YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.





Yangzijiang Shipbuilding (Holdings) Ltd.

PROSPECTUS DATED 9 APRIL 2007

PROSPECTUS DATED 9 APRIL 2007 (REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE ON 9 APRIL 2007)
This document is important. If you are in any doubt as to the action you should take, you should consult your legal, financial, tax or other professional adviser.

This is the initial public offering of our ordinary shares ("Shares"). Yangzijiang Shipbuilding (Holdings) Ltd. ("our Company") is issuing and making an offering of an aggregate of 662,197,000 new Shares (the "New Shares") and (i) Almond Beach Resources Corporation, (ii) Lido Point Investments Ltd., and (iii) Newyard Worldwide Holdings Ltd. (the "Vendors") are making an offering of an aggregate of 331,000,000 Shares (the "Vendor Shares" and together with the New Shares, the "Offering Shares") for subscription and/or purchase by investors at the Offering Price (as defined below) (the "Offering"). The Offering will consist of an international placement (the "Placement") to investors, including institutional and other investors in Singapore and the Corporate Investors, outside the United States in reliance on Regulation S under the United States Securities Act of 1933, as amended, (the "Securities Act") and in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act that are also qualified purchasers within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940, as amended (the ''Investment Company Act") and the rules promulgated thereunder, and a public offer in Singapore (the "Public Offer"). The indicative size of the Public Offer is 19,864,000 Shares.

As part of the Offering, the Company and the Vendors have agreed to place Offering Shares amounting to an aggregate of S$183.2 million (which is equivalent to 192,819,000 Offering Shares at the Maximum Offering Price) to Silver Union Limited, Lee Kian Soo, Lyndhurst Gain Limited and Vervain Equity Investment Limited (the "Corporate Investors"). See "Plan of distribution – Our Corporate Investors".

The offering price for each Offering Share (the "Offering Price") will be not more than S$0.95 (the "Maximum Offering Price"). The Offering Shares included in the Public Offer and the Placement will be underwritten by UBS AG, acting through its business group, UBS Investment Bank ("UBS" or the "Global Co-ordinator") and DBS Bank Ltd ("DBS Bank", together with UBS, the "Joint Lead Managers" or the "Underwriters") at the Offering Price, if the Offering Price is agreed upon between the Global Co-ordinator, the Vendors and our Company. Prior to the Offering, there has been no public market for our Shares. Application has been made to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for permission to list all our issued Shares (including the Vendor Shares and the Additional Shares (as defined below)) and the New Shares, on the Main Board of the SGX-ST. Such permission for the listing of our Shares will be granted when we have been admitted to the Official List of the SGX-ST. Acceptance of applications for the Offering Shares will be conditional upon, among others, permission being granted to deal in and for quotation of all our issued Shares (including the Vendor Shares and the Additional Shares) and the New Shares. Monies paid in respect of any application accepted will be returned, at each investor's own risk, without interest or any share of revenue or other benefit arising therefrom, and without any right or claim against us, the Vendors or the Underwriters, if the Offering is not completed because the said permission is not granted or for any other reason.

We have received a letter of eligibility from the SGX-ST for the listing and quotation of our Shares on the Main Board of the SGX-ST. Our Company's eligibility to list and admission to the Official List of the SGX-ST does not indicate the merits of the Offering, our Company, our Group (as defined herein) or our Shares.

The SGX-ST assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Offering, our Group or our Shares. A copy of this Prospectus has been lodged with and registered by the Monetary Authority of Singapore (the "Authority"). The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"), or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of our Shares, the New Shares or the Additional Shares (if the Over-allotment Options (as defined below) are exercised) being offered or in respect of which an invitation is made, for investment. No Shares shall be allotted or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus by the Authority.

See "Risk factors" for a discussion of certain factors to be considered in connection with an investment in our Shares.

In connection with the Offering, the Vendors will grant UBS, on behalf of the International Underwriters, over-allotment options (the "Over-allotment Options") exercisable in whole or in part by UBS on one or more occasions from the commencement of dealing in the Shares, on the SGX-ST (the "Listing Date") until the earlier of (i) the date falling 30 days from the Listing Date, or (ii) the date when UBS AG, acting through its business group, UBS Investment Bank or its appointed agent has bought, on the SGX-ST, an aggregate of 148,980,000 Shares, representing 15.0% of the total Offering Shares, to undertake stabilising actions, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price to purchase up to an aggregate of 148,980,000 Shares (the "Additional Shares") (representing not more than 15.0% of the total Offering Shares) at the Offering Price, solely to cover the over-allotment of the Offering Shares, if any.

The Maximum Offering Price per Offering Share is payable in full on application by investors applying for the Offering Shares under the Public Offer, subject to refund if and to the extent the Offering Price is less than the Maximum Offering Price. Investors applying for the Placement are required to pay the Offering Price. The Offering Price will be determined following a book-building process by agreement between the Global Co-ordinator, our Company and the Vendors on a date currently expected to be 12 April 2007 (the "Price Determination Date"), which date is subject to change. If for any reason the Offering Price is not agreed between the Global Co-ordinator, our Company and the Vendors, the Offering will not proceed. Notice of the Offering Price will be published in one or more major Singapore newspapers such as The Straits Times, The Business Times and Lianhe Zaobao not more than two calendar days after the Price Determination Date.

The Shares have not been and will not be registered under the Securities Act and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act that are also qualified purchasers within the meaning of Section 2(a)(51) of the Investment Company Act and the rules promulgated thereunder. Prospective purchasers are hereby notified that the sellers of our Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Our Shares are not transferable except in accordance with the restrictions described under "Transfer restrictions".

References in this Prospectus to "this document" should be construed as being references to this Prospectus.

All copies of the Prospectus distributed in Singapore must be accompanied by the instructions booklet entitled "Terms, Conditions and Procedures For Application and Acceptance of the Offering Shares in Singapore" which constitutes part of this Prospectus registered by the Authority.

Yangzijiang Shipbuilding (Holdings) Ltd.

(Company Registration Number: 200517636Z)
(incorporated with limited liability in the Republic of Singapore
on 21 December 2005)
Offering in respect of 993,197,000 Offering Shares
(subject to the Over-allotment Options)
The indicative size of the Public Offer is 19,864,000 Offering Shares
Maximum Offering Price: S$0.95 per Offering Share

Global Co-ordinator and Sole Bookrunner

UBS Investment Bank

Joint Lead Managers

UBS Investment Bank

DBS

Financial Adviser to our Company

ICHCAPITAL

OUR BUSINESS

- We are one of the leading shipbuilders in the PRC producing a broad range of commercial vessels, containerships, mini bulk carriers, bulk carriers, multi-purpose cargo vessels, chemical tankers, offshore supply vessels, rescue and salvage vessels and lifting vessels.
- Located in Jiangyin city, Jiangsu province, PRC, our existing shipyard (the "Existing Yard") spans approximately 719 metres of deep-water coastline and covers an area of approximately 200,000 square metres (excluding the coastal area).
- To expand our existing operations, we are constructing a new shipyard (the "New Yard") in Jiangyin Economic Development District, Jingjiang city, Jiangsu province, PRC. We expect the New Yard to have access to approximately 1,200 metres of deep-water coastline covering an area of approximately 793,000 square metres. It will also be equipped with a dry dock that will be able to accommodate two 100,000 DWT vessels. The New Yard is expected to be completed in October 2007.





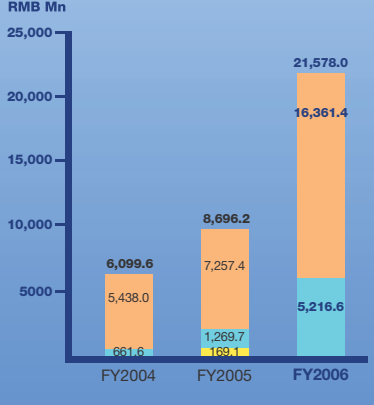
One of the leading shipbuilders in the PRC shipbuilding industry in terms of manufacturing capability and manufacturing capacity

A LEADING SHIPBUILDER IN THE GROWING PRC SHIPBUILDING INDUSTRY

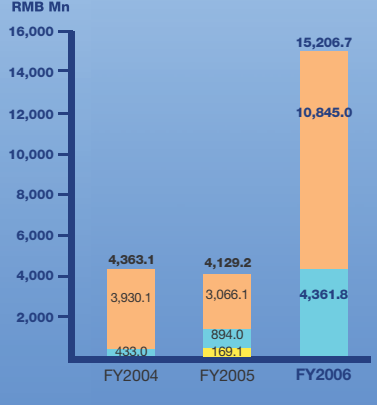


STRONG ORDER BACKLOG AND ORDER BOOKS

ORDER BACKLOG[1]



NEW ORDERS[2]





NOTES:

1) Order backlog refers to the total contract value of orders not yet delivered minus the portion of sales revenue already recognised in respect thereof using the percentage of completion method
2) New orders for any period represents order backlog at the end of the period minus order backlog at the beginning of the period plus the portion of sales revenue we recognised during the period using the percentage of completion method
3) FY refers to financial year ended 31 December

As at 31 December 2006, our aggregate order book amounted to approximately RMB21,578.0 million for vessels to be completed and delivered between 2007 and 2010.

In addition, we received new orders amounting to RMB15,206.7 million as at 31 December 2006.

We believe we are the leading privately-owned containership builder, second largest privately-owned shipyard and fourth largest shipyard in the PRC, based on our order book as of 31 December 2006, comprising of vessels with an aggregate tonnage of 1,225,481 CGT and new orders from 1 January 2007 to 19 March 2007 with a combined tonnage of 104,036 CGT.



OUR COMPETITIVE STRENGTHS

A LEADING SHIPBUILDER IN THE GROWING PRC SHIPBUILDING INDUSTRY

- We believe that we are currently one of the leading shipbuilders in the PRC shipbuilding industry in terms of manufacturing capability and manufacturing capacity.
- Based on our order book as of 31 December 2006 comprising of vessels with an aggregate tonnage of 1,225,481 CGT and new orders from 1 January 2007 to 19 March 2007 with a combined tonnage of 104,036 CGT, we believe we are the leading privately-owned containership builder, second largest privately-owned shipyard and fourth largest shipyard in the PRC.
- We believe that the shipbuilding industry in the PRC is currently the fastest growing, compared to the shipbuilding industry in other nations.

COMPETITIVE COST STRUCTURE AND EFFICIENT OPERATIONS

- We believe our land, labour and overhead costs are generally lower than that of overseas competitors especially, those in South Korea.
- We also enjoy low cost of financing due to preferential rates extended by PRC government-backed banks to promote the local shipbuilding industry.
- We believe we have achieved further cost savings through cost management activities such as employing subcontract labour and sourcing for raw materials and components from a variety of suppliers.
- Through effective production planning and scheduling, we have reduced the number of labour days required to build a containership.

STRONG CUSTOMER BASE OF REPUTABLE SHIP OWNERS

- We have built a strong relationship with major customers, such as Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG, Reederei Horst Zeppenfeld GmbH & Co. KG and Carisbrooke Shipping Limited. These four customers accounted for approximately 92.8% of our revenue in 2006. In addition, Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG and Carisbrooke Shipping Limited accounted for approximately 43.4% of the order book of RMB21,578.0 million as of 31 December 2006 for vessels which we expect to deliver between 2007 and 2010.
- We believe that our reputation for and commitment to timely delivery of quality vessels and competitive pricing have enabled us to secure an initial order of eight containerships in 2006 and another two in 2007 from Seaspan Corporation and 10 post-Panamaxes in December 2006 from Perseveranza SpA di Navigazione.

STRONG FINANCIAL AND PROVEN TRACK RECORD

- We have experienced significant growth in revenue and profit before income tax from RMB988.8 million and RMB170.4 million in 2004 to RMB2,325.0 million and RMB518.9 million in 2006.
- As of 31 December 2006, we had a net debt-to-equity ratio of 80.7% in 2006.
- We believe our financial position enhances our ability to make key investment and strategic decisions in a timely manner.
- We believe that our track record has enabled us to secure an order book of RMB21,578.0 million as of 31 December 2006 for vessels which we expect to deliver between 2007 and 2010.

DEDICATED AND INCENTIVISED MANAGEMENT

- Our key management staff have, on average, 20 years of experience in the shipbuilding industry and have been with our Group for an average of 20 years.
- Each of our key senior management is either a shareholder of our Company or Jiangsu New Yangzi Shipbuilding Co., Ltd, our subsidiary which owns the New Yard. Such shareholding interest provides an alignment of interests with those of public Shareholders.



STRATEGIES

EXPAND BUSINESS BY BUILDING LARGER VESSELS AND DIVERSIFYING INTO OFFSHORE VESSELS

- Focus on building larger containerships and bulk carriers including containerships with load carrying capacities of 6,000 TEU and above, Panamax and Aframax chemical tankers and bulk carriers of 100,000 DWT and above, as we believe there is greater demand for these larger vessels and better profit margins than smaller vessels.
- Expand into the manufacture of offshore vessels and oil tankers. Due to increased investment by major international oil companies in the offshore oil and gas industry, we believe that there will be an increased demand for offshore vessels and oil tankers.
- Upon completion of the New Yard, our shipbuilding operations for containerships above 2,500 TEU and vessels above 55,000 DWT will be moved to the New Yard.

CONTINUE TO ENHANCE BUILD QUALITY AND DELIVERY TIME IN ORDER TO INCREASE MARKET SHARE

- Work closely with customers at early stages of vessel construction to better understand customers' needs and requirements.
- Enhance production planning and sequencing process by improving design of ships, investing in experienced staff and utilising more advanced software which we believe will help shorten delivery time.
- Foster closer interaction with customers in order to strengthen existing relationships.

ENHANCE PRICE COMPETITIVENESS THROUGH COST MANAGEMENT AND IMPROVEMENT IN PRODUCTIVITY AND EFFICIENCY

- Enhance production planning and sequencing processes and inventory management to maintain our cost competitiveness.
- Operate additional shift for certain phases of construction process to shorten delivery schedules.
- Improve designs to minimise raw material wastage and costs.
- Develop in-house capabilities to manufacture certain material components to lower costs of production and maintain price competitiveness of our vessels.

FORM STRATEGIC PARTNERSHIPS WITH FOREIGN SHIPBUILDERS TO IMPROVE CAPABILITIES AND COMPETITIVENESS

- Explore strategic alliances or collaborations with foreign shipbuilders to leverage off their technical expertise and enhance competitiveness.
- Improve research and development, ship design and technical capabilities in order to build more sophisticated vessels.
- Such strategic partnerships will complement the technical strengths of our partners with our relatively lower cost of skilled labour and production to create mutually beneficial relationships.

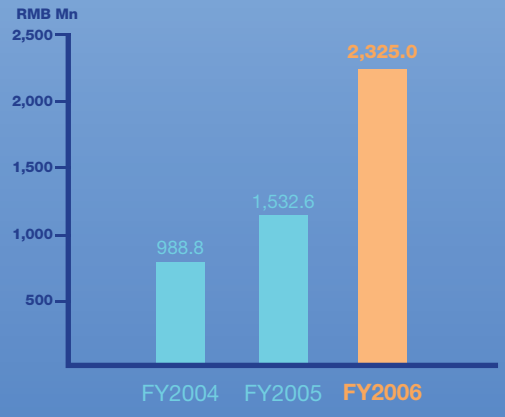
INCREASE CAPACITY THROUGH ACQUISITIONS

- Expand production capacity by acquiring domestic PRC shipbuilding companies with facilities located close to the Existing Yard and New Yard.
- Obtain additional shipbuilding contracts through increase in production capacity.
- Increase customer base and reduce the number of domestic competitors.

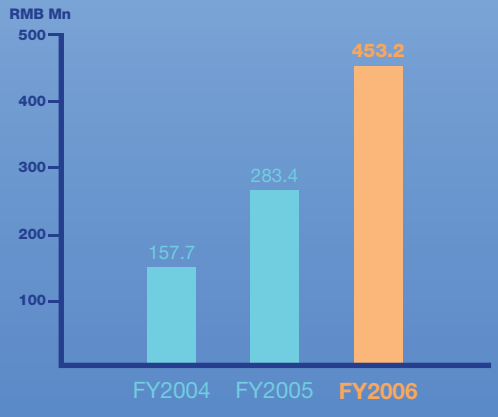


KEY FINANCIAL AND SEGMENT INFORMATION

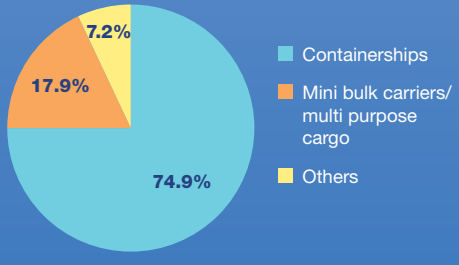
REVENUE



NET PROFIT AFTER TAX

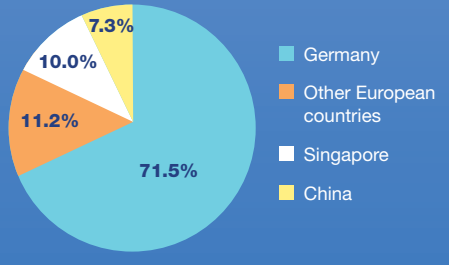


REVENUE BY MAJOR PRODUCTS, 2006



Containerships are one of our principal products

REVENUE BY KEY GEOGRAPHICAL MARKETS, 2006



Germany is our largest market



TABLE OF CONTENTS

Notice to investors	**i**
Corporate information	**vi**
Summary	**1**
Risk factors	**23**
Proceeds from the Offering	**38**
Dividends	**41**
Exchange rates	**42**
Capitalisation and indebtedness	**43**
Dilution	**44**
Selected financial information and operating data	**45**
Unaudited proforma financial information	**48**
Management's discussion and analysis of financial condition and results of operations	**52**
Industry	**85**
The Restructuring Exercise	**109**
Business	**114**
Management	**134**
Interested person transactions and conflicts of interests	**145**
Share capital and Shareholders	**155**
Taxation	**160**
Plan of distribution	**168**
Transfer restrictions	**179**
Clearance and settlement	**183**
Legal matters	**184**
Independent Auditors and Reporting Auditors	**185**
General and statutory information	**186**
Summary of certain differences between SFRS and US GAAP	**196**
Defined terms and abbreviations	**205**
Glossary of technical terms	**216**
Appendix A — Exchange controls	**A-1**
Appendix B — Description of our Shares	**B-1**
Appendix C — Summary of our Memorandum and Articles of Association	**C-1**
Appendix D — Description of relevant PRC laws and regulations	**D-1**
Appendix E — Independent Auditor's Report on the consolidated financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries and the consolidated financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries for the financial years ended 31 December 2004, 2005 and 2006	**E-1**
Appendix F — Reporting Auditor's Report on the examination of the unaudited proforma financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries and the unaudited proforma financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries for the year ended 31 December 2006	**F-1**
Appendix G — Certain information relating to our order book	**G-1**
Appendix H — US Purchaser's letter	**H-1**

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Notice to investors

No person is authorised to give any information or to make any representation not contained in this document and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of us, the Vendors, the Underwriters or the Financial Adviser. Neither the delivery of this document nor any offer, sale or transfer made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date hereof or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in our or the Vendors' affairs, conditions and prospects of our Shares since the date hereof. Where such changes occur and are material or required to be disclosed by law, the SGX-ST and/or any other regulatory or supervisory body or agency, we and/or the Vendors will make an announcement of the same to the SGX-ST and, if required, issue and lodge an amendment to this document or a supplementary document or replacement document pursuant to Section 240 or, as the case may be, Section 241 of the Securities and Futures Act and take immediate steps to comply with the said sections. Investors should take notice of such announcements and documents and upon release of such announcements or documents shall be deemed to have notice of such changes. No representation, warranty or covenant, express or implied, is made by us, the Vendors, the Underwriters or the Financial Adviser or any of our or their respective affiliates, directors, officers, employees, agents, representatives or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this document is, or shall be relied upon as, a promise, representation or covenant by us, the Vendors, the Underwriters or the Financial Adviser or their respective affiliates, directors, officers, employees, agents, representatives or advisers.

Our Shares are subject to restrictions on transferability and resale and may not be transferred or resold in the United States or to US persons, except as permitted under the Securities Act and applicable state securities laws pursuant to registration or an exemption from registration under the Securities Act. You should be aware that you may be required to bear the risk of an investment in our Shares for an indefinite period of time. See "Transfer restrictions" for more information on these restrictions.

None of us, the Vendors, the Underwriters, the Financial Adviser or any of our or their respective affiliates, directors, officers, employees, agents, representatives or advisers is making any representation or undertaking to any investors in our Shares regarding the legality of an investment by such investor under appropriate legal, investment or similar laws. In addition, investors in our Shares should not construe the contents of this document or its appendices as legal, business, financial or tax advice. Investors should be aware that they may be required to bear the financial risks of an investment in our Shares for an indefinite period of time. Investors should consult their own professional advisers as to the legal, tax, business, financial and related aspects of an investment in our Shares.

By applying for the Offering Shares on the terms and subject to the conditions in this document, each investor of the Offering Shares represents and warrants that he is not (i) a Director or substantial Shareholder of the Company, (ii) an associate of any of the persons mentioned in (i), and (iii) except as otherwise disclosed to the Underwriters in writing, a connected client of any Underwriter or lead brokers or distributors of the Offering Shares.

The distribution of this document and the offering, purchase, sale or transfer of our Shares in certain jurisdictions may be restricted by law. We, the Vendors, the Underwriters and the Financial Adviser require persons into whose possession this document comes to inform themselves about and to observe any such restrictions at their own expense and without liability to us, the Vendors, the Underwriters or the Financial Adviser. This document does not constitute an offer of, or an invitation to purchase, any of our Shares in any jurisdiction in which such offer or invitation would be unlawful. Persons to whom a copy of this document has been issued shall not circulate to any other person, reproduce or otherwise distribute this document or any information herein for any purpose whatsoever nor permit or cause the same to occur.

In connection with the Offering, the Vendors have granted UBS, on behalf of the International Underwriters, the Over-allotment Options exercisable in whole or in part by UBS on one or more occasions from the Listing Date until the earlier of (i) the date falling 30 days from the Listing Date, or (ii) the date when UBS AG, acting through its business group, UBS Investment Bank or its appointed agent has bought, on the SGX-ST, an aggregate of 148,980,000 Shares, representing 15.0% of the total Offering Shares, to undertake stabilising actions, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price to purchase up to an aggregate of 148,980,000 Shares (representing not more than 15.0% of the total Offering Shares) at the Offering Price, solely to cover the over-allotment of the Offering Shares, if any.

In connection with the Offering, UBS (the "Stabilising Manager"), may over-allot Shares or effect transactions that stabilise or maintain the market price of our Shares at levels that might not otherwise prevail in the open market. These transactions may be effected on the SGX-ST and in other jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulations, including the Securities and Futures Act and any regulations thereunder. However, we cannot assure you that UBS will undertake stabilisation action. These transactions may commence on or after the commencement of trading of the Shares on the SGX-ST and, if commenced, may be discontinued at any time and may not be effected after the earlier of (i) the date falling 30 days from the commencement of trading of the Shares on the SGX-ST, or (ii) the date when the Stabilising Manager has bought, on the SGX-ST an aggregate of 148,980,000 Shares representing not more than 15.0% of the total Offering Shares to undertake stabilising action, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price.

The Shares which our Company and the Vendors are offering have not been approved or disapproved by the United States Securities and Exchange Commission or any state or foreign securities commission or regulatory authority. The foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense in the United States. In addition, until the date 40 days after the commencement of this Offering, an offer or sale of the Shares offered hereby within the United States by a dealer, whether or not participating in this Offering, may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

US INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

Pursuant to the US Internal Revenue Service Circular 230, we hereby inform you that the description set forth in this document with respect to US federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the US Internal Revenue Code. Such description was written to support the marketing of the Offering Shares.

AVAILABLE INFORMATION

For so long as our Shares remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, our Company will furnish, upon the request of any Shareholder, such information as is specified in paragraph (d)(4) of Rule 144A under the Securities Act, to such holder or beneficial owner or to a prospective purchaser of such Shares or interest therein who is a "qualified institutional buyer" within the meaning of Rule 144A, in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such Shares or beneficial interest therein in reliance on Rule 144A unless, at the time of such request, we are subject to the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, (the "Exchange Act") or our Company is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the Exchange Act and therefore are required to furnish to the United States Securities and Exchange Commission certain information pursuant to Rule 12g3-2(b) under the Exchange Act.

FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute "forward-looking statements". All statements other than statements of historical facts included in this document, including those regarding our financial position and results, business strategy, plans and objectives of management for future operations (including development plans and dividends), are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. Among the important factors that could cause our or our Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, our results of operations and financial condition being highly dependent upon global economic conditions, the lease of one of our harbours may not be legally valid, we do not have a coastline certificate for certain parts of the coastline of one of our shipyards, or other events which have a negative effect on our industry. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk factors", "Dividends", "Management's discussion and analysis of financial condition and results of operations", "Industry" and "Business". These forward-looking statements speak only as of the date of this document. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We do not intend to update any of the forward-looking statements after the date of this document to conform those statements to actual results, subject to compliance with all applicable laws including the Securities and Futures Act and/or rules of the SGX-ST.

ENFORCEABILITY OF CIVIL LIABILITIES

Our Company is a limited liability company incorporated under the laws of the Republic of Singapore. Almost all of our current operations are conducted in the People's Republic of China ("PRC"), and substantially all of our assets are located in the PRC. All of our Directors and management and all of the directors and management of the Vendors and our auditors reside outside the United States. A substantial portion of our assets, the assets of the Vendors and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons or to enforce in the United States any judgment obtained in the United States courts against us, the Vendors or any of such persons, including judgments based upon the civil liability provisions of the securities laws of the United States or any state or territory of the United States. Judgments of United States courts based upon the civil liability provisions of the federal securities laws of the United States are not enforceable in Singapore or PRC courts and there is doubt as to whether Singapore or PRC courts will enter judgments in original actions brought in such courts based solely upon the civil liability provisions of the federal securities laws of the United States.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise indicated, all shipping industry statistical data, graphs, tables and information contained in this document have been provided by Clarkson Research Services Limited, or CRSL. CRSL has advised that the statistical and graphical information contained herein has been drawn from its database and other sources. In connection therewith, CRSL has advised us that:

- certain information in CRSL's database was derived from estimates or subjective judgments;
- the information in the databases of other maritime data collection agencies may differ from the information in CRSL's database;
- whilst CRSL has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures and may accordingly contain errors;
- CRSL, its agents, officers and employees do not accept liability (save for statutory liabilities under Sections 253 and 254 of the SFA) for any loss suffered in consequence of reliance on such information or in any other manner; and
- the provision of these data, graphs and tables does not obviate the need to make appropriate further inquiries.

We publish our financial statements in RMB. In this document, references to "RMB" are to the lawful currency of the People's Republic of China, references to "S$", "Singapore dollars" or "Singapore cents" are to the lawful currency of the Republic of Singapore, references to "US$", "US dollars" or "US cents" are to the lawful currency of the United States of America, and references to "Euro" or "€" are to the single currency introduced on 1 January 1999 at the start of the third stage of European Economic and Monetary Union, pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam. All references to dates and times are to Singapore dates and times. For your convenience, certain RMB amounts in this document have been translated into US dollars based on the exchange rate of RMB7.80 = US$1.00, the noon buying rate in New York City for cable transfers announced by the Federal Reserve Bank of New York (the "Noon Buying Rate") on 29 December 2006. See "Exchange Rates" for more information concerning the exchange rate

1 We have included this exchange rate in its proper form and context in this document. Federal Reserve Bank of New York has not consented to the inclusion of this exchange rate for the purposes of section 249 of the Securities and Futures Act, and is not liable for this exchange rate under sections 253 and 254 of the Securities and Futures Act.

between the RMB and the US dollar. These translations should not be construed as representations that RMB amounts, have been, could have been or could be, converted into US dollars at that or any other rate.

Any discrepancies in the tables included herein between the listed amounts and totals thereof are due to rounding. Unless otherwise indicated, all S$, RMB and US$ amounts herein have been rounded to the nearest 100,000 except for amounts less than S$50,000, RMB50,000 and US$50,000 which have respectively been rounded to the nearest 10,000.

The information on our websites or any website directly or indirectly linked to such websites is not incorporated by reference into this document and should not be relied on.

In this document, unless the context otherwise requires, references to our "Company" or the "Company" refer to Yangzijiang Shipbuilding (Holdings) Ltd.; references to "we", "us", "our", "ourselves", and "Group" refer to Yangzijiang Shipbuilding (Holdings) Ltd. and its consolidated subsidiaries taken as a whole.

References to our management and Directors are to the management and directors of our Company, respectively; references to our "Memorandum and Articles of Association" are to the Memorandum of Association and Articles of Association of our Company; and references to our share capital in "Appendix B — Description of our Shares" and elsewhere are to the share capital of our Company.

In addition, unless we indicate otherwise, all information in this document assumes (i) the Offering Price of our Offering Shares is S$0.95, being the Maximum Offering Price; (ii) UBS has not exercised the Over-allotment Options; and (iii) no Offering Shares have been re-allocated between the Placement and the Public Offer.

References to the "Latest Practicable Date" in this document are to 9 March 2007, being the latest practicable date prior to the lodgment of the Singapore Preliminary Prospectus with the Authority.

Certain names with Chinese characters have been translated into English names. We have provided these translations solely for your convenience and such translations should not be construed as representations that the English names actually represent Chinese characters.

Any reference to a time of day in this document, the Application Forms and, in relation to the Electronic Applications, the instructions appearing on the screens of the ATMs or the relevant pages of the internet banking websites of the relevant Participating Banks, shall be a reference to Singapore time unless otherwise stated. Any reference in this document, the Application Forms and Electronic Applications to any statute or enactment is a reference to that statute or enactment for the time being amended or re-enacted. Any word defined in the Securities and Futures Act, the Singapore Companies Act, or any statutory modification thereof and used in this document shall, where applicable, have the meaning ascribed to it under the Securities and Futures Act, the Singapore Companies Act or any statutory modification thereof, as the case may be.

In this document, the Application Forms accompanying the Singapore Prospectus and, in relation to the Electronic Applications, the instructions appearing on the screens of the ATMs or the relevant pages of the IB websites of the relevant Participating Banks, the definitions and explanation of technical terms found in this section and "Defined Terms and Abbreviations" and "Glossary of Technical Terms" apply throughout where the context so admits.

Corporate Information

Directors	:	Ren Yuanlin *Executive Chairman* Wang Dong *Executive Director* Xiang Jianjun *Executive Director* Teo Yi-dar *Non-Executive Director* Ong Sie Hou Raymond *Lead Independent Director* Teo Moh Gin *Independent Director*
Joint Company Secretaries	:	Ho Wui Mee Marian, LL.B (Hons) Chew Bee Leng, ACIS
Company registration number	:	200517636Z
Registered office	:	80 Raffles Place #32-01 UOB Plaza 1 Singapore 048624
Principal place of business	:	38 Shiyugang Road Jiangyin Jiangsu Province PRC Postal Code 214431
The Vendors	:	Almond Beach Resources Corporation Nerine Chambers P.O. Box 905 Road Town, Tortola British Virgin Islands Lido Point Investments Ltd. Nerine Chambers P.O. Box 905 Road Town, Tortola British Virgin Islands Newyard Worldwide Holdings Ltd Nerine Chambers P.O. Box 905 Road Town, Tortola British Virgin Islands
Share Registrar and Share Transfer Office	:	Lim Associates (Pte) Limited 3 Church Street #08-01 Samsung Hub Singapore 049483

Global Co-ordinator, Sole Bookrunner, Issue Manager, Joint Lead Manager and Underwriter	:	UBS AG, acting through its business group, UBS Investment Bank 5 Temasek Boulevard #18-00 Suntec Tower Five Singapore 038985
Joint Lead Manager and Underwriter	:	DBS Bank Ltd 6 Shenton Way DBS Building, Tower One Singapore 068809
Legal Advisers to our Company as to United States federal law	:	White & Case 9th Floor Central Tower 28 Queen's Road Central Hong Kong
Legal Advisers to our Company as to Singapore law	:	Rodyk & Davidson LLP 80 Raffles Place #33-00 UOB Plaza 1 Singapore 048624
Legal Advisers to our Company as to PRC law	:	Jingtian & Gongcheng Floor 15 The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020, People's Republic of China
Legal Advisers to the Underwriters as to United States federal law	:	Shearman & Sterling LLP 6 Battery Road #25-03 Singapore 049909
Legal Advisers to the Underwriters as to Singapore law	:	WongPartnership One George Street #20-01 Singapore 049145
Independent Auditors and Reporting Auditors	:	PricewaterhouseCoopers Certified Public Accountants 8 Cross Street #17-00 PWC Building Singapore 048424 Partner-in-charge: Tham Tuck Seng (a member of the Institute of Certified Public Accountants of Singapore)

Financial Adviser to the Company	:	ICH Capital Pte. Ltd. 30 Raffles Place #20-02 Caltex House Singapore 048622
Receiving Bank	:	DBS Bank Ltd 6 Shenton Way DBS Building, Tower One Singapore 068809

Summary

This summary may not contain all of the information that may be important to you. You should read this entire document, including our financial statements and related notes and "Risk factors" beginning on page 23, before making an investment decision.

OVERVIEW

We are one of the leading shipbuilders in the PRC. We produce a broad range of commercial vessels, mini bulk carriers, bulk carriers, multi-purpose cargo vessels, containerships, chemical tankers, offshore supply vessels, rescue and salvage vessels and lifting vessels.

Our existing shipyard (the "Existing Yard"), which is located in Jiangyin city in the Jiangsu province of the PRC, spans approximately 719 metres of deep-water coastline and covers an area of approximately 200,000 sq m (excluding the coastal area).

We have a new shipyard (the "New Yard") currently under construction, which is located within the Jiangyin Economic Development District in Jingjiang city in the Jiangsu province of the PRC, on the northern bank of the Yangtze River upstream from the Jiangyin Changjiang Bridge. Upon completion, our new shipyard will have access to approximately 1,200 metres of deep-water coastlines suitable for the construction and mooring of vessels of up to 300,000 DWT and will cover an area of approximately 793,000 sq m. In addition, it will be equipped with a dry dock that will be approximately 440 metres long and 96 metres wide. Upon completion, the dry dock will be able to accommodate two 100,000 DWT vessels.

As of 31 December 2006, our aggregate order book amounted to approximately RMB21,578.0 million for vessels to be completed and delivered between 2007 and 2010. The table below sets forth certain information relating to our new orders and backlog of existing orders.

Order backlog[1]

	As of 31 December,									
	2004			2005			2006			
	CGT	Contract Value	% of Contract Value	CGT	Contract Value	% of Contract Value	CGT	Contract Value		% of Contract Value
		RMB (In millions)			RMB (In millions)			RMB (In millions)	US$ (In millions)	
Containerships	333,716	5,438.0	89.1	399,659	7,257.4	83.5	889,697	16,361.4	2,097.6	75.8
Mini bulk carriers/ multi purpose cargo	58,901	661.6	10.9	98,861	1,269.7	14.6	335,784	5,216.6	668.8	24.2
Others	116	n.m.	n.m.	11,133	169.1	1.9	—	—	—	—
Total	392,734	6,099.6	100.0	509,653	8,696.2	100.0	1,225,481	21,578.0	2,766.4	100.0

(1) Order backlog means the total contract value of orders not yet delivered minus the portion of sales revenue already recognised in respect thereof using the percentage of completion method.

New orders[1]

	As of 31 December,									
	2004			2005			2006			
	CGT	Contract Value RMB	% of Contract Value	CGT	Contract Value RMB	% of Contract Value	CGT	Contract Value RMB	US$	% of Contract Value
		(In millions)			(In millions)			(In millions)	(In millions)	
Containerships	250,340	3,930.1	90.1	167,811	3,066.1	74.3	618,550	10,845.0	1,390.4	71.3
Mini bulk carriers/ multi purpose cargo	40,496	433.0	9.9	70,686	894.0	21.7	275,204	4,361.8	559.2	28.7
Others	—	—	—	11,016	169.1	4.1	—	—	—	—
Total	290,836	4,363.1	100.0	249,513	4,129.2	100.0	893,754	15,206.7	1,949.6	100.0

(1) New orders for any period represents order backlog at the end of the period minus order backlog at the beginning of the period plus the portion of sales revenue we recognised during the period using the percentage of completion method.

Between 1 January 2007 and the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, we received new orders with an aggregate contract value of RMB1,783.9 million and a combined tonnage of 104,036 CGT for two 1,350 TEU containerships, two 2,500 TEU containerships and four 12,600 DWT mini bulk carriers, which we expect to deliver in 2009 and 2010.

Since we recognise our revenue on the percentage-of-completion method as we construct each vessel, the state of our order book at any particular date is not necessarily indicative of the revenue we recognise in any particular future period. For a description of how we recognise our revenue, see "Management's discussion and analysis of financial condition and results of Operations — Critical accounting policies — Revenue recognition". See "Management's discussion and analysis of financial condition and results of operations — Factors affecting our business, financial condition, and results of operations — Order backlog and new orders" and "Appendix G — Certain information relating to our Order book" for more information on the state of our order book.

OUR COMPETITIVE STRENGTHS

We believe we benefit from a number of strengths that together differentiate us from our competitors in the shipbuilding industry:

- **A leading shipbuilder in the growing PRC shipbuilding industry**

  In recent years, the PRC shipbuilding industry has grown at a rapid pace and according to Clarkson Research, the PRC is now the third largest shipbuilding country in the world, in terms of CGT produced. We believe that this growth is in part due to the global trend of outsourcing manufacturing to companies in the PRC, as well as the increasing demand by PRC carriers for domestically built vessels due to the PRC government's policy of encouraging the development of the domestic shipbuilding industry. We believe that the shipbuilding industry in the PRC is currently the fastest growing, compared to the shipping industry in other nations. The PRC government's stated aim is to become the biggest shipbuilding nation in the world by 2015.

We believe that we are currently one of the leading shipbuilders in the growing PRC shipbuilding industry, both in terms of manufacturing capability as well as manufacturing capacity. In the mid-1990s, we were amongst the first PRC shipbuilders to develop the capability of building mid-size containerships with a loading capacity of up to 2,500 TEU and vessels of up to 55,000 DWT. To date, we have delivered more than 50 containerships with loading capacities of between 1,000 and 2,500 TEU to various shipowners globally and have progressively undertaken the construction of larger containerships with loading capacities in excess of 2,500 TEU and bulk carriers in excess of 13,000 DWT.

Based on our order book as of 31 December 2006 comprising vessels with an aggregate tonnage of 1,225,481 CGT, and new orders received from 1 January 2007 to the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, for additional vessels with a combined tonnage of 104,036 CGT, which we expect to deliver between 2007 and 2010, we believe that in the PRC, we are the leading privately-owned containership builder, the second largest privately-owned shipyard, and the fourth largest shipyard.

- **Competitive cost structure and efficient operations**

  As our operations are based in the PRC, we believe that our labour, land and overhead costs are generally lower than our competitors outside the PRC, especially our competitors in South Korea. We also enjoy low cost of financing compared to most of our competitors outside the PRC due to the preferential interest rates provided by PRC government-backed banks to promote the domestic shipbuilding industry.

  In addition to these cost advantages arising from our location in the PRC, we believe we have achieved further cost savings through our cost management activities. For example, rather than maintain a large number of full time employees, we employ a significant number of subcontract labour and production workers, which we can increase or decrease depending on our requirements. As of 31 December 2004, 2005 and 2006, we had 893, 887 and 902 employees, respectively, compared to 2,130, 2,446 and 2,904 subcontract labour and production workers, respectively. We also seek to manage the cost of the engines and other equipment used in our vessels by obtaining quotes from different suppliers and the cost of our raw materials and components through the selection of suppliers and subcontractors based on several criteria, including the pricing and the quality of their products and reliability of their services. Generally, we avoid buying from intermediaries and prefer to deal directly with manufacturers so as to form long-term relationships with these manufacturers, and where possible, obtain better pricing terms. In addition, our Design and Technical Department plays a critical role in controlling our costs by formulating production design plans that reduce any wastage of raw materials and components.

  We have also implemented measures to help ensure that our operations run efficiently. We seek to reduce any spare capacity at our shipyard through production planning and scheduling. Through our production planning and sequencing schedule, we have reduced the labour days (which we define as our total labour cost of production divided by RMB35, the typical daily wage of our production workers) we require to build a 1,850 TEU and 18,755 CGT containership from approximately 288,231 labour days (excluding the labour days required in the production planning and procurement stage but including the labour days of our subcontract labour and production workers) in 2004 to approximately 265,332 labour days in 2006. All of the vessels we have manufactured have been delivered either ahead of, or on, schedule. In some cases where we were able to deliver vessels ahead of schedule to our customers, we were able to negotiate higher pricing for subsequent contracts. We are committed to timely delivery of the vessels and place great emphasis on the build quality of our vessels. This helps minimise the need to undertake rectification

works for defects or non-conformance with our customers' specifications, and reduces our exposure to liquidated and other damages under our shipbuilding contracts with our customers.

- **Strong customer base of reputable ship owners**

  We have built a strong relationship with our major customers, including Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG, Reederei Horst Zeppenfeld GmbH & Co. KG and Carisbrooke Shipping Limited. These four customers accounted for approximately 88.6%, 100.0% and 92.8% of our revenue in 2004, 2005 and 2006, respectively. Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG and Carisbrooke Shipping Limited also accounted for approximately 14.9%, 23.3% and 5.2% of our order book of RMB21,578.0 million as of 31 December 2006 for vessels, which we expect to deliver between 2007 and 2010.

  We believe that our ability to obtain these reputable ship owners as our customers is a result of our timely delivery of quality vessels, competitive pricing and our commitment to our contractual obligations. Reederei B. Rickmers GmbH, one of our major customers, ordered their first vessel from us in 2001. As at the end of 2006, we delivered nine additional vessels to Reederei B. Rickmers GmbH and we have secured orders for 10 additional vessels from them. Similarly, after the initial orders from Peter Döhle Schiffahrts KG in 2003, as at the end of 2006, we had delivered 16 additional vessels to Peter Döhle Schiffahrts KG and had secured orders for another 33 vessels. We believe that our reputation for and commitment to the timely delivery of quality vessels and competitive pricing have enabled us to extend our customer base to include Seaspan Corporation, which placed an initial order of eight containerships with us in 2006 and an additional order of two containerships in March 2007, and Perseveranza SpA di Navigazione, which placed an initial order of 10 post-Panamaxes in December 2006.

- **Strong financial and proven operational track record**

  We have experienced significant growth in revenue and profit before income tax from RMB988.8 million and RMB170.4 million, respectively, in 2004 to RMB2,325.0 million (US$298.1 million) and RMB518.9 million (US$66.5 million), respectively, in 2006. As of 31 December 2006, we had borrowings of RMB385.2 million (US$49.4 million) and shareholders' equity of RMB210.1 million (US$26.9 million), providing us with a net debt-to-equity ratio (defined as ratio of total short-term and long-term borrowings less cash and cash equivalents to shareholders' equity) of 80.7%. We believe our financial position enhances our ability to make key investment and strategic decisions in a timely manner in an environment of changing market dynamics. In addition, we believe that our track record enabled us to secure an order book of RMB21,578.0 million as of 31 December 2006 for vessels, which we expect to deliver between 2007 and 2010.

- **Dedicated and incentivised management**

  We have been a privately owned shipyard since 1999, which we believe provides a better incentive to our management to improve the business of the Company as compared to the management of domestic state-owned shipbuilding companies. Each of our key management staff has, on average, 20 years of experience in the shipbuilding industry and has been with our Group for an average of 20 years. Each of the key senior management is either a shareholder of our Company or JNYS, our subsidiary, which owns the New Yard. This shareholding interest gives each key member of management a personal stake in our Company and aligns his interests with those of public Shareholders. We believe that this alignment of interests has been instrumental in helping us achieve a low cost structure, consistent profit margins, efficient operations, short delivery schedules, lack of employee disputes and effective employee incentivisation schemes. We believe this alignment of

interest will continue after this Offering and provide us with a key advantage over our domestic state-owned competitors.

STRATEGY

Our objective is to enhance our market position by capitalising on opportunities in the global shipbuilding industry and to enhance our competitiveness. Key elements of our business strategy are as follows:

- **Expand our business by building larger vessels and diversifying into offshore vessels**

  In 2001, we commenced building mini bulk carriers/multi-purpose vessels of 38,000 DWT and containerships of 1,118 TEU. In 2006, we delivered our first bulk carrier of 7,600 DWT and our first containership of 2,500 TEU. We have increasingly been building larger containerships and bulk carriers as reflected in our order backlog as of 31 December 2006 and new orders received from 1 January 2007 to the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, where we have obtained orders to deliver twelve 4,250 TEU containerships and ten 92,500 DWT bulk carriers which we expect to deliver in 2009 and 2010. We intend to focus on building larger containerships and bulk carriers, including containerships with load carrying capacities of 6,000 TEU and above, Panamax and Aframax chemical tankers, and bulk carriers of 100,000 DWT and above, as we believe there is a greater demand for these larger vessels and that these vessels will provide us with better profit margins than smaller vessels.

  We also intend to expand into the manufacture of offshore vessels and oil tankers. Offshore vessels are capable of providing transportation and other services such as processing of oil and gas, delivering drilling supplies, fuel, water and food to offshore drilling rigs, fixed platforms, and floating platforms. We believe that there will be an increased demand for offshore vessels and oil tankers due to the increased investments by major international oil companies in the offshore oil and gas industry, especially deepwater exploration and production. As we have prior experience in building AHTS vessels, we believe we can leverage off this experience to expand into the offshore vessels market. We believe that the potential growth of this market will improve our profits and diversify our vessel portfolio. We also intend to enhance our technology and technical capabilities to enable us to build FPSO vessels.

