广州广船国际股份有限公司
GUANGZHOU SHIPYARD INTERNATIONAL COMPANY LIMITED

(a joint stock company with limited liability incorporated in the People's Republic of China)

Stock Code: 0317

SUMMARY OF ANNUAL REPORT FOR THE YEAR 2008

1. IMPORTANT NOTICE

1.1 The Board of Directors, the Supervisory Committee and Senior Management of Guangzhou Shipyard International Company Limited (the "Company") declare that there are no false statements, misleading information or material omissions in this report. The directors are jointly and severally responsible for the authenticity, accuracy and completeness of the contents of this report.

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

1.3 Mr. Li Zhushi, Chairman of the Board of Directors, Mr. Zeng Xiangxin, Chief Accountant of the Company and Mr. Hou Zengquan, Director to Financial Center of the Company declare and assure the facility and integrity of the financial reports of this report.

1.4 The Audit Committee of the Company has reviewed and confirmed the annual financial report for the year 2008 of the Company.

1.5 Unless otherwise stated, financial data contained in this announcement is extracted from the accounts prepared by the Group in accordance with PRC Accounting Standards for Business Enterprises and Relevant Regulations ("PRC Accounting Standards and Regulations").

1.6 This announcement is a summary of the 2008 annual report. In order to have a complete understanding, investors are advised to refer to the 2008 annual report.

1.7 This announcement is made in accordance with paragraph (2) of rule 13.09 and paragraph 45 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

2. OVERVIEW OF THE COMPANY

2.1 The Company

Stock abbreviation	Guangzhou Shipyard International	Guangzhou Shipyard International
Stock code	600685 (A share)	317 (H Share)
Place of listing of shares	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered office and business address	40 South Fangcun Main Road, Guangzhou, the People's Republic of China	
Postal code	510382	
Website	http://www.chinagsi.com	
E-mail	gsi@chinagsi.com	

2.2 Contacts

	Company Secretary	Authorised securities representative
Name	Mr. Li Zhidong	Ms. Yang Ping
Telephone	(8620) 81891712 ext. 2962	(8620) 81891712 ext. 2995
E-mail	lzd@chinagsi.com	yangping@chinagsi.com
Facsimile	(8620) 81891575	
Address	40 South Fangcun Main Road, Guangzhou, the People's Republic of China	

3. SUMMARY OF MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Prepared under PRC Accounting Standards and Regulations

3.1.1 Major accounting data

Unit: RMB

Item	2008	2007		Changes (%)	2006	
		After Adjustment	Before Adjustment		After Adjustment	Before Adjustment
Operating income	6,984,087,521.27	5,952,697,163.61	5,952,697,163.61	17.33	3,399,203,543.04	3,399,203,543.04
Total profit	921,285,578.25	1,343,060,757.80	1,343,060,757.80	-31.40	311,880,155.01	311,880,155.01
Net profit attributable to shareholders	820,395,655.17	940,656,796.04	940,656,796.04	-12.78	267,537,448.04	267,537,448.04
Net profit attributable to shareholders after deduction of exceptional items	803,295,845.89	697,094,500.58	915,678,615.36	15.23	271,441,511.37	273,131,488.75
Net cash flow from operating activities	-195,267,322.66	1,818,659,141.44	1,818,659,141.44	-110.74	2,619,252,190.45	2,619,252,190.45
Item	**As at December 31**			Changes (%)	**As at December 31**	
	2008	**2007**			**2006**	
		After Adjustment	**Before Adjustment**		**After Adjustment**	**Before Adjustment**
Total assets	10,258,230,707.13	11,034,433,438.69	11,034,433,438.69	-7.03	7,675,454,534.11	7,675,454,534.11
Shareholders' equity (excluding minority interests)	2,747,359,653.70	2,451,509,684.38	2,451,509,684.38	12.07	1,261,712,691.61	1,261,712,691.61

3.1.2 Major financial index

Unit: RMB

Item	2008	2007		Change (%)	2006	
		After Adjustment	Before Adjustment		After Adjustment	Before Adjustment
Basic earnings per share (RMB)	1.66	1.90	1.90	-12.78	0.54	0.59
Basic earnings per share after deduction of exceptional items	1.62	1.41	1.85	15.23	0.55	0.55
Fully diluted return on net assets (%)	29.86	38.37	38.37	decreased by 8.51%	21.20	21.20
Weighted average return on net assets (%)	31.58	52.17	52.17	decreased by 20.59	23.67	23.67

Fully diluted return (loss) on net assets after deduction of exceptional items (%)	29.24	28.43	37.35	increased by 0.81%	21.65	31.32
Weighted average return (loss) on net assets after deduction of exceptional items (%)	30.92	38.66	50.78	decreased by 7.74%	24.02	24.17
Net cash flow from operating activities per share	-0.39	3.68	3.68	-110.60	5.29	5.29
Item	**As at December 31**			**Changes (%)**	**As at December 31**	
	2008	**2007**			**2006**	
		After Adjustment	**Before Adjustment**		**After Adjustment**	**Before Adjustment**
Net assets per share attributable to the shareholder	5.55	4.96	4.96	12.07	2.55	2.55

The nature and amount of exceptional items are as follows:

