

NOTES TO THE FINANCIAL STATEMENTS

(I). OVERVIEW OF THE COMPANY

Guangzhou Shipyard International Company Limited (the “Company” and its subsidiaries) was reorganized in 1993 from Guangzhou Shipyard, and incorporated in the PRC as a joint stock limited company. Upon approval, the Company was registered as a sino-foreign joint stock limited company on October 21st 1994. The Company’s registered capital amounts to RMB494.678 million. The legal representative of the Company is Mr. Li Zhushi.

Currently, the Company is the largest modernized and comprehensive shipyard in southern China.

At present, the Company owns one 40000dwt and two 60000dwt shipbuilding berths, and shipbuilding and ship-repairing quay. It also owns processing lines for steel plate and large pipe; and production lines for steel structure engineering and elevator and other electro-mechanic products.

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

(II). PRINCIPAL ACCOUNTING POLICIES ADOPTED BY THE COMPANY (GROUP)

1. Accounting System

The Company adopts the Enterprise Accounting Standard and the Enterprise Accounting System and relevant regulations issued by the Ministry of Finance PRC.

2. Accounting Period

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

3. Currency Adopted in Accounting Records

Accounting records are maintained in Renminbi.

4. Basis of Recording and Valuation

Basis of recording adopts accrual system and Basis of Valuation is cost of acquisition.

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5. Foreign Currency Translation

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

6. Cash Equivalents

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

7. Short-term Investment and Profit

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

8. Provisions for Bad Debts

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

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9. Inventories

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

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

Methods of making provision for diminution of value on inventories:

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

10. Long-term Investments

- (1) Long-term equity investments

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

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

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

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

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- (2) The balance of the equity investment difference is recorded under different situations:

The difference arose from the initial investment cost is higher than the shareholder's equity in the investment companies is recorded as "long-term investment on equity – investment company (the equity investment difference)", and amortized and recorded in profit and loss account in accordance with the term of ten years or which regulated in the contract.

The difference arose from the initial investment cost is less than the shareholder's equity in the investment companies, for those has been recorded as credit of "long-term investment on equity – investment company (the equity investment difference)" before the year 2003 is amortized and recorded in profit and loss account in accordance with the term of ten years or which regulated in the contract; for those after the year 2003 is recorded as "capital reserve – equity investment provision".

- (3) Long-term bond investments: Bonds invested by the Company are regarded as original investment cost according to the exact payment. The interest, included by the exact payment, will be stated dividually as item receivable when the interest is at the expiration but not drawn. The original investment cost of long-term bonds includes the bond interest that is included by the exact payment and does not expire.
- (4) The amortization of premium and discount of long-term bond investment is carried out at the same time with the confirmation of the relevant bond interest in order to adjust the investment income.
- (5) Provision for diminution in long-term investments
- (i) Provision for diminution in long-term investments that have market price is made according to the following symptom.
- A. Market price lower than the account price for the 2 years
 - B. The transaction of investment suspended for one year or more
 - C. The company invested have a serious loss in this year
 - D. The loss of the company invested lasted for 2 years
 - E. The company invested is in process of rectification and liquidation or the company invested has other symptoms that show it cannot do business continually.

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(ii) Provisions for diminution in long-term investments that have not market price are made according to the following symptom.

A. The Company invested has a huge loss.

B. The financial status of the company invested has deteriorated, such as the rectification and liquidation, etc, because of the change of market and the descent of the competitive ability.

In other case, for example, it shows evidence that the investment actually did not bring any economic interest to the Company.

11. Fixed Assets and Depreciation

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

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

Fixed assets category	Service years	Depreciation rate (%)
Machinery and equipment	6-20	4.5-16.17
Transmission systems	8-35	2.57-12.13
Instrument and meters	5-10	9-19.4
Vehicles	10-15	6.47-9.7
Buildings	8-50	1.8-12.13
Structures	15-50	1.8-6.47

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Provision for impairment is made when the fixed assets comply with one of the items in the following.

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

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

12. Construction-in-process

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

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

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13. Borrowing Costs

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

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

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

Method for calculating capitalized interest for each accounting period:

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

14. Intangible Assets and Its Amortization

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

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

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15. Amortization Method of the Long-term Deferred Expenses

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

16. Contingent Liability

The Company confirms contingent liability when the obligation related to contingency is the Company's current obligation, which will result in economic benefit flowing out of the Company in all probability, and the amount of the obligation could be measured reliably.

The method of measuring contingent liability:

The amount of an contingent liability is the best estimative cost for discharging the obligation. If the expense has an amount scope, then the best estimative cost would be determined in accordance with the average amount of the upper and lower limits. If there is no scope for the expense, then the best estimative cost would be determined in accordance with measures as follows:

- (1) When the contingency refers to single project, the best estimative cost determined in accordance with the expense occurred possibly.
- (2) When the contingency refers to several projects, the best estimative cost calculated in accordance with each expense occurred possibly and their occurring probability.

17. Income Realizing Principle

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

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

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

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

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

18. Income Tax

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

19. Basis of Preparation of Consolidated Financial Statements

The Company consolidates financial statements in accordance with the *"Tentative Regulations for Consolidated Financial Statements"* issued by Finance Ministry, and the accounting statements of the headquarter and the consolidated subsidiaries of the Company.

The consolidation principle when sold or purchased subsidiary during the period under review:

When sold subsidiary during the period under review (including decrease investment proportion or sold all interest in the subsidiary), records relevant income, cost and profit from the beginning of the period to the selling date of the subsidiary in consolidated profit statement. When purchased subsidiary during the period under review, records relevant income, cost and profit from the purchasing date to the end of the period of the subsidiary in consolidated profit statement. When sold or purchased subsidiary during the period under review, the opening balance of the consolidated balance sheets does not been adjusted.

When confirms the date of placing or purchasing subsidiary above-mentioned, the Company adopts the first date of the month or the year to the full with the premise of not influencing reading consolidated accounting statements in accordance with the materiality principle.

The consolidated subsidiaries of the Company are set out in item 1 of (IV) of Notes to the Financial Statements.

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All investments, significant business, fund transferring and the unrealized profit of the business among the Company and its subsidiaries are all removed when consolidating.

The amount of minority equity is determined by the shareholders' equity of the subsidiaries reducing the equity belong to the Company, and recorded singly between liability items and shareholders' equity items in balance sheets. The minority profit and loss is calculated by the profit or loss realized during the period under review reducing the investment income of the Company, and recorded singly after total profit in the Income statement.

(III). TAXATION

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

Tax category	Principal operation category and tax basis	Tax rate
Value-added tax	Shipbuilding, Ship-repairing, Steel structures & Mechanical and electrical equipment manufacturing, and sales materials	17%
Business tax	Transportation and installation	3%
Business tax	Other services	5%
Additional education expenses	Operating tax payable during the year	3%
Flood control and maintain expenses	Principal operation and other income	0.09%

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

The tax on buildings used by the Company was based on the 70% of the original cost of the buildings and calculated by the tax rate of 1.2%; for those were leased, it was based on the income from lease and calculated by the tax rate of 12%.

4. Individual income tax

The Individual income tax of the employee of the Company was withhold and paid by the Company.

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(IV) PRINCIPAL SUBSIDIARIES AND AFFILIATES

1. Principal Subsidiaries

Name	Registered place	Registered Capital ('000)	Principal Business	Investment Capital ('000)	Interest Attributable to the Company (%)	Indirect interest (%)	Whether consolidated
Masterwood Company Limited	Guangzhou	RMB3,315	Manufacture and sales of all kind of material furniture series	RMB9,336	51	25	Yes
Guangzhou Guanglian Container Transportation Company Limited	Guangzhou	RMB20,000	Container transportation	RMB15,000	75		Yes
Guangzhou Xinsun Shipping Service Company Limited	Guangzhou	RMB2,000	Installation, welding, fitting, coating, repairing of hull structure	RMB500	83	Yes	
United Steel Structures Limited	Guangzhou	USD8,850	Manufacturing, sales and post sales service of steel structure	RMB37,522	51	Yes	
Guangdong GSI Elevator Limited	Guangzhou	RMB21,000	Design, manufacturing, sales, installation, modification and repairing of all kinds of elevator	RMB19,950	95	3.8	Yes
Guangzhou Hongfan Information Technique Co., Ltd.	Guangzhou	RMB5,000	Developing of computer software, system integration and sales	RMB3,850	77		Yes
Glory Group Development Ltd.	Hong Kong	HKD10	Trading	RMB10.44	100		Yes
Indirect holding subsidiaries							
Guangzhou Hongfan Hotel	Guangzhou	RMB10,000	Traveling and catering services	RMB10,000	86.16	Yes	Yes
Guangdong GSI Elevator Limited	Guangzhou	RMB21,000	Elevator manufacturing	RMB350	3.8	Yes	Yes
Masterwood Company Limited	Guangzhou	RMB3,315	Manufacture and sales of all kind of material furniture series	RMB829	25	Yes	Yes
Fonkwang Development Ltd.	Hong Kong	HKD200	General trade	HKD140	70	Yes	Yes

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

2. During the period, there is no any holding subsidiary out of the scope of consolidation, and the consolidation scope has not changed.

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(V) NOTES TO ITEMS IN THE FINANCIAL STATEMENTS (Unit: RMB, unless special statement)

1. Cash and Bank Balances

Item	Closing balance		Opening balance	
	Foreign currency	Equivalent RMB	Foreign currency	Equivalent RMB
Cash				
RMB		113,805.10		225,860.75
HKD	98,349.99	98,364.01	31,336.93	32,590.63
USD	5,094.98	39,785.17	2,907.17	23,463.48
JPY	–	–	500.00	34.23
EUR	1,528.84	15,695.84	4,438.84	42,445.96
GBP	250.00	3,830.80	250.00	3,462.72
Sub-total		271,480.92		327,857.77
Deposit				
RMB		3,298,490,671.86		571,690,211.11
HKD	4,777,104.39	4,791,224.72	4,676,707.50	4,865,433.16
USD	103,193,011.60	805,803,269.65	6,997,303.12	56,472,090.47
EUR	862,883.17	8,858,790.26	1,026,184.42	9,812,979.07
Sub-total	–	4,117,943,956.49		642,840,713.81
Deposit in CSSC Financial Co. (Note)	–	458,194.93		928,326.17
Others	–	–		
RMB	–	210,636,680.36	–	141,156.13
USD	1,113,725.11	8,696,745.27	23,776.27	191,895.90
Subtotal		219,333,425.63		333,052.03
Total		4,338,007,057.97		644,429,949.78

Note:

CSSC Financial Co., parented by China State Shipbuilding Corporation, is a non-banking financial corporation approved and supervised by the People's Bank of China.

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Cash is increased by 573.54% compared with the beginning of this period, mainly due to new shipbuilding orders and additional bank loan.

Bank deposit in closing balance includes fixed deposit of RMB2,267,392,438.14.

Others cash and bank balances in closing balance include structural deposit amount to RMB2 billion.

2. Short-term Investment

Item	Opening balance	Addition in this period	Deduction in this period	Closing balance
Bond Investment				
Bank note	0.00	345,068,830.00	49,705,150.00	295,363,680.00
Total	0.00	345,068,830.00	49,705,150.00	295,363,680.00

According to the written solution of the 15th meeting of 5th term of the Board of Directors, the Company purchased bank notes amounting to RMB300 million to realize capital maintenance and increment and ensure the maximum interest of shareholders.