  To implement this strategy we have begun constructing a new shipyard through our subsidiary, JNYS, which we expect to be completed in October 2007. Upon completion, the New Yard will have access to 1,200 metres of deep-water shorelines suitable for the construction and mooring of ships of up to 300,000 DWT and will occupy an area of 793,000 sq m. The New Yard will be equipped with a 440 metre long and 96 metre wide dry dock that can accommodate two 100,000 DWT vessels and will include workshops for fabrication of raw materials for the construction of vessels. We intend to move our shipbuilding operations for containerships above 2,500 TEU and vessels above 55,000 DWT to the New Yard, while the Existing Yard will continue to manufacture containerships of up to 2,500 TEU and vessels of up to 55,000 DWT. The New Yard is a critical part of our plan to build larger vessels, offshore vessels and oil tankers and we anticipate that these larger vessels, offshore vessels and oil tankers will be able to generate additional profits at better margins. We estimate that the cost of constructing the New Yard will be approximately RMB1,500.0 million (excluding an additional RMB300.0 million that we anticipate we will require for working capital purposes at the New Yard), and as of 31 December 2006, we had spent RMB666.4 million of this amount. See "Proceeds from the Offering" and "The Restructuring Exercise" for information relating to the financing for the construction of the New Yard.

- **Continue to enhance our build quality and delivery time in order to increase our market share**

  We believe that our emphasis on quality and timely delivery has been a critical factor in our ability to attract new customers and to retain our existing customers. We strive to work closely with our customers at the early stages of the vessel construction process to better understand our customers' needs and specific requirements, particularly in areas relating to the technology and engineering required. We intend to continue to enhance our production planning and sequencing processes by improving the design of our ships, investing in experienced staff and utilising more advanced software. We believe this will help shorten our delivery schedules without compromising on our build quality. We also plan to continue focusing on close interaction with our customers in order to further strengthen our existing relationships with them.

- **Enhance price competitiveness through cost management and improvement in productivity and efficiency**

  We believe that continuing to enhance our production planning and sequencing processes and inventory management will also help us to maintain our cost competitiveness and further reduce the number of hours we require to build containerships and other vessels. We plan to operate an additional shift for certain phases of our construction process to further shorten our delivery schedules. In addition, we will strive to continue to improve our designs to minimise raw material wastage, thereby reducing raw material costs.

  Furthermore, with the rising costs of production in Europe and Japan, we believe there will be greater demand for containerships and other commercial vessels that are built by shipyards with a competitive cost structure and which can offer vessels at competitive prices. With our in-house fabrication workshops expected to be completed in the New Yard, we intend to develop in-house capabilities to manufacture certain material components, thereby enabling us to lower our costs of production and maintain the price competitiveness of our vessels.

- **Form strategic partnerships with foreign shipbuilders to improve our capabilities and competitiveness**

  We have been exploring strategic alliances or collaborations with foreign shipbuilders, who are more established than us in building larger vessels and offshore vessels, in order to leverage off their technical expertise and enhance our competitiveness. We intend to utilise such alliances and collaborations, which may include joint ventures, to improve our research and development, ship design and technical capabilities, in order to build more sophisticated vessels. We expect these strategic partnerships will provide us with the ability to complement the technical strengths of our partners with our relatively lower cost of skilled labour and access to lower costs of production to create mutually beneficial relationships.

- **Increase our capacity through acquisitions**

  We intend to expand our production capacity by acquiring domestic PRC shipbuilding companies with facilities located in close proximity to our Existing Yard and our New Yard. We believe that an increase in production capacity would enable us to obtain additional shipbuilding contracts. In addition, by acquiring these domestic PRC companies, we believe that we would be able to increase our customer base as well as reduce the number of our domestic competitors.

Company Background

Our Company was incorporated on 21 December 2005 in Singapore under the Singapore Companies Act as a private limited company under the name of Yangzijiang Shipbuilding (Holdings) Pte. Ltd. in order to acquire the entire equity interests in JYS. On 15 March 2007, we were converted to a public limited company and changed our name to Yangzijiang Shipbuilding (Holdings) Ltd. Our registered office is located at 80 Raffles Place #32-01 UOB Plaza 1, Singapore 048624. Our principal place of business is located at 38 Shiyugang Road, Jiangyin, Jiangsu Province, PRC, Postal Code 214431 (中国江苏省江阴市鲥鱼港路38号邮编214431). Our telephone number is (+86) 510 8685 2643 and our facsimile number is (+86) 510 8685 6631.

The Offering

The Issuer	Yangzijiang Shipbuilding (Holdings) Ltd., a company incorporated with limited liability under the laws of the Republic of Singapore.
The Vendors	Almond Beach Resources Corporation, Lido Point Investments Ltd., and Newyard Worldwide Holdings Ltd.
The Offering	993,197,000 Offering Shares (subject to the Over-allotment Options) offered through the Placement and the Public Offer, comprising 662,197,000 New Shares and 331,000,000 Vendor Shares. The completion of the Placement and the Public Offer are each conditional upon the completion of the other.
The Placement	973,333,000 Offering Shares offered by way of an international placement to investors at the Offering Price, including institutional and other investors in Singapore. These Offering Shares will be underwritten by UBS and DBS Bank Ltd ("DBS Bank") as International Underwriters at the Offering Price, if the Offering Price is agreed upon between the Global Co-ordinator, our Company and the Vendors. The Offering Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act). The Offering Shares under the Placement are being offered and sold outside of the United States to non-US persons, including institutions and other investors in Singapore, in reliance on Regulation S under the Securities Act and other applicable laws, and within the United States only to persons that are both qualified institutional buyers (within the meaning of Rule 144A under the Securities Act) and qualified purchasers (within the meaning of Section 2(a)(51) of the Investment Company Act and the rules promulgated thereunder) in reliance on Rule 144A under the Securities Act. If, for any reason, the Offering Price is not agreed between the Global Co-ordinator, our Company and the Vendors, the Placement will not proceed.

The Public Offer	19,864,000 Offering Shares offered in Singapore at the Maximum Offering Price by way of an offering to the public in Singapore. These 19,864,000 Offering Shares will be underwritten by UBS and DBS Bank as Singapore Underwriters (together with the International Underwriters, the "Underwriters") at the Offering Price if the Offering Price is agreed upon between the Global Co-ordinator, our Company and the Vendors. However, if, for any reason, the Offering Price is not agreed between the Global Co-ordinator, our Company and the Vendors, the Offering will not proceed and all application monies will be returned (without interest or any share of revenue or other benefit arising therefrom) to all applicants, at their own risk (provided that such refunds are made in accordance with the procedures set out in the instructions booklet on "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore under the Public Offer"), and without any right or claim against us, the Vendors, the Underwriters or the Financial Adviser.
Clawback and Re-allocation	Offering Shares may be reallocated between the Placement and the Public Offer at the sole discretion of the Global Co-ordinator, for example, in the event of excess applications in one and a deficit of applications in the other.
Maximum Offering Price	S$0.95 for each Offering Share. Investors applying in the Public Offer are required to pay the Maximum Offering Price per Offering Share, subject to a refund if and to the extent that the Offering Price is less than the Maximum Offering Price. All refunds shall be without interest or any share of revenue or other benefit arising therefrom. Investors applying in the Placement are required to pay the Offering Price set forth in the final offering memorandum.
Price Determination	The Offering Price will be determined following a book-building process by agreement between the Global Co-ordinator, our Company and the Vendors on the Price Determination Date, which date is subject to change. If, for any reason, the Offering Price is not agreed between the Global Co-ordinator, our Company and the Vendors, the Offering will not proceed and all application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to all applicants, at their own risk (provided that such refunds are made in accordance with the procedures set out in the instructions booklet "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore"). Among the factors that will be taken into account in determining the Offering Price are the demand for the Offering Shares, the prevailing market conditions and our historical performance. Notice of the Offering Price will be published in one or more major Singapore newspapers, such as *The Straits Times, The Business Times* and *Lianhe Zaobao*, not more than two calendar days after the Price Determination Date.

Application procedures in Singapore

Investors in Singapore must follow the application procedures set out in the instructions booklet "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore", which constitutes part of the Singapore Prospectus registered with the Authority. Applications must be paid for in Singapore dollars. The minimum initial application is for 1,000 Offering Shares. An applicant may apply for a larger number of Shares in integral multiples of 1,000 Offering Shares.

Over-allotment Options

In connection with the Offering, UBS, on behalf of the International Underwriters, has been granted the Over-allotment Options by Almond Beach Resources Corporation, Lido Point Investments Ltd. and Newyard Worldwide Holdings Ltd exercisable in whole or in part by UBS on one or more occasions from the Listing Date until the earlier of (i) date falling 30 days from the Listing Date, or (ii) the date when UBS AG, acting through its business group, UBS Investment Bank or its appointed agent has bought, on the SGX-ST, an aggregate of 148,980,000 Shares, representing 15.0% of the total Offering Shares, to undertake stabilising actions, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price to purchase the Additional Shares (representing not more than 15.0% of the total Offering Shares) at the Offering Price, solely to cover the over-allotment of the Offering Shares, if any. If the Over-allotment Options are exercised, UBS will exercise the options granted by Almond Beach Resources Corporation, Lido Point Investments Ltd. and Newyard Worldwide Holdings Ltd on a pro rata basis. The total number of issued and outstanding Shares immediately after completion of the Offering will be 3,300,897,000 Shares. Unless indicated otherwise, all information in the document assumes that UBS does not exercise the Over-allotment Options. See "Plan of distribution — Over-allotment Options" for a description of the Over-allotment Options granted to UBS.

Corporate Investors	As part of the Offering, Silver Union Limited, Lee Kian Soo, Lyndhurst Gain Limited and Vervain Equity Investment Limited have committed to subscribe for Offering Shares amounting to an aggregate of S$183.2 million (which is equivalent to 192,819,000 Offering Shares at the Maximum Offering Price; a $0.01 decrease in the Maximum Offering Price would increase the number of Offering Shares subscribed by 2,051,000 Offering Shares). The subscription obligation of each Corporate Investor is conditional upon (i) the Offer Agreement and the Purchase Agreement being entered into and becoming unconditional by no later than the date and time specified in those agreements and (ii) none of the Offer Agreement and the Purchase Agreement having been terminated. The Shares to be held by the Corporate Investors will in aggregate constitute approximately 5.8% of the Shares outstanding after the Offering (assuming the Over-allotment Options are not exercised and the Offering Price is the Maximum Offering Price).
Lock-ups	Our Company has agreed with the Underwriters that, it will not, without the prior written consent of the Global Co-ordinator, issue, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any Shares (or any securities convertible into or exercisable or exchangeable for Shares); enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares (or any securities convertible into or exercisable or exchangeable for Shares); deposit any Shares (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or publicly announce any intention to do any of the above for a period from the date of the Offer Agreement (as defined in "Plan of distribution — The Offering") to the date falling six months from the Listing Date.

Each of Alexandrian Worldwide Incorporated, Almond Beach Resources Corporation, Keytone Assets Investment Inc., Lido Point Investments Ltd., Mediterranean Success Group Inc. and Newyard Worldwide Holdings Ltd (each a "Founder Company" and together the "Founder Companies") has agreed with the Underwriters that from the date of the Offer Agreement until the date falling six months from the Listing Date, it will not, without the prior written consent of the Global Co-ordinator, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any of our Shares (or any securities convertible into or exercisable or exchangeable for Shares); enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our Shares (or any securities convertible into or exercisable or exchangeable for Shares); deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or publicly announce any intention to do any of the above.

These restrictions do not, however, apply (in the case of the Vendors) in respect of the Additional Shares that are sold pursuant to the Over-allotment Options granted by the Vendors to UBS, on behalf of the International Underwriters, and to the transfer of Shares by Newyard Worldwide Holdings Ltd as contemplated under the Share Lending Agreement provided that these lock-up restrictions will apply to the Shares returned to Newyard Worldwide Holdings Ltd pursuant to the Share Lending Agreement.

Each of Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Cai Zhengshun, Gao Qiang, Yu Weiping, Huang Jialu, Su Pinhua, Wang Wenzhen, Yu Kebing and Xie Lijun (each a "Founder" and together, the "Founders") has agreed with the Underwriters that from the date of the Offer Agreement until the date falling six months from the Listing Date, he/she will not, without the prior written consent of the Global Co-ordinator, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any of his/her shares (or any securities convertible into or exercisable or exchangeable for shares) in a Founder Company; enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of his/her shares in a Founder Company (or any securities convertible into or exercisable or exchangeable for Shares); deposit any of his /her shares (or any securities convertible into or exchangeable for shares or which carry rights to subscribe or purchase shares) in a Founder Company in any depository receipt facilities; or publicly announce any intention to do any of the above.

Each of SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P. and Gemini Asia Growth Inc. has agreed with the Underwriters that it, from the date of the Offer Agreement until the date falling six months from the Listing Date, will not, without the prior written consent of the Global Co-ordinator, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any of our Shares (or any securities convertible into or exercisable or exchangeable for Shares); enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our Shares (or any securities convertible into or exercisable or exchangeable for Shares); deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or publicly announce any intention to do any of the above.

Each Corporate Investor and its respective investor parent (if any) has agreed that, without the prior written consent of the Global Co-ordinator, it will not, whether directly or indirectly, at any time during the period of three months following the Listing Date, dispose of any Offering Shares (or any Shares or other securities of our Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation) subscribed pursuant to the Offering (or any interest in any company or entity holding any of the Offering Shares), other than transfers to another company which is and will remain wholly owned by the Corporate Investor or its investor parent or, in certain cases, its holding company, such transfer only to be made when the transferee agrees to be subject to the same restrictions on disposals imposed on the Corporate Investor.

See "Plan of distribution — Disposals in the lock-up period " and "Plan of distribution — Our Corporate Investors — Restriction on disposals by the Corporate Investors" for further information relating to these lock-ups.

Proceeds from the Offering

Based on the Maximum Offering Price of S$0.95 for each Offering Share, our net proceeds from the issue of 662,197,000 New Shares, after deducting commissions and other estimated offering expenses payable in relation to the issue and sale of the New Shares, is estimated to be approximately S$601.7 million.

We expect to utilise the proceeds in the following manner:

		Estimated Application of Proceeds (S$ million)
(a)	The repayment of the loan undertaken by our Group in connection with the Restructuring Exercise from Lido Point Investments Ltd.[(1)] . .	7.6
(b)	The acquisition of an additional 25% shareholding interests in JNYS from SEAVI Advent Asia Investments (III) Ltd by our Company[(2)]	51.8
(c)	To partially finance the construction, and for working capital purposes, of the New Yard[(3)] .	180.0
(d)	General corporate purposes	362.3[(4)]
Total net proceeds		601.7[(4)]

(1) Lido Point Investments Ltd. is a BVI company and our Executive Director Wang Dong owns 70.7% of its issued capital and the balance is held by Yu Kebing (20.0%) and Xie Lijun (9.3%). See "Interested person transactions and conflicts of interests — Loan from Lido Point Investments Ltd."

(2) See "The Restructuring Exercise — The Restructuring Exercise — The JNYS Acquisition" for further details of this proposed acquisition and "Risk factors — Risks relating to our business — Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of the risks we face in completing this acquisition.

(3) The shareholders of JNYS, including our Company, will provide shareholders' loans to JNYS to finance the completion of the construction of the New Yard. The amount loaned by each shareholder of JNYS will be in proportion to its shareholding interest in JNYS. We have agreed to provide a S$180.0 million loan to JNYS which we intend to fund utilising our proceeds from the Offering. The S$180.0 million loan will be utilised towards the additional capital expenditure of RMB 833.6 million in 2007 to fund the completion of the construction of the New Yard. The loans by us and the other shareholders of JNYS to JNYS will be for a term of five years, will be unsecured and will not bear any interest. The loans will also be convertible at the option of each shareholder of JNYS, including the Company, (subject to the requisite approvals being obtained from the relevant PRC authorities) into new equity interests in the registered capital of JNYS. The amount of equity interests that will be issued upon conversion will be determined by dividing the RMB equivalent of the converted loan by the conversion price of RMB2.00 or such other price determined by an independent valuer in accordance with PRC laws. See "The Restructuring Exercise — The Restructuring Exercise — The JNYS Acquisition" for further details and "Risk factors — Risks relating to our business — Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of the risks we face with respect of the conversion of this loan into equity in JNYS.

(4) These amounts could vary depending on the Offering Price. See "Risk factors — Risks relating to an investment in our Shares — We may invest or spend the proceeds of the Offering in ways with which you may not agree" for a description of the risks you may face in connection with our use of the proceeds of the Offering.

Pending the deployment of the net proceeds from the issue of the New Shares, we may place the funds in short-term deposits with banks or financial institutions or in money market instruments as the Directors may deem fit.

We will not receive any proceeds from the sale of the Vendor Shares by the Vendors, nor will we raise any proceeds from the exercise of the Over-allotment Options granted by Almond Beach Resources Corporation, Lido Point Investments Ltd. and Newyard Worldwide Holdings Ltd In the opinion of the Directors, no minimum amount must be raised by the Offering.

Listing and Trading

Prior to the Offering, there has been no public market for our Shares. Application has been made to the SGX-ST for permission to list the New Shares and all our issued Shares (including the Vendor Shares and the Additional Shares) on the Main Board of the SGX-ST. Such permission will be granted when we have been admitted to the Official List of the SGX-ST. Acceptance of applications for the Offering Shares will be conditional upon, among other things, permission being granted to deal in and for quotation for all our issued Shares, the Offering Shares and the Additional Shares. We have not applied to any other exchange to list our Shares.

The Shares are expected to commence trading on a "ready" basis as early as 9.00 a.m. on 18 April 2007 (Singapore time). See "The Offering — Indicative timetable".

The Shares will, upon their issue, listing and quotation on the SGX-ST, be traded on the SGX-ST under the book-entry (scripless) settlement system of The Central Depository (Pte) Limited (the "CDP"). Dealing in and quotation of our Shares on the SGX-ST will be in Singapore dollars. The Shares will be traded in board lot sizes of 1,000 Shares on the SGX-ST.

Settlement

We and the Vendors expect to receive payment for all the Offering Shares in the Placement and the Public Offer on or about 18 April 2007. We will, and we expect the Vendors will, deliver global share certificates representing the Offering Shares to the CDP for deposit into the securities accounts of successful applicants on or about 16 April 2007.

Stabilisation

In connection with the Offering, UBS may over-allot Shares or effect transactions that stabilise or maintain the market price of our Shares at levels that might not otherwise prevail in the open market. These transactions may be effected on the SGX-ST and in other jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulations, including the Securities and Futures Act and any regulations thereunder. The number of Shares that UBS may buy to undertake stabilising action, shall not exceed an aggregate of 148,980,000 Shares representing not more than 15.0% of the total Offering Shares. However, there is no assurance that UBS (or persons acting on behalf of UBS) will undertake stabilisation action. Such transactions may commence on or after the commencement of trading of the Shares on the SGX-ST and, if commenced, may be discontinued at any time and shall not be effected after the earliest of (i) the date falling 30 days from the commencement of trading of the Shares on the SGX-ST, (ii) the date when UBS has bought on the SGX-ST, an aggregate of 148,980,000 Shares representing not more than 15.0% of the total Offering Shares to undertake stabilising action, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price.

Transfer restrictions	The Shares offered by this Offering have not been, and will not be, registered under the Securities Act. Therefore, resales by subscribers and/or purchasers of all Shares offered by this Offering will be subject to certain restrictions described in "Transfer restrictions".
Dividends	The current dividend policy of our Board of Directors is to pay a stable and preferably rising dividend over time, taking into account our results of operations and future investment requirements. We expect our annual cash dividends to be not less than 20.0% of our Company's distributable annual profit in 2007, 2008 and 2009. See "Dividends" for a description of our dividend policy.
Risk factors	Prospective investors should carefully consider certain risks connected with an investment in our Shares discussed under "Risk factors".

Summary Financial Information

You should read the summary financial information presented below in conjunction with our consolidated financial statements and the related auditors' report contained elsewhere in this document. You should also see the section of this document entitled "Management's discussion and analysis of financial condition and results of operations." We derived the summary financial information from our audited consolidated financial statements as of and for the years ended 31 December 2004, 2005 and 2006. Our audited consolidated financial statements were prepared and presented in accordance with SFRS.

We intend to prepare and report our consolidated financial statements only in accordance with SFRS in subsequent periods. SFRS reporting practices and accounting principles differ in certain significant respects from US GAAP. For a discussion of differences between SFRS and US GAAP that are relevant to us, see "Summary of certain differences between SFRS and US GAAP".

SUMMARY CONSOLIDATED INCOME STATEMENT

	Year Ended 31 December,			
	2004	**2005**	**2006**	**2006**
	RMB	**RMB**	**RMB**	**US$**
	(In thousands except per share data)			
Revenue	**988,829**	**1,532,572**	**2,324,984**	**298,075**
Cost of sales	(794,223)	(1,228,104)	(1,828,533)	(234,427)
Gross profit	194,606	304,468	496,451	63,648
Other income	10,714	52,774	75,819	9,720
Other gains/(losses) — net	7,489	(5,857)	15,128	1,939
Expenses				
— Administrative	(24,828)	(34,644)	(57,995)	(7,435)
— Finance	(17,611)	(17,586)	(10,538)	(1,351)
Share of profit of associated companies	46	29	—	—
Profit before income tax	170,416	299,184	518,865	66,521
Income tax expense	(12,692)	(15,805)	(65,650)	(8,417)
Net profit	157,724	283,379	453,215	58,104
Attributable to:				
Equity holders of the Company	156,046	283,510	454,344	58,249
Minority interest	1,678	(131)	(1,129)	(145)
	157,724	283,379	453,215	58,104
Earnings per Share[(1)] attributable to equity holders of the Company (expressed in cents per Share)				
Basic	5.9	10.7	17.2	2.2
Diluted[(2)]	4.7	8.6	13.7	1.8

(1) We calculated our earnings per Share based on the number of Shares outstanding prior to completion of the Offering and after (i) deducting the amount of our net profit attributable to minority interests and (ii) giving effect to the Conversion and the Share Split described in "The Restructuring Exercise".

(2) Adjusted for the issue of 662,197,000 New Shares.

SUMMARY CONSOLIDATED BALANCE SHEET

	As of 31 December,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
	(In thousands except per share data)			
ASSETS				
Current assets				
Cash and cash equivalents	138,013	188,863	215,592	27,640
Restricted cash	78,915	349,174	447,625	57,388
Financial assets, available-for-sale	7,484	5,505	300	38
Trade and bills receivables	186,783	269,590	294,214	37,720
Other receivables, prepayments and other current assets	591,134	1,257,628	2,229,642	285,851
Due from customer from construction contracts	476,806	452,658	140,973	18,073
Loan receivables from third parties	580,379	460,780	241,570	30,971
Inventories	116,016	63,589	75,939	9,736
	2,175,530	3,047,787	3,645,855	467,417
Non-current assets				
Property, plant and equipment	125,822	159,920	659,457	84,546
Lease prepayment	—	—	140,938	18,069
Intangible assets	—	—	168	22
Deferred income tax assets	—	—	5,130	658
Investment in associated companies	4,852	39,758	—	—
Loan receivables from third parties	—	436,000	664,000	85,128
	130,674	635,678	1,469,693	188,423
Total assets	**2,306,204**	**3,683,465**	**5,115,548**	**655,840**
LIABILITIES				
Current liabilities				
Trade and bills payables	302,044	157,906	144,260	18,495
Accruals, other payables and other current liabilities	212,162	293,318	894,193	114,640
Due to customer from construction contracts	684,117	1,839,228	3,137,945	402,301
Current income tax liabilities	33,667	49,369	86,045	11,031
Borrowings	597,971	559,299	229,366	29,406
Convertible loans	—	—	155,814	19,976
Derivative financial instruments	305	—	246	32
	1,830,266	2,899,120	4,647,869	595,881
Non-current liabilities				
Borrowings	50,000	90,351	—	—
Deferred income tax liabilities	—	58	—	—
	50,000	90,409	—	—
Total liabilities	**1,880,266**	**2,989,529**	**4,647,869**	**595,881**
NET ASSETS	**425,938**	**693,936**	**467,679**	**59,959**
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	110,000	110,000	110,037	14,107
Other reserves	25,120	44,801	(109,035)	(13,979)
Retained earnings	284,926	533,419	209,124	26,811
	420,046	688,220	210,126	26,939
Minority interests	5,892	5,716	257,553	33,020
Total equity	425,938	693,936	467,679	59,959
NAV per Share[(1)]	0.16	0.26	0.08	0.01

(1) We calculated our NAV per Share based on the number of Shares outstanding prior to completion of the Offering and after (i) deducting the amount attributable to minority interests and (ii) giving effect to the Conversion and the Share Split described in "The Restructuring Exercise".

SUMMARY CONSOLIDATED CASH FLOW STATEMENT

	Year Ended 31 December,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
		(In thousands)		
Net cash provided by operating activities	**325,252**	**411,652**	**1,352,223**	**173,362**
Net cash used in investing activities	(585,721)	(340,558)	(647,579)	(83,023)
Net cash provided by/(used in) financing activities	366,355	(14,974)	(684,072)	(87,702)
Net increase in cash and cash equivalents	105,886	56,120	20,572	2,637
Cash and cash equivalents at the beginning of the financial year	32,205	138,013	188,863	24,213
Effects of exchange rate changes on cash and cash equivalents	(78)	(5,270)	6,157	790
Cash and cash equivalents at the end of the financial year	**138,013**	**188,863**	**215,592**	**27,640**

Indicative timetable

Indicative timetable

An indicative timetable for trading in our Shares is set out below for the reference of applicants for our Shares:

Date and time (Singapore)	Event
9 April 2007	Opening date for the Placement in Singapore.
9 April 2007, 7.00 p.m.	Opening date and time for the Public Offer.
12 April 2007, 12.00 p.m.	Closing date and time for the Public Offer.
11 April 2007, 5.00 p.m.	Closing date and time for the Placement in Singapore.
12 April 2007	Price Determination Date.
13 April 2007	Balloting of applications in the Public Offer, if necessary. Commence returning or refunding of application monies to unsuccessful or partially successful applicants and commence returning or refunding of application monies to successful applicants for the amount paid in excess of the Offering Price, if necessary.
18 April 2007	Commence trading on a "ready" basis.
23 April 2007	Settlement date for all trades done on a "ready" basis on 18 April 2007.

The above timetable is indicative only and is subject to change at our and the Vendors' discretion, with the agreement of the Global Co-ordinator. The above timetable and procedure may also be subject to such modifications as the SGX-ST may in its discretion decide, including the commencement date of trading on a "ready" basis. It assumes: (i) that the closing of the Public Offer is 12 April 2007; (ii) that the date of admission of our Company to the Official List of the SGX-ST is 18 April 2007, and (iii) compliance with the SGX-ST's shareholding spread requirement. All dates and times referred to above are Singapore dates and times.

We and the Vendors, with the agreement of the Global Co-ordinator, may at our discretion, subject to all applicable laws and regulations and the rules of the SGX-ST, agree to extend or shorten the period during which the Offering is open.

In the event of the extension or shortening of the time period during which the Offering is open, we will publicly announce the same:

(a) through a SGXNET announcement to be posted on the Internet at the SGX-ST website http://www.sgx.com; and

(b) in one or more major Singapore newspapers, such as *The Straits Times, The Business Times* and *Lianhe Zaobao.*

Investors should consult the SGX-ST announcement on the "ready" listing date on the Internet (at the SGX-ST website), or the newspapers, or check with their brokers on the date on which trading on a "ready" basis will commence.

We and the Vendors will provide details of and the results of the Public Offer through SGXNET or in one or more major Singapore newspapers, such as *The Straits Times, The Business Times* and *Lianhe Zaobao.*

We and the Vendors reserve the right to reject or accept, in whole or in part, or to scale down or ballot any application for the Offering Shares, without assigning any reason therefor, and no enquiry and/or correspondence on our and the Vendors' decision will be entertained. In deciding

the basis of allocation, due consideration will be given to the desirability of allocating our Shares to a reasonable number of applicants with a view to establishing an adequate market for our Shares.

Where an application is rejected, the full amount of the application monies will be refunded (without interest or any share of revenue or other benefits arising therefrom) to the applicant, at his own risk within 24 hours of the balloting (provided that such refunds are made in accordance with the procedures set out in instructions booklet entitled "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore").

Where an application is accepted in full or in part only, any balance of the application monies (including the excess monies arising from the difference between the Offering Price and the Maximum Offering Price should the Offering Price be lower than the Maximum Offering Price) will be refunded (without interest or any share of revenue or other benefits arising therefrom) to the applicant, at his own risk, within 14 Market Days after the close of the Offering (provided that such refunds are made in accordance with the procedures set out in the instructions booklet "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore").

Where the Offering does not proceed for any reason, the full amount of application monies (without interest or any share of revenue or other benefits arising therefrom) will be returned within three Market Days after the Offering is discontinued.

Prospective investors should consider carefully, together with all other information contained in this document, the risks described below before deciding to invest in our Shares. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. Our business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The market price of our Shares could decline due to any of these risks and you could lose all or part of your investment.

This document also contains forward-looking statements that involve risks and uncertainties. The actual results of our operations could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this document. You should also consider the warning regarding forward-looking statements in "Notice to investors — Forward-looking Statements".

Before deciding to invest in our Shares, you should seek professional advice from your advisers about your particular circumstances.

RISKS RELATING TO OUR BUSINESS

Worldwide demand and pricing in the commercial shipbuilding industry are highly dependent upon global economic conditions

The commercial shipbuilding industry is highly cyclical in nature and is also sensitive to the cyclical nature of the industries it serves such as the oil, natural gas, shipping, transportation and other trade-related industries. The demand for and pricing of our vessels are highly sensitive to global and regional economic conditions particularly in the PRC and USA, as well as seasonal and regional changes in demand and changes in the global fleet size. Continued economic growth in the world economy that exceeds growth in the global fleet size will be necessary to sustain a continued demand for new ships. However, there can be no assurance that such economic growth will continue in the future or sustain or improve the performance of the shipbuilding industry. Any future deterioration in global economic conditions as well as downward trends in the trade-related industries could have a material adverse effect on our business, financial condition, results of operations and prospects.

We cannot assure you that we will be able to compete successfully against our competitors and new entrants to the industry

Our business is highly competitive. We face competition from existing competitors located both in the PRC and elsewhere, and in particular in South Korea, as well as new entrants to this industry. We compete on the basis of our ability to fulfil our contractual obligations including the timely delivery of vessels constructed by us, our yards' capacity and capabilities and the price and quality of the vessels we construct. Some of our competitors have more resources than we have and some of our competitors may have lower costs of operations than we have. In addition, some of our competitors may have competitive advantages in building certain types of vessels compared to us. Our competitors, particularly those in the PRC, from time to time engage in aggressive pricing in order to gain market share. In addition, a number of shipbuilding companies currently focus on building different types of vessels than we do. Although these shipbuilding companies currently do not compete with us, they may possess the capability to build the types of vessels we build and we cannot assure you that they will not compete with us in the future. See "Business — Competition" for a description of our principal competitors.

We cannot assure you that we will be able to compete successfully against our competitors as well as new entrants in this industry in the future, or that the shipbuilding companies that are not directly in competition with us now will not compete with us in the future. Accordingly, our business, financial condition, results of operations and prospects would be adversely and materially affected if we are unable to maintain our competitive advantage and compete successfully against our competitors and any new entrants to this industry in the future.

Depreciation of the US dollar may adversely affect our financial condition and results of operations

Most of our shipbuilding contracts provide for payment in US dollars. In 2004, 2005 and 2006, approximately 92.4%, 98.6% and 89.8% of our revenue was denominated in US dollars. Whilst part of our costs are denominated in US dollars or Euro, purchases denominated in RMB accounted for approximately 83.4%, 80.5%% and 52.8% of our purchases in 2004, 2005 and 2006, respectively. Accordingly, any depreciation of the US dollar against the RMB could affect our gross and operating margins. We maintain a policy of converting the payments we receive from our customers into RMB as soon as practicable at an acceptable exchange rate based on our evaluation of exchange rate trends. We incurred foreign exchange losses of RMB78,000 in 2004 (constituting 0.05% of our profit before tax for 2004), RMB5.3 million (not including foreign exchange gains from financing) in 2005 (constituting 1.8% of our profit before tax for 2005), and losses of RMB201,000 (US$26,000), not including foreign exchange gains from financing in 2006, (constituting 0.04% of our profit before tax for 2006). Accordingly, any significant fluctuations between the RMB and US dollar and Euro, specifically any appreciation of the RMB against the US dollar or the Euro, will result in our incurring foreign exchange losses, which could adversely affect our business, financial condition, results of operations and prospects. See "Management's discussion and analysis of financial condition and results of operations — Factors affecting our business, financial condition, and results of operations — Fluctuations in foreign currency exchange rates" for a description of the effects of foreign currency exchange rates on our financial condition and results of operations.

Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all

We currently own 50.2% of the shares of JNYS. Although we have entered into a contract to purchase an additional 25.0% of the shares of JNYS from SEAVI, the completion of our acquisition of the additional 25.0% equity interest in the New Yard from SEAVI is conditional upon our listing on the SGX-ST and the obtaining of all necessary licences and approvals in relation to such acquisition, including the approval of the PRC Ministry of Commerce. We have also agreed to provide a loan of S$180.0 million to JNYS, utilising our proceeds from the Offering, which is convertible into additional equity in JNYS. However, the conversion of the loan into equity is subject to our Company obtaining the approval of the relevant PRC authorities for the increase of the authorised investment in JNYS. See "The Restructuring Exercise" for a description of our acquisition of an additional 25.0% equity interest in JNYS, and "Proceeds from the Offering" for a description of the S$180.0 million loan. We cannot assure you that the conditions for the completion of the acquisition of an additional 25.0% of the shares of JNYS from SEAVI will be satisfied or that the acquisition will be completed within a reasonable time or at all. We also cannot assure you that we will obtain the requisite approvals for the conversion of our S$180.0 million loan into additional equity in JNYS. In the event of any delay or failure to complete the acquisition or the conversion, our business and future growth may be adversely affected.

We are exposed to the risk of increases in the price of our raw materials

The major components of our cost of sales include raw materials such as steel and other materials, equipment and other components such as pumps, propellers and engines. In 2004, 2005 and 2006, our raw material costs constituted 75.3%, 75.5% and 65.0%, of our cost of sales, respectively. In particular, steel purchases accounted for 29.6%, 36.8% and 19.6% of our cost of sales in 2004, 2005 and 2006, respectively. China steel plate prices increased from approximately 3,500 RMB per tonne in December 2005 to approximately 4,400 RMB per tonne in September 2006.

Shortages in the supply of the raw materials we use in our business may result in an increase in the price of these raw materials. For example, there are supply constraints for steel in China which we expect will continue in 2007. In addition, the cost of certain raw materials, such as steel, may fluctuate in line with any changes in their global supply and demand.

In the event that our raw materials increase in price, we will not be able to pass these price increases to our customers on our existing contracts and our business, financial condition, results of operations and prospects could be adversely affected. See "— We could incur losses under our fixed price contracts as a result of cost overruns, delays in delivery or failures to meet contract specifications" for risks relating to our fixed price contracts.

Our borrowers may default on the loans we make to them through financial institutions

We have furnished loans to third parties through financial institutions in the PRC. These loans typically involve three parties, namely, us as the lender, the financial institution appointed by us which acts as an intermediary for the purposes of giving the loans, and the third party borrower. These loans are secured by either mortgages of land, charges over shares or personal guarantees in favour of the financial institution. The total amount of outstanding loans as at the Latest Practicable Date was RMB900.6 million. See "Management's discussion and analysis of financial condition and results of operations — Entrusted loans" for further details of such loans given by us.

We cannot assure you that our borrowers will not default on repayment of these loans. In addition, if the value of the collateral provided by the borrowers on these loans is insufficient to fully repay the principal and interest amounts due and we are unable to collect the amounts due from the borrowers, we will suffer a loss. As the collateral is pledged in favour of the financial institutions, we do not possess the legal right to enforce the collateral but must rely on the financial institutions to do so in the event of default in the repayment of the loans. If any of the borrowers default on their loans and the financial institutions refuse to enforce the collateral or the collateral is insufficient to recover the principal loan amounts and interest and we are otherwise unable to collect the amounts due from the borrowers, our business, financial condition, results of operations and prospects could be materially and adversely affected.

On 16 March 2007, our Founders executed a letter of undertaking to indemnify our Group against all losses in the event that any borrower defaults on an entrusted loan and the security provided is insufficient to cover the principal loan amount and the interest due under the relevant entrusted loan. However, we cannot assure you that our Founders will have sufficient resources to indemnify our Group for any losses incurred by us on these loans.

We cannot assure you that the New Yard will become operational as scheduled or operate as efficiently as planned

We plan to expand our existing operations by establishing the New Yard. Currently, we expect the New Yard to be completed in October 2007. However, we cannot assure you that the construction of the New Yard will be completed as scheduled, or will become operational as soon or operate as efficiently as planned. If there are delays in the construction of the New Yard, problems with the facilities in it or for other reasons, the New Yard does not function as efficiently as intended, or our utilisation of the New Yard is not optimal, we may not be able to fulfil our contractual obligations and our business, financial condition, results of operations and prospects could be materially and adversely affected. As at 19 March 2007, for vessels to be delivered between 2009 and 2010, we had aggregate orders of approximately US$1.2 billion, which we would not be able to produce if our New Yard is not completed as planned. See "— Our future growth and expansion is limited by our production capacities and the location at which we operate" for additional risks relating to the New Yard.

We could incur losses under our fixed price contracts as a result of cost overruns, delays in delivery or failures to meet contract specifications

All of our shipbuilding contracts are fixed-price contracts. We enter into these contracts up to three years prior to the scheduled delivery of a vessel. We attempt to forecast costs of labour and raw materials when we enter into our fixed-price contracts and retain all cost savings on completed contracts but we are liable for the full amount of all cost overruns. The actual costs incurred and profits we realise on a fixed-price contract may vary from our estimates due to factors such as:

- unanticipated variations in labour and equipment productivity over the term of a contract;
- unanticipated increases in labour, raw material, subcontracting and overhead costs, including as a result of bad weather; and
- delivery delays and corrective measures for poor workmanship.

Depending on the size of the project, variations from estimated contract performance could significantly reduce our earnings, and could result in losses, during any fiscal quarter or year. All of our fixed price contracts provide for liquidated damages for late delivery. We cannot assure you that these contracts, if secured, can be completed profitably. Significant cost overruns on our fixed price contracts could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be unable to attract and retain sufficient skilled and/or qualified personnel

We will require additional employees and subcontract labour and production workers at our New Yard. However, competition for skilled shipyard labour in the PRC is intense. Our competitors may also be expanding their operations and may require additional workers. As a result, we may from time to time, experience difficulties in attracting and retaining highly skilled employees. Our shipbuilding operations require highly skilled and qualified personnel, such as engineers. For example, our engineers in the Design and Technical Department are instrumental in analysing the design blueprints of new vessels and play a central role in designing the production process, production design and blueprints. They also play a critical role in our cost management system, as we are dependent on them to formulate production design plans that will allow for the efficient utilisation of our raw materials. Our inability to maintain a sufficient number of skilled and qualified personnel to handle the more sophisticated and technology-intensive shipbuilding processes, or are required to pay substantially higher salaries to procure these personnel could have a material adverse effect on our business, financial condition, results of operations and prospects.

Labour shortages could increase the cost of labour and hinder our productivity and ability to complete the construction of our vessels on time, which would materially and adversely affect our business, financial condition, results of operations and prospects.

Further, we utilise subcontract labour and production workers in our shipyard on a regular basis. These subcontract labour and production workers are appointed through companies that provide labour outsourcing services. In the event that we are unable to secure our required subcontract labour and production workers through these arrangements, or if the costs for such services increase, our business, financial condition, results of operations and prospects would be adversely affected.

We depend on the contribution of key personnel

Our success depends, to a significant extent, upon the continued service of our key personnel. If we lose the services of any of our existing key personnel without timely and suitable replacements, or are unable to attract and retain new personnel with suitable experience as we grow, our financial performance and operations may be materially and adversely affected. Our Executive Directors Ren Yuanlin, Wang Dong, Xiang Jianjun, and our Executive Officer, Du Chengzhong, have been instrumental in charting the business direction and spearheading our growth. Accordingly, the loss of one or more members of our senior management team could have a material adverse effect on our business, financial condition, results of operations and prospects, as such persons may be difficult to replace. In addition, we may lose business to the organisations that members of our senior management team may join after leaving their positions with us. We do not carry "key man" life insurance on any of our personnel.

We are dependent on a few of our major customers

Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG, Reederei Horst Zeppenfeld GmbH & Co. KG and Carisbrooke Shipping Limited accounted for approximately 88.6%, 100.0% and 92.8% of our revenue in 2004, 2005 and 2006 respectively. We cannot assure you that these customers will continue to engage us or that we will continue to sustain the general level of revenues that we have secured from them in the past. If any of our major customers ceases to have business dealings with us or materially reduces the level or frequency of their orders for new vessels from us and we are unable to secure new orders from other sources to replace such a loss or reduction, our business, financial condition, results of operations and prospects will be adversely affected. See "Business — Major customers" for information regarding our major customers.

Our future growth and expansion is limited by our production capacities and the location at which we operate

Our production capacity is limited by, amongst other things, the size of our shipyards, the number, size and capacities of our slipways, berths, docks (including dry docks to be constructed at the New Yard) and our plant and equipment. See "Business — Properties and fixed assets" for a discussion of our facilities. In addition, the size and capacity of the vessels we construct is limited by the locations at which we operate. Currently, we are limited to the construction of vessels of up to 55,000 DWT and containerships with a loading capacity of up to 2,500 TEU at the Existing Yard. Upon completion of the New Yard, we anticipate that we will be able to build vessels of up to 300,000 DWT and containerships with a loading capacity of up to 6,000 TEUs. In the event that we are unable to relocate or increase our production capabilities to enable us to construct such vessels, we may lose business opportunities and our business, results of operations, financial condition and prospects will be adversely affected.

Our lease of the land use rights for the land on which our Existing Yard is situated will expire at the end of 2013. This land is currently slated by the PRC government for development in or around 2014 after the expiry of the Existing Yard's lease, and any increase in our production capacities after the expiry of the lease must be undertaken at the New Yard. As such, we will have to incur substantial capital investments, expenditure and time to expand our production capacities at the New Yard. We cannot assure you that we will be able to secure appropriate and suitable financing for such an expansion. Accordingly, we cannot assure you that we will be able to manage the future expansion of our production capacities effectively. Any failure on our part to do so will have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to meet our construction schedules and may face delays in the delivery of vessels to our customers

We are dependent on our suppliers for the timely delivery of raw materials, equipment and components such as pumps, propellers and engines. When the need arises, we outsource certain aspects of our shipbuilding work scope, such as the production of certain vessel sub-assemblies and structural sections, from time to time, to our subcontractors. We also rely heavily on the importation of marine equipment and other shipping related components that are not manufactured domestically. We often have to compete with our competitors for these components due to the strong global order book which has led to a bottleneck in the supply of components, resulting in delays in the delivery of such components. We are also dependent on the timely completion of subcontracted works by our subcontractors when we use their services. We may encounter situations where we are unable to deliver our products on a timely basis due to, amongst other reasons, late or lack of delivery of raw materials from our suppliers or late completion of subcontracted works by our subcontractors. In addition, we are also dependent on subcontract labour and production workers for the construction of our vessels. As our order book is currently filled up through 2010, in the event that we fall behind schedule in the delivery of our vessels, we may not have the requisite buffer in our production capacity or sufficient subcontractors to react to any contingencies that may arise in constructing and delivering our existing orders. If we are unable to source such raw materials, equipment and components from alternative suppliers on a timely basis, our production schedule may be delayed, thereby delaying the delivery of the vessel to our customers. In addition, our profitability may also be adversely affected if we are unable to secure alternative sources of such raw materials, equipment and components in a cost efficient manner or if we are unable to recover liquidated damages from the defaulting suppliers.

Our shipyard operations are subject to risks including, *inter alia*, the breakdown, failure or sub-standard performance of machinery, natural disasters like floods, long periods of adverse weather, social unrest and strikes, which may result in operational disruptions. Any material operational disruptions will adversely affect our ability to meet our construction schedules and cause delays in the delivery of vessels to our customers.

Any substantial delay in the completion and delivery of the vessels under our shipbuilding contracts may result in us being liable to pay our customers damages, liquidated or otherwise. If the delay continues beyond the time stipulated in the contracts, our customers may rescind their shipbuilding contracts with us and any delay will have an impact on our reputation and could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may face claims and incur additional rectification costs for defects and warranties in respect of our vessels

We may face claims by our customers in respect of defects, poor workmanship or non-conformity to our customers' specifications in respect of vessels built by us. We typically extend a warranty period of 12 months to our customers for new vessels. Due to the length of the warranty period extended by us, we may be subject to claims from our customers and we may incur additional costs if rectification work is required in order for us to satisfy our obligations during the warranty period. We usually set aside 1.0% to 2.0% of the contract price of each contract to cover such rectification works. We cannot guarantee you that these warranty provisions will be sufficient to cover the costs incurred for defects. If the costs of any rectification works exceed the warranty provisions we have made, our business, financial condition, results of operations and prospects may be adversely affected.