Unit：RMB

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

3.2 Prepared in accordance with HKFRS

Unit: RMB'000

Item	2008	2007	Change (%)	2006	2005	2004 Restated
Turnover	6,984,088	5,906,793	18.24	3,322,299	2,728,916	2,363,403
Operating profit	635,405	1,158,930	-45.2	288,260	91,318	56,528
Profit before taxation	921,286	1,340,964	-31.3	310,978	112,288	35,072
Profit attributable to shareholders	820,396	938,560	-12.6	266,635	135,011	60,945
Total assets	10,251,665	11,029,129	-7.05	7,672,237	3,432,086	2,862,932
Total liabilities	7,408,800	8,501,772	-12.9	6,349,186	2,499,650	2,092,208
Total shareholders' equity (excluding minority interests)	2,747,360	2,451,509	12.07	1,261,647	882,716	718,514
Earnings per share (RMB) (Number of shares in issue at the end of the year)	1.6584	1.8973	-12.6	0.5390	0.2729	0.1232
Earnings per share (RMB) (Weighted average number of shares in issue)	1.6584	1.8973	-12.6	0.5390	0.2729	0.1232
Net assets per share (RMB) (Number of shares in issue at the end of	5.55	4.96	11.9	2.55	1.78	1.45

the year)						
Return on net assets (%) (Shareholders' equity at the end of the year)	29.86	38.28	-22	21.13	15.29	8.48
Return on net assets (%) (Average of shareholders' equity at the beginning and the end of year)	31.56	50.55	-37.6	24.87	16.86	8.86
Ratio of shareholders' equity (%) (Shareholders' equity/Total assets x 100%)	26.80	22.23	20.56	16.44	25.72	25.10
Current ratio (Current assets/Current liabilities)	1.20	1.13	8.85	1.19	0.91	0.97
Gearing ratio (%)	72.27	77.08	-6.24	82.76	72.83	73.08

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

Unit: RMB'000

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

4. CHANGES OF SHARE CAPITAL AND SHAREHOLDERS INFORMATION

4.1 Share capital change

Unit: share

Category	Before the change		Changes during the year (+、-)					After the change	
	Amount	Proportion %	New Share	Bonus Share	Conversion from reserves	Others	Sub-total	Amount	Proportion %
1. Shares subject to sale restrictions									
(1) State-owned shares	176,650,615	35.71	-	-	-	-	-	176,650,615	35.71
2. Freely transferable shares									
(1) PRC listed domestic shares	160,628,965	32.47	-	-	-	-	-	160,628,965	32.47
(2) Overseas listed foreign shares	157,398,000	31.82	-	-	-	-	-	157,398,000	31.82
3. Total	494,677,580	100	-	-	-	-	-	494,677,580	100

4.2 The amount and information of shareholders

Unit: share

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

Top ten shareholders' information						
Name	Changes in 2008	Number of shares at the end of year	Percentage (%)	Number of shares subject to sale restrictions	Shares pledged or subject to attachment	Shareholders' Classification
China State Shipbuilding Corporation	-	176,650,615	35.71	176,650,615	None	State-owned shares
HKSCC Nominees Limited	-1,467,790	151,763,009	30.68	0	Unknown	Foreign capital shares
Great Wall Consumer Value-added Securities Investment Fund	1,800,107	4,276,996	0.86	0	Unknown	Other
Pingan Life Insurance Dividend Fund	-	3,049,912	0.62	0	Unknown	Other
Great Wall Anxin return Mixed Securities Investment Fund	-193,000	3,006,493	0.61	0	Unknown	Other
GF Jufeng Shape Security Investment Fund	-3,716,707	2,588,550	0.52	0	Unknown	Other
GF Shape Security Investment Fund	-4,215,053	2,400,000	0.49	0	Unknown	Other
Hua'an Middle and Small Shape Securities Investment Fund	200,000	2,000,000	0.40	0	Unknown	Other
Chan Kwok Tai Eddie	-	2,000,000	0.40	0	Unknown	Foreign capital shares
Full Goal Benefits Rich Securities Investment Fund	300,000	1,885,601	0.38	0	Unknown	Other

Top ten shareholders of freely transferable shares' information		
Name	Number of shares at the end of year	Share Classification
HKSCC Nominees Limited	151,763,009	H Shares
Great Wall Consumer Value-added Securities Investment Fund	4,276,996	A Shares
Pingan Life Insurance Dividend Fund	3,049,912	A Shares
Great Wall Anxin return Mixed Securities Investment Fund	3,006,493	A Shares
GF Jufeng Shape Security Investment Fund	2,588,550	A Shares
GF Shape Security Investment Fund	2,400,000	A Shares
Hua'an Middle and Small Shape Securities Investment Fund	2,000,000	A Shares
CHAN KWOK TAI EDDIE	2,000,000	H Shares
Full Goal Benefits Rich Securities Investment Fund	1,885,601	A Shares
Harvest in Shanghai and Shenzhen 300 Index Securities Investment Fund	1,077,372	A Shares

Note of relation or action in concert of shareholders above-mentioned	Except that GF Sharp Security Investment Fund and GF Jufeng Shape Security Investment Fund belong to GF Fund Management Co., Ltd., Great Wall Consumer Value-added Securities Investment Fund and Great Wall Anxin return Mixed Securities Investment Fund belong to Harvest Fund Management Co., Ltd., the Company is not aware of whether the top ten shareholders or the top ten shareholders of freely transferable shares disclosed above are connected with each other or they are

	persons acting in concert as defined in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

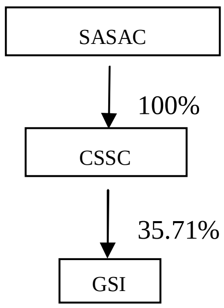
Apart from the shareholders disclosed above, as at December 31, 2008, the register the Company maintains pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong ("SFO") recorded the following interest and short positions in the shares and underlying shares of the Company:

Shareholder	**Shareholding (share)**	**Proportion of total H shares (%)**	**Proportion of total issued shares (%)**
Atlantis Investment Management Ltd.	16,000,000	10.17	3.23
Mirae Asset Global Investments (Hong Kong) Limited	10,968,000	6.97	2.22
JPMorgan Chase&Co.	12,368,000	7.86	2.50

4.3 Particulars of controlling shareholders and beneficial owners

During the period under review, the controlling shareholder and actual controller of the Company have not changed. CSSC, the controlling shareholder of the Company manages the state-owned shares of the Company under the authorization of State Council State Assets Supervisory and Administrative Committee ("SASAC"), the actual controller of the Company.

The block diagram of property right and controlling relations between the Company and actual controller:



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

4.5 As there is no provision for pre-emptive rights under the Company's Articles of Association, the Company had not arranged any scheme for such right during the year.