3. Accounts Receivable

(1) Accounts Receivable

Bond age	Amount	Percentage %	Closing balance Provision for bad debts	Percentage of bad debts %	Net receivable
Within 1 year	167,097,673.58	88.92	835,488.37	0.50	166,262,185.21
1-2 years	8,329,350.86	4.43	41,646.75	0.50	8,287,704.11
2-3 years	2,120,985.84	1.13	10,604.93	0.50	2,110,380.91
3-4 years	298,412.99	0.16	1,492.00	0.50	296,920.92
4-5 years	649,799.83	0.35	3,249.00	0.50	646,100.83
over 5 years	—	0.00	—	—	—
Special	9,422,768.73	5.01	7,540,926.66	100.00	1,881,842.07
Total	187,918,991.83	100	8,433,407.78		179,540,234.43

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Bond age	Amount	Percentage %	Opening balance allowance for bad debts	Percentage of bad debts %	Net receivable
Within 1 year	197,836,908.97	87.10	989,184.54	0.50	196,847,724.43
1-2 years	17,474,709.70	7.69	87,373.55	0.50	17,387,336.15
2-3 years	3,561,887.94	1.57	17,809.44	0.50	3,544,078.50
3-4 years	1,771,699.90	0.78	8,858.50	0.50	1,762,841.40
4-5 years	923,746.50	0.41	4,618.73	0.50	919,127.77
Special	5,554,612.99	2.45	5,554,612.99	100.00	–
Total	<u>227,123,566.00</u>	<u>100</u>	<u>6,662,457.76</u>		<u>220,461,108.24</u>

- (i) Regard to 100% as bad debts allowance, the Company has appealed, but the debtors are unable to perform the sentence of the Court to pay. Therefore, with the approval of the Board, the bad debts allowance is considered in 100%.
- (ii) Regard to 50% as bad debts allowance, some unfavorable situations occurred for taking back the money. 50% as bad debts is approved with relevant procedure of the Company.
- (iii) The total debt from the top five debtors representing 67.86% of the total of Account Receivable. The detail situation is as follows:

Company	Amount (RMB)	Reason
China Shipping Co., Ltd.	60,395,720.00	Shipbuilding settlements, before the due date for payment
BECHTEL	45,858,256.19	Project payment, before the expiry date
Macao Ludang Co., Ltd.	10,574,222.62	Project settlements, before the due date for payment
Havens Steel Company	3,706,940.13	Project payment, made as provision of bad debt with an amount of RMB1,825,641.57
Dalian Northern Marine Diesel Co., Ltd.	3,647,900.00	Project settlements, before the due date for payment
WHL-FONKWANG	3,329,731.51	Project payment, before the expiry date
Total	<u>127,512,770.45</u>	

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

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(2) Advances to suppliers

Bond age	Closing balance		Opening balance	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	219,851,646.13	87.70	139,871,685.48	82.71
1-2 years	30,789,298.70	12.28	28,263,762.00	16.71
2-3 years	–	0.00	953,318.83	0.56
Over 3 years	41,400.00	0.02	41,400.00	0.02
Total	<u>250,682,344.83</u>	<u>100.00</u>	<u>169,130,166.31</u>	<u>100.00</u>

- (i) Advances to suppliers increased by 48.22% compared with the beginning of the period, mainly due to variety of material markets and increase of prepayment for equipments and materials.
- (ii) The account of the five companies with highest prepayments is RMB226.59 million representing 90.39% of advances to suppliers. The details are as follows:

Company	Amount	Reason
Dalian Marine Diesel Works	107,148,632.47	Subscription and prepayment are needed for most marine equipments due to increase shipbuilding order this year.
United Shipbuilding Co., Ltd., Hong Kong	80,685,260.12	
Shaanxi Diesel Company	16,000,000.00	
Baoli Technology Co., Ltd.	11,708,000.00	
Zhenjiang Marine Diesel Factory	<u>11,050,000.00</u>	
Total	<u>226,591,892.59</u>	

- (iii) United Shipbuilding Co., Ltd., Hong Kong, Zhenjiang Marine Diesel Factory are subsidiaries of CSSC, and the connected parties of the Company. Apart from that, none of prepayments is due from shareholders who hold 5% or above of the Company's interest.

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(3) Other receivables

Bond age	Amount	Percentage %	Closing balance allowance for bad debts	Percentage of bad debts	Net receivable
Within 1 year	9,259,116.47	38.53	46,295.58	0.50%	9,212,820.89
1-2 years	456,327.12	1.90	2,281.64	0.50%	454,045.48
2-3 years	200,000.00	0.83	1,000.00	0.50%	199,000.00
3-4 years	57,729.60	0.24	288.65	0.50%	57,440.95
4-5 years	26,000.00	0.11	130.00	0.50%	25,870.00
5 years	38,750.00	0.16	193.75	0.50%	38,556.25
GZITIC	13,994,268.75	58.23	8,748,244.80	70.09%	5,246,023.95
Total	24,032,191.94	100.00	8,798,434.42	–	15,233,757.52

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

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- (i) The amount of other receivables from the top five companies is RMB19.15 million, representing 79.69% of other receivables from customers. The detail situation is as follows:

Company	Amount	Reason
Guangzhou International Trust Investment Company (GZITIC)	13,994,268.75	Trust deposit, made special provision for doubtful debts of RMB8,478,244.80
Sinochem Intl' Public Bidding Limited Liability Co.	1,745,950.00	Tender guarantee cost
New Hotel Lisboa	1,700,885.00	
Spare fund	1,419,274.04	
Xingguanghua Co.	292,070.00	
Total	19,152,447.79	

- (ii) Trust Deposits

- (a) The trust deposits at Guangzhou Economic and Technology Development Zone International Trust and Investment Company ("GETDZITIC") remains RMB47.435 million with full provision for bad debts in 2000. The Company received liquidation fund amounting to RMB671,488.80 in December 2006, apart from that, GETDZITIC has no other assets for discharging debts presently. Relevant bad debts has been written off in 2006 with approval of the 10th meeting of the Board of Directors of the Company.

The trust deposit of Guangzhou Guanglian Container Transportation Co., Ltd., a subsidiary of the Company at GETDZITIC amounted to RMB1 million has been made 100% special bad debt. The writing-off procedure has been finished in this period.

- (b) The trust deposits at Guangzhou International Trust Investment Company ("GZITIC") have been negotiated to be restructured and have been changed for some assets. The received assets are as follows: shop asset in Hengyang Hunan province, real estates in Dongguan and Heshan, Guangdong province, real estates in Fangcun, Haizhu District and Cliford Garden Panyu, Guangzhou, one mid-size car and membership of Wuhan Bullion Lake Golf Club, and 16 apartments in Longgang Shenzhen totally writing off debt RMB154,088,865.25 and making provision for bad debt of RMB109,062,627.93. Pursuant to the reconstruction agreement between the Company and GZITIC, the credit in Shenzhen Guanghong Company and the rest real estates in Longgang Shenzhen have not transferred to the Company, that mainly due to relevant proceed of property certifications of such credit and real estates are under transferring progress. The Company will follow the issue in the future.

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

NOTES TO THE FINANCIAL STATEMENTS

(4) Subsidy receivable

Items	Closing balance	Opening balance
Value-added tax refund for exports	28,412,256.75	34,472,851.84
Total	28,412,256.75	34,472,851.84

4. Inventories and provision for diminution in value

(1) Inventories category statement

Item	Amount	Closing balance	Net amount	Amount	Opening balance	Net amount
		Provision for diminution in value			Provision for diminution in value	
Raw material	304,875,494.49	2,962,507.56	301,912,986.93	248,487,440.10	995,540.89	247,491,899.21
include: material on the way	5,972,989.73	-	-	-	-	-
Low-value Consumables	859,262.57	-	859,262.57	5,009.50	-	5,009.50
Work-in-progress	843,024,445.18	-	843,024,445.18	66,453,054.24	-	66,453,054.24
Finished goods	4,533,945.64	-	4,533,945.64	4,577,912.90	-	4,577,912.90
Total	1,153,293,147.88	2,962,507.56	1,150,330,640.32	319,523,416.74	995,540.89	318,527,875.85

Inventories are increased by 260.94% compared with the beginning of the period, mainly due to:

- ① The increased shipbuilding capacity resulted in the increase of inventories items.
- ② According to the principle of the shipbuilding contract, the balance in work-in-progress shall be compared with the balance of project installment. If the balance in work-in-progress is larger than the balance of project installment, the margin shall be shown as assets. Otherwise, the margin shall be shown as debt. Comparing the total amount of work-in-progress under construction with the received project installments in the previous years, at the end of 2005, the received project installments was larger than the total amount of work-in-progress under construction. So the margin was listed as debt in the current liabilities. In this period, to reasonably show the projects under construction, the Company listed the margin of the balance in work-in-progress and the received project installments as inventories or other current liabilities. The inventories and other current liabilities are increased by RMB736,707,993.63 due to changing list method.

NOTES TO THE FINANCIAL STATEMENTS

(2) The Change of provision for diminution in value

Item	Opening balance	Addition in the period	Deduction in the period	Closing balance	Basis of realized net value
Raw material	995,540.89	2,937,942.05	970,975.38	2,962,507.56	Market price
Total	995,540.89	2,937,942.05	970,975.38	2,962,507.56	–

5. Deferred expenses

Category	Opening balance	Addition in the period	Amortization in the period	Closing balance
Road maintenance and insurance	37,868.55	25,304.32	38,361.38	24,811.49
Property insurance	8,286.43	369,367.58	176,118.84	201,535.17
Others	340,480.00	826,435.00	606,915.00	560,000.00
Total	386,634.98	1,221,106.90	821,395.22	786,346.66

6. Long-term investment

(1) Long-term investment category statement

Item	Opening balance		Addition in the period	Deduction in the period	Closing balance	
	Amount	Provision for diminution			Amount	Provision for diminution
Long-term equity investments	15,735,350.82	–	51,886,075.36	–	67,621,426.18	–
Long-term debt investments	–	–	–	–	–	–
Others	–	–	5,200,000.00	–	5,200,000.00	–
Total	15,735,350.82	–	57,086,075.36	–	72,821,426.18	–

NOTES TO THE FINANCIAL STATEMENTS

(2) Long-term equity investment

Name of Investees	Total investment	Percentage holding of investees' capital	Closing balance	Equity method Change in the period	Accumulated change
South China/Marine and Industrial Special Coating Limited	1,722,060.00	25.00%	3,011,992.86	73,047.39	1,289,932.86
Zhanjiang Nanhai Naval New Technology & Service Co., Ltd.	800,000.00	40.00%	766,951.07	4,416.66	-33,048.93
Shenzhen Yuanzhou Science & Technology Industry Company Limited	1,000,000.00	7.00%	1,000,000.00	—	—
China Merchants Banking Corporation Information and Technology Company Limited of CSSC	10,010,000.00	0.08%	10,010,000.00	—	—
Guangli Marine Engineering Service Company Limited	100,000.00	20.00%	215,897.37	92,026.43	115,897.37
CSSC Zhenjiang Modern Generator Co., Ltd.	15,558,800.00	32.00%	14,616,584.88	-942,215.12	-942,215.12
Merchant Energy Co., Ltd.	37,100,000.00	0.29%	37,100,000.00	—	—
Sub-total	<u>67,190,860.00</u>		<u>67,621,426.18</u>	<u>-772,724.64</u>	<u>430,566.18</u>

NOTES TO THE FINANCIAL STATEMENTS

(3) *Other equity investment*

	Opening balance	Addition in the period	Deduction in the period	Closing balance
Membership of Wuhan Bullion Lake Golf Club	–	5,200,000.00	–	5,200,000.00

(4) Long-term investment is increased by 362.79% compared with the beginning of the period, mainly due to:

- (i) Approved by the solution of the 11th meeting of the 5th term of the Board of Directors on March 23rd, 2006 Glory Group Development Ltd., a fully subsidiary of the Company, invested USD 2 million to CSSC Zhenjiang Modern Generator Co., Ltd.
- (ii) Approved by the solution of the 17th meeting of the 5th term of the Board of Directors on October 17th, 2006, the Company as a strategic investor to Merchant Energy Co., Ltd. purchased 10 million shares amounting to RMB37.1 million.
- (iii) The trust deposit at GZITIC has been restructured and changed to 108 memberships of Wuhan Bullion Lake Golf Club. The Company will consider the memberships as a long-term investment.