Shipbuilding exposes us to potential liabilities that may not be covered by insurance

Our shipbuilding operations are subject to inherent risks such as equipment defects, malfunctions and failures, equipment misuse and natural disasters that can result in uncontrollable flow of gas or well fluids, fires and explosions. We do not have insurance for business interruption. Substantial portions of our activities involve the fabrication and refurbishment of large steel structures, the operation of cranes and other heavy machinery and other operating hazards. These risks could expose us to substantial liability for personal injury, wrongful death, product liability, property damage, pollution and other environmental damages. Although we have obtained insurance for our employees as required by the PRC laws and regulations, as well as our important properties and assets, our insurance may not be adequate to cover all potential liabilities. Further, we cannot assure you that insurance will be generally available in the future or, if available, that the premiums will not increase or remain commercially justifiable. If we incur substantial liability and the insurance does not or is insufficient to cover the damages, our business, financial condition, results of operations and prospects may be materially adversely affected.

We will not be able to secure new contracts if we are unable to issue the requisite performance guarantees as required under our shipbuilding contracts

The shipbuilding industry is a capital-intensive industry and as the contract prices for new vessels are generally high, we are usually required to furnish our customers with performance guarantees as security for the fulfilment of our contractual obligations under our shipbuilding contracts.

In order for us to secure performance guarantees, banks and financial institutions review, among other things, our financial standing and creditworthiness. Generally, we arrange for banks to issue performance guarantees to our customers from our available banking facilities. If we do not have available banking facilities to issue the performance guarantees and we cannot procure additional banking facilities from our existing banks, we request our ship agents to arrange for their banks or financial institutions to issue the performance guarantees to our customers on our behalf. In the latter case, we pay the ship agents a commission of up to 1.5% of the guaranteed amount and provide a corporate guarantee to the ship agent's bank or financial institution as security. We cannot assure you that we will continue to find appropriate and suitable ship agents to broker our shipbuilding contracts and arrange for performance guarantees in this manner. In the event that we are unable to do so and we are unable to satisfy the financial requirements prescribed by our banks and financial institutions, we will not be able to procure the requisite performance guarantees and as a result, we may be unable to secure new contracts, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our costs may increase due to changes in regulations in the shipping industry

The shipping industry is highly regulated. Amongst other things, the vessels we construct for our customers are required to meet the standards and requirements of the classification society of the country specified by our customer, the rules applicable to the respective type and size of the vessels promulgated by the relevant regulatory authorities that may comprise maritime authorities of the country of registry and of nations through which the vessel is likely to trade in or transit though, such as the Panama and Suez canals. If local and international regulations applicable to the shipping industry become more stringent in the future or additional regulations or controls requiring the adoption of new construction requirements are introduced that we cannot satisfy in a cost efficient manner or we are unable to pass any additional costs resulting from these new requirements to our customers, our costs would increase, which could have a material adverse effect on our business, financial condition, results of operations and prospects See "Business — Applicable laws and regulations" for a further description of the laws and regulations to which we are subject.

We depend on a small number of suppliers for raw materials

We obtain a significant proportion of our raw materials from a limited number of suppliers in the PRC. In particular, supplies from Chongqing Iron and Steel Co., Ltd. comprised approximately 11.1% of our purchases in 2006, and supplies from Hudong Heavy Machinery Co., Ltd comprised approximately 15.2% of our purchases in 2006. Due to the demand for their products, our suppliers, including Chongqing Iron and Steel Co., Ltd and Hudong Heavy Machinery Co., Ltd, may not be able to supply us with all the raw materials we require, in particular as a result of our increased capacity from the New Yard. In the event that these suppliers are unable to supply us with sufficient raw materials, we may encounter delays in securing, or may be unable to secure, alternative suppliers and the cost of our raw materials may increase. In addition, these suppliers may be unable to, or may refuse to, return any advance deposits or prepayments we have made to them because of financial difficulties, disputes or other reasons. Any of these factors could have a material adverse effect on our business, financial condition, results of operations and prospects. See "Business — Major suppliers" for a further description of our suppliers.

Although our shipbuilding projects generally do not begin for up to three years after we receive the order, we order the materials we require at an early stage. We believe that developing relationships with key suppliers has enabled us to obtain the materials we require for our shipbuilding projects at competitive prices. We develop these relationships by making advance payments to these suppliers for working capital purposes, and the difference between an advance payment and its respective price of our orders as determined on the delivery date will be repaid by these suppliers or paid up by us, as the case may be. In exchange for our advance payments, suppliers agree to supply us specified quantities of materials, and typically provide us a fixed discount off the market price. In the event that we are unable to make advance payments to these suppliers in the future, we may not be able to secure a stable supply of the raw materials we require for our shipbuilding projects at competitive prices, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

We face the risk of unsatisfactory quality of work performed by our subcontractors

We rely substantially on subcontractors for our labour requirements. Instead of maintaining a large number of full time employees, we employ a significant number of subcontract labour and production workers, which we can increase or decrease to suit our requirements. When the need arises, we outsource certain aspects of our shipbuilding work scope, such as the production of certain vessel sub-assemblies and structural sections, from time to time, to our subcontractors. These subcontractors may use poor quality or defective sub-components or underqualified or less skilled workers. In addition, our subcontractors may not report safety concerns. This may lead to increased costs borne by us, which could adversely affect our business, financial condition, results

of operations and prospects and our relationships with our customers. In addition, should our subcontractors default on their contractual obligations or be unable to complete their work according to specifications on schedule, our ability to deliver the vessels to our customers in accordance with the quality or timing specifications in the shipbuilding contract may be compromised, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

If our customers terminate their projects, our sales revenues and profits could be adversely affected

Our customers retain the right to change or terminate their building contracts. In the event of a termination of a building contract, the customer is generally required to pay for work performed and raw materials purchased up to the date of termination, and in most cases, pay to us a termination fee representing our profit margin if the project had been completed, which has to be agreed between the customer and us. To date, none of our contracts has been terminated. However, any termination of a significant contract would have a material adverse effect on our business, financial condition, results of operations and prospects.

We do not have the coastline certificate for certain parts of the coastline for our Existing Yard

According to the relevant coastline laws and regulations of the PRC (the "PRC Coastline Regulations"), businesses utilising the coastline are required to obtain a coastline use right evidenced by an Occupying Certificate of Riverway Construction Project (河道工程占用证) (a "coastline right certificate"). In addition, relevant approvals are required for any construction projects involving the use of the coastline. See "Appendix D — Description of relevant PRC Laws and Regulations — 7. Coastline use rights" for a description of the PRC regulations regarding the use of the coastline. Under the PRC Coastline Regulations, the PRC authorities have the right to require us to cease operations and to demolish our facilities if the facilities are constructed without the requisite approvals.

Our Existing Yard possesses a coastline right certificate in respect of 225 metres of coastline, which we occupy for our business operations. On 29 September 2006, we submitted an application to the relevant authority for the coastline right certificate in relation to the remaining 494 metres of coastline occupied by the Existing Yard and are still waiting for approval to be granted.

In the event that our application is not approved, we will have to cease our operations along the affected coastline, which would materially and adversely affect our business operations, financial condition, results of operations and prospects. Please see "Business — Properties and fixed assets — Coastline use rights" for more information relating to our coastline certificates.

RISKS RELATING TO GOVERNMENT REGULATIONS AND POLICIES

Our businesses are subject to certain PRC laws and regulations

Our business and operations in the PRC are subject to government rules and regulations, including environmental and health regulations. Any changes in such government regulations may have a negative impact on our business.

Breach or non-compliance with these PRC laws and regulations may result in the suspension, withdrawal or termination of our Group's business licences or permits, or the imposition of penalties, by the relevant authorities. Our subsidiaries' business licences are also granted for a finite period and any extension thereof is subject to the approval of the relevant authorities. Any suspension, withdrawal, termination or refusal to extend our Group's business licences or permits would cause us to cease production of certain or all of our products, and this would adversely affect our business, financial condition, results of operations and prospects.

We are subject to environmental laws and regulations

Our production activities produce harmful emissions. The most harmful emissions from our production processes are potentially volatile or noxious chemical compounds. Other emissions include metals, noise, odour and wastewater. We have attempted to minimise and control these emissions through proper management and by establishing procedures for the disposal of such emissions at our plants. We have obtained permits for discharging chemical by-products from the relevant environmental authorities in accordance with PRC law, and are required to submit quarterly environmental protection reports to the Environmental Protection Supervisory Branch of Jiangyin Municipality. We believe that we are in material compliance with all PRC environmental requirements applicable to our business operations. Should we fail to continue to comply with these requirements or to pass any inspections (including but not limited to noise pollution checks, industrial discharge inspections) by the Environmental Protection Supervisory Branch of Jiangyin Municipality or any other relevant PRC authorities, we could be subject to fines or suspension of our operations, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our operations are subject to laws and regulations of the PRC relating to the protection of human health and the environment. These environmental laws and regulations concern, *inter alia*, emissions to the atmosphere, discharges to the land surface, subsurface strata, the generation, handling, storage, transportation, treatment and disposal of chemicals, raw materials, waste and other materials. See "Business — Applicable laws and regulations". As awareness of environmental issues and protection increases, our business may be required to adapt to new laws and changes and any failure to comply with such laws and regulations will cause us to be in breach and be subject to penalties and also tarnish the profile of our Group.

Compliance with environmental laws and other government regulations may increase our cost of doing business.

We are subject to various state and local environmental laws and regulations. These laws and regulations impose limitations on the discharge of pollutants into the environment and establish standards for the transportation, storage and disposal of hazardous waste. The government may impose significant fines or penalties for violations of these environmental laws and regulations. Some environmental laws impose joint and several "strict liability" for remediation of spills and releases of oil and hazardous substances. Under these laws and regulations, we could be liable for environmental damages without regard to negligence or fault on our part. As a result, these laws expose us to potential liability for the conduct of or conditions caused by others. We may also be liable for our own acts that are or were in compliance with all applicable laws at the time such acts were performed. Environmental laws in the PRC have historically been subject to frequent change. We are unable to predict the future costs or other future effects of environmental laws on our operations. In addition, any changes in environmental or other laws affecting our business may further increase our costs, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, circulars and directives. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances.

Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still subject to policy changes. We cannot assure you that the introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities will not have an adverse impact on our business, financial condition, results of operations and prospects.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and unlike other common law countries such as Singapore, decisions on precedent cases are not binding on lower courts. As such, the outcome of dispute resolutions may not be consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift or equitable enforcement of the laws in the PRC, or obtain enforcement of judgment by a court of another jurisdiction. We may also be affected by any regulation implemented by the PRC government affecting our investments in our PRC subsidiaries, such as any regulation requiring us to reduce our shareholding in our PRC subsidiaries. In such event, we may lose management and operational control of these subsidiaries, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business, financial condition, results of operations and prospects are highly susceptible to changes in the PRC's political, economic and social conditions as our revenue is currently wholly derived from our operations in the PRC

Since 1978, the PRC government has undertaken various reforms of its economic system. These reforms have resulted in economic growth for the PRC in the last two decades. However, many of the reforms are unprecedented or experimental, and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This refinement and adjustment process may consequently have a material impact on our operations in the PRC or a material adverse impact on our financial performance. Our business, financial condition, results of operations and prospects may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof.

PRC foreign exchange control may limit our ability to utilise our cash effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries

Our PRC subsidiaries, which are foreign investment entities ("FIEs"), are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of the RMB into foreign currencies. Currently, FIEs (including wholly foreign-owned enterprises) are required to apply to the SAFE for "Foreign Exchange Registration Certificates for FIEs". With this registration certification (which must be renewed annually), FIEs are permitted to open foreign currency accounts including a "current account" and a "capital account". Currently, transactions within the scope of a "current account" (for example, remittance of foreign currencies for payment of dividends) can be effected without requiring the approval of the SAFE. However, conversion of currency in a "capital account" (for example, for capital items such as direct investments, loans and securities) requires the approval of the SAFE. Our PRC subsidiaries, namely JYS and JNYS have obtained a "Foreign Exchange Registration Certificates for FIEs", which is subject to annual inspection and renewal.

We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. In 2004, 2005 and 2006, approximately 7.6%, 0% and 7.3% of our sales respectively, were denominated in RMB. As such, any future restrictions on currency exchanges may limit our ability to utilise funds generated in the PRC to fund any potential business activities outside the PRC or to distribute dividends to our Shareholders. To date, our subsidiaries in the PRC have not repatriated any profits out of the PRC.

On 21 October 2005, SAFE promulgated the 国家外汇管理局关于境内居民通过境外特殊目的的公司融资及反程投资外汇管理有关问题的通知 (Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies) (the "New Notice"). Ren Yuanlin, Wang Dong, Xiang Jianjun, Ren Jinhua, Liu Yifang, Cai Zhengshun, Gao Qiang, Yu Weiping, Huang Jialu, Su Pinhua, Wang Wenzhen, Yu Kebing and Xie Lijun, all PRC domestic residents (the "PRC Residents"), have set up the Founder Companies, which are our corporate Shareholders. See "Share capital and Shareholders" for further information concerning our Shareholders. Pursuant to the New Notice, in May 2006, the PRC Residents filed the foreign exchange registration required by the SAFE Notice No. 75 with SAFE's local office in Jiangyin. As at the Latest Practicable Date, the PRC Residents had completed a supplemental registration with the local foreign exchange authority, and had given an undertaking to comply with the above requirements.

We cannot assure you that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB or issue new rules and regulations or further interpretations of the New Notice that will strengthen PRC foreign exchange controls. As our subsidiaries in the PRC generate substantially all our sales, any change in the relevant regulations to our detriment may limit our ability to repatriate our profits earned in the PRC for the distribution of dividends to our Shareholders.

Protection afforded to Shareholders under Singapore laws is limited as substantially all our assets and operations are located in the PRC

Our operations and significant assets are located in the PRC and are therefore subject to the relevant laws and regulations of the PRC. The Singapore Companies Act may provide our Shareholders with certain rights and protection for which there may be no corresponding or similar provisions under the relevant PRC laws and regulations. In addition, most of our Directors and Executive Officers are not resident in Singapore and their assets are located outside Singapore. As a result, it may be difficult for investors to effect service of process in Singapore, or to enforce a judgment obtained in Singapore against us or any of such persons. It may also be difficult for investors to take legal action against us or our substantial Shareholders in a foreign jurisdiction and the costs of bringing such action could be prohibitive.

RISKS RELATING TO AN INVESTMENT IN OUR SHARES

Future sales of Shares could adversely affect our Company's Share price

Any future sale or availability of our Shares in the public market can have a downward pressure on our Share price. The sale of a significant amount of Shares in the public market after the Offering, or the perception that such sales may occur, could materially and adversely affect the market price of our Shares. These factors also affect our ability to sell additional equity securities. We anticipate that our Directors, substantial Shareholders and their associates will collectively hold approximately 61.5% of our entire issued share capital after the Offering (assuming the Over-allotment Options are fully exercised). Although certain of our Shareholders, who in aggregate hold Shares representing 65.4% of our Company's entire issued share capital after the Offering (assuming the Over-allotment Options are fully exercised), are subject to moratorium, any substantial sale of our Shares over a short period of time after the expiry of the applicable moratorium period (where applicable) by such Shareholders could cause our Share prices to fall. Except as otherwise described in "Plan of distribution — Restrictions on Disposals and Issues of Shares", there are no restrictions on the ability of our substantial Shareholders to sell their Shares either on the SGX-ST or otherwise.

We are a holding company and rely on dividend payments from our subsidiaries for funding and for paying dividends on our Shares

We are a holding company incorporated in Singapore and operate our business through our subsidiaries in the PRC. Therefore, the availability of funds to us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. If our subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distribution to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted.

Our ability to declare dividends in relation to our Shares will also depend on our future financial performance, which, in turn, depends on successfully implementing our strategy and on financial, competitive, regulatory, and other factors, general economic conditions, demand and prices for our vessels, costs of raw materials and other factors specific to our industry or specific projects, many of which are beyond our control. The receipt of dividends from our subsidiaries may also be affected by the passage of new laws, adoption of new regulations or changes to, or in the interpretation or implementation of existing laws and regulations and other events outside our control. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including SFRS. PRC laws also require foreign-invested enterprises, such as our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities, convertible bonds instrument or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to make contributions to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

There has been no prior market for our Shares and the Offering may not result in an active or liquid market for our Shares

Prior to the Offering, there has been no public market for our Shares. Therefore, we cannot predict the extent to which a trading market will develop or how liquid that market might become. No assurance can be given that an active trading market for our Shares will develop or, if developed, will be sustained, or that the trading price for the Shares will not decline below the Issue Price. If an active trading market is not developed or sustained, the liquidity and trading price of our Shares could be materially and adversely affected. You should not take the listing as an indication of the merits of the Offering, our Company, our subsidiaries, our Shares (including the Offering Shares and Additional Shares).

Control of existing Shareholders may limit your ability to influence the outcome of decisions requiring the approval of Shareholders

After the Offering, we anticipate that our Directors, substantial Shareholders and their associates will collectively hold approximately 61.5% of our entire issued share capital. These Shareholders, acting together, will be able to significantly influence our corporate actions such as mergers or takeover attempts in a manner that could conflict with the interests of our public Shareholders.

Investors in our Shares will face immediate and substantial dilution in the NAV per Share and may experience future dilution

The Offering Price is substantially higher than our Group's NAV per Share of 20 Singapore cents (adjusted for the net proceeds from the Offering) as at 31 December 2006. Thus, there will be an immediate and substantial dilution in the NAV per Share to new investors. See "Dilution".

Additional funds raised through issuance of New Shares for our future growth will dilute shareholders' equity interest

We may, in the future, expand our capabilities and business through the expansion of our production capacities, acquisition, joint venture and strategic partnership with parties who can add value to our business. We may require additional equity funding after the Offering and our Shareholders will face dilution of their shareholdings should we issue New Shares to finance future expansion, acquisitions, joint ventures and strategic partnerships.

Our Share price may be volatile, which could result in substantial losses for investors acquiring our Shares in the Offering

The market price of our Shares may be volatile and could fluctuate significantly and rapidly in response to, *inter alia*, the following factors, some of which are beyond our control:

- variations in our operating results;
- success or failure of our management team in implementing business and growth strategies;
- gain or loss of an important business relationship;
- changes in securities analysts' recommendation, perceptions or estimates of our financial performance;
- changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;
- the liquidity of the market for our Shares;
- differences between our actual financial operating results and those expected by investors and analysts;
- additions or departures of key personnel;
- changes in general market conditions and broad market fluctuations; and
- involvement in litigation.

These fluctuations may be exaggerated if the trading volume of our Shares is low.

In addition, as a result of the relatively small market capitalisation of, and trading volume on, the SGX-ST, compared to certain other global stock exchanges, the market price of securities listed on the SGX-ST, including our Shares, may fluctuate more than those listed on larger global stock exchanges.

We may invest or spend the proceeds of the Offering in ways with which you may not agree

We have broad discretion in the way we invest or spend the proceeds of the Offering. We intend to use a portion of the proceeds from the Offering for general corporate purposes, which may include future acquisitions, capital expenditures and working capital. However, we do not have definite and specific commitments for any acquisitions and investments and our current intentions may not materialise. Because of the number and variability of factors that determine our use of offering proceeds, the actual uses may vary substantially from our current intentions to use net proceeds from the Offering as described in "Proceeds from the Offering".

Singapore laws contain provisions that could discourage a take-over of our Company

We are subject to the Singapore Code on Take-Overs and Mergers (the "Singapore Take-Over Code"). The Singapore Take-Over Code contains provisions that may delay, deter or prevent a future take-over or change in control of us. Under the Singapore Take-Over Code, any person

acquiring an interest, either individually or together with parties acting in concert, in 30.0% or more of our voting shares may be required to extend a take-over offer for our remaining voting shares in accordance with the Singapore Take-Over Code. A take-over offer is also required to be made if a person holding between 30.0% and 50.0% inclusive of the voting rights in us, either individually or in concert, acquires more than 1.0% of our voting shares in any six-month period. Although such take-over provisions are intended to protect the interests of shareholders by requiring any acquisitions of our Shares that may involve or threaten a change in control of our Company to also be extended to all Shareholders on the same terms, these provisions may discourage or prevent such transactions from taking place at all. Some of our Shareholders, which may include you, may therefore be disadvantaged as a transaction of that kind might have allowed the sale of Shares at a price above the prevailing market price.

RISKS RELATING TO OVERSEAS INVESTORS

Corporate disclosure and accounting standards in Singapore may vary from those in other jurisdictions

Publicly available information about companies that are publicly traded in Singapore, such as ours, may be different from that regularly made available by public companies in the United States and in other jurisdictions. These differences include the timing and extent of disclosure of beneficial ownership of equity securities of officers, directors and significant shareholders, the lack of official certification of disclosure and financial statements in periodic public reports, and the lack of disclosure of off-balance sheet transactions in management's discussion of Singapore Financial Reporting Standards, or SFRS, which differ in certain respects from US GAAP. See "Summary of certain differences between SFRS and US GAAP".

Overseas Shareholders may not be able to participate in future rights offerings or certain other equity issues we may make

If we offer to our Shareholders rights to subscribe for additional Shares or any right of any other nature, we will have discretion as to the procedure to be followed in making the rights available to our Shareholders or in disposing of the rights for the benefit of our Shareholders and making the net proceeds available to our Shareholders. We may choose not to offer the rights to our Shareholders having an address outside Singapore. For example, we will not offer such rights to our Shareholders who are US persons (as defined in Regulation S) or who have a registered address in the United States unless:

- a registration statement is in effect, if a registration statement under the Securities Act is required in order for us to offer such rights to holders and sell the securities represented by such rights; or
- the offering and sale of such rights or the underlying securities to such holders are exempt from registration under the provisions of the Securities Act.

We have no obligation to prepare or file any registration statement under the Securities Act. Accordingly, Shareholders who are US persons (as defined in Regulation S) or who have a registered address in the United States may be unable to participate in rights offerings and may experience a dilution in their holdings as a result.

Proceeds from the Offering

Proceeds

Based on the Maximum Offering Price of S$0.95 for each Offering Share, our net proceeds from the issue of 662,197,000 New Shares, after deducting our share of the commissions and other estimated offering expenses payable in relation to the issue and sale of the New Shares (estimated to be approximately S$27.4 million, representing approximately 4.4% of the gross proceeds received by us in the Offering) are estimated to be approximately S$601.7 million. A S$0.01 decrease in the Maximum Offering Price would reduce our gross proceeds from the Offering by approximately S$6.6 million.

We expect to utilise these proceeds in the following manner:

		Estimated Application of Net Proceeds	As a Percentage of Gross Proceeds Received by us in the Offering
		(S$ million)	(%)
(a)	The repayment of the loan undertaken by our Group in connection with the Restructuring Exercise from Lido Point Investments Ltd.[(1)]	7.6	1.3
(b)	The acquisition of an additional 25% shareholding interests in JNYS from SEAVI Advent Asia Investments (III) Ltd by our Company[(2)]	51.8	8.6
(c)	To partially finance the construction, and for working capital purposes, of the New Yard[(3)]	180.0	29.9
(d)	General corporate purposes	362.3[(4)]	60.2
Total net proceeds		601.7[(4)]	100.0

(1) Lido Point Investments Ltd. is a BVI company and our Executive Director Wang Dong owns 70.7% of its issued capital and the balance is held by Yu Kebing (20.0%) and Xie Lijun (9.3%). The Loan provided by Lido Point Investments Ltd. is for a principal amount of US$5.0 million, interest free and unsecured. See "Interested Person transactions and conflicts of interests — Present and on-going transactions with Interested Persons — Loan from Lido Point Investments Ltd".

(2) See "The Restructuring Exercise — The Restructuring Exercise — The JNYS Acquisition" for further details of this proposed acquisition and "Risk factors — Our acquisition of an additional 25.0% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of the risks we face in completing this acquisition.

(3) The shareholders of JNYS, including our Company, will provide shareholders' loans to JNYS to finance the completion of the construction of the New Yard and for working capital purposes of JNYS. The amount loaned by each shareholder of JNYS will be in proportion to its shareholding interest in JNYS. We have agreed to provide a S$180.0 million loan to JNYS which we intend to fund utilising our proceeds from the Offering. The S$180.0 million loan will be utilised towards the additional capital expenditure of RMB 833.6 million in 2007 to fund the completion of the construction of the New Yard. The loans by us and the other shareholders of JNYS to JNYS will be for a term of five years, will be unsecured and will not bear any interest. The loans will also be convertible, at the option of each shareholder of JNYS, including the Company, (subject to the requisite approvals being obtained from the relevant PRC authorities) into new equity interests in the registered capital of JNYS. The amount of equity interests that will be issued upon conversion will be determined by dividing the RMB equivalent of the converted loan by the conversion price of RMB2.00 or such other price determined by an independent valuer, in accordance with PRC laws. See "The Restructuring Exercise — The Restructuring Exercise — The JNYS Acquisition" for further details and "Risk factors — Risks relating to our business — Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of the risks we face with respect of the conversion of this loan into equity in JNYS.

(4) These amounts may vary depending on the Offering Price. See "Risk factors — Risks relating to an investment in our Shares — We may invest or spend the proceeds of the Offering in ways with which you may not agree" for a description of the risks you may face in connection with our use of the proceeds of the Offering.

Pending use of the net proceeds from the issue of the New Shares as aforesaid, the funds may be placed in short-term deposits with banks or financial institutions or invested in money market instruments as the Directors may deem fit. See "Risk factors — Risks relating to an investment in our Shares — We may invest or spend the proceeds of the Offering in ways with which you may not agree".

We expect that the timing and final amount of disbursements to be made for the foregoing purposes shall be determined by the Directors with a view to obtaining the optimum benefit for us. However, future events or developments, such as changes in economic, political or other conditions in the locations where we propose to make investments, or events which have a material adverse effect on the shipping industry in these locations, among other factors, may make a change in the use of the net proceeds from that specified above necessary or desirable, subject to the proper and timely public disclosure of such intended changes through SGXNET.

We will not receive any proceeds from the sale of the Vendor Shares by the Vendors, nor will we raise any proceeds from the exercise of the Over-allotment Options granted by Almond Beach Resources Corporation, Lido Point Investments Ltd. and Newyard Worldwide Holdings Ltd. In the opinion of the Directors, no minimum amount must be raised by the Offering.

Expenses

The expenses payable by us and the Vendors in connection with the Offering and the application for listing, including the underwriting and selling commission, and all other incidental expenses relating to the Offering, are estimated to amount to approximately S$41.1 million (assuming the Offering Price is the Maximum Offering Price), the breakdown of which is set out below:

	Expenses	As a Percentage of Gross Proceeds of the Offering
	(S$ million)	(%)
Underwriting and selling commission[(1)]	25.9	2.75
Professional and accounting fees	1.6	0.2
Fees payable to ICH Capital, the Financial Adviser	10.7	1.1
Other Offering-related expenses[(2)]	2.6	0.3
Printing and advertising	0.3	0.0
Total	41.1	4.35

(1) This does not include the discretionary incentive fee. See description below for details of the discretionary incentive fee payable to the Global Co-ordinator.

(2) These expenses include the fees payable to the SGX-ST and the Authority in connection with the Offering and the listing of our Company on the SGX-ST.

For each Singapore dollar of the proceeds from the Offering raised by us, approximately S$0.04 will be used to pay for expenses incurred in connection with the Offering.

See "Plan of distribution — The Offering" for a description of the commissions payable in connection with the Offering.

Each of our Company and the Vendors will pay the Underwriters, as compensation for their services in connection with the Offering, a combined underwriting and selling commission, amounting to 2.75% of the total gross proceeds of the Offering. The amount of the commission will be less than the amount mentioned above if the Offering Price is lower than the Maximum

Offering Price. Our Company and the Vendors may also pay the Global Co-ordinator a discretionary incentive fee not exceeding 0.5% of the gross proceeds. The Underwriters will pay up to US$1.7 million in related offering expenses on the Company and Vendor's behalf.

Our Company and the Vendors will also pay to ICH Capital, the Financial Adviser, an advisory fee equal to 1.0% of the gross proceeds of the Offering, payable in the proportion to which the total number of Offering Shares offered by each of them in the Offering bears to the total number of Offering Shares. See "Interested person transactions, and conflicts of interests — Past Transactions with Interested Persons — Provision of consultancy services by ICH Capital" for a description of the various fees payable by us to ICH Capital for consultancy services.

The table below summarises the commissions and expenses payable by us and the Vendors, excluding incentive fees (assuming the Offering Price is the Maximum Offering Price):

	Expenses (S$ million)
Underwriting and selling commission payable by us	17.3
Underwriting and selling commission payable by the Vendors	8.6
Expenses payable by us	3.3
Expenses payable by the Vendors	1.2
Fees payable by us to ICH Capital, the Financial Adviser	7.1
Fees payable by the Vendors to ICH Capital, the Financial Adviser	3.6
Total	41.1

Dividends

Statements contained in this "Dividends" section that are not historical facts are forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those which may be forecasted and projected. Under no circumstances should the inclusion of such information herein be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions by us, the Vendors, the Underwriters, the Financial Adviser or any other person. Investors are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. See "Notice to investors — Forward-looking statements".

Past dividend

JYS, our subsidiary, paid dividends of RMB3.8 million, RMB19.4 million and RMB423.0 million in 2004, 2005 and 2006, respectively. In addition, JYS declared an interim dividend of RMB308.0 million in respect of 2006, payable to persons who were shareholders of JYS prior to the Restructuring Exercise, which JYS intends to pay after the Offering.

Save as disclosed, no other dividends have been paid or are payable or have been proposed by our Company or our subsidiaries since 2004.

Dividend policy

Our Board of Directors has adopted a dividend policy that it believes appropriately reflects our Company's goals, strategy and risk profile while providing attractive long-term return to investors. We aim to pay a stable and preferably rising dividend over time, provided always that our results of operations and future investment requirements are duly taken into account. Our Company is a holding company and we depend upon the receipt of dividends from our subsidiaries to pay the dividends on our Shares.

Under our Company's cash dividend policy, we expect our annual cash dividends to be not less than 20.0% of our Company's distributable annual profit in 2007, 2008 and 2009 based on the recommendation of our Company's Board of Directors. Recommendations on the timing, amount and form of future dividends, if any, will depend, among other things, on our Company's:

- results of operations and cash flow;
- expected financial performance and working capital needs;
- future prospects; and
- capital expenditures and other investment plans,

as well as general economic and business conditions in the PRC, other factors deemed relevant by our Company's Board of Directors and statutory restrictions on the payment of dividends. The cash dividend policy may be changed by our Company's Board of Directors at any time.

Payment of cash dividends and distributions, if any, will be made in Singapore dollars to the CDP on behalf of shareholders who maintain, either directly or through depository agents, or securities accounts with the CDP.

We will not declare or paydividends in 2007, except as described above in "— Past dividend". Dividends relating to 2007 distributable annual profit, if any, will be declared and paid in 2008.

Exchange rates

The table below sets forth, for the periods indicated, certain information concerning the exchange rates between the RMB and the Singapore dollar and between the RMB and the US dollar (based on the Noon Buying Rate), rounded to two decimal places.

	RMB per Singapore dollar				RMB per US dollar			
	At Period End	Average	Low	High	At Period End	Average	Low	High
2004	5.07	4.90	4.79	5.07	8.28	8.28	8.28	8.28
2005	4.85	4.92	4.74	5.11	8.07	8.19	8.07	8.28
2006	5.09	5.02	4.86	5.13	7.80	7.97	7.80	8.07
September	4.98	5.02	4.98	5.07	7.90	7.93	7.90	7.95
October	5.06	5.01	4.96	5.06	7.88	7.90	7.87	7.92
November	5.09	5.05	5.04	5.09	7.83	7.86	7.83	7.88
December	5.09	5.08	5.05	5.09	7.80	7.82	7.80	7.84
2007								
January	5.06	5.07	5.05	5.10	7.77	7.79	7.77	7.81
February	5.07	5.06	5.04	5.08	7.74	7.75	7.74	7.76
March	5.09	5.08	5.04	5.29	7.72	7.74	7.72	7.75
April (through 3 April 2007)	5.09	5.09	5.09	5.09	7.73	7.73	7.73	7.73

As at the Latest Practicable Date, the closing exchange rates for S$/RMB and US$/RMB were S$1=RMB5.07 and US$1=RMB7.74, respectively.

The RMB/Singapore dollar exchange rates were obtained from rates quoted in Bloomberg L.P. and the RMB/US dollar exchange rates represent the Noon Buying Rates as quoted by the Federal Reserve Bank of New York and, in each case, have not been verified by our Company or the Vendors. We have included the exchange rates in its proper form and context in this document. Neither Bloomberg nor the Federal Reserve Bank of New York have consented to the inclusion of the above exchange rates for the purposes of Section 249 of the Securities and Futures Act, and are not liable for the above exchange rates under Sections 253 and 254 of the Securities and Futures Act.

Capitalisation and indebtedness

The following table sets forth our cash and cash equivalents, capitalisation and indebtedness as at 28 February 2007 on an actual basis, as adjusted to reflect:

- the conversion of the Convertible Notes into 128,700,000 Shares issued to the Strategic Investors, details of which are set out in "The Restructuring Exercise" (the "Conversion"); and
- our net proceeds from the Offering after deducting our share of the estimated expenses related to the Offering.

Except as described below, there has been no material change in our capitalisation and indebtedness since 28 February 2007. The information in this table should be read in conjunction with "Selected financial information and operating data", "Management's discussion and analysis of financial condition and results of operations" and our consolidated financial statements and the notes thereto included elsewhere in this document.

	As of 28 February 2007			
	Actual	As adjusted for the Conversion	As adjusted for the Conversion and our net proceeds from the Offering	
	RMB	RMB	RMB	US$
		(In thousands)		
Cash and cash-equivalents[2]	762,685	762,685	3,825,161	490,405
Short term borrowings — secured	190,351	190,351	190,351	24,404
Unsecured borrowings	39,015	39,015	39,015	5,002
Convertible Notes	155,814	—	—	—
Total borrowings	385,180	229,366	229,366	29,406
Total equity[3]	542,074	697,888	3,760,364	482,098
Total capitalisation and indebtedness	927,254	927,254	3,989,730	511,504

(1) A S$0.01 decrease in the Maximum Offering Price would reduce the total shareholders' equity by approximately S$6.6 million.

(2) Includes restricted cash amounting to RMB463,287,000.

(3) Includes minority interests in subsidiaries of the Group.

See "Management's discussion and analysis of financial condition and results of operations — Liquidity and capital resources — Borrowings" for a description of our borrowings.

Dilution

Dilution is the amount by which the price paid by the subscribers and/or purchasers of our Shares in the Offering exceeds the net asset value per Share after the Offering. We have determined the net asset value per Share by subtracting our total liabilities from the total book value of our assets excluding minority interests and dividing the difference by the number of Shares outstanding on 31 December 2006 after taking into account the Conversion and Share Split. See "The Restructuring Exercise" for a description of the Conversion and the Share Split.

As at 31 December 2006, our net asset value was S$71,942,240 and our net asset value per Share was S$0.03 based on 2,638,700,000 issued Shares after adjusting for the Conversion and the Share Split. After giving effect to the sale of the Offering Shares offered in the Offering (based on the Maximum Offering price of S$0.95 per Offering Share) and after payment of underwriting commissions and other estimated expenses of the Offering resulting in net proceeds to us of S$601.7 million, but without taking into account any other changes in book value of net assets after 31 December 2006, the net asset value per Share would increase to S$0.20 per Share. This represents an immediate dilution in net asset value per Share of S$0.75 or approximately 78.9% to new investors purchasing the Offering Shares at the Maximum Offering Price.

The following table illustrates this per Share dilution described above (assuming the Offering Price is the Maximum Offering Price):

	S$
Maximum Offering Price per Share	0.95
Net asset value per Share as at 31 December 2006 after adjusting for the Conversion and the Share Split (but before adjusting for the Offering)	0.03
Proforma net asset value per Share after the Offering (3,300,897,000 Shares outstanding as adjusted)	0.20
Dilution in net asset value per Share to new public investors	0.75
Dilution in net asset value per Share to new public investors (as a percentage of Offering Price)	78.9%

A S$0.01 decrease in the Maximum Offering Price would decrease our net asset value after this Offering by approximately S$6.6 million, assuming that the number of Offering Shares set out in this document remains the same and after deducting commissions and expenses of the Offering payable by us.

The following table summarises the total number of Shares acquired by our Shareholders during the three years prior to the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, the total consideration paid by them and the average effective cash cost per Share to our Shareholders and to our new public Shareholders pursuant to the Offering. Please refer to the section "Share capital and Shareholders — Interests in Shares" for details of the interests of our Directors in the Shares.

	Number of Shares acquired	Percentage of post-Offering issued share capital	Total consideration	Average Effective cash cost per Share
	(million)	(%)	(S$'000)	(S$)
Founder Companies	2,510.0	66.1	14,670.4	0.01
Strategic Investors	128.7	3.9	30,558.0	0.24[(1)]
New public Shareholders (excluding purchase of Vendor Shares)	662.2	20.0	629,087.2	0.95

(1) See "The Restructuring Exercise — The Restructuring Exercise — Investment by Strategic Investors" for details on certain adjustments that may take place and the Conversion.

Selected financial information and operating data

You should read the selected financial information presented below in conjunction with our consolidated financial statements and the related auditors' report contained elsewhere in this document. You should also see the section of this document entitled "Management's discussion and analysis of financial condition and results of operations". We derived the selected financial information from our audited consolidated financial statements as of and for the years ended 31 December 2004, 2005 and 2006. Our audited consolidated financial statements were prepared and presented in accordance with SFRS.

We intend to prepare and report our consolidated financial statements only in accordance with SFRS in subsequent periods. SFRS reporting practices and accounting principles differ in certain significant respects from US GAAP. For a discussion of differences between SFRS and US GAAP that are relevant to us, see "Summary of certain differences between SFRS and US GAAP".

SELECTED CONSOLIDATED INCOME STATEMENT

	Year Ended 31 December,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
	(In thousands except per share data)			
Revenue	988,829	1,532,572	2,324,984	298,075
Cost of sales	(794,223)	(1,228,104)	(1,828,533)	(234,427)
Gross profit	194,606	304,468	496,451	63,648
Other income	10,714	52,774	75,819	9,720
Other gains/(losses) — net	7,489	(5,857)	15,128	1,939
Expenses				
— Administrative	(24,828)	(34,644)	(57,995)	(7,435)
— Finance	(17,611)	(17,586)	(10,538)	(1,351)
Share of profit of associated companies	46	29	—	—
Profit before income tax	170,416	299,184	518,865	66,521
Income tax expense	(12,692)	(15,805)	(65,650)	(8,417)
Net profit	157,724	283,379	453,215	58,104
Attributable to:				
Equity holders of the Company	156,046	283,510	454,344	58,249
Minority interest	1,678	(131)	(1,129)	(145)
	157,724	283,379	453,215	58,104
Earnings per Share[(1)] attributable to equity holders of the Company (expressed in cents per Share)				
Basic	5.9	10.7	17.2	2.2
Diluted[(2)]	4.7	8.6	13.7	1.8

(1) We calculated our earnings per Share based on the number of shares outstanding prior to completion of the Offering and after (i) deducting the amount of our net profit attributable to minority interests and (ii) giving effect to the Conversion and the Share Split described in "The Restructuring Exercise".

(2) Adjusted for the issue of 662,197,000 New Shares.

SELECTED CONSOLIDATED BALANCE SHEET

	As of 31 December,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
	(In thousands except per Share data)			
ASSETS				
Current assets				
Cash and cash equivalents	138,013	188,863	215,592	27,640
Restricted cash	78,915	349,174	447,625	57,388
Financial assets, available-for-sale	7,484	5,505	300	38
Trade and bills receivables	186,783	269,590	294,214	37,720
Other receivables, prepayments and other current assets	591,134	1,257,628	2,229,642	285,851
Due from customer from construction contracts	476,806	452,658	140,973	18,073
Loan receivables from third parties	580,379	460,780	241,570	30,971
Inventories	116,016	63,589	75,939	9,736
	2,175,530	3,047,787	3,645,855	467,417
Non-current assets				
Property, plant and equipment	125,822	159,920	659,457	84,546
Lease prepayment	—	—	140,938	18,069
Intangible assets	—	—	168	22
Deferred income tax assets	—	—	5,130	658
Investment in associated companies	4,852	39,758	—	—
Loan receivables from third parties	—	436,000	664,000	85,128
	130,674	635,678	1,469,693	188,423
Total assets	**2,306,204**	**3,683,465**	**5,115,548**	**655,840**
LIABILITIES				
Current liabilities				
Trade and bills payables	302,044	157,906	144,260	18,495
Accruals, other payables and other current liabilities	212,162	293,318	894,193	114,640
Due to customer from construction contracts	684,117	1,839,228	3,137,945	402,301
Current income tax liabilities	33,667	49,369	86,045	11,031
Borrowings	597,971	559,299	229,366	29,406
Convertible loans	—	—	155,814	19,976
Derivative financial instruments	305	—	246	32
	1,830,266	2,899,120	4,647,869	595,881
Non-current liabilities				
Borrowings	50,000	90,351	—	—
Deferred income tax liabilities	—	58	—	—
	50,000	90,409	—	—
Total liabilities	**1,880,266**	**2,989,529**	**4,647,869**	**595,881**
NET ASSETS	**425,938**	**693,936**	**467,679**	**59,959**
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	110,000	110,000	110,037	14,107
Other reserves	25,120	44,801	(109,035)	(13,979)
Retained earnings	284,926	533,419	209,124	26,811
	420,046	688,220	210,126	26,939
Minority interests	5,892	5,716	257,553	33,020
Total equity	425,938	693,936	467,679	59,959
NAV per Share[(1)]	0.16	0.26	0.08	0.01

(1) We calculated our NAV per Share based on the number of shares outstanding prior to completion of the Offering and after (i) deducting the amount attributable to minority interests and (ii) giving effect to the Conversion and the Share Split described in "The Restructuring Exercise".

SELECTED CONSOLIDATED CASH FLOW STATEMENT

	Year Ended 31 December,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
		(In thousands)		
Net cash provided by operating activities	325,252	411,652	1,352,223	173,362
Net cash used in investing activities	(585,721)	(340,558)	(647,579)	(83,023)
Net cash provided by/(used in) financing activities	366,355	(14,974)	(684,072)	(87,702)
Net increase in cash and cash equivalents	105,886	56,120	20,572	2,637
Cash and cash equivalents at the beginning of the financial year	32,205	138,013	188,863	24,213
Effects of exchange rate changes on cash and cash equivalents	(78)	(5,270)	6,157	790
Cash and cash equivalents at the end of the financial year	**138,013**	**188,863**	**215,592**	**27,640**

Unaudited Proforma Financial Information

We have prepared and presented our unaudited proforma financial information based on our historical consolidated financial statements as of, and for the year ended, 31 December 2006 to illustrate the effect of our increased equity interest in JNYS as described in "The Restructuring Exercise — Increase in equity interests in JNYS" and the JNYS Acquisition (collectively, the "Acquisitions") and the conversion of convertible loan as described in "The Restructuring Exercise – Investment by Strategic Investors and the Conversion" (the "Conversion") as if the Acquisitions and the Conversion had occurred on January 1, 2006.

The following tables present our unaudited proforma income statement data for the year ended 31 December 2006, our unaudited proforma cashflow statement for the year ended 31 December 2006 and our unaudited proforma balance sheet data as at 31 December 2006. This unaudited proforma financial information has been derived from, and should be read in conjunction with, our unaudited proforma financial statements and the related notes thereto included elsewhere in this document, and the auditor's report regarding the examination of our unaudited proforma financial statements. See "Appendix F- Reporting Auditor's Report on the examination of the unaudited proforma financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries and the unaudited proforma financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries for the year ended 31 December 2006" for further details. We have prepared and presented our unaudited proforma financial information based on our historical financial statements to illustrate the effect of the Acquisitions in accordance with the procedures and adjustments described in Note 4 (Basis of Preparation and Compilation of the ProForma Financial Statements of the Group) of the notes to our unaudited proforma financial statements. In preparing our unaudited proforma financial information, we have made a number of assumptions and adjustments. Consequently, this financial information is not necessarily indicative of the results of operations that we would have realized if our Group had existed during all periods presented or the results of operations that we will realize in the future. The audited financial statements of the companies within our Group used in the preparation of the unaudited proforma financial information have been prepared in accordance with SFRS. For a discussion of certain significant differences between SFRS and US GAAP that are relevant to us, see "Summary of certain differences between SFRS and US GAAP".

It should be noted that the proforma financial statements was not prepared in connection with an offering registered with the United States Securities and Exchange Commission (the "SEC") under the Securities Act and consequently is not compliant with the SEC's rules on presentation of proforma financial statements. Furthermore, the work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it has been carried out in accordance with those standards. The review of the unaudited proforma financial statements was carried out in accordance with Singapore Statement of Auditing Practice 24: Auditors and Public Offering Documents". As such, a US investor, should not place reliance on the unaudited proforma financial statements included in this document.