5. INFORMATION OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

5.1 Changes in the number of shares held by directors, supervisors and senior management and remuneration.

Name	Position	Gender	Age	Current Tenure Commencement date	Total remuneration received from the Company in 2008 (RMB)	Whether received any remuneration from shareholders of the Company (yes / no)
Li Zhushi	Chairman	Male	64	2008-05-13	260,000.00	Yes
Han Guangde	Vice chairman & president	Male	47	2008-05-13	1,331,728.00	No
Chen Jingqi	Executive director	Male	56	2008-05-13	1,219,369.00	No
Zhong Jian	Executive director	Male	46	2008-05-13	1,069,949.00	No
Yu Baoshan	Non-executive director	Male	48	2008-05-13	66,700.00	Yes
Pan Zunxian	Non-executive director	Male	55	2008-05-13	53,300.00	Yes

Miao Jian	Non-executive director	Male	44	2008-05-13	66,700.00	Yes
Wang Xiaojun	Independent non-executive director	Male	54	2008-05-13	86,700.00	No
Lee Sun-leung, Sunny	Independent non-executive director	Male	38	2008-05-13	86,700.00	No
Chen Xin	Independent non-executive director	Male	49	2008-05-13	66,700.00	No
Peng Xiaolei	Independent non-executive director	Male	57	2008-05-13	66,700.00	No
Wang Shusen	Chairman of the Supervisory Committee	Male	68	2008-05-13	165,300.00	Yes
Liang Mianhong	Internal supervisor	Male	55	2008-05-13	974,499.00	No
Liu Shibai	Internal supervisor	Male	57	2008-05-13	907,179.00	No
Ye Weiming	External supervisor	Male	46	2008-05-13	66,700.00	No
Fu Xiaosi	External supervisor	Male	48	2008-05-13	53,300.00	No
Chen Ji	Vice president	Male	42	2008-05-13	1,077,659.00	No
Yang Li	Vice president	Male	41	2008-05-13	1,088,662.00	No
Zhou Dusheng	Vice president	Male	53	2008-05-13	1,111,550.00	No
Zeng Xiangxin	Chief accountant	Male	42	2008-05-13	1,090,342.00	No
Li Zhidong	Company secretary	Male	43	2008-05-13	992,336.00	No

Mr. Chen Xin resigned as independent non-executive director due to job relocation, which was approved by the ninth meeting of the sixth term of the Board of the Company and will be submitted to 2008 AGM for consideration. Otherwise, the tenure ending date of the directors, supervisors and senior management of the Company above-mentioned is the date of the commencement of the next term of the Board of Directors, the date of the 2010 AGM.

Director Mr. Chen Jingqi held 2,540 A shares at the beginning of the year 2008 and such shareholding has not changed during the period under review. Apart from the above, during the period under review, no director, supervisor or senior management has held, purchased or sold the shares of the Company.

5.2 Interests of directors, supervisors and senior management

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

5.3 Staff of the Company

As at December 31, 2008, the number of employees on the payroll register of the Company was 3,553, including 1,395 manufacturing staff, 37 marketing staff, 1,424 professional technical staff, 48 financial staff and 337 administrative staff. Besides, the number of retired employees of the Company was 3,128.

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

The remuneration of the employees of the Group includes their salaries, bonuses and other fringe benefits. The

Group has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

6. REPORT OF THE DIRECTORS

6.1 Management discussion and analysis

6.1.1 General Situation and Result

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

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

As at December 31, 2008, the operating income of the Group prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB6.98 billion (including RMB6.84 million of principal operating income), representing an increase of 17.33% over that of last year. The audited consolidated net profit attributable to shareholders amounted to RMB 820 million, representing a decrease of 12.78% over that of last year. The earnings per share and that after deduction of exceptional items were RMB 1.66 and RMB 1.62 respectively, representing decreases of 12.78% and increase of 15.23% respectively.

In the financial statements prepared in accordance with HKFRS the year ended December 31, 2008, the turnover of the Group amounted to RMB 6,984.09 million, representing an increase of 18.24% over that of last year. The profit attributable to shareholders after taxation and minority interest amounted to RMB 820.40 million, representing a decrease of 12.59% over that of last year. The earning per share was RMB 1.66.

6.1.2 Main work and progress

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

2） The Company adjusted its operational strategy and optimized product mix making, made a major breakthrough in securing shipbuilding orders of hi-tech vessels and vessels that satisfied the PSPC. During the period under review, the Company secured shipbuilding orders for constructions of four 1400 passenger capacity Ro/Ro passenger vessels and nine 50,000dwt chemical/product oil tankers that meet the requirement of PSPC, which realized an important turn point of the strategic goal of the Company and consolidated the position of the leading position of the Company in handy-size tanker segment. As at December 31, 2008, the Company secured shipbuilding orders for construction for 63 vessels, with a total tonnage of 2,841,700dwt and the delivery dates till year 2012.

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

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

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

6） The Company completed the overall relocation of Mechanical Processing Center, established Research and

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

6.1.3 Technical Innovation and Energy-saving & Environment protection

In line with market exploitation, the Company optimized the chemical/product oil tanker of 25000--27000dwt and the fat shallow-draft chemical/product oil tanker of 42000dwt; upgraded the NC water-fire heating plate bending machine, hi-tech shipbuilding equipment, and epect to launch further new products. Furthermore, the 51800dwt IA Ice Class chemical/product oil tanker of the Company won second prize of National Science and Technology Progress of Guangzhou in 2008 and 40000dwt product oil tanker was awarded as Brand Ship Type of 2008 by China Shipbuilding Industry Association.