(5) As at the end of this period, the long-term investment has not any devaluation evidences and should not be made devaluation provision.

NOTES TO THE FINANCIAL STATEMENTS

7. Original Cost, Accumulated Depreciation and Provision for Diminution of Fixed Assets

Item	Opening balance	Addition	Deduction	Closing balance
(1) Original Cost				
Buildings, Structures	783,510,117.30	109,131,521.97	6,565,561.31	886,076,077.96
Machinery and equipment	744,869,164.60	71,853,144.66	37,289,714.50	779,432,594.76
Vehicles	49,648,916.99	9,260,772.70	9,747,971.49	49,161,718.20
Others	44,688,555.22	3,247,628.72	4,505,687.24	43,430,496.70
Total	1,622,716,754.11	193,493,068.05	58,108,934.54	1,758,100,887.62
(2) Accumulated depreciation	–			–
Buildings, Structures	213,527,259.33	23,403,102.38	1,453,879.98	235,476,481.73
Machinery and equipment	401,257,115.14	53,182,715.11	29,431,128.86	425,008,701.39
Vehicles	36,768,026.44	2,881,099.95	8,946,935.76	30,702,190.63
Others	22,995,078.11	1,195,414.44	1,946,975.77	22,243,516.78
Total	674,547,479.02	80,662,331.88	41,778,920.37	713,430,890.53
(3) Net value of fixed assets	948,169,275.17	–	–	1,044,669,997.09

As at the end of this period, the fixed assets have not any devaluation evidences and should not be made devaluation provision.

NOTES TO THE FINANCIAL STATEMENTS

8. Construction-in-process

Category	Opening balance Including: interest	Addition in the period Including: interest	Transfer to fixed assets Including: interest	Other reductions Including: interest	Closing balance Including: interest
1. Facilities improvements	56,425,445.50	116,513,964.30	140,003,857.03	–	32,935,552.77
(1) Capital construction:					
critical improvement project in national debt	7,401,934.67	43,722,868.17	49,303,175.39	–	1,821,627.45
Including: capitalized interests	–	–	–	–	–
(2) Others	49,023,510.83	72,791,096.13	90,700,681.64		31,113,925.32
2. Subsidiaries	–	–	–	–	–
Total	<u>56,425,445.50</u>	<u>116,513,964.30</u>	<u>140,003,857.03</u>	<u>–</u>	<u>32,935,552.77</u>

Construction-in-progress in decreased by 41.63% compared with the beginning of the period mainly due to some project completed. Shipbuilding equipment should be added and updated due to enlarged shipbuilding scale, such as numerical plasma-cutting machine, high-efficient portal cutting machine, 400t gantry crane and reconstruction of erection field and dry dock.

(1) The above mentioned capital construction, critical improvement project in national debt in construction-in-progress are 400t gantry crane, and the primary expense for two types of special vessels.

(2) Capitalizing rate is the actual corresponding bank loan rate.

As at the end of this period, the Construction-in-progress has not any devaluation evidences and should not be made devaluation provision.

NOTES TO THE FINANCIAL STATEMENTS

9. Intangible assets

Category	Initial cost	Opening balance	Addition	Transfer out	Amortization	Closing balance	Remained amortizing years
Land use right	68,147,743.40	51,646,673.74	–	–	1,386,532.97	50,260,140.77	3-7 years
Know-how	37,693,766.02	25,072,162.91	–	–	3,544,052.03	21,528,110.88	1-9 years
Total	105,841,509.42	76,718,836.65	–	–	4,930,585.00	71,788,251.65	

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

As at the end of this period, the intangible assets has not any devaluation evidences and should not be made devaluation provision.

10. Long-term deferred expenses

Category	Opening balance	Addition	Transfer out	Closing balance
Office fitment expenses	2,979,662.23	–	2,979,662.23	–
Others	600,000.00	–	600,000.00	–
Total	3,579,662.23	–	3,579,662.23	–

Notes: 1. The decrease of office fitment expenses was amortized and recorded as “fixed assets”.

2. The other long-term deferred expenses was advanced storage rent, which recorded as “other receivable”.

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

(1) Short-term loans

Loans category	Closing balance	Opening balance	Loan's term	Annual interest
Mortgage loans	–	–	–	
Guarantee loans	40,000,000.00	–	3 months	5.814
Credit loans	23,785,655.00	60,354,500.00	3 months	RMB: 5.58, USD: LIBOR+2%
Total	63,785,655.00	60,354,500.00		

The short-term loan is made by United Steel Structure Limited to enlarge the production scale, which with the guarantee by the Company under approval by the resolution of the 16th meeting of the 5th term of the Board of Directors and United Steel Structure provided counter-guarantee to the Company.

NOTES TO THE FINANCIAL STATEMENTS

(2) Long-term loans within one year

Loans category	Closing balance	Opening balance	Note	
			Loan's term	Annual interest
Guarantee loans	573,002,400.00	200,150,000.00	one year	3.51
Total	573,002,400.00	200,150,000.00	–	–

The long-term loan is the special USD loan that will be paid back within 2007 from Export and Import Bank of China in accordance with the resolution of the 14th meeting of the 5th term of the Board of Directors for purpose of avoiding the risk of exchange rate.

12. Accounts payable

(1) Accounts payable

Bond age	Closing balance		Opening balance	
	Amount	Percentage%	Amount	Percentage%
Within 1 year	376,548,409.40	98.61	371,858,554.78	99.72
1-2 years	3,968,064.46	1.04	70,274.16	0.02
2-3 years	–	0.00	446,635.96	0.12
Over 3 years	1,355,588.50	0.25	534,163.01	0.14
Total	381,872,062.36	100.00	372,909,627.91	100.00

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

(2) Advances from customers

Category	Closing balance	Opening balance
Within 1 year	24,302,316.50	17,378,974.84
1-2 years	2,118,329.52	1,636,198.99
2-3 years	477,222.09	515,046.41
Over 3 years	516,914.90	16,330.00
Total	27,414,783.01	19,546,550.24

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

NOTES TO THE FINANCIAL STATEMENTS

(3) Other Payables

Category	Closing balance	Opening balance
Housing monetary allowances for retirees	11,354,664.35	–
Medicare for retirees	4,596,649.90	7,299,980.62
Guangzhou Marine Affaires Bureau	2,404,238.23	637,406.04
Auditing expenses to accountants	1,663,071.49	1,624,365.66
Staff check off	1,382,869.58	1,046,283.49
Emolument to non-executive directors	647,044.00	540,860.00
Deposit	315,030.00	596,036.80
Guangzhou Shipyard	22,072.40	–
Special singleton treatment for retirees	–	4,326,699.60
Other payables	29,208,650.52	11,335,216.00
	<u>33,238,737.99</u>	<u>27,406,848.21</u>
Total		
Include: balance with over 3-year's bond age	5,667,734.12	7,421,868.02

- (i) The Company approved the commencement of the housing monetary allowances policy for retired employees in the 7th meeting of the 5th term of Board of Directors on January 4, 2006 and authorized the managers to execute. The meeting of presidents on March 21, 2006 approved the implement measurement of housing monetary allowances for retired employees. Pursuant to the measurement, RMB23,391,335.00 has been prepared to pay the housing monetary allowances in this and next year. RMB12,036,670.65 has been paid in this year and RMB11,354,664.35 remained unpaid.
- (ii) Medicare for retirees in recent 10 years was paid by balance with over 3-year's bond age.
- (iii) In the period, the Company had other payables amounting to RMB1,012,887.33 from shareholders with equity holding at 5% or above of share capital. The details are set out in the note (VI) 5.

NOTES TO THE FINANCIAL STATEMENTS

13. Payable Dividends

Category	Closing balance	Opening balance
Dividends	9,436.88	2,184,037.88
Total	9,436.88	2,184,037.88

Payable dividends was decreased by 99.57% compared with the beginning of the period mainly due to United Steel Structures Limited dispatched dividends of 2005 to minority interest USA Havens Steel Company. Pursuant to the agreement, Havens will pay its accumulated dividend of United Steel Structures Limited totally RMB2,170,856.18 to United Steel Structures Limited.

14. Taxes Payable

Category	Closing balance	Opening balance
Value-added tax	-14,788,553.13	-14,807,789.99
Business tax	428,441.90	331,072.63
City construction tax	306,817.80	96,723.25
Income tax	2,232,094.38	1,138,698.51
Property tax	64,017.96	87,831.80
Land tax	8,481.02	8,480.57
Stamp tax	8,646.52	—
Income tax of staff	1,295,509.17	708,614.51
Tax for other	-50,397.85	—
Total	-10,494,942.23	-12,436,368.72

15. Accrued expenses

Category	Closing balance	Opening balance
Product warranty provision	36,434,549.87	38,760,919.62
Costs for outstanding projects	4,573,263.03	27,226,240.39
Loan interest	—	62,691.39
Accrued water & power cost of this month	3,510,201.04	4,493,092.85
Others	570,453.42	5,467,122.83
Total	45,088,467.36	76,010,067.08

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

NOTES TO THE FINANCIAL STATEMENTS

16. Provisions for foreseeable liabilities

Item	Closing balance	Opening balance
Lawsuit cost of Guanglian barge No.2 accident	<u>1,384,268.58</u>	<u>0.00</u>
Total	<u><u>1,384,268.58</u></u>	<u><u>0.00</u></u>

The container of Nanyang Shipping Co., Ltd., Hong Kong dropped into the sea when transported by Guangzhou Guanglian Container Transportation Co., Ltd., a subsidiary of the Company. The Local Court sentenced Guanglian shall be responsible for the accident and bear the lawsuit cost for USD180,000.00. This has been approved by the 7th meeting of the 5th term of the Board of Directors of Guangzhou Guanglian Container Transportation Co., Ltd.

17. Other Current Liabilities

Category	Closing balance	Opening balance
Settlement for long-term contractual project	<u>4,056,165,513.24</u>	<u>900,256,830.83</u>
Total	<u><u>4,056,165,513.24</u></u>	<u><u>900,256,830.83</u></u>

Other current liabilities increased by 350.56% mainly due to:

- (i) The increased reception of shipbuilding progress payment arising from more new shipbuilding contracts secured by the Company.
- (ii) The stating method changed in project under construction and received project installment in advance in this period, for details refer to Note 4 (1). The change resulted in the increase amounting to RMB736,707,993.63 in the item of inventory and other current liabilities for the year.