UNAUDITED PROFORMA INCOME STATEMENT DATA

	Year Ended 31 December 2006	
	RMB	US$
	(In thousands)	
Revenue	2,324,984	298,075
Cost of sales	(1,828,533)	(234,427)
Gross profit	496,451	63,648
Other income	78,729	10,093
Other gains/(losses) — net	15,128	1,939
Expenses		
— Administrative	(59,705)	(7,654)
— Finance	(10,538)	(1,351)
Share of profit of associated companies	—	—
Profit before income tax	520,065	66,675
Income tax expense	(65,650)	(8,417)
Net profit	454,415	58,258
Attributable to:		
Equity holders of the Company	454,722	58,298
Minority interest	(307)	(40)
	454,415	58,258

UNAUDITED PROFORMA BALANCE SHEET DATA

	As of 31 December 2006	
	RMB	US$
	(In thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	—	—
Restricted cash	447,625	57,388
Financial assets, available-for-sale	300	38
Trade and bills receivables	294,214	37,720
Other receivables, prepayments and other current assets	2,229,642	285,852
Due from customer from construction contracts	140,973	18,073
Loan receivables from third parties	241,570	30,970
Inventories	75,939	9,736
	3,430,263	439,777
Non-current assets		
Property, plant and equipment	659,457	84,546
Lease prepayment	140,938	18,069
Intangible assets	168	22
Deferred income tax assets	5,130	657
Loan receivables from third parties	664,000	85,128
	1,469,693	188,422
Total assets	4,899,956	628,199
LIABILITIES		
Current liabilities		
Trade and bills payables	144,260	18,495
Accruals, other payables and other current liabilities	937,601	120,205
Due to customer from construction contracts	3,137,945	402,301
Current income tax liabilities	86,045	11,031
Borrowings	229,366	29,406
	4,535,217	581,438
NET ASSETS	364,739	46,761

UNAUDITED PROFORMA BALANCE SHEET DATA

	As of 31 December 2006	
	RMB	US$
	(In thousands)	
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	266,097	34,115
Other reserves	(109,035)	(13,979)
Retained earnings	80,059	10,264
	237,121	30,400
Minority interests	127,618	16,361
Total equity	364,739	46,761

UNAUDITED PROFORMA CASH FLOW STATEMENTS DATA

	Year Ended 31 December, 2006	
	RMB	US$
	(In thousands)	
Net cash provided by operating activities	**1,394,084**	**178,729**
Net cash used in investing activities	(903,669)	(115,855)
Net cash used in financing activities	(684,072)	(87,702)
Net decrease in cash and cash equivalents	(193,657)	(24,828)
Cash and cash equivalents at the beginning of the financial year	188,863	24,213
Effects of exchange rate changes on cash and cash equivalents	6,157	790
Proforma adjustments	(1,363)	(175)
Cash and cash equivalents at the end of the financial year	—	—

Management's discussion and analysis of financial condition and results of operations

In the following section we discuss our historical results of operations and financial condition for the years ended 31 December 2004, 2005 and 2006, and our management's assessment of the factors that may affect our prospects and performance in future periods. You should read the following discussion together with the section entitled "Selected financial and operating data" and our audited consolidated financial statements for the years ended 31 December 2004, 2005 and 2006, our unaudited proforma consolidated financial information and the related notes thereto, and other financial information appearing elsewhere in this document. This discussion and analysis contains forward-looking statements that reflect our current views and with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth under "Risk factors" and "Notice to investors — Forward-looking statements". We have prepared our financial statements in accordance with SFRS, which may differ in certain significant respects from generally accepted accounting principles in other countries. For a discussion of certain differences between SFRS and US GAAP, as applicable to our financial statements, see "Summary of certain differences between SFRS and US GAAP".

OVERVIEW

We are one of the leading shipbuilders in the PRC. We produce mainly containerships, mini bulk carriers, bulk carriers and multi-purpose cargo vessels. With the growth in our production, our revenue and net profits have increased from RMB988.8 million and RMB157.7 million, respectively, in 2004 to RMB2,325.0 million (US$298.1 million) and RMB453.2 million (US$58.1 million), respectively, in 2006.

In 2006 we delivered a total of 16 vessels, consisting of nine containerships, six dry bulk carriers and one other vessel, compared to 10 vessels in 2005, consisting of six containerships, four bulk carriers. In 2004, we delivered nine vessels, consisting of three containerships, four bulk carriers and two other vessels.

Our existing shipyard (the "Existing Yard"), which is located in Jiangyin city, in the Jiangsu province of the PRC, spans approximately 719 metres of deep-water coastlines and covers an area of approximately 200,000 sq m (excluding the coastal area). The estimated production was 166,910 CGT in 2006, 132,594 CGT in 2005 and 95,830 CGT in 2004.

We are currently constructing a new shipyard (the "New Yard"), which is located within the Jiangyin Economic Development District in Jingjiang city, in the Jiangsu province of the PRC, on the northern bank of the Yangtze River upstream from the Jiangyin Changjiang Bridge. Upon completion, our new shipyard will have access to approximately 1,200 metres of deep-water coastlines suitable for the construction and mooring of vessels of up to 300,000 DWT and will cover an area of approximately 793,000 sq m. In addition, the New Yard will be equipped with a dry dock that will be approximately 440 metres long and 96 metres wide and accommodate two 100,000 DWT vessels.

Our current customers include major shipowners based in Germany, Italy, the United Kingdom and Canada. In each of the past three years, we derived approximately 90% of our revenue from export sales.

From 1 January 2007 to the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, we received new orders amounting to RMB 1,783.9 million (US$228.7 million) with a combined tonnage of 104,036 CGT consisting of two 1,350 TEU containerships, two 2,500 TEU containerships and four 12,600 DWT mini bulk carriers, which we expect to deliver in 2009 and 2010.

We have only one business segment.

FACTORS AFFECTING OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A number of important factors have affected, and we expect will continue to affect, our business, financial condition, results of operations and prospects. These factors include:

Worldwide demand and pricing

Demand for commercial vessels

Demand for commercial vessels of the type that we manufacture and sell depend principally upon overall trends in the commercial shipping industry. The principal factors affecting shipbuilding demand in the segments in which we operate include:–

- Global GDP growth and seaborne trade growth;
- Prevailing commercial freight rates;
- Age and condition of existing fleet of commercial vessels;
- The cost of building new vessels compared to the cost of purchasing and/or repairing existing vessels; and
- Changes in laws or regulations that affect the types of ships that can be used to transport specified cargo, such as crude oil.

We believe that the following factors in particular could affect industry-wide demand and pricing for the principal types of commercial vessels we produce:

Containerships. We believe that growth in the global economy and increases in world trade have brought about the recent growth in the shipping industry and increased demand for containerships as more products have been unitised. Continued economic growth, world trade and containerisation of products are necessary to sustain the demand for our containerships and we expect that the current trend of shipowners' preferences to achieve economies of scale by replacing smaller, less efficient vessels with larger, more technologically advanced ships should continue to spur demand in this sector. However, the expected economies of scale from larger containerships may be limited due to size restrictions in ports and potential imbalances in cargo volumes on major trading routes.

Bulk carriers. Bulk carrier fleet demand is affected primarily by growth in global seaborne trade. The growth for these carriers has been strong in Asia, where the PRC has had significant demand for basic materials, such as ore and coal. Bulk carrier operators have enjoyed robust freight rates in the last few years and have steadily increased their fleets to take advantage of these favourable freight rates. As the world bulk carrier fleet has grown and has been significantly replaced over the last three years, bulk carrier freight rates have also declined from their peak in 2005 as a result of the new capacity coming on stream. Hence, we believe that the replacement demand will have a limited impact on bulk carrier volumes due to the young fleet age and existing large fleet.

Pricing. New vessel prices are largely determined by the supply of shipbuilding berths and demand for new vessels. Various other factors also influence the price of new vessels, including:

- Vessel prices vary according to the particular specifications of the new vessel. For example, custom designed vessels built to meet a buyer's specific requirements typically cost more than ships ordered in accordance with a shipyard's standard specifications;

- Certain shipbuilding countries have a competitive advantage over their competitors due to lower labour and raw material costs, enabling their shipyards to offer customers lower prices. PRC shipyards benefit from low-cost skilled labour, availability of steel through the numerous steel mills in the country and incentives such as preferential borrowing interest rates for domestic shipbuilders; and
- The size of a particular order can also have an impact on price. Shipbuilders can achieve economies of scale associated with larger orders, both in respect to the size of the vessel and the number of vessels, and therefore are generally willing to offer price discounts for larger orders.

New vessel prices for different ship types move, to a large extent, in parallel with one another so that a reduced demand in one sector may reduce prices in another sector. New vessel prices are a function of the supply of berths to the whole market and not just to individual sectors.

Capacity limitations

Our production capacity is limited by, amongst other things, the size of our shipyards, the number, size and capacities of our slipways, berths, docks (including dry docks to be constructed at the New Yard) and our plant and equipment. In addition, the size and capacity of the vessels we construct is limited by the locations at which we operate. Currently, we are limited to the construction of vessels of up to 55,000 DWT and containerships with a loading capacity of up to 2,500 TEU at the Existing Yard. These limitations have restricted our ability to expand our business by constructing larger vessels, for which we believe there is greater demand and on which we believe we can achieve better profit margins, and by increasing our annual output.

Although we do not expect to complete our New Yard until October 2007, we commenced construction of two vessels in the New Yard in January 2007 and expect to deliver them in 2008. Since we recognise revenue and costs on the percentage of completion method, we commenced recognizing revenue and costs in respect of these two vessels from January 2007. We also expect to recognise revenue and costs in respect of other vessels that we plan to commence constructing at our New Yard in 2007.

Upon completion of the New Yard, we anticipate that we will be able to build vessels of up to 300,000 DWT and containerships with a loading capacity of up to 6,000 TEU, and to expand the types of vessels we can construct to include Panamax and Aframax chemical tankers and offshore vessels. See "Risk factors — Risks relating to our business — We cannot assure you that the New Yard will become operational as scheduled or operate as efficiently as planned" and "Risk factors — Risks relating to our business — Our future growth and expansion is limited by our production capacities and the location at which we operate" for a description of certain risks related to our New Yard.

Our lease of the land use rights for the land on which our Existing Yard is situated will expire at the end of 2013. This land is currently slated by the PRC government for development in or around 2014 after the expiry of the Existing Yard's lease. Thus, unless we are able to increase our production capacity at our New Yard to compensate for the loss of the capacity of our Existing Yard before the expiration of this lease, our production capacity will decrease upon expiration of the lease.

Order backlog and new orders

The new orders that we receive for the construction of vessels and our order backlog, or order book, have a significant effect on our future revenues. We generally accept orders for construction of vessels to be delivered up to three years from the date of the order. As of 31 December 2006, we had orders for vessels to be delivered from 2007 through 2010. We typically take 12 to 14 months to construct and deliver a vessel to our customers. See "Business — Construction process" for a description of the steps involved in constructing our vessels.

We accept orders for different types of ships based on a number of factors, including:

- the margins we expect to achieve on the different types of vessels we construct;
- our expertise, which we believe is greater in constructing containerships than in certain other types of vessels;
- the reputation of the shipowners placing the orders; and
- our projected capacity during the period in which the vessel would be required to be constructed.

Our order backlog or order book as of any date represents the total stated contact value of orders not yet delivered *minus* the portion of revenue in respect of those orders that we have recognised using the percentage-of-completion method, all as translated into RMB at the relevant RMB-US dollar exchange rate.

New orders for any period represents our order backlog at the end of the period *minus* order backlog at the beginning of the period *plus* revenues recognised during the period, all as translated into RMB at the relevant RMB-US dollar exchange rate. Because of the effect of foreign currency translations on the calculation of new orders for financial statement purposes, the amount of new orders for any period will not necessarily reflect the stated contract value of those new orders in US dollars.

We have set out in the table below certain information relating to our total order backlog or order book for vessels as of the dates indicated, for each of our principal products.

	As of 31 December,									
	2004			2005			2006			
	CGT	Contract Value	% of Contract Value	CGT	Contract Value	% of Contract Value	CGT	Contract Value		% of Contract Value
		RMB (In millions)			RMB (In millions)			RMB (In millions)	US$ (In millions)	
Containerships	333,716	5,438.0	89.1	399,659	7,257.4	83.5	889,697	16,361.4	2,097.6	75.8
Mini bulk carriers/ multi purpose cargo	58,901	661.6	10.9	98,861	1,269.7	14.6	335,784	5,216.6	668.8	24.2
Others	116	n.m.	n.m.	11,133	169.1	1.9	—	—	—	—
Total	392,734	6,099.6	100.0	509,653	8,696.2	100.0	1,225,481	21,578.0	2,766.4	100.0

(1) Order backlog means the total contract value of orders not yet delivered minus the portion of sales revenue already recognised in respect thereof using the percentage of completion method.

We have set out in the table below the contracted delivery schedule for each of our principal products for which we had orders as of 31 December 2006.

	2007		2008		2009		2010	
	Number of Vessels	CGT	Number of Vessels	CGT	Number of Vessels	CGT	Number of Vessels	CGT
Containerships	9	137,462	15	261,584	22	442,307	8	167,356
Mini bulk carriers/multi purpose cargo	5	39,310	8	59,558	8	71,827	—	—
Bulk Carriers	—	—	—	—	6	129,159	4	86,106
Others	—	—	—	—	—	—	—	—
Total	14	176,772	23	321,142	36	643,293	12	253,462

We have set out in the table below, for the periods indicated, the yard at which we intend to construct the vessels for which we had orders as of 31 December 2006, based on our contracted delivery schedule.

	2007		2008		2009		2010	
	Number of Vessels	CGT	Number of Vessels	CGT	Number of Vessels	CGT	Number of Vessels	CGT
Existing Yard	14	176,772	16	189,860	19	253,458	4	65,150
New Yard	—	—	7	131,283	17	389,835	8	188,312
Total	14	176,772	23	321,142	36	643,293	12	253,462

Since we recognise our revenue on the percentage-of-completion method as we construct each vessel, the state of our order book at any particular date is not necessarily indicative of the revenue we will recognise in any particular future period. For a description of how we recognise our revenue, see "— Critical accounting policies — Revenue recognition".

We have set out in the table below certain information relating to the value of the new orders we received during the periods indicated, for each of our principal products.

	As of 31 December,									
	2004			2005			2006			
	CGT	Contract Value	% of Contract Value	CGT	Contract Value	% of Contract Value	CGT	Contract Value		% of Contract Value
		RMB (In millions)			RMB (In millions)			RMB (In millions)	US$ (In millions)	
Containerships	250,340	3,930.1	90.1	167,811	3,066.1	74.3	618,550	10,845.0	1,390.4	71.3
Mini bulk carriers/ multi purpose cargo	40,496	433.0	9.9	70,686	894.0	21.7	275,204	4,361.8	559.20	28.7
Others	—	—	—	11,016	169.1	4.1	—	—	—	—
Total	290,836	4,363.1	100.0	249,513	4,129.2	100.0	893,754	15,206.7	1,949.6	100.0

(1) New orders for any period represents order backlog at the end of the period minus order backlog at the beginning of the period plus the portion of sales revenue we recognised during the period using the percentage of completion method.

From 1 January 2007 to the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, we received new orders amounting to RMB 1,783.9 million (US$228.7 million) with

a combined tonnage of 104,036 CGT consisting of two 1,350 TEU containerships, two 2,500 TEU containerships and four 12,600 DWT mini bulk carriers, which we expect to deliver between 2009 and 2010.

See "Appendix G — Certain information relating to our order book" for additional information regarding our order book as of the date of the lodgment of the Singapore Preliminary Prospectus with the Authority.

Fluctuations in foreign currency exchange rates

A substantial portion of worldwide ship sales are conducted in US dollars while a shipyard's underlying costs are mostly paid in local currency. Thus, we receive a substantial portion of our revenues in US dollars, but the majority of our costs are denominated in either RMB, for labour and steel costs, or the Euro, for imported equipment. To the extent our revenue and costs are not denominated in RMB, our reporting currency, we are exposed to changes in exchange rates. Any increase in the value of the RMB relative to the US dollar would reduce the value of our revenue, as reported in RMB and increase our costs of sales as a percentage of total sales, thereby adversely affecting our results of operations.

We enter into fixed price, principally US dollar denominated, contracts to construct vessels up to three years before scheduled delivery. Although we typically receive between 10% and 20% of the contract price from the shipowners as an advance upon signing the contracts, we do not receive the balance of the contract price until we achieve certain milestones during the 12 to 14 months during which we construct the vessel. Since we cannot adjust the prices on these contracts to account for changes in exchange rates, we are exposed to changes in exchange rates during this period.

Since we are limited by the options to hedge our foreign exchange risk in the PRC, we typically convert the US dollars we receive as advances into RMB upon receipt.

We incurred foreign exchange losses of RMB78,000 or 0.05% of our profit before tax in 2004, RMB5.3 million (not including foreign currency gain from financing) or 1.8% of our profit before tax in 2005, RMB201,000 (US$26,000) (not including foreign currency gains from financing) or 0.04% of our profit before tax in 2006.

Although our options to hedge our foreign exchange risk have been limited, we have occasionally used foreign currency forward contracts to manage our currency risk. Commencing in 2007, we have engaged in, and may continue to engage in the hedging of our foreign currency exposure through forward exchange rate contracts in an effort to mitigate the impact of foreign exchange fluctuations. As of the Latest Practicable Date, we had four outstanding forward currency contracts for the sale of US dollars. A brief description of the forward currency sale contracts is set out below:

Settlement Dates	Aggregate Contract Amount	Description
	(US$ in millions)	
Between 16 July 2007 and 7 January 2008	54.0	Sale of US$ at exchange rates of between US$1.00= RMB7.5491 to US$1.00=RMB7.6454
Between 28 February 2008 and 7 August 2008	21.5	Sale of US$ at exchange rates of between US$1.00= RMB7.4306 to US$1.00=RMB7.5163
Between 14 March 2008 and 26 December 2008	52.0	Sale of US$ at exchange rates of between US$1.00= RMB7.363 to US$1.00=RMB7.5107
Between 14 November 2008 and 15 December 2008	36.0	Sale of US$ at exchange rates of between US$1.00= RMB7.3707 to US$1.00=RMB7.3856

We believe that with the establishment of our Company in Singapore as the holding company for our Group, we will have additional options at our disposal to assist us in managing these risks and we may in the future enter into currency forward or other derivative contracts in an effort to minimize our exposure to these risks.

Fluctuations in the prices of, and the availability of, raw materials and equipment

The major components of our cost of sales are raw materials, such as steel and other materials, and equipment and other components, such as pumps, propellers and engines. Raw materials as a percentage of our cost of sales was 75.3%, 75.5% and 65.0% in 2004, 2005 and 2006, respectively. Shortages in the supply of raw materials we use may result in an increase in the cost of these raw materials or failure to deliver the vessels on schedule. Cost of certain raw materials, such as steel, may also fluctuate in line with any changes in their global supply and demand.

Steel, which is the principal raw material we use for construction of vessels, constituted 29.6%, 36.8% and 19.6% of our cost of sales in 2004, 2005 and 2006 respectively. Steel prices have been particularly volatile in recent years and steel supply in China is currently constrained due to high demand, including for the Chinese shipbuilding industry. We expect this tight supply of steel to continue through at least a part of 2007. See "Industry — Shipbuilding Costs" for a description of the fluctuations in prices of Chinese steel plate in recent years. We purchase all our steel from domestic suppliers, principally Chongqing Iron and Steel Co., Ltd. (重庆钢铁股份有限公司), Shanghai Sangang Thin Plates Co., Ltd. (上海三钢薄板有限责任公司), Ningbo Clear Commodity Co., Ltd. (宁波清源物资有限公司) and Nanjing Iron & Steel Co., Ltd. (南京钢铁股份有限公司). We have established a long-term relationship with our suppliers. We make advances to some of our suppliers to secure confirmed quantities of steel and in an effort to ensure that we can continue to purchase steel at competitive prices.

We rely heavily on the importation of marine equipment and other shipping related components that are not manufactured domestically. For example, the specifications of shipowners for certain types of vessels may require the installation of imported engines. We often compete with our competitors for these components due to the strong global demand, which has led to a bottleneck in the supply of components, resulting in delays in the delivery of such components. In the event that our raw material costs increase significantly, our results of operation will be adversely affected. See "Risk factors — Risks relating to our business — We are exposed to the risk of increases in the price of our raw materials" for a description of our risks with respect to our raw material prices.

Productivity

Our production volumes, margins and profitability depend to a significant extent on our production efficiencies. We use the number of labour days (which we define as our total labour cost of production divided by RMB35, the typical daily wage of our production workers) as a key measure of our productivity. CGT is a measurement of shipbuilding output and capacity used to estimate the amount of work involved in building a ship. Our productivity, based on this measure, has increased from requiring approximately 288,231 labour days (excluding the labour days required in the production planning and procurement stage but including the labour days of our subcontract labour and production workers) in 2004 to 265,322 labour days in 2006 to produce a 1,850 TEU and 18,755 CGT containership, and from requiring approximately 115,866 labour days in 2004 to 98,054 labour days in 2006 to produce a 7,600 DWT or 6,749 CGT mini bulk carrier due principally to better scheduling and sequencing of production.

Our productivity is also affected by the number of hours we operate. We plan to increase the number of shifts for certain of our processes, which we expect will increase our productivity.

Although we have not experienced any significant shutdowns in the past, any significant shutdowns in the future would adversely affect our productivity.

Cost of skilled labour

Competition for skilled shipyard labour and engineers in the PRC is intense and as we and others expand our and their operations, this competition may increase. We may from time to time, experience an inability to attract and retain highly skilled employees or increased costs to do so. Labour shortages could increase our production cost and hinder our productivity and ability to meet our customers' delivery schedule. Further, we utilise subcontract labour and production workers in our shipyards on a regular basis. In the event that we are unable to secure required subcontract labour and production workers at an acceptable cost or with the required skill sets, we may face an increase in cost, delay in delivery schedule and a decrease in quality of our vessels which could lead to an adverse impact on our results of operations.

Depreciation and amortisation expenses

We expect our depreciation expenses to increase as a result of the construction of our New Yard. We had property, plant and equipment with a carrying value on our books of RMB135.2 million (US$17.3 million) as of 31 December 2006 and RMB119.0 million as of 31 December 2005, that was subject to depreciation. Our total depreciation and amortisation expenses in 2006 were RMB18.6 million (US$2.4 million). We had construction in process with a carrying value of RMB524.3 million (US$67.2 million) as of 31 December 2006. Substantially all of this construction in process relates to construction of the New Yard. As of 31 December 2006, we have committed to incur additional capital expenditure of RMB348.0 million in 2007. We may, however, incur amounts in excess of these amounts due to changes in the price of materials and equipment, changes in planned construction or other reasons. We also expect that approximately RMB141.0 million in land rights for the New Yard will become amortisable in 2007. We began to realise depreciation and amortisation on a portion of these amounts in the first quarter of 2007. Thus, we expect our depreciation expenses to increase in 2007 and particularly in 2008 as well as in future periods.

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our revenue comprises mainly ship construction contract revenue. We recognise our revenue from ship construction contracts based on the percentage-of-completion method. As a result, the timing and recognition of our revenue differs from the timing of the actual contract payments we receive. For a description of how we recognise our revenue, see "— Critical accounting policies — Revenue recognition".

The following table shows our revenue from each of our principal products for periods indicated.

	For the year ended 31 December,						
	2004	%	2005	%	2006	2006	%
	RMB		RMB		RMB	US$	
				(In millions)			
Vessel Type							
Containerships	754.2	76.3	1,246.7	81.3	1,741.0	223.2	74.9
Mini bulk carriers/multi purpose cargo[1]	197.2	19.9	285.9	18.7	416.1	53.3	17.9
Others[2][3]	37.4	3.8	—	—	167.9	21.5	7.2
Total	988.8	100.0	1,532.6	100.0	2,325.0	298.0	100.0

(1) Although these vessels are classified as multi-purpose cargos by Clarksons, our customers classify them as mini bulk carriers.

(2) Other vessels consist of self-unloading vessels, multi-purpose AHTS vessels, chemical tankers or lighters.

(3) Includes RMB167.9 million (US$21.5 million) in 2006 derived from the sale of a vessel the manufacture of which we outsourced to a third party shipyard.

We derive our sales revenue mainly from countries such as Germany, United Kingdom, China, Singapore and Europe. The following table sets out our revenues by geographic region for the periods indicated based on customer location.

	For the year ended 31 December,						
	2004	%	2005	%	2006	2006	%
	RMB		RMB		RMB	US$	
				(In millions)			
Country							
Germany	860.0	87.0	1,168.6	76.2	1,662.4	213.1	71.5
Other European Countries	53.9	5.4	193.0	12.6	260.7	33.4	11.2
Singapore	—	—	171.0	11.2	232.8	29.8	10.0
China	74.9	7.6	—	—	169.1	21.7	7.3
Total	988.8	100.0	1,532.6	100.0	2,325.0	298.0	100.0

Cost of sales

Our cost of sales comprises mainly steel purchases, other materials, imported equipment, sub-contract labour and outsourcing costs. Outsourcing includes that portion of construction that we outsource to third parties outside our shipyard. In 2006, we outsourced the complete construction of a vessel of 11,016 CGT at a total cost of approximately RMB157.0 million (US$20.1 million).

The table below sets out the principal components of our cost of sales for the periods indicated.

	For the year ended 31 December,						
	2004	%	2005	%	2006	2006	%
	RMB		RMB		RMB	US$	
				(In millions)			
Cost of sales							
Steel plates	234.8	29.6	451.7	36.8	357.9	45.9	19.6
Other materials[(1)]	197.8	24.9	279.2	22.7	322.9	41.4	17.7
Imported equipment[(2)]	165.3	20.8	196.8	16.0	508.3	65.2	27.8
Subcontract labour[(3)]	68.4	8.6	87.3	7.1	99.1	12.7	5.4
Outsourcing to third parties[(4)]	27.3	3.4	67.7	5.5	301.4	38.6	16.5
Others	100.6	12.7	145.4	11.9	238.9	30.6	13.0
Total	794.2	100.0	1,228.1	100.0	1,828.5	234.4	100.0

(1) Other materials includes furniture, paint and other miscellaneous items for installation in vessels or used in connection with construction.

(2) Imported equipment includes imported engines and other imported items specified by our customers for installation in vessels.

(3) Includes RMB4.0 million (US$0.5 million) in subcontract labour costs in 2006 for the construction of three ships which we outsourced to a third party shipyard.

(4) Includes RMB157.0 million (US$20.1 million) in outsourcing costs in 2006 for the construction of a vessel which we outsourced to a third party shipyard.

Our costs incurred in respect of vessels under construction, but which had not reached the stage of construction at which we begin recognising revenue and costs of sales, were RMB212.2 million (US$27.2 million) as of 31 December 2006 (of which approximately RMB110.0 million was the cost of steel), RMB107.7 million as of 31 December 2005 and RMB73.7 million as of 31 December 2004. These costs incurred as of 31 December 2006 will be recognised in 2007 when we reach the stage of construction of the vessels at which we begin to recognise revenue and costs of sales. These amounts are reflected in our consolidated financial statements in "due from/(to) customers for construction contracts". See Notes 4.6 and 19 of the Notes to our consolidated financial statements for a further explanation of how we account for these amounts.

Other income

Our other income comprises interest income on entrusted loans, loans to third parties and cash and cash equivalents and subsidy income. See "— Entrusted loans" for a discussion of our entrusted loans.

Other gains/(losses) — net

Our other gains/(losses) — net comprises gain/(loss) on disposal of property, plant and equipment, provision for impairment of property, plant and equipment, gain/(loss) on disposal of available-for-sale financial assets, derivative financial instruments, loss on disposal of associates, guarantee fees received, sales of metal structures and others.

Expenses

Administrative Expenses. Our administrative expenses mainly comprise employee benefit expenses, staff bonuses, depreciation charges, operating lease rental paid for land use rights and coastline rights, legal expenses and foreign exchanges losses.

Finance Costs. Our finance costs — net comprise mainly interest on bank borrowings and net foreign exchange gains. Our weighted average effective interest rates at the respective balance sheet dates were between 3.1% p.a. and 4.5% p.a. in 2004, between 2.8% p.a. and 4.6% p.a. in 2005 and between 3.3% p.a. and 5.4% p.a. in 2006.

Share of profit of associated companies

Share of profit of associated companies includes our share of the profit of companies in which we held a significant interest, but did not control. As of 31 December 2006, we no longer held any interests in associated companies.

Income tax expense

Our income tax expense reflects the amount of income taxes we are required to pay on our taxable income in the PRC. See "— Taxes" for further information regarding the taxes we are required to pay.

Net profit attributable to minority interests

Net profit attributable to minority interests represents that portion of our net profit of our consolidated subsidiaries that is attributable to their minority shareholders. Net profit attributable to minority interests as a percentage of our net profit will vary from year to year based upon the profit (loss) of each of our consolidated subsidiaries that has minority shareholders and upon the interests of the minority shareholders in each year. Although our net profit attributable to minority interests was not significant in 2004, 2005 or 2006, we expect it to increase in future periods as we commence recognition of revenue generated by Jiangsu New Yangzi Shipbuilding Co. Ltd, our consolidated subsidiary that owns the New Yard. As of 31 December 2006, minority shareholders owned 49.8% of this subsidiary. We plan to purchase an additional 25.0% of the shares of Jiangsu New Yangzi Shipbuilding Co. Ltd upon completion of this Offering, which would reduce the interests of its minority shareholders to 24.8%. See "Risk factors — Risks relating to our business — Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of risks to which this planned acquisition is subject.

CRITICAL ACCOUNTING POLICIES

We have prepared our financial statements contained elsewhere in this document in accordance with SFRS. Note 4 of Notes to our consolidated financial statements includes a summary of the significant accounting policies and methods we used in preparing these financial statements. Preparation of our financial statements required our management to make estimates and judgments that affect the reported amount of our assets, liabilities, revenue and expenses as well as the disclosure of our contingent assets and liabilities. Our actual results may differ significantly under different assumptions or conditions. The accounting policies that we believe are the most critical to a full understanding and evaluation of our reported financial results include the following:

Revenue recognition

We are engaged in constructing various types of vessels under fixed price, principally US dollar denominated, contracts to construct vessels that we typically enter into up to three years before scheduled delivery. We generally complete and deliver a vessel between 12 to 14 months after we commence construction. We use the percentage-of-completion method to recognise the revenue we derive from construction contracts in process. We typically commence recognising revenue after we have incurred approximately 20% of the budgeted cost of a vessel. Under this method, we recognise revenue and cost of sales based on the percentage of costs incurred to date (including labour hours and raw material costs) as compared to total budgeted costs (as adjusted to take into account actual costs if different from budgeted costs) for each contract. As a result, the timing of recognition of revenue and expenses we report may differ materially from the timing of the actual contract payments we receive and expenses we pay. Our estimates of these amounts reflect information newly arising during the construction process.

In 2006, if the proportion of contract costs incurred to the estimated total cost had been 10% more than what we estimated, our revenue would have increased by RMB157.3 million (US$20.2 million). If the proportion of contract costs incurred to the estimated total cost had been 10% less than what we estimated, our revenue would have decreased by RMB291.7 million (US$37.4 million).

We make provisions with respect to expected losses on contracts in progress are foreseeable in the period in which the losses are determined. To the extent that those provisions result in a reduction of previously reported profits on a project, we recognise a charge against current earnings.

We reflect any revenue that we recognise on a contract in excess of the payments we have received as due from customers from construction contracts on our balance sheet. We reflect the amount by which receipts from customers exceeds the revenue recognised as due to customer from construction contracts on our balance sheet.

See Notes 4.6 and 5.1(iv) of Notes to our consolidated financial statements for a further description of the manner in which we recognise our revenue.

Property, plant and equipment

The net book value of our property, plant and equipment as of 31 December 2006 was RMB659.5 million (US$84.6 million), of which RMB524.3 million (US$67.2 million) was construction in process and not subject to depreciation in 2006 and RMB135.2 million (US$17.3 million) was depreciable property. We depreciate our property, plant and equipment using the straight line method over their estimated useful lives. Our estimates of useful life are based upon our historical experience with property, plant and equipment of a similar nature and function, and other factors. These estimates could change significantly as a result of technical innovations, obsolescence, competitor action in response to industry cycles and other factors. See Notes 4.4 and 5.1(i) of Notes to our consolidated financial statements for a further description of our policies applicable to our property, plant and equipment.

We amortise our land rights on a straight line basis over 50 years.

We made a provision for an impairment loss of RMB3.1 million (US$0.4 million) in 2005 with respect to certain warehouse, workshop and assembly areas located on our premises. Due to their condition, we reduced the carrying amounts of these assets to their recoverable amounts in 2005. In 2006, we disposed of these assets leading to the reversal of the provision of the impairment loss.

Deferred income tax

We recognise deferred income tax using the liability method on temporary differences between the accounting and taxation treatment of our revenue and expenses. We recognise deferred tax assets when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, we re-assess all deferred tax assets and recognise them only at the value we expect to benefit from them. We make an assessment of deferred tax assets and liabilities using the tax rate in effect, or which we expect to be in effect, in the period in which we expect to benefit form the assets or pay for the liabilities. See Notes 4.17 and 5.1(ii) of Notes to our consolidated financial statements for a further description of our deferred tax policies.

Impairment of trade receivables

We review our trade receivables at each balance sheet date and determine whether we should make any provision for non-payment. We have not made any provisions for impairment of our trade receivables for the years ended 31 December 2004, 2005 or 2006 or experienced any losses on our trade receivables during these periods.

RESULTS OF OPERATIONS

The following table sets forth certain income and expense items of our statement of income data as a percentage of our revenue for the periods indicated.

	Year Ended December 31,		
	2004	2005	2006
	(as a percentage of revenue)		
Revenue	100.0	100.0	100.0
Cost of Sales	80.3	80.1	78.6
Gross Profit	19.7	19.9	21.4
Other income	1.1	3.4	3.3
Other gains/losses — net	0.7	0.4	0.7
Expenses:			
Administrative expenses	2.5	2.3	2.5
Finance expenses	1.7	1.1	0.5
Total expenses	4.2	3.4	3.0
Share of profit of associated companies	n.m.	n.m.	—
Income tax expenses	1.3	1.0	2.8
Net profit	16.0	18.5	19.5
Net profit attributable to:			
Equity holders of the Company	15.8	18.5	19.5
Minority interest	0.2	n.m.	n.m.

2006 compared to 2005

Revenue. Our revenue increased 51.7% to RMB2,325.0 million (US$298.1 million) in 2006 from RMB1,532.6 million in 2005. This increase was primarily attributable to the general increase in the price of vessels due to increasing demand, increases in production and in the production of larger vessels, which are of higher value, in 2006 compared to 2005. Based on our CGT output, our production, excluding the CGT output of a vessel which we outsourced to a third party shipyard, increased 25.88% to 166,910 CGT in 2006 compared to 132,594 CGT in 2005. Our revenue in 2006 included RMB167.9 million (US$21.5 million) from the sale of the vessel, the construction of which we had outsourced.

Cost of sales. Our cost of sales increased 48.9% to RMB1,828.5 million (US$234.4 million) in 2006 from RMB1,228.1 million in 2005. This increase was primarily attributable to increases in our volume of production, the cost of imported materials, such as engines, outsourcing and other materials, partially offset by decreases in the cost of steel. The cost of our imported materials increased in 2006 principally as a result of customer specifications that required imported engines and other higher cost components for vessels under construction during the year. Our outsourcing costs in 2006 included RMB157.0 million (US$20.1 million) for the construction of a vessel that we outsourced to a third party shipyard. Our cost of steel plate decreased in 2006 principally as a result of lower steel prices during the year. As a percentage of total revenues, our cost of sales was 78.6% in 2006 compared to 80.1% in 2005.

Gross profit. Our gross profit increased 63.1% to RMB496.5 million (US$63.7 million) in 2006 from RMB304.5 million in 2005. As a percentage of our revenue, our gross profit was 21.4% in 2006 compared to 19.9% in 2005. The increase in our gross profit was primarily due to decreases in steel prices.

Other income. Our other income increased 43.6% to RMB75.8 million (US$9.7 million) in 2006 from RMB52.8 million in 2005, primarily as a result of increased interest received on entrusted loans, loans to third parties and on cash and cash equivalents in banks. As the volume of our business grew in 2006, we received increased cash advances from customers, which we invested in entrusted loans and deposited in banks. The effect of the increase in the amount of loans outstanding and deposits was partially offset by decreases in interest rates on entrusted loans and third party loans to 6.0% to 10.0% in 2006 from 6.9% to 10.0% in 2005, and in interest rates received on bank deposits to approximately 1.3% in 2006 from approximately 1.7% in 2005.

Other gains/(losses) — net. Our other gains/(losses) — net increased to a gain of RMB15.1 million (US$1.9 million) in 2006 from a loss of RMB5.9 million in 2005, primarily as a result of penalty income received in 2006 from a supplier that failed to provide steel materials on schedule, gain on disposal of available-for-sale financial assets and sales of scrap metal, partially offset by losses on disposal of associated companies and subsidiaries.

Expenses. Our expenses increased 31.2% to RMB68.5 million (US$8.8 million) in 2006 from RMB52.2 million in 2005.

Administrative expenses. Our administrative expenses increased 67.6% to RMB58.0 million (US$7.4 million) in 2006 from RMB34.6 million in 2005, primarily as a result of increases in employee benefits. Total employee benefits (including those recognised in cost of sales) increased to RMB44.2 million (US$5.7 million) in 2006 from RMB31.6 million in 2005. We increased staff bonuses significantly in 2006 to compensate our staff for our increased financial performance. We also had increases in salaries, payments for land use rights and other expenses in 2006, which were partially offset by a decrease in foreign exchange losses realised resulting from the appreciation of the RMB against most other major currencies in 2006. In 2005, the PRC government unpegged the exchange rate between the RMB and the US dollar and as a result there was a significant appreciation of RMB against other major currencies. As the majority of our

receipts were in US dollars, we incurred a foreign exchange loss in 2005 due to the appreciating RMB. However, the rate of the RMB appreciation was more gradual in 2006 and as we had increased the selling prices of our vessels to reflect the cost incurred as a result of the appreciating RMB, the foreign exchange loss we suffered in 2006 was lower compared to 2005.

Finance expenses. Our finance expenses decreased 40.3% to RMB10.5 million (US$1.3 million) in 2006 from RMB17.6 million in 2005, primarily as a result of increases in foreign exchange gains realised in connection with loan repayments in 2006. We had loans of RMB40.4 million denominated in US dollars as of 31 December 2006 compared to loans of RMB189.7 million denominated in US dollars as of 31 December 2005. Our interest expense decreased due to the overall decrease of RMB149.3 million in borrowings. We benefited from the appreciating RMB as we required less RMB to repay the principal due in 2006.

Share of profit of associated companies. We disposed of our associated companies in 2005 and therefore did not recognise profits from any associated companies in 2006.

Profit before tax. Our profit before tax increased 73.4% to RMB518.9 million (US$66.5 million) in 2006 from RMB299.2 million in 2005. As a percentage of our revenue, our profit before tax was 22.3% in 2006 compared to 19.5% in 2005.

Income tax expense. Our income tax expense increased 315.8% to RMB65.7 million (US$8.4 million) in 2006 from RMB15.8 million in 2005 as a result of the increases in our profit before tax. Our income tax expense in 2006 and in 2005 was partially offset by tax holidays available to our subsidiary, Jiangsu Yangzijiang Shipbuilding Co. Ltd, which was entitled to a tax exemption in 2005 and a 50% reduction in tax rate in 2006. These provisions resulted in a decrease in our income taxes of RMB58.9 million (US$7.6 million) in 2006 and of RMB55.7 million in 2005.

Net profit. Our net profit increased 59.9% to RMB453.2 million (US$58.1 million) in 2006 from RMB283.4 million in 2005. As a percentage of our revenue, our net profit was 19.5% in 2006 compared to 18.5% in 2005.

Net profit attributable to minority interest. The portion of our net loss attributable to holders of our minority interests in our subsidiaries increased to RMB1.1 million (US$0.1 million) in 2006 from RMB0.1 million in 2005.

2004 Compared to 2005

Revenue. Our revenue increased 55.0% to RMB1,532.6 million in 2005 from RMB988.8 million in 2004. This increase was primarily attributable to the general increase in the price of vessels due to increasing demand, increases in production and in the production of larger vessels, which are of higher value, in 2005 compared to 2004. Based on our CGT output, our production increased 38.4% to 132,594 CGT in 2005 compared to 95,830 CGT in 2004. We did not outsource the construction of any vessel in 2004 or 2005.

Cost of sales. Our cost of sales increased 54.6% to RMB1,228.1 million in 2005 from RMB794.2 million in 2004. This increase was primarily attributable to increases in the cost of steel plate (both as a result of increased volumes and increased prices), other materials, outsourcing and imported materials, such as engines (primarily as a result of increased volumes). As a percentage of total revenues, our cost of sales was 80.1% in 2005 compared to 80.3% in 2004.

Gross profit. Our gross profit increased 56.5% to RMB304.5 million in 2005 from RMB194.6 million 2004. As a percentage of our revenue, our gross profit was 19.9% in 2005 compared to 19.7% in 2004. The increase in gross profit was mainly due to a significant increase in production and in the production of higher value vessels without a proportionate increase in cost of sales. Although the cost of steel increased significantly in the first half of 2005, we were able to increase production

without increasing labour due to higher labour efficiencies which offset the increases in steel prices and also improved our gross profit margin from 19.7% in 2004 to 19.9% in 2005.

Other income. Our other income increased 393.5% to RMB52.8 million in 2005 from RMB10.7 million in 2004, primarily as a result of increased interest received on entrusted loans, loans to third parties and on cash and cash equivalents in banks. As the volume of our business grew in 2005, we received increased cash advances from customers for new orders we received in the year, which we invested in entrusted loans and loans to third parties, and deposited in banks.

Other gains/(losses) — net. Our other gains/(losses) — net decreased to a loss of RMB5.9 million in 2005 from a gain of RMB7.5 million in 2004. Our losses in 2005 were primarily attributable to a provision of RMB3.1 million for impairment representing a reduction in the carrying amounts on our balance sheet of a warehouse, workshop and assembly area to their recoverable amounts. In addition, in 2005 we had losses on sales of publicly listed securities in the PRC we held for investment and on disposal of associated companies. In 2004, we received guarantee fees of RMB4.0 million relating to guarantees we provided on behalf of unrelated parties in 2004 and RMB3.7 million for sales of scrap metal, which were partially offset by losses on sales of publicly listed securities in the PRC and on our foreign exchange contracts.

Expenses. Our expenses increased 23.1% to RMB52.2 million in 2005 from RMB42.4 million in 2004.

Administrative expenses. Our administrative expenses increased 39.5% to RMB34.6 million in 2005 from RMB24.8 million in 2004, primarily as a result of increases in employee benefits. Total employee benefits (including those recognised in cost of sales) increased to RMB31.6 million in 2005 from RMB30.4 million in 2004. We increased staff bonuses in 2005 to compensate our staff for our increased financial performance. We had foreign exchange losses of RMB5.3 million in 2005, which arose when we converted US dollar receipts into RMB and subsequently, from RMB to Euro to fund the purchase of equipment to be installed in vessels. The RMB appreciated against major currencies when it was de-pegged in 2005.

Finance expenses. Our finance expenses were substantially unchanged at RMB17.6 million in 2005. Increases in the interest on our bank borrowings increased in 2005 were partially offset by foreign exchange gains. We had loans of RMB 189.7 million denominated in US dollars as of 31 December 2005 compared to loans of RMB 115.9 million denominated in US dollars as of 31 December 2004. Although interest expense increased in 2005 due to an overall increase of RMB 73.8 million in borrowings, the proportion of US dollar denominated loans was higher than in 2004. We benefited from the appreciating RMB as we required less RMB to repay the interest due in 2005.

Share of profit of associated companies. Our share of profit from associated companies decreased 37.0% to RMB0.03 million in 2005 from RMB0.05 million in 2004.

Profit before tax. Our profit before tax increased 75.6% to RMB299.2 million in 2005 from RMB170.4 million in 2004. As a percentage of our revenue, our profit before tax was 19.5% in 2005 compared to 17.2% in 2004.

Income tax expense. Our income tax expense increased 24.4% to RMB15.8 million in 2005 from RMB12.7 million in 2004 as a result of the increases in our profit before tax. Our income tax expense in 2005 and in 2004 was partially offset by tax holidays available to our subsidiary, Jiangsu Yangzijiang Shipbuilding Co. Ltd, which was entitled to a tax exemption in 2005 and in 2004. These provisions resulted in a decrease in the income taxes we would have otherwise been required to pay of RMB55.7 million in 2005 and of RMB26.8 million in 2004.

Net profit. Our net profit increased 79.7% to RMB283.4 million in 2005 from RMB157.7 million in 2004. As a percentage of our revenue, our net profit was 18.5% in 2005 compared to 16.0% in 2004.

Net profit attributable to minority interest. The portion of our net loss attributable to holders of minority interests in our subsidiaries was RMB0.1 million in 2005. Our minority interest share of profit in 2004 was RMB1.7 million as a result of our minority shareholders sharing in profit of subsidiaries in which they held a minority interest.

LIQUIDITY AND CAPITAL RESOURCES

We have traditionally met our working capital and other capital requirements primarily from net cash generated by operating activities (including advance payments from shipbuilding activities), borrowings from financial institutions and credit granted by our suppliers.

Net Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the periods indicated:

	Year Ended December 31,			
	2004	2005	2006	2006
	RMB	RMB	RMB	US$
		(In thousands)		
Net cash provided by (used in) operating activities:				
Cash flow from operating activities before changes in working capital	193,260	286,594	469,876	60,240
Changes in operating assets and liabilities	151,459	145,454	936,521	120,067
Interest paid	(17,611)	(20,293)	(20,070)	(2,573)
Income taxes paid	(1,856)	(103)	(34,104)	(4,372)
Total	325,252	411,652	1,352,223	173,362
Net cash provided by (used in) investing activities:				
Loans made to third parties	(580,379)	(700,180)	(604,070)	(77,445)
Loan repayments received from third parties	5,000	383,779	635,280	81,446
Purchase of property, plant and equipment	(10,396)	(41,117)	(399,446)	(51,211)
Others — net	54	16,960	(279,343)	(35,813)
Total	(585,721)	(340,558)	(647,579)	(83,023)
Net cash provided by (used in) financing activities:				
Repayments of borrowings	(290,800)	(629,421)	(556,124)	(71,298)
Proceeds from borrowings	630,971	633,807	139,015	17,822
Proceeds from convertible loan	—	—	156,060	20,008
Dividends paid	(3,816)	(19,360)	(423,023)	(54,234)
Others	30,000	—	—	—
Total	366,355	(14,974)	(684,072)	(87,702)
Net increase in cash and cash equivalents	105,886	56,120	20,572	2,637
Cash and cash equivalents at year end	138,013	188,863	215,592	27,640

Net cash provided by operating activities

Our net cash provided by operating activities includes funds generated from our operating activities and net cash inflows or outflows from changes in our operating assets and liabilities.