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

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

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

6.1.4 Internal control related to Fair value measurement

The assets which used fair value measurement of our company including: Derivative financial instrument for the purpose of evading exchange risk and tradable financial instrument. Our company is cautions to exchange risk, the risk precaution policy established by the board is for the premise of hedge income or reduce cost based on existed trade operation, never allow any speculate or arbitrage transaction occurs. Under the board's policy, our company has hired professional financial institution as consultant; we built groups of professional team or found internal report procedure to handle the exchange rate risk evading or hedging, including holding or trading derivative financial instrument (a majority of forward exchange contracts), adjust the debt structure (usually the adjustment of proportion of debt in RMB and in foreign currency), etc. Our management will summarize the risk precaution work periodically, disclose the fair value of related transaction and report to the board. The tradable financial instrument our company holding, are mostly the shares of listing company for the purpose of long-term investment or strategic investment, we have built relevant department which carry the responsibility of notice the fair value and its fluctuation of related assets consistently, and take proper action to protect company's interest.

Items prepared in accordance with fair value measurements

Unit: RMB

Item	Opening balance	Profit and loss in 2008	Accumulated from fair value changes and accounted as	Impairment withdrawed in 2008	Closing balance

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

Foreign currency financial asset and financial liabilities

Unit:RMB

Item	Opening balance	Profit and loss in 2008	Accumulated from fair value changes and accounted as equity	Impairment withdrawed in 2008	Closing balance
Finacial assets					
Including: 1.financial assets prepared in accordance with fair value measurement and the change has been recoded in the current profit ans loss	294,309,931.43	-136,949,029.23		-	157,360,902.20
Including: derivative financial assets	294,309,931.43	-136,949,029.23		-	157,360,902.20
2. Account receivable					
(1)Account receivable	199,886,900.67		-	727,216.36	145,443,272.32
3.Available-for-sale financial assets	-		-	-	-
4.Held-to-maturity financial assets	-		-	-	-
Subtotal	2,510,997,231.50	-136,949,029.23	0.00	727,216.36	1,814,522,536.92
Financial liabilities					
(1) derivative financial liabilities	11,628,218.98	6,428,373.99	-	-	5,199,844.99
(2)Loans	2,016,800,399.40				1,511,718,362.40

Note: gains from change of the fair value included expired derivate financial instruments during the period under review, which realized the investment income amount to RMB 116,665,210.50.

6.2 Principal operation information

6.2.1 Major operation information by products

Unit: RMB

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

The principal operating income of the Company in 2008 amounted to RMB6.848 billion, representing an increase of RMB1.036 billion and 17.83% compared with that of 2007. Such increase was mainly benefited form the shipbuilding operation, the income of which amounted to RMB5.904 billion, representing 86.22% of the total principle operating income and increased by 14.99% compared with that of 2007. The income from steel structure amounted to RMB0.66 billion representing an increase of 68.41% compared with that of 2007. The marked increase was mainly due to the delivered steel structure project of manufacturing and installing crane built for CSSC Jiangnan Heavy Industry Company Limited and the doors for dry docks built for CSSC Guangzhou Longxue Shipbuilding Co., Ltd in 2008. The income from electrical & mechanical products and others amounted to RMB 0.283 billion representing a decrease of 0.60%.

The gross profit and the gross margin of shipbuilding product amounted to RMB 0.814 billion and 13.79%, representing a decrease of 2.89%, which mainly due to the sharp increase in the price of steel and row materials as well as the labor cost. And for the long shipbuilding circle and the cost should be recorded when shipbuilding commenced, the cost recorded in 2008 has not decreased even though the price of steel and row materials decreased back in the fourth quarter in 2008.

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

6.2.2 Geographical analysis of turnover

Unit: RMB

Countries or Regions	Operating income		Change (%)
	For the year 2008	For the year 2007	
Malta	1,248,505,028.09	347,929,458.32	258.84
Germany	327,760,861.88	19,585,199.41	1,573.51
Denmark	2,114,264,244.03	723,881,803.84	192.12
Macao	440,950.00	17,865,136.78	-97.53
Italy	30,144,808.15	-	100.00
U.S.A	357,014,494.29	269,820,040.27	32.32

Oman	-	43,842,287.05	-100
Hong Kong	299,633,532.71	11,851,039.11	2,428.33
Greece	532,198,804.79	918,019,743.30	-42.03
Taiwan	8,189,067.59	5,785,152.59	41.55
Sweden	399,078,654.64	325,341,877.43	22.66
Liberia	-	1,008,570,307.94	-100.00
India	1,413,858.69	-	100.00
Others	-	8,243,641.11	-100.00
Subtotal	5,318,644,304.86	3,700,735,687.17	43.72
Mainland China	1,529,026,276.63	2,110,732,642.18	-27.56
Total	6,847,670,581.49	5,811,468,329.35	17.83

6.3 Financial position of the Group during 2008

6.3.1 Balance sheet items

Unit: RMB

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

Note:

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

- The increase of 33.40% in balance of accounts payable resulted from the changes of cash management strategies to cope with the changes in economic environment.
- The decrease of 34.74% in balance of salary payable resulted from the payment of bonus accrued in last year.
- The decrease of 53.49% in balance of taxes payable resulted from the decrease of income tax rate.
- The decrease of 64.20% in balance of other payables resulted from the payment of employees' housing subsidies, supplementary pension, house-purchasing support and housing monetary subsidies for retirees.
- The decrease of 46.81% in balance of long-term borrowings resulted from the repayment of bank loans.
- The increase of 41.36% in balance of provisions for foreseeable liabilities resulted from the increase in product warrant as the sales revenue increased.
- The decrease of 72.50% in balance of deferred tax liability resulted from the significant decrease in fair value of available-for-sale financial assets due to the decrease of stock prices, the reliable income from exchange due to settlement of partial expired derivate financial instruments, and the adjustment of enterprise income tax rate in 2008.
- The decrease of 68.59% in balance of other non-current liabilities is resulted from the completion of some of the research project.
- The increase of 67.27% in balance of undistributed earnings resulted from addition of current profit.