NOTES TO THE FINANCIAL STATEMENTS

18. Long-term Bank Loans

Item	Amount	Loan's term	Annual interest	Conditions of loans
Loan principal from the Import and Export Bank of China	1,081,348,776.00	3 years	0.0351	Guarantee
loan interest from the Import and Export Bank of China	<u>1,241,347.87</u>			
Total	<u><u>1,082,590,123.87</u></u>			

The long-term bank loan is to avoid the risk of exchange rate and approved by the 14th meeting of the 5th term of the Board of Directors. The loan is from the Import and Export Bank of China and guaranteed by CSSC.

The principal loan is USD211,860,000.00 and USD73,380,000.00 therein shall be due and payable in 2007, say RMB573,002,406.00 and listed in long-term liability within one year. The remained USD138,480,000.00, say RMB1,081,348,776.00 is listed in long-term bank loan.

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19. Special Project Payable

Category	Closing balance	Opening balance
National fund	30,056,068.60	27,218,854.17
Provincial fund	<u>4,330,000.00</u>	<u>2,530,000.00</u>
Total	<u><u>34,386,068.60</u></u>	<u><u>29,748,854.17</u></u>

- (i) National fund is fund for Ro/Pax vessel in accordance with the regulation of Guo Cai [2001]13, semi-submersible vessel (Chuan Gong Ji [2002]350) and the projects of Navy Equipment Bureau, Zhuang Ji [2005] 235 and [2006]273.
- (ii) Provincial fund is fund of NO.1 dock alteration in accordance with the document [2005]484 issued by Guangzhou Economic and Trading Committee and [2005]3 issued by Guangzhou Economic Committee.

NOTES TO THE FINANCIAL STATEMENTS

20. Capital share

(1) Changes of share capital

Unit: share

Items	Opening Balance		New share	Change (+/-) Conversion				Closing Balance	
	Amount	Percentage %		Bonus issue	from reserves	Others	Sub-total	Amount	Percentage %
1. Shares subject to sale restrictions									
1) State-owned shares	210,800,080	42.61	-	-	-	-34,149,465	-34,149,465	176,650,615	35.71
2) State-owned legal person shares	-	-	-	-	-	-	-	-	-
3) Other domestic shares	-	-	-	-	-	-	-	-	-
Including: domestic legal person shares	-	-	-	-	-	-	-	-	-
domestic natural person shares	-	-	-	-	-	-	-	-	-
4) Foreign shares	-	-	-	-	-	-	-	-	-
Including: Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Total shares subject to sale restrictions	210,800,080	42.61	-	-	-	-34,149,465	-34,149,465	176,650,615	35.71
2. Freely transferable shares									
1) PRC listed domestic shares	126,479,500	25.57	-	-	-	34,149,465	34,149,465	160,628,965	32.47
2) PRC listed foreign shares	-	-	-	-	-	-	-	-	-
3) Overseas listed foreign shares	157,398,000	31.82	-	-	-	-	-	157,398,000	31.82
4) Others	-	-	-	-	-	-	-	-	-
Total freely transferable shares	283,877,500	57.39	-	-	-	34,149,465	34,149,465	318,026,965	64.29
3. Total number of shares	<u>494,677,580</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>494,677,580</u>	<u>100</u>

In accordance with the documents of Shang Zi Pi [2006]1027 issued by the Ministry of Commerce, and Guo Zi Chan Quan (2006) 456 issued by the State-owned Assets Supervision and Administration Commission of the State Council on approval of the share reform motion, CSSC, the non-listed shareholder of the Company transferred 34,149,465 shares to public shareholders.

After the share reform, the registered capital of the Company remains RMB494,677,580.00, totally 494,677,580 shares, including 176,650,615 shares of CSSC, representing 35.71%, 160,628,965 public circulating shares (A share), representing 32.47% and 157,398,000 foreign shares (H share) for 31.82%.

NOTES TO THE FINANCIAL STATEMENTS

(2) The transferable time of shares subject to sale restrictions

Time	Transferable shares	Remained shares subject to sale	Remained freely transferable	Note
May 24, 2009	176,650,615	–	494,677,580	Note

Note: The A Share Reform of the Company was implemented on May 04, 2006. The only non-tradable shareholder CSSC promised that:

- (i) The non-tradable shares held by CSSC shall not be listed or traded on any stock exchange within 12 months from the date of implementation of the share reform plan.
- (ii) CSSC shall not trade any A shares listed on any stock exchange within 24 months upon the expiry of the aforesaid 12-month period.

21. Capital reserve

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

22. Surplus reserve

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

The reason of change in surplus reserve in 2006: In accordance with the regulation of the Ministry of Finance Cai Qi [2006]67 “the Notice on Dealing with Financial Affairs after the Company Law Coming into Force by the Ministry of Finance”, the Company has transferred the balance of public welfare to surplus reserve since January 1st 2006.

NOTES TO THE FINANCIAL STATEMENTS

23. Retained Profit

Item	Closing balance	Opening balance
Balance at the beginning of the year	-438,346,624.44	-536,539,884.17
Balance adjustment of previous years	—	—
Profit this year	293,616,579.81	98,193,259.73
Statutory reserve	—	—
Statutory public welfare fund	—	—
Workers welfare fund (Note)	2,159,012.14	—
Prior share dividend distributed	—	—
Discretionary public reserve	—	—
Share dividend distributed	—	—
Balance at the end of the year	<u>-146,889,056.77</u>	<u>-438,346,624.44</u>

Note: The worker welfare fund amounting to RMB2,159,012.14 is the reward and welfare fund drawn for the staff of United Steel Structure Limited ("United Steel"), a subsidiary of the Company, and in accordance with 10% of the net profit of United Steel for the year 2006.

24. Principal Operations Income and Cost

(1) Geographical distribution to turnover

Area	Principal operating incomes		Profit		Income changes (%)
	2006	2005	2006	2005	
Malta	273,675,744.58	97,361,312.20	49,472,592.68	19,795,340.92	181.09
Canada	20,443,752.20	143,498,882.44	3,321,039.91	5,222,473.77	-85.75
Denmark	1,004,955,485.12	1,280,912,220.96	72,214,557.61	78,300,458.14	-21.54
Macao	50,136,089.54	25,599,082.48	2,171,799.72	3,619,361.07	95.85
Philippine	—	5,059,536.41	—	146,630.82	-100.00
United States	202,039,301.88	1,020,662.89	25,497,508.68	343,125.48	19,694.91
Hong Kong	80,370,859.40	382,927,585.75	11,143,530.72	48,534,169.60	-79.01
Marshall Islands	20,975.71	209,736,553.34	547,955.41	-5,111,959.66	-99.99
Taiwan	3,478,423.62	4,643,116.50	305,965.49	4,405,375.08	-25.08
Sweden	549,954,647.53	—	86,849,222.96	—	—
Norway	—	7,770,678.27	—	-519,403.72	-100
Liberian	637,893,204.82	—	155,070,943.74	—	—
Oman	31,626,350.89	—	5,692,745.16	—	—
Others	3,454,810.80	4,760,295.19	714,352.05	342,378.65	-27.42
Sub-total	2,858,049,646.09	2,163,289,926.43	413,002,214.13	155,077,950.15	32.12
China	464,249,455.41	565,626,153.71	102,477,565.60	62,044,654.06	-17.92
Total	<u>3,322,299,101.50</u>	<u>2,728,916,080.14</u>	<u>515,479,779.73</u>	<u>217,122,615.21</u>	<u>21.74</u>

NOTES TO THE FINANCIAL STATEMENTS

(2) *The top five customers of the Company:*

Client	Amount	Percentage of principal operating income
A/S Dampsikibsselskabet TORM	549,954,647.53	16.55
Seaarland Shipping Management	540,681,301.85	16.27
BECHTEL	264,220,061.18	7.95
Nortide Shipping Ltd.	207,381,505.43	6.24
A.P.MOLLER-MAERSK	203,383,058.14	6.12
Total	<u>1,765,620,574.13</u>	<u>53.13</u>

(3) *Principal operating incomes, cost of sales and gross profit*

Item	Operating income		Cost of sales		Gross profit	
	2006	2005	2006	2005	2006	2005
Shipbuilding products	2,860,687,252.04	2,335,531,197.24	2,439,145,765.97	2,168,909,240.91	421,541,486.07	166,621,956.33
Steel structure	320,032,753.48	287,657,617.19	278,999,453.69	264,532,458.20	41,033,299.79	23,125,158.99
Terrestrial machinery	141,579,095.98	105,727,265.71	88,674,102.11	78,351,765.82	52,904,993.87	27,375,499.89
Total	<u>3,322,299,101.50</u>	<u>2,728,916,080.14</u>	<u>2,806,819,321.77</u>	<u>2,511,793,464.93</u>	<u>515,479,779.73</u>	<u>217,122,615.21</u>

The benefit of the Company remains increasing trend in this period. The principal operating incomes are increased by 21.74% compared with last period mainly due to remarkable increase of shipbuilding. The gross profit is increased by 137.41% compared with last period mainly due to the Company overcame the pressure from floating price of materials and avoided the risk from RMB appreciation, the Company devoted to establish and perfect the new shipbuilding model and continue improving production efficiency.

The gross profit of principal operating is 15.52% in this period (7.96% for last period). The gross profit of shipbuilding is 14.74% (7.13% for last period).

NOTES TO THE FINANCIAL STATEMENTS

25. Principal operating tax and additional tax

Category	2006	2005
Sales tax	673,546.38	690,733.55
City construction tax	6,033,859.10	870,577.66
Education additional tax	2,585,958.39	372,539.84
Total	<u>9,293,363.87</u>	<u>1,933,851.05</u>

26. Profit from other operations

Item	Operation income		Operation cost		Operation gross profit	
	2006	2005	2006	2005	2006	2005
Sales of raw materials	21,411,615.68	25,895,881.13	18,481,381.35	25,006,031.63	2,930,234.33	889,849.50
Sales of scrap materials	32,490,711.62	36,034,563.74	20,376,740.65	24,852,642.08	12,113,970.97	11,181,921.66
Transportation service	5,354.00	138,615.60	–	136,996.55	5,354.00	1,619.05
Leasehold	6,951,417.08	1,348,581.08	1,024,147.32	1,464,894.98	5,927,269.76	-116,313.90
Others	16,045,343.16	33,990,315.18	23,981,746.89	28,095,538.43	-7,936,403.73	5,894,776.75
Total	<u>76,904,441.54</u>	<u>97,407,956.73</u>	<u>63,864,016.21</u>	<u>79,556,103.67</u>	<u>13,040,425.33</u>	<u>17,851,853.06</u>

27. Operation and management expenses

Item	2006	2005
1. Selling expenses	4,666,222.57	4,067,459.64
2. Administrative expenses	<u>219,996,939.35</u>	<u>116,318,618.87</u>

The administrative expenses are increased by 89.13% mainly due to:

- (1) RMB23,391,335.00 is made in this period for the housing monetary allowances policy for retired employees has been approved by the 7th meeting of the 5th term of the Board of Directors on January 4th, 2006.

NOTES TO THE FINANCIAL STATEMENTS

- (2) Part assets have been received for the debt restructuring of the deposit at Guangzhou International Trust Investment Company ("GZITIC"). RMB36,170,000.00 is made special provision of bad debts approved by the Board of Directors. Except of the above, the management expenses actually are increased 28.93% in this period mainly due to increased salary and related expenses for better operating benefit and management structure adjustment. The Company enhanced research expenses to enlarge production scale and related tax is increased due to increased business.