In 2006, our net cash provided by operating activities was RMB1,352.2 million (US$173.4 million), consisting of net cash flows from operations before changes in working capital of RMB469.9 million (US$60.2 million) and cash inflows from changes in operating assets and liabilities of RMB936.5 million (US$120.1 million), which were partially offset by payments of interest of RMB20.1 million (US$2.6 million) and taxes of RMB34.1 million (US$4.4 million). Our net cash inflows from changes in operating assets and liabilities were due primarily to increases in the amount by which our amounts due to customers on construction contracts exceeded our amounts due from customers on construction contracts of RMB1,611.0 million (US$206.5 million) and increases in our accruals, other payables and other current liabilities of RMB244.7 million (US$31.4 million). Our amounts due to customers on construction contracts represent the amount by which our receipts from customers under construction contracts exceeded the revenue we recognised on those contracts during the year. These amounts were partially offset by increases in our other receivables, prepayments and other assets of RMB770.6 million (US$98.8 million), including increases in advances to suppliers, advances to agents and deposits for lease of land use rights, and increases in our restricted cash of RMB98.5 million (US$12.6 million), consisting primarily of cash deposited in banks to secure performance guarantees, letters of credit and notes payable.

In 2005, our net cash provided by operating activities was RMB411.7 million, consisting of net cash flows from operations before changes in working capital of RMB286.6 million and cash inflows from changes in operating assets and liabilities of RMB145.5 million, which were partially offset by payments of interest of RMB20.3 million and taxes of RMB0.1 million. Our net cash inflows from changes in operating assets and liabilities were due primarily to increases in the amount by which our amounts due to customers on construction contracts exceeded our amounts due from customers on construction contracts of RMB1,179.0 million, increases in our accruals, other payables and other current liabilities of RMB88.4 million, and decreases in inventories of RMB52.4 million. These amounts were partially offset by increases in our other receivables, prepayments and other assets of RMB667.1 million, consisting primarily of increases in advances to suppliers, increases in our restricted cash of RMB270.3 million, and decreases in our trade and bills payable of RMB154.2 million.

In 2004, our net cash provided by operating activities was RMB325.3 million, consisting of net cash flows from operations before changes in working capital of RMB193.3 million and cash inflows from changes in operating assets and liabilities of RMB151.5 million, which were partially offset by payments of interest of RMB17.6 million and taxes of RMB1.9 million. Our net cash inflows from changes in operating assets and liabilities were due primarily to increases in the amount by which our amounts due to customers on construction contracts exceeded our amounts due from customers on construction contracts of RMB308.9 million, increases in our trade and bills payable of RMB103.9 million, and increases in our accruals, other payables and other current liabilities of RMB84.4 million. These amounts were partially offset by increases in our other receivables, prepayments and other assets of RMB187.1 million, consisting primarily of increases in advances to suppliers; increases in our inventories of RMB75.8 million; and increases in our restricted cash of RMB61.8 million.

Net cash used in investing activities

In 2006, our net cash used in investing activities was RMB647.6 million (US$83.0 million). Our net cash used in investing activities consisted principally of loans granted to third parties of RMB604.1million (US$77.4 million); purchases of property, plant and equipment of RMB399.5 million (US$51.2 million), consisting principally of construction in process of fabrication facilities and drydocks for the New Yard; the acquisition by the Company of Jiangsu Yangzijiang Shipbuilding Co. Ltd in a reverse acquisition for RMB200.7 million (US$25.7 million); and acquisition of additional interests in Jiangsu New Yangzi Shipbuilding Co., Ltd net of the cash acquired in the acquisition of RMB163.2 million (US$20.9 million). These amounts were partially offset by loan repayments received of RMB635.3 million (US$81.4 million).

In 2005, our net cash used in investing activities was RMB340.6 million. Our net cash used in investing activities consisted principally of loans granted to third parties of RMB700.2 million; purchases of property, plant and equipment of RMB41.1 million consisting principally of the construction of the new 5,000 DWT pier and warehouse; the acquisition of available-for-sale financial assets of RMB38.0 million; and the acquisition of Jiangsu New Yangzi Shipbuilding Co., Ltd. and Jiangyin Runzhou Steel Structure Engineering Co., Ltd for RMB37.5 million. These amounts were partially offset by loan repayments received of RMB383.8 million, interest received of RMB51.8 million and the proceeds of the sale of available-for-sale financial assets of RMB39.1 million.

In 2004, our net cash used in investing activities was RMB585.7 million. Our net cash used in investing activities consisted principally of loans granted to third parties of RMB580.4 million, the acquisition of available-for-sale financial assets of RMB19.6 million, and purchases of property, plant and equipment of RMB10.4 million. These amounts were partially offset by proceeds of the sale of available-for-sale financial assets of RMB12.2 million.

Net cash provided by (used in) financing activities

In 2006, our net cash used in financing activities was RMB684.1 million (US$87.7 million), consisting primarily of repayments of borrowings of RMB556.1 million (US$71.3 million) and payments of dividends to our Shareholders of RMB423.0 million (US$54.2 million), partially offset by proceeds from borrowings and convertible loans of RMB295.1 million (US$37.8 million).

In 2005, our net cash used in financing activities was RMB15.0 million, consisting primarily of repayments of borrowings of RMB629.4 million and payments of dividends to our Shareholders of RMB19.4 million, partially offset by proceeds from borrowings of RMB633.8 million.

In 2004, our net cash provided by financing activities was RMB366.4 million, consisting of proceeds from borrowings of RMB631.0 million and an increase in paid in capital of RMB30.0 million, partially offset by repayments of borrowings of RMB290.8 million.

Borrowings

We had short-term borrowings of RMB229.4 million (US$29.4 million), no long-term borrowings and convertible loans outstanding of RMB155.8 million (US$20.0 million) as of 31 December 2006. We had borrowings of RMB649.7 million outstanding as of 31 December 2005 and of RMB648.0 million outstanding as of 31 December 2004.

Our short term borrowings of RMB229.4 million (US$29.4 million), consisting of the following loans:

- a loan of RMB100.0 million to finance the building and the exporting of a vessel to a client in Germany from the Export-Import Bank of China Nanjing Branch. The loan bears interest at 3.51% per annum and matures on 30 December 2007 and is secured by a corporate guarantee from Anhui Technical Import & Export Co., Ltd., one of our shipping agents;
- loans of RMB50.0 million and US$5.0 million to finance the building of a containership from the Export-Import Bank of China Nanjing Branch. The loan bears interest at 2.97% per annum for the RMB50.0 million amount, and 5.43% per annum for the US$5.0 million amount. The loans mature on 21 May 2007 and are secured by a guarantee from Industrial Bank Co., Ltd., Nanjing Branch; and
- a loan of US$5.0 million from Lido Point Investments Ltd. The loan is interest free and unsecured. See "Interested person transactions and conflicts of interests — Loan from Lido Point Investments Ltd." for more information on this loan.

As the Export-Import Bank of China is not a commercial bank but a government entity approving the preferential loans, the loans are disbursed and administered by Industrial Bank Co., Ltd. Nanjing Branch.

On 13 June 2006, pursuant to an investment agreement (the "Investment Agreement") between (i) our Company, (ii) SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P and Gemini Asia Growth Inc. (collectively, the "Strategic Investors"), and (iii) Ren Yuanlin, Wang Dong and Xiang Jianjun, and Ren Jinhua (collectively, the "Key Persons"), we issued an aggregate of US$20 million of redeemable convertible notes to the Strategic Investors. On 16 March 2007, the US$20 million of redeemable convertible notes were converted into an aggregate of 128,700,000 Shares (see "Share Capital and Shareholders — Interests in Shares" for further details). On 16 March 2007, the Founder Companies agreed to make certain cash payments to the Strategic Investors in the event that the market value of the 128,700,000 Shares held by them, based on the Offering price which will be determined on the Price Determination Date (the "IPO Value"), is less than S$50.93 million. The amount of cash payments will be the difference between S$50.93 million and the IPO Value. They have also agreed to make certain other cash adjustments which will be calculated with reference to the average US dollar/RMB exchange rate for the period of five days up to and including the Price Determination Date.

See Notes 28 and 29 of Notes to consolidated financial statements for a further description of our borrowings and convertible loans.

Although we intend to fund a portion of our future development from existing financial resources, from cash flow from operating activities and a portion of the proceeds of this Offering, we may incur additional indebtedness in the future to finance all or a portion of our planned capital expenditures or for other purposes.

CAPITAL EXPENDITURES, ACQUISITIONS AND DIVESTMENTS

Capital expenditures

Our capital expenditures were RMB678.2 million (US$87.0 million) in 2006, RMB51.1 million in 2005 and RMB10.4 million in 2004. In 2006, our capital expenditures were attributable primarily to construction in process of fabrication facilities and drydocks for the New Yard. See "Business — Production facilities and utilisation rates" for a description of our New Yard.

Our capital expenditures in 2005 and 2004 were primarily attributed to the construction of the new 5,000 DWT pier and warehouse for the coastline that we leased from Jintai Steel, which is part of our Existing Yard.

We plan to make additional capital expenditures totaling approximately RMB833.6 million in 2007 to fund completion of construction of our New Yard. We may also incur additional capital expenditures in the event we decide to acquire other shipyards or purchase equipment to build FPSO vessels. See "Business — Strategy — Expand our business by building larger vessels and diversifying into offshore vessels" for a description of our strategy of diversifying into FPSO vessels, and See "Business — Strategy — Increase our capacity through acquisitions" for a description of our strategy of acquiring existing yards to increase our capacity.

We plan to fund completion of the New Yard in 2007 from a portion of the proceeds we receive from this Offering. See "Proceeds from the Offering" for a further description of our planned use of the proceeds we expect to receive.

Our actual capital expenditures may differ from the amounts set out above due to various factors, including our future cash flows, results of operations and financial condition, changes in the PRC economy, the availability of financing on terms acceptable to us, technical or other problems in

obtaining or installing equipment, changes in the regulatory environment in the PRC and other factors. We may also pursue new expansion through internal development, acquisitions of existing operations, investments in other businesses, or joint ventures with third parties.

Acquisitions

In 2006, we increased our ownership of Jiangsu New Yangzi Shipbuilding Co., Ltd. from approximately 11.5% to approximately 50.2% through the acquisition of shares and subscription for new shares for an aggregate consideration of RMB 232.0 million (US$29.7 million). In addition, the Company acquired 100% of the shares of Jiangsu Yangzijiang Shipbuilding Co., Ltd. in a transaction accounted for as a reverse acquisition for cash consideration of US$34.3 million and the issuance of 2,727 shares in our Company representing approximately 27.3% of our total issued share capital. The Company financed the reverse acquisition with the proceeds of the issuance of US$20 million redeemable convertible notes and a loan of US$5.0 million from Lido Point Investment Ltd to various investors and certain of our Executive Directors. See " The Restructuring Exercise" and Notes 2.1, 2.2 and 2.3 of Notes to consolidated financial statements for a further description of these transactions.

On 16 March 2007, we agreed to purchase an additional 25.0% interest in Jiangsu New Yangzi Shipbuilding Co., Ltd. for an aggregate consideration of approximately US$33.3 million, which we expect to complete after this Offering. Our obligation to purchase this interest is conditional upon the Completion of this Offering. We plan to use a portion of the proceeds of this Offering to purchase this interest, which would increase our ownership of Jiangsu New Yangzi Shipbuilding Co. Ltd to approximately 75.2%. See "Proceeds from the Offering" for a further description of our planned use of the proceeds we expect to receive and "Risk factors — Risks relating to our business — Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of certain risks to which our planned acquisition of these shares is subject.

Divestments

In 2006, we sold our interests in YZJ Ship Engrg, Sumeida, Runzhou and Zhangjiagang for an aggregate consideration of RMB 24.7 million (US$3.2 million). See "The Restructuring Exercise — The Restructuring Exercise" and Note 2.5 of Notes to consolidated financial statements for a further description of these transactions.

In 2005, Jiangyin Ulstein Yangzijiang Ship Building, our associated company, was liquidated at a loss of RMB1.1 million.

FINANCIAL RESOURCES

As of 31 December 2006, we had aggregate cash and cash equivalents RMB215.6 million (US$27.6 million), compared to RMB188.9 million as of 31 December 2005, and RMB138.0 million as of 31 December 2004.

We expect to receive approximately RMB601.7 million from the net proceeds of this Offering. See "Proceeds from the Offering" for a description of the proceeds we expect to receive from these offerings and how we intend to use them.

As of 9 March 2007, we had no unused amounts available under our loan facilities.

Although we intend to fund a portion of our future development from existing cash resources and from cash flow from operations, we may incur additional indebtedness to finance all or a portion of our planned capital expenditures or for other purposes. In addition, depending on our

capital requirements, market conditions and other factors, we may raise additional funds through debt or equity offerings or the sale or other disposition of shares or assets.

Our Directors are of the view that we have adequate working capital for our present requirements and that our net cash generated from operating activities, together with cash and cash equivalents, and the net proceeds from the Offering, will provide sufficient funds to satisfy our working capital requirements and anticipated capital expenditure for the next 12 months. We may, however, incur additional indebtedness to finance all or a portion of our planned capital expenditures or for other purposes. In addition, depending on our capital requirements, market conditions and other factors, we may raise additional funds through debt or equity offerings or the sale or other disposition of shares or assets. See "Risk factors – We may invest or spend the proceeds of the Offering in ways with which you may not agree".

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarises our contractual cash obligations and commitments as of 31 December 2006.

	Payment Due by Period				
	Total	Year Ended 31 December 2007	Year Ended 31 December 2008	Year Ended 31 December 2009	After 31 December 2009
	(RMB in millions)				
Committed capital expenditures	348.0	348.0	—	—	—
Operating Leases[(1)]	24.0	6.5	5.9	1.9	9.7
Others[(2)]	504.9	346.9	97.3	60.7	—
Total	876.9	701.4	103.2	62.6	9.7

(1) Includes operating lease commitments in respect of land use rights and coastline use rights.

(2) Includes purchases of raw materials and equipment for the building of the vessels contracted by our customers.

Our actual expenditures for certain of the items and periods shown above may substantially exceed the amounts shown above due to commitments entered into after 31 December 2006, and other factors. We plan to spend approximately RMB833.6 million on the construction of our New Yard in 2007. Between 1 January 2007 and the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, our committed capital expenditures increased by RMB24.4 million, primarily relating to committed capital expenditures for our New Yard.

OFF-BALANCE SHEET ARRANGEMENTS

We have various contractual obligations, some of which we are required to record as liabilities in our consolidated financial statements, such as our borrowings. However, we are not required to record certain other contractual obligations, such as guarantees, letters of credit and lease commitments, in our consolidated financial statements.

Guarantees

Guarantees of obligations of other companies. As of 31 December 2006, we had guarantees in the aggregate principal amount of approximately RMB71.5 million (US$9.2 million). Our principal guarantees related to the guarantees of the outstanding obligations of Anhui Technical Import & Export Co., Ltd. (one of our agents), Zhangjiagang (formerly one of our associated companies) and Jiangyin Liyong Cotton Textile Co., Ltd. Our guarantee on behalf of Anhui Technical backs up a guarantee they provided on our behalf for certain of our borrowings. Our guarantee on behalf

of Jiangyin Liyong is a counter-guarantee in respect of performance guarantees issued by banks on our behalf that they have guaranteed. The guarantees provided to Zhangjiagang has since been discharged. As of 31 December 2005 and 2004, these amounts were approximately RMB239.0 million and RMB111.6 million, respectively. If any of these borrowers were to default under these guaranteed obligations, we would be obligated to pay the principal plus any accrued interest and penalties due to the lending banks.

Guarantees in support of performance guarantees granted by banks on behalf of our agents. As of 31 December 2006, we had guaranteed the obligations of our agents in respect of performance guarantees granted by banks to our customers guaranteeing our performance on shipbuilding contracts in the aggregate amount of approximately RMB1,214.6 million (US$155.7 million). As of 31 December 2005 and 2004, these amounts were approximately RMB516.9 million and RMB230.9 million, respectively. For a description of these guarantees, see "Business — Sales and marketing".

The following table shows the amounts and maturities of these guarantees for the periods indicated.

	As at 31 December,			
	2004	2005	2006	As at the Latest Practicable Date
	(RMB in thousands)			
1 to 2 years	—	163,099	285,420	588,899
2 to 3 years	167,268	188,175	379,800	379,800
Over 3 years	63,646	165,634	549,420	549,420
Total	230,914	516,908	1,214,640	1,518,119

Guarantees in support of performance guarantees granted by banks. As of 31 December 2006, we had provided guarantees in respect of performance guarantees granted by banks to our customers guaranteeing our performance on shipbuilding contracts in the aggregate amount of approximately RMB1,708.6 million (US$219.1 million). As of 31 December 2005 and 2004, these amounts were approximately RMB406.7 million and RMB182.1 million, respectively. For a description of these guarantees, see "Business — Sales and marketing".

The following table shows the amounts and maturities of these guarantees for the periods indicated.

	As at 31 December,			
	2004	2005	2006	As at the Latest Practicable Date
	(RMB in thousands)			
Within 1 year	87,897	2,889	393,130	370,367
1 to 2 years	47,100	10,179	842,042	842,042
2 to 3 years	47,100	193,776	473,402	895,862
Over 3 years	—	199,884	—	—
Total	182,097	406,728	1,708,574	2,108,271

Letters of Credit

We are required to provide letters of credit from our banks to certain of our suppliers when we order equipment and supplies. As of 31 December 2006, the aggregate amount outstanding under these letters of credit was RMB79.9 million (US$10.2 million). As of 31 December 2005 and 2004, these amounts were RMB13.9 million and RMB12.5 million, respectively.

Operating Lease Commitments

As of 31 December 2006 and 2005, we had outstanding commitments on leases of land use and coastline rights totalling approximately RMB24.0 million (US$3.1 million), and RMB15.7 million, respectively.

ENTRUSTED LOANS

In addition to our core business of shipbuilding, we derive a portion of our income from interest earned on entrusted loans we grant to third party enterprises through agent banks. As we receive advance payments from our customers under our shipbuilding contracts, we use a portion of the advance payments as entrusted loans to third parties for the period during which we do not anticipate using the funds. Borrowers generally approach our agent banks for loans, and the agent banks refer the borrowers to us for our consideration. We engage in these investing activities because the interest rates we can earn on these entrusted loans is higher than the interest rate we would receive on time deposits with domestic banks. Apart from time deposits with domestic banks, we have had limited options available to invest our cash in the PRC.

Currently, the PRC prohibits loans between business enterprises in the PRC. For a description of these prohibitions, see "Appendix D — Description of relevant PRC laws and regulations — 9. Laws relating to provision of loans". The penalty for breaching these regulations, which is only imposed on the lender, is a fine of one to five times the interest charged on the loan. To comply with these regulations, we enter into contractual arrangements with various financial institutions, including Shanghai Pudong Development Bank, China Everbright Bank and China Construction Bank, appointing the financial institutions as agent banks to grant loans on our behalf. The agent banks charge a fee to the borrowers for acting in this capacity. Jingtian & Gongcheng, our PRC legal adviser, has advised us that they are of the opinion that the Entrusted Loans are legal, valid and enforceable under PRC laws and regulations and do not contravene any PRC laws and regulations.

Our Finance Department is responsible for extending and monitoring our entrusted loans and has established procedures to assess the credit standing of third parties to whom we extend credit. We only select borrowers that are of good reputation, have good credit and financial standing and have an established operating track record. Generally, we require that the borrowers have a debt-to-equity ratio of not more than 60%, and the amount of the loan not exceed 50% of the net asset value of the borrower for the most recently concluded financial year, based on the financial statements provided by the borrowers. Prior to approving an entrusted loan, we consider the registered capital of the borrowers and the nature of their business. We also assess the credit standing of the borrowers by conducting due diligence based on the documents they provide to us, such as their financial reports, capital verification reports, business licence and credit rating certificate. We require that the borrower inform us of the intended purpose of the entrusted loan. In evaluating a borrower, we also consider the purpose of the loan. In principle, we extend these loans for working capital in borrower's normal course of business and not for high risk investments, investments in fixed assets, long term investments or activities that are prohibited, controlled or restricted under PRC law.

All the entrusted loans we provide are secured by a mortgage of land use rights and property or pledge of shares in a company. Generally, where the security is a mortgage of land use rights and property, we generally require that the amount of the loan be no more than approximately 50.0% to 70.0% of the value of the respective land use rights and mortgaged property. We obtain independent valuations of the land use rights and mortgaged property prior to granting the entrusted loans. For security over shares in a company, we generally require that the value of the entrusted loan be not more than approximately 80.0% of the value of the shares pledged and require that the value of the pledged shares be not less than the registered capital of the company. We and the borrower agree on the terms of the security after commercial negotiations. The banks through which we extend these entrusted loans also act as our security custodians and enforce the security on our behalf should any of the borrowers default. We also sometimes require personal guarantees in addition to the other collateral so that the guarantors will have a personal interest in the repayment of the loan. The guarantors are generally the legal representatives of the borrowers of the entrusted loans.

Our Finance Department, which reports to our Loan Management Committee, manages matters relating to our entrusted loans. The Loan Management Committee is under the supervision of our board of directors. The Loan Management Committee consists of our General Manager, our Chief Financial Controller, the section heads of the Funding Management and Audit sections (these sections are sub-divisions under our Finance Department) and our external PRC legal counsel. Our General Manager and our Chief Financial Controller are the Chairman and Vice Chairman of the Loan Management Committee, respectively.

In accordance with our procedures for granting entrusted loans, all prospective borrowers must submit a written application for the entrusted loan and provide the relevant supporting documents, such as their financial reports, capital verification reports, business licence, and any other documents which we may require. Our Fund Management section investigates the prospective borrower and produces a written proposal, setting out details, such as the loan principal amount, term, interest rate, utilization of the loan, security and guarantees to be provided and the name of the agent bank, for consideration by the Loan Management Committee. If at least two thirds of the Loan Management Committee approves the loan, the proposal is forwarded to the board of directors for consideration. If the proposal is approved by a simple majority of the board of directors, the entrusted loan is granted.

After approval by the board of directors, our Fund Management section enters into the entrusted loan agreement with the borrower and agent bank. The entrusted loan agreement and documents relating to the collateral and guarantees must be reviewed and approved by our external PRC legal counsel prior to execution.

Our Fund Management section prepares monthly reports to the Loan Management Committee on the status of each loan, of loan repayments and of the borrowers. The Fund Management section obtains a financial report from each borrower each month and analyses the operating and financial status of the borrower as well as follows up on the utilisation of the loan, and provides a summary of these details in its monthly report to the Loan Management Committee. This monthly report is also submitted to the Audit Committee for their review.

In addition, the agent banks and our Fund Management section monitor the borrowers and conduct checks on the borrowers periodically, either by way of personal visits to the borrowers' places of business to keep ourselves updated on their business developments, or through checks with banks and our associates on news relating to the borrowers. If the Fund Management section becomes aware of any material deviation in production and operating status of the borrower that may affect the repayment of the entrusted loan, the Fund Management section reports the matter to the Loan Management Committee. We may, through the relevant agent bank, enforce the security or seek early repayment of the loan if an event of default occurs.

If a default in repayment of a loan occurs, we may seek to realise the value of the collateral to repay the loan. However, if the value of the collateral is insufficient for us to recover our principal loan amounts and interest, we may suffer a loss. As the collateral is pledged in favour of the agent banks, we do not possess the legal right to enforce the collateral, but must rely on the agent banks to do so in the event of default in the repayment. If any of the borrowers default on their loans, and the agent banks refuse to enforce the collateral or the collateral is insufficient to recover the principal loan amounts and interest, we may not be able to recover the loans in full. See "Risk factors Risks relating to our business — Our borrowers may default on the loans we make to them through financial institutions" for a further description of these risks.

The amount we allocate for entrusted loans represents cash that we would otherwise not utilise for working capital purposes. The returns we receive on entrusted loans are generally higher than the interest rates offered by banks in the PRC. Accordingly we believe that these entrusted loans allow us to make more effective use of our funds and are therefore in our best interests. We received interest income from entrusted loans of RMB48.9 million (US$6.3 million) in 2006, RMB31.8 million in 2005 and RMB6.2 million in 2004.

As of the Latest Practicable Date, none of our borrowers had defaulted on any of our entrusted loans, except for a default by Haowei Dongli Co., Ltd. (豪维动力有限公司) in 2004 on an RMB10 million entrusted loan. We recovered the principal in full on this loan through foreclosure on the security granted for the loan.

We ceased granting additional entrusted loans in January 2007 and do not intend to grant new entrusted loans in the future. Our existing entrusted loans will continue until the respective maturity dates. On 16 March 2007, our Founders executed a letter of undertaking indemnifying us against all losses in the event that any borrower defaults on an entrusted loan and the security provided is insufficient to recover the principal loan amount and the interest due.

We have not made any provisions on our books for our entrusted loans as we believe that the probability of a default is minimal.

The following table provides details on our entrusted loans outstanding as of the Latest Practicable Date.

No.	Borrower	Agent Bank	Principal (RMB'000)	Interest Rate per annum (%)	Loan Period
1	Shanghai Changliang Investment Development Co., Ltd. (上海长亮投资发展有限公司)	Shanghai Pudong Development Bank	20,570	6.0	16 May 2006 to 16 May 2007
2	Jingjiang Fukeda Property Development Co., Ltd. (靖江市富可达房地产开发有限公司)	Shanghai Pudong Development Bank	36,000	8.0	27 December 2005 to 26 December 2007
3			4,000	8.0	10 April 2006 to 9 April 2008
4			10,000	8.0	12 July 2006 to 12 July 2008
5			30,000	8.0	15 September 2006 to 15 September 2008

No.	Borrower	Agent Bank	Principal (RMB'000)	Interest Rate per annum (%)	Loan Period
6	Nanjing Steel Co., Ltd. (南京钢铁股份有限公司)	China Everbright Bank	200,000	6.878	27 September 2005 to 27 September 2008
7			100,000	6.878	18 April 2006 to 18 April 2007
8	Taizhou City Development Investment Co., Ltd. (泰州市城市建设投资有限公司)	China Construction Bank	200,000	6.825	1 June 2006 to 30 September 2008
9	Jiangsu Huajing Assets Operating Co., Ltd 江苏华靖资产经营有限公司	Shanghai Pudong Development Bank	20,000	6.42	1 August 2005 to 1 August 2007
10			20,000	6.42	1 August 2005 to 1 August 2008
11	Jiangsu Steel Group Co., Ltd. (江苏沙钢集团有限公司)	China Everbright Bank	200,000	6.778	12 October 2005 to 12 October 2008
12	Jiangsu Zhongrui Roads and Bridges Construction Co., Ltd. (江苏中瑞路桥建设有限公司)	Shanghai Pudong Development Bank	20,000	10.0	7 December 2006 to 7 December 2007
13	Jiangsu YangGuang Car Co., Ltd. (江苏阳光汽车贸易公司)	Shanghai Pudong Development Bank	40,000	10.0	20 December 2006 to 19 December 2007
		TOTAL	900,570		

None of the above borrowers are related to us or any of our Directors, Executive Officers or substantial Shareholders.

TAXES

We are subject to income tax on an entity basis on our profits in the PRC. Under the relevant PRC income tax provisions, except for certain preferential treatment available to us, we are subject to corporate income tax at the rate of 24.0% of taxable income.

Under the applicable PRC income tax provisions, a new foreign invested manufacturing enterprise is entitled to an exemption from tax for two years and a 50.0% reduction in income tax rate for three years from 2004. In accordance with the approvals from the relevant PRC tax authority:

- Jiangying Sumeida Ship Engineering Co., Ltd.is entitled to an income tax exemption for 2000 and 2001 and a 50.0% reduction in the applicable income tax rate for 2002, 2003 and 2004;
- Jiangyin Yangzijiang Ship Engineering Co., Ltd., is entitled to an income tax exemption for 2003 and 2004 and a 50.0% reduction in the applicable income tax rate for 2005 and 2006;
- Jiangsu Yangzijiang Shipbuilding Co., Ltd is entitled to an income tax exemption for 2004 and 2005 and a 50.0% reduction in the applicable income tax rate for 2006, 2007 and 2008; and
- Jiangsu New Yangzi Shipbuilding Co., Ltd is entitled to an income tax exemption for 2007 and 2008 and a 50.0% reduction in the applicable income tax rate for 2009, 2010 and 2011.

See Notes 4.17, 12 and 31 of Notes to our consolidated financial statements for a further discussion of our income tax expenses and our deferred income tax.

In addition to income taxes, our service fee income received and receivables by our subsidiaries in the PRC are subject to PRC business tax of 5.0% of service fee income received and receivable. In addition, we are subject to an education surcharge of 1.0% of the business tax payable.

Our revenue is also subject to value added tax. The applicable tax rate for domestic sales is 17.0%. We have been approved to use the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 17.0%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable.

SEASONALITY

We generally do not experience any seasonality in our shipbuilding operations and business.

CHANGES IN ACCOUNTING POLICIES

We have not made any significant changes in our accounting policies during the three year period ended 31 December 2006.

MARKET RISK

We are, in the normal course of business, exposed to foreign exchange risk, credit risk, inventory risk and exchange control risk. Our risk management strategy aims to minimise the adverse effects of financial risk on our financial performance.

Foreign exchange risk

Our financial condition and results of operations are exposed to transaction and translation risks relating to foreign currency exchange rates. Our foreign exchange risk arises mainly from foreign-currency denominated sales, purchases and operating expenses. See "— Factors affecting our business, financial condition, results of operations — Fluctuations in foreign currency exchange rates" and "Risk factors — Risks relating to our business — Depreciation of the US dollar may adversely affect our financial condition and results of operations" for a further discussion of the impact of foreign exchange fluctuations on our business.

Our reporting currency is the RMB. Approximately 89.8%, 98.6% and 92.4% of our revenue was denominated in US dollars in 2006, 2005 and 2004, respectively. Whilst part of our purchases are denominated in US dollars or Euro, approximately 52.8%, 80.5% and 83.4% of our purchases were denominated in RMB in 2006, 2005 and 2004, respectively.

Our net foreign exchange gains/losses are set forth below for the periods indicated.

	2004	2005	2006
Net foreign exchange (loss)/gain (RMB'000)	(78)	(2,563)	9,331
Percentage of profit before income tax (%)	0.05	0.9	1.8

Although our options to hedge our foreign exchange risk have been limited, we have occasionally used foreign currency forward contracts to manage our currency risk. See "— Factors affecting our business, financial condition and results of operations — Fluctuations in foreign currency exchange rates" for a description of our forward currency sale contracts.

We believe that with the establishment of our Company in Singapore as the holding company for our Group, we will have additional options at our disposal to assist us in managing these risks and we may in the future enter into currency forward or other derivative contracts in an effort to minimise our exposure to these risks.

Credit risk

Our customers. Our credit policy is to collect between 10.0% and 20.0% of the contract price within seven working days from the signing of the shipbuilding contract, and to recover between 40.0% and 80.0% of the contract price prior to the delivery of the vessel. Our shipbuilding contracts typically provide for 40.0% to 80.0% of the contract price to be paid by the customer in various instalments based on key construction milestones, such as commencement of work, keel-laying, launching and delivery of the vessels as set out in a payment schedule.

The number of instalments and the proportion payable by our customers under each instalment varies from case to case based on negotiations with our customers. The number of instalments may range from two to seven for each project. Solely for the illustrative purposes, the instalments payable by our customers and the relevant milestone for each instalment is set out below.

Instalment	Percentage of Contract Price	Milestones
1st Instalment	20.0%	Upon, amongst other things, the delivery of the performance guarantee issued by our bankers to our customer to secure the fulfilment of our contractual obligations.
2nd Instalment	20.0%	Within seven business days after the cutting of the first steel plate of the vessel in our shipyard.
3rd Instalment	20.0%	Within seven business days after keel-laying of the first section of the vessel at our shipyard.
4th Instalment	20.0%	Within seven business days after launching of the vessel.
Final Instalment	20.0% (plus or minus any adjustment[(1)] of the contract price pursuant to the agreement)	Upon delivery of the vessel to our customer.

(1) Adjustments of the contract price are made if we agree with our customers to vary the equipment to be installed or work to be carried out, or depending on the terms of the shipbuilding contract, if our vessels do not meet the specified technical specifications.

As security for the various instalment payments, we generally require our customers to furnish us with guarantees issued by their banks or other financial institutions on terms satisfactory to us. We generally do not grant credit terms to our customers in relation to instalment payments. We typically require our customers to make an irrevocable cash deposit in their name with a bank or other financial institution satisfactory to us to cover the final instalment due. The irrevocable cash deposit is generally made a number of days prior to the scheduled date of delivery for the contracted vessel with instructions from our customer to the bank to release the final instalment to us upon presentation of a copy of the agreed delivery and acceptance document by our customer.

The breakdown of the instalments paid by our customers before delivery of the vessels as a percentage of the contract price for our shipbuilding contracts for the periods indicated is set out below.

Pre-delivery instalments as a percentage of contract price	2004 (%)	2005 (%)	2006 (%)
Below 20.0%	0.0	0.0	0.0
20.0% to 50.0%	64.5	20.8	37.5
Above 50.0%	35.5	79.2	62.5

Our sales department is responsible for negotiating, amongst other matters, the payment schedule, security to be furnished, and the proportion of the contract sum payable under each instalment for each contract. We typically take into account the following factors:

- our internal financing requirements;
- type of vessel;
- the contract price;
- credit track record, financial strength and market reputation of the customer;
- the customer's ability to procure internationally renowned banks to provide payment guarantees to us;
- our relationship with the customer;
- the cost structure of the project;
- whether precedent blueprints could be utilized for the new ship; and
- the intended use of the vessels.

All our payment schedules are approved by our Executive Chairman.

We conduct credit assessments prior to signing contracts with new customers. These credit assessments include the customer's market position, financial stability and past financial performance. We may also consult other industry players to ascertain the creditworthiness of new customers.

We generally prefer to enter into contracts with our existing customers who are well established in the shipping industry, have strong financial resources and have a proven financial and payment track record.

Our debtors' turnover days have remained relatively constant during the three years ended 31 December 2006. Our trade receivable turnover (days), based on our trade receivables (calculated on the basis of the closing balance at the end of the year) was 46 days for the year ended 31 December 2006, 64 days for the year ended 31 December 2005 and 69 days for the year ended 31 December 2004.

We did not have any bad debts or make any allowance for doubtful debts in the three years ended 31 December 2006.

The payment terms granted to us by our suppliers vary from supplier to supplier and are also dependent, among other things, on our relationship with the suppliers and the size of the transaction. Typical credit terms range from 30 to 60 days. Our trade payable turnover based on our trade payables (calculated on the basis of the closing balance of the end of the year) was 29 days for the year ended 31 December 2006, 47 days for the year ended 31 December 2005 and 139

days for the year ended 31 December 2004. The decrease in our creditors' turnover days from 2004 to 2005 was mainly due to accelerated payments made from cash generated from operations.

Our Suppliers. We typically advance between 10% to 20% of the value of a supply contract to our major suppliers to assure supply of key materials required for our operations. These advances totalled RMB1,649.4 million (US$211.5 million) in 2006, RMB1,062.1 million in 2005 and RMB536.2 million in 2004. We have a long-term relationship with many of our major suppliers and have not experienced any losses in respect of these advances.

Inventory risk

Our inventory management procedures, which we follow in an effort to ensure that our inventories are properly accounted for, are as follows:

Procurement of raw materials, equipment and components, subassemblies and structural sections

We purchase raw materials in accordance with our production plan, based on the specific requirements of each vessel produced. The bulk of our raw material purchases consist of steel plates, pumps, propellers, engines and navigation systems. Our customers may provide or furnish some of these raw materials, equipment and components, especially if our customers have specific requirements for these raw materials, equipment and components.

Our process for purchasing raw materials and subcontracted parts begins when our Procurement Department forwards the specifications provided by our Technical Department for these raw materials and subcontracted parts to our panel of suppliers together with a request for quotation. Once these suppliers revert with quotations, our Procurement Department and our Audit Department review these quotations and request for revised quotations. The review and re-quote process generally continues for a few cycles, until we are satisfied with a supplier who is able to meet our requirements for the lowest price.

Once the supplier has been chosen, we prepare and execute a purchase agreement with the chosen supplier. In respect of purchase agreements with a value of up to RMB300,000, the Executive Director in-charge of procurement and marketing is authorised to execute the agreements on our behalf. Purchase agreements with a value of above RMB300,000 must be executed by our Executive Chairman.

We also use the above procurement process when we subcontract the production of subassemblies and structural sections to our subcontractors.

Work-in-progress

Our work-in-progress includes the various vessel subassemblies and structural sections that we construct and upon which equipment and components procured by us or supplied by our customers have been incorporated or integrated as well as vessel subassemblies and structural sections that we have subcontracted. Vessel subassemblies and structural sections are completed and channelled to the next production process based on the construction schedule for the vessel.

Stock takes

We undertake both semi-annual stock takes as well as project-based stock takes of our inventory. In connection with our semi-annual stock take, a list of stock that has been in our inventory for more than two years is prepared and we develop an action plan to either

return the stock to the supplier or sell or dispose of it to other third parties. Upon delivery of a vessel, we also undertake a stock take of the inventory that we procured for the project and determine whether the remaining inventory can be returned to the supplier, transferred to another project, sold or disposed of, to third parties.

Physical controls

We conduct physical inventory counting on well-defined timelines according to our shipbuilding production plan. According to the production plan, a work order stating the quantity and type of materials or equipment required for a certain period to be withdrawn from our warehouses is created. With the work order, our workshop staff or assembly line staff submits the work order to the warehouse. Once a supervisor approves the work order, the materials and equipment required are prepared and sent to the relevant workshop. Once the materials and equipment are delivered, we update the inventory electronically using our inventory control software. This software also allows us to generate a detailed material availability report, which allows our management to review critical inventory information quickly and accurately.

Our inventory control software can provide information pertaining to the receipt of goods, the movement of goods to a particular department or workshop in our yard, the removal of goods, and the status of goods remaining in inventory at any point in time.

We only order and stock in advance the quantity of raw material and equipment we require as scheduled in our production plans. We do not provide for stock obsolescence as our inventory turnover periods are short and our raw materials and finished products are non-perishable products with no limited shelf life. In the three years ended 31 December 2006, and through the Latest Practicable Date, we have not made any provisions for stock obsolescence or stock write-off.

Our inventory turnover days (which we calculate by dividing our inventory as at closing balance of the end of the year by our cost of sales) were 15 days for the year ended 31 December 2006, 19 days for the year ended 31 December 2005 and 53 days for the year ended 31 December 2004. Our inventory turnover days decreased from 2004 to 2005 due to our increased efforts to manage inventory in 2005.

Exchange control risk

Our PRC subsidiaries, which are foreign investment entities ("FIEs"), are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises (including wholly foreign-owned enterprises) are required to apply to the SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certification (which will be renewed annually), FIEs are allowed to open foreign currency accounts including the "current account" and "capital account". Currently, transactions within the scope of the "current account" (for example, remittance of foreign currencies for payment of dividends) can be effected without requiring the approval of the SAFE. However, conversion of currency in the "capital account" (for example, for capital items such as direct investments, loans and securities) still requires the approval of the SAFE. Our PRC subsidiaries, namely JYS and JNYS have obtained the "Foreign Exchange Registration Certificates for FIEs", subject to annual inspection. For a description of the risks we face relating to these exchange controls, see "Risk factors — Risks relating to government regulations and policies — PRC foreign exchange control may limit our ability to utilise our cash effectively and affect our ability to receive dividends and other payments from our PRC subsidiaries" and in "Appendix A — Exchange Controls."

INFLATION

In recent years, the PRC has not experienced significant inflation and therefore inflation has not had a significant effect on our business or results of operations. According to the National Bureau of Statistics of China, the changes in the consumer price index in the PRC were 1.5% in 2006, 1.8% in 2005 and 3.9% in 2004.

RECENT SFRS PRONOUNCEMENTS

We have adopted SFRS 107, Financial Instruments: Disclosures and a complementary Amendment to SFRS 1, Presentation of Financial Statements — Capital Disclosures, effective as of 1 January 2007, the date on which mandatory adoption was required. SFRS 107 requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk. The amendment to SFRS 1 requires disclosures regarding the level of our capital and how we manage our capital. We believe that the main additional disclosures required by these provisions will be the addition of a sensitivity analysis to discussions of market risk in our financial statements and the capital disclosures required by SFRS 1.

THE INTERNATIONAL SHIPBUILDING INDUSTRY

All the information and data presented in this section, including the analysis of the various sectors of the shipping industry, has been provided by Clarkson Research. CRSL has advised that the statistical and graphical information contained herein is drawn from its database and other sources. In connection therewith, CRSL has advised that: (i) certain information in CRSL's database is derived from estimates or subjective judgments; (ii) the information in the databases of other maritime data collection agencies may differ from the information in CRSL's database; (iii) whilst Clarkson Research has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures and may accordingly contain errors; (iv) CRSL, its agents, officers and employees do not accept liability (save for statutory liabilities under Sections 253 and 254 of the SFA) for any loss suffered in consequence of reliance on such information or in any other manner; and (v) the provision of such data, graphs and tables does not obviate the need to make appropriate further inquiries. While we believe that the information and data are reliable, we cannot ensure the accuracy of the information or data, and neither our Company, the Vendors, the Underwriters, the Financial Adviser nor any of their affiliates or advisors have independently verified this information or data. You should not assume that the information and data contained in this section is accurate as of any date other than the date of this document, except as otherwise indicated. You should also be aware that since the date of this document, there may have been changes in the shipping industry and the various sectors therein which could affect the accuracy or completeness of the information in this section.

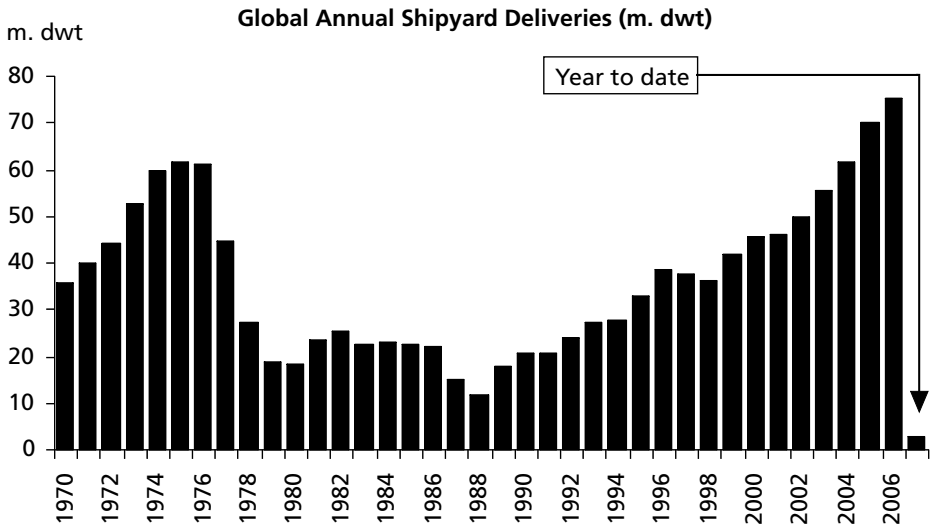
Introduction

The global shipbuilding industry is concerned with the production of new ships to supply the world merchant fleet. It is a heavy engineering business primarily located in the industrialised countries of East Asia and Europe and requires substantial capital investment and a level of technical expertise. Shipbuilding prices are governed by the supply of, and demand for, shipbuilding berths, the cost of building ships, and exchange rates. The shipbuilding industry is influenced by the cyclical nature of the wider shipping markets and is typically characterised by strong fluctuations in demand that lead to periods of prosperity followed by periods of depression.

The graph below illustrates the fluctuations in global shipbuilding output in terms of annual deliveries in deadweight tonnes since 1970. By the early 1970s, two decades of continuous growth in seaborne trade had led to an increasing demand for new ships and a subsequent build-up of shipyard capacity. Shipbuilding output peaked in 1975, but by then the oil crisis of 1973 had already led to stagnation in seaborne trade growth, particularly in the oil and tanker markets. The abrupt decline in demand for new ships that followed created vast shipyard overcapacity, and this created a long and sustained shipbuilding recession, exacerbated by the entry of South Korea into the market. The 1980s was characterised by widespread shipyard closure and a depressed shipbuilding market, which reached a low in 1988 when output was similar to levels recorded in the early 1960s.

By the 1990s the shipbuilding market had recovered and the replacement of the 1970s built fleet along with renewed growth in global seaborne trade saw an increase in shipbuilding output. In 2004 deadweight[2] output was greater than the 1975 peak for the first time and the record current orderbook means that shipbuilding output and shipyard capacity are currently at their highest levels ever.

2 Deadweight is the difference between the loaded and light displacement of a vessel and is an indication of carrying capacity.



Source: Clarkson Research February 2007

Demand factors

The two main drivers behind the underlying demand for new ships are the growth in global seaborne trade and the replacement of old ships that are sold for scrap. However, in the short and medium term, freight rates are very important in determining shipbuilding demand. Freight rates are influenced by the supply of and demand for shipping capacity and subsequently are volatile. Historically, shipping freight rates have been cyclical.

