical labour services	755729481

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Type of relationship	Name of related party	Content of major transactions	Code of organisation
	Anqing Marine Electric Co., Ltd.	Purchase of goods	771102718
	China Shipbuilding IT Co., Ltd.	Sale of goods and provision of services	802042333
	China Shipbuilding Trading Co., Ltd.	Purchase of goods and receipt of services	100001027
	China Shipbuilding International Trading Co., Ltd.	Purchase of goods and receipt of services	703424416
	Ships and Ocean Engineering Design and Research Institute of Guangzhou	Sale of goods and provision of services	717806431
	CSSC Chengxi Shipbuilding Co., Ltd.	Sale of goods and provision of services, assets leasing	142243024
	Shanghai Waigaoqiao Shipbuilding Co., Ltd.	Sale of goods and provision of services	631423632
	CSSC Science & Technology Co., Ltd.	Sale of goods and provision of services	132283663
	CSSC Finance Company Limited	Receipt of financial services	100027155
	Guangzhou Shipyard HR Service Co., Ltd.	Technical labour services	664021381
	Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	Construction of fixed assets	759441020
	Jiangxi CSSC Valve Complete Equipment Co., Ltd.	Purchase of goods and receipt of services	598860469
	CSSC Marine Technology Co., Ltd.	Purchase of goods and receipt of services	767236625
	CSSC Shanghai Ship Industrial Co., Ltd.	Purchase of goods and receipt of services	132204830
	China Shipbuilding Trading Shanghai Co., Ltd.	Purchase of goods	132207644
	CSSC Systems Engineering Research Institute	Purchase of goods and receipt of services	400000675
	CSSC (Hong Kong) Shipping Company Limited	Purchase of goods and receipt of services, sales of goods and provision of services	#51105RE3
	CSSC Southern China Ship Machinery Guangzhou Co., Ltd.	Sale of goods and provision of services	677764045
	CSSC Guangxi Ships and Maritime Engineering Co., Ltd.	Sale of goods and provision of services	059544985
	China Shipbuilding Industry Complete Logistics Co., Ltd.	Purchase of goods and receipt of services, sales of goods and provision of services	051227838
	CSSC Electronic Technology Co., Ltd.	Purchase of goods and receipt of services	10201629X
	CSSC Chengxi Xinrong Shipbuilding Company Limited	Sale of goods and provision of services	755884625
	Zhenjiang Shipyard Modern Power Generation Equipment Co., Ltd.	Purchase of goods and receipt of services	782067313
	Shanghai CSSC Mitsui Shipbuilding Diesel Engine Co., Ltd.	Purchase of goods and receipt of services	765585565
	Shanghai CSSC Materials Engineering Co., Ltd.	Purchase of goods and receipt of services	593108825
	Shanghai Zhenhua Engineering Consulting Co., Ltd.	Purchase of goods and receipt of services	631898873
	Shanghai Starry ship Ocean Engineering Service Co., Ltd.	Purchase of goods and receipt of services	631140202
	Shanghai Shenbo Information System Engineering Co., Ltd.	Purchase of goods and receipt of services	630903554
	Shanghai Jiuyuan Engineering Contracting Co., Ltd.	Purchase of goods and receipt of services	132923392
	Shanghai Haixun Electrical Engineering Co., Ltd.	Purchase of goods and receipt of services, sales of goods and provision of services	751896055

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Type of relationship	Name of related party	Content of major transactions	Code of organisation
	Shanghai Dongxin Software Engineering Co., Ltd.	Purchase of goods and receipt of services	73745754X
	China State Shipbuilding Corporation No.11 Research Institute	Purchase of goods and receipt of services	717806669
	Nanjing CSSC Oasis Environmental Protection Co., Ltd.	Purchase of goods and receipt of services	742362916
	Jiulong Steel Logistics Co., Ltd.	Sale of goods and provision of services	567755594
	Jiujiang CSSC Fire Automation Co., Ltd.	Purchase of goods and receipt of services	091090522
	Jiujiang Precision Testing Technology Research Institute	Purchase of goods and receipt of services	705640569
	Jiangxi CSSC Navigation Instrument Co., Ltd.	Purchase of goods and receipt of services	159500541
	Jiangsu TTS Hua Hai Ships Equipment Co., Ltd.	Purchase of goods and receipt of services	660813517
	Jiangnan Shipbuilding (Group) Co., Ltd.	Sale of goods and provision of services	132204312
	Wah-Chang International Marine Industry Company Limited	Sale of goods and provision of services	XG7250000
	Haiping Enterprises Group Co., Ltd.	Purchase of goods and receipt of services	134757367
	Haifeng Navigation Technology Co., Ltd.	Purchase of goods and receipt of services	082890640
	Technician Training School of Guangzhou Shipyard	Rendering of services	574022487
	Guangzhou Hairong Industrial Co., Ltd.	Purchase of goods and receipt of services	190458329
	Workers' Hospital of Guangzhou Huangpu Shipyard	Rendering of services	738578028
	Kindergarten of Guangzhou Huangpu Shipyard	Rendering of services	738577981
	Guangzhou Huamao Center	Rendering of services	618407582
	Guangzhou Hairong Construction Supervision Co., Ltd.	Purchase of goods and receipt of services	231250517
	Beijing Lei Yin Electronic Technology Development Co., Ltd.	Purchase of goods and receipt of services	633641027
	Beijing Ship Industry Management College	Purchase of goods and receipt of services	40000123X
	Marinequip China Company Limited	Marine accessories	
	Zhoushan Ship Engineering Research Centre of Shanghai Shipbuilding Technology Research Institute	Receipt of services and provision of services	
	Jiangnan TTS (Nantong) Ships Equipment Manufacturing Co., Ltd.	Marine accessories	67301984-9
	China Shipbuilding Trading Guangzhou Co., Ltd.	Purchase of goods	MA5AKBD9-0
	Zhenjiang Marine Auxiliary Machinery Factory of CSSC Nanjing	Marine accessories, products and equipment	78025744-7
	Guangzhou Shipyard Hospital	Purchase of goods, receipt of services and provision of services	
	CSSC Luzhou Zhenjiang Marine Auxiliary Machinery Co., Ltd.	Marine accessories	MA1MQMDU-9
	Jiangxi Chaoyang Machinery Co., Ltd.	Purchase of goods	15826148-9
	Technician Training School of Guangzhou Huangpu Shipyard	Labour and technical services and supply of power	
	Shanghai Hudong Shipyard Valve Co., Ltd.	Purchase of goods	63114750-0
	Jiangxi CSSC Valve Complete Equipment Co., Ltd.	Purchase of goods	598860469
	Guangzhou Bohang Environment Monitoring Services Co., Ltd.	Labour services	07654776-6
	Technician Training School of Guangzhou Wenchong Shipyard	Receipt of services	
	CSSC Hua Hai Ships Equipment Co., Ltd.	Marine accessories	13220328-0

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Type of relationship	Name of related party	Content of major transactions	Code of organisation
	Jiujiang CSSC Trading Co., Ltd.	Labour services	09714598-5
	Shanghai Simifu Industrial Co., Ltd.	Marine accessories	13223150-5
	Guangzhou Nanfang Special Coating Co., Ltd.	Labour services	70823848-7
	Jiujiang Zhongchuan Instrument Co., Ltd.	Marine accessories	79283886-3
	CSSC Chengxi Senior Technical School	Rendering of services	
	Guangzhou GSI Nursing Home Co., Ltd.	Sale of goods	MA59L7Q0-3
	Design and Research Institute of China Shipbuilding and Marine Engineering	Rendering of services	
	Shanghai Shipbuilding Technology Research Institute	Sale of goods and provision of services	
	Jiangyin Huaerxin Special Coating Co., Ltd.	Sale of goods and provision of services	60798463-2
	Shanghai Zhen Nan Engineering Supervision Co., Ltd.	Purchase of goods and receipt of services	13254268-8
	Guangzhou Wenchong Properties Co., Ltd.	Purchase of goods and receipt of services	MA5CK3CP-5
	CSSC Marine Services Co., Ltd.	Purchase of goods and receipt of services	MA1K3M2Q-9
	CSSC Financial Leasing (Shanghai) Co., Ltd.	Purchase of goods and receipt of services	09000639-2
	China Ship News Agency	Purchase of goods and receipt of services	
	Beijing CSSC Consulting Co., Ltd.	Purchase of goods and receipt of services	66051384-8
	Shanghai Jiangnan Career Skills Training Center	Purchase of goods and receipt of services	

## Enterprises under control of joint ventures of controlling shareholder and ultimate controller

	Guangzhou Shipyard Shipping Co., Ltd. (a wholly-owned subsidiary of Shanghai Lingxiang)	Lease of assets	32097191-4
	TTS Hua Hai Ships Equipment Co., Ltd.	Marine accessories	660813517
	TTS Hua Hai International Trading Co., Ltd.	Marine accessories	698750056
	Guangzhou Zhongdan Ship Design Co., Ltd.	Sale of goods and provision of services	MA5ARBB96
	Nanfang Environment Co., Ltd.	Sale of goods and provision of services	MA59N24L-2



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (ii) Consolidated related party transactions

### 1. Related party transaction in relation to purchase and sale of goods and provision and receipt of services

#### (1) Purchase of goods/receipt of services

Related party	Content of transaction	Amount for the year	Amount for last year
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	Materials purchased	<b>2,753,116,669.27</b>	2,784,185,252.36
CSSC Systems Engineering Research Institute	Marine accessories and marine equipment	<b>572,284,396.34</b>	566,042,515.39
Shanghai CSSC Mitsui Shipbuilding Diesel Engine Co., Ltd.	Marine accessories	<b>245,862,522.60</b>	224,238,393.17
China United Shipbuilding Company Limited	Marine accessories	<b>232,603,400.73</b>	182,403,767.09
Eastern Shanghai Heavy Machinery Co., Ltd.	Marine accessories	<b>230,971,671.91</b>	380,375,764.46
CSSC Marine Power Co. Ltd.	Marine accessories	<b>166,203,981.42</b>	197,411,135.56
China Shipbuilding NDRI Engineering Co., Ltd.	Technical labour services	<b>139,507,605.20</b>	137,251,327.37
Shanghai Haixun Electrical Engineering Co., Ltd.	Marine accessories	<b>68,445,292.89</b>	39,367,324.78
Marinequip China Company Limited	Marine accessories	<b>56,575,107.30</b>	8,204,846.10
Haiying Enterprises Group Co., Ltd.	Marine accessories	<b>45,290,000.00</b>	28,350,000.00
Marine Design and Research Institute of China	Technical labour services	<b>40,746,106.39</b>	50,363,437.15
Guangzhou Shipyard Co., Ltd.	Purchase of materials, marine accessories and technical labour services	<b>38,835,968.23</b>	47,932,108.98
CSSC Nanjing Luzhou Machine Co., Ltd.	Marine accessories	<b>29,900,480.17</b>	77,129,506.84
Shanghai CSSC Ship Design Technology and International Engineering Research Center Co., Ltd.	Materials purchased	<b>25,613,537.53</b>	17,990,659.83
Shanghai CSSC Lingang ship Equipment Co., Ltd.	Materials purchased	<b>25,486,829.19</b>	1,940,820.57
China Shipbuilding Trading Co., Ltd.	Marine accessories	<b>24,430,774.37</b>	17,334,891.65
Guangzhou Shipyard HR Service Co., Ltd.	Technical labour services	<b>23,030,905.71</b>	24,022,706.33
CSSC Southern China Ship Machinery Co., Ltd.	Marine accessories	<b>18,986,244.51</b>	38,369,737.39
Shanghai Merchant Vessel Design and Research Institute	Technical labour services	<b>17,583,250.00</b>	18,952,337.38
China Shipbuilding IT Co., Ltd.	Labour and technical services	<b>17,000,768.47</b>	6,691,695.81
Shanghai Jiuyuan Engineering Contracting Co., Ltd.	Materials purchased	<b>16,503,660.25</b>	2,599,666.67
Zhenjiang Shipyard Modern Power Generation Equipment Co., Ltd.	Marine accessories and marine equipment, etc	<b>13,188,594.31</b>	4,620,504.27
Anqing CSSC Diesel Engine Co., Ltd.	Marine accessories	<b>11,354,496.92</b>	88,430,115.39
Zhoushan Ship Engineering Research Centre of Shanghai Shipbuilding Technology Research Institute	Construction	<b>11,133,899.61</b>	–
CSSC Jiujiang Fire Fighting Equipment Co., Ltd.	Marine accessories	<b>9,485,334.75</b>	7,681,797.94
CSSC Marine Technology Co., Ltd.	Marine accessories	<b>9,178,124.14</b>	5,099,000.00
Jiangnan TTS (Nantong) Ships Equipment Manufacturing Co., Ltd.	Marine accessories	<b>7,480,889.91</b>	7,229,390.75

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Related party	Content of transaction	Amount for the year	Amount for last year
CSSC Science & Technology Co., Ltd.	Marine accessories	<b>7,247,863.25</b>	14,898,536.16
China Shipbuilding Trading Guangzhou Co., Ltd.	Materials purchased	<b>6,453,628.11</b>	19,061,720.10
Guangzhou Ship Industrial Co., Ltd.	Materials purchased	<b>5,425,039.51</b>	1,097,055.18
Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	Materials purchased	<b>5,031,633.84</b>	5,877,160.48
Zhenjiang Marine Auxiliary Machinery Factory of CSSC Nanjing	Marine accessories and marine equipment	<b>4,177,673.66</b>	–
Beijing Leiyin Electronic Technology Development Co., Ltd.	Marine accessories	<b>4,169,200.00</b>	1,786,800.00
Guangzhou Shipyard Hospital	Purchase of goods and receipt of services	<b>4,166,255.58</b>	4,639,536.51
CSSC Luzhou Zhenjiang Marine Auxiliary Machinery Co., Ltd.	Marine accessories	<b>2,901,874.46</b>	9,067,288.46
CSSC Xijiang Shipbuilding Co., Ltd.	Construction	<b>2,674,157.54</b>	–
China Shipbuilding Technology Institute	Technical labour services	<b>2,408,220.75</b>	3,474,098.49
Workers' Hospital of Guangzhou Huangpu Shipyard	Technical labour services	<b>2,354,194.60</b>	3,099,778.45
Jiujiang Haitian Equipment Manufacture Co., Ltd.	Marine accessories	<b>2,198,311.54</b>	1,258,547.01
Jiangxi Chaoyang Machinery Co., Ltd.	Materials purchased	<b>3,861,702.53</b>	3,527,830.86
Shanghai Starry Ship Ocean Engineering Service Co., Ltd.	Marine accessories	<b>1,913,740.52</b>	9,744,088.46
Kindergarten of Guangzhou Huangpu Shipyard	Technical labour services	<b>1,680,000.00</b>	2,025,000.00
China State Shipbuilding Corporation Limited	Materials purchased	<b>1,673,820.75</b>	1,140,835.01
Nanjing CSSC Oasis Environmental Protection Co., Ltd.	Marine accessories	<b>1,469,464.65</b>	1,362,236.41
Technician Training School of Guangzhou Huangpu Shipyard	Technical labour services	<b>1,260,056.61</b>	2,328,919.73
China Shipbuilding Industry Complete Logistics Co., Ltd.	Marine accessories and marine equipment, etc	<b>1,101,576.78</b>	41,880.34
China Ship Power Station Equipment Co., Ltd.	Marine accessories and marine equipment	<b>876,000.00</b>	11,226,495.73
CSSC (Hong Kong) Shipping Company Limited	Technical labour services	<b>858,542.83</b>	3,906,226.03
China Shipbuilding International Trading Co., Ltd.	Technical labour services	<b>840,076.51</b>	1,246,509.60
China Shipbuilding Industry Institute of Engineering Investigation & Design Co. Ltd.	Technical labour services	<b>771,663.47</b>	4,007,842.14
Beijing Ship Industry Management College	Labour and technical services	<b>714,677.35</b>	224,801.89
Shanghai Zhenhua Engineering Consulting Co., Ltd.	Materials purchased	<b>698,526.04</b>	302,525.37
Shanghai Shenbo Information System Engineering Co., Ltd.	Materials purchased	<b>596,593.50</b>	4,799,991.59
CSSC Electronic Technology Co., Ltd.	Materials purchased	<b>590,000.00</b>	230,000.00
Shanghai Hudong Shipyard Valve Co., Ltd.	Materials purchased	<b>555,437.93</b>	2,951,196.56
CSSC Southern China Ship Machinery Guangzhou Co., Ltd.	Materials	<b>481,509.15</b>	–
TTS Hua Hai International Trading Co., Ltd.	Materials purchased	<b>475,675.20</b>	–
Ships and Ocean Engineering Design and Research Institute of Guangzhou	Receipt of services	<b>408,490.57</b>	–
Technician Training School of Guangzhou Shipyard	Materials purchased	<b>327,840.73</b>	39,656.00
China State Shipbuilding Corporation No.11 Research Institute	Technical labour services	<b>226,415.09</b>	318,301.89
CSSC Guangxi Ships and Maritime Engineering Co., Ltd.	Repairing expenses	<b>120,443.10</b>	–
Jiangxi CSSC Valve Complete Equipment Co., Ltd.	Materials purchased	<b>98,734.48</b>	–

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Related party	Content of transaction	Amount for the year	Amount for last year
Shanghai Dongxin Software Engineering Co., Ltd.	Labour services	76,923.08	1,177,358.46
Shanghai CSSC Materials Engineering Co., Ltd.	Materials purchased	68,396.56	34,188.03
CSSC Guijiang Shipbuilding Co., Ltd.	Marine accessories and marine equipment	63,109.00	–
Jiujiang CSSC Fire Automation Co., Ltd.	Marine accessories	51,212.71	3,141,468.39
Guangzhou Bohang Environment Monitoring Services Co., Ltd.	Labour services	48,155.34	22,912.62
Technician Training School of Guangzhou Wenchong Shipyard	Training fee	36,800.00	–
CSSC Hua Hai Ships Equipment Co., Ltd.	Marine accessories	27,350.43	1,264,957.26
Jiujiang CSSC Trading Co., Ltd.	Labour services	14,595.45	–
TTS Hua Hai Ships Equipment Co., Ltd.	Materials purchased	58,683.94	4,068,374.08
Guangzhou Huamao Center	Labour services	4,433.96	–
China Ship News Agency		2,641.51	2,641.51
Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	Construction		140,003,490.81
Shanghai Simifu Industrial Co., Ltd.	Marine accessories		6,659,436.00
Guangzhou Nanfang Special Coating Co., Ltd.	Labour services		4,031,160.40
Jiangxi CSSC Valve Complete Equipment Co., Ltd.	Marine accessories		879,361.88
Jiujiang Zhongchuan Instrument Co., Ltd.	Marine accessories		427,500.00
Anqing Marine Electric Co., Ltd.	Marine accessories		169,798.31
Haifeng Navigation Technology Co., Ltd.	Marine accessories and marine equipment		123,080.00
Jiulong Steel Logistics Co., Ltd.	Materials purchased		34,999.32
Jiujiang Precision Testing Technology Research Institute	Electromechanical equipment and metal materials		49,145.31
Guangzhou Hairong Industrial Co., Ltd.	Marine accessories		18,867.95
Beijing CSSC Consulting Co., Ltd.			518,867.92
Shanghai Jiangnan Career Skills Training Center			4,817.34
<b>Total</b>		<b>4,922,061,854.73</b>	<b>5,240,535,987.27</b>

Notes. Pricing principles:

- Purchase prices of electronic appliance, metallic materials and marine complement are based on market price.
- Purchase prices of marine equipment, if there are two or more related parties competed as supplier, after consideration of factors such as inventory cycle, quality of products and services of suppliers, are negotiated with basis on market price. If there is only one related party as supplier due to technical specifications or restrictions, the price should be arm's length as that provided by a third independent party.
- Purchase prices of labour services for shipbuilding and maintenance during the peak production period are based on the cost plus management fee of 10%.
- Purchase prices of cabin-cleaning, ship design and relevant technical services are based on market price.
- Purchase prices of medical care, food and beverage, infant care, training for labour, management fee for residence, etc., are based on the expense incurred in 2008 and adjusted by the annual "price index" (Guangzhou Municipal Statistics Bureau's announcement of the statistic of the general price index of the living expense of Guangzhou Municipal of the previous year) and further adjusted by the number of employees of the Group, number of household and actual staff welfare, but subject to maximum of adjustment on the annual "price index".