6.3.2 Profit and loss statement items

Unit: RMB

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

Note:

- The decrease of 91.92% in financial expenses was due to the increase in exchange gain of foreign currency loans which benefited from continuous Renminbi appreciation as well as the increase in interest income with the reasonable cash management.
- The decrease of 125.42% in asset impairment loss resulted from reuse of the raw materials that was accrued with provisions, and thus reverses the provision.
- The decrease of 146.20% in income/losses from fair value changes resulted from settlement of some foreign exchange forward contracts, and from the fluctuation of market value on the contracts that had not matured.
- The increase of 204.33% in investment income resulted from the incremental proceeds of holding and disposal of financial assets at fair value through profit or loss, and available-for-sale financial assets.
- The decrease of 71.05% in non-operating income was due to the decrease of government grant and subsidies.
- The decrease of 31.39% in non-operating expenditure was due to the decrease of losses from disposal of non-current assets.
- The decrease of 78.69% in income tax was due to the changes of income tax rate and current net profits.

6.3.3. Cash flow statement items

Unit: RMB

Cash Flow Statement Items	As at Dec. 31, 2008	As at Dec. 31, 2007	Change (± %)

Net cash flow from operating activities	-195,267,322.66	1,818,659,141.44	-110.74
Net cash flow from investing activities	-760,569,150.21	240,334,805.86	-416.46
Net cash flows from financing activities	-681,882,351.01	352,259,684.49	-293.61

Note:

- The reasons for decrease of 110.74% in net cash flow from operating activities are that the Company secured less shipbuilding orders, which resulted from the adjustment of the strategy of acquisition of shipbuilding orders and product structure, as well as purchased more materials to relieve the effect of short supply and high price of raw materials.
- The decrease of 416.46% in net cash flow from investment activities mainly resulted from increase of deposits under lien for instruments that are designed to hedge foreign exchange risks.
- The decrease of 293.61% in net cash flow from financial activities mainly resulted from the repayment of mature and undue bank loans, and payment of dividends.

6.4 Application of capital

The Company had not raised funds during the year nor utilized any proceeds previously raised. During the period under review, the investment capital not from share offering of the Company amounted to RMB 348 million, decreased by RMB99 million and representing a decrease of 28.39% compared with that of last year. The investments in 2008 are mainly as follows:

Unit: RMB'0000

Items	Amount	Progress	Income
Registered Guangzhou GSI Large-size Mechanical Equipment Company Limited	3000	Completed	Not commenced
Increased investment in Glory Group Development Co., Ltd	2643	Completed	RMB6.58 million during 2008
Increased Investment in Zhengjiang CSSC Hyundai Generator Equipment Co., Ltd.	1120	Completed	RMB2.92 million during 2008
Innovation in reform projects and equipments of Machining Center	27995	Partially completed	Income of completed part was reflected in the total profits of current year

6.5 Profit distribution for the year 2008

For the year 2008, the net profit of the Company prepared in accordance with PRC Accounting Standards and Regulations amounted to RMB 775,502,512.86, the net profit of the Company prepared in accordance with HKFRS amounted to RMB 775,328,320.21. Pursuant to the regulation of the Articles of Association of the Company, the profit distribution should be on the basis of the fewer between the profits prepared in accordance with two accounting standards above mentioned.

Profit distribution for the year 2008 should be based on the net profit of the Company prepared in accordance with HKFRS and its details are as follows:

1. Deducted 10% as statutory public welfare fund, which amounted to RMB 77,532,832.02.
2. Pay dividend of RMB 0.45 on each ordinary share, on the basic of 494,677,580 shares is issue; the total dividend will amount to RMB 222,604,911.

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

6.6 Prospects for 2009

- Shipbuilding operation: to advance the combination of establishing new shipbuilding mode and PSPC production experiment, strengthen the development and application of CIMS and promote accuracy management; to increase block supply from subcontracts for ensuring its supply, strengthen shipbuilding production management, further improve the production efficiency and reduce the shipbuilding cycles, to achieve the goal of "Commence construction of 18 vessels, launch 19 vessels and deliver 18 vessels".
- Non-shipbuilding operations: to accelerate the acceptance testing of Mechanical Processing Center; to grasp the opportunity offered by CSSC to optimize strategy of shipbuilding industry of South China, to plan the co-development of shipbuilding and non-shipbuilding, to maintain and develop the traditional electro-mechanical products market, and to create the second pillar operation of the Company.
- Technical innovation: taking the opportunity of the adjustment of shipbuilding market, to strengthen the development of new ship types and optimization of technical specifications, intensify the exploitation of low-cost and economical ship, enhance the development of special vessels and hi-tech vessels; to improve the research on new ship rules and regulations and deal with the higher ship standard in relation to environmental protection, pollution prevention, energy-saving and emission reduction in advance.
- Risk prevention: to strengthen quality management for building high-quality products and estimate risk on orders in hand and set up early warning and supervision system; to improve shipbuilding procedures and the internal control as well as production and function management of non-shipbuilding operation; to pay close attention to the change of RMB against U.S. dollar exchange rate, improve financial risk control, re-estimate the original measures to avoid the risk exchange rate, and research new measures of foreign exchange hedge to reduce cost or fix purchasing cost and income.
- Cost Control: to advance man-hour management, raise the utilization rate of steel and strictly control expense and cost to ensure the profitability and sustainable development of the Company.
- Human Resource: to focus on the development of marketing and research & development personnel, adjust the employment pattern in accordance with the change of the market to maintain the subcontract labor team; to consummate talents selection and cultivation system with performance method, and to promote the whole quality of human resource.

6.7 Other matters

6.7.1 The Board's explanation on the qualified opinion issued by the auditors

☐ Applicable ☑ Not applicable

6.7.2 Liquidation, financial resources and capital structure

As at December 31, 2008, the long-term loans of the Group amounted to RMB 205,038,000.00, the cash and cash equivalents of the Group amounted to RMB 5,197,630,827.85.

6.7.3 Charge on Group assets

As at December 31, 2008, the amount of fixed assets pledged as security for the Group's banking facilities was RMB 124.86 million.

6.7.4 Capital expenditure

The Group expects that capital expenditure during 2009 would be approximately RMB570 million. The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital.

6.7.5 Contingent liabilities

As at December 31, 2008, the Group has no significant contingent liabilities.