The replacement of old ships has a direct correlation to the age of the fleet, though the age at which ships are replaced can vary under differing market conditions. The growth in global seaborne trade is closely linked to fluctuations in the world economy and can vary greatly from one year to the next. This helps to explain why the global shipbuilding market can be so volatile and why the level of new orders and deliveries, as well as the prices paid for ships, can vary so much from one year to another.

Growth in seaborne trade

The four largest segments in the shipping industry are tankers, which carry such cargo as crude oil, petroleum products, etc.; bulk carriers, which carry iron ore, coal, grain, etc; containerships, which carry only containers; and gas tankers, which carry mostly LPG and LNG (liquefied gases). Since 1990 world seaborne trade has grown at an average rate of 3.8% per annum. According to the latest available figures, in 2005 total annual world seaborne trade was estimated at 7.24 billion metric tonnes, of which dry bulk cargoes amounted to 2.56 billion tonnes and oil cargoes amounted to 2.56 billion tonnes. The following table illustrates the evolution of the various categories of cargoes that comprise world seaborne trade.

World Seaborne Trade

million tonnes	1990	1995	2000	2005	Avg. growth p.a.%
Crude Oil	1,155	1,400	1,656	1,885	3.3%
Oil Products	448	460	518	670	2.7%
Major Dry Bulk	991	1,103	1,318	1,713	3.7%
Minor Dry Bulk	606	681	721	844	2.2%
Container	246	389	628	1,016	9.9%
LPG & LNG	88	103	142	179	4.8%
Other	625	727	931	930	2.7%
Total	4,160	4,862	5,915	7,237	3.8%

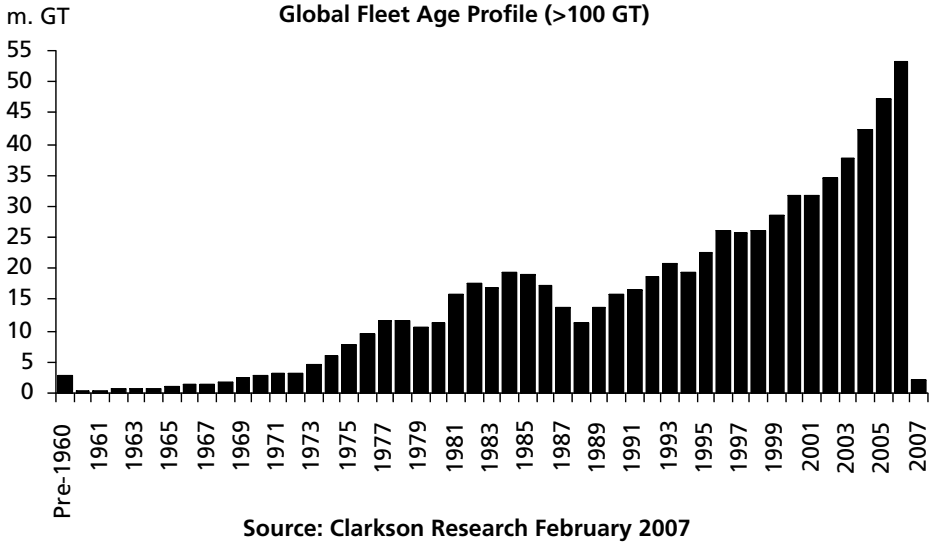
Source: Clarkson Research February 2007. Average percentage growth based on 1990-2005. 2005 figures estimated.

Replacement demand

The second facet of underlying ship requirement is replacement demand. Ships are sold for scrap when they reach the end of their lifetime and the cost of maintaining and operating them outweighs the earnings they can make. This means that the age at which ships are scrapped can vary according to the prevailing freight markets. In a strong freight market owners are able to trade vessels for longer than they would under normal market conditions, and this will increase the average scrapping age. Conversely, in a weak freight environment ships will be scrapped at a younger age. In addition, regulatory requirements may lead to enforced removal of vessels from the fleet, such as the MARPOL regulation 13G concerning the gradual phase-out of single hull tankers which came into force in April 2005.

The level of scrapping is therefore a function of the age at which ships are scrapped and the fleet age profile. The past three years have been characterised by low scrapping levels as high levels of scrapping in previous years had dispensed of older vessels whilst the strong freight market increased the age at which vessels were demolished. This is the opposite situation to that which existed in the early 1980s when a depressed freight market lowered the scrapping age and led to an increase in scrapping of relatively young ships that were built in the boom of the early 1970s. The table below shows the age profile of the current global shipping fleet:

Global Fleet Age Profile (>100 GT)



Source: Clarkson Research February 2007

The global fleet & orderbook

The world deep sea cargo ship fleet (as detailed in Clarkson Research's Shipping Intelligence Weekly) comprised at the start of February 2007 approximately 48,200 ships with a total capacity of approximately 1,000 million DWT. This includes over 8,000 oil tankers, over 3,100 chemical and specialised tankers, over 6,300 bulkers (of 10,000 DWT and above), nearly 4,000 containerships, more than 1,200 gas (LPG and LNG) carriers and 3,500 offshore support vessels (AHTS/PSV). It also includes over 20,000 other dry cargo vessels including multi-purpose, general cargo, Ro-Ro, car carrier and reefer vessels. Furthermore, below the sizes covered in this fleet, there are approximately another 23,500 vessels down to 100 GT.

The following table also shows that, measured by DWT, at the beginning of February 2007, the world deep sea orderbook was equal to 30% of the existing world deep sea fleet. This is a historically high figure that will result in a high level of deliveries and fleet growth over the next few years. This in turn may put downward pressure on freight rates and could lead to reduced demand for new ships. The orderbook includes over 1,900 tankers, over 1,000 bulkers (of 10,000 DWT and above) and over 1,200 containerships. These orders have been placed at 491 different shipyards located in 43 countries across the world, with the leading countries in terms of vessels on order being China (1,797 vessels on the deep sea orderbook as of February 2007), South Korea (1,418 vessels) and Japan (1,109 vessels).

World Shipping Fleet

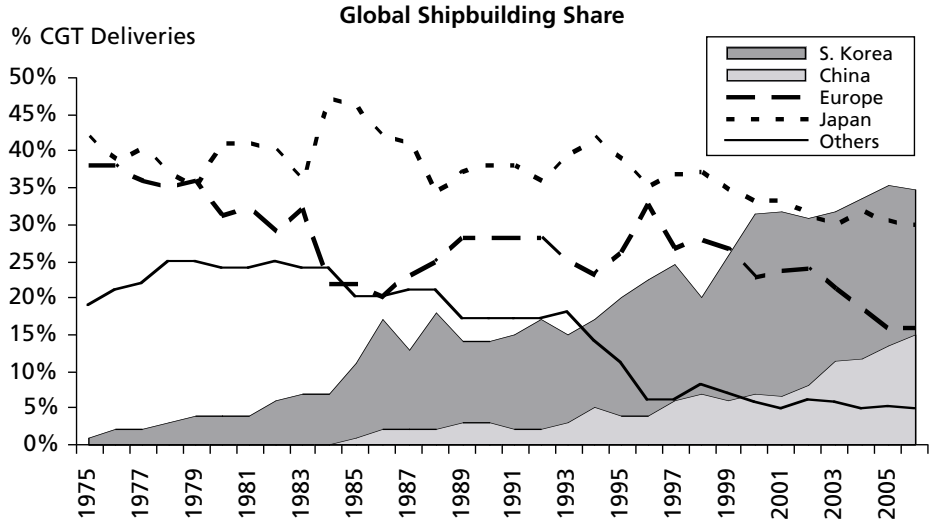
	Fleet			Orderbook			
	No.	mill. DWT	% of DWT	No.	mill. DWT	% of DWT	% of flt
Oil Tankers >10k DWT	3,326	341.3	33.7%	1,193	130.0	41.8%	38.1%
Oil Tankers <10k DWT	4,755	11.0	1.1%	145	0.9	0.3%	7.8%
Chemical Tankers	2,622	27.8	2.7%	623	10.2	3.3%	36.8%
Other Tankers	508	3.0	0.3%	13	0.2	0.1%	8.0%
Bulkers	6,372	368.3	36.4%	1,083	86.1	27.7%	23.4%
Combos	98	9.4	0.9%	0	0.0	0.0%	0.0%
LPG Carriers	1,040	12.0	1.2%	196	4.9	1.6%	40.3%
LNG Carriers	222	15.0	1.5%	132	11.9	3.8%	78.9%
Containerships	3,999	128.7	12.7%	1,248	56.4	18.1%	43.8%
Multi-Purpose	2,590	23.6	2.3%	489	4.7	1.5%	20.1%
General Cargo	15,077	38.9	3.8%	166	1.1	0.4%	2.9%
Ro-Ro Vessels	1,185	9.6	0.9%	65	0.7	0.2%	7.7%
Car Carriers	602	8.7	0.9%	144	2.5	0.8%	28.8%
Reefers	1,401	7.4	0.7%	15	0.1	0.0%	1.8%
Offshore (AHTS/PSV)	3,498	4.6	0.5%	473	1.2	0.4%	27.1%
Other Cargo	900	2.1	0.2%	25	0.3	0.1%	12.3%
WORLD CARGO FLEET*	48,195	1,011.3	100.0%	6,010	311.3	100.0%	30.8%

* As detailed in Clarkson Research's *Shipping Intelligence Weekly*.

Source: Clarkson Research February 2007.

Geographical distribution & capacity

Shipbuilding is a long cycle business and the centre of the global shipbuilding industry has gradually shifted over the last 100 years. At the start of the 20th century shipbuilding was dominated by Great Britain. Gradually, Continental Europe and Scandinavia squeezed Britain's share down to about 40%, but Europe as a whole was still the centre of the shipbuilding industry. In the 1950s, Japan gained prominence and overtook Europe to reach a market share of around 50% by 1969. In the 1980s the South Korean shipbuilding industry started to challenge the Japanese and by the 1990s had become the largest shipbuilding nation, at the same time establishing the Far East as the dominant shipbuilding region over Europe. More recently, the Chinese have increased in importance and are now the third largest shipbuilding nation behind Japan and South Korea. The graph below illustrates the changing regional pattern of global shipbuilding since 1975:



Source: Clarkson Research February 2007

We are currently in the middle of the largest shipbuilding boom ever. Increased vessel earnings over the past three years in all sectors of the shipping markets have given ship owners the ability to invest in more ships. This is turn has created increased demand for new ships leading to an increase in new orders and the build-up of a record orderbook. In 2004 a record 24.0 million CGT[3] was delivered from shipyards worldwide, and in 2005 output increased to 26.2 million CGT. Output increased further to 31.1m CGT in 2006 and according to the current orderbook there will be a big leap to 40.2m CGT in 2007 (though these numbers are uncertain and are constantly being revised as new information is received regarding new orders and delivery dates).

During this time Korea and China have managed to increase both output and capacity considerably. Korean output has increased from 5.8 million CGT in 2000 (32% of global shipbuilding output) to 10.7 million CGT in 2006 (35% of global shipbuilding output) with a further 14.8 million CGT already on order for delivery in 2008. This increase in capacity has been achieved both through a combination of increasing efficiency, an increasing use of innovative methods to improve shipbuilding output (such as the ability to construct vessels outside of the dock) and the increasing participation of former hull-block builders in constructing whole vessels.

3 CGT stands for Compensated Gross Tonnage, a measurement commonly used in shipbuilding in order to take into account the amount of work needed to produce ships of different complexity. It is calculated by multiplying the Gross Tonnage by a compensation coefficient as agreed by the Organization for Economic Cooperation and Development (OECD). More complex ship types have a higher compensation coefficient than simpler ones. Unless otherwise stated, this report uses the old method of calculating CGT last revised by the OECD in 1994.

China has also seen a rapid increase in capacity from just 1.2 million CGT of deliveries in 2000 (7% of global shipbuilding output) to 4.6 million CGT in 2006 (15% of global shipbuilding output) with over 7 million CGT already on order for delivery in 2007. China has been able to increase shipyard capacity through both the construction of new facilities and through the expansion of existing shipyards.

Output has also increased in Japan, Europe and other parts of the world, though not as quickly as in Korea or China. It should be noted that forward orderbook figures for Japan are incomplete due to the problems of under reporting of contracts by Japanese shipyards. The tables below show regional output in CGT since 2000 along with the forward orderbook to 2008 as well as the relative percentage share of each region.

Regional Shipbuilding Output (m. CGT)

Country/Region	2000	2001	2002	2003	2004	2005	2006	2007 (e)	2008 (e)
South Korea	5.8	5.6	6.2	6.8	8.0	9.3	10.7	12.0	14.8
Japan	6.0	6.0	6.3	6.5	7.6	8.0	9.3	9.2	7.3
China	1.2	1.2	1.6	2.4	2.8	3.6	4.6	7.6	7.9
Europe	4.1	4.3	4.7	4.6	4.4	4.0	4.9	8.3	5.7
Other Asia	0.6	0.5	0.8	0.8	0.8	1.0	1.1	2.6	1.9
Others	0.4	0.4	0.4	0.5	0.4	0.3	0.3	0.5	0.3
Total	18.1	18.0	19.9	21.5	24.0	26.2	31.0	40.2	38.0

Regional Shipbuilding Output (% of CGT)

Country/Region	2000	2001	2002	2003	2004	2005	2006	2007 (e)	2008 (e)
South Korea	32%	31%	31%	32%	34%	36%	35%	30%	39%
Japan	33%	33%	31%	30%	32%	30%	30%	23%	19%
China	7%	7%	8%	11%	12%	14%	15%	19%	21%
Europe	22%	24%	24%	21%	18%	15%	16%	21%	15%
Other Asia	3%	3%	4%	4%	3%	4%	4%	6%	5%
Others	2%	2%	2%	2%	2%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Clarkson Research, February 2007. Figures for 2007 based on deliveries in the year to date plus the orderbook. Figures for 2008 based on the current orderbook.

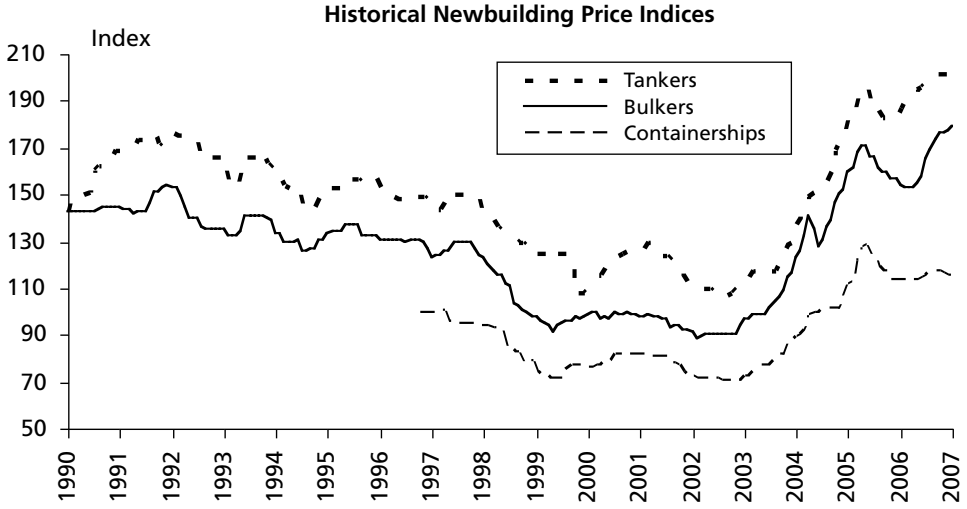
Shipbuilding capacity has grown very rapidly in recent years with output in 2007 expected to reach around 40m CGT, an increase of nearly 30% from 2006 output levels of 31m CGT. Global shipyard capacity is expected to increase further in coming years, particularly in Korea and China. In China, where capacity is already likely to double over the next three years, there are several plans for new shipyards and for the expansion of existing facilities which, if completed, would further increase capacity by the end of the decade. Increasing global shipbuilding capacity could lead to over-capacity if the demand for new ships does not keep pace, which may lead to lower newbuilding prices and a depressed shipbuilding market. In this scenario shipyards with high costs would suffer most from reduced earnings, but these effects may be lessened by, for example, state subsidies. The continued operation of such yards may therefore exacerbate over-capacity.

Newbuilding prices

Shipbuilding is one of the world's most open and competitive markets and is very sensitive to the supply of, and demand for, shipbuilding berths. As such, newbuilding prices demonstrate great volatility with prices able to move very quickly over a short space of time. Prices are primarily determined by the balance of the supply of shipbuilding berths to the market and the demand for new ships to fill them. In a market where berths are in short supply and demand is strong builders are able to increase prices. Conversely, when there is an oversupply of berths to the market and/or demand for new ships is low, the price will come down as builders face more competition in order to fill available capacity. It is therefore a delicate balance between demand and supply which determines the large movements in newbuilding prices. Furthermore, newbuilding prices are influenced by the costs of building ships, as well as by exchange rates, which often tend to reinforce the abovementioned movements.

Over the past three years shipbuilding prices have increased steeply and in many cases have doubled from levels seen at the bottom of the market in 2002. As an example, the price for a VLCC increased from $62.5 million in September 2002 to $130 million in May 2005, a 108% increase in just 32 months[4]. However, there have also been long periods when newbuilding prices have been depressed due to shipyard overcapacity and low demand, such as the situation that existed in the period 1999-2003 when the VLCC price got no higher than $77 million, around 60% of the February 2007 price of $130 million. The graph below illustrates the fluctuations in newbuilding prices according to the Clarksons tanker, bulker and containership newbuilding price indices[5]:

Historical Newbuilding Price Indices



Source: Clarkson Research, February 2007

It is important to note that newbuilding prices for different ship types move, to a large extent, in parallel with one another. This means that reduced demand in one sector (for example tankers) may reduce prices in another sector (for example containerships). This is because the newbuilding price is a function of the supply of berths to the whole market and not just to individual fleet sectors.

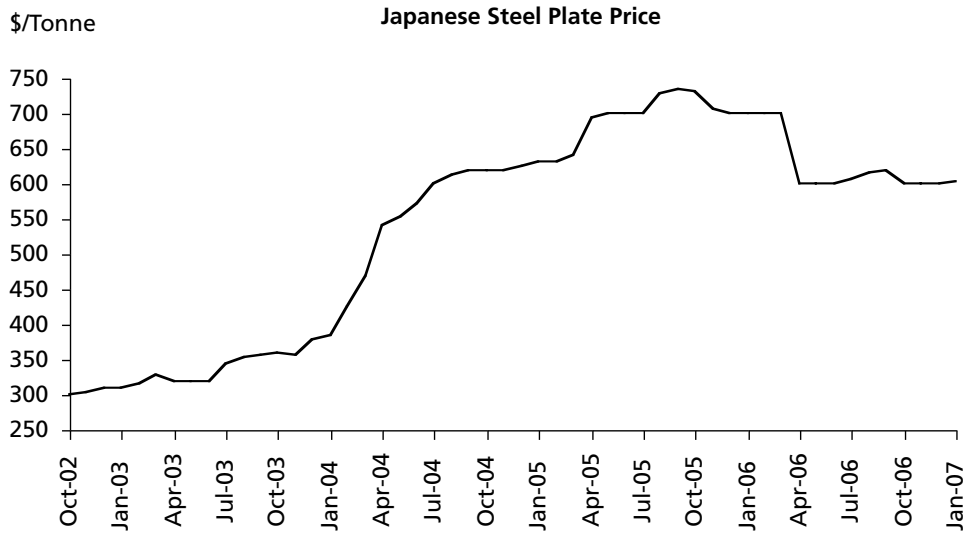
4 Newbuilding prices as quoted by Clarksons Sale & Purchase broker assessments and published in the *Shipping Intelligence Weekly*. Prices assume a "European spec." and 10/10/10/70% payments, based on "first class competitive yards" quotations.

5 The Clarkson Newbuilding Price Indices are calculated by averaging the $ per DWT values of various ship sizes within each sector. For the tanker and bulker newbuilding price indices the base of 100 is taken as the average value at January 1988. For the containership index the base of 100 is taken as the average value at January 1997. Prices may move up and down significantly.

Shipbuilding costs

Shipbuilding involves a complex production process and the level of efficiency and costs vary considerably from one yard to another. At one extreme are yards in developing countries with low productivity and a large workforce but low wages whilst at the other extreme are highly technical, very productive yards with high labour costs but a smaller workforce. The low productivity yards typically depend on a high degree of internal production and foreign imports of sophisticated equipment, whereas the highly efficient yards may be compared with an assembly plant with materials, equipment and services sourced from a range of local or regional suppliers. Factors which will influence the competitiveness of a shipyard and its ability to generate profits include material costs, facilities, skilled labour, wages, labour productivity, availability of local materials and equipment suppliers, exchange rates and, in some cases, government subsidies.

One major problem that shipyards face is the risk of escalating costs. These risks may include the increasing cost of labour, increasing material costs, and exchange rate movements. Labour costs are one of the main outlays for a shipyard and costs may increase as a yard takes on more staff to increase output or as the average hourly wage of a shipbuilding country increases due to improvements in the economy. Exchange rates also have a large bearing on the potential earnings a shipyard can make. One effect is that a shipyard's costs (labour, materials, overheads etc) are often in local currency, but their revenue may be in a different currency. This is particularly true for yards that use the US dollar as the unit for ship sales but their local currency to pay for their costs. In addition, the majority of a shipbuilding contract is normally paid on the delivery of the ship, which can be up to three years or more after the signing of the contract and by which time the exchange rate may have changed considerably. For example, a revaluation of the Chinese RMB may lead to a change in Chinese shipyard costs. Finally, material costs can change dramatically in a short period of time, particularly the price of steel plate. The graphs below illustrate the price of Japanese and Chinese steel plate since the end of 2001 and show that the price more then doubled between 2002 and 2005 in both cases. This increase in steel prices has been one of the contributing factors to increasing newbuilding prices over the last three years:



Source: TEX Report, February 2007



Source: National Bureau of Statistics of China February 2007

The Chinese shipbuilding industry

China has been one of the key drivers behind the growth in global seaborne trade in recent years. Much of this has been driven by Chinese exports, particularly manufactured exports due to the transfer of production facilities to China from the rest of the world, especially since entry to the World Trade Organisation. The most notable growth has taken place in the trade with the developed economies in the West. However, Chinese imports have also grown significantly, particularly for raw materials such as crude oil and iron ore, capital goods and intermediate/semi-finished goods (see table below).

Chinese Seaborne Imports (million tonnes)

million tonnes	2001	2002	2003	2004	2005
Crude Oil	58.2	66.8	86.5	115.5	118.2
Oil Products	20.7	20.1	27.7	37.3	31.0
Iron Ore	91.4	110.7	146.8	204.7	270.6
Other Bulks	89.4	106.1	131.8	146.1	156.8
Containerisable Cargoes	39.4	43.8	51.7	62.2	70.1
Other Cargoes	36.8	45.1	55.1	60.4	62.7
Total	335.8	392.7	499.6	626.1	709.4
% year-on-year change	14.6%	16.9%	27.2%	25.3%	13.3%

Source: Clarkson Research, February 2007.

Chinese Seaborne Exports (million tonnes)

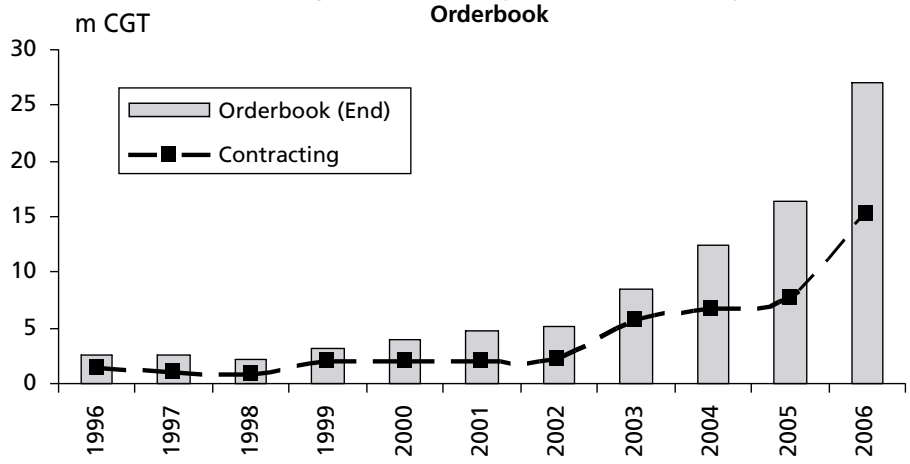
million tonnes	2001	2002	2003	2004	2005
Crude & Products	15.4	16.8	19.4	13.8	17.6
Chemicals	8.6	9.7	11.2	12.8	15.2
Coal	89.7	83.6	93.5	86.3	71.4
Other Bulks	93.7	120.3	111.0	112.6	144.4
Containerisable Cargoes	46.5	59.9	75.6	94.0	114.2
Other Cargoes	6.8	7.7	8.7	9.6	11.4
Total	260.8	298.0	319.5	329.2	374.3
% year-on-year change	20.2%	14.3%	7.2%	3.0%	13.7%

Source: Clarkson Research, February 2007.

China is now the third largest ship producing nation in the world. The Chinese shipbuilding industry was somewhat stagnant up until the mid 1990s since when there has been a large increase in both capacity and output. In 1990 China delivered just 54 vessels of 0.7 million DWT and 0.4 million CGT. By 2000 output had increased to 108 vessels of 2.5 million DWT and 1.2 million CGT and by 2005 had reached 259 vessels of 9.8 million DWT and 3.6 million CGT[6].

It is the Chinese government's stated aim to become the biggest shipbuilding nation in the world. Their specific aims are to reach an output of 17 million DWT and a capacity of 23 million DWT by 2010 and an output of 22 million DWT and capacity of 28 million DWT by 2015[7]. The output of medium and low speed marine diesel engines is to reach 6 million kW (1,200 units). By 2010, more than 60% of ship equipment is to be produced locally and 80% by 2015. By 2015, the efficiency of major shipyards is to reach 15 man-hour/CGT and average production time of vessels over 30,000 DWT is to reach nine months. Whether China will be able to reach these goals is uncertain.

Contracting at Chinese Shipyards & Chinese Shipyard Orderbook



Source: Clarkson Research, February 2007

6 Figures may differ from Chinese official shipbuilding statistics due to, for example, lack of reliable data for small, coastal vessels.

7 The Development Policy for China's Shipbuilding Industry, approved by State Council on August 16th 2006.

The Chinese shipbuilding industry is divided into three types of yards: large state-owned and controlled yards, in one of the two state corporations CSSC (China State Shipbuilding Corporation) and CSIC (China Shipbuilding Industry Corporation); joint venture (JV) yards; and a proliferation of local/provincial yards. According to the current orderbook in CGT terms, CSSC control 31% of the orderbook, CSIC have 15%, JV yards 11% and local yards 42%. In relative terms, local yards have grown in significance over the past ten years[8]. The table below shows the current orderbooks of the top 20 Chinese shipbuilding companies and what ship types they have on order.

Chinese & Global Shipyard Orderbook

		Current Orderbook ('000 CGT)						
Shipyard Group	**Capacity***	**Tankers**	**Bulkers**	**Containerships**	**Gas Carriers**	**Others**	**Total**	**% of Total**
CSSC	1,775.8	3,243.3	2,954.6	1,767.5	423.9	355.2	8,744.5	31.0%
CSIC	969.8	2,129.0	779.2	1,046.4	23.5	392.5	4,370.6	15.5%
New Century Shipbuilding	296.7	1,492.2	96.0	110.8	—	—	1,699.0	6.0%
Yangzijiang Shipbuilding	170.5	—	220.5	1,014.3	—	123.1	1,357.8	4.8%
Jiangsu Rong Sheng	—	909.4	185.5	—	—	—	1,095.0	3.9%
Nantong Cosco	225.5	265.3	429.5	202.6	—	—	897.4	3.2%
Jinling SY	174.5	285.6	66.3	316.7	—	184.6	853.3	3.0%
Qingshan S.Y.	104.2	241.3	215.6	167.1	—	66.9	690.8	2.4%
Zhejiang S.B.	55.1	23.4	127.1	319.6	—	75.2	545.3	1.9%
Dayang S.B.	94.5	—	254.0	53.0	—	172.0	479.0	1.7%
Kouan S.B.	103.4	—	98.1	264.7	—	101.9	464.8	1.6%
Zhejiang Yangfan	132.7	—	—	427.5	—	—	427.5	1.5%
Mawei S.B.	72.9	—	47.5	339.7	—	34.3	421.6	1.5%
Jiangsu Eastern	33.3	—	268.1	111.8	—	36.9	416.8	1.5%
Zhejiang Ouhua	13.1	—	—	355.1	—	—	355.1	1.3%
Taizhou Sanfu	17.8	80.3	66.3	19.9	—	130.1	296.7	1.1%
Shandong Huanghai	27.7	—	—	—	—	278.8	278.8	1.0%
Tsuji H.I.	—	—	274.3	—	—	—	274.3	1.0%
Jinglu Shipyard	—	15.0	220.5	—	—	—	235.5	0.8%
Hantong Shipyard	—	—	194.9	—	—	25.4	220.2	0.8%
Others		*1,480.3*	*417.7*	*393.7*	*115.5*	*1,721.6*	*4,128.8*	14.6%
Chinese Total		**10,165.1**	**6,915.9**	**6,910.5**	**563.0**	**3,698.4**	**28,252.9**	100.0%
Global Total		**38,051.8**	**20,138.5**	**29,958.4**	**14,633.0**	**19,667.5**	**122,449.2**	
Chinese Orderbook as % of Global Total		**26.7%**	**34.3%**	**23.1%**	**3.8%**	**18.8%**	**23.1%**	

Source: Clarkson Research February 2007.

*Capacity output defined as the maximum annual output for each yard in CGT.

The Chinese shipbuilding industry has developed not only in terms of the amount of ships delivered, but also in the type and size of ships that they can build. In the 1980s Chinese shipyards largely built a limited number of small ship types such as small bulk carriers and cargo vessels. During the late 1990s China started to build larger vessels such as Suezmax tankers, Panamax bulkers and Ro-Ro vessels. More recently, Chinese yards have started to build large, value-added vessels such as Capesize bulkers, VLCCs, post-Panamax containerships, FPSOs and LNG carriers. However, though China is now building a greater number of large ship types than in the past they still have a smaller market share of big ships than South Korea. The table below shows output from Chinese shipyards in five-year blocks from 1981, including the current orderbook, and shows the increasing importance of containerships and tankers to Chinese yards in place of bulk carriers and small dry cargo vessels:

8 Please note that these figures may not include the production of purely domestic vessels for coastal and river operation.

Chinese Shipyard Output by Ship Type (CGT)

	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010*
Bulkers	478,026	426,496	1,047,218	1,816,904	3,491,027	7,891,095
Tankers	82,100	307,806	683,311	1,042,856	3,362,402	11,671,900
Containerships	150,512	89,587	137,586	858,412	1,981,625	8,181,796
Gas Carriers			20,590	173,603	106,240	604,892
Others	574,643	464,796	366,775	1,135,268	2,632,168	4,281,201
Total	1,285,280	1,288,684	2,255,480	5,027,043	11,573,463	32,630,884

Source: Clarkson Research February 2007.

*2006 — 2010 data based on 2006 & 2007 deliveries to date plus current orderbook

Chinese Shipyard Output by Ship Type (% of CGT)

	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2010*
Bulkers	37.2%	33.1%	46.4%	36.1%	30.2%	24.2%
Tankers	6.4%	23.9%	30.3%	20.7%	29.1%	35.8%
Containerships	11.7%	7.0%	6.1%	17.1%	17.1%	25.1%
Gas Carriers	0.0%	0.0%	0.9%	3.5%	0.9%	1.9%
Others	44.7%	36.1%	16.3%	22.6%	22.7%	13.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Clarkson Research February 2007.

*2006 — 2010 data based on 2006 & 2007 deliveries to date plus current orderbook.

China has become increasingly important as an export market and this trend is reflected in the current orderbook. German owners are currently the biggest clients with around 22% of the current orderbook when measured by CGT. Greek owners are third with Denmark fourth and Norway fifth. Interestingly, Chinese owners are the second biggest clients on the Chinese orderbook, and we have seen an increasing trend in recent months for Chinese companies, particularly large state companies, to order large vessels at the big state run yards. Accordingly, the two largest individual investors in China in terms of CGT are the COSCO Group (1.27 million CGT on order) and the China Shipping Group (1.06 million CGT on order). The top foreign clients are largely German containerships investors such as Peter Döhle Schiffahrts, Rickmers Reederei and NSC Schiffahrts, and giant European-based companies such as A.P. Moller and the Friedriksen Group. The table below shows the top 20 owners with ships currently on order at Chinese shipyards ranked by total CGT on order:

Top Owners at Chinese Shipyards (Current Orderbook in '000 CGT)

Owner	Nationality	Current Orderbook ('000 CGT) Tankers	Bulkers	Containerships	Gas Carriers	Others	Total	% of Total
China Ocean (COSCO)	China	170.5	540.0	495.0	—	60.3	1,265.8	4.5%
China Shipping Group	China	589.9	69.8	398.1	—	—	1,057.8	3.7%
Nanjing Changjiang	China	809.3	—	—	11.7	—	821.0	2.9%
A.P. Moller	Denmark	670.9	—	88.2	—	—	759.1	2.7%
Cardiff Marine Inc.	Greece	441.3	257.5	—	—	—	698.7	2.5%
Peter Dohle Schiff.	Germany	—	—	550.4	—	43.4	593.8	2.1%
Clipper Group	Denmark	172.4	365.7	—	—	—	538.1	1.9%
Rickmers Reederei	Germany	—	—	519.9	—	—	519.9	1.8%
Fredriksen Group	Norway	352.6	111.1	—	—	—	463.8	1.6%
Hartmann Schiff.	Germany	—	95.3	53.0	—	299.8	448.1	1.6%
Ocean Tankers Pte.	Singapore	441.8	—	—	—	—	441.8	1.6%
Pacific Int. Lines	Singapore	—	—	411.5	—	—	411.5	1.5%
Geden Line	Turkey	182.3	222.2	—	—	—	404.5	1.4%
Transmed Shpg. Ltd.	Greece	—	402.7	—	—	—	402.7	1.4%
NSC Schiffahrt	Germany	—	—	307.5	—	89.4	396.9	1.4%
China LNG Ship Mngt.	China	—	—	—	396.4	—	396.4	1.4%
Dynacom Tankers Mngt	Greece	374.5	—	—	—	—	374.5	1.3%
Torm, Dampskibss	Denmark	354.6	—	—	—	—	354.6	1.3%
Beluga Shpg. GmbH.	Germany	—	—	—	—	349.7	349.7	1.2%
Nippon Yusen Kaisha	Japan	176.3	162.0	—	—	—	338.4	1.2%
Others		*5,428.7*	*4,689.6*	*4,086.8*	*154.8*	*2,855.9*	*17,215.8*	*60.9%*
Total		**10,165.1**	**6,915.9**	**6,910.5**	**563.0**	**3,698.4**	**28,252.9**	**100.0%**

Source: Clarkson Research February 2007.

There are currently numerous plans for the development of new shipbuilding sites in China and for the expansion of existing sites. It is not thought that all of these sites will come to fruition, but a large number are already marketing berths and some have taken orders. The largest of these is CSSC's Changxing Island site which will eventually rehouse Jiangnan Shipyard and Hudong Zhonghua, which are being cleared to make room for the 2010 Shanghai World Expo. The site will take up 8km of coastline and by 2015 is planned to have a total of seven docks with an annual capacity of 8m dwt. The new shipyard has already built up an orderbook of 37 ships of 6.47m dwt including 19 VLCCs with the first ship due to deliver in 2008. CSSC are also constructing a large shipbuilding site in southern China at Nansha Longxue Island. This facility will cover 4.5km of coastline and when finished in 2009 is expected to have an annual capacity of 2.12m dwt.

In addition to these two sites a further seven planned shipyard sites or expansions are currently in construction and are actively marketing berths. These nine sites have a total planned capacity of around 17m dwt, compared to total Chinese output of 12.5m dwt in 2006, representing a more than doubling of shipyard capacity. The table below shows a list of proposed expansion plans in China by 2010 including those sites that are still in the early stages of construction and awaiting approval, or awaiting approval to start construction. Whether all of these new shipbuilding facilities and expansion plans will actually be built is uncertain.

Capacity expansions plans by 2010 (m dwt)

(Please note that several of these projects are still in the planning stages or are awaiting approval and as such are subject to cancellation, revision or delay)

Newbuilding Site	Province	*Capacity Goal	Status	Group
Changxing Island	Shanghai	4.5	Under construction & marketing berths — Phase 1	CSSC
Nansha Longxue	Guangdong	2.12	Under construction & marketing berths	CSSC
Qingdao Haixi	Shandong	3	Under construction	CSIC
Dalian Lushun	Liaoning	1	Under construction — Initial Stage	COSCO
Fujian Quanzhou	Fujian	1.48	Under construction & marketing berths — Phase 1	Joint Venture
Weihai Shipyard	Shandong	0.58	Under construction & marketing berths — Phase 1	Local
Nantong Rongsheng	Jiangsu	3.5	Under construction & marketing berths	Local
Mastek Shipyard (Jimo)	Shandong	1.1	Under construction	Joint Venture
Guangxi Longmen	Guangxi	0.1	Under construction	Local
Yangzhou Longhua	Jiangsu	0.05	Under construction	Local
Jiangsu Sugang	Jiangsu	0.1	Under construction	Joint Venture
Shuntian Shipbuilding	Jiangsu	0.5	Under construction	Local
Guoyu Shipbuilding	Jiangsu	0.5	Under construction	Local
Shentaosha Shipbuilding	Jiangsu	0.1	Under construction	Joint Venture
Huanqiu Shipbuilding	Jiangsu	0.4	Under construction	Joint Venture
New Times	Jiangsu	1	Under construction & marketing berths	Local
Hengcheng Shipbuilding	Zhejiang	0.2	Under construction	Local
Dinghen Shipbuilding	Jiangsu		Under construction	Local
Bohai	Liaoning	1	Under construction & marketing berths	CSIC
NACKS	Jiangsu	2	Under construction & marketing berths	Joint Venture
Waigaoqiao	Shanghai	1.5	Under construction — Phase 2	CSSC
Xiamen Shipbuilding	Fujian	0.3	Under construction — Phase 2	Local
New Yangzij.	Jiangsu	1	Under construction & marketing berths	Local
Qingshan	Hubei	0.15	Under construction	Local
Jinlin Shipyard	Jiangsu	0.58	Under construction	Local
Changxing Island	Shanghai	3.5	Need approval — Phase 2	CSSC
Xingang	Tianjin	3	Need approval	CSIC
Chongming	Shanghai	1.5	Need approval	CSSC
Dalian Lushun	Liaoning	1.4	Need approval — When finished	COSCO
Fujian Quanzhou	Fujian	1.12	Need approval — Phase 2	Joint Venture
Weihai Shipyard	Shandong	0.42	Need approval — Phase 2	Local
Shanghaiguan	Hebei	1	Need approval	CSIC
Shenzhou Shipbuilding	Zhejiang	3.6	Possible	Local
Donghong Shipbuilding	Zhejiang	0.2	Possible	Local
Yichun Wujiazui	Jiangsu	4	Possible	Local

Newbuilding Site	Province	*Capacity Goal	Status	Group
Wuchang Shipyard	Shandong		Possible	Local
Xiamen Shipbuilding	Fujian	0.3	Need approval — Phase 3	Local
DSIC	Liaoning	2	Need approval	CSIC

Source: Variety of sources including Clarkson Research Services, news stories, press releases and others. As such this list should not be considered as fully comprehensive.

*Capacity goals have been gathered from a variety of sources. Clarksons has not undertaken any verification as to whether or not these goals are achievable.

The containership market

Container shipping represents an important and increasingly significant part of the global seaborne movement of goods, responsible for the movement of a wide range of goods from one part of the world to another in a unitised form. Participants in the container shipping industry include "liner" companies, who operate container shipping services, independent containership owners, often known as charter owners, who own containerships and charter them out to the operators, and shippers who require the seaborne movement of containerised goods.

The relatively rapid expansion in global container trade has its primary roots in the pace of growth of global trade in general. Globalisation has bolstered growth in international trade, and within global trade as a whole, the share carried in containers has been growing, as the growth in trade in goods moved in containers has outpaced overall trade growth and as new commodities have begun to be carried in containers. The underlying key to the expansion in global container trade since 2002 has been the continued relocation and outsourcing of manufacturing to China, which has resulted in very strong economic growth in China. Future development of manufacturing and exports in China will be key to the medium term growth in containership demand.

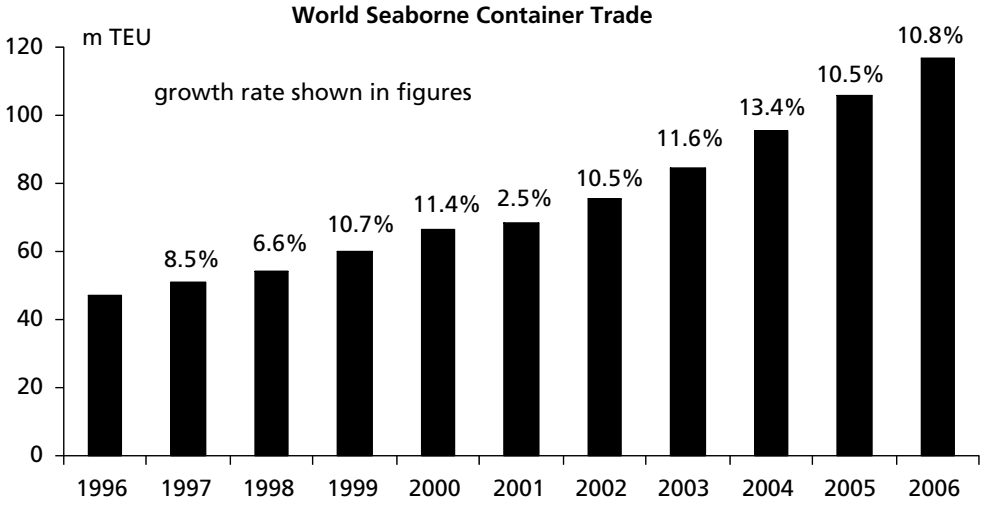
In other shipping sectors, freight and charter rates in the containership market are influenced by the supply of and demand for shipping capacity, and consequently are volatile. As discussed earlier, freight and charter rates are a key short term factor on newbuilding demand and prices.

In 2006, global loaded container trade[9] stood at an estimated 117 million TEU[10]. At the start of February 2007, the global containership fleet contained 3,999 fully cellular containerships, with a total standing slot capacity[11] of over 9.5 million TEU, whilst total container capable fleet capacity stood at 11.6 million TEU. Growth in the liner shipping market has been relatively rapid in comparison with other shipping sectors with estimated global seaborne container trade having grown at an annual average of 9.6% per annum in the period 1996-2006.

9 In terms of estimated loaded containers moved from origin to destination.

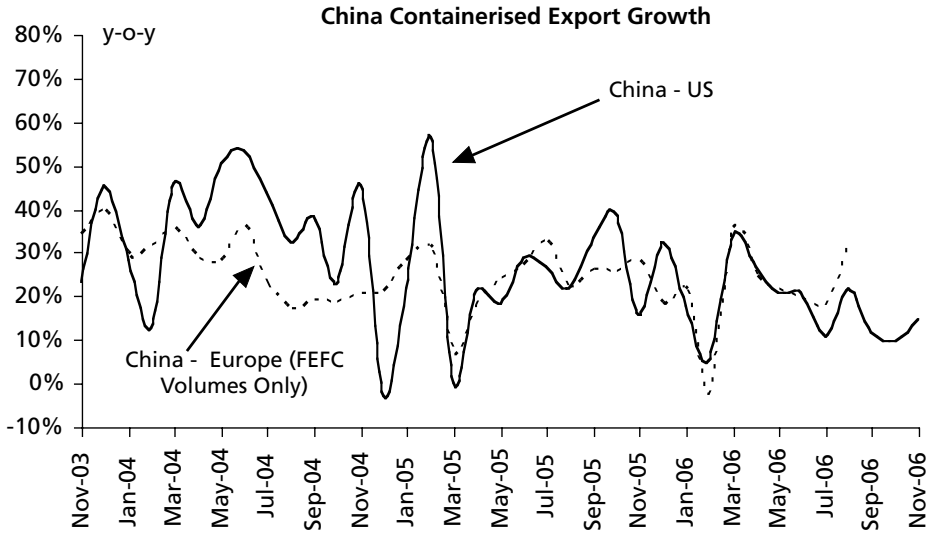
10 A measure of container cargo or container capacity units, TEU = twenty foot equivalent unit.