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

(2) Sale of goods/provision of services

Related party	Content of transaction	Amount for the year	Amount for last year
CSSC (Hong Kong) Shipping Company Limited	Shipbuilding	<b>875,764,384.45</b>	646,845,078.85
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	Sale of materials	<b>91,722,665.36</b>	90,713,528.38
China Shipbuilding Trading Co., Ltd.	Shipbuilding	<b>39,769,155.99</b>	215,966,490.03
CSSC Science & Technology Co., Ltd.	Labour and technical services	<b>20,141,379.31</b>	13,342,065.79
Marine Design and Research Institute of China	Labour and technical services	<b>9,051,168.63</b>	
CSSC Guangxi Ships and Maritime Engineering Co., Ltd.	Sale of materials, provision of labour services	<b>6,644,769.65</b>	11,165,104.29
CSSC Heavy Equipment Co., Ltd.	Labour and technical services	<b>3,408,369.15</b>	1,014,289.74
Shanghai CSSC Lingang ship Equipment Co., Ltd.	Materials	<b>2,721,474.15</b>	
CSSC Southern China Ship Machinery Guangzhou Co., Ltd.	Labour and technical services	<b>2,177,950.83</b>	2,293,964.65
Guangzhou Shipyard Co., Ltd.	Supply of power, labour and technical services	<b>2,033,029.89</b>	2,393,570.72
China Shipbuilding Technology Institute	Labour and technical services	<b>1,067,011.32</b>	2,198,113.22
Shanghai Merchant Vessel Design and Research Institute	Research project	<b>1,000,000.00</b>	700,000.00
CSSC Systems Engineering Research Institute	Labour and technical services	<b>825,146.39</b>	424,528.30
Technician Training School of Guangzhou Huangpu Shipyard	Supply of utilities	<b>582,674.90</b>	315,531.10
China Shipbuilding IT Co., Ltd.	Sale of materials	<b>530,139.88</b>	193,678.43
Guangzhou Ship Industrial Co., Ltd.	Sale of materials	<b>484,201.31</b>	195,098.04
CSSC Southern China Ship Machinery Co., Ltd.	Labour and technical services	<b>270,105.06</b>	157,386.80
Workers' Hospital of Guangzhou Huangpu Shipyard	Supply of utilities	<b>263,546.04</b>	383,142.40
Ships and Ocean Engineering Design and Research Institute of Guangzhou	Supply of utilities	<b>172,028.23</b>	322,079.87
CSSC Guijiang Shipbuilding Co., Ltd.	Sale of materials, provision of technical labour services	<b>153,708.43</b>	182,015.90
Zhoushan Ship Engineering Research Centre of Shanghai Shipbuilding Technology Research Institute	Labour services	<b>141,509.43</b>	
Kindergarten of Guangzhou Huangpu Shipyard	Supply of utilities	<b>96,432.54</b>	74,877.40
China Shipbuilding Industry Complete Logistics Co., Ltd.	Sale of materials	<b>86,206.90</b>	821,597.66
Technician Training School of Guangzhou Shipyard	Supply of utilities	<b>74,911.70</b>	53,349.67
CSSC Xijiang Shipbuilding Co., Ltd.	Supply of utilities	<b>68,656.64</b>	12,490.56
China State Shipbuilding Corporation	Labour services	<b>64,525.47</b>	
CSSC Chengxi Senior Technical School	Labour services	<b>50,000.00</b>	
CSSC Nanjing Luzhou Machine Co., Ltd.	Labour services	<b>37,735.84</b>	
CSSC Finance Company Limited	Labour and technical services	<b>33,018.87</b>	
Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	Sale of materials	<b>17,423.60</b>	30,484.67
Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	Labour services	<b>16,771.70</b>	

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Related party	Content of transaction	Amount for the year	Amount for last year
Guangzhou GSI Nursing Home Co., Ltd.	Sale of materials	<b>13,841.32</b>	50,197.66
Guangzhou Shipyard Hospital	Labour services	<b>10,188.68</b>	13,624.58
Jiangnan Shipbuilding (Group) Co., Ltd.	Labour and technical services	<b>2,226.41</b>	
CSSC Chengxi Shipbuilding Co., Ltd.	Power, labour and technical services		11,459,797.35
Wah-Chang International Marine Industry Company Limited	Sale of materials and labour services		1,241,802.93
Guangzhou Wenchuan Heavy Industrial Co., Ltd.	Sale of materials		697,435.92
Design and Research Institute of China Shipbuilding and Marine Engineering	Labour services		88,679.24
China Shipbuilding NDRI Engineering Co., Ltd.	Labour and technical services		83,806.83
CSSC Chengxi Xinrong Shipbuilding Company Limited	Labour services		83,760.68
Guangzhou Shipyard HR Service Co., Ltd.	Labour services		81,154.44
Haiying Enterprises Group Co., Ltd.	Labour services		45,283.02
CSSC Marine Technology Co., Ltd.	Labour services		30,188.68
Guangzhou Huamao Center	Labour and technical services		170.94
China Shipbuilding Trading Shanghai Co., Ltd.	Sale of materials, labour and technical services		-8,549,447.83
<b>Total</b>		<b>1,059,496,358.07</b>	995,124,920.91

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2. Receipt of financial services

### (1) Deposits

Name of related party	Balance of deposits		Interest income on deposits	
	Ending balance	Beginning balance	Current year	Last year
CSSC Finance Company Limited	3,887,008,008.16	5,891,278,382.09	44,494,282.35	49,866,195.95

Pricing principle: Interest income to be based on the basic interest rate set by the People's Bank of China, subject to minimum of interest rate provided by the CSSC Group to other third party or the deposit rate provided to the Company by the commercial banks.

### (2) Loans

Name of related party	Balance of loans		Interest expenses on loans	
	Ending balance	Beginning balance	Current year	Last year
CSSC Finance Company Limited	3,726,692,000.00	6,307,400,000.00	211,029,404.94	247,695,368.84

Pricing principle: Interest rate for RMB loan is based on the benchmark interest rate for mid-to-long-term loan and short-term loan stipulated by the PBOC, with downward adjustments. The interest rate for USD loan is determined with reference to the USD loan interest rate for the same period.

Note: The balance of loan provided by CSSC Finance Company Limited included, among others, entrusted loan provided to the Group by CSSC.

Entrusted loans of CSSC:

Name of related party	Borrowing/Lending	Amount	Date of commencement	Date of expiry	Interest rate	Remarks
CSSC	Borrowing	500,000,000.00	2012-7-18	2019-7-15	5.00%	GSI
CSSC	Borrowing	600,000,000.00	2012-7-18	2019-7-15	5.00%	GSI
CSSC	Borrowing	400,000,000.00	2016-10-24	2021-10-14	3.25%	GSI
CSSC	Borrowing	500,000,000.00	2012-6-20	2022-6-15	5.25%	Wenchong Dockyard
CSSC	Borrowing	650,000,000.00	2012-9-19	2022-9-17	5.42%	Wenchong Dockyard
CSSC	Borrowing	150,000,000.00	2016-10-21	2021-10-14	3.25%	Wenchong Dockyard
CSSC	Borrowing	200,000,000.00	2018-7-31	2022-6-15	5.25%	Wenchong Dockyard
<b>Total</b>		<b>3,000,000,000.00</b>				

### (3) Forward exchange settlement (purchase)

Name of related party	Forward exchange settlement (purchase) contract		Gain or loss on change in fair value of forward exchange settlement (purchase) contract		Investment income from forward exchange settlement (purchase)	
	Ending balance	Beginning balance	Current year (RMB)	Last year (RMB)	Current year (RMB)	Last year (RMB)
CSSC Finance Company Limited	US\$250 million	US\$43.6 million	-36,302,162.95	-2,397,418.21	-3,602,440.00	2,271,100.00

### (4) Entrusted wealth management products

Name of related party	Entrusted wealth management products		Income from entrusted wealth management products	
	Ending balance	Beginning balance	Current year	Last year
CSSC Finance Company Limited	400,000,000.00	1,001,000,000.00	43,878,891.24	61,693,229.85

Pricing principle: to be determined with reference to the return on the entrusted wealth management products in the market in the same period.

# NOTES TO THE FINANCIAL STATEMENTS

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## 3. Related leases

(1) As lessor

Name of lessor	Name of lessee	Type of leased assets	Rental income recognised for the year	Rental income recognised for last year
GSI Yangzhou	CSSC Chengxi Shipbuilding Co., Ltd.	Land, buildings and equipment		38,587,351.97
<b>Total</b>				<b>38,587,351.97</b>

(2) As lessee

Name of lessor	Name of lessee	Type of leased assets	Rental fees recognised for the year	Rental fees recognised for last year
Guangzhou Ship Industrial Co., Ltd.	Wenchong Shipyard	Land, buildings and structures	<b>17,274,961.55</b>	20,559,791.11
Guangzhou Ship Industrial Co., Ltd.	Huangpu Wenchong	Land, buildings and structures	<b>6,894,454.24</b>	4,681,546.63
Guangzhou Shipyard Co., Ltd.	GSI	Buildings and structures	<b>1,094,308.41</b>	914,623.69
Guangzhou Shipyard Co., Ltd.	United Steel	Buildings and structures	<b>354,857.14</b>	
Guangzhou Shipyard Co., Ltd.	GSI Elevator	Land, buildings and structures	<b>251,444.56</b>	285,192.70
Guangzhou Shipyard Shipping Co., Ltd.	GSI	Land, buildings and structures		128,000,000.00
Guangzhou Shipyard Co., Ltd.	Guangli	Buildings, structures and machinery equipment		687,782.71
<b>Total</b>			<b>25,870,025.90</b>	155,128,936.84

Note: In 2014, Guangzhou Ship Industrial Co., Ltd. ("Guangzhou Company") entered into a lease agreement with Huangpu Wenchong and Wenchong Shipyard in relation to land use right and buildings erected on land, pursuant to which it leased certain land use right and buildings erected on land at Changzhou Factory and Wenchong Factory owned by it to Huangpu Wenchong and Wenchong Shipyard for operation. Huangpu Wenchong will pay an annual rent of approximately RMB7.6 million and Wenchong Shipyard will pay an annual rent of approximately RMB21.30 million. The term of lease of the land use right and buildings erected on land shall commence on 1 May 2014 and end on the date on which Huangpu Wenchong and Wenchong Shipyard finish relocation to Changzhou Factory and Wenchong Factory and commence formal production in the new factory area.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 4. Related guarantees

(1) *Guarantees provided by related parties for the Group*

As at the end of the year, short-term borrowing of Wenchong Dockyard, a subsidiary of the Company, in the amount of RMB295,000,000.00 was guaranteed by CSSC.

(2) *Guarantees provided by the Group for loans to related parties*

As at the end of the year, there was no guarantee provided by the Group for any related party.

(3) *Guarantees provided within the scope of consolidation of the Group*

Name of guarantor	Name of guarantee	Amount of guarantee	Date of commencement of guarantee	Date of expiry of guarantee	Whether fully executed
Huangpu Wenchong	Wenchong Shipyard	152,000,000.00	2017/1/19	2019/5/21	No
Huangpu Wenchong	Wenchong Shipyard	180,000,000.00	2017/6/26	2019/6/26	No
Huangpu Wenchong	Wenchong Shipyard	400,000,000.00	2018/8/22	2019/6/21	No
Huangpu Wenchong	Wenchong Shipyard	300,000,000.00	2018/11/29	2019/11/28	No

## 5. Compensation for assets relocation of related parties

During the year, the Company recognised gain on compensation for relocation of Liwan Plant of Guangzhou Shipyard Shipping in the amount of RMB538,425,700, details of which are set out in Note VI.57.(1).

## 6. Acquisition of equity interest of related parties

Pursuant to the Resolution on the Connected Transaction in relation to the Acquisition of 100% equity interest in Guangzhou Wenchong Dockyard Co., Ltd. by a Subsidiary of the Company considered and passed at the secondary extraordinary general meeting of 2018 of the Company held on 5 December 2018, GSI, a subsidiary of the Company, acquired 100% equity interest in Wenchong Dockyard held by CSSC and China United Shipbuilding, details of which are set out in Note VII.1.



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 7. Other related party transactions

Type of related party transactions	Name of related party	Current year	Last year
Procurement agency fees	China United Shipbuilding Company Limited	5,807,908.30	3,402,810.01
Sales agency fees	CSSC (Hong Kong) Shipping Company Limited	10,732,243.46	2,597,308.04
Sales agency fees	China Shipbuilding International Trading Co., Ltd.	21,494,591.73	20,287,134.01
Sales agency fees	China Shipbuilding Trading Co., Ltd.	10,127,585.33	13,566,439.73
Letters of guarantee	China Shipbuilding Trading Co., Ltd.	2,346,314.97	
Procurement agency fees	China Shipbuilding Trading Co., Ltd.	119,693.35	244,388.32
Procurement agency fees	CSSC (Hong Kong) Shipping Company Limited	12,687.83	67,541.15
Sales agency fees	China Shipbuilding Trading Shanghai Co., Ltd.		95,328.91
Handling charges for factoring	CSSC (Hong Kong) Shipping Company Limited		32,361.08
<b>Total</b>		<b>50,641,024.97</b>	<b>40,293,311.25</b>

Note: Pricing principle: the sales agency fees shall not exceed the 1% of pricing basis of contract price; the procurement agency fees shall range from 1% to 2% of the contract price; the guarantee letter fees were determined with reference to the rates charged by the banks issuing guarantee letters.

## 8. Related party transactions and connected transactions

The related party transactions mentioned in 1 to 7 above constitute connected transaction or continuing connected transaction as defined under Chapter 14A of the Listing Rules in Hong Kong, and are disclosed in details in the Related Party Transaction section in the Director's Report as required.