6.7.6 Code on Corporate Governance Practices

During the period under review, the Group complied fully with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules.

7. SIGNIFICANT EVENTS

7.1 Acquisition of assets

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

7.2 Disposal of assets

£Applicable RNot applicable

7.3 Significant guarantees

Pursuant to the approval of the sixteenth meeting of the fifth term of the Board, the Company entered into a maximum amount guarantee contract in December 2006 to January 2007 for a maximum guarantee amount of RMB50 million with Bank of China, Zhujiang Branch for the periods of one year each, so as to guarantee working capital loan of United Steel Structure Limited (“United Steel”), a 51% subsidiary of the Company. For more details please refer to the announcement issued on January 12, 2007 by the Company in Shanghai Securities News, Hong Kong Commercial Daily and China Daily (overseas version). Pursuant to the approval of the twenty-eighth meeting of the fifth term of the Board, the amount of the guarantee was decreased to RMB30 million for 2008. As at December 31, 2008, United Steel had paid back the loan for which the Company issued the guarantee.

7.4 Connected transactions

7.4.1 The contents, amounts and pricing basis of connected transactions in 2008

Unit: RMB

No.	Content and category	Transaction amount	Proportion in the same type of transactions	Pricing basis
1	Total materials and labor services supplied to CSSC Group by the Company	248,783,193.89		
1.1	Electrical and mechanic engineering equipment and metallic materials	162,857,462.61	2.33	Market price
1.2	Power Source	2,558,520.20	0.04	Cost plus management fee
1.3	Labor supply, design and technology services	83,367,211.08	1.19	Not less than the price to the third parties
2	Total materials and labor services supplied to the Company by CSSC Group	495,009,259.49		
2.1	Electrical and mechanic engineering equipment and metallic materials,ship-building accessories and equipment for use on ship	441,960,499.85	11.62	Market price or agreed fee, but not less favorable than the price offered by the third independent parties
2.2	Labor supply, design and technology services	53,048,759.64	0.89	Cost plus 10% management fee or Market price
3	Financial services supplied from CSSC Group			
3.1	Deposits	18,673,571.65	0.36	Interest rate on deposits published by the People’s Bank of China
3.2	Interest on deposits	214,428.99	0.07	
3.3	Loans	-	-	
3.4	Interest on loans	-	-	
4	Total guarantee fees for guarantee supplied to the Company from CSSC Group	7,071,243.31	60.90	Agreed fee, not less favorable than the price offered by the third independent parties
5	Total sales agency fees	51,024,013.66	42.84	1% of contract price in accordance with international practice
6	Total purchases agency fees	6,344,212.63	0.08	1.% to 2% of contract price in accordance with international practice

The connected parties of the Company are CSSC and its subsidiaries.

7.4.2 The financing balance of the Company and CSSC and its subsidiaries during the year:

Unit: RMB

Items	As at December 12, 2008	As at December 12, 2007
Accounts receivable	69,761,805.89	18,660,124.53
Other receivable	-	48,440.00
Advanced payment	153,462,673.21	357,500,480.08
Accounts payable	76,973,570.76	15,119,055.94
Other payable	1,425,899.59	1,148,238.57
Advances from customers	84,813,070.82	63,218,630.70

7.4.3 Fund occupation and refund by connected parties in 2008

Non-operating fund occupation by controlling shareholder and its subsidiaries (RMB)		Total Refund by controlling shareholder and its subsidiaries in 2008 (RMB)
As at January 1,2008	As at December 31,2008	
48,440.00	-	48,440.00
Refund Method	Refund Amount	Refund Time
Cash	48,440.00	September 30, 2008

7.5 Trusted fund management

£Applicable R̦Not applicable

7.6 Matters of trust deposites

Pursuant to the debt restructuring agreement entered into between the Company and Guangzhou International Trust Investment Company (“GZITIC”), the Company has obtained the entire ownership certificate to the shops with an approximate area of 21,175 sq. meters located in Urumchi (“Real Estate”). However, as at the date of this annual report, the developer of the Real Estate had not yet paid the land grant fees in full, the Company did not obtain the land use right certificate of the Real Estate fully.

As at the end of the period under review, in accordance with the framework agreement for the debts restructuring entered into between the Company and GZITIC, the Company has obtained the building ownership certificates of certain shops and apartments located in Heshan City, Guangzhou City, Dongguang City and Shenzhen City of Guangdong Province and Hengyang City of Hunan Province with the total gross floor area of 14,546 sq.m., cash of RMB 0.92 million, cars, golf membership cards of Wuhan, and ownership certificate of equity and creditor’s rights in Guangzhou Jingxin Instruments and ElectricalProducts Co., Ltd.

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

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

7.7 Commitments

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

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

7.7.2 There is profit forecasts either assets of the company or project, or which is still in the profit forecast during the period under review, or whether the Company rechieved such performent and the reasons for the original statement.

£ Applicable R Not applicable

7.8 Significant litigation or arbitration Events

The Company and Guangzhou International Trust Investment Company ("GZITIC"), Hong Kong Guanghong Intl' Co., Ltd ("HKGH") entered into a "Credit's Right Transfer Agreement", in accordance of which GZITIC transferred the creditor right amounting RMB 10.64 million of HKGH owned by Guangzhou International Trust Investment Development Co., Ltd., a subsidiary of GZITIC, to the Company. At the same time, the Company and HKGH entered into a "Debt Offset Agreement", which stated that HKGH would transfer seven cars to the Company before September 30, 2005, while the rest of debts would be settled with its interest in Guanghong Electronic (Shenzhen) Co., Ltd., which is controlled by HKGH.

As HKGH still did not fulfill its obligations after several negotiations, the Company raised the litigation against HKGH to the Secondary People's Court of Guangzhou. HKGH was sentenced to pay back the debt amounting to RMB 10.64 million and relevant interests owned by the Company in ten days after the sentence took effect. However, the court rejected the request of the Company that Mr. Huang Jinchao should undertake joint liability within RMB 0.6 million. The Company had appealed to the high court against such reject.