28. Financial expenses

Category	2006	2005
Interest expense	7,334,494.76	19,087,141.74
Less: interest income	18,576,559.70	4,936,637.85
exchange loss	11,033,704.07	16,019,272.91
Others	4,334,735.93	2,499,508.74
	<u> </u>	<u> </u>
Total	<u>4,126,375.06</u>	<u>32,669,285.54</u>

The financial expenses are decreased by 87.37% compared with last period mainly due to better cash flow, less bank loan and decreased capital cost caused by increased shipbuilding orders.

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29. Investment income

Item	Bonds investment	Equity investments		Total income
		At equity	At cost	
Short-term investments	294,850.00	–	–	294,850.00
Long-term investments	<u>–</u>	<u>-370,081.11</u>	<u>3,159,870.84</u>	<u>2,789,789.73</u>
	<u> </u>	<u> </u>	<u> </u>	
Total	<u>294,850.00</u>	<u>-370,081.11</u>	<u>3,159,870.84</u>	<u>3,084,639.73</u>

NOTES TO THE FINANCIAL STATEMENTS

30. Subsidy income

Item	2006	2005
Subsidy for sea going liners	–	21,888,006.00
Others	19,463,253.97	4,005,977.17
Total	<u>19,463,253.97</u>	<u>25,893,983.17</u>

- (i) Subsidy for sea going liners is zero mainly due to no such income of product in this period.
- (ii) Other subsidy is (a) special subsidy of RMB18,970,000.00 in 2006 in accordance with relevant regulations of the government, (b) tax refund for self-developed software of RMB493,300.00.

31. Non-operating income and expenses

(1) Non-operating income

Item	2006	2005
Gain on disposal of fixed assets	6,482,625.19	803,336.54
Penalty received	84,318.00	40,948.00
Income of fixed assets	–	–
Compensation	45,083.00	10,149.27
Bad debt income	–	–
Others	593,418.90	3,509,130.89
Total	<u>7,205,445.09</u>	<u>4,363,564.70</u>

Non-operating income is increased by 65.13% mainly due to disposal of some fixed assets including selling the house property of the office building located at No. 126 Gexin Road Haizhu District Guangzhou to Guangzhou Marine Engineering Corporation. The selling payment amounted to RMB5,580,000.00 and the net profit is RMB2,170,000.00.

The house property located at Fangcun District Guangzhou and Guangzhou Baoli real estate gained by debt restructuring from Guangzhou International Trust Investment Company were sold for RMB138,957.05 and RMB311,572.04 respectively by the approval of the 13th meeting of the 5th term of the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

(2) Non-operating expenses

Category	2006	2005
Loss on disposal of fixed assets	9,438,622.89	3,311,400.21
Penalty expenses	32,308.25	29,646.56
Loss on fixed assets		304,649.32
Compensation	94,083.18	146,668.65
Non-commonweal sponsor	—	110,300.00
Others	830,387.11	1,513,726.71
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Total	10,395,401.43	5,416,391.45
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Non-operating expenses are increased by 91.92% compared with the same period of last year mainly due to increased fixed asset loss caused by dismantling some production facilities in dry dock renovation.

33. Exceptional items

Item	Amount
Income from invest company or department of sale or deposition (Note 1)	-8,767.07
Various kinds of government subsidies (Note 2)	19,463,253.97
Short investment income (deduct: loss) (Note 3)	294,850.00
Other non-operating incomes (deduct: loss)	-3,189,956.34
Writing back of provisions drawn in prior years (Note 4)	1,642,464.18
Other exceptional items (Note 5)	-23,391,335.00
Total exceptional items	-5,189,490.26
	<hr/>
Total profit	309,795,241.57
	<hr/>
Profit after deduction of exceptional items	314,984,731.83
	<hr/>

Note:

- 1) The interest transferring loss from transferring the Company's 26% interest in subsidiary Guangzhou Hongfan Information Technology Co., Ltd. (77% controlled by the Company) to Information and technology Company Limited of CSSC (a connected party of the Company) in accordance with the resolution of the fourth meeting of the fifth term of the Board of Directors held on October 10, 2005.

NOTES TO THE FINANCIAL STATEMENTS

- 2) Including special subsidy amounting to RMB18.97 million and tax refund of self-product software amounting to RMB493,300 received in year 2006.
- 3) The income from investing People's Bank of China bills amounting to RMB300 billion to realize capital maintenance and increment and ensure the maximum interest of shareholders in accordance with the resolution of the 15th meeting of 5th term of the Board of Directors of the Company.
- 4) Writing back of provision with an amount of RMB970,975.38 for the inventory diminution provision drawn at the beginning of the year; the Company has drawn the bad debt provision for the overdue deposit in Guangzhou Economic and Technology Development Zone International Trust and Investment Company in full at the beginning of 2006, however, the Company received liquidation fund amounting to RMB671,488.80 during the year, therefore wrote back the relevant bad debt provision.
- 5) In accordance with relevant regulations on housing subsidy of Guangzhou Municipality, the Board of Directors approved RMB23,391,335.00 as housing allowance for retirees.

33. Other main expenses related to business

Item	Amount
Administrative expenses	94,729,205.89
Selling expenses	4,666,222.57
Manufacturing expenses	112,198,209.68
Total	211,593,638.14

NOTES TO THE FINANCIAL STATEMENTS

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

(1) *Accounts receivable Refer to the notes of "Accounts Receivable".*

Bond age	Amount	Proportion (%)	Closing balance	Record value
			Provision for bad debts	
Within one year	96,803,940.37	80.82	636,315.66	96,167,624.71
1-2 years	15,298,267.68	12.89	76,491.33	15,221,776.35
2-3 years	755,889.76	0.64	3,779.45	752,110.31
3-4 years	111,308.85	0.09	556.54	110,752.31
4-5 years	601,799.83	0.51	3,009.00	598,790.83
Over 5 years	90,000.00	0.08	450.00	89,550.00
special	5,000,972.60	4.21	5,000,972.60	-
Total	<u>118,662,179.09</u>	<u>100.00</u>	<u>5,721,574.58</u>	<u>112,940,604.51</u>

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

Refer to the notes of "Accounts Receivable"

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

NOTES TO THE FINANCIAL STATEMENTS

(2) Other accounts receivable

Bond age	Amount	Proportion (%)	Closing balance	Record value
			Provision for bad debts	
Within one year	6,144,629.21	29.01	43,351.40	6,101,277.81
1-2 years	115,200.00	0.54	568.50	114,631.50
2-3 years	927,712.27	4.38	4,638.56	923,073.71
3-4 years	–	0.00	–	–
4-5 years	–	0.00	–	–
over 5 years	–	–	–	–
Trust deposit in GZITIC	13,994,268.75	66.07	8,748,244.80	5,246,023.95
Total	21,181,810.23	100.00	8,796,803.26	12,385,006.97

Bond age	Amount	Proportion (%)	Opening balance	Record value
			Provision for bad debts	
Within one year	4,959,868.45	2.22	24,799.34	4,935,069.11
1-2 years	2,234,768.06	1.00	11,173.84	2,223,594.22
2-3 years	426,602.57	0.19	2,133.01	424,469.56
3-4 years	15,000.00	0.01	75.00	14,925.00
4-5 years	–	0.00	–	–
Trust deposit in GZITIC	168,083,134.00	75.32	117,810,872.73	50,272,261.27
Trust deposit in GETDZITIC	47,435,000.00	21.26	47,435,000.00	–
Total	223,154,373.08	100.00	165,284,053.93	57,870,319.15

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

NOTES TO THE FINANCIAL STATEMENTS

(3) Long-term Investments

1) Long-term investments category statement

Item	Opening balance				Closing balance	
	Amount	Provision for diminution in value	Addition in the period	Addition in the period	Amount	Provision for diminution in value
Long-term equity investments	113,484,352.44	–	51,627,544.89	2,257,030.80	162,854,866.53	
Long-term debt investments	–	–	–	–	–	–
Others	–	–	5,200,000.00	–	5,200,000.00	
Total	<u>113,484,352.44</u>	<u>–</u>	<u>56,827,544.89</u>	<u>2,257,030.80</u>	<u>168,054,866.53</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

2) Long-term investment details

Name of investees	Total investment	Percentage holding of investees' capital	Closing balance	Change in the period	Accumulated change
Guangzhou Masterwood Company Limited	1,690,741.80	51.00%	2,833,503.59	-266,338.76	1,142,761.79
Guangzhou Guanglian Container Transportation Company Limited	15,000,000.00	75.00%	13,790,407.97	-334,448.74	-1,209,592.03
Guangzhou Xinsun Shipping Service Company Limited	500,000.00	83.00%	11,314,810.39	745,080.24	10,814,810.39
United Steel Structures Limited	25,438,698.00	51.00%	51,167,295.89	9,909,865.72	25,728,597.89
Guangdong GSI Elevator Limited	19,950,000.00	95.00%	26,364,714.49	3,816,885.19	6,414,714.49
Guangzhou Hongfan Information Technique Co., Ltd.	2,550,000.00	51.00%	3,570,452.66	-1,157,074.92	1,020,452.66
Glory Group Development Ltd.	10,439.94	100.00%	1,924,737.61	-520,918.72	1,914,297.67
South China/Marine and Industrial Special Coating Limited	1,722,003.00	25.00%	3,011,992.86	73,047.39	1,289,989.86
Zhanjiang Nanhai Naval Ships High and New Technology Service Co., Ltd.	800,000.00	40.00%	766,951.07	4,416.66	-33,048.93
Shenzhen Yuanzhou Science & Technology Industry Company Ltd.	1,000,000.00	7.00%	1,000,000.00	–	0.00
China Merchants Bank	10,010,000.00	0.24%	10,010,000.00	–	0.00
Merchant Energy Transportation Co., Ltd.	37,100,000.00	0.29%	37,100,000.00	37,100,000.00	0.00
Total	115,771,882.74		162,854,866.53	49,370,514.09	47,082,983.79

NOTES TO THE FINANCIAL STATEMENTS

3) Other long-term investment

	Opening balance	Addition in the period	Deduction in the period	Closing balance
Membership of Wuhan Bullion Lake Golf Club	–	5,200,000.00	–	5,200,000.00

- 4) The fourth meeting of the fifth term of the Board of Directors held on October 10, 2005 passed the resolution of transferring 26% of the interest in Guangzhou Hongfan Information Technique Co., Ltd (77% controlled by the Company) to Information and technology Company Limited of CSSC (a connected party of the Company). The transferring payment of RMB1,587,540.94 was received and listed in the account.

The new investment in Merchant Energy Transportation Co., Ltd. amounted to RMB37.1 million.

(4) Investment income

Item	Bonds investment income	Equity investment		Total income
		at equity	at cost	
Short-term Investments	294,850.00	–	–	294,850.00
Long-term investments	–	14,815,085.86	3,159,870.84	17,974,956.70
Total	–	14,815,085.86	3,454,720.84	18,269,806.70

(5) Principal operating income, cost of sales and gross profit

Product Category	Operating income		Cost of sales		Gross profit	
	2006	2005	2006	2005	2006	2005
Shipbuilding products	2,860,687,252.04	2,335,531,197.24	2,439,145,765.97	2,168,909,240.91	421,541,486.07	166,621,956.33
Steel Structure	55,812,692.30	76,168,239.05	52,608,262.38	70,974,549.74	3,204,429.92	5,193,689.31
Terrestrial machinery	53,692,606.01	52,552,201.98	40,011,310.31	43,215,293.16	13,681,295.70	9,336,908.82
Total	2,970,192,550.35	2,464,251,638.27	2,531,765,338.66	2,283,099,083.81	438,427,211.69	181,152,554.46

Refer to relevant note in the Consolidated Statements.