11 Nominal static ship container capacity.



Source: Clarkson Research February 2007

The rapid growth in the Chinese container trade is one of the main drivers behind global container trade growth. In 2000 estimated seaborne container exports from China totalled 8.9 million TEU. This grew to 9.7 million TEU in 2001 and in 2002 broke the 10 million TEU barrier to reach 12.8 million TEU. By 2003 estimated container exports had reached 17.5 million TEU, increasing to 23.7 million TEU by 2004 and 30.5 million TEU by 2005. In 2006, container exports reached 37.2 million TEU, representing about 32% of global container exports compared to just 13% in 2000. The majority of the growth in Chinese container trade has been on the mainlane routes to the USA and Europe. The chart below shows the growth in containerised export on the China-US and China-Europe routes over the past three years:



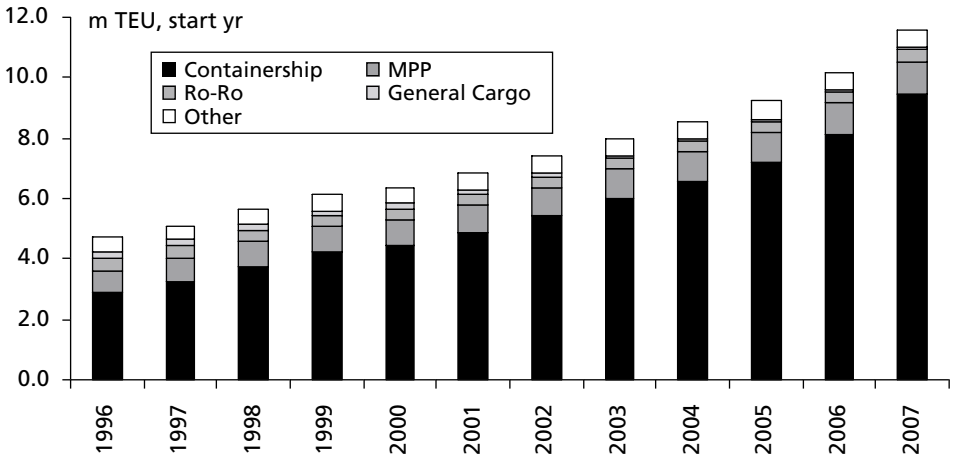
Source: Clarkson Research February 2007

Global seaborne container trade is served by a large fleet of container carrying vessels. The most significant part of this fleet is the fully cellular[12] containership fleet and the remainder of the container capable fleet is made up of a range of non-fully cellular ship types[13].

12 Equipped with fixed cell guides for containers throughout.

13 These include types such as MPPs (multi-purpose vessels), Ro-Ros (roll-on roll-off vessels) and General Cargo ships, which often have container carrying capacity.

Historical Container Capable Fleet Development

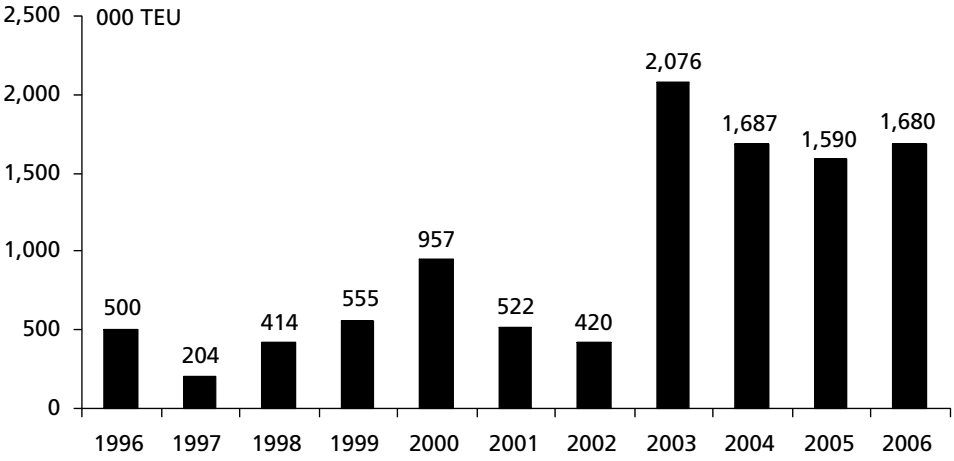


Source: Clarkson Research February 2007

The most important part of the overall container capable fleet is the fully cellular containership fleet, and in recent times this sector has been responsible for most of the growth in total container capable capacity. The fully cellular containership fleet is made up of a wide range of ships from below 500 TEU in capacity to 8,000 TEU and above. At the top end of the scale are the 'Deep Sea' (Post-Panamax and Panamax) containerships of 3,000 TEU and above. 'Intermediate' (Sub-Panamax and Handy) containerships are between 1,000 TEU and 2,999 TEU in capacity and below 1,000 TEU in capacity are the 'Feeder' (Feeder and Feedermax) containerships.

In response to rapidly growing global container trade volumes there have been phases of large increases in containership contracting. Orders for containership capacity totalled a new record of 0.96 million TEU in 2000. In 2003 this was surpassed when 475 boxships with 2.08 million TEU of capacity were ordered. In 2004, 1.69 million TEU (461 ships) was contracted, and in 2005 a further 1.59 million TEU (541 ships) was contracted. In 2006 a total of 1.68m TEU (450 ships) was contracted.

Historical Fully Cellular Containership Contracting



Source: Clarkson Research February 2007

Market players ordering containerships during this period have included both containership operators (liner companies) and shipowners ordering vessels in order to charter them out to operators. The majority of the capacity contracted has been built, or is being built, at Asian yards, with South Korean yards currently the world's most prolific builders of containership capacity, particularly for the larger Panamax and Post-Panamax size ranges. China is now the second largest producer of containerships according to the current orderbook, building vessels from Feeder to Post-Panamax size.

Top Containership Building Countries (Orderbook by TEU)

Builder Country	Feeder 100-500 teu	Feedermax 500-1,000 teu	Handy 1-2,000 teu	Sub-Panamax 2-3,000 teu	Panamax 3,000 teu+	Post-Panamax 3,000 teu+	Total
South Korea			49,596	94,688	651,774	1,416,162	2,212,220
China P.R.	1,800	53,406	231,371	109,393	388,934	137,970	922,874
Japan		11,017	11,266	19,700	9,000	444,022	495,005
Germany			35,835	66,591	90,066	50,792	243,284
Taiwan			35,100		63,750	102,896	201,746
Denmark						121,500	121,500
Romania		4,818			46,862	61,110	112,790
Poland			8,650	44,020	31,000		83,670
India			10,400		34,000		44,400
Philippines					43,000		43,000
Others	***1,654***	***27,196***	***37,767***	***18,878***			***85,495***
Grand Total	**3,454**	**132,272**	**450,741**	**376,745**	**1,319,112**	**2,283,660**	**4,565,984**

Source: Clarkson Research February 2007.

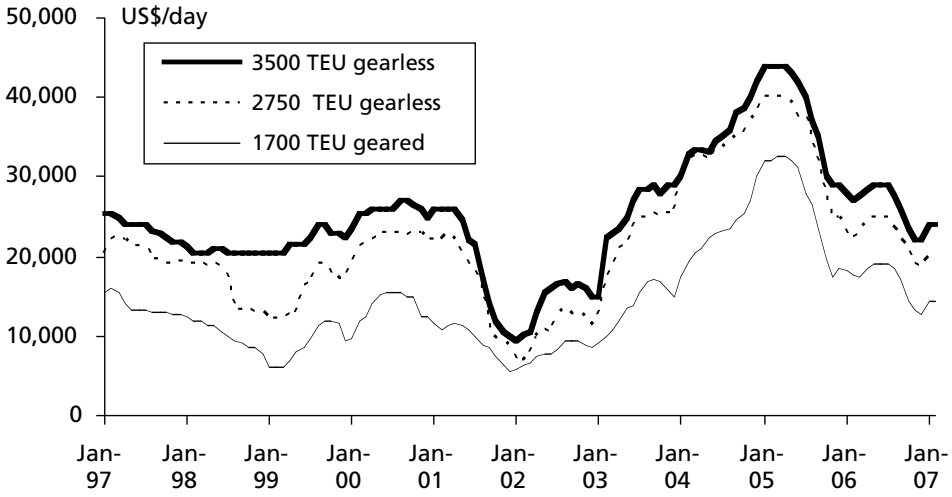
The containership orderbook at the start of February 2007 stood at 1,248 ships of 4.57 million TEU, and equalled 48.0% of the fleet in terms of capacity. This figure stands at 62.4% for the 3,000+ TEU sector, where there is 2.28 million TEU of Post-Panamax capacity and 1.32 million TEU of Panamax capacity on order. This is a historically high orderbook and will increase the size of the fleet significantly. Significant demand growth will be required to absorb the forthcoming new capacity in its entirety without the market experiencing a negative impact.

At the start of February 2007, the containership orderbook ran into 2011, containing 1.42 million TEU for delivery in the remainder of 2007, 1.50 million TEU for 2008 delivery and 1.34 million TEU for 2009 delivery. 0.31 million TEU of capacity was already on order for delivery in 2010 and onwards. Although the orderbook is at a record level in terms of capacity, it is also scheduled to be delivered over a longer period of time than has generally been the case ever before. This in turn is a function of the high level of utilisation of shipyard capacity, with space at some yards filled into 2009 and 2010, meaning that ships ordered today are in some cases scheduled for delivery three or more years ahead.

In response to relatively rapid expansion in global container trade in the last decade, overall capacity in the container capable fleet (and in particular in the fully cellular containership fleet) has been growing quickly over the same period as a whole. However, it is the relative balance between overall demand and supply growth which appears to impact the market, and this has been illustrated clearly in recent years, with trade growth out of Asia, China in particular, having a positive effect on the market in general through the period from 2002 to the first half of 2005. The balance can also have a negative effect on the market, as in 2001, for example, when the growth in container shipping demand was between 2% and 3%, which was well below historical average growth rates. At the same time, the containership orderbook represented over 30% of the global containership fleet in terms of capacity at the beginning of that year. The impact of the differential between growth in demand and supply on the container shipping market was sharply negative and resulted in low levels of newbuild investment and reduced prices.

The second half of 2005 saw some downward adjustment in the rates from peak levels, albeit to still historically high levels, before some stabilisation in the first half of 2006. Rates slipped further in the last quarter of 2006, though the early part of 2007 has seen some upwards movement. The following graph illustrates the development of timecharter rates (i.e. the rate paid by liner companies to charter owners for the hire of a vessel for a specified time period) for three sizes of fully cellular containership since the start of 1997:

Historical Containership Timecharter Rates



Source: Clarkson Research February 2007

The bulk carrier market

Dry bulk cargo is used in many basic industries and in construction and can be divided into major bulk commodities and minor bulk commodities. Major bulk commodities consist of iron ore, coal and grain[14]. Minor bulk commodities cover a wide variety of commodities, such as forest products, iron and steel products, fertilizers, agricultural products, non-ferrous ores, minerals and petcoke, cement, other construction materials and salt.

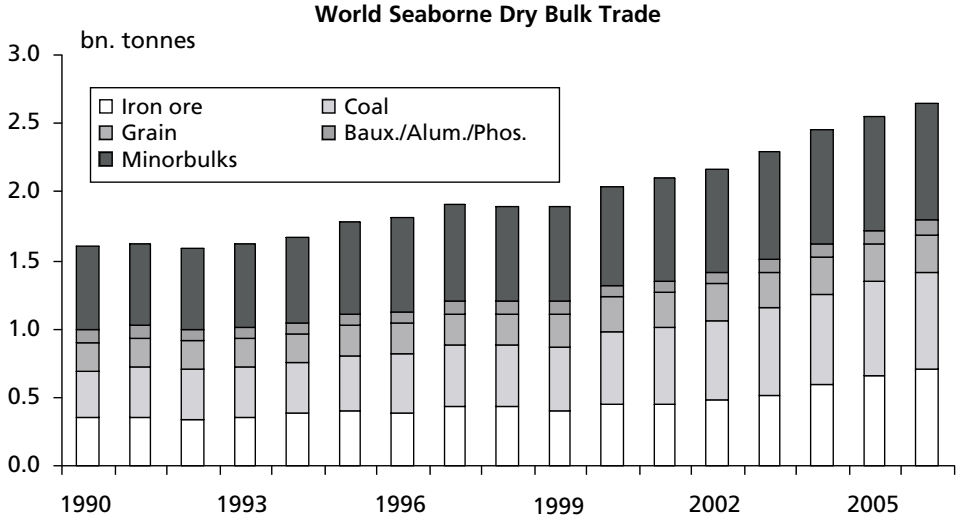
Demand for dry bulk commodities is affected by world and regional macro- and micro-economic and political conditions. The resulting demand for dry bulk carriers is a product of (a) the amount of cargo transported, multiplied by (b) the distance over which this cargo is transported. This is further affected by other factors such as changes in seaborne and other transportation patterns, which are principally influenced by the locations of production and consumption and their relative growth rates, as well as changes in regional prices of raw materials and products such as coal, steel products and grain, which in turn are influenced by weather patterns, crop yields, armed conflicts, and technological progress as well as port congestion, canal closures and other diversions of international trade. Generally, demand for larger vessels is affected by the demand for a small number of commodities and by the trade patterns which are often composed of a few key routes. Demand for the services of smaller dry bulk vessels is more diversified and is determined by trade in a larger number of commodities. Demand cycles move broadly in line with developments in the global economy, and dry bulk demand has benefited from the recent expansion in industrial production in Asia, and in particular China.

14 Grains include wheat, coarse grains and soybeans. Clarkson Research includes bauxite, alumina, and phosphate rock as major bulk commodities in published reports.

Freight rates in the bulk carrier market are influenced by the supply of and demand for shipping capacity, and consequently are volatile. As discussed earlier, freight rates are a key short term factor on newbuilding demand and prices.

As illustrated in the following graph, world seaborne trade in dry bulk cargo has grown from approximately 1.60 billion tonnes in 1990 to an estimated 2.65 billion tonnes in 2006, at an average growth rate of 3.2% per annum. Since 1995, this growth has accelerated to 3.6% per annum in a response to strong global GDP growth and, in recent years, to the accelerated development of the Chinese economy, in particular the development of that country's iron and steel industries.

World Seaborne Dry Bulk Trade

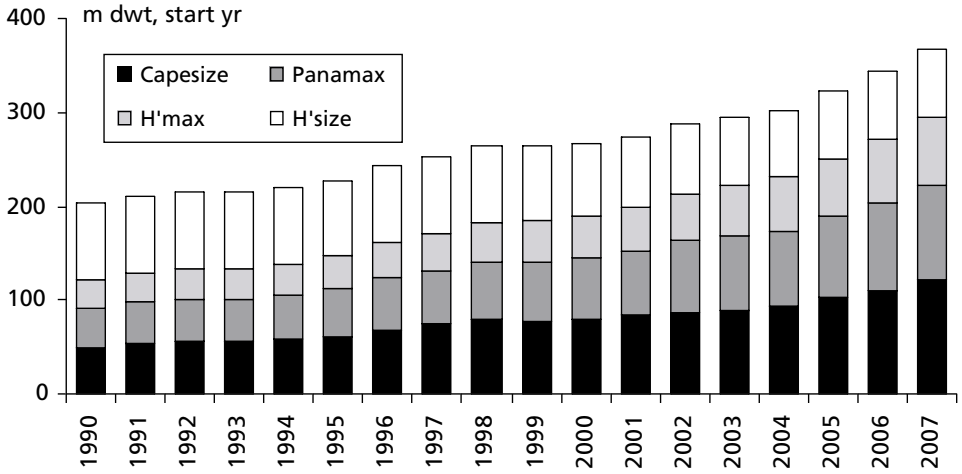


Source: Clarkson Research, February 2007

While global dry bulk trade has grown, the relative importance of the Asia-Pacific region as a key driver of that growth has increased even more rapidly, in part reflecting the globalisation of trade and outsourcing of the manufacturing process. Total cargo growth in iron ore, coal and grain (excluding soya beans, and without adjustment for grain crop years) between 1995 and 2005 was approximately 569 million tonnes. Imports to the Asia-Pacific region accounted for 74% of that increase, growing 420 million tonnes over the same period. Significantly, the Asia-Pacific region in 2005 represented 60% of the world's seaborne trade in such cargo. The primary driver for growth in imports to Asia-Pacific trade in dry bulk cargo has been China. Chinese imports accounted for only 59 million tonnes of iron ore, coal and grain seaborne trade in 1995, representing 11% of such cargo shipped into the Asia-Pacific region. While total trade for the region grew by 81% to 939 million tonnes by 2005, China's trade grew almost four-fold to 292 million tonnes in 2005, representing 55% of the cargo growth and 31% of the imports of such commodities to the region, driven primarily by rapid growth in iron ore imports.

The supply of bulk carrier capacity is a function of the already existing fleet, new bulk carrier deliveries, scrapping and loss of tonnage. The carrying capacity of the bulk carrier fleet, in deadweight terms, has grown steadily since the start of 1990, with annual expansion averaging 3.6% per year.

Historical Bulkcarrier Fleet Development



Source: Clarkson Research February 2007

However, this growth has not been even across the four sectors, with Capesizes, Panamaxes and Handymaxes all having grown at an average of 5% or more per year since 1990 whilst Handysize capacity has shown an average annual contraction of 0.6% per year in during the period. Since 1990 the only year in which the capacity of the entire fleet has shrunk is 1998, when total capacity fell by 0.3% before the start of 1999. This fall came after four years of strong fleet growth. Fleet growth during 2005 was 7.0%, the highest level during the period in question. Whilst the smallest sector at the start of February 2007 in terms of numbers shown in the following table, the Capesize fleet provided the largest share of DWT capacity (33%). This was followed by the Panamax (28%) and Handysize (20%) sectors, before the Handymax sector (19%).

World Dry Bulkcarrier Fleet By Vessel Size

		Fleet				Orderbook		
Class	Size (DWT)	Number	Million DWT	% share of DWT	Average Age (Years)	No.	DWT	% of fleet
Capesize . . .	Over 100,000	713	121.0	33%	11.3	193	38.3	31.7%
Panamax . . .	60–99,999	1,400	101.9	28%	12.1	260	21.1	20.8%
Handymax . .	40–59,999	1,497	71.5	19%	11.8	335	18.1	25.3%
Handysize . .	10–39,999	2,762	73.9	20%	20.7	295	8.6	11.6%
Total		6,372	368.3	100%	15.7	1,083	86.1	23.4%

Source : Clarkson Research February 2007.

Notes : Includes vessels of 10,000 DWT and above only. Excludes combination carriers and Great Lakes — only vessels. Average age by number of vessels. % of fleet in DWT terms.

At the start of February 2007 the world bulk carrier orderbook stood at 86.1 million DWT, around a 170% increase since the end of 2002 and equivalent to 23.4% of the fleet. In this respect the Capesize orderbook was the most significant at 31.7% of the fleet, followed by the Handymax orderbook at 25.3%.

Japanese shipyards are still by far the biggest builders of bulk carriers with a 53% share of the current orderbook. Chinese shipyards are the second largest builders of bulk carriers with a 35% share of the current orderbook, followed by South Korea (4%) and Vietnam (3%). The largest type of bulk carrier, the Capesize, is currently only being built in four countries; Japan (57% share of Capesize orders), China (37% of Capesize orders), South Korea (5% of Capesize orders) and Taiwan (1% of Capesize orders).

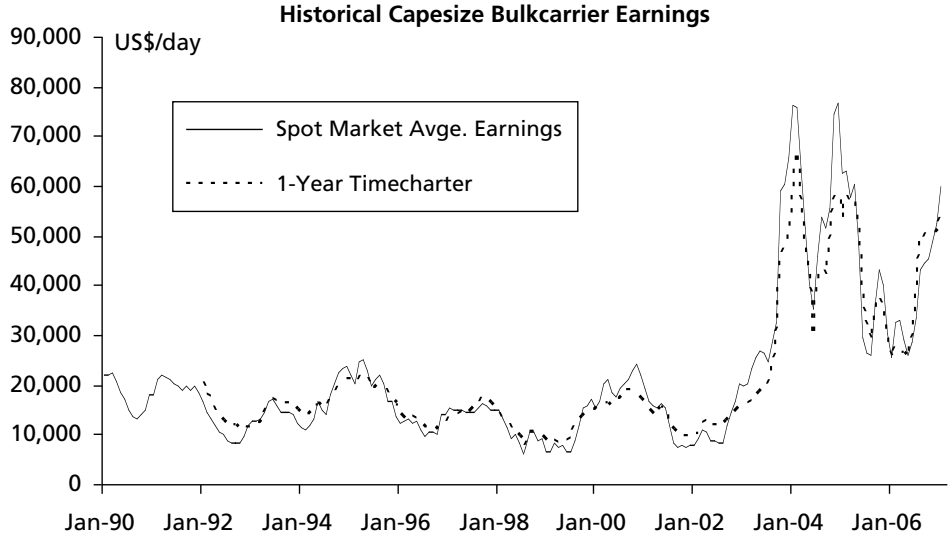
Top Bulk Carrier Building Countries (Orderbook by DWT)

Builder Country	Handysize 10-40,000 DWT	Handymax 40-60,000 DWT	Panamax 60-100,000 DWT	Capesize 100,000+ DWT	Total
Japan	3,858,120	7,427,200	12,678,149	21,833,466	45,796,935
China P.R.	3,484,635	5,574,000	6,375,100	14,348,000	29,781,735
South Korea	248,500	195,200	1,576,000	1,729,000	3,748,700
Vietnam	381,000	1,879,000			2,260,000
Philippines		1,450,500			1,450,500
Iran		530,000	450,000		980,000
India	367,600	480,000	847,600		
Taiwan				405,000	405,000
Indonesia	37,000	300,000			337,000
Bulgaria	21,200	127,800			149,000
Others	***197,800***	***120,000***	***69,100***		***386,900***
Grand Total	**8,595,855**	**18,083,700**	**21,148,349**	**38,315,466**	**86,143,370**

Source: Clarkson Research February 2007.

Bulk carrier charter rates are strongly influenced by the demand for, and supply of, vessel capacity because of the highly competitive nature of the charter market. Bulk carrier charter rates are very sensitive to these changes in demand and supply and consequently are volatile. Hence, the dry bulk shipping industry has always been quite difficult to predict. The degree of charter rate volatility has varied over time and among different sizes of bulk carriers. Growth in Asian demand and that from China in particular, as well as port congestion in loading and discharge ports, have had an impact in terms of some of the historically high earnings seen in recent years. The following graph illustrates the development of Capesize bulk carrier earnings since 1990.

Historical Capesize Bulkcarrier Earnings



Source: Clarkson Research February 2007

At any point in time, the level of scrapping activity is affected by, among other factors, current and expected charter rate conditions, scrap prices, the age profile of the fleet, the levels of second-hand values in relation to scrap values, as well as operating, repair and survey costs and the impact of regulations. Elderly vessels typically require substantial repairs and maintenance to conform to industry standards, including repairs made in connection with periodic surveys by classifications societies and dry dockings. Dry bulk carrier scrappings were at a historically low level during 2004, 2005 and 2006 with 0.4 million DWT, 1.0 million DWT and 1.9 million DWT scrapped respectively, following an average of 7.4 million DWT scrapped per year in the period 1996 to 2003.

The offshore market

The offshore market is composed of those vessels serving the oil and gas exploration and extraction industries. The Anchor Handling and Tug Support vessel (AHTS) is the main workhorse of the fleet and is designed to tow offshore platforms and barges, and move the anchors that hold these units in position. The AHTS is also a standby and rescue ship equipped for fire-fighting. The AHTS can carry bulk cargoes on the main deck, and wet cargoes in tanks. The Platform Supply Vessel (PSV) carries supplies to and from the platforms, using containers on deck and segregated liquids such as drilling fluids in tanks below deck. The PSV also transports the dry liner materials for the well, such as cement and bentonite. An FPSO (Floating Production Storage & Offloading) vessel is a type of floating tank system used by the offshore oil and gas industry and designed to take all of the oil or gas produced from a nearby platform, process it, and store it until the oil or gas can be offloaded onto waiting tankers, or sent through a pipeline. Although AHTS, PSV and FPSO vessels comprise the largest part of the offshore fleet and orderbook there are also a number of other vessel types such as standby/rescue vessels, pipe and cable layers, maintenance vessels and miscellaneous support vessels which make up the offshore fleet.

In addition to the offshore support ships mentioned above, there are also a large number of mobile drilling units including Jack-Ups and Semi-Submersible rigs as well as mobile production and storage units such as tension leg platforms and spars. Some shipyard and fabrication facilities manufacture offshore support ships, merchant ships and drilling units whereas others specialise in one or the other.

Demand for offshore vessels is dependent on the demand for exploration and extraction, which in turn is linked to the price of oil. The higher the price of crude oil and gas, the greater the demand is for offshore vessels, as "marginal" and remote oil fields become more economical to develop. Conversely, when the oil price is low there is lower demand for offshore units, including FPSOs, as remote oil fields that are harder to access become less economical to develop.

As of 1st February 2007, the offshore fleet (exclusive of FPSOs) totals around 4,750 vessels of 6.6 million GT along with an orderbook of around 570 vessels of 1.6 million GT. In addition, there is an FPSO fleet which totals 193 units. In addition to this there are a further 13 tankers which are currently being converted to FPSOs as well as 13 vessels on order and 5 vessels that have been sold for the purpose of future FPSO conversion.

FPSO newbuilding activity is currently concentrated in China (seven vessels on order) and South Korea (five vessels on order). In addition, Vietnam has one FPSO on order. China is also prominent in the construction of AHTS and PSV vessels though Norway is currently the leading builder of these two ship types. The table below shows the current offshore vessel orderbook in GT split by vessel type:

Top Offshore Building Countries (Orderbook by GT)

	Type of Offshore Vessel				
Builder Country	**FPSO**	**AHT/AHTS**	**PSV/Supply**	**Others**	**Total**
South Korea	607,414				607,414
Norway		138,346	155,062	272,502	565,910
China P.R.	396,357	86,852	73,142	3,920	560,271
Singapore		127,783	8,341	2,495	138,619
India		83,204	29,968	17,241	130,413
Indonesia		80,184	6,467	31,486	118,137
United States		26,993	56,032	6,720	89,745
Spain		1,300	8,634	68,675	78,609
Brazil		12,546	34,202	23,948	70,696
Netherlands			1,750	66,085	67,835
Others	***60,606***	***106,694***	***30,071***	***4,825***	***202,196***
Total	**1,064,377**	**663,902**	**403,669**	**497,897**	**2,629,845**

Source: Clarkson Research February 2007.

The current offshore orderbook of 583 vessels of around 2.6 million GT is shared between just over 100 different owners from 26 countries. The top owner countries with offshore vessels currently on order are Norway, France and the USA (see table below):

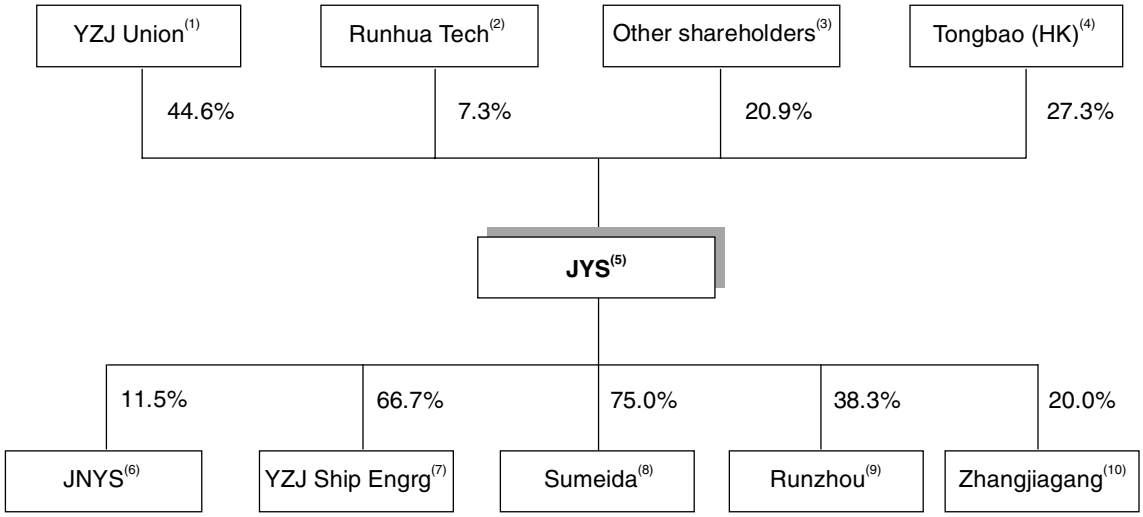
Top Offshore Owner Nationalities (Orderbook by GT)

	Type of Offshore Vessel				
Owner Country	**FPSO**	**AHT/AHTS**	**PSV/Supply**	**Others**	**Total**
Norway	79,236	132,463	152,353	409,721	773,773
France	259,696	64,265	53,659	3,000	380,620
United States	181,818	81,430	69,177	16,131	348,556
Singapore	166,900	114,287	12,058	7,750	300,995
China P.R.	195,606		3,872		199,478
Vietnam	60,606	2,558			63,164
Denmark		48,539	6,814	2,495	57,848
Germany		17,889	17,600		35,489
India		20,959	13,827		34,786
Greece		3,070	15,804	13,968	32,842
Others	***120,515***	***178,442***	***58,505***	***44,832***	***402,294***
Total	**1,064,377**	**663,902**	**403,669**	**497,897**	**2,629,845**

Source: Clarkson Research February 2007.

Shareholding structure immediately prior to the Restructuring Exercise

The shareholding structure of JYS and JNYS immediately prior to the commencement of the Restructuring Exercise was as follows:



(1) YZJ Union held shares in JYS on behalf of certain employees of JYS.

(2) Runhua Tech is an investment company whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of Changjiang (60.5%) and 10 individuals, including Ren Yuanlin (10.0%) and Liu Yifang (10.0%). Ren Jinhua holds 55.0% of total equity interests in Changjiang. Save as disclosed, the other shareholders are unrelated third parties.

(3) The other shareholders immediately prior to the commencement of the Restructuring Exercise consisted of Ren Yuanlin (14.6%), Wang Dong (1.2%), Xiang Jianjun (1.0%), Cai Zhengshun (0.9%), Huang Jialu (0.9%), Su Pinhua (0.9%), Yu Weiping (0.7%) and Gao Qiang (0.7%). Ren Yuanlin, Wang Dong and Xiang Jianjun are our Executive Directors and the other shareholders are unrelated third parties.

(4) Tongbao (HK) is a shipping company whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of Yu Kebing (60.0%) and Xie Lijun (40.0%), who own 20.0% and 9.3% of Lido Point Investments Ltd, respectively.

(5) The shareholdings of JYS do not add up to 100% due to rounding.

(6) The other shareholders of JNYS held an aggregate 88.5% of JNYS and immediately prior to the commencement of the Restructuring Exercise consisted of Wang Dong (15.00%), Miao Weiqun (缪为群) (20.6%), Changjiang (24.7%), and Liantong (28.2%).

Changjiang is an investment company whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of Ren Jinhua (55.0%), Chu Jianjian (楚健健) (25.0%) and Zhu Qing (朱青) (20.0%).

Liantong is a company engaged in printing whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of Hainan Tongqian Industries Co., Ltd (海南通乾实业有限公司) (34.7%), Runhua Tech (20.0%), Jiangyin Changrong Wuzi Co., Ltd. (江阴昌荣物资有限公司)) (18.3%), Zhangjiagang Yangzi Ship Dismantling Co., Ltd. (张家港扬子拆船有限公司) (10.0%), Jiangyin Huaxi Fur Spinning Factory (江阴宝昌有限公司) (8.0%), Jiangyin Baochang Co., Ltd. (江阴华西毛纺厂) (5.0%), Chen Yuhe (陈玉和) (3.0%) and Liu Meilin (刘梅林) (1%). Save as disclosed, the other shareholders are unrelated third parties.

(7) YZJ Ship Engrg is a sino-foreign equity joint venture engaged ship parts sub-contracting, whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of JYS (66.7%), JECC (8.3%) and Tongbao (HK) (25.0%).

(8) Sumeida is a sino-foreign equity joint venture engaged ship parts sub-contracting, whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of JYS (75.0%) and Sumeic Power Tools Manufacturing Inc. (25.0%).

(9) Runzhou is a sino-foreign equity joint venture engaged in the assembly of steel structures, whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of JYS (38.3%), Hainan Tongqian Industrial Co., Ltd. (海南通乾实业有限公司) (24.2%), Hong Kong Bolian Group Co., Ltd. (香港博联集团有限公司) (16.7%) and Tongbao (HK) (20.8%).

(10) Zhangjiagang is a company engaged in ship dismantling whose shareholders immediately prior to the commencement of the Restructuring Exercise consisted of YZJ Union (70.0%), JYS (20.0%) and Liantong (10.0%).

THE RESTRUCTURING EXERCISE

Incorporation of our Company

Our Company was incorporated on 21 December 2005 as a holding company to acquire the entire equity interests in JYS. On 10 November 2006, our Founder Companies (except Lido Point Investments Ltd.) subscribed for new Shares in our Company for cash at S$1.00 per Share:

Name of company	Number of Shares
Alexandrian Worldwide Incorporated[1]	600
Almond Beach Resources Corporation[2]	1,600
Keytone Assets Investments Inc.[3]	600
Mediterranean Success Group[4]	600
Newyard Worldwide Holdings Ltd[5]	3,872
Total	7,272

(1) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholders of Alexandrian Worldwide Incorporated consisted of Su Pinhua (50.0%) and Wang Wenzhen (50.0%).

(2) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholder of Almond Beach Resources Corporation consisted of Ren Jinhua (70.0%) and Liu Yifang (30.0%).

(3) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholders of Keytone Assets Investments Inc. consisted of Cai Zhengshun (50.0%) and Gao Qiang (50.0%).

(4) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholders of Mediterranean Success Group consisted of Yu Weiping (50.0%) and Huang Jialu (50.0%).

(5) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholders of Newyard Worldwide Holdings Ltd consisted of Ren Yuanlin (70.0%) and Xiang Jianjun (30.0%).

Increase in equity interests in JNYS

The initial registered capital of JNYS upon establishment was RMB242.8 million, of which JYS had an interest of RMB28.0 million, representing 11.5% of the registered capital. On 3 April 2006, the following steps were taken which resulted in JYS increasing its interests in the registered capital to RMB260.0 million, which represented 50.2% of the enlarged registered capital of RMB518.0 million:

- JYS acquired 4.1% and 11.7% of the then registered capital of JNYS (RMB242.8 million) from Changjiang and Liantong for RMB10.0 million and RMB28.4 million, respectively;
- Wang Dong and Miao Weiqun sold their entire equity interests in JNYS of 15.0% and 20.6% for RMB36.4 million and RMB50.0 million, respectively, to Shunyuan and Tianyuan; and
- the registered capital of JNYS was increased from RMB242.8 million to RMB518.0 million, pursuant to which JYS invested an additional RMB193.6 million, and increased its interest in the registered capital to RMB260.0 million.

Acquisition of JYS

On 3 April 2006, the Company acquired, in aggregate, 72.7% of the equity interests in JYS from Runhua Tech, YZJ Union, Ren Yuanlin, Wang Dong, Xiang Jianjun, Cai Zhengshun, Huang Jialu, Su Pinghua, Gao Qiang and Yu Weiping (collectively the "JYS Vendors"). The aggregate consideration paid to the JYS Vendors was US$24.9 million, based on a valuation of the assets and liabilities of JYS as at 28 February 2006 by Jiangyin Jiyang Certified Public Accountants Co., Ltd., an independent valuer appointed for the purposes of the acquisition.

On 3 April 2006, the Company acquired the remaining 27.3% of the equity interests in JYS held by Tongbao (HK). The consideration for the acquisition was US$9.4 million, based on a valuation of the assets and liabilities of JYS as at 28 February 2006 by Jiangyin Jiyang Certified Public Accountants Co.[15], Ltd., an independent valuer appointed for the purposes of the acquisition. To satisfy the consideration, we issued 2,727 new ordinary shares to Lido Point Investments Ltd., as nominee of Tongbao (HK).

Following the completion of the above acquisitions, JYS became a wholly-owned subsidiary of our Company.

Investment by Strategic Investors and the Conversion

On 13 June 2006, pursuant to the Investment Agreement between our Company, the Strategic Investors, and the Key Persons, we issued an aggregate of US$20 million of redeemable convertible notes to the Strategic Investors. On 16 March 2007, the redeemable convertible notes were converted into an aggregate of 128,700,000 Shares (see "Share capital and Shareholders — Interests in Shares" for further details). On 16 March 2007, the Founder Companies agreed to make certain cash payments to the Strategic Investors in the event that the market value of the 128,700,000 Shares held by them, based on the Offering price which will be determined on the Price Determination Date (the "IPO Value"), is less than S$50.93 million. The amount of cash payments will be the difference between S$50.93 million and the IPO Value. They have also agreed to make certain other cash adjustments which will be calculated with reference to the average US dollar/RMB exchange rate for the period of five days up to and including the Price Determination Date.

We used the proceeds we received from the investment by the Strategic Investors to fund, in part, the acquisition of JYS.

Ancillary loans in connection with the Acquisition of JYS

On 13 June 2006, Lido Point Investments Ltd. extended a loan of US$5.0 million to the Company, which we used to fund, in part, the acquisition of JYS.

At the request of the Strategic Investors, the JYS Vendors (except for Runhua Tech) extended an aggregate of RMB156.8 million in loans to JYS for its working capital purposes. See "Management's discussion and analysis of financial condition and results of operations — Borrowings" for a further description of the loans.

Divestments of YZJ Ship Engrg, Sumeida, Runzhou and Zhangjiagang

Pursuant to various equity transfer agreements dated 1 April 2006 between JYS and JIC, JYS sold its entire equity interest in YZJ Ship Engrg, Sumeida, Runzhou and Zhangjiagang to JIC for an aggregate consideration of RMB24.7 million, which was based on the aggregate of (i) the net asset value of YZJ Ship Engrg as at 28 February 2006 based on a valuation of the assets and liabilities of YZJ Ship Engrg by Jiangyin Jiyang Certified Public Accountants Co., Ltd.; (ii) the net asset value of Sumeida as at 28 February 2006 based on a valuation of the assets and liabilities of Sumeida by Jiangyin Jiyang Certified Public Accountants Co., Ltd.; (iii) the paid-up registered capital of Runzhou and (iv) the net asset value of Zhangjiagang as at 31 December 2005, as set out in its audited accounts. The divestments were completed in June 2006.

15 Jiangyin Jiyang Certified Public Accountants Co, Ltd. (江阴暨阳会计师事务所有限公司), of No. 111 West Wenhua Road, Jiangyin City, Jiangsu Province, PRC, certified public accountants. The valuation reports were not prepared for the purpose of incorporation in this document

The JNYS Acquisition

On 28 January 2007, SEAVI acquired a 25.0% equity interest in JNYS from the JNYS Minority Shareholders for US$33.3 million. An independent valuation was conducted by Sallmanns (Far East) Limited, which was used as a reference to determine the purchase price of the equity interest in JNYS (the "SEAVI Acquisition"). Subsequently, our Company and SEAVI entered into an equity transfer agreement on 16 March 2007 to acquire SEAVI's 25.0% interest in JNYS for the same consideration paid by SEAVI in the SEAVI Acquisition (the "JNYS Acquisition"). Jingtian & Gongcheng, our PRC legal adviser, has advised us that they are of the opinion that the SEAVI Acquisition and the JNYS Acquisition are legally valid under PRC laws and regulations and do not contravene any PRC laws and regulations.

Completion of the JNYS Acquisition is conditional and upon among other things, the listing of our Company on the SGX-ST and the receipt of the relevant approvals from the PRC authorities. Upon completion of the JNYS Acquisition, our aggregate shareholding (direct and indirect) in JNYS will increase from 50.2% to 75.2%. We intend to fund the acquisition of the JNYS shares out of our net proceeds from the Offering.

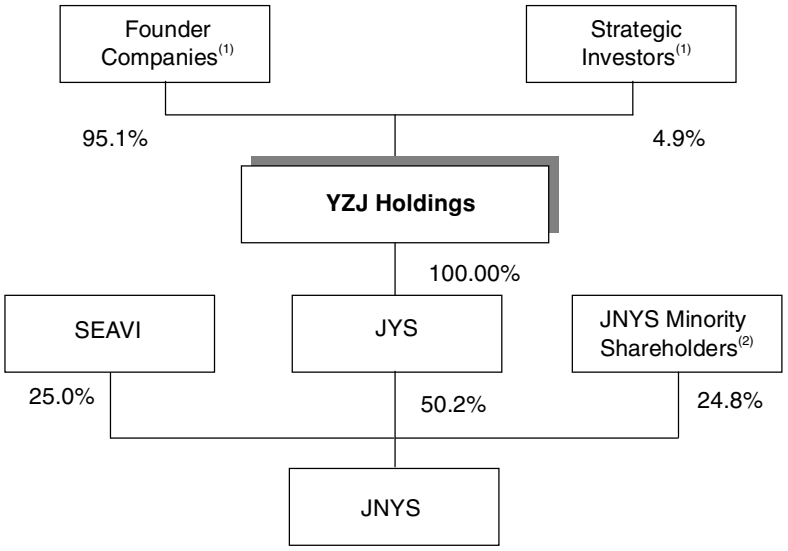
The shareholders of JNYS have agreed to provide shareholders' loans (the "Shareholders' Loan") for the aggregate amount of S$240.0 million, to finance the construction of the New Yard and working capital of JNYS. Our portion of the Shareholders' Loan is S$180.0 million which we will fund from our Offering proceeds. The Shareholders' Loan will be convertible into additional equity interest in the registered capital in JNYS. The amount of equity interest in the registered capital of JNYS that will be issued pursuant to the conversion of the Shareholders' Loan will be determined by dividing the RMB equivalent of the Shareholders' Loan by the conversion price of RMB2.00, or such other price as may be determined by an independent valuer in accordance with PRC law. The RMB2.00 conversion price was arrived at by the directors of JNYS with reference to the valuation conducted by Sallmanns (Far East) Limited for the SEAVI Acquisition as described above. Under PRC law, the valuation used to determine the value of the shares for the purpose of the conversion expires within one year. However, the right to convert the Shareholders' Loan continues for five years from the date of the first disbursement of the loan, or such other date as the parties may agree in writing. In the event that the right to convert is exercised after one year from the date of the valuation, a new valuation by an independent valuer would need to be conducted under PRC law. See "Proceeds from the Offering" for a further description of how we intend to use our net proceeds from this Offering. See "Risk factors — Risks relating to our business — Our acquisition of an additional 25% equity interest in the New Yard and our conversion of our S$180.0 million loan into additional equity in the New Yard are subject to certain conditions and may not be completed within a reasonable time or at all" for a description of the risk we face in completing the acquisition. Although the conversion of the Shareholders' Loan into equity interest in the registered capital of JNYS is subject to the approval of the relevant PRC authorities, we intend to disburse the Shareholders' Loan regardless of the uncertainties relating to such approval. The Company is not aware of any reason which would prevent it from obtaining such approval. However, in the event that the Company is unable to obtain the approval from the relevant PRC authorities for the Shareholders' Loan to be converted into equity, JNYS will repay the Shareholders' Loan to the Company within five years from the date of the first disbursement of the Shareholders' Loan or such other date as may be agreed between the Company and JNYS.

The Share Split

On 12 March 2007, our Shareholders, among other things, agreed to the sub-division of each of our ordinary shares into 251,000 Shares.

GROUP STRUCTURE

Our Group structure immediately before the Offering was as follows:



(1) See "Share capital and Shareholders — Interests in Shares" for details of their respective shareholdings.

(2) Immediately before the Offering, the JNYS Minority Shareholders and their corresponding interests in JNYS consisted of Shunyuan (28.6%), Tianyuan (13.5%) and Liantong (7.7%). Shunyuan is an investment company whose shareholders immediately before the Offering consisted of our Executive Officer Du Chengzhong (20.0%), and our employees, Miao Weiqun (20.0%), Gao Qiang (20.0%), Yu Weiping (20.0%) and Su Pinhua (20.0%). Tianyuan is an investment company whose shareholders immediately before the Offering consisted of Ren Yuanlin (71.5%) and Ren Letian (28.5%). Ren Letian is the son of Ren Yuanlin. Liantong is a company engaged in the printing business and its shareholders are Hainan Tongqian Industries Co., Ltd (34.7%), Runhua Tech (20.0%), Jiangyin Changrong Wuzi Co., Ltd (18.3%), Zhangjiagang Yangzi Ship Dismantling Co., Ltd (10.0%), Jiangyin Huaxi Fur Spinning Factory (8.0%), Jiangyin Baochang Co., Ltd (5.0%), Chen Yuhe (3.0%) and Liu Meilin (1.0%). None of the shareholders of Liantong are related to each other.

OVERVIEW

We are one of the leading shipbuilders in the PRC. We produce a broad range of vessels including containerships, mini bulk carriers, bulk carriers, multi-purpose cargo vessels, chemical tankers and rescue and salvage vessels.

We operate our existing yard through our subsidiary, JYS (the "Existing Yard"). Our Existing Yard is located on the Yangtze River upstream from the Jiangyin Changjiang Bridge in Jiangyin City, PRC. Our Existing Yard spans approximately 719 metres of deep-water coastline and covers an area of approximately 200,000 square metres (excluding the coastal area). We are in the process of constructing our new yard, which will be operated through our subsidiary, JNYS (the "New Yard"). Our New Yard is located on the northern bank of the Yangtze River and within the Jiangyin Economic Development District, Jingjiang City, PRC. We expect the New Yard to have access to approximately 1,200 metres of deep-water coastline and it will cover an area of approximately 793,000 square metres. Our New Yard will also be equipped with a dry dock that will be able to accommodate two vessels of 100,000 DWT each. We expect our New Yard to be completed in October 2007.

Our revenue grew by a compound annual growth rate of 53.3% from RMB988.8 million for the year ended 31 December 2004 to RMB2,325.0 million for the year ended 31 December 2006. We currently own 50.2% of our subsidiary, JNYS. We intend to utilise a portion of the proceeds from the Offering to increase our shareholding in JNYS and to partially finance the construction of the New Yard. See "Proceeds from the Offering" for a description of our use of proceeds.