### (iii) Related party transactions between the Company and its subsidiaries

#### 1. Purchase of goods and services received

Related party	Content of related party transactions	Amount for the year	Amount for last year
Hongfan Technology	Purchase of goods and receipt of services	200,960.74	218,601.83
Large-scale Machinery	Purchase of goods and receipt of services	13,675.21	
Zhongshan GSI	Purchase of goods and receipt of services	31,702,734.49	16,402,152.99
GSI	Purchase of goods and receipt of services	3,740,579.86	2,173,235.88
Longxue Pipe	Processing services	1,212,458.57	
Hongfan Hotel	Purchase of goods and receipt of services	70,558.06	90,428.20
Guangli	Receipt of services	6,172,040.13	7,570,000.49
United Steel	Purchase of goods and receipt of services		314,403.59
<b>Total</b>		<b>43,113,007.06</b>	<b>26,768,822.98</b>

Note: Pricing policy for purchasing goods or services from subsidiaries: according to market price if there is market price; if not, adding 8%-10% of the cost or using internal assessment settlement price for pricing

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2. Sale of goods and provision of services

Related party	Content of related party transactions	Amount for the year	Amount for last year
United Steel	Sale of goods and provision of services	487,726.09	
Zhongshan GSI	Sale of goods and provision of services	12,049,415.74	10,040,212.68
GSI	Sale of goods and provision of services	37,952,461.06	49,045,816.18
GSI Elevator	Sale of goods and provision of services		138,925.39
<b>Total</b>		<b>50,489,602.89</b>	<b>59,224,954.25</b>

### (iv) Balances with related parties

#### 1. Consolidated

##### (1) Receivables from related parties

Related party	Ending balance		Beginning balance	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
<b>Notes receivable</b>				
CSSC Southern China Ship Machinery Co., Ltd.	170,000.00			
<b>Sub-total of notes receivable</b>	<b>170,000.00</b>			
<b>Interest receivable</b>				
CSSC Finance Company Limited	7,465,375.59		18,932,178.05	
<b>Sub-total of interest receivable</b>	<b>7,465,375.59</b>		<b>18,932,178.05</b>	
<b>Accounts receivable</b>				
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	20,128,621.74	100,643.11	10,640,150.40	53,200.75
CSSC Science & Technology Co., Ltd.	15,657,200.00	78,286.00	81,200.00	406.00
CSSC Heavy Equipment Co., Ltd.	3,494,957.23	17,474.79	180,947.50	904.74
Guangzhou Zhongdan Ship Design Co., Ltd.	3,308,142.40	16,540.71		
Shanghai CSSC Lingang ship Equipment Co., Ltd.	1,526,910.00	7,634.55		
China Shipbuilding Technology Institute	1,124,000.00	5,620.00	514,000.00	2,570.00
CSSC Southern China Ship Machinery Guangzhou Co., Ltd.	919,921.92	4,599.61	595,078.06	2,975.39
Guangzhou Shipyard Co., Ltd.	882,172.02	4,410.86	969,058.77	4,845.29
China Shipbuilding Trading (Guangzhou) Co., Ltd.	786,011.00	3,930.06	303,179.08	1,515.90
China Shipbuilding IT Co., Ltd.	319,534.00	1,597.67	2,890,000.00	14,450.00
CSSC Systems Engineering Research Institute	248,000.00	1,240.00	263,000.00	1,315.00
CSSC Southern China Ship Machinery Co., Ltd.	80,616.00	403.08	24,800.00	124.00
Ships and Ocean Engineering Design and Research Institute of Guangzhou	74,742.00	373.71	18,732.00	93.66
China Shipbuilding NDRI Engineering Co., Ltd.	14,650.00	73.25	14,650.00	73.25
Guangzhou Ship Industrial Co., Ltd.	13,627.00	68.14	133,874.31	669.37

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Related party	Ending balance		Beginning balance	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Nanfeng Environment Co., Ltd.	8,262.00	41.31		
Wah-Chang International Marine Industry Company Limited	6,863.20	34.32	1,176,972.77	5,884.86
CSSC Guijiang Shipbuilding Co., Ltd.	4,121.15	20.61		
Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	1,394.00	6.97	1,545.00	7.73
Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	469.00	2.35	18,450.00	92.25
CSSC Guangxi Ships and Maritime Engineering Co., Ltd.			1,157,660.00	5788.3
CSSC Xijiang Shipbuilding Co., Ltd.			5,560.00	27.80
Technician Training School of Guangzhou Huangpu Shipyard			90,000.00	450.00
CSSC Chengxi Xinrong Shipbuilding Company Limited			4,900.00	24.50
Guangzhou GSI Nursing Home Co., Ltd.			42,777.00	213.89
Workers' Hospital of Guangzhou Huangpu Shipyard			60,065.40	300.33
Shanghai Haixun Electrical Engineering Co., Ltd.			750,000.00	3,750.00
China State Shipbuilding Corporation Limited			200,000.00	1,000.00
CSSC (Hong Kong) Shipping Company Limited			32,017,580.00	160,087.90
<b>Sub-total of accounts receivable</b>	<b>48,600,214.66</b>	<b>243,001.10</b>	52,154,180.29	260,770.91
<b>Prepayments</b>				
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	864,776,667.75		456,686,847.86	
China Shipbuilding Trading Shanghai Co., Ltd.	239,894,266.37		246,377,251.89	
Shanghai CSSC Mitsui Shipbuilding Diesel Engine Co., Ltd.	44,180,000.00		109,004,000.00	
Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	40,539,963.66		-	
Zhoushan Ship Engineering Research Centre of Shanghai Shipbuilding Technology Research Institute	32,517,974.87		-	
Eastern Shanghai Heavy Machinery Co., Ltd.	32,431,926.16		66,903,000.00	
Marinequip China Company Limited	30,654,917.94		29,671,914.54	
Shanghai Haixun Electrical Engineering Co., Ltd.	8,931,600.00			
China Shipbuilding Trading Co., Ltd.	8,103,997.84		36,099,984.27	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Related party	Ending balance		Beginning balance	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
China Shipbuilding NDRI Engineering Co., Ltd.	7,953,674.18		16,369,133.01	
CSSC Marine Power Co. Ltd.	6,971,558.48		9,250,000.00	
TTS Hua Hai Ships Equipment Co., Ltd.	5,240,000.00		5,240,000.00	
Jiujiang Haitian Equipment Manufacture Co., Ltd.	3,128,608.00		600,000.00	
Beijing CSSC Consulting Co., Ltd.	1,497,000.00			
CSSC (Hong Kong) Shipping Company Limited	308,175.65		308,175.65	
Haifeng Navigation Technology Co., Ltd.	226,050.00			
Jiangxi CSSC Navigation Instrument Co., Ltd.	15,860.00		15,860.00	
CSSC Nanjing Luzhou Machine Co., Ltd.	6,350.00		7,563,350.00	
China United Shipbuilding Company Limited			39,657,678.09	
Wah-Chang International Marine Industry Company Limited			3,198,565.37	
China State Shipbuilding Corporation Limited			2,400.00	
CSSC Marine Technology Co., Ltd.			1,099,400.01	
Zhenjiang Shipyard Modern Power Generation Equipment Co., Ltd.			936,871.80	
Anqing CSSC Diesel Engine Co., Ltd.			378,000.00	
China Shipbuilding Industry Complete Logistics Co., Ltd.			54,386.25	
Jiujiang CSSC Chang'an Fire Equipment Manufacture Co., Ltd.			50,000.00	
Nanjing CSSC Oasis Environmental Protection Co., Ltd.			48,267.85	
CSSC Southern China Ship Machinery Guangzhou Co., Ltd.			432,648.40	
<b>Sub-total of prepayments</b>	<b>1,327,378,590.90</b>		<b>1,029,947,734.99</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Related party	Ending balance		Beginning balance	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
<b>Other receivables</b>				
China Shipbuilding Trading Co., Ltd.	1,139,593.49	5,697.97	74,934.51	374.67
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	759,422.39	3,797.11	51,292.00	256.46
Guangzhou Shipyard Hospital	589,328.06	2,946.64	309,000.00	1,545.00
China United Shipbuilding Company Limited	431,018.40	2,155.09		
Nanfang Environment Co., Ltd.	347,021.41	1,735.11		
Guangzhou Ship Industrial Co., Ltd.	219,462.00	1,097.31	195,950.00	979.75
Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	188,746.75	943.73	188,746.75	943.73
China State Shipbuilding Corporation Limited	84,407.58	422.04	2,085.30	10.43
Beijing Ship Industry Management College	67,030.00	335.15	3,200.00	16.00
Guangzhou Shipyard Co., Ltd.	21,912.00	109.56	75,220.65	376.10
Guangzhou Zhongdan Ship Design Co., Ltd.	8,053.10	40.27		
Guangzhou Shipyard HR Service Co., Ltd.	7,701.00	38.51		
CSSC (Hong Kong) Shipping Company Limited	2,575.20	12.88	206,416.98	1,032.08
Guangzhou Huamao Center			6,274.32	31.37
Jiangxi Chaoyang Machinery Factory			795,000.00	3,975.00
Shanghai Shenbo Information System Engineering Co., Ltd.			20,000.00	100.00
Shanghai Shipbuilding Technology Research Institute			7,400.00	37.00
Jiangyin Huaerxin Special Coating Co., Ltd.			34,000.00	170.00
Sub-total of other receivables	3,866,271.38	19,331.37	1,969,520.51	9,847.59
Guangzhou Shipyard Shipping Co., Ltd.	1,109,269,916.57	5,671,349.59		
CSSC (Hong Kong) Shipping Company Limited	32,017,580.00			
Sub-total of long-term receivables	1,141,287,496.57	5,671,349.59		
<b>Total</b>	<b>2,528,767,949.10</b>	<b>5,933,682.06</b>	1,103,003,613.84	270,618.50

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

(2) Payables to related parties

Name of item	Related party	Ending balance	Beginning balance
<b>Notes payable</b>			
	China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	<b>880,362,642.42</b>	343,121,912.85
	Shanghai CSSC Mitsui Shipbuilding Diesel Engine Co., Ltd.	<b>161,123,026.22</b>	110,784,000.00
	Eastern Shanghai Heavy Machinery Co., Ltd.	<b>85,893,337.00</b>	103,263,000.00
	CSSC Marine Power Co. Ltd.	<b>26,685,500.00</b>	40,307,600.00
	Anqing CSSC Diesel Engine Co., Ltd.	<b>9,529,543.00</b>	29,395,000.00
	Shanghai Haixun Electrical Engineering Co., Ltd.	<b>18,782,040.00</b>	12,559,000.00
	CSSC Systems Engineering Research Institute	<b>346,105,750.00</b>	9,205,500.00
	CSSC Luzhou Zhenjiang Marine Auxiliary Machinery Co., Ltd.	<b>2,570,158.35</b>	9,059,700.00
	Marine Design and Research Institute of China	<b>1,782,000.00</b>	4,750,000.00
	China Shipbuilding Trading (Guangzhou) Co., Ltd.	-	3,523,525.52
	CSSC Nanjing Luzhou Machine Co., Ltd.	<b>12,189,797.55</b>	3,010,000.00
	Jiujiang CSSC Fire Automation Co., Ltd.	-	757,500.00
	Zhenjiang Shipyard Modern Power Generation Equipment Co., Ltd.	<b>6,738,520.00</b>	
	Nanjing CSSC Oasis Environmental Protection Co., Ltd.	<b>564,254.02</b>	
	CSSC Marine Technology Co., Ltd.	<b>4,005,200.00</b>	
	CSSC Hua Hai Ships Equipment Co., Ltd.	<b>1,406,000.00</b>	
	Jiujiang Haitian Equipment Manufacture Co., Ltd.	<b>1,346,100.00</b>	
	Shanghai CSSC Ship Design Technology and International Engineering Research Center Co., Ltd.	<b>2,250,000.00</b>	
	Guangzhou Ship Industrial Co., Ltd.	<b>829,497.49</b>	
	CSSC Southern China Ship Machinery Co., Ltd.	<b>5,831,000.00</b>	
<b>Sub-total of notes payable</b>		<b>1,567,994,366.05</b>	669,736,738.37
<b>Interest payable</b>			
	CSSC Finance Company Limited	<b>5,718,091.65</b>	5,070,177.35
<b>Sub-total of interest payable</b>		<b>5,718,091.65</b>	2,696,234.31
<b>Accounts payable</b>			
	CSSC Systems Engineering Research Institute	<b>613,823,660.69</b>	486,509,465.68
	China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	<b>439,898,643.35</b>	266,032,572.55
	China Shipbuilding NDRI Engineering Co., Ltd.	<b>121,227,857.21</b>	157,331,322.09
	CSSC Marine Power Co. Ltd.	<b>12,112,970.00</b>	75,701,705.00
	Guangzhou Ship Industrial Co., Ltd.	<b>95,964,139.12</b>	73,379,281.91
	Eastern Shanghai Heavy Machinery Co., Ltd.	<b>8,962,418.80</b>	51,263,758.66
	Shanghai Haixun Electrical Engineering Co., Ltd.	<b>7,585,532.51</b>	33,667,275.36
	Guangzhou Shipbuilding Nansha Longxue Construction Development Co., Ltd.	<b>18,475,785.09</b>	18,475,785.09
	Haiying Enterprises Group Co., Ltd.	<b>22,995,000.00</b>	16,900,000.00
	CSSC Southern China Ship Machinery Co., Ltd.	<b>8,273,712.40</b>	15,404,462.40
	Anqing CSSC Diesel Engine Co., Ltd.	<b>6,020,330.76</b>	15,093,352.32
	CSSC Nanjing Luzhou Machine Co., Ltd.	<b>12,693,746.48</b>	15,004,900.00
	Shanghai Jiuyuan Engineering Contracting Co., Ltd.	<b>3,769,932.79</b>	10,649,183.97
	CSSC (Hong Kong) Shipping Company Limited	<b>9,883,529.60</b>	9,666,851.39
	Jiangnan TTS (Nantong) Ships Equipment Manufacturing Co., Ltd.	<b>4,860.00</b>	9,666,540.19
	Guangzhou Shipyard Co., Ltd.	<b>6,181,535.43</b>	8,507,535.13
	CSSC Science & Technology Co., Ltd.	<b>2,480,000.00</b>	8,480,000.00
	China Shipbuilding Trading (Guangzhou) Co., Ltd.	-	6,357,956.14
	Marine Design and Research Institute of China	<b>35,173,367.13</b>	5,066,000.00
	Shanghai CSSC Ship Design Technology and International Engineering Research Center Co., Ltd.	<b>3,520,231.03</b>	4,799,793.80
	TTS Hua Hai Ships Equipment Co., Ltd.	<b>4,364,041.82</b>	4,596,293.58
	CSSC Jiujiang Fire Fighting Equipment Co., Ltd.	<b>5,826,225.92</b>	4,380,841.76

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Name of item	Related party	Ending balance	Beginning balance
	China Ship Power Station Equipment Co., Ltd.	<b>2,234,100.00</b>	3,780,350.00
	China Shipbuilding IT Co., Ltd.	<b>4,092,578.30</b>	3,451,595.50
	Shanghai Hudong Shipyard Valve Co., Ltd.	<b>2,299,813.77</b>	3,385,837.75
	China Shipbuilding International Trading Co., Ltd.	<b>2,686,175.00</b>	3,190,265.00
	Zhenjiang Shipyard Modern Power Generation Equipment Co., Ltd.	<b>5,888,673.30</b>	3,125,982.91
	CSSC Luzhou Zhenjiang Marine Auxiliary Machinery Co., Ltd.	<b>1,936,445.15</b>	2,894,972.50
	Jiangxi Chaoyang Machinery Factory	-	2,861,636.19
	Jiujiang CSSC Fire Automation Co., Ltd.	-	2,439,234.10
	CSSC Marine Technology Co., Ltd.	<b>1,104,999.99</b>	2,299,700.00
	CSSC Hua Hai Ships Equipment Co., Ltd.	<b>339,000.00</b>	2,011,500.00
	Shanghai Starry Ship Ocean Engineering Service Co., Ltd.	<b>370,000.00</b>	1,978,800.00
	Beijing Leiyin Electronic Technology Development Co., Ltd.	<b>1,936,800.00</b>	1,816,800.00
	Guangzhou Shipyard HR Service Co., Ltd.	<b>863,728.43</b>	1,508,974.25
	Shanghai Zhen Nan Engineering Supervision Co., Ltd.	-	1,461,102.65
	Shanghai CSSC Lingang ship Equipment Co., Ltd.	<b>540,000.00</b>	1,322,000.00
	China Shipbuilding Trading Co., Ltd.	<b>3,385,598.17</b>	1,128,655.08
	Jiujiang Haitian Equipment Manufacture Co., Ltd.	<b>909,731.72</b>	528,463.00
	Shanghai Shenbo Information System Engineering Co., Ltd.	<b>30,740.00</b>	475,000.00
	CSSC Guangxi Ships and Maritime Engineering Co., Ltd.	-	445,830.70
	Shanghai Shipbuilding Technology Research Institute	-	435,000.00
	Shanghai Waigaoqiao Shipbuilding Co., Ltd.	-	408,800.00
	CSSC Electronic Technology Co., Ltd.	<b>1,292,219.28</b>	390,000.00
	Shanghai Zhenhua Engineering Consulting Co., Ltd.	<b>2,226,694.79</b>	335,327.65
	Jiangxi CSSC Valve Complete Equipment Co., Ltd.	-	329,669.10
	Haifeng Navigation Technology Co., Ltd.	-	300,000.00
	China Shipbuilding Industry Institute of Engineering Investigation & Design Co. Ltd.	<b>290,865.89</b>	286,067.18
	Shanghai Merchant Vessel Design and Research Institute	<b>4,697,500.00</b>	255,538.21
	Jiujiang Precision Testing Technology Research Institute	<b>82,613.70</b>	222,727.40
	Jiangsu TTS Hua Hai Ships Equipment Co., Ltd.	<b>131,794.98</b>	131,794.98
	Shanghai Dongxin Software Engineering Co., Ltd.	<b>89,230.77</b>	125,000.00
	CSSC Finance Company Limited	<b>83,000.00</b>	83,000.00
	Workers' Hospital of Guangzhou Huangpu Shipyard	-	77,790.00
	Anqing Marine Electric Co., Ltd.	<b>18,000.00</b>	72,360.00
	Technician Training School of Guangzhou Huangpu Shipyard	-	50,751.00
	Shanghai CSSC Materials Engineering Co., Ltd.	-	40,000.00
	Guangzhou Bohang Environment Monitoring Services Co., Ltd.	-	13,000.00
	Guangzhou Hairong Construction Supervision Co., Ltd.	<b>10,273.38</b>	10,273.38
	China State Shipbuilding Corporation Limited	-	9,141.20
	Shanghai Jiangnan Career Skills Training Center	-	3,500.00
	China Shipbuilding Industry Complete Logistics Co., Ltd.	<b>1,843,446.01</b>	
	Nanjing CSSC Oasis Environmental Protection Co., Ltd.	<b>642,553.09</b>	
	Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	<b>696,782.07</b>	
	China Shipbuilding Trading Guangzhou Co., Ltd.	<b>3,102,367.65</b>	
	Jiangxi Chaoyang Machinery Co., Ltd.	<b>1,443,364.67</b>	
	Jiangxi CSSC Valve Complete Equipment Co., Ltd.	<b>339,315.70</b>	