NOTES TO THE FINANCIAL STATEMENTS

(VI) CONNECTED PARTY AND TRANSACTIONS

1. Connected parties under the control of the Company

Name	Registered address	Principal Business	Relationship With the Company	Nature of the Enterprise	Legal Representative
CSSC	No. 1 Pudong main Road, Shanghai	Ship manufacturing and sales	State Shareholder	Company with Limited liability	Chen Xiaojin
Guangzhou Xinsun Shipping Service Company Limited	No.40 Fangcun Main Road Guangzhou	Installation, welding Outfitting, coating, Repair of hull structure	Subsidiary	Company with Limited liability	Li Yongqiang
Masterwood Company Limited	No.40 Fangcun Main Road Guangzhou	Manufacture furniture	Subsidiary	Sino-foreign Joint Venture	Chen Demin
Guangzhou Guanglian Container Transportation Company Limited	No.126 Gexin Road Guangzhou	Container Transportation	Subsidiary	Sino-foreign Joint Venture	Wang Lijian
United Steel Structures Limited	No.40 Fangcun Main Road Guangzhou	Steel Structure business	Subsidiary	Sino-foreign Joint Venture	Chen Jianrong
Guangdong GSI Elevator Limited	No.40 Fangcun Main Road Guangzhou	Manufacturing elevator	Subsidiary	Company with Limited liability	Lin Lianguang
Guangzhou Hongfan Information Technique Co., Ltd	No.7, 3/F Tiancheng Plaza, 342-354 East LongKou Road, Guangzhou	Development of computer Software, system . integration and sales	Subsidiary	Company with Limited liability	Wang Lijian
Glory Group Development Ltd.	Catic plaza 8 causeway rd causeway bay HK	General Trading	Subsidiary	Cooperative Company	Han Guangde
Connected parties under indirect control:					
Guangzhou Hongfan Hotel	No.126 Gexin Road Guangzhou	Lodge, restaurant	Subsidiary	Company with Limited liability	Wang Lijian
Fonkwang Development Ltd.	Catic plaza 8 causeway rd causeway bay HK	General Trading	Subsidiary	Cooperative Company	Zeng Xiangxin
Guangzhou Masterwood Co., Ltd.	40 Fangcun Main Road, Guangzhou	Furniture manufacturing	Subsidiary	Sino-foreign Joint Venture	Chen Demin

NOTES TO THE FINANCIAL STATEMENTS

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

Name	Opening Balance <i>RMB</i>	Addition in the period <i>RMB</i>	Disposal in the period <i>RMB</i>	Closing Balance <i>RMB</i>
CSSC	6,374,300,000	–	–	6,374,300,000
Guangzhou Xinshun Shipping Service Company Limited	2,000,000	–	–	2,000,000
Masterwood Company Limited	3,315,180	–	–	3,315,180
Guangzhou Guanglian Container Transportation Co., Ltd.	20,000,000	–	–	20,000,000
United Steel Structures Limited	73,572,705	–	–	73,572,705
Guangdong GSI Elevator Limited	21,000,000	–	–	21,000,000
Guangzhou Hongfan Information Technique Co., Ltd	5,000,000	–	–	5,000,000
Glory Group Development Ltd.	HKD10,000	–	–	HKD10,000
Connected parties under indirect control:				
Guangzhou Hongfan Hotel	10,000,000	–	–	10,000,000
Fonkwang Development Ltd.	HKD200,000	–	–	HKD200,000
Masterwood Company Limited	3,315,180	–	–	3,315,180

NOTES TO THE FINANCIAL STATEMENTS

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

Name	Opening balance		Addition in the period		Disposal in the period		Closing balance	
	Amount	%	Amount	%	Amount	%	Amount	%
CSSC	210,800,080.00	42.61			34,149,465.00	6.90	176,650,615.00	35.71
Guangzhou Xinshun Shipping Service Company Limited	1,660,000.00	83.00					1,660,000.00	83.00
Masterwood Company Limited	1,690,741.80	51.00					1,690,741.80	51.00
Guangzhou Guanglian Container Transportation Co., Ltd.	15,000,000.00	75.00					15,000,000.00	75.00
United Steel Structures Limited	37,522,079.55	51.00					37,522,079.55	51.00
Guangdong GSI Elevator Limited	20,748,000.00	98.80					20,748,000.00	98.80
Guangzhou Hongfan Information Technique Co., Ltd	3,850,000.00	77.00			1,300,000.00	26.00	2,550,000.00	51.00
Glory Group Development Ltd.	HKD10,000	100.00					HKD10,000	100.00
Connected parties under indirect control:								
Guangzhou Hongfan Hotel	8,616,000.00	86.16					8,616,000.00	86.16
Fonkwang Development Ltd.	HKD140,000	70.00					HKD140,000	70.00
Masterwood Company Limited	828,795.00	25.00					828,795.00	25.00

NOTES TO THE FINANCIAL STATEMENTS

4. The condition of the connected parties uncontrolled by the Company

(1) The connected parties uncontrolled by the Company

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

Company

Anqing Marine Diesel Factory	Jiujiang Marine Mechanical Factory
Guangxi Guijiang Shipyard	Jiujiang Instrument Factory
Guangzhou Marine Engineering Corporation	CSSC Nanjing Lvzhou Machinery Co., Ltd.
Guangzhou Wenchong Shipyard	Shanghai Marin Design Institute
Guangzhou Shipyard	Shanghai Navigation Instrument Co., Ltd.
Guangzhou Huangpu Shipyard	Shanghai Navigation Instrument Factory
Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	CSSC Zhenjiang Equipment Co., Ltd.
Huanan Marine Mechanic and Electric Department	Zhengmao Group Company Limited
Haiying Limited Company	CSSC Finance Company
Hudong Zhonghua Shipyard (Group Limited company)	CSSC No. 9 Design Institute
China United Shipbuilding Co., Ltd. Hong Kong	China Shipping Trading Corporation
Jiangxi Chaoyang Machine Factory	China State Shipbuilding Corporation
Jiangxi marine Valve Factory	Marine Design & Research Institute of China
Jiangxi Navigation Instrument Factory	South China Marine & Industrial Special Coating Company Limited
Guangzhou Guangli Marine Engineering Service Co., Ltd.	Guangzhou Shipyard Forging Co., Ltd.
China Shipping Trading Corporation Xijiang Shipyard	China Shipbuilding Polytechnic Economic Institute

NOTES TO THE FINANCIAL STATEMENTS

5. The Connected Transactions in the Ordinary Course of Business (Unit: RMB)

(i) Material and Labor provided by the Company

Connected Parties	2006					2005
	Total	Power	Material	Operating Rent	Labour and Technical Service	
Affiliated Company	-	-	-	-	-	-
South China Marine & Industrial Special Coating Company Limited	28,377.65	10,707.08	10,959.34	-	6,711.23	33,456.63
Guangzhou Guangli Marine Engineering Service Co., Ltd.	27,350.43	-	-	-	27,350.43	-
Sub-total	55,728.08	10,707.08	10,959.34	-	34,061.66	33,456.63
Companies under control of CSSC	-	-	-	-	-	-
Guangzhou Shipyard Guangda Co.	-	-	-	-	-	-
Guangzhou Shipyard Forging Co., Ltd	-	-	-	-	-	93,141.86
Guangxi Guijiang Shipyard	-	-	-	-	-	-
Guangzhou Huangpu Shipyard	5,111,262.67	-	1,745,731.92	10,000.00	3,355,530.75	1,774,286.44
Guangzhou Naval Vessels & Marine Design & Research Institute	-	-	-	-	-	-
Guangzhou Wenchong Shipyard	7,937,071.61	-	137,435.90	243,380.00	7,556,255.71	13,545,488.27
Guangzhou Shipyard	3,148,864.87	2,171,347.25	628,298.58	187,828.90	161,390.14	6,895,139.55
Guangzhou CSSC Nansha Longxue Construction Development Co., Ltd.	880,845.30	-	880,845.30	-	-	-
Xijiang Shipyard	270,000.00	-	-	-	270,000.00	-
Huanan Marine Mechanic and Electric Department	-	-	-	-	-	-
Shanghai Marine Design Institute	50,000.00	-	-	-	50,000.00	-
Shanghai Waigaoqiao Shipbuilding Co., Ltd.	324,786.32	-	324,786.32	-	-	-
CSSC	-	-	-	-	-	29,487.18
Chian Shipping Trading Corporation	73,900.00	-	73,900.00	-	-	203,230.00
Sub-total	17,796,730.77	2,171,347.25	3,790,998.02	441,208.90	11,393,176.60	22,540,773.30
Total	17,852,458.85	2,182,054.33	3,801,957.36	441,208.90	11,427,238.26	22,574,229.93

NOTES TO THE FINANCIAL STATEMENTS

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

Related companies	Total	2006			Labour and technical service	2005
		Purchasing materials	Marine equipment	Production equipment		
South China Marine & Industrial Special Coating Company Limited	79,500.00	—	—	—	79,500.00	85,000.00
Guangzhou Guangli Marine Engineering Service Co., Ltd.	61,337,174.13	—	1,398,090.77	—	59,939,083.36	30,466,209.62
Huahai Marine Material Transportation Equipment Co.	—					—
No. 611 Institute, Shanghai Sanjing Technology Co., Ltd.	—					—
CSSC, No. 708 Institute	—					1,773,500.00
Anqing Marine Diesel Factory	238,000.00			238,000.00		2,450.00
Anqing Marine Electric Factory	—					143,400.00
Guangzhou Shipyard Forging Co., Ltd.	—					17,793,928.27
Guijiang Shipyard	—					1,280,000.00
Guangzhou Huangpu Shipyard	627,252.37	492,464.00	—	—	134,788.37	565,036.80
Guangzhou Wenchong Shipyard	324,138.25	110,651.97	—	—	213,486.28	4,468,875.05
Guangzhou Shipyard	98,280,059.09	12,944,597.97	47,472,097.56	—	37,863,363.56	66,845,185.27
Huanan Marine Mechanic and Electric Department	16,465,896.72	—	—	16,465,896.72	—	9,023,415.51
Haiying Limited Company	—					686,500.00
Hudong Group Electrical Factory	—					1,305,000.00
Hudong Heavy Mechanical Co., Ltd.	—					14,672,410.26
Jiangxi Chaoyang Mechanical Factory	3,239.40	—	3,239.40	—	—	1,923,895.41
Jiangxi Marine Valve Factory	2,012,051.00	—	2,012,051.00	—	—	—
Jiangxi Navigation Instrument Factory	—	—	—	—	—	980.00
Jiujiang Marine Mechanical Factory	2,366,117.44	—	2,366,117.44	—	—	3,481,580.68
Jiujiang Instrument Factory	520,000.00	—	520,000.00	—	—	245,000.00
Jiujiang CSSC Fire Control Equipment Co., Ltd.	850,000.00		850,000.00			
Nanjing Lvzhou Mechanical Factory	—	—		—	—	4,025,641.02
Nanjing Lvzhou Environment Protection Equipment Co., Ltd.	8,026,529.91	—	8,026,529.91	—	—	1,726,632.49
Shanghai Navigation Instrument General Factory	519,600.00	—	—	519,600.00	—	326,300.00
Huangdong Group Valve Factory	—					287,467.36
CSSC Zhenjiang Equipment Co., Ltd.	67,538,113.37	—	8,774,374.05	58,763,739.32	—	67,720,110.98
Zhengmao Group Co., Ltd.	—					521,367.52
Marine Design & Research Institute of China	2,057,200.00	—	1,800,000.00	257,200.00	—	—
China International Shipping Trading Corporation	—					70,370.51
China Shipping Trading Corporation	2,025,443.30				2,025,443.30	—
CSSC No. 9 Design Institute	—					565,000.00
China Shipbuilding Polytechnic Economic Institute	100,000.00				100,000.00	—
Total	263,370,314.98	13,547,713.94	73,222,500.13	76,244,436.04	100,355,664.87	230,005,256.75