COMPETITIVE STRENGTHS

We believe we benefit from a number of strengths that together differentiate us from our competitors in the shipbuilding industry:

- **A leading shipbuilder in the growing PRC shipbuilding industry**

  In recent years, the PRC shipbuilding industry has grown at a rapid pace and according to Clarkson Research, the PRC is now the third largest shipbuilding country in the world, in terms of CGT produced. We believe that this growth is in part due to the global trend of outsourcing manufacturing to companies in the PRC, as well as the increasing demand by PRC carriers for domestically built vessels due to the PRC government's policy of encouraging the development of the domestic shipbuilding industry. We believe that the shipbuilding industry in the PRC is currently the fastest growing, compared to the shipping industry in other nations. The PRC government's stated aim is to become the biggest shipbuilding nation in the world by 2015.

  We believe that we are currently one of the leading shipbuilders in the growing PRC shipbuilding industry, both in terms of manufacturing capability as well as manufacturing capacity. In the mid-1990s, we were amongst the first PRC shipbuilders to develop the capability of building mid-size containerships with a loading capacity of up to 2,500 TEU and vessels of up to 55,000 DWT. To date, we have delivered more than 50 containerships with loading capacities of between 1,000 and 2,500 TEU to various shipowners globally and have progressively undertaken the construction of larger containerships with loading capacities in excess of 2,500 TEU and bulk carriers in excess of 13,000 DWT.

  Based on our order book as of 31 December 2006 comprising vessels with an aggregate tonnage of 1,015, 216 CGT, and new orders received from 1 January 2007 to the date of the lodgment of the Singapore Preliminary Prospectus with the Authority for additional vessels with a combined tonnage of 104,036 CGT, which we expect to deliver between 2007 and

2010, we believe that in the PRC, we are the leading privately-owned containership builder, the second largest privately-owned shipyard, and the fourth largest shipyard.

- **Competitive cost structure and efficient operations**

  As our operations are based in the PRC, we believe that our labour, land and overhead costs are generally lower than our competitors outside the PRC, especially our competitors in South Korea. We also enjoy low cost of financing compared to most of our competitors outside the PRC due to the preferential interest rates provided by PRC government-backed banks to promote the domestic shipbuilding industry.

  In addition to these cost advantages arising from our location in the PRC, we believe we have achieved further cost savings through our cost management activities. For example, rather than maintain a large number of full time employees, we employ a significant number of subcontract labour and production workers, which we can increase or decrease depending on our requirements. As of 31 December 2004, 2005 and 2006, we had 893, 887 and 902 employees, respectively, compared to 2,130, 2,446 and 2,904 subcontract labour and production workers, respectively. We also seek to manage the cost of the engines and other equipment used in our vessels by obtaining quotes from different suppliers and the cost of our raw materials and components through the selection of suppliers and subcontractors based on several criteria, including the pricing and the quality of their products and reliability of their services. Generally, we avoid buying from intermediaries and prefer to deal directly with manufacturers so as to form long-term relationships with these manufacturers, and where possible, obtain better pricing terms. In addition, our Design and Technical Department plays a critical role in controlling our costs by formulating production design plans that reduce any wastage of raw materials and components.

  We have also implemented measures to help ensure that our operations run efficiently. We seek to reduce any spare capacity at our shipyard through production planning and scheduling. Through our production planning and sequencing schedule, we have reduced the labour days (which we define as our total labour cost of production divided by RMB35, the typical daily wage of our production workers) we require to build a 1,850 TEU and 18,755 CGT containership from approximately 288,231 labour days (excluding the labour days required in the production planning and procurement stage but including the labour days of our subcontract labour and production workers) in 2004 to approximately 265,332 labour days in 2006. All of the vessels we have manufactured have been delivered either ahead of, or on, schedule. In some cases where we were able to deliver vessels ahead of schedule to our customers, we were able to negotiate higher pricing for subsequent contracts. We are committed to timely delivery of the vessels and place great emphasis on the build quality of our vessels. This helps minimise the need to undertake rectification works for defects or non-conformance with our customers' specifications, and reduces our exposure to liquidated and other damages under our shipbuilding contracts with our customers.

- **Strong customer base of reputable ship owners**

  We have built a strong relationship with our major customers, including Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG, Reederei Horst Zeppenfeld GmbH & Co. KG and Carisbrooke Shipping Limited. These four customers accounted for approximately 88.6%, 100.0% and 92.8% of our revenue in 2004, 2005 and 2006, respectively. Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG and Carisbrooke Shipping Limited also accounted for approximately 14.9%, 23.3% and 5.2% of our order book of RMB21,578.0 million as of 31 December 2006 for vessels, which we expect to deliver between 2007 and 2010.

We believe that our ability to obtain these reputable ship owners as our customers is a result of our timely delivery of quality vessels, competitive pricing and our commitment to our contractual obligations. Reederei B. Rickmers GmbH, one of our major customers, ordered their first vessel from us in 2001. As at the end of 2006, we delivered nine additional vessels to Reederei B. Rickmers GmbH and we have secured orders for 10 additional vessels from them. Similarly, after the initial orders from Peter Döhle Schiffahrts KG in 2003, as at the end of 2006, we had delivered 16 additional vessels to Peter Döhle Schiffahrts KG and had secured orders for another 33 vessels. We believe that our reputation for and commitment to the timely delivery of quality vessels and competitive pricing have enabled us to extend our customer base to include Seaspan Corporation, which placed an initial order of eight containerships with us in 2006 and an additional order of two containerships in March 2007, and Perseveranza SpA di Navigazione, which placed an initial order of 10 post-Panamaxes in December 2006.

- **Strong financial and proven operational track record**

  We have experienced significant growth in revenue and profit before income tax from RMB988.8 million and RMB170.4 million, respectively, in 2004 to RMB2,325.0 million (US$298.1 million) and RMB518.9 million (US$66.5 million), respectively, in 2006. As of 31 December 2006, we had borrowings of RMB385.2 million (US$49.4 million) and shareholders' equity of RMB210.1 million (US$26.9 million), providing us with a net debt-to-equity ratio (defined as ratio of total short-term and long-term borrowings less cash and cash equivalents to shareholders' equity) of 80.7%. We believe our financial position enhances our ability to make key investment and strategic decisions in a timely manner in an environment of changing market dynamics. In addition, we believe that our track record enabled us to secure an order book of RMB21,578.0 million as of 31 December 2006 for vessels, which we expect to deliver between 2007 and 2010.

- **Dedicated and incentivised management**

  We have been a privately owned shipyard since 1999, which we believe provides a better incentive to our management to improve the business of the Company as compared to the management of domestic state-owned shipbuilding companies. Each of our key management staff has, on average, 20 years of experience in the shipbuilding industry and has been with our Group for an average of 20 years. Each of the key senior management is either a shareholder of our Company or JNYS, our subsidiary, which owns the New Yard. This shareholding interest gives each key member of management a personal stake in our Company and aligns his interests with those of public Shareholders. We believe that this alignment of interests has been instrumental in helping us achieve a low cost structure, consistent profit margins, efficient operations, short delivery schedules, lack of employee disputes and effective employee incentivisation schemes. We believe this alignment of interest will continue after this Offering and provide us with a key advantage over our domestic state-owned competitors.

STRATEGY

Our objective is to enhance our market position by capitalising on opportunities in the global shipbuilding industry and to enhance our competitiveness. Key elements of our business strategy are as follows:

- **Expand our business by building larger vessels and diversifying into offshore vessels**

  In 2001, we commenced building mini bulk carriers/multi-purpose vessels of 38,000 DWT and containerships of 1,118 TEU. In 2006, we delivered our first bulk carrier of 7,600 DWT and our first containership of 2,500 TEU. We have increasingly been building larger

containerships and bulk carriers as reflected in our order backlog as of 31 December 2006 and new orders received from 1 January 2007 to the date of lodgement of the Singapore Preliminary Prospectus with the Authority, where we have obtained orders to deliver twelve 4,250 TEU containerships and ten 92,500 DWT bulk carriers which we expect to deliver in 2009 and 2010. We intend to focus on building larger containerships and bulk carriers, including containerships with load carrying capacities of 6,000 TEU and above, Panamax and Aframax chemical tankers, and bulk carriers of 100,000 DWT and above, as we believe there is a greater demand for these larger vessels and that these vessels will provide us with better profit margins than smaller vessels.

We also intend to expand into the manufacture of offshore vessels and oil tankers. Offshore vessels are capable of providing transportation and other services such as processing of oil and gas, delivering drilling supplies, fuel, water and food to offshore drilling rigs, fixed platforms, and floating platforms. We believe that there will be an increased demand for offshore vessels and oil tankers due to the increased investments by major international oil companies in the offshore oil and gas industry, especially deepwater exploration and production. As we have prior experience in building AHTS vessels, we believe we can leverage off this experience to expand into the offshore vessels market. We believe that the potential growth of this market will improve our profits and diversify our vessel portfolio. We also intend to enhance our technology and technical capabilities to enable us to build FPSO vessels.

To implement this strategy we have begun constructing a new shipyard through our subsidiary, JNYS, which we expect to be completed in October 2007. Upon completion, the New Yard will have access to 1,200 metres of deep-water shorelines suitable for the construction and mooring of ships of up to 300,000 DWT and will occupy an area of 793,000 sq m. The New Yard will be equipped with a 440 metre long and 96 metre wide dry dock that can accommodate two 100,000 DWT vessels and will include workshops for fabrication of raw materials for the construction of vessels. We intend to move our shipbuilding operations for containerships above 2,500 TEU and vessels above 55,000 DWT to the New Yard, while the Existing Yard will continue to manufacture containerships of up to 2,500 TEU and vessels of up to 55,000 DWT. The New Yard is a critical part of our plan to build larger vessels, offshore vessels and oil tankers and we anticipate that these larger vessels, offshore vessels and oil tankers will be able to generate additional profits at better margins. We estimate that the cost of constructing the New Yard will be approximately RMB1,500.0 million (excluding an additional RMB300.0 million that we anticipate we will require for working capital purposes at the New Yard), and as of 31 December 2006, we had spent 666.4 million of this amount. See "Proceeds from the Offering" and "The Restructuring Exercise" for information relating to the financing for the construction of the New Yard.

- **Continue to enhance our build quality and delivery times in order to increase our market share**

  We believe that our emphasis on quality and timely delivery has been a critical factor in our ability to attract new customers and to retain our existing customers. We strive to work closely with our customers at the early stages of the vessel construction process to better understand our customers' needs and specific requirements, particularly in areas relating to the technology and engineering required. We intend to continue to enhance our production planning and sequencing processes by improving the design of our ships, investing in experienced staff and utilising more advanced software. We believe this will help shorten our delivery schedules without compromising on our build quality. We also plan to continue focusing on close interaction with our customers in order to further strengthen our existing relationships with them.

- **Enhance price competitiveness through cost management and improvement in productivity and efficiency**

  We believe that continuing to enhance our production planning and sequencing processes and inventory management will also help us to maintain our cost competitiveness and further reduce the number of hours we require to build containerships and other vessels. We plan to operate an additional shift for certain phases of our construction process to further shorten our delivery schedules. In addition, we will strive to continue to improve our designs to minimise raw material wastage, thereby reducing raw material costs.

  Furthermore, with the rising costs of production in Europe and Japan, we believe there will be greater demand for containerships and other commercial vessels that are built by shipyards with a competitive cost structure and which can offer vessels at competitive prices. With our in-house fabrication workshops expected to be completed in the New Yard, we intend to develop in-house capabilities to manufacture certain material components, thereby enabling us to lower our costs of production and maintain the price competitiveness of our vessels.

- **Form strategic partnerships with foreign shipbuilders to improve our capabilities and competitiveness**

  We have been exploring strategic alliances or collaborations with foreign shipbuilders, who are more established than us in building larger vessels and offshore vessels, in order to leverage off their technical expertise and enhance our competitiveness. We intend to utilise such alliances and collaborations, which may include joint ventures, to improve our research and development, ship design and technical capabilities, in order to build more sophisticated vessels. We expect these strategic partnerships will provide us with the ability to complement the technical strengths of our partners with our relatively lower cost of skilled labour and access to lower costs of production to create mutually beneficial relationships.

- **Increase our capacity through acquisitions**

  We intend to expand our production capacity by acquiring domestic PRC shipbuilding companies with facilities located in close proximity to our Existing Yard and our New Yard. We believe that an increase in production capacity would enable us to obtain additional shipbuilding contracts. In addition, by acquiring these domestic PRC companies, we believe that we would be able to increase our customer base as well as reduce the number of our domestic competitors.

HISTORY

We were incorporated on 21 December 2005 in Singapore under the Singapore Companies Act as a private limited company under the name of Yangzijiang Shipbuilding (Holdings) Pte. Ltd. On 15 March 2007, we were converted to a public limited company and changed our name to Yangzijiang Shipbuilding (Holdings) Ltd.

We commenced operations in 1956 as a wholly owned state-owned enterprise with a paid-up capital of RMB196,800 and were engaged in the construction of wooden vessels. In 1968, we built our first steel cargo carrier. In 1975, we relocated to Jiangyin City, PRC, to gain direct access to the deeper coastline along the Yangtze River to expand our production facilities. This provided us with the capability to build larger steel cargo carriers and in 1977, with our expanded production capacity, we built a steel cargo carrier of approximately 1,000 tons.

In 1984, we produced our first car ferry and in 1987, we produced and exported a 146-foot multi-purpose cargo carrier to Hong Kong. We continued to expand our operations and sourced for business opportunities within and outside of the PRC. In 1993, we obtained our import and export operating rights and became one of the major exporting shipbuilders in the Jiangsu province. In 1996, we constructed our first containership that we exported to Hong Kong.

In 1996, we obtained a contract for the construction of vessels for delivery to Germany. The vessels were completed and delivered in 1998. This was a significant milestone for us as our vessels complied with specific standards required by European shipowners and provided us a track record to obtain additional customers.

In 1999, we ceased being a wholly state-owned enterprise as a result of a management buyout when certain employees, including our Executive Chairman and YZJ Union, acquired in aggregate 70.0% of our shareholding interest. The Jiangyin Traffic Bureau, a state entity entrusted with the management of state-owned transportation related investments continued to hold the remaining 30.0% shareholding interest until 2002, when it transferred its entire shareholding interest to Changjiang, an investment company whose shareholders currently comprise of Ren Jinhua, Chu Jianjian and Zhu Qing, who hold 55.0%, 25.0% and 20.0% of the shareholding interest in Changjiang, respectively. The management buyout was financed using a combination of welfare funds of the YZJ Union, cash provided by the employees as well as a gift of shares by the PRC government. After the transfer of shares by Jiangyin Traffic Bureau, our Shareholders comprised YZJ Union, Changjiang and various employees, including our Executive Chairman.

In 2001, we constructed cargo carriers with a combined weight of 38,000 DWT for export to Germany. In the same year, we upgraded our facilities by procuring additional hoisting equipment and an additional dock. We continued to increase the delivery of our vessels to Germany and in 2002, we delivered a 1,180 TEU reefer containership.

Between 2000 and 2004, we restructured our Group and certain of our Shareholders injected additional capital to fund our growth. We established JNYS in 2005 to construct and operate our New Yard for our future expansion. On 22 March 2007, we received all the construction licences required under PRC law, comprising the Planning Licence for Construction Project (建设工程规划许可证) and the Construction Licence for Construction Projects (建设工程施工许可证), for the construction of our New Yard.

We have set out in the table below certain information relating to the CGT of the vessels we constructed in 2004, 2005 and 2006.

	Total CGT[1]		
	2004	**2005**	**2006**
Containerships	59,154	101,868	128,512
Mini bulk carriers/Multi-purpose cargo vessels	15,999	30,726	38,281
Others	20,677	—	117
Total	95,830	132,594	166,910[2]

(1) Based on the percentage of completion method.

(2) Does not include a vessel of 11,016 CGT that we outsourced to a third party shipyard.

OUR OPERATIONS

Our principal operations consist of the construction of vessels for customers in the shipping industry such as containerships, mini bulk carriers, bulk carriers and others including multi-purpose cargo vessels, chemical tankers, AHTS vessels, rescue and salvage vessels, self-unloading vessels and lifting vessels.

The following table shows our revenue from each of our Company's principal products, in 2004, 2005 and 2006:

	For the year ended 31 December,						
	2004	%	2005	%	2006	2006	%
	RMB		RMB		RMB	US$	
	(In millions)						
Vessel Type							
Containerships	754.2	76.3	1,246.7	81.3	1,741.0	223.2	74.9
Mini bulk carriers/multi purpose cargo[(1)]	197.2	19.9	285.9	18.7	416.1	53.3	17.9
Others[(2)(3)]	37.4	3.8	—	—	167.9	21.5	7.2
Total	988.8	100.0	1,532.6	100.0	2,325.0	298.0	100.0

(1) Although these vessels are classified as multi-purpose cargos by Clarksons, our customers classify them as mini bulk carriers.

(2) Other vessels consist of self-unloading vessels, multi-purpose AHTS vessels, chemical tankers or lighters.

(3) Includes RMB167.9 million (US$21.5 million) in 2006 derived from the sale of a vessel the manufacture of which we outsourced to a third party shipyard.

Our Company's principal products are:

- *Containerships*. Containerships are used to carry all forms of general cargo that can be containerised. The carrying capacity of a containership is typically expressed in terms of twenty-foot equivalent units ("TEU"), which is equal to the size of a modular container.
- *Dry Bulk carriers*. Dry bulk carriers transport major and minor dry bulk cargoes such as iron ore, coal and grain. These vessels are also classified according to DWT.
- *Multi-purpose cargo vessels*. Multi-purpose cargo vessels are designed to handle and freight different types of mixed cargo such as containers, reefer containers, project cargo, heavy lift cargo, pipes, grain, bulk cargo and dangerous goods. They are sometimes referred to as mini bulkers depending on the cargo they carry.

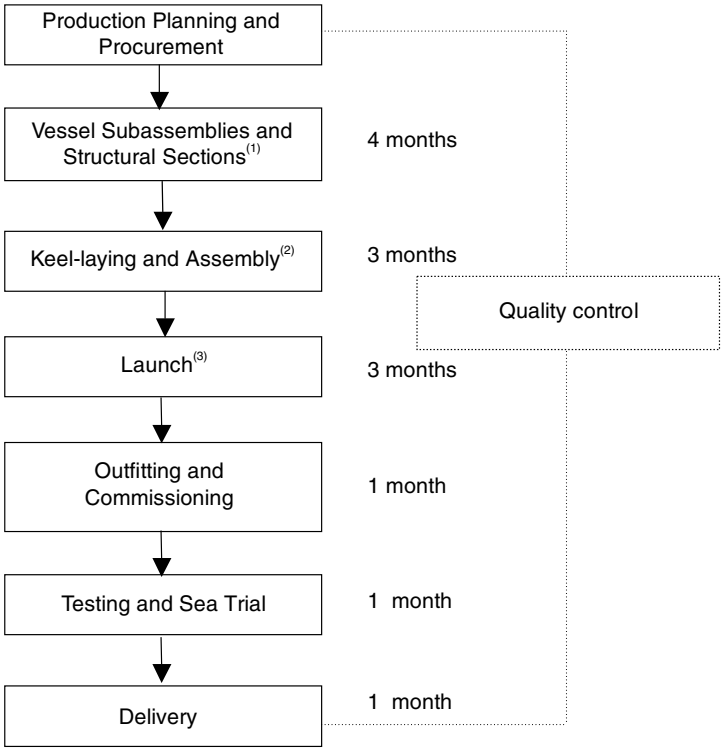
In addition, we also produce the following vessels:

- *Chemical tankers*. Chemical tankers are designed to transport chemicals in bulk. These vessels are classified according to DWT. Chemical tankers are considerably smaller than the average size of other tanker types due to the specialised nature of their cargoes and the size restrictions of the port terminals where they call to load and discharge.
- *AHTS vessels*. AHTS vessels are designed to provide anchor handling services to tow offshore platforms, barges and production modules/vessels.
- *Rescue and salvage vessels*. Rescue and salvage vessels are designed for debeaching stranded vessels, providing heavy lift capability from ocean depths, towing other vessels, and manned diving operations.
- *Self-unloading vessels*. Self-unloading vessels are designed to discharge dry bulk cargo without assistance from any shore-side equipment or shore-side personnel.
- *Lighters*. Lighters are small vessels designed to unload larger ships when the harbour is too shallow for them to dock.

CONSTRUCTION PROCESS

We generally accept orders for the construction of vessels to be delivered up to three years from the date of the order and we require between 12 to 14 months to construct and deliver a vessel to our customers. We undertake new shipbuilding contracts taking into account the existing delivery schedules of our ongoing projects.

The following diagram illustrates the construction process for our vessels:



(1) We incur approximately 40% of the cost of constructing a vessel at this stage.

(2) We incur approximately 30% of the cost of constructing a vessel at this stage.

(3) We incur approximately 30% of the cost of constructing a vessel from this stage to the delivery of the vessel to the customer.

After obtaining a contract for a new vessel, we prepare the drawings and specifications for the construction of the vessel. We may commission architects or ship design houses to assist if so required by our customers.

We set up project teams to oversee the construction of the different classes of our vessels which work closely with our various departments. Our procurement department procures the raw materials, equipment and components required for the fabrication of the vessel sub-assemblies and structural sections. The structural sections of the vessel are assembled and welded to the vessel hull as part of the construction process while components and modules are built separately and installed prior to testing and sea trials.

Throughout the construction process, we conduct inspections to help ensure that the customers' specifications are fulfilled. We conduct rectification work if the results of these inspections are not satisfactory. After the vessel structure is constructed and components and modules are installed, we conduct outfitting works including further interior furnishing and the installation of

ancillary equipment, machinery and fixtures. We then conduct sea trials to ascertain the vessel's sea worthiness and conduct rectification works and retrials if the vessel does not conform to the specifications.

Upon completion of the commissioning and sea trials and after certificates are issued by the classification societies, our customers take delivery of the vessel.

SALES AND MARKETING

We currently have a sales force of 14 employees, all in the PRC. We focus on targeting existing customers and strive to further develop our relationship with our customers by providing proactive after-delivery service and responding to feedback. In 2004, 2005 and 2006, approximately 88.6%, 100.0% and 92.8%, respectively, of our new orders in terms of total contract value were placed by Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG, Reederei Horst Zeppenfeld GmbH & Co. KG and Carisbrooke Shipping Limited. We provide services such as sending specialists for the general maintenance of the vessels we manufacture. After the first voyage of the vessel, we typically send a team of engineers who designed the vessel to inspect and examine the vessel for feedback and possible improvements. We believe that our customer-driven philosophy of quality, service and integrity leads to close customer relationships, which provides us with opportunities to be invited to bid for new projects.

Our sales are mostly conducted through shipping agents who help coordinate the payments from our customers. In addition, these shipping agents may provide us with other services such as procuring the issue of performance guarantees by a bank to our customers, assisting us in obtaining new customers and helping us import equipment and raw materials for our shipbuilding projects. We typically pay these shipping agents a commission of between 1% to 2% of the contract value of the vessels for their services.

We are usually required to furnish our customers with performance guarantees as security for the fulfilment of our contractual obligations under our shipbuilding contracts. Generally, we arrange for banks to issue performance guarantees to our customers from our available banking facilities. If we do not have available banking facilities to issue the performance guarantees and we cannot procure additional banking facilities from our existing banks, we request our ship agents to arrange for their banks or financial institutions to issue the performance guarantees to our customers on our behalf which is secured by a guarantee from us to the relevant bank or financial institution.

MAJOR SUPPLIERS

Our suppliers provide us with raw materials such as steel plates and engines required for the construction of our vessels. The suppliers accounting for 5.0% or more of our purchases are provided below:

Suppliers	Type of materials supplied	For the year ended 31 December, 2004	2005	2006
		% of purchases		
Hudong Heavy Machinery Co., Ltd.	diesel engines	17.3	19.1	15.2
Chongqing Iron and Steel Co., Ltd.	steel plates	9.4	10.1	11.1
Shanghai Sangang Thin Plates Co., Ltd.	steel plates	2.7	7.9	5.1
Ningbo Clear Commodity Co., Ltd.	steel plates	—	9.7	4.1
Nanjing Iron & Steel Co., Ltd.	steel plates	—	6.1	2.2
Jiangsu Ruimin Steel Products Co., Ltd.	steel plates	18.1	—	—

Ningbo Clear Commodity Co., Ltd. is a sales agent for other steel manufacturers and we purchased less steel plates from Ningbo Clear Commodity Co., Ltd. in 2006 compared to 2005 to reduce our purchases from intermediaries to reduce costs. The reduced purchases of diesel engines from Hudong Heavy Machinery Co., Ltd. in 2006 compared to 2005 was primarily due to our increased purchases of diesel engines from a supplier outside the PRC.

We typically place orders with our suppliers in advance of delivery of the raw materials to be made in accordance with our requirements under our vessel construction schedule. We may make advance payments to certain suppliers for the purposes of securing sufficient raw materials with the purchase price being determined by reference to the prevailing market price at the time of delivery. If the price of the raw material increases prior to delivery such that we are unable to agree or if the quality of the raw materials is not in accordance with our specifications, we may request for a refund of the advances made (together with accumulated interest) and purchase the required raw materials from other suppliers.

In addition, in view of the advance payments we make to suppliers for raw materials, our suppliers may at times assist us by issuing a corporate guarantee in our favour in order to enable us to issue performance guarantees to our customers for our shipbuilding projects. See " — Sales and marketing" for further information regarding these advance payments.

None of our Directors or substantial Shareholders has any interest, direct or indirect, in any of the above suppliers.

MAJOR CUSTOMERS

We have constructed vessels for our customers in the shipping industry in the PRC as well as customers in Canada, Germany, Holland, Italy, Norway, Singapore, Thailand and the United Kingdom in compliance with the requirements of different classification societies including American Bureau of Shipping, Bureau Veritas, China Classification Society, Germanisher Lloyd and Lloyd's Register Society.

The shipbuilding contracts we enter into with our customers stipulate the agreed specifications of the vessel and certification society with which the vessel is intended to be certified. Typically, we are permitted to subcontract any portion of the construction work of the vessel to subcontractors, other than the main hull structure and superstructures for which we require the prior approval of our customer. The contract price is typically payable in instalments upon the construction process reaching certain agreed milestones. Concurrently with the payment of the first instalment, our customer is required to give us a letter of guarantee securing its obligation for the payment of the balance of the instalments prior to delivery. Our customer typically has the right to make prepayment of any and all instalments before the delivery of the vessel. The contracts also usually provide for a reduction of the contract price in the event of any delay in delivery. We are typically required to insure the vessel against all risks, typically from the time of keel-laying to the date of delivery of the vessels to our customer. We typically also provide a warranty period of 12 months following the delivery of the vessel which cover all parts of the vessel and equipment manufactured, furnished or supplied by us.

Reederei B. Rickmers GmbH, Peter Döhle Schiffahrts KG, Reederei Horst Zeppenfeld GmbH & Co. KG and Carisbrooke Shipping Limited accounted for approximately 88.6%, 100.0% and 92.8% of our revenue for 2004, 2005 and 2006 respectively. The customers accounting for 5.0% or more of our total revenue are provided below:

	For the year ending 31 December,		
	2004	2005	2006
	Percentage of total revenue (%)		
Reederei B. Rickmers GmbH	56.1	39.7	9.3
Peter Döhle Schiffahrts KG	14.7	26.7	56.6
Carisbrooke Shipping Limited	1.7	12.6	16.9
Reederei Horst Zeppenfeld GmbH & Co. KG	16.2	21.0	10.0
Nanjing Suyuan Thermoelectricity Co., Ltd. (南京苏源热电有限公司)	5.9	—	—
China Harbour Engineering Co., Ltd (中国港湾建设集团总公司)	—	—	7.3

The year-to-year fluctuations in revenue contributions by our customers were due mainly to fluctuations in the number and the size of the vessels we produced in that year.

None of our Directors or substantial Shareholders has any interest, direct or indirect, in any of the abovenamed major customers.

COMPETITION

We operate in a competitive environment and we expect to face more intense competition from existing competitors located both in the PRC and globally, and in particular South Korea, and new market entrants in the future. We compete on the basis of our ability to fulfill our contractual obligations including the timely delivery of vessels constructed by us, our yards' capacity and capabilities and the price and quality of the vessels we construct. Some of our competitors have more resources than us while certain competitors may have lower cost of operations. In addition, certain competitors may have competitive advantages in building certain types of vessels compared to us. Our competitors, particularly those in the PRC, from time to time engage in aggressive pricing in order to gain market share.

We consider the following companies to be our major competitors:

Region	Major Competitors
PRC	Nantong COSCO KHI Ship Engineering Co., Ltd. (南通中远川崎船舶工程有限公司), New Century Shipbuilding Co., Ltd. (江苏新世纪造船股份有限公司), Nanjing Jinling Shipyard (南京金陵船厂), Qingdao Eastern Sea Heavy Works Co., Ltd. (青岛北海重工股份有限公司), Zhejiang Shipyard (浙江船厂), Zhejiang Yangfan Shipyard (浙江扬帆船厂), Xiamen Ship Factory (厦门重工股份有限公司) and Fujian Mawei Shipyard (福建马尾船厂)
South Korea	Hanjin Heavy Industries & Construction Co., Ltd (韩进船厂) and Hyundai Heavy Industries (现代重工有限公司)

PRODUCTION FACILITIES AND UTILISATION RATES

We own and operate the Existing Yard through our subsidiary, JYS.

Our Existing Yard presently operates on one eight-hour shift per day, six days per week with longer hours during the summer months and shorter hours during the winter months. We have not experienced any material production interruption whether due to labour disputes, power interruptions, fire or other causes.

The table below summarises the annual production capacity of our Existing Yard for the period under review:

		For the year ending 31 December,		
Shipyard	Capacity (CGT)[1]	2004 Output (CGT)	2005 Output (CGT)	2006 Output (CGT)
Existing Yard	166,910[2]	95,830	132,594	166,910

(1) Our capacity is based on the largest annual output of the shipyard in terms of CGT in the entire operating history of the shipyard.

(2) Does not include a vessel of 11,016 CGT which we outsourced to a third party shipyard.

In the shipbuilding industry, utilisation rate is generally not a meaningful indicator of performance. This is primarily because capacity is based on the maximum annual output, in terms of CGT, of the shipyard. Our annual output for our Existing Yard fluctuates depending on the type of vessels we produce and our product mix changes. If we construct vessels that are more labour intensive, our capacity and utilisation rate would be lower compared to producing vessels that are less complex and labour intensive. In addition, it is possible for us to extend or shorten the working hours of our production by subcontracting some of the assembly work to external subcontractors and thereby influencing the capacity and utilisation rates of our facilities.

Our Existing Yard is located in Jiangyin city, in the Jiangsu province of the PRC, and spans approximately 719 metres of deep-water coastlines and covers an area of approximately 200,000 sq m (excluding the coastal area). Currently, we are limited to the construction of vessels of up to 55,000 DWT and containerships with a loading capacity of up to 2,500 TEU at the Existing Yard.

We commenced construction of our New Yard in October 2005 and expect to complete it in October 2007. We plan to fund completion of the New Yard in 2007 from a portion of the proceeds we receive from this Offering. See "Proceeds from the Offering" for a further description of our planned use of the proceeds we expect to receive. Our New Yard is located on the northern bank of the Yangtze River and within the Jiangyin Economic Development District, Jingjiang City, PRC. We expect our New Yard to have access to approximately 1,200 metres of deep-water coastlines, cover an area of approximately 793,000 square metres and be equipped with a dry dock that will be approximately 440 metres long and 96 metres wide. The New Yard will also have two gantry cranes, one with a lifting capacity of 400 tons and another with a lifting capacity of 900 tons. Upon completion, the dry dock at the New Yard will be able to accommodate two 100,000 DWT vessels, and we anticipate that we will be able to build, at the New Yard, vessels of up to 300,000 DWT and containerships with a loading capacity of up to 6,000 TEUs. We expect the total construction cost of our New Yard to be RMB1,500.0 million (excluding an additional RMB300.0 million we anticipate we will require for working capital purposes).

See "Risk factors — Risks relating to our business — We do not have the coastline certificate for certain parts of the coastline for our Existing Yard" for a description of the risks relating to our New Yard as a result of us not having obtained the requisite coastline right certificates.

Save for basic safety, environmental and production PRC regulations, there are no specific PRC regulatory requirements that may materially affect our utilisation of our tangible fixed assets. See "Appendix D — Description of relevant PRC laws and regulations" for a description of certain PRC laws and regulations to which we are subject.

EMPLOYEES

As at the Latest Practicable Date, our Group employed a total workforce of 902 staff. All our employees are stationed in the PRC. The table below sets out certain information relating to our employees as at the end of 2004, 2005 and 2006:

	As at 31 December,		
Activity	**2004**	**2005**	**2006**
Production & Quality Control	656	650	658
Design and Technical	151	151	158
Finance & Administrative	58	58	28
Marketing & Procurement	28	28	58
Total number of employees[(1)]	893	887	902

(1) Does not include 303 and 294 employees employed as at 31 December 2004 and 2005, respectively, by YZJ Ship Engrg and Sumeida, both of which were our subsidiaries prior to the Restructuring Exercise. See "The Restructuring Exercise" for a description of the restructuring exercise.

A significant number of our employees are unionised. We have a collective agreement with our employees which is renewed annually. We believe that the relationship between management and employees is good and we have not experienced any significant disputes with our employees since we commenced operations.

As part of our measures to reduce our operating costs as well as to maintain a level of flexibility in the management of our labour requirements, we utilise subcontract labour and production workers in our shipyard on a regular basis. We had 2,130, 2,446 and 2,904 subcontract labour and production workers as at the end of 2004, 2005 and 2006, respectively.

STAFF TRAINING

We recognise that our employees are an invaluable resource and that the competency and dedication of our employees have been instrumental to our success. To help ensure that our employees are equipped with the necessary skills and expertise, we conduct various training programmes for our employees. Such training programmes are either conducted in-house by our senior staff or outsourced to third parties and they involve both classroom lessons and on-the-job trainings by trainers who will supervise and teach our employees. Approximately 80.0% of our training programmes are conducted in-house. Expenses incurred for our staff training for the periods under review have not been significant.

INTELLECTUAL PROPERTY

Our business or profitability is not materially dependent on any patent, grant of licence from third parties, industrial, commercial or financial contract (including a contract with a customer or supplier) or new production process.

QUALITY CONTROL

We believe that the quality of our vessels and the services that we provide to our customers are crucial for our continued growth. Our quality control department consists of approximately 60 personnel and is headed by Du Chengzhong, our Executive Officer, who has more than 10 years of experience in the shipbuilding industry. Our quality control department comprises more than 25 engineers and various support personnel.

Every vessel built by us is registered with a qualified shipping classification society. A classification society certifies that a vessel has been built in accordance with the rules of the society. Our ability to construct vessels that conform to the different standards and requirements of these classification societies reflects of our ability to construct vessels that are acceptable in these countries. Conformity with ISO9001 is required under the rules of CCS, and is therefore an integral part of our quality control process. See "— Applicable laws and regulations — Requirements of the designated classification societies" for a further description of the requirements of these classification societies.

We have an established set of quality control assurance and monitoring procedures applicable to every stage of the vessel construction process. As part of our quality control process, sample testing is conducted on raw materials before the entire batch is utilized in our construction process. Visual inspections are conducted throughout the construction process for adherence to the production and design blueprints. Testing and sea trials are conducted prior to delivery of the vessel to our customers. In the event that there are rectification works to be done to the vessel, re-trials are ordered prior to delivery to ensure that the vessel meets all requirements and specifications required.

PROPERTIES AND FIXED ASSETS

The following land use rights and building ownership certificates are owned by our Group:

Location	Description/ Usage	Gross Floor Area (sq m)	Tenure	Land Use Right/ Building Ownership Certificate No.
Five Star Village, Dongxing Town, Jingjiang City (靖江市东兴镇五星村)	Land located at New Yard/ Industrial	539,928.5	From 18 April 2006 to 24 March 2056	Land use right certificate 靖国用(2006) 第072号
Five Star Village, Dongxing Town, Jingjiang City (靖江市东兴镇五星村)	Land located at New Yard/ Industrial	6,047.7	From 18 April 2006 to 24 March 2056	Land use right certificate 靖国用(2006) 第073号
Five Star Village, Dongxing Town, Jingjiang Cit) (靖江市东兴镇五星村)	Land located at New Yard/ Industrial	247,063.0	From 18 December 2006 to 8 November 2056	Land use right certificate 靖国用(2006)字第404号
Zhangjiagang Tax Free Area Beijing Road (张家港保税区北京路)	Land located at Zhangjiagang Tax Free Area/ Industrial	2,003.9	From 30 May 2005 to 30 December 2045	Land use right certificate 张国用(2005) 字第350022号
38 Shiyugang Road, Jiangyin City, Jiangsu Province (江苏省江阴市鲥鱼港路38号)	Buildings located at Existing Yard/ Industrial	36,084.5	20 December 2005 to 19 December 2013	Building ownership certificate 房权证澄字010609248号

Location	Description/ Usage	Gross Floor Area (sq m)	Tenure	Land Use Right/ Building Ownership Certificate No.
Zhangjiagang Tax Free Area Beijing Road North Yida Building (张家港保税区北京路北侧亿达大厦)	Warehouse at Zhangjiagang Tax Free Area/ Industrial	3,203.1	From 30 May 2005 to 30 December 2045	Building ownership certificate 房权证金字第00082027号

The following land use right is leased by our Group:

Location	Description/ Usage	Gross Floor Area (sq m)	Tenure/ Unexpired Term	Annual Rental	Land Use Right Certificate No.
38 Shiyugang Road, Jiangyin City, Jiangsu Province (江苏省江阴市鲥鱼港路38号)	Located at Existing Yard(1)/ Industrial	202,525.3	20 December 2005 to 19 December 2013	RMB1,518,950	Land use right certificate 澄土国用(2006)第003717号

(1) Includes slipways described below:

Slipway	Length (metres)	Width (metres)	Tonnage
Slipway number 1	201.0	31.4	30,000
Slipway number 2	125.0	24.5	15,000
Slipway number 3	215.0	42.4	50,000

Coastline use rights

According to the relevant coastline laws and regulations of the PRC (the "PRC Coastline Regulations"), businesses utilising the coastline are required to obtain a coastline use right evidenced by an Occupying Certificate of Riverway Construction Project (河道工程占用证) (a "coastline right certificate"). See "Appendix D — Description of relevant PRC laws and regulations" for a description of the coastline use rights in the PRC.

Our Existing Yard possesses a coastline right certificate in respect of 225 metres of coastline, which we occupy for our business operations. On 29 September 2006, we submitted an application to the relevant authority for the coastline right certificate in relation to the remaining 494 metres of coastline occupied by the Existing Yard and are waiting for approval to be granted. The Jiangyin City Bureau of Water Resources confirmed by way of a letter dated 30 September 2006 that our application is being processed and that we may continue using the affected coastline during the period when the approval is being processed. Jingtian & Gongcheng, our PRC legal adviser, has advised us that they are of the opinion that JYS can legally and validly carry on using the coastline during the application process.

Our New Yard possesses a coastline right certificate in relation to the coastline at our New Yard (the "New Yard Coastline Certificate"). The New Yard Coastline Certificate was issued on 5 January 2007.

In addition, we have entered into a coastline lease agreement ("Coastline Lease") with Jintai Steel in respect of 400 meters of coastline currently occupied by our Existing Yard. The term of the Coastline Lease is for a period of not less than twenty years even though the coastline right certificate must be renewed every five years. We have received confirmation from the relevant PRC authorities that the Coastline Lease is legal, valid and enforceable under PRC laws.

Our Company is not aware of any reason why the Jiangyin City Bureau of Water Resources would not issue us a coastline right certificate in relation to the remaining 494 metres of coastline occupied by the Existing Yard and we will make an announcement on the SGXNET if we have any new information relating to the status of the coastline right certificate. However we cannot assure you that we will obtain the coastline right certificate. See "Risk factors - Risks relating to our business - We do not have the coastline certificate for certain parts of the coastline for our Existing Yard" for a description of the risks to our business, financial condition, results of operations and prospects if we do not obtain the coastline right certificate.

INSURANCE

Insurance for our shipbuilding contracts

Our shipbuilding contracts require us to insure our vessels (including all machinery, materials, equipment, appurtenances and outfit that are to be delivered to our customers for their vessels or built onto, or installed in or upon their vessels, including supplies provided by our customers) against all risks, typically from the time of keel-laying to the date of delivery of the vessels to our customers. The amount insured is typically at least equivalent to the aggregate of the payments made to us by our customers. We insure our vessels using internationally recognised PRC insurance companies such as, among others, Ping An Property & Casualty Insurance Company of China, Ltd, China Pacific Property Insurance Co., Ltd and PICC Property and Casualty Company Limited. These insurance policies are in accordance with our shipbuilding contracts and we believe that they are adequate for our business operations.

Insurance for our properties and fixed assets

We have obtained insurance policies for our heavy lifting machinery and equipment such as our cranes and heavy lift vehicles. Our machinery and equipment are integral to our shipbuilding operations. They are usually costly and any loss to them not covered by insurance may result in us incurring a significant financial loss. As at 30 September 2006, our heavy lifting machinery and equipment were insured up to a value of RMB58.8 million which we believe is adequate.

Save as disclosed above, we do not maintain any other insurance policies on our other properties and fixed assets.

Insurance policies for our employees

We are required to pay the requisite social security contributions (including the required welfare insurance, retirement insurance, medical insurance, work related injury insurance as well as maternity insurance) of our employees in accordance with PRC legal and regulatory requirements. Save for such policies as mandated by PRC law, we have not taken up any other policies for our employees.

From time to time, we intend to evaluate our existing insurances policies to determine whether the insurance policies, including the amounts insured, are adequate for our purposes.

HEALTH AND SAFETY MATTERS

We are required to comply with certain PRC laws and regulations relating to production process safety and health and workplace safety. We have implemented a health and safety system to inform new employees of our work and safety policies. Our employees holding supervisory positions are required to ensure that all employees comply with these policies.

LITIGATION

We are not engaged in any legal or arbitration proceedings (either as plaintiff or defendant), including those which are pending or known to be contemplated, which may have or have had in the 12 months immediately preceding the date of the lodgment of the Singapore Preliminary Prospectus with the Authority, a material effect on our financial position or profitability.

APPLICABLE LAWS AND REGULATIONS

PRC laws and regulations

See "Appendix D — Description of relevant PRC laws and regulations" for a description of the PRC laws and regulations applicable to our Company.

On 22 March 2007, we received all the construction licences required under PRC law, comprising the Planning Licence for Construction Project (建设工程规划许可证) and the Construction Licence for Construction Projects (建设工程施工许可证), for the construction of our New Yard.

Save as disclosed in "— Coastline use rights" and "Risk factors — Risks relating to our business — We do not have coastline certificate for certain parts of the coastline of the Existing Yard", we have obtained all licences, permits and approvals which are materially required for conducting our business.

Other laws and regulations

The vessels we construct are required to meet the standards defined by the classification society designated in our shipbuilding contracts with our customer as well as the requirements of a number of national and international organisations ("regulatory authorities"), which licences the vessel's operation following delivery.

Requirements of the designated classification societies

A classification survey is a visual examination which normally consists of:

- an overall examination of the items for survey;
- detailed checks of selected parts; and
- witnessing tests, measurements and trials where applicable.

The vessels which we construct have been approved by various classification societies, including the following:

Classification	Society	Country
ABS	American Bureau of Shipping	United States of America
BV	Bureau Veritas	France
CCS	China Classification Society	PRC
GL	Germanisher Lloyd	Germany
LR	Lloyd's Register Society	United Kingdom

Classification societies are organisations that establish and apply technical standards in relation to the design, construction and survey of marine related facilities including vessels and offshore structures. Two types of classification certificates can be issued by these classification societies. One is a classification certificate issued to a vessel that has been designed and built to the relevant published rules of a particular society, while the other is a statutory certificate issued on behalf

of the flag state administration for registration of a vessel under a particular flag state. A vessel that has been designed and built according to the appropriate rules of a society or the flag state administration may apply for a certificate of classification from that society. The society issues this certificate upon completion of relevant classification surveys.

A classification certificate is necessary to certify that the vessel is in compliance with applicable rules and regulations of the country of registry and the international conventions of which that country is a member. The flag state refers to that authority under which a country exercises regulatory control over the vessel which is registered under its flag. Through international conventions, a flag state has the duty to exercise its jurisdiction and control in administrative, technical and social matters over vessels carrying its flag. It also has the authority to implement measures for vessels carrying its flag as are necessary to ensure safety at sea.

International conventions have been agreed, setting out uniform standards to facilitate acceptance of a vessel registered in one country in the waters and ports of another and in the general furtherance of safety at sea and protection of the environment. These standards are commonly referred to as "statutory" requirements. Broadly, they cover three distinct areas:

- Aspects of the ship's design and its structural integrity — load line and stability in the intact and damaged condition, essential propulsion, steering equipment, etc;
- Accident prevention, including navigational aids and pollution and fire prevention; and
- The situation after an accident (fire, flooding) including containment and escape.

International conventions, such as the International Convention for the Safety of Life at Sea, or SOLAS, permit the flag state to delegate inspection and survey of vessels to classification societies. A classification society so delegated is responsible and accountable to the flag state for the work that it carries out on its behalf. The principles of the inspection and survey works are the same as in respect of classification surveys, that is the verification by the classification society that a vessel is in compliance with applicable requirements at the time of the survey. The scope of these inspections and surveys regarding safety and pollution prevention are established by the flag state in compliance with the relevant international conventions to which it is a signatory.

Our shipbuilding contracts with our customers specify the appropriate classification society that will define the detailed framework concerning, amongst other things, the technical specifications and requirements and the structure of the vessel. In addition, our shipbuilding contracts will also stipulate that the designated classification society's rules and requirements be observed throughout the course of the vessel's