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Name of item	Related party	Ending balance	Beginning balance
	Zhoushan Ship Engineering Research Centre of Shanghai Shipbuilding Technology Research Institute	435,000.00	
	Guangzhou Shipyard Hospital	26,400.00	
	China State Shipbuilding Corporation	9,141.20	
	Guangzhou Wenchong Properties Co., Ltd.	2,845,508.99	
	CSSC Marine Services Co., Ltd.	1,050,799.20	
	<b>Sub-total of accounts payable</b>	<b>1,489,212,775.33</b>	1,340,621,316.75
<b>Contract liabilities</b>			
	CSSC Shanghai Ship Industrial Co., Ltd.		685,920.00
	Guangzhou Shipyard Co., Ltd.	79,000.00	371,340.00
	Shanghai Jiuyuan Engineering Contracting Co., Ltd.	300,000.00	300,000.00
	Guangzhou Ship Industrial Co., Ltd.		239,270.18
	Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	10,000.00	10,000.00
	Wah-Chang International Marine Industry Company Limited	3,656,879.40	1,243,840.14
	China Shipbuilding NDRI Engineering Co., Ltd.		3,500,000.00
	Technician Training School of Guangzhou Shipyard	794.00	
	China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	135,165.52	
	China Shipbuilding Trading Shanghai Co., Ltd.	83,525,116.97	
	<b>Sub-total of contract liabilities</b>	<b>87,706,955.89</b>	6,350,370.32
<b>Other payables</b>			
	China Shipbuilding NDRI Engineering Co., Ltd.	7,125,734.61	23,238,324.45
	Shanghai Merchant Vessel Design and Research Institute	1,600,000.00	800,000.00
	Shanghai CSSC Lingang ship Equipment Co., Ltd.	203,400.00	743,400.00
	CSSC Financial Leasing (Shanghai) Co., Ltd.	592,202.69	593,029.43
	China United Shipbuilding Company Limited	125,245,283.56	473,319.81
	CSSC Systems Engineering Research Institute	-	438,000.00
	Shanghai Shenbo Information System Engineering Co., Ltd.	-	285,160.00
	China Shipbuilding Trading Co., Ltd.	133,766.03	133,766.03
	Guangzhou Shipyard HR Service Co., Ltd.	166,619.00	110,922.00
	CSSC Chengxi Shipbuilding Co., Ltd.		30,260.02
	China State Shipbuilding Corporation		6,000.00
	China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	4,398,109.53	20,000.00
	Shanghai Shipbuilding Institute Survey Geotechnical Engineering Co., Ltd.	-	1,500.00
	Shanghai Jiuyuan Engineering Contracting Co., Ltd.	-	1,000.00
	CSSC Southern China Ship Machinery Guangzhou Co., Ltd.	-	500.00
	China Shipbuilding Industry Institute of Engineering Investigation & Design Co. Ltd.	135,656.22	500.00
	CSSC Southern China Ship Machinery Co., Ltd.	-	500.00
	Nanjing CSSC Oasis Environmental Protection Co., Ltd.	-	100.00
	Workers' Hospital of Guangzhou Huangpu Shipyard	-	43.34
	Guangzhou Shipyard Co., Ltd.	1,455,814.18	
	China Shipbuilding Trading Guangzhou Co., Ltd.	180,636.34	
	China Shipbuilding IT Co., Ltd.	204,000.00	
	China Shipbuilding International Trading Co., Ltd.	40,463.00	
	Guangzhou Ship Industrial Co., Ltd.	54,085.00	
	Jiangxi Chaoyang Machinery Co., Ltd.	200,000.00	
	<b>Sub-total of other payables</b>	<b>141,735,770.16</b>	26,876,325.08
	<b>Total</b>	<b>3,292,367,959.08</b>	2,046,280,984.83



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 2. Balance of related party transactions between the Company and its subsidiaries

### (1) Receivables from related parties

Name of item	Related party	Ending balance		Beginning balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
<b>Accounts receivable</b>					
	Zhongshan GSI Marine Engineering Company Limited	3,854,054.39		6,491,342.78	
	Guangzhou Shipyard International Company Limited	7,131,707.73		5,808,865.57	
	Guangzhou United Steel Structures Limited	534,800.00			
	<b>Sub-total of accounts receivable</b>	<b>11,520,562.12</b>		<b>12,300,208.35</b>	
<b>Prepayments</b>					
	Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd.	700,000.00		700,000.00	
	<b>Sub-total of prepayments</b>	<b>700,000.00</b>		<b>700,000.00</b>	
<b>Other receivables</b>					
	Guangzhou Shipyard International Company Limited	6,972,728.12		7,817,530.48	
	CSSC Huangpu Wenchong Shipbuilding Company Limited	1,202,437.49		99,305.55	
	Guangzhou Wenchong Shipyard Co., Ltd.			183,333.33	
	<b>Sub-total of other receivables</b>	<b>8,175,165.61</b>		<b>8,100,169.36</b>	
<b>Long-term receivables due within one year</b>					
	Guangzhou Shipyard International Company Limited			500,000,000.00	
	CSSC Huangpu Wenchong Shipbuilding Company Limited			100,000,000.00	
	<b>Sub-total of long-term receivables due within one year</b>			<b>600,000,000.00</b>	
<b>Other current assets</b>					
	Guangzhou Shipyard International Company Limited	50,000,000.00			
	CSSC Huangpu Wenchong Shipbuilding Company Limited	700,000,000.00			
	<b>Sub-total of other current assets</b>	<b>750,000,000.00</b>			
<b>Other non-current assets</b>					
	Guangzhou Shipyard International Company Limited	285,000,000.00			
	CSSC Huangpu Wenchong Shipbuilding Company Limited	335,000,000.00			
	Total other non-current assets	620,000,000.00			
<b>Total</b>		<b>1,390,395,727.73</b>		<b>621,100,377.71</b>	

# NOTES TO THE FINANCIAL STATEMENTS

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

(2) Payables to related parties

Name of item	Related party	Ending balance	Beginning balance
<b>Accounts payable</b>			
	Guangzhou United Steel Structures Limited	<b>8,354,892.47</b>	11,764,663.84
	Zhongshan GSI Marine Engineering Company Limited	<b>9,734,638.03</b>	6,704,453.48
	Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd.	<b>4,501,679.46</b>	4,891,679.46
	Guangzhou Shipyard International Company Limited	<b>2,510,541.22</b>	1,544,218.15
	Guangzhou Longxue Pipe Co., Ltd.	<b>280,843.80</b>	
<b>Sub-total of accounts payable</b>		<b>25,382,594.98</b>	24,905,014.93
<b>Other payables</b>			
	Guangzhou Shipyard International Company Limited	<b>32,364,814.95</b>	26,830,089.92
	Guangzhou Guangli Shipbuilding Human Resources Service Company Limited	<b>6,955,523.09</b>	1,749,489.68
	Zhongshan GSI Marine Engineering Company Limited	<b>174,948.82</b>	
<b>Sub-total of other payables</b>		<b>39,495,286.86</b>	28,579,579.60
<b>Total</b>		<b>64,877,881.84</b>	53,484,594.53

(v) Remuneration of Directors, Supervisors and key management

1. Details of the remuneration of Directors and Supervisors are as follows

Item	Fees of Directors and Supervisors	Salaries, bonus and allowance	Retirement benefit plan contributions	Total
<b>Amount for the year</b>				
Executive Directors				
Han Guangde				
(from 1 January to 31 August)		560,598.03	20,900.04	581,498.07
Chen Zhongqian		715,341.32	62,510.28	777,851.60
Chen Liping		800,402.80	32,102.28	832,505.08
Sheng Jigang				
(from 5 December to 31 December)		37,981.15	1,600.32	39,581.47
Xiang Huiming		746,722.52	62,510.28	809,232.80
Chen Ji		808,962.40	32,102.28	841,064.68
<b>Supervisors</b>				
Zhu Zhengfu	90,000.00			90,000.00
Fu Xiaosi	90,000.00			90,000.00
Mai Rongzhi (from 12 February to 31 December)		598,851.69	29,552.46	628,404.15
Zhang Shan (from 12 February to 31 December)		369,006.25	44,676.46	413,682.71
Chen Shaolong (from 1 January to 12 February)		79,632.27	5,099.64	84,731.91
Ding Qianfang (from 1 January to 12 February 2018)		97,178.49	5,099.64	102,278.13

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Item	Fees of Directors and Supervisors	Salaries, bonus and allowance	Retirement benefit plan contributions	Total
<b>Amount for the year</b>				
<b>Non-executive Directors</b>				
Wang Yichu	200,000.00			200,000.00
Min Weiguo	200,000.00			200,000.00
Liu Renhuai (from 12 February to 31 December)	176,111.11			176,111.11
Yu Shiyou (from 12 February to 31 December)	176,111.11			176,111.11
Song Dejin (from 1 January to 12 February)	23,888.89			23,888.89
<b>Total</b>	<b>956,111.11</b>	<b>4,814,676.92</b>	<b>296,153.68</b>	<b>6,066,941.71</b>
<b>Amount for last year</b>				
<b>Executive Directors</b>				
Han Guangde		744,951.41	30,216.42	775,167.83
Chen Zhongqian		867,623.96	60,882.42	928,506.38
Chen Liping		752,678.43	30,216.42	782,894.85
Xiang Huiming		837,592.18	60,882.42	898,474.60
Chen Ji		744,783.70	30,216.42	775,000.12
<b>Supervisors</b>				
Fu Xiaosi	90,000.00			90,000.00
Zhu Zhengfu	90,000.00			90,000.00
Chen Shaolong		478,923.17	30,216.42	509,139.59
Ding Qianfang		480,991.14	30,216.42	511,207.56
<b>Non-executive Directors</b>				
Yang Li				
Wang Guozhong				
Song Dejin	200,000.00			200,000.00
Zhu Mingyou				
Wang Yichu	200,000.00			200,000.00
Min Weiguo	200,000.00			200,000.00
<b>Total</b>	<b>780,000.00</b>	<b>4,907,543.99</b>	<b>272,846.94</b>	<b>5,960,390.93</b>

## 2. Five highest paid individuals

Of the five highest paid individuals for the year, 4 are Directors and one is Supervisor (last year: 5 Directors). The remuneration of Directors and Supervisors are set out in Note XI.(V).(1).

Band of remuneration:

Item	Number of persons for current year	Number of persons for last year
Less than HK\$1,000,000	5	5
HK\$1,000,001 to HK\$1,500,000		
HK\$1,500,001 to HK\$2,000,000		
HK\$2,000,001 to HK\$2,500,000		

3. During the track record period, no Director other than Zhu Mingyou had waived or agreed to waive any remuneration. During the year, no emoluments were paid by the Company to any of the Directors, supervisors or five highest-paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 4. Remuneration of key management

The remuneration of key management, including those paid or payable to Directors, Supervisors and senior management, is as follows:

Item	Amount for the year	Amount for last year
Salaries, bonus and allowances	6,969,920.43	6,955,416.38
Retirement benefit plan contributions	360,358.24	335,829.60
Total	7,330,278.67	7,291,245.98

### (vi) Amount due from Directors/affiliates of Directors

1. Amount of the Company due from Directors/affiliates of Directors:

As at the end of the year, the Group had no amount due from Directors/affiliates of Directors.

2. Amount due from directors/affiliates of directors for which the Company has provided guarantee:

As at the end of the year, the Group had no amount due from Directors/affiliates of Directors for which the Company has provided guarantee.

## XII. SHARE-BASED PAYMENTS

As at the end of the year, the Group had no share-based payments.

## XIII. CONTINGENCIES

### 1. Contingent liabilities arising from pending litigations or arbitrations

- (1) On 31 December 2010, the Company and Guangli, a subsidiary of the Company, filed four lawsuits to the Immediate People's Court of Zhenjiang, Jiangsu Province ("Zhenjiang Intermediate Court"). The Company sued Jiangsu Shenghua Shipbuilding Company Limited ("Jiangsu Shenghua") for payment, had a dispute on a technical service contract and GUANGLI sued Jiangsu Shenghua for breaching of contract of 79,600-ton bulk carriers 1# and 2#, which required, A. (1) Jiangsu Shenghua shall eliminate the obstruction, and return all the production equipment, instruments, materials which belong to the Company and placing on its factory area to the Company immediately; (2) order Jiangsu Shenghua to assume all the liabilities in respect of the loss of above production equipment, instruments, materials; B. Jiangsu Shenghua shall pay the Company technical fees and interest of RMB2.4 million which Jiangsu Shenghua owns the Company, and assume penalty of RMB2.4 million; C. Jiangsu Shenghua shall pay Guangli Company the project funds, penalty and the job ready loss which it owes Guangli Company, in the amount of RMB50,281,700 (among which: 1# Ship RMB26,876,000 and 2# Ship RMB23,405,700) in total. In 2011, Jiangsu Shenghua made part of project payment to Guangli. Following mediation by Wuhan Maritime Court on 29 July 2011, Jiangsu Shenghua was required to repay RMB16,940,000 to Guangli in instalments. On 4 June 2013, Wuhan Maritime Court mediated the litigation between the Company and Jiangsu Shenghua with the later returned all the related assets.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

For the remaining three lawsuits, the Company had applied to the court for compulsory enforcement. The assessment of seized assets has been completed by the evaluation institutions entrusted by the execution court; the objection to notice has been declared by court for assessment report delivery and completion. Wuhan Maritime Court had two auctions of Jiangsu Shenghua seized assets respectively on 4 June 2013 and 8 August 2013, but both of the sales fell through. The Company has handled the formal application to offset the debts by assets to the court on 19 August 2013. The case is in the process of enforcement, Zhejiang Nantian Post and Telecommunication Technology Co. Ltd (hereinafter referred as "Zhejiang Nantian") is the main creditors of Jiangsu Shenghua, on 30 July 2013 Jiangsu Shenghua and Guangli and the Company has been treated as defendant which the lawsuit has been institute to the Wuhan Maritime Court, and require the court to confirm the priority right to be repaid by the 300T crane and other materials of Jiangsu Shenghua Shipbuilding Co. Ltd., and stop the enforcement of 300T crane, if it has been enforced, the proceeds need to be paid to the creditor's right of Jiangsu Shenghua in priority. Zhejiang Nantian had raised an objection to enforcement to the court for the same reason on 22 May 2013, but it had been rejected by the court. The case has been heard on 20 November 2013. On 10 December 2013, Wuhan Maritime Court made the first instance judgment for the case of Zhejiang Nantian (2013 Wuhan Maritime law and business No. 01328 civil judgment), which claimed that the Company and Guangli can enjoy the mortgage right for the mortgaged properties of Jiangsu Shenghua, and the creditor's right to seek the preferred payment before Zhejiang Nantian, the requirement of lawsuit from Zhejiang Nantian has been rejected. On 3 January 2014, the Company received the appellate petition of Zhejiang Nantian from Wuhan Maritime Court, and Zhejiang Nantian has been made an appeal to Hu Bei Provincial High Court and require to repeal the previous judgment from Wuhan Maritime Court, and also reclaim that Zhejiang Nantian has the priority to be paid back with 300T crane from Jiangsu Shenghua before Guangli. The Company and Guangli are in the process of communication with the court, and apply for the continued enforcement to deal with Shenghua case. On 20 June 2014, the Company made an application to the Court for resumption of enforcement.

In November 2014, the Company received notice from executive judges of Wuhan Maritime Court, that Jiangsu Shenghua has been ruled bankruptcy at Zhenjiang Intermediate Court at the end of October 2014, all cases which are being enforced shall be terminated, creditors shall report their claims in the Zhenjiang Intermediate People's Court. The Company and Guangli have completed their calculation in respect of the bankruptcy claims, and have filed the data of the relevant information with the liquidation team of Jiangsu Shenghua. On 20 March 2015, the Company attended the first creditors' meeting of Jiangsu Shenghua and the current situation of debts of Jiangsu Shenghua was confirmed at the creditors' meeting. There was also a voting on the property realization plan subsequent to the bankruptcy but the plan was not passed as the largest creditor voted against it. As the appraisal for the buildings and lands owned by Shenghua has not been completed, another creditors' meeting will be held after the appraisal is completed and a new realization plan is available.

The Company attended the second meeting of creditors on 27 April 2017 and received a ruling made by Zhenjiang Intermediate Court on 17 May 2017 which approved the proposal for bankruptcy and realization of properties of Jiangsu Shenghua. The valuation of the existing properties, land and structures erected thereon and machinery and equipment of Jiangsu Shenghua was completed, and its ships under construction were still under valuation. In the next step, the property manager will realize and auction these assets as a whole. Jiangsu Zhenjiang Intermediate People's Court conducted a combined auction of the land, properties, machinery equipment and other relevant assets of the bankrupt Jiangsu Shenghua, which had been successfully purchased by Zhenjiang Hi-tech Development Co., Ltd. at a price of RMB77.65 million. The third meeting of debtors for bankruptcy will be held within 2019.

As at the date of this report, there has been no progress of the aforesaid litigation.

- (2) GSI, a subsidiary of the Company, and Guangzhou CSSC Longxue Construction Development Co., Ltd. ("Longxue Construction") required that Shandong Qingyun Crane Machinery Co., Ltd. and Shandong Tian Jiang Heavy Industry Technology (Group) Co., Ltd. shall repay a loan of RMB44,496,500 and accrued interest (from 29 July 2009 to the effective date of the judgment; calculated in accordance with the lending rates of People's Bank of China over the same period) to Longxue Shipbuilding and Guangzhou CSSC; that Shandong Qingyun Crane Machinery Co., Ltd. and the Shandong Tian Jiang Heavy Industry Technology (Group) Co., Ltd. shall continue to fulfill their delivery obligations for the 9 cranes under the contract already shipped to Longxue Island, Nansha District, Guangzhou; and that Shandong Qingyun Crane Machinery Co., Ltd. and the Shandong Tian Jiang Heavy Industry Technology (Group) Co., Ltd. shall bear the cost of this litigation of RMB283,696 and the property preservation fees of RMB5,000. Jinan Intermediate People's Court made a judgment for Longxue Shipbuilding in first instant verdict, which was fully in favour of GSI. The defendant applied for an appeal, which automatically became void due to the late payment of court fees. The case is currently being enforced by the court. Jinan Intermediate People's Court held two auctions for the components and accessories of 17 cranes, the appraised value of which amounted to RMB15.96 million, on 21 May and 12 August 2013 respectively, but there was no successful bidder for both auctions as no one participated in the bidding. On 12 December 2013, the court severed a notice to the attorney of GSI, stating that the enforcement would be executed by Shanghe County People's Court, which caused strong inconvenience and obstacle for the enforcement. GSI subsequently made a written objection and submitted relevant materials. After communication, Jinan Intermediate People's Court made a ruling on 29 April 2014 that the enforcement shall be conducted by Jinan Intermediate People's Court.