Apart from that, no significant litigation or arbitration events occurred during the period under review

7.9 Other Significant Events or Analysis Statemnt Program

7.9.1 Shares of the Other Listed Company or Equity of Financial Company Held by the Company.

Stock Code	Abbreviation	Initial investment cost(RMB)	Proportion in the interest of the listed company (%)	Book value as at December 31,2008	Profit and loss during the period under review	Changes in shareholders of the Company	Accounting Subject	Source of the shareholding
600036	Merchants Bank	10,010,000.00	0.081	144,096,000.00	7,469,408.72		Available-for-sale financial assets	Purchasing
601872	Merchants Energy Shipping	37,100,000.00	0.29	38,600,000.00	-		Available-for-sale financial assets	Purchasing
Total		47,110,000.00	-	182,696,000.00	7,469,408.72	-		-

During the period under review, the Company had sold 303,348 shares of Merchants Bank, the income from which amounted to RMB 7,469,408.72, and the profit from purchasing new initial public offer shares amounted to RMB 4.56million approximately.

7.9.2 The Company and its subsidiary Guangzhou Hongfan Information Technique Company Limited were recognized as national level high-tech enterprises, and were entitled to 15% income tax rate for three years (from 2008 to 2010) under a preferential tax policy.

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

7.9.4 Pursuant to approval of the sixth meeting of the sixth term of Board, the Company established a wholly-owned subsidiary in Zhongshan City Guangdong Province named "Zhongshan GSI Marine Engineering Company Limited ("Zhongshan Company") with registered capital amounting to RMB 100 million in January 2009. Zhongshan Company will be in charge of the construction of block manufacturing center project, the fixed assets investment of which will amount to RMB 804.52 million, which has been approved by the ninth meeting of the sixth term of Board.

7.9.5 Pursuant to approval of the fifth meeting of the sixth term of Board, the Company established a wholly-owned subsidiary in Nansha district in Guangzhou named "Guangzhou GSI Large-size Mechanical Equipment Company Limited ("Mechanical Equipment Company") with registered capital amounting to RMB 30 million in November 2008. Mechanical Equipment Company will be in charge of the operation of mechanical processing center. the ninth meeting of the sixth term of Board approved to increase its registered capital with an amount of RMB 158.61 million to purchase fixed assets.

8. Report of the Supervisory Committee

The supervisory Committee considered that the operating of the Company is legal and lawful, and there were no problems in the financial affairs, capital use, placing assets and connected transactions of the Company.

9. FINANCIAL REPORTS

9.1 Audit opinion

The Company's accounts for the year ended December 31, 2008 were audited by Ascenda Certified Public Accountants, Ltd. (Beijing), who issued an unqualified audited report [2009] GF Zi No.020006.

PricewaterhouseCoopers, Certified Public Accountants, the Company's international auditors, who issued an unqualified audit opinion on the Company's accounts under HKFRS for the year ended December 31, 2008.

9.2 Audited accounts (attached)

Balance sheets of the Group and the Company as at December 31, 2008

Profit and loss account of the Group and the Company for the year ended December 31, 2008

Cash flow statement of the Group and the Company for the year ended December 31, 2008

9.3 During the period under review, there is not any other change in accounting policies, accounting estimates and method for preparation of accounts of the Group.

9.4 During the period under review, there is no any significant error about contact, data to be corrected, some reasons and effects of the Group.

9.5 During the period under review, the consolidation scope of the Group had not any significant change.

10. REQUIRED INFORMATION

The Company will publish in www.hkexnews.hk, the website of The Stock Exchange of Hong Kong Limited all the information related to the Company's results announcement for the year ended December 31, 2008, as required by the paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules.

Prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Income Statement-by Function of Expense
For the year ended 31 December 2008

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Revenue	2	6,984,088	5,906,793
Cost of construction contracts		(5,164,588)	(4,352,338)
Cost of goods sold and services rendered		(987,759)	(663,653)
Cost of sales		(6,152,347)	(5,015,991)
Gross profit		831,741	890,802
Other (losses)/gains - net	3	(2,784)	291,309
Selling and marketing costs		(8,760)	(15,041)
Administrative expenses		(260,091)	(290,509)
Other income	4	80,134	291,585
Other expenses		(4,835)	(9,216)
Operating profit	5	635,405	1,158,930
Finance income - net	6	282,070	180,545
Share of profit of associates		3,811	1,489
Profit before income tax		921,286	1,340,964
Income tax expense	7	(81,113)	(380,615)
Profit for the year		840,173	960,349
Attributable to:			
Shareholders of the Company		820,396	938,560
Minority interests		19,777	21,789
		840,173	960,349
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB per share)			
- basic & diluted	8	1.6584	1.8973
Dividends	9	222,605	247,339

Consolidated Balance Sheet
As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,231,778	1,049,953
Investment properties		89,137	94,161
Land use rights and leasehold land		75,196	76,108
Intangible assets		14,950	15,921
Interest in associates		33,708	19,419
Available-for-sale financial assets		1,900	577,074
Derivative financial instruments		44,890	245,852
Restricted cash		212,000	-
		1,703,559	2,078,488
Current assets			
Available-for-sale financial assets		185,450	-
Inventories		832,683	725,423
Due from customers on construction contracts		283,014	229,927
Trade receivables	10	392,667	314,323
Other receivables		678,932	728,187
Derivative financial instruments		112,471	48,458
Term deposits with initial term of over three months		4,855,140	5,331,755
Restricted cash		723,463	114,776
Cash and cash equivalents		484,286	1,457,792
		8,548,106	8,950,641
Total assets		10,251,665	11,029,129
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital		1,146,655	1,146,655
Other reserves		368,607	568,281
Retained earnings	11		
- Proposed dividend		222,605	247,339
- Others		1,009,493	489,234
		2,747,360	2,451,509
Minority interests in equity		95,505	75,848
Total equity		2,842,865	2,527,357