NOTES TO THE FINANCIAL STATEMENTS

(iii) Finance Service Provided by CSSC

Item	Close balance		Interest received/paid	
	2006	2005	2006	2005
Deposit				
CSSC Finance Company Ltd.	<u>458,194.93</u>	<u>928,326.17</u>	<u>9,315.83</u>	<u>7,510.88</u>

(iv) Guarantee fee provided by CSSC

Company	Amount of Guarantee		Guarantee fee paid by the Company	
	2006	2005	2006	2005
CSSC	USD245,085,000	600,000,000.00	1,012,887.33	600,000.00
CSSC Guangzhou Holding Co.	<u>USD70,770,000.00</u>	<u>18,070,900.00</u>	<u>782,000.00</u>	<u>500,000.00</u>
Subtotal	<u>USD315,885,000.00</u>	<u>618,070,900.00</u>	<u>1,794,887.33</u>	<u>1,100,000.00</u>

(v) Sales agent by CSSC

Company	Agent Amount	
	2006	2005
China Shipping Trading Company	44,220,952.02	20,343,692.47
China International Shipping Trading Company	<u>3,890,143.88</u>	<u>8,764,547.99</u>
Sub-total	<u>48,111,095.90</u>	<u>29,108,240.46</u>

NOTES TO THE FINANCIAL STATEMENTS

(vi) Purchase agent by CSSC

Agent	Total		Imported Material		Marine Equipment		Production Equipment	
	This period	Last period	This period	Last period	This period	Last period	This period	Last period
China United Shipbuilding Co., Ltd.	4,051,736.33	3,308,313.59	-	-	-	-	4,051,736.33	3,308,313.59
China Shipping Industry Trading Company	96,859.86	75,121.61	-	-	50,868.95	31,475.02	45,990.91	43,646.59
Sub-total	<u>4,148,596.19</u>	<u>3,383,435.20</u>	<u>-</u>	<u>-</u>	<u>50,868.95</u>	<u>31,475.02</u>	<u>4,097,727.24</u>	<u>3,351,960.18</u>

(vii) Account receivable and payable of connected parties (unit: RMB)

A. Other receivable

No other receivable with connected parties in this period.

B. Account receivable

Company	Closing balance	Opening balance
CSSC Guangzhou Huangpu Shipbuilding Co., Ltd.	694,355.61	152,004.27
Guangzhou Shipyard	167,400.00	109,480.00
Guangzhou Wenchong Shipyard	590,021.01	5,202.15
CSSC	-	30,000.00
Guangzhou CSSC Nansa Longxue Construction Development Co., Ltd.	549,710.00	-
Shanghai Waigaoqiao Shipbuilding Co., Ltd.	9,000.00	-
Total	<u>2,010,486.62</u>	<u>296,686.42</u>

NOTES TO THE FINANCIAL STATEMENTS

C. Advanced Payment

Company	Closing balance	Opening balance
Guijiang Shipyard	273,200.00	273,200.00
Guangzhou Guangli Marine Engineering Service Co., Ltd.	4,000,000.00	–
Guangzhou Shipyard	180,000.00	
Huanan Marine Mechanic and Electric Factory	4,498,010.91	6,467,927.85
CSSC Zhenjiang Equipment Co., Ltd.	11,050,000.00	16,800,000.00
China Unite Shipbuilding Co., Ltd., Hong Kong	80,685,260.12	–
Guangzhou Wenchong Shipyard	–	90,000.00
CSSC No. 9 Design Institute	174,448.00	
Nanjing Lvzhou Mechanical Factory	510,000.00	
China Shipping Trading Corporation	4,662,473.65	
CSSC International Trading Co., Ltd.	3,318.83	3,318.83
	<hr/>	<hr/>
Total	106,036,711.51	23,634,446.68
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

D. Account payable

Company	Closing balance	Opening balance
Guangzhou Guangli Marine Engineering Service Co., Ltd.	3,973,209.63	
611 Institute Shanghai Sanjin Technology Co., Ltd.	—	268,195.00
Anqing Marine Electric Factory	11,900.00	—
Guangzhou Shipyard Forging Company	—	236,699.88
Guangxi Guijiang Shipyard	—	64,000.00
Guangzhou Wenchong Shipyard	—	629,534.95
Guangzhou Shipyard	13,525,053.44	1,014,943.30
Guangzhou Marine Design & Research Institute	67,096.30	—
CSSC Guangzhou Huangpu Shipbuilding Co., Ltd.	576,182.88	—
Huanan Marine Mechanic and Electric Factory	84,000.00	340,000.00
Haiping Limited Company	—	30,000.00
Hudong Corporation Electric Division	—	113,750.00
Chenxi Shipbuilding and Shiprepairing Factory	—	—
Jiangxi Chaoyang Machine Factory	—	21,736.66
Jiangxi Marine Valve Factory	508,500.00	10,500.00
Jiujiang Marine Mechanical Factory	—	57,320.00
Jiujiang Instrument Factory	13,000.00	25,250.00
CSSC Jiujiang Fir Control Equipment Co., Ltd.	42,500.00	—
CSSC Luzhou Environment Protection Equipment Co., Ltd.	712,500.00	66,000.00
Shanghai Shipyard	—	142,794.70
Shanghai Navigation Instrument Factory	25,600.00	16,315.00
CSSC Zhenjiang Equipment Co., Ltd.	6,840,000.00	7,656,005.00
CSSC No. 9 Design Institute	265,000.00	—
China Shipping Trading Corporation	1,348,402.67	245,788.32
China Shipbuilding Polytechnic Economic Institute	67,096.30	—
Marine Design & Research Institute of China	102,860.00	—
Total	<u>28,162,901.22</u>	<u>10,938,832.81</u>

NOTES TO THE FINANCIAL STATEMENTS

E. Other Account payable

Name	December 31st 2006	December 31st 2005
Guangzhou Shipyard	37,942.40	17,072.00
Guangzhou Huangpu Shipyard	50,000.00	—
China United Shipbuilding Co., Ltd, Hong Kong	19,000.00	—
China State Shipbuilding Corporation	1,012,887.33	—
Guangzhou Guangli Marine Engineering Service Co., Ltd.	620.00	—
	<hr/>	<hr/>
Total	<u>1,120,449.73</u>	<u>17,072.00</u>

F. Advances from Customers

Name	December 31st 2006	December 31st 2005
Xijiang Shipyard	—	180,000.00
China State Shipbuilding Corporation	424,000.00	—
CSSC No. 9 Design Institute	200,000.00	—
Hudong Zhonghua Shipyard (Group Limited Company)	900,000.00	—
	<hr/>	<hr/>
Total	<u>1,524,000.00</u>	<u>180,000.00</u>

(VII) CONDITION OF CAPITAL INFLOW AND OUTFLOW BETWEEN THE COMPANY AND ITS SUBSIDIARIES

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

(XIII) CONTINGENCIES

As at 31st December 2006, the Company (the Group) had no significant contingent items.

NOTES TO THE FINANCIAL STATEMENTS

(IX) COMMITMENTS

1. Undue Forward Exchange Deals:

No.	Foreign currency	Bank	Project	Contract date	Transaction date	Amount
1	USD	Fangcun Branch, Bank of China	Triangle option structured forward	2006-9-20	2007-4-10	18,500,000
2	USD	Haizhu Branch, Merchants Bank	Forward exchange	2006-9-25	2007-5-21	17,000,000
3	USD	Jiangnan Branch, Band of Communications	Forward exchange	2006-12-20	2007-7-9	17,500,000
4	USD	Linghe Branch, Merchants Bank	Forward exchange	2006-12-20	2007-8-8	18,000,000
5	USD	Dongcheng Branch, Minsheng Bank	Forward exchange	2006-12-20	2007-10-12	14,000,000
6	USD	Fangcun Branch, Bank of China	Forward exchange	2006-12-25	2007-11-12	18,000,000
Sub-total						103,000,000
7	EUR	Guangzhou Branch, Standard Chartered Bank	EUR/USD knock-out structured forward	2006-8-14	2007-1-3 2007-2-5 2007-3-5	750,000 750,000 750,000
Sub-total						2,250,000
8	EUR	Fangcun Branch, Bank of China	EUR/USD knock-out structured forward	2006-9-15	2007-1-18 2007-2-20 2007-3-19 2007-4-18 2007-5-18 2007-6-18	500,000 500,000 500,000 500,000 500,000 500,000
Sub-total						3,000,000

2. The Company approved the proposal of developing housing monetary allowances policy for retired employees in the seventh meeting of the fifth term of the Board of Directors. The policy is applied in 2006, and the total amount of the allowances is less than RMB24 million which would be paid within two years. The Company has drawn housing monetary allowances for retired employees with an amount of RMB23,391,33, including of that, the allowances amounting RMB12,036,670.65 has paid to qualified retirees, while the remained allowances amount to RMB11,354,664.35.

NOTES TO THE FINANCIAL STATEMENTS

(X). EVENTS OCCURRING AFTER THE BALANCE SHEET DAY

1. United Steel Structure Company, a holding subsidiary of the Company (the "Subsidiary"), raised the litigation against Havens Steel Company ("Havens") on January 27, 2006. A Debt Settlement Agreement between the Subsidiary, Havens and its guarantee company St. Paul Fire & Marine Insurance Company was approved by the Court on March 6, 2006. In accordance with the Agreement, Havens has paid USD800,000.00 as project payment and the remained shall be settled by transferring the 49% share right of Havens in the Subsidiary. On January 31, 2007, the share right was sold to Canam Steel Company by bidding with the highest amount of USD9,200,000.00 in the U. S. Missouri District Court. The transferring of share rights has not been approved by the Board of Directors of the Company.
2. The meeting of Board of Directors was held on March 29, 2007 and passed the decision of the profit no-distribution and non-conversation for the year of 2006.

(XI). OTHER SIGNIFICANT ISSUES

The share reform plan, with main contents as follows, was approved at the A shares market relevant shareholders' meeting which was held on 28 April 2006.

1. In order to obtain the tradable right of its shares, the only holder of non-tradable shares of the Company, CSSC, proposes to offer of 2.7 shares for every 10 A shares held by the holders of tradable A shares which totally amounted to 34,149,465 shares.
2. All costs to be incurred in relation to the share reform plan shall be borne by CSSC.
3. Undertakings by the holder of non-tradable shares:

As the only holder of non-tradable shares of the Company, CSSC undertakes that:

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

NOTES TO THE FINANCIAL STATEMENTS

In the event that the operational performance of the Company fails to meet the expected targets after the implementation of the share reform plan, CSSC undertakes to offer additional shares to all holders of tradable A shares without selling restrictions and the directors, supervisors and senior management holding tradable A shares of the Company whose names appear on the register of members on the record date.