Upon the appointment of a new executive judge, on 12 June 2014, the staff and attorney of GSI, accompanied with the acting judge, visited Shandong Tian Jiang Heavy Industry Technology (Group) Co., Ltd. and commenced an investigation on the property subject to enforcement. On 27 June 2014, GSI submitted the second written valuation of land and property to the acting judge and applied for an auction. On 29 July 2014, the court picked up an assessment institution by drawing lots. On 22 January 2015, upon receipt of the valuation report from the appraisal company, GSI submitted the application to the court for auction of land and properties of Tian Jiang and Qingyun.

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(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

On 7 April 2015, Jinan Intermediate People's Court engaged Shandong Jiahe International Auction Co., Ltd and Shandong Peifeng Auction and Bidding Co., Ltd to hold a public auction on the land use right (including the buildings on the land) of privately owned park of Shandong Qingyun Crane Machinery Co., Ltd. located in Yangliu Town Xintai City, and the land use right (including the buildings, equipment and trees on the land) of Shandong Tian Jiang Heavy Industry Technology (Group) Co., Ltd. located at Keyuan Road, Shanghe County Economic Development Zone, and the auction fell through as there was no bidder. Upon the auction falling through, GSI immediately applied to the court for offsetting some of the debts with the reserved price determined in the auction. On 8 April 2015, Jinan Intermediate People's Court issued the judgment that, the land use right of Qingyun and the properties on the land and the land use right of Tian Jiang, valued as RMB35,105,956, be delivered to GSI to offset some of the debts. On 9 June 2015, GSI received the ruling for termination of the enforcement process from Jinan Intermediate People's Court, and it might apply for resumption of the execution when new clues of properties are found. In December 2015, the execution and project coordination group of Qingyun case realised on-site movable properties of Tian Jiang (which shall be vested with the Company as ruled by the court) at RMB98,000 at local sites by inviting bids, which has been received by GSI. Through liaison with Guangzhou Office of Jinan Municipal People's Government, local government of the location where the land assets to offset debts are located has approached GSI. Representatives of Shanghe County Development Zone Management Committee visited GSI on 11 April 2016 and discussed the matters on transfer and treatment of real estate. On 20 May 2016, GSI visited Shanghe County Development Zone and further communicated with the Development Zone Management Committee. Detailed solutions to realisation of the land assets to offset debts was discussed. As decided at an office meeting of GSI held on 4 July 2016, the investigation into the land and property for settlement of debts in Qinyun case in preparation for listing was carried out by the development and planning department. On 1 August 2016, the land and property located in Shanghe County became listed on Shanghai Assets and Equity Exchange. On 30 May 2018, the land and property located in Shanghe County became listed on Tianjin Property Rights Exchange by the enterprise management department.

On 16 January 2019, Jinan Lvba Pesticide Co., Ltd. paid transaction deposit of RMB5.9 million and won the listing for sale at RMB19.82 million. The Company and Jinan Lvba entered into an asset transaction contract on 29 January 2019 and will complete the relevant procedures for asset transfer following the Chinese New Year Festival.

- (3) The case of contractual dispute between Longxue Pipe, a subsidiary of the Company, and Guangzhou Huayu Electromechanical Equipment Co., Ltd. ("Huayu") was finally ruled by Guangzhou Intermediate People's Court on 13 October 2014. According to the ruling, Huayu was required to pay Longxue Pipe RMB4,953,239.77 and overdue interests as well as the liquidated damages, while Longxue Pipe was required to pay Huayu the processing fee of RMB300,976.74. After the offsetting, Huayu still owed Longxue Pipe RMB4,652,263.03. The Company selected a law firm, being Guoding Law Firm, in its list of lawyers through price comparison, which is specialised in collecting accounts receivable and has been collecting receivables from Huayu on the basis of pure risk agency since 1 June 2015. In October 2016, it identified a property with a gross floor area of 128 square metres in the name of Guo Yuhua, a person subject to enforcement, in Zhongshan. On 7 November 2016, staff of Longxue Pipe, handling judges, staff of the valuation firm and unlockers enforced and seized the property. In January 2017, the valuation firm assessed the value of the property at RMB687,745. In July 2017, the court auctioned the seized property. After deducting bank mortgage, enforcement fee and other fees, the remaining RMB406,637 was paid by the court to Longxue Pipe. In August 2017, Longxue Pipe renewed the risk agency contract with Guoding Law Firm to continue to seek clues and executable properties. The Company has been following up on the seeking of clues of properties of the persons subject to enforcement.
2. Save for the contingencies mentioned above, there was no other significant contingency within the Group as at the end of the year.

# NOTES TO THE FINANCIAL STATEMENTS

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## XIV. COMMITMENTS

### 1. Significant commitments

#### (1) Pledge of assets

As at the end of the year, save for pledged fixed bank deposits, no other assets of the Group were pledged.

#### (2) Undue guarantees and letter of credit

As at the end of the year, the Group's issued but undue letters of guarantee were:

Type of letters of guarantee	RMB	USD	EUR	GBP
Letters of performance guarantee	659,605,621.44	9,053,974.22	938,238.10	
Letters of advancement payment guarantee	517,163,698.90	258,531,596.13		201,000.00
Letters of warranty guarantee	32,471,349.10	5,037,348.76		
Letters of customs duties guarantee	5,500,000.00			
Letters of progress payment guarantee	29,550,000.00			
Letters of other non-financing guarantee	2,491,594.40			
Letters of tender bond	17,400,000.00			
<b>Total</b>	<b>1,264,182,263.84</b>	<b>272,622,919.11</b>	<b>938,238.10</b>	<b>201,000.00</b>

As at the end of the year, the Group's issued but undue letters of credit amounted to RMB0.00, US\$45,820,184.21, EUR114,964,197.40 and JPY672,000,000.00.

#### (3) Outstanding foreign exchange option transactions

The Group attaches great importance to the research of exchange risk management policies and strategies. To prevent exchange rate risks, the Group entered into forward exchange contracts (forward exchange settlement), foreign exchange swaps and foreign exchange options trading portfolio contracts. As at the end of the year, the Group had a total of 65 outstanding forward settlement foreign exchange contracts with total amount of US\$667 million and latest settlement date of 24 December 2020, and recognised profits or losses on changes in fair value of RMB-123,280,000 as at the end of the year; the Group had a total of 2 outstanding exchange swaps with total amount of US\$15 million and latest settlement date of 29 March 2019, and recognised profits or losses on changes in fair value of RMB8,327,600 as at the end of the year; the Group had a total of 98 outstanding option portfolios with total amount of US\$965 million and latest settlement date of 10 July 2020, and recognised profits or losses on changes in fair value of RMB-305,256,500 as at the end of the year.

### 2. Fulfilment of previous commitments

The payment of the pledged loans and settlement of forward contracts of letters of guarantee can be done by the Group according to agreement.

3. Except for the commitments mentioned above, there was other significant commitment within the Group at the end of the year.

## XV. EVENTS AFTER BALANCE SHEET DATE

### 1. Information on profit distribution

Pursuant to a resolution of the meeting of the Board dated 22 March 2019, the Company will not distribute cash dividends or increase its share capital by way of capitalisation of capital reserve for 2018. The profit distribution proposal is subject to the approval at the annual general meeting of 2018 of the Company.

2. Save for the aforesaid events after balance sheet date, the Group had no other events after balance sheet date which require explanations.

# NOTES TO THE FINANCIAL STATEMENTS

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## XVI. OTHER SIGNIFICANT EVENTS

### 1. Correction of previous errors and their effect

During the Reporting Period, there were no corrections of previous errors which are required to be disclosed.

### 2. Segment information

#### (1) Basis for determination of reportable segments and accounting policies

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

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

#### (2) Financial information of reportable segments for the year

##### 1) Profit before tax and assets and liabilities for segments by product or business

Current year

Item	Shipbuilding and related business	Steel structure engineering	Ship maintenance and modification business segment	Others segment	Inter-segment elimination	Total
Operating income	19,343,627,460.39	1,256,736,356.00	674,198,000.24	720,478,009.86	-2,781,443,432.46	19,213,596,394.03
Including: Revenue from external transactions	17,280,026,667.76	761,961,022.61	649,791,240.16	521,817,463.50		19,213,596,394.03
Revenue from intra-segment transactions	2,063,600,792.63	494,775,333.39	24,406,760.08	198,660,546.36	-2,781,443,432.46	
Operating costs	17,403,042,662.44	997,717,973.97	645,868,805.31	710,461,023.94	-494,620,719.38	19,262,469,746.28
Costs for the period	1,236,419,170.36	66,221,728.60	215,752,151.91	61,137,201.26	15,605,216.90	1,595,135,469.03
Total segment profit	-2,225,563,959.17	-24,331,351.38	-187,434,746.74	-5,334,826.36	-17,560,448.88	-2,460,225,332.53
Total assets	48,871,338,220.68	1,164,236,972.75	2,379,417,256.47	10,249,175,834.91	-15,188,824,198.44	47,475,344,086.37
Total liabilities	34,225,463,809.53	874,376,973.12	2,371,477,071.83	1,090,599,358.83	-5,442,983,675.01	33,118,933,538.30
Supplementary information						
Capital expenses	2,180,131,166.65	26,598,593.91	71,079,832.79	38,301,509.81	-638,609,705.04	1,677,501,398.12
Impairment loss recognised during current period	688,311,369.64	-354,545.33	30,030,115.64	-1,478,767.42	5,465.16	716,513,637.69
Depreciation and amortisation expenses	687,273,698.19	6,907,977.67	75,195,611.93	18,320,835.83		787,698,123.62



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

Last year

Item	Shipbuilding and related business	Steel structure engineering	Ship maintenance and modification business segment	Others segment	Inter-segment elimination	Total
Operating income	22,588,401,799.60	1,072,539,494.65	660,528,553.67	1,826,119,813.37	-3,227,382,172.90	22,920,207,488.39
Including: Revenue from external transactions	20,452,023,931.45	1,009,381,917.95	660,528,553.67	798,273,085.32	-	22,920,207,488.39
Revenue from intra-segment transactions	2,136,377,868.15	63,157,576.70	-	1,027,846,728.05	-3,227,382,172.90	-
Operating costs	21,947,075,537.33	575,561,830.46	608,426,055.38	2,367,774,706.06	-3,997,314,308.47	21,501,523,820.76
Costs for the period	1,840,492,408.45	62,577,934.41	198,181,212.75	79,469,185.10	-5,082,595.65	2,175,638,145.06
Total segment profit	-2,780,348.41	76,666,457.58	-144,303,672.70	141,630,749.79	-49,227,716.72	21,985,469.54
Total assets	46,517,137,650.10	960,853,943.24	2,460,351,108.27	10,193,466,404.78	-13,378,704,750.57	46,753,104,355.82
Total liabilities	34,944,704,956.40	618,849,812.52	2,280,663,159.26	1,035,064,653.29	-4,445,668,075.69	34,433,614,505.78
Supplementary information						
Capital expenses	814,930,926.11	3,973,880.05	57,942,199.74	32,013,877.51	9,144,193.97	918,005,077.38
Impairment loss recognised during current period	207,334,597.65	1,929,569.06	9,835,295.56	-6,122,688.34	-9,938,311.83	203,038,462.10
Depreciation and amortisation expenses	719,336,207.43	5,660,752.02	84,795,079.45	19,479,226.95		829,271,265.85

2) Revenue from external transactions by origin of revenue

Item	Amount for the year	Amount for last year
Revenue from external transactions derived from China	<b>11,545,592,155.71</b>	15,525,249,471.89
Revenue from external transactions derived from other countries	<b>7,668,004,238.32</b>	7,394,958,016.50
<b>Total</b>	<b>19,213,596,394.03</b>	22,920,207,488.39

3) Non-current assets by location of assets

Item	Ending balance	Beginning balance
Non-current assets within China	<b>17,072,158,586.14</b>	15,784,737,119.80
Non-current assets in other countries	<b>727,749,130.41</b>	260,326,481.34
<b>Total</b>	<b>17,799,907,716.55</b>	16,045,063,601.14

Note: Total non-current assets exclude financial assets and total deferred tax assets.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## XVII. NOTES TO MAIN ITEMS IN THE FINANCIAL STATEMENTS OF THE COMPANY

### 1. Cash at bank and on hand

Item	Ending balance	Beginning balance
Cash	1,170.04	2,255.54
Bank deposits	99,369,951.01	513,256,051.65
<b>Total</b>	<b>99,371,121.05</b>	<b>513,258,307.19</b>

Including: Total amount deposited overseas

### 2. Notes and accounts receivable

Item	No.	Ending balance	Beginning balance
Notes receivable	(1)		100,000.00
Accounts receivable	(2)	46,428,670.20	34,815,043.87
<b>Total</b>		<b>46,428,670.20</b>	<b>34,915,043.87</b>

#### (1) Notes receivable

1) Types of notes receivable

Types of notes	Ending balance	Beginning balance
Bank acceptance bills		100,000.00
<b>Total</b>		<b>100,000.00</b>

#### (2) Accounts receivable

Name of item	Ending balance	Beginning balance
Accounts receivable	51,860,731.28	39,981,105.94
Less: Provision for bad debts	5,432,061.08	5,166,062.07
Net amount	46,428,670.20	34,815,043.87

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- 1) The ageing analysis of accounts receivable as at the transaction date (including accounts receivable from related parties) is as follows:

Ageing	Ending balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	40,989,081.81	148,842.59	0.36
1-2 years	1,476,215.48	7,381.08	0.50
2-3 years	200,000.00	0.00	0.00
3-4 years			
4-5 years	5,352,687.69	4,198,241.52	78.43
Over 5 years	3,842,746.30	1,077,595.89	28.04
<b>Total</b>	<b>51,860,731.28</b>	<b>5,432,061.08</b>	<b>10.47</b>

(Continued)

Ageing	Beginning balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	25,362,785.45	64,077.63	0.25
1-2 years	1,257,287.47	5,286.44	0.42
2-3 years			
3-4 years	5,748,814.33	4,000,254.75	69.58
4-5 years	1,417,360.45	185,768.26	13.11
Over 5 years	6,194,858.24	910,674.99	14.70
<b>Total</b>	<b>39,981,105.94</b>	<b>5,166,062.07</b>	<b>12.92</b>

- 2) Credit period of accounts receivable

Business	Credit period
Shipbuilding	One month after issue of invoices
Other business	Generally 1 to 6 months

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

3) Breakdown of accounts receivable by the method using which the provision for bad debts is made

Type	Ending balance				
	Book balance		Provision for bad debts		Net amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis	5,256,643.45	10.14	5,256,643.45	100.00	
Including: Accounts receivable of which the credit risk has significantly increased since initial recognition	5,256,643.45	10.14	5,256,643.45	100.00	
Provision for bad debts made on a collective basis	46,604,087.83	89.86	175,417.63	0.38	46,428,670.2
Including: Accounts receivable of which the credit risk has not significantly increased since initial recognition	46,604,087.83	89.86	175,417.63	0.38	46,428,670.2
<b>Total</b>	<b>51,860,731.28</b>	<b>-</b>	<b>5,432,061.08</b>	<b>-</b>	<b>46,428,670.2</b>

(Continued)

Type	Beginning balance				
	Book balance		Provision for bad debts		Net amount
	Amount	Percentage (%)	Amount	Percentage of provision (%)	
Provision for bad debts made on an individual basis	5,055,671.19	12.65	5,055,671.19	100.00	
Including: Accounts receivable of which the credit risk has significantly increased since initial recognition	5,055,671.19	12.65	5,055,671.19	100.00	
Provision for bad debts made on a collective basis	34,925,434.75	87.35	110,390.88	0.32	34,815,043.87
Including: Accounts receivable of which the credit risk has not significantly increased since initial recognition	34,925,434.75	87.35	110,390.88	0.32	34,815,043.87
<b>Total</b>	<b>39,981,105.94</b>	<b>-</b>	<b>5,166,062.07</b>	<b>-</b>	<b>34,815,043.87</b>

a) Provision for bad debts in respect of accounts receivable made on an individual basis

Name of entity	Book balance	Amount of bad debts	Percentage of provision (%)	Reasons for provision
TENOVA AUSTRALIA PTY LTD	4,192,440.28	4,192,440.28	100.00	Very little chance of recovery
Qingdao Haier Special Freezer Co., Ltd.	208,000.00	208,000.00	100.00	Long ageing, with risk of collection.
Hisense Rongshen (Yangzhou) Refrigerator Co., Ltd.	179,579.35	179,579.35	100.00	Long ageing, with risk of collection.
China Refrigeration Industry Co., Ltd.	166,510.00	166,510.00	100.00	Long ageing, with risk of collection.
Swan (Jingzhou) Electric Co., Ltd.	120,985.49	120,985.49	100.00	Long ageing, with risk of collection.
Hefei Hualing Co., Ltd.	117,000.00	117,000.00	100.00	Long ageing, with risk of collection.
Zhenhua Gulf Engineering Co. Ltd.	72,158.73	72,158.73	100.00	Long ageing, with risk of collection.
Qingdao Haier Special Plastic Development Co. Ltd.	44,800.00	44,800.00	100.00	Long ageing, with risk of collection.
Hisense (Nanjing) Electric Company Limited	39,100.00	39,100.00	100.00	Long ageing, with risk of collection.
Guangzhou Merro Steel Grating Co., Ltd.	35,000.00	35,000.00	100.00	Long ageing, with risk of collection.
Hefei Haier Refrigerator Co., Ltd.	32,600.00	32,600.00	100.00	Long ageing, with risk of collection.
Qingdao Haier Electric Plastic Development Co., Ltd.	18,000.00	18,000.00	100.00	Long ageing, with risk of collection.
Shenzhen Jishang Architectural Company	15,904.00	15,904.00	100.00	Long ageing, with risk of collection.
Hefei Rongshida Refrigerator Co., Ltd.	14,565.60	14,565.60	100.00	Long ageing, with risk of collection.
<b>Total</b>	<b>5,256,643.45</b>	<b>5,256,643.45</b>	<b>100.00</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- b) Accounts receivable for which provision for bad debts is made on a collective basis