Consolidated Balance Sheet (continued)
As at 31 December 2008

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		207,632	387,468
Retirement benefit obligations		4,839	3,173
Deferred income tax liabilities		48,629	190,943
		261,100	581,584
Current liabilities			
Due to customers on construction contracts		4,278,333	4,871,825
Trade payables	12	976,578	624,390
Other payables and accruals		323,176	440,661
Dividends payable		35	9
Current income tax liabilities		105,720	255,649
Borrowings		1,371,508	1,654,374
Derivative financial instruments		5,200	11,628
Provisions for warranty and legal claims		87,150	61,652
		7,147,700	7,920,188
Total liabilities		7,408,800	8,501,772
Total equity and liabilities		10,251,665	11,029,129
Net current assets		1,400,406	1,030,453
Total assets less current liabilities		3,103,965	3,108,941

1. Basis of preparation

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

2. Segment information

Primary reporting format – business segments

At 31 December 2008, the Group is organized on the PRC basis into two main business segments:

(1) Shipbuilding – construction and trading of vessels; and

(2) Steel structure and other manufacturing – manufacturing and trading of steel structure and mechanical and electrical equipment.

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

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

2. Segment information (continued)

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

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

The segment results for the year ended 31 December 2007 are as follows:

Business segment	**Shipbuilding**	**Steel structure and other manufacturing**	**Other operations**	**Elimination**	**Group**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment revenue	5,134,589	639,814	269,006	(136,616)	5,906,793
Inter-segment revenue	-	(55,685)	(80,931)	136,616	-
Revenue	5,134,589	584,129	188,075	-	5,906,793
Segment results	1,303,932	64,672	132,368	(53,344)	1,447,628
Unallocated revenue					41,204
Unallocated costs and expenses					(329,902)
Operating profit					1,158,930
Finance income-net					180,545
Share of profits of associates			1,489		1,489
Profit before income tax					1,340,964
Income tax expense					(380,615)
Profit for the year					960,349

Unallocated revenue represents mainly dividend income and subsidy income. Unallocated costs and expenses represent corporate expenses. Inter-segment transfers or transactions were entered into under the normal commercial terms and conditions that were also available to unrelated third parties.

2. Segment information (continued)

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

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

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

	Shipbuilding	Steel structure and other manufacturing	Other operations	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortization	42,081	6,288	13,541	24,001	85,911
Impairment for inventory	1,451	9,526	-	-	10,977
Impairment for investment properties	-	-	-	2,052	2,052
Capital expenditure	121,276	19,952	19,886	8,762	169,876

Capital expenditure comprises additions to property, plant and equipment, land use right and leasehold land and intangible assets, excluding additions from acquisition of subsidiaries.

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

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

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

	Shipbuilding	Steel structure and other manufacturing	Other operations	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	6,198,530	522,233	134,818	(70,950)	6,784,631
Interest in associates			19,419		19,419
Unallocated assets					4,225,079
Total assets					11,029,129
Segment liabilities	5,631,559	218,290	78,451	(70,950)	5,857,350
Unallocated liabilities					2,644,422
Total liabilities					8,501,772

2. Segment information (continued)

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

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

Secondary reporting format – geographical segments

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

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

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

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

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

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

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

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

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

3. Other (losses)/gains – net

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

4. Other income

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

5. Operating profit

The following items have been charged to the operating profit during the year:

	2008 RMB'000	2007 RMB'000
Cost of inventory sold	823,413	561,451
Depreciation and amortisation charges	101,472	85,911
Loss of sale of properties, plant and equipment and investment properties	6,392	8,504

6. Finance income – net

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

7. Income tax expense

Taxation on the PRC profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

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

8. Earnings per share

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of RMB 820,396,000 (2007:RMB938,560,000) and the weighted average number of 494,677,580 (2007:494,677,580) ordinary shares in issue during the year.

9. Dividends

A dividend in respect of the year ended 31 December 2008 of RMB0.45 per share, amounting to a total amount of RMB222,605,000 is to be proposed at the Annual General Meeting on 7 May 2009. These financial statements do not reflect this dividend payable.

	2008 RMB'000	**2007** RMB'000
Proposed final dividend of RMB0.45 (2007:RMB0.50) per ordinary share	222,605	247,339

10. Trade receivables

	2008 RMB'000	**2007** RMB'000
Trade receivables due from third parties	202,743	270,212
Less: provision for impairment of trade receivables	(4,701)	(5,081)
Trade receivables – net	198,042	265,131
Amounts due from related parties	194,625	49,192
	392,667	314,323

The general credit terms of trade receivables are:

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

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

	2008 RMB'000	**2007** RMB'000
Not exceeding 1 year	170,991	250,878
More than 1 year but not exceeding 2 years	21,966	11,682
More than 2 years but not exceeding 3 years	3,979	160
More than 3 years	1,106	2,411
	198,042	265,131

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

	2008 RMB'000	**2007** RMB'000
Not exceeding 1 year	190,397	49,192
More than 1 year but not exceeding 2 years	4,228	-
	194,625	49,192

11. Retained earnings/(accumulated losses)

	2008 RMB'000	2007 RMB'000
Beginning of the year	736,573	(126,643)
Profit for the year	820,396	938,560
Profit transferred to surplus reserves	(77,532)	(75,344)
Dividends relating to 2007	(247,339)	-
End of the year	1,232,098	736,573

12. Trade payables

	2008 RMB'000	2007 RMB'000
Amounts due to third parties	655,979	419,974
Amounts due to related parties	320,599	204,416
	976,578	624,390

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

	2008 RMB'000	2007 RMB'000
Not exceeding 1 year	646,998	413,561
More than 1 year but not exceeding 2 years	7,884	5,932
More than 2 years but not exceeding 3 years	759	362
More than 3 years	338	119
	655,979	419,974

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

	2008 RMB'000	2007 RMB'000
Not exceeding 1 year	320,070	204,416
More than 1 year but not exceeding 2 years	529	-
	320,599	204,416