- 1) Conditions of offering additional shares
 - (i) The total profits for the fiscal year 2007 increases by less than 100% compared to the total profits for the fiscal year 2005; and
 - (ii) An annual audit report with “standard unqualified opinion” fails to be produced for any year between the fiscal years 2006 and 2007, whichever occurs first.

The total profit for the fiscal year 2005 and 2007 take the figure prepared under PRC accounting rules and regulations as the standard, the figure of the increase should be rounded and remains two digits after decimal point.

CSSC should offer additional shares in the event that one of the above-mentioned conditions occurred. Upon completion of such offer of additional shares, the undertaking to offer additional shares shall be fully performed.

- 2) An aggregate of 2,529,590 A shares of the Company will be offered as additional shares, corresponding to an offer of 0.2 additional share for every 10 shares based on a total of 126,479,500 tradable A Shares of the Company prior to the implementation of the share reform plan. If there is any bonus issue, capital conversion or increase, or reduction of share capital by the Company during the period of the undertaking, the total additional shares to be offered shall increase or decrease in proportion on the basis of such 2,529,590 shares.
- 3) The Board shall perform the undertaking to offer additional shares within twenty working days after the annual report publication date.
- 4) All holders of tradable A shares without selling restrictions and the directors, supervisors and senior management holding tradable A shares of the Company whose names appear on the register of members on the record date could be offered additional shares.
- 5) The holder of non-tradable shares further undertakes to apply to the relevant securities depository and clearing authority in the PRC, in accordance with requirement of Shanghai Stock Exchange, for temporary custody of the additional shares totaling 2,529,590 A shares of the Company until the expiration of the undertaking to offer additional shares upon publication of the 2007 annual report of the Company.

NOTES TO THE FINANCIAL STATEMENTS

The holder of non-tradable shares states will perform the undertakings faithfully and take relevant legal obligations. CSSC will not transfer its shares unless the transferee agrees and has ability to take the obligations of the undertakings. CSSC ensures it will compensate the loss, which rose from un-performing or incomplete performing of the undertakings, to other shareholders.

The A share market general meetings of the Company approved the A share reform plan on April 28, 2006 for the holder of non-tradable shares of the Company to offer 2.7 bonus shares for every 10 shares held on the record date (May 22, 2006) by the holders of tradable A-share, for obtaining trading right in A share market. The A share reform plan has implemented on May 24, 2006 after approval by related government departments.. The total number of shares amount of the Company remained the same before and after the A share reform.

The Company formally commenced the A share reform on March 27, 2006, and determined the share right record date of April 12, 2006. The A share reform plan was approved at the A share market general meetings on April 28, 2006, and has implemented on May 24, 2006. Details related to the change of share structure and tradable time of the shares subject to sale restrictions after the finish of the A share reform are set out in item (V) 20 of the Notes to Financial Report.

(XII). ADDITIONAL INFORMATION

The shareholders' equity adjustment for adopt new Accounting Standard

Report of PRC Auditors

Ascenda Shen (2007) Yue Zi No. 020018

Shareholders of Guangzhou Shipyard International Company Limited:

We have conducted an audit of the Statement of Shareholders Equity Adjustment (hereinafter "the Statement") of Guangzhou Shipyard International Company Limited (hereinafter "the Company"). The Company shall be responsible for repairing the statement that stated at the rational provision of Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises and the notice that how to disclose the information about financial accounting relative to the New Accounting Standard" in November 2006 (Promulgated by CSRC as the 136th at 2006, hereinafter "the notice") and our responsibility is to form an opinion on the statement based on our audit.

According to the notice, we planned and conducted our audit in accordance with the provisions of the "Independent Auditing Standard No.2101 for the Financial Statement Auditing for Certified Public Accountants in the People's Public of China" to be sure that there does or not exist no significant error in the Statement. Our audit limited to enquire for judgments on the relational Accounting Policies and the entire significant cognizance, realize the process of measuring the adjusting amount, read the statement to consider whether following the designated base and analyzing it if possible or not. The degree of the guarantee available is less than the requirement of audit, so we gave no opinions.

NOTES TO THE FINANCIAL STATEMENTS

According to our audit, there was nothing making us believed that the Statement was not stated at the Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises and the notice.

Furthermore, the users of the statement should be reminded that the shareholder's equity in the Statement (stated at the New Accounting Standard) at Jan. 1, 2007 was different from that in the annual report as the important announcement in the Statement.

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

China Certified Public Accountants: Tu Zhenlian

Beijing, March 29, 2007

Important notice:

From January 1, 2007, the Company has adopted the Accounting Standard for Business Enterprises and relevant regulations ("the New Accounting Standard") issued by the Ministry of Finance of PRC. At the present, the Company is appraising on the impact on the financial situation, cash flows and operating performance of the Company by the changes of adopting the new Accounting Standard. With careful advisements or consulting the further explains by the Finance Ministry of PRC, the Company might adjust the relative accounting policies or important recognition which might result in the differences between the shareholder's equity on January 1, 2007 and that in the annual report of 2007 when repairing the statement of shareholders equity adjustment.

NOTES TO THE FINANCIAL STATEMENTS

Statement of Shareholders' Equity Adjustment

Unit: RMB

No.	Item	Amount
	Shareholders' equity on Dec 31, 2006 (Current Accounting Standard)	1,099,913,516.29
1	Margin of Long-term equity investments Including: The balance resulted from the business combinations controlled by the same parent company Credit balance from the subject of Long-term equity investments that measured at the equity method of accounting	
2	Investment properties to be measured at fair value	
3	The complementary depreciation of previous years for discarding expenditure of assets	
4	Benefit from retirement which settling for the conditions of affirming contingent liabilities	-7,061,782.00
5	Share-based payment	
6	The obligation of debt restructurings which settling for the conditions of affirming contingent liabilities	
7	Business Combinations Including: The devalue provision of the book value of goodwill which were not controlled by the same parent company Commodity devalue provision drawn in accordance with the new Accounting Standard	
8	Financial assets whose changes should be transferred into the income of the current period , that should be measured at air value, and the available-for-sale financial assets	166,455,655.40
9	Financial liabilities whose changes should be transferred into the profit and loss of the current period ,that should be measured at fair value	
10	Increased income from dividing the financial instrument	
11	Derivative financial instruments	141,695.44
12	Income Taxes	2,263,606.48
13	The minority shareholder's equity	61,404,848.23
	Shareholders equity on Jan 1, 2007 (New Accounting Standard)	1,323,117,539.84

NOTES TO THE FINANCIAL STATEMENTS

Notes to the statement of adjusting shareholders equity (Unit: RMB, unless special)

The purpose

From January 1, 2007, the Company shall adopt the New Accounting Standard. In order to discuss and disclose the impact on the financial situation to listed companies by the New Accounting Standard, on November 2006, the China Securities Regulatory Commission issued the notice (No. 136 [2006]) that how to disclose the information about financial accounting relative to the new standard. The notice required that the Company should disclose the process of adjustment of the significant differences by the way of the adjusting statement in the Complementary Information of the annual report for 2006, in accordance with the Accounting Standard for Business and Enterprises No. 38 - First time adoption of Accounting Standards for Business and Enterprises ("the New Accounting Standard NO.38") and the relevant regulations of the notice.

The base

Referring to the New Accounting Standard NO.38 and the relevant regulations of the notice, the statement should be prepared basing on the annual report and the Materiality Principle with combining the characteristic and practice of the group.

For the items which are not regulated clearly in the fifth to the nineteenth items of the New Accounting Standard No.38, the statement should be prepared basing on the principles as followed:

1. Refer to the fifth to the nineteenth items of the New Accounting Standard No.38, the subsidiaries, partnership business and associated enterprise should adjust it backward. For the items which would impact on retained earnings and the share of equity capital recognized by the proportion of the Company, the Company adjusted the retained earnings or capital reserve by practice accordingly.
2. The Company adjusted the minority shareholders equity referring to the New Accounting Standard, and disclosed it in the statement by itself.

Notes to the main items of consolidation statements

1. The shareholders' equity (the Current Accounting Standard) on Dec. 31, 2006 was from the balance sheet at 31st December 2006 prepared under PRC accounting rules and regulations. The statement is reviewed by Ascenda Certified Public Accountants, who issued opinion of reviewing with standard clean opinion (Ascenda 2007 GF Zi No. 020008) on March 29, 2007. The main accounting policies and preparing base were to be referred to the financial report in this annual report.

NOTES TO THE FINANCIAL STATEMENTS

2. Debt restructurings which meet the criteria of affirming contingent liabilities

The applications of certain employees for early retirement were approved at 2003. Pursuant to early retirement scheme, the retirees are entitled to similar benefits as that of a normal employee. The retirement pension must be paid to the retirees before they retire legally. In accordance with the New Accounting Standard, the compensation, which must be paid to such retirees and amounting to RMB7,061,782, should be recognized as contingent liabilities as well as deduct the retained earnings.

3. Financial assets whose changes should be transferred into the profit and loss of the current period and should be measured at fair value, and the available-for-sale financial assets

The book cost of the equity investment on the China Merchants Bank held by the Company amounted RMB10,010,000, and the investment on the China Merchants Energy Shipping Co., Ltd amounted to RMB37,100,000. In accordance with Accounting Standard for Business Enterprises No. 22 – Recognition and measurement of financial instruments, the Company classified it as the available-for-sale financial assets. The fair value of the stock of China Merchants Bank held by the Company was evaluated reasonably by the management amounted to RMB145,497,755.40, and that of the China Merchants Energy Shipping Co., Ltd amounted to RMB68,067,900. Refer to the New Accounting Standard, the difference between the fair value and the book value of the two investments with the total amount of RMB166,455,655.40 was recognized as the retained earnings in the beginning of the year.

4. Derivative financial instruments

The Company held the forward foreign exchange contracts for avoiding foreign exchange risk. As at Dec 31, 2006, comparing the fair value and the contract price of the forward foreign exchange contracts that had been signed but not delivered, that should be recorded as assets amounted to RMB712,022.6, while that should be recorded as liabilities amounted to RMB141,695.44. The differences between the two items were RMB141,695.44. The book value of the derivative financial instruments should be increased, as well as the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

5. Income taxes

In accordance with regulations in the New Accounting Standard, the income taxes should be measured by the deferred income tax liability method. After analyzing the differences between the book assets and the foundation of taxes, the deferred income tax-assets and the deferred income tax-liabilities were listed separately. The provision for devaluation of the assets and accrued expenses of previous years resulted in the difference which book value was less than the foundation of taxes, the amount of RMB27,253,209.11 should be recognized as the deferred income taxes-assets. The alteration of the fair value of the derivative financial instruments and the available-for-sale financial assets resulted in the difference which the book value of assets was more than the foundation of taxes, the amount of RMB24,989,602.63 should be recognized as the deferred income taxes-liabilities. As at Jan. 1, 2007, the retained earnings should be increased with the amount of RMB2,263,606.48 by the above two differences for altering measurement of income taxes in accordance with the New Accounting Standard

6. Minority shareholder's equity

Minority shareholders' equity on the consolidated statements prepared in the Current Accounting Standard as at Dec. 31, 2006 was RMB61,404,848.23, listed outside of the shareholders' equity by itself, but should be recognized as shareholders' equity together at the requirement of the New Accounting Standard.