Ageing	Ending balance		
	Accounts receivable	Provision for bad debts	Percentage of provision (%)
Within one year	29,768,519.69	148,842.59	0.5
1-2 years	1,476,215.48	7,381.08	0.5
2-3 years			
3-4 years			
4-5 years	1,154,446.17	5,772.23	0.5
Over 5 years	2,684,344.37	13,421.73	0.5
<b>Total</b>	<b>35,083,525.71</b>	<b>175,417.63</b>	<b>-</b>

- c) Accounts receivable for which no provision for bad debts is made

Name of portfolio	Book value at the end of period	Provision for bad debts	Net amount
Receivables from subsidiaries	11,520,562.12	0.00	11,520,562.12
<b>Total</b>	<b>11,520,562.12</b>	<b>-</b>	<b>11,520,562.12</b>

- 4) Provision for bad debts

Type	Beginning balance	Change in the year			Ending balance
		Provision made	Recovered or reversed	Offset or written off	
Provision for bad debts in respect of accounts receivable	5,166,062.07	1,661,940.01		-1,395,941.00	5,432,061.08
<b>Total</b>	<b>5,166,062.07</b>	<b>1,661,940.01</b>		<b>-1,395,941.00</b>	<b>5,432,061.08</b>

Accounts receivable written-off during the year

Item	Amount written-off
Accounts receivable written-off	1,395,941.00

Significant accounts receivable written-off

Name of entity	Nature of accounts receivable	Amount written-off	Reason for writing-off	Procedures for writing-off performed	Whether arising from related party transaction
Qingdao Haier Special Freezer Co., Ltd.	Payment for construction project	1,395,941.00	Unrecoverable	Required writing-off procedures had been completed	No
<b>Total</b>	/	<b>1,395,941.00</b>	/	/	/

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

5) Top five accounts receivable by ending balance of debtors

Name of entity	Ending balance	Ageing	Percentage of ending balance of total accounts receivable (%)	Ending balance of provision for bad debts
Guangzhou Shipyard International Company Limited	7,131,707.73	Within one year	13.75	
Guangzhou Third Municipal Engineering Co., Ltd.	4,667,020.93	Within one year	9.00	23,335.10
TENOVA AUSTRALIA PTY LTD	4,192,440.28	3-4 years	8.08	4,192,440.28
Zhongshan GSI Marine Engineering Company Limited	3,854,054.39	Within one year	7.43	
Shenzhen Xuneng Power Generation Co., Ltd.	2,317,289.60	Within one year	4.47	11,586.45
<b>Total</b>	<b>22,162,512.93</b>		<b>42.73</b>	<b>4,227,361.83</b>

6) Accounts receivable derecognised arising from transfer of financial assets: None.

7) Amounts of assets and liabilities transferred from accounts receivable with continuing involvement: None.

### 3. Prepayments

#### (1) Ageing of prepayments

Item	Ending balance		Beginning balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	1,379,771.04	65.70	1,161,905.00	62.40
1-2 years	20,459.60	0.97	0.00	0.00
2-3 years			700,000.00	37.60
Over 3 years	700,000.00	33.33	0.00	0.00
Total	2,100,230.64	-	1,861,905.00	-

#### (2) Reason for unsettled significant advances to suppliers aged over one year.

Name of entity	Relationship with the Company	Amount	Percentage of total advances to suppliers (%)	Ageing	Reason for unsettlement
Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd.	Subsidiaries	700,000.00	33.33	Over 3 years	Project uncompleted
<b>Total</b>		<b>700,000.00</b>			

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (3) Top five prepayments by supplier based on ending balance

Name of entity	Ending balance	Ageing	Percentage of total ending balance of advances to suppliers (%)
Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd.	700,000.00	3-4 years	33.33
Foshan Hengfeng Tiancheng Electromechanical Equipment Co., Ltd.	374,604.00	Within one year	17.84
Guangzhou Yuexin Crankshaft Manufacturing Co., Ltd.	166,000.00	Within one year	7.90
Guangzhou Jinrenji Electromechanical Equipment Co., Ltd.	151,811.00	Within one year	7.23
Shenzhen Dayatong Automation Equipment Co., Ltd.	110,689.95	Within one year	5.27
<b>Total</b>	<b>1,503,104.95</b>	<b>-</b>	<b>71.57</b>

## 4. Other receivables

Item	No.	Ending balance	Beginning balance
Interest receivable	(1)	558,431.55	403,909.69
Other receivables	(2)	8,961,599.51	9,128,338.88
<b>Total</b>		<b>9,520,031.06</b>	<b>9,532,248.57</b>

### (1) Interest receivable

#### 1) Breakdown of interest receivable

Item	Ending balance	Beginning balance
Interest on deposits of finance company	558,431.55	403,909.69
<b>Total</b>	<b>558,431.55</b>	<b>403,909.69</b>

#### 2) Significant overdue interest

As at the end of the year, the Company had no overdue interest receivable.

#### 3) Information on provision for bad debts made for interest receivable

The Company's interest receivable as at the end of the year represented interest on deposits with bank and other financial institutions and will be recovered within one year. No provision for bad debts had been made by the Company.

### (2) Other receivables

Name of item	Ending balance	Beginning balance
Other receivables	8,965,548.58	9,133,505.56
Less: Provision for bad debts	3,949.07	5,166.68
Net amount	<b>8,961,599.51</b>	<b>9,128,338.88</b>

#### 1) Breakdown of other receivables by nature

Nature of amount	Book balance as at the end of the year	Book balance as at the beginning of the year
Refundable deposit	10,440.00	10,440.00
Temporary payments receivable	8,931,274.58	8,969,153.42
Reserve funds	23,834.00	153,912.14
<b>Total</b>	<b>8,965,548.58</b>	<b>9,133,505.56</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

2) *Provision for bad debts made for other receivables*

	Stage 1 Expected credit losses for next 12 months	Stage 2 Expected credit losses during the whole life span (not credit impaired)	Stage 3 Expected credit losses during the whole life span (credit impaired)	Total
<b>Provision for bad debts</b>				
Balance as at 1 January 2018		5,166.68		<b>5,166.68</b>
Book balance of other receivables as at 1 January 2018	-	-	-	-
- Transfer to stage 2				
- Transfer to stage 3				
- Transfer back to stage 2				
- Transfer back to stage 1				
Provision made during the year		-1,217.61		<b>-1,217.61</b>
Reversed during the year				
Offset during the year				
Written off during the year				
Other changes				
Balance as at 31 December 2018		3,949.07		<b>3,949.07</b>

(i) Information on the book balance of provision for bad debts made for other receivables on a collective basis at stage 2:

Name of portfolio	Ending balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Within one year (including one year)	50,987.39	252.09	0.49
1-2 years	467,795.58	2,338.98	0.50
2-3 years	265,000.00	1,325.00	0.50
3-4 years	6,600.00	33.00	0.50
<b>Total</b>	<b>790,382.97</b>	<b>3,949.07</b>	<b>-</b>

3) *Ageing analysis of other receivables*

Ageing	Ending balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Within one year (including one year)	8,226,153.00	91.75	252.09
1-2 years	467,795.58	5.22	2,338.98
2-3 years	265,000.00	2.96	1,325.00
3-4 years	6,600.00	0.07	33.00
<b>Total</b>	<b>8,965,548.58</b>	<b>-</b>	<b>3,949.07</b>



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

(Continued)

Ageing	Beginning balance		
	Other receivables	Provision for bad debts	Percentage of provision (%)
Within one year (including one year)	8,718,878.98	95.46	3,093.55
1-2 years	265,000.00	2.90	1,325.00
2-3 years	149,626.58	1.64	748.13
3-4 years			
<b>Total</b>	<b>9,133,505.56</b>	<b>–</b>	<b>5,166.68</b>

4) Provision for bad debts for other receivables

Type	Beginning balance	Change in the year			Ending balance
		Provision made	Recovered or reversed	Offset or written off	
Provision for bad debts for other receivables	5,166.68	-1,217.61			3,949.07
<b>Total</b>	<b>5,166.68</b>	<b>-1,217.61</b>			<b>3,949.07</b>

5) Top five other receivables by ending balance of debtors

Name of entity	Nature of amount	Ending balance	Ageing(%)	Percentage of ending balance of total other receivables	Ending balance of provision for bad debts
Guangzhou Shipyard International Company Limited	Current account	<b>6,972,728.12</b>	Within one year	77.77	
CSSC Huangpu Wenchong Shipbuilding Company Limited	Interest on borrowing and repayment on a consolidated basis	<b>1,202,437.49</b>	Within one year	13.41	
Foshan Xinlun Pressure Vessel Co., Ltd.	Deposit	<b>321,900.00</b>	Within one year	3.59	1,609.50
Marine Development (Zhongshan) Co., Ltd.	Deposit	<b>265,000.00</b>	3-4 years	2.96	1,325.00
Zhongshan Huoju Development Zone Linhai Industrial Park Development Co., Ltd.	Performance bonds	<b>6,600.00</b>	Within one year	0.07	33.00
<b>Total</b>	<b>–</b>	<b>8,768,665.61</b>	<b>–</b>	<b>97.80</b>	<b>2,967.50</b>

6) Other receivables relating to government grants: None.

7) Other receivables derecognised arising from transfer of financial assets: None.

8) Amount of assets and liabilities transferred from other receivables with continuing involvement: None.

9) Advance to employees receivable: None.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 5. Inventories

### (1) Breakdown of inventories

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials	14,617,277.36		14,617,277.36	14,940,522.06		14,940,522.06
Finished goods	17,255,982.52	15,951.95	17,240,030.57	15,417,771.61	15,951.95	15,401,819.66
Goods in transit	2,906,014.74		2,906,014.74	9,497,676.83		9,497,676.83
Contract performance cost	67,225,269.25	3,091,198.65	64,134,070.60	100,335,599.43	8,979,129.40	91,356,470.03
<b>Total</b>	<b>102,004,543.87</b>	<b>3,107,150.60</b>	<b>98,897,393.27</b>	<b>140,191,569.93</b>	<b>8,995,081.35</b>	<b>131,196,488.58</b>

### (2) Provision for impairment of inventories and provision for impairment of contract performance cost

Item	Beginning balance	Increase for the year		Decrease for the year		Ending balance
		Provision made	Others	Reversal or writing-off	Other transfer-out	
Contract performance cost	8,979,129.40			5,887,930.75		3,091,198.65
Finished goods	15,951.95					15,951.95
<b>Total</b>	<b>8,995,081.35</b>			<b>5,887,930.75</b>		<b>3,107,150.60</b>

### (3) Provision for impairment of inventories made

Item	Basis for determination of net realisable value	Reason for reversal or offsetting during the year
Contract performance cost	Book cost higher than net realisable value (Estimated selling price less related costs and expenses)	Completed for sale
Finished goods	Book cost higher than net realisable value (Estimated selling price less taxes)	

## 6. Non-current assets due within one year

Item	Ending balance	Beginning balance	Remarks
Long-term entrusted loans due within one year		50,000,000.00	Note
Long-term receivables due within one year		600,000,000.00	Note
<b>Total</b>		<b>650,000,000.00</b>	

Note: Long-term entrusted loans and long-term receivables due within one year represented borrowings to subsidiaries.

## 7. Other current assets

Item	Ending balance	Beginning balance	Nature
Input tax to be offset	11,163,163.71	12,058,591.92	
Short-term entrusted loans	100,000,000.00	270,000,000.00	
Short-term borrowing and repayment on a consolidated basis	650,000,000.00		
<b>Total</b>	<b>761,163,163.71</b>	<b>282,058,591.92</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 8. Long-term equity investments

### (1) Breakdown of long-term equity investments

Item	Ending balance			Beginning balance		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Investments in subsidiaries	7,232,881,238.66		7,232,881,238.66	7,232,881,238.66		7,232,881,238.66
Investments in joint ventures	47,924,819.35		47,924,819.35	28,345,549.91		28,345,549.91
Investments in associates	640,629,928.82		640,629,928.82	640,978,366.06		640,978,366.06
<b>Total</b>	<b>7,921,435,986.83</b>		<b>7,921,435,986.83</b>	<b>7,902,205,154.63</b>		<b>7,902,205,154.63</b>

### (2) Investments in subsidiaries

Investee	Beginning balance	Increase for the year	Decrease for the year	Ending balance	Provision for impairment made during the year	Ending balance of provision for impairment
Guangzhou Shipyard International Company Limited	4,061,415,202.10			4,061,415,202.10		
CSSC Huangpu Wenchong Shipbuilding Company Limited	3,171,466,036.56			3,171,466,036.56		
<b>Total</b>	<b>7,232,881,238.66</b>			<b>7,232,881,238.66</b>		

### (3) Investments in joint ventures

Investee	Beginning balance	Changes in the period						Others	Ending balance	Ending balance of provision for impairment
		Increase in investment	Decrease in investment	Investment gain or loss recognised using equity method	Adjustment to other comprehensive income	Other changes in equity	Declaration and payment of cash dividend or profit			
Narfang Environment Co., Ltd.	28,345,549.91	30,000,000.00		-10,420,730.56					47,924,819.35	
<b>Total</b>	<b>28,345,549.91</b>	<b>30,000,000.00</b>		<b>-10,420,730.56</b>					<b>47,924,819.35</b>	

### (4) Investments in associates

Investee	Beginning balance	Changes in the period						Others	Ending balance	Ending balance of provision for impairment
		Increase in investment	Decrease in investment	Investment gain or loss recognised using equity method	Adjustment to other comprehensive income	Other changes in equity	Declaration and payment of cash dividend or profit			
CSSC Chengxi Yangzhou Shipbuilding Company Limited	640,978,366.06			321,091.19			-669,528.43		640,629,928.82	
<b>Total</b>	<b>640,978,366.06</b>			<b>321,091.19</b>			<b>-669,528.43</b>		<b>640,629,928.82</b>	

### (5) Analysis of long-term equity investments

Item	Ending balance	Beginning balance
Listed		
Unlisted	7,921,435,986.83	7,902,205,154.63
<b>Total</b>	<b>7,921,435,986.83</b>	<b>7,902,205,154.63</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 9. Fixed assets

### (1) Breakdown of fixed assets

Item	Buildings and structures	Machinery and equipment	Transportation equipment	Other equipment	Total
I. Original carrying amount					
1. Beginning balance	135,879,178.20	82,867,580.72	2,621,466.86	837,972.94	222,206,198.72
2. Increase for the period		790,366.14		703,950.45	1,494,316.59
(1) Purchase		790,366.14		703,950.45	1,494,316.59
3. Decrease for the period		4,541,904.43		6,528.20	4,548,432.63
(1) Retirement		4,541,904.43		6,528.20	4,548,432.63
4. Ending balance	135,879,178.20	79,116,042.43	2,621,466.86	1,535,395.19	219,152,082.68
II. Accumulated depreciation					
1. Beginning balance	76,524,616.25	66,724,554.58	1,856,709.61	350,820.40	145,456,700.84
2. Increase for the period	3,917,824.99	2,668,535.56	159,498.22	188,850.31	6,934,709.08
(1) Provision made	3,917,824.99	2,668,535.56	159,498.22	188,850.31	6,934,709.08
3. Decrease for the period		4,078,160.77		1,136.96	4,079,297.73
(1) Retirement		4,078,160.77		1,136.96	4,079,297.73
4. Ending balance	80,442,441.24	65,314,929.37	2,016,207.83	538,533.75	148,312,112.19
III. Provision for impairment					
1. Beginning balance					
2. Increase for the period					
3. Decrease for the period					
4. Ending balance					
IV. Carrying value					
1. Carrying value at the end of the period	55,436,736.96	13,801,113.06	605,259.03	996,861.44	70,839,970.49
2. Carrying value at the beginning of the year	59,354,561.95	16,143,026.14	764,757.25	487,152.54	76,749,497.88

The depreciation and amortisation of fixed assets recognised in profit or loss during the period is RMB6,934,709.08 (last year: RMB7,005,490.82).

### (2) Buildings and structures analysed by region and term:

Item	Ending balance	Beginning balance
Within China		
Medium term (10-50 years)	<b>55,436,736.96</b>	59,354,561.95
<b>Total</b>	<b>55,436,736.96</b>	59,354,561.95

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 10. Intangible assets

Item	Land use rights	Software	Others	Total
I. Original carrying amount				
1. Beginning balance	14,780,508.50			14,780,508.50
2. Increase for the period				
3. Decrease for the period				
4. Ending balance	14,780,508.50			14,780,508.50
II. Accumulated amortisation				
1. Beginning balance		3,988,478.60		3,988,478.60
2. Increase for the period		323,303.16		323,303.16
(1) Provision made		323,303.16		323,303.16
3. Decrease for the period				
4. Ending balance		4,311,781.76		4,311,781.76
III. Provision for impairment				
1. Beginning balance				
2. Increase for the period				
3. Decrease for the period				
4. Ending balance				
IV. Carrying value				
1. Carrying value at the end of the period		10,468,726.74		10,468,726.74
2. Carrying value at the beginning of the year		10,792,029.90		10,792,029.90

There were no intangible assets arising from internal research and development of the Company during the year.

Land use rights analysed by region and term:

Item	Ending balance	Beginning balance
Within China		
Medium term (10-50 years)	10,468,726.74	10,792,029.90
<b>Total</b>	<b>10,468,726.74</b>	10,792,029.90

The amortisation of intangible assets recognised in profit or loss during the year is RMB323,303.16 (last year: RMB323,303.28).

## 11. Long-term prepaid expenses

Item	Beginning balance	Increase for the year	Amortisation for the year	Other decreases for the year	Ending balance
Improvement in leased fixed assets	2,344.24		2,344.24		
<b>Total</b>	2,344.24		2,344.24		

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 12. Deferred tax assets and deferred tax liabilities

### (1) Deferred tax assets not offset

Item	Ending balance		Beginning balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Deductible tax loss	80,000,000.00	20,000,000.00	80,000,000.00	20,000,000.00
<b>Total</b>	<b>80,000,000.00</b>	<b>20,000,000.00</b>	<b>80,000,000.00</b>	<b>20,000,000.00</b>

### (2) Breakdown of unrecognised deferred tax assets

Item	Ending balance	Beginning balance
Deductible temporary difference	8,543,160.75	14,166,310.10
Deductible tax loss	392,403,811.89	439,741,825.94
<b>Total</b>	<b>400,946,972.64</b>	<b>453,908,136.04</b>

### (3) Deductible loss for which no deferred tax assets are recognised will become due in the following years

Year	Ending balance	Beginning balance	Remarks
2020	328,054,955.11	388,478,886.08	
2021	51,262,939.86	51,262,939.86	
2023	13,085,916.92		
<b>Total</b>	<b>392,403,811.89</b>	<b>439,741,825.94</b>	

## 13. Other non-current assets

Item	Ending balance	Beginning balance
Relocation expenses to be written off	13,860,105.78	2,776,042.97
Long-term entrusted loans	620,000,000.00	
<b>Total</b>	<b>633,860,105.78</b>	<b>2,776,042.97</b>

## 14. Short-term borrowings

Type	Ending balance	Beginning balance
Credit loans	650,000,000.00	100,000,000.00
<b>Total</b>	<b>650,000,000.00</b>	<b>100,000,000.00</b>

As at the end of the year, the weighted average annual interest rate of short-term borrowings was 2.93%.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 15. Notes and accounts payable

Item	No.	Ending balance	Beginning balance
Accounts payable	(1)	58,845,591.58	65,977,190.78
<b>Total</b>		<b>58,845,591.58</b>	<b>65,977,190.78</b>

### (1) Accounts payable

#### 1) Accounts payable by category

Item	Ending balance	Beginning balance
Materials purchased	53,508,879.72	61,780,031.99
Payment for projects under construction		563,063.32
Balance of product payment	623,803.11	687,549.71
Retention money	1,936,196.71	1,936,196.71
Other construction and labour services	2,776,712.04	1,010,349.05
<b>Total</b>	<b>58,845,591.58</b>	<b>65,977,190.78</b>

#### 2) The ageing analysis of accounts payable as at the transaction date (including accounts payable to connected persons) is as follows:

Ageing	Ending balance	Beginning balance
Within one year	41,770,665.95	51,872,067.37
1-2 years	3,166,464.66	5,424,628.44
2-3 years	5,227,966.00	8,619,438.37
Over 3 years	8,680,494.97	61,056.60
<b>Total</b>	<b>58,845,591.58</b>	<b>65,977,190.78</b>

#### 3) Significant accounts payable aged over one year

Name of entity	Ending balance	Reason for unsettlement or carrying forward
Guangzhou United Steel Structures Limited	8,354,892.47	Undue
Guangzhou Guangchuan Large-scale Machinery and Equipment Co., Ltd.	4,501,679.46	Undue
Zhongshan GSI Marine Engineering Company Limited	1,934,431.48	Undue
Yizheng Hengda Steel Structures Limited	370,450.00	Undue
Lianjian-Fonkwang JV Limited	334,575.14	Undue
Guangzhou Guanghang Ship Steel Co., Ltd.	158,828.78	Undue
Shanghai Jiadi Steel Building Products Co., Ltd.	138,054.00	Undue
Guangzhou Guangyuan Steel Structures Limited	111,110.77	Undue
Foshan Nanhai Oriental International Machinery Plaza Co., Ltd.	100,154.88	Undue
<b>Total</b>	<b>16,004,176.98</b>	—

## 16. Contract liabilities

Item	Ending balance	Beginning balance
Electromechanical and other products	65,497,566.97	55,310,128.61
<b>Total</b>	<b>65,497,566.97</b>	<b>55,310,128.61</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 17. Employee benefits payable

### (1) Breakdown of employee benefits payable

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Short-term remuneration	1,611,226.23	50,363,439.29	51,974,665.52	
Post-employment benefits – defined contribution plans		3,564,775.00	3,564,775.00	
<b>Total</b>	<b>1,611,226.23</b>	<b>53,928,214.29</b>	<b>55,539,440.52</b>	

### (2) Short-term remuneration

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Salaries, bonuses, allowances and subsidies	1,611,226.23	26,987,409.11	28,598,635.34	
Employee benefits		1,916,974.22	1,916,974.22	
Social insurance contribution		1,783,719.11	1,783,719.11	
Including: Medical insurance contribution		1,507,655.63	1,507,655.63	
Work-related injury insurance contribution		100,788.63	100,788.63	
Maternity insurance contribution		175,274.85	175,274.85	
Supplemental medical insurance contribution				
Housing fund		2,084,402.00	2,084,402.00	
Labour union & employee education funds		773,612.67	773,612.67	
Outsourcing labour costs and other short-term compensation		16,817,322.18	16,817,322.18	
<b>Total</b>	<b>1,611,226.23</b>	<b>50,363,439.29</b>	<b>51,974,665.52</b>	

### (3) Defined contribution plans

As required, the Company participates in the social insurance plans established by the government authorities. The Company makes contributions to these plans as required by local governments. The Company has no further payment obligations other than the contributions. The relevant expenses are included in current profit or loss or as the cost of the relevant assets.

The pension, annuity and unemployment plan contributions made by the Company during the year were as follows:

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Basic pension insurance		3,416,497.21	3,416,497.21	
Unemployment insurance contribution		148,277.79	148,277.79	
<b>Total</b>		<b>3,564,775.00</b>	<b>3,564,775.00</b>	

As at the end of the year, all planned pension and unemployment insurance contributions of the Company had been made.



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 18. Taxes payable

Item	Ending balance	Beginning balance
Value-added tax	1,479,060.70	2,220,452.29
Individual income tax	428,611.09	543,686.74
City maintenance and construction tax	103,572.54	10,262.44
Property tax	807,342.83	970,305.62
Land use tax	273,550.80	358,066.80
Educational surcharge	73,980.38	7,330.32
Other taxes	51,173.95	5,097.22
<b>Total</b>	<b>3,217,292.29</b>	<b>4,115,201.43</b>

## 19. Other payables

Item	No.	Ending balance	Beginning balance
Interest payable	(1)	731,881.94	339,166.67
Dividends payable	(2)	304,042.49	383,540.92
Other payables	(3)	40,958,924.28	29,876,357.49
<b>Total</b>		<b>41,994,848.71</b>	<b>30,599,065.08</b>

### (1) Interest payable

Item	Ending balance	Beginning balance
Interest on long-term borrowings for which the interest is paid in instalments and the principal is repaid when due		282,638.89
Interest payable on short-term borrowings	731,881.94	56,527.78
<b>Total</b>	<b>731,881.94</b>	<b>339,166.67</b>

### (2) Dividends payable

Item	Ending balance	Beginning balance
Dividends on ordinary shares	304,042.49	383,540.92
Including: Dividends payable for A shares	66,091.17	145,589.60
Dividends payable for H shares	237,951.32	237,951.32
<b>Total</b>	<b>304,042.49</b>	<b>383,540.92</b>

### (3) Other payables

#### 1) Other payables by nature

Nature of amount	Ending balance	Beginning balance
Deposits received	750,000.00	332,360.00
Payables for temporary receipts	40,208,924.28	29,543,997.49
<b>Total</b>	<b>40,958,924.28</b>	<b>29,876,357.49</b>

#### 2) Significant other payables aged over one year

Name of entity	Ending balance	Reason for unsettlement or carrying forward
Foshan Nanhai Yangming Ship Hardware Co., Ltd.	300,000.00	Deposits received
<b>Total</b>	<b>300,000.00</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 20. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term borrowings due within one year		500,000,000.00
<b>Total</b>		<b>500,000,000.00</b>

Including: Long-term borrowings due within one year

Type	Ending balance	Beginning balance
Credit loans		500,000,000.00
<b>Total</b>		<b>500,000,000.00</b>

### The carrying amount of the above borrowings shall be repaid:

Within one year		500,000,000.00
Over one year but less than two years after balance sheet date		
Over two years but less than five years after balance sheet date		
<b>Less: Amount due within one year, as shown under current liabilities</b>		<b>500,000,000.00</b>
<b>Amount shown under non-current liabilities</b>		

## 21. Other current liabilities

Item	Ending balance	Beginning balance
Output value-added tax payable	77,418.16	
<b>Total</b>	<b>77,418.16</b>	

## 22. Long-term payables

Item	No.	Ending balance	Beginning balance
Special payables	(1)	99,370,000.00	99,370,000.00
<b>Total</b>		<b>99,370,000.00</b>	<b>99,370,000.00</b>

### (1) Special payables

Project	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Project A	17,850,000.00			17,850,000.00
Project B	6,720,000.00			6,720,000.00
Project C	26,600,000.00			26,600,000.00
Project D	4,500,000.00			4,500,000.00
Project E	43,700,000.00			43,700,000.00
<b>Total</b>	<b>99,370,000.00</b>			<b>99,370,000.00</b>

Note: The above are state funds allocated to the projects, and as the capital investment in the Company from the state, they belong to the state exclusively when the projects have been completed and approved as qualified. Upon increase in the registered capital of the Company, they will be converted into the capital contribution to the Company made by the CSSC Group.

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 23. Share capital

The amount is the same as that in the consolidated statements. For details, please see Note VI.34.

## 24. Capital reserve

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Share premium	6,147,344,797.85			<b>6,147,344,797.85</b>
Other capital reserve	582,931.25			<b>582,931.25</b>
<b>Total</b>	<b>6,147,927,729.10</b>			<b>6,147,927,729.10</b>

## 25. Surplus reserve

Item	Beginning balance	Increase for the year	Decrease for the year	Ending balance
Statutory surplus reserve	454,088,745.02			<b>454,088,745.02</b>
Discretionary surplus reserve	18,582,196.43			<b>18,582,196.43</b>
<b>Total</b>	<b>472,670,941.45</b>			<b>472,670,941.45</b>

## 26. Undistributed profit

Item	Current year	Last year
<b>Undistributed profit as at the end of last year before adjustment</b>	<b>744,290,926.38</b>	674,572,834.25
Add: Beginning adjustment to Undistributed profit Including: Retrospective adjustment according to the new requirements of the Accounting Standards for Business Enterprises Accounting policy change Correction of significant previous errors Changes in business combination under common control Other adjustments		
<b>Undistributed profit as at the beginning of the year after adjustment</b>	<b>744,290,926.38</b>	674,572,834.25
Add: Net profit attributable to owners of the Company for the year Other adjustments	<b>-23,313,292.87</b>	101,570,835.93 920,441.84
Less: Statutory surplus reserve set aside Dividends payable on ordinary shares		10,157,083.59 22,616,102.05
<b>Undistributed profit as at the end of the year</b>	<b>720,977,633.51</b>	744,290,926.38

## 27. Net current assets

Item	Ending balance	Beginning balance
Current assets	<b>1,017,480,609.93</b>	1,622,822,585.13
Less: Current liabilities	<b>819,632,717.71</b>	757,612,812.13
<b>Net current assets</b>	<b>197,847,892.22</b>	865,209,773.00

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 28. Total assets less current liabilities

Item	Ending balance	Beginning balance
Total assets	9,674,085,399.77	9,635,378,787.06
Less: Current liabilities	819,632,717.71	757,612,812.13
<b>Total assets less current liabilities</b>	<b>8,854,452,682.06</b>	<b>8,877,765,974.93</b>

## 29. Borrowings

Details of the borrowings of the Company are as follows:

Item	Ending balance	Beginning balance
Short-term borrowings	650,000,000.00	100,000,000.00
Non-current liabilities due within one year		500,000,000.00
Long-term borrowings		
<b>Total</b>	<b>650,000,000.00</b>	<b>600,000,000.00</b>

### (1) Analysis of borrowings

Item	Ending balance	Beginning balance
Bank borrowings		
— Bank borrowings repayable within 5 years	650,000,000.00	600,000,000.00
— Bank borrowings repayable after 5 years		
Other borrowings		
— Other borrowings repayable within 5 years		
— Other borrowings repayable after 5 years		
<b>Total</b>	<b>650,000,000.00</b>	<b>600,000,000.00</b>

### (2) Analysis of maturity of borrowings

Item	Ending balance	Beginning balance
On demand or within one year	650,000,000.00	600,000,000.00
1-2 years		
2-5 years		
<b>Total</b>	<b>650,000,000.00</b>	<b>600,000,000.00</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 30. Operating income & Operating costs

### (1) Information on operating income and operating cost

Item	Current year	Last year
Income from principal business	204,328,817.06	156,650,828.19
Income from other business	3,640,832.33	3,460,997.33
<b>Total</b>	<b>207,969,649.39</b>	160,111,825.52
Costs of principal business	220,614,130.64	164,764,098.88
Costs of other business	888,872.56	2,340,477.92
<b>Total</b>	<b>221,503,003.20</b>	167,104,576.80

Gross profit from principal business

Item	Current year	Last year
Income from principal business	204,328,817.06	156,650,828.19
Costs of principal business	220,614,130.64	164,764,098.88
Gross profit	-16,285,313.58	-8,113,270.69

#### 1) Principal business — by product

Product name	Amount for the year	Amount for last year
<b>Operating income</b>		
Steel structure products	37,214,551.62	
Electromechanical products and others	167,114,265.44	156,650,828.19
<b>Total</b>	<b>204,328,817.06</b>	156,650,828.19
<b>Operating costs</b>		
Steel structures	37,170,874.37	
Electromechanical products and others	183,443,256.27	164,764,098.88
<b>Total</b>	<b>220,614,130.64</b>	164,764,098.88

#### 2) Principal business — by region

Region name	Amount for the year	Amount for last year
<b>Operating income</b>		
China (including Hong Kong, Macau and Taiwan)	204,328,817.06	156,650,828.19
<b>Total</b>	<b>204,328,817.06</b>	156,650,828.19
<b>Operating costs</b>		
China (including Hong Kong, Macau and Taiwan)	220,614,130.64	164,764,098.88
<b>Total</b>	<b>220,614,130.64</b>	164,764,098.88

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

3) *Other operating income and other operating costs*

Product name	Amount for the year	Amount for last year
<b>Income from other business</b>		
Sales of scrap materials	2,624,983.27	1,743,558.46
Service income	15,849.06	
Rental income	1,000,000.00	1,717,438.87
<b>Total</b>	<b>3,640,832.33</b>	<b>3,460,997.33</b>
<b>Costs of other business</b>		
Sales of scrap materials		853,419.77
Service income	15,849.06	
Rental income	873,023.50	1,487,058.15
<b>Total</b>	<b>888,872.56</b>	<b>2,340,477.92</b>

(2) *Top five customers by operating income*

Customers	Current year	Percentage of total income from principal business (%)
Guangzhou Shipyard International Company Limited	37,952,461.06	18.57%
Guangzhou Third Municipal Engineering Co., Ltd.	37,214,551.62	18.21%
Shenzhen Xuneng Power Generation Co., Ltd.	26,495,726.50	12.97%
Foshan Dingchuang Jingli Machinery Equipment Co., Ltd.	12,749,922.61	6.24%
Zhongshan GSI Marine Engineering Company Limited	12,049,415.74	5.90%
<b>Total</b>	<b>126,462,077.53</b>	<b>61.89%</b>

(3) *Purchase amounts from top five suppliers*

Suppliers	Relationship with the Group	Amount	Percentage of cost of principal business (%)
Zhongshan GSI Marine Engineering Company Limited	Internal related party	26,773,158.12	12.14
Foshan Shunde Cheng Jiang Hui Metal Materials Co., Ltd.	Third party	2,174,443.05	0.99
Guangzhou Guangli Shipbuilding Human Resources Service Company Limited	Internal related party	2,004,898.64	0.91
China Shipbuilding Industry Complete Logistics (Guangzhou) Co., Ltd.	Under common control	1,985,457.96	0.90
Guangzhou Shanghai Marine Ancillary Equipment Co., Ltd.	Third party	1,968,533.12	0.89
<b>Total</b>		<b>34,906,490.89</b>	<b>15.83</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 31. Taxes and surcharges

Item	Current year	Last year
City maintenance and construction tax	269,323.17	337,671.44
Educational surcharge	192,373.71	241,193.89
Flood control fee		0.00
Property tax	1,126,894.94	1,186,305.59
Land use tax	362,676.48	358,996.80
Stamp duty	158,091.13	559,202.40
Vehicle and vessel tax	2,922.88	6,617.28
<b>Total</b>	<b>2,112,282.31</b>	<b>2,689,987.40</b>

## 32. Selling expenses

Item	Current year	Last year
Transportation fees	2,448,734.53	2,793,337.18
Business expenditure	1,082,636.75	725,223.69
Advertising fee	26,223.97	40,557.58
Exhibition fees	165,735.85	196,785.84
Other selling expenses	1,000.00	1,000.00
<b>Total</b>	<b>3,724,331.10</b>	<b>3,756,904.29</b>

## 33. Administrative expenses

Item	Current year	Last year
Employee benefits	8,912,812.27	10,357,327.00
Party building work expense	65,208.53	134,929.25
Repairing expenses	1,679,238.17	1,133,195.02
Depreciation charge	350,766.88	145,032.07
Amortisation of intangible assets	323,303.16	323,303.28
Business entertainment expense	218,100.68	247,999.86
Travelling expense	387,285.45	374,972.82
Intermediary fee	561,015.96	724,007.56
Board meeting fee	4,916,726.84	3,782,509.21
Office expenses	151,070.59	156,643.84
Consulting fee		415,394.34
Litigation fees	91,535.11	609,833.97
Information management fee	458,856.67	506,472.82
Other administrative expenses	3,703,951.54	2,086,710.67
<b>Total</b>	<b>21,819,871.85</b>	<b>20,998,331.71</b>

## 34. Research and development expenses

Item	Amount for the year	Amount for last year
130T all-electric injection molding machine	625,000.00	
<b>Total</b>	<b>625,000.00</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 35. Finance costs

### (1) Breakdown of finance costs

Item	Current year	Last year
Interest expense	10,735,743.06	11,889,076.42
Less: Interest income	38,396,447.96	16,193,823.73
Add: Exchange losses	446,432.91	-27,958.04
Add: Other expenses	350,809.99	215,037.32
<b>Total</b>	<b>-26,863,462.00</b>	<b>-4,117,668.03</b>

### (2) Breakdown of interest expenses

Item	Current year	Last year
Interest on bank borrowings and overdraft	10,735,743.06	11,889,076.42
Interest on bank borrowings due within 5 years	10,735,743.06	11,889,076.42
Less: Interest capitalised		
<b>Total</b>	<b>10,735,743.06</b>	<b>11,889,076.42</b>

### (3) Breakdown of interest income

Item	Current year	Last year
Interest income from bank deposits	2,532,948.10	2,413,636.21
Other interest income	35,863,499.86	13,780,187.52
<b>Total</b>	<b>38,396,447.96</b>	<b>16,193,823.73</b>

## 36. Loss on impairment of assets

Item	Current year	Last year
Loss on bad debts		275,211.31
Loss on impairment of inventories	-3,340,528.00	-5,785,965.60
<b>Total</b>	<b>-3,340,528.00</b>	<b>-5,510,754.29</b>

## 37. Credit impairment loss

Item	Amount for the year	Amount for last year
Loss on bad debts of notes and accounts receivable	1,661,940.01	-
Loss on bad debts of other receivables	-1,217.61	-
<b>Total</b>	<b>1,660,722.40</b>	<b>-</b>



# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 38. Other income

Item	Amount for the year	Amount for last year	Source and basis	Relating to assets/relating to revenue
Refund of handling fee for withholding individual income tax	38,708.44	8,697.30	Guangzhou Local Taxation Bureau	Relating to revenue
Subsidy for standard modification project	75,320.00		Guangzhou Municipal Bureau of Quality and Technical Supervision	Relating to revenue
Special post-R&D grant for enterprises in Guangzhou for 2016		16,247,400.00	National government subsidy	Relating to revenue
Innovation and development fund for advanced manufacturing industry in Guangzhou for 2017		3,000,000.00	National government subsidy	Relating to assets
<b>Total</b>	<b>114,028.44</b>	<b>19,256,097.30</b>		

## 39. Investment income

Item	Current year	Last year
Gain on long-term equity investments accounted for using equity method	-10,099,639.37	825,284.83
Gain on long-term equity investments accounted for using cost method		28,366,206.89
Investment income from disposal of long-term equity investments		76,712,015.61
<b>Total</b>	<b>-10,099,639.37</b>	<b>105,903,507.33</b>

The investment income from non-listed investments for the year amounted to RMB-10,099,639.37.

## 40. Non-operating income

### (1) Breakdown of non-operating income

Item	Current year	Last year	Amount included in non-recurring gains and losses for current period
Gain on retirement of damaged non-current assets	8,747.58		8,747.58
Government grants		1,400,000.00	
Others	15,180.00	2,500.00	15,180.00
<b>Total</b>	<b>23,927.58</b>	<b>1,402,500.00</b>	<b>23,927.58</b>

The amount included in non-recurring gains and losses for the year was RMB23,927.58 (last year: RMB1,411,197.30).

### (2) Breakdown of government grants

Item	Current year	Last year	Source and basis	Relating to assets/relating to revenue
Incentive subsidy for contribution to local economic development by headquarters		1,400,000.00	National government subsidy	Relating to revenue
<b>Total</b>		<b>1,400,000.00</b>		

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 41. Non-operating expenses

Item	Current year	Last year	Amount included in non-recurring gains and losses for current period
Total losses on disposal of non-current assets	<b>36,523.55</b>	111,704.48	36,523.55
Including: Loss on disposal of fixed assets	<b>36,523.55</b>	111,704.48	36,523.55
External donations	<b>40,000.00</b>		40,000.00
Others	<b>3,514.50</b>	70,011.86	3,514.50
<b>Total</b>	<b>80,038.05</b>	181,716.34	80,038.05

The amount included in non-recurring gains and losses for the year was RMB80,038.05 (last year: RMB181,716.34).

## 42. Depreciation and amortisation

Item	Current year	Last year
Depreciation of fixed assets	<b>6,934,709.08</b>	7,005,490.82
Amortisation of intangible assets	<b>323,303.16</b>	323,303.28
Long-term prepaid expenses	<b>2,344.24</b>	341,322.96
<b>Total</b>	<b>7,260,356.48</b>	7,670,117.06

## 43. Gain (or loss) on disposal of investments or properties

For details, please refer to Note VI.65 Gain (or loss) on disposal of investments or properties.

## 44. Operating rental expense

There was no operating rental expense during the year (last year: RMB148,285.71).

## 45. Rental income

Operating rental income for the year is RMB1,000,000.00 (last year: RMB1,717,438.87), including rental income from land and buildings of RMB1,000,000.00 (last year: RMB1,717,438.87).

## 46. Supplementary information on consolidated income statement of the Company

The breakdown of expenses (including operating costs, selling expenses, administrative expenses and research and development expenses) by nature:

Item	Current year	Last year
Raw materials consumed	<b>113,271,123.89</b>	55,848,263.10
Employee compensation expenses	<b>53,928,214.29</b>	45,922,380.58
Depreciation expenses	<b>6,934,709.08</b>	7,005,490.82
Amortisation expenses	<b>325,647.40</b>	664,626.24
Utilities fee	<b>3,739,684.06</b>	4,462,852.53
Research and development expenses	<b>625,000.00</b>	
Others	<b>68,847,827.43</b>	77,956,199.53
<b>Total</b>	<b>247,672,206.15</b>	191,859,812.80

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## 47. Notes to items in the cash flow statement

### (1) Other cash receipts/payments relating to operating/investing /financing activities

#### 1) Other cash receipts relating to operating activities

Item	Current year	Last year
Government grants		20,664,200.00
Other non-operating income		11,197.30
Receipt/recovery of deposit and margin	1,405,660.00	2,000,000.00
Interest income from demand bank deposit	2,378,426.24	1,717,226.52
Other current account	6,837,324.35	11,798,912.33
Shipbuilding payment received		48,770,000.00
Recovery of economic compensation paid for others	12,083,794.64	
<b>Total</b>	<b>22,705,205.23</b>	<b>84,961,536.15</b>

#### 2) Other cash payments relating to operating activities

Item	Current year	Last year
Administrative expense	9,381,486.40	10,172,669.36
Selling expenses	337,692.21	3,756,904.29
Bank charges	370,384.08	215,037.36
Non-operating expenses		70,011.86
Deposit and margin paid	951,400.00	2,000,000.00
Reserve funds	816,587.99	8,584,838.57
Payment of other current accounts	10,503,763.53	52,770,000.00
One-off lay-off economic compensation paid	10,283,540.39	
<b>Total</b>	<b>32,644,854.60</b>	<b>77,569,461.44</b>

#### 3) Other cash receipts relating to investing activities

Item	Current year	Last year
Release of pledge on fixed deposits		30,000,000.00
Interest income on fixed deposits		585,000.00
Collection of loans made and settled on a consolidated basis	600,000,000.00	500,000,000.00
Collection of interest on loans made and settled on a consolidated basis and interest on entrusted loans	36,513,027.80	13,479,076.41
Recovery of principal of entrusted loans	320,000,000.00	
<b>Total</b>	<b>956,513,027.80</b>	<b>544,064,076.41</b>

#### 4) Other cash payments relating to investing activities

Item	Current year	Last year
Pledge of fixed deposit		
Payment of loans to subsidiaries made and settled on a consolidated basis	650,000,000.00	500,000,000.00
Grant of entrusted loans to subsidiaries	720,000,000.00	320,000,000.00
Others	23,184.47	
<b>Total</b>	<b>1,370,023,184.47</b>	<b>820,000,000.00</b>

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## (2) Supplementary information on cash flow statement of the Company

Item	Current year	Last year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	-23,313,292.87	101,570,835.93
Add: Provision for impairment of assets	-3,340,528.00	-5,510,754.29
Credit impairment loss (new financial standard)	1,660,722.40	
Depreciation of fixed assets	6,934,709.08	7,005,490.82
Amortisation of intangible assets	323,303.16	323,303.28
Amortisation of long-term prepaid expenses	2,344.24	341,322.96
Loss on disposal of fixed assets, intangible assets and other long-term assets (gain expressed with "-")		111,704.48
Loss on retirement of fixed assets (gain expressed with "-")	27,775.97	
Loss on changes in fair value (gain expressed with "-")		
Finance cost (gain expressed with "-")	10,735,743.06	-757,517.39
Loss on investments (gain expressed with "-")	10,099,639.37	-105,903,507.33
Decrease in deferred tax assets (Increase expressed with "-")		
Increase in deferred tax liabilities (Decrease expressed with "-")		
Decrease in inventories (Increase expressed with "-")	38,187,026.06	20,087,371.83
Decrease in operating receivables (Increase expressed with "-")	-11,464,209.85	20,611,916.54
Increase in operating payables (Decrease expressed with "-")	-39,061,557.46	-41,167,043.85
Others		
Net cash flows from operating activities	-9,208,324.84	-3,286,877.02
<b>2. Significant investing and financing activities not involving cash receipts or payments:</b>		
Conversion of debts into capital		
Convertible corporate bonds due within one year		
Fixed assets acquired under finance lease arrangement		
<b>3. Net changes in cash and cash equivalents:</b>		
Cash balance at the end of the year	99,371,121.05	513,258,307.19
Less: Cash balance at the beginning of the year	513,258,307.19	88,028,234.52
Add: Balance of cash equivalents at the end of the year		
Less: Balance of cash equivalents at the beginning of the year		
Net increase in cash and cash equivalents	-413,887,186.14	425,230,072.67

## (3) Cash and cash equivalents

Item	Ending balance	Beginning balance
Cash	99,371,121.05	513,258,307.19
Including: Cash on hand	1,170.04	2,255.54
Bank deposits available for use on demand	99,369,951.01	513,256,051.65
Other cash at bank and on hand for use on demand		
Cash equivalents		
Including: Bond investments due within three months		
Cash and cash equivalents at the end of the year	99,371,121.05	513,258,307.19
Including: Cash and cash equivalents of the Company or its subsidiaries subject to restrictions on use		

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

## XVIII. APPROVAL OF FINANCIAL REPORT

This financial report was approved by the Board of the Company on 22 March 2019.

### Supplemental Information on Financial Statements

#### 1. Breakdown of non-recurring gains and losses for the year

- (1) According to the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Non-recurring Gains and Losses (2008) issued by China Securities Regulatory Commission, the non-recurring gains and losses of the Group for the year were as follows:

Item	Current year	Explanation
Gain or loss on disposal of non-current assets	-4,393,192.94	
Tax relief and reduction with approval exceeding authority or without formal approval or of non-recurring nature		
Government grants included in current profit or loss	83,710,709.80	
Capital occupation fee received from non-financial entities included in current profit or loss		
Gain from the excess of the fair value of the identifiable net assets of investee companies on acquisition of the investment over the cost of investment in the Company's subsidiaries, associates and joint ventures		
Gain or loss on exchange of non-monetary assets		
Gain or loss on entrusted investments or assets under management	36,316,916.16	
Provision for impairment on assets due to force majeure events, such as natural disasters		
Gain or loss on debt restructuring		
Corporate restructuring costs		
Profit or loss from transactions with obviously unfair transaction price for amount which exceeds fair value		
Net gains or losses of subsidiaries for the current year from the beginning of the period to the date of combination arising from business combination under common control	-190,256,411.61	
Gain or loss on other contingencies which are not related to the Company's normal operations		
Gain or loss on changes in fair value of financial assets held-for-trading and financial liabilities held-for-trading, and investment income from disposal of financial assets held for trading, financial liabilities held for trading and available-for-sale financial assets, except for effective hedging transactions that are closely related to the Company's normal operation	-604,509,137.37	
Reversal of the provision for impairment of receivables which are tested individually for impairment		
Gains or losses from entrusted loans		
Gain or loss arising from changes in fair value of investment properties under fair value model on subsequent measurement		
Effect of one-time adjustment to current profit or loss according to the requirements of tax and accounting laws and regulations on current profit or loss		
Entrusted fee income from entrusted operations		
Other non-operating income and expenses apart from the aforesaid items	490,568,264.39	
Other gain or loss items meeting the definition of non-recurring gains or losses		
<b>Sub-total</b>	<b>-188,562,851.57</b>	
Effect of income tax	-28,233,248.16	
Effect of minority interests (after tax)	-48,846,860.71	
<b>Total</b>	<b>-111,482,742.70</b>	

# NOTES TO THE FINANCIAL STATEMENTS

From 1 January 2018 to 31 December 2018

(Unless otherwise stated, all amounts in the notes to these financial statements are expressed in Renminbi)

- (2) Notes to the “Other gain or loss items meeting the definition of non-recurring gains or losses” and the non-recurring gain or loss items designated by the Company as recurring items based on the natures and features of its operation:

- 1) Items defined as recurring gains or losses

Item	Amount	Reason
Finance interest discount	31,070,000.00	Closely relating to operation, granted at fixed amount and on a continuous basis
Subsidies for Insurance Premium for the First Piece (Set) of Crucial High-Tech Equipment	41,590,000.00	Closely relating to operation, granted at fixed amount and on a continuous basis
Immediately refunded value-added tax for software revenue	1,257,284.11	Closely relating to operation, granted at fixed amount and on a continuous basis
<b>Total</b>	<b>73,917,284.11</b>	

Note: All the aforesaid government grants are closely relating to the normal operation of the Company, subject to national policies and granted at fixed amount and on a continuous basis, and fall under non-recurring gains or losses in accordance with the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public — Non-recurring Gains and Losses.

## 2. Returns on net assets and earnings per share

In accordance with the Explanatory Announcement No. 9 on Information Disclosure for Companies Offering Their Securities to the Public — Calculation and Disclosure of Return on Equity and Earnings Per Share (2010 revision), the weighted average return on equity, basic earnings per share and diluted earnings per share of the Group for 2018 were as follows:

Profit for the Reporting Period	Weighted average return on equity (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of the Company	-17.23%	-1.3223	-1.3223
Net profit attributable to shareholders of the Company, net of non-recurring gains and losses	-16.64%	-1.2434	-1.2434

CSSC Offshore & Marine Engineering (Group) Company Limited

22 March 2019

## SECTION XI FIVE-YEAR FINANCIAL SUMMARY

The Group's major accounting data for the last five years based on its audited financial statements is as follows:

Major accounting data	2018	2017		2016		2015	2014
		After adjustment <sup>Note 2</sup>	Before adjustment <sup>Note 1</sup>	After adjustment <sup>Note 2</sup>	Before adjustment <sup>Note 1</sup>		
Net profit	<b>-2,474,150,150.26</b>	-45,856,889.17	100,639,151.28	-75,032,167.79	86,688,161.93	103,897,638.65	422,399,228.60
Including: Net profit attributable to shareholders of the Company	<b>-1,869,014,160.08</b>	-50,507,587.08	87,796,591.29	-84,356,731.59	71,224,250.43	98,320,709.38	423,698,774.72
Gain or loss attributable to minority interests	<b>-605,135,990.18</b>	4,650,697.91	12,842,559.99	9,324,563.80	15,463,911.50	5,576,929.27	-1,299,546.12
	<b>As at the end of 2018</b>	<b>As at the end of 2017</b>		<b>As at the end of 2016</b>		<b>2015</b>	<b>2014</b>
		After adjustment <sup>Note 2</sup>	Before adjustment <sup>Note 1</sup>	After adjustment <sup>Note 2</sup>	Before adjustment <sup>Note 1</sup>		
Total assets	<b>47,475,344,086.37</b>	46,753,104,355.82	44,157,662,027.63	48,752,726,789.26	46,268,585,829.63	48,995,954,305.21	43,741,099,087.43
Total liabilities	<b>33,118,933,538.30</b>	34,433,614,505.78	32,211,520,159.51	37,821,960,294.21	35,857,786,384.94	38,627,297,191.72	35,033,143,323.96
Net assets	<b>14,356,410,548.07</b>	12,319,489,850.04	11,946,141,868.12	10,930,766,495.05	10,410,799,444.69	10,368,657,113.49	8,707,955,763.47
Including: Net assets attributable to shareholders of the Company	<b>9,727,437,689.21</b>	10,809,092,281.78	10,414,542,658.54	10,880,779,928.54	10,347,803,098.94	10,318,048,242.46	8,662,233,821.71
Minority interests	<b>4,628,972,858.86</b>	1,510,397,568.26	1,531,599,209.58	49,986,566.51	62,996,345.75	50,608,871.03	45,721,941.76

Note 1: The major financial data for 2016 and 2017 before adjustment represented the published financial data in the annual report 2017;

Note 2: The major financial data for 2016 and 2017 after adjustment represented the financial data after retrospective adjustments, which was mainly due to the fact that GSI, a subsidiary of the Company, acquired 100% equity interest in Wenchong Dockyard and included Wenchong Dockyard in the scope of combination in 2018. Such combination constituted a business combination under common control. In preparing the consolidated financial statements, retrospective treatments were applied to the financial statements for the comparable periods in accordance with the accounting principles for business combination under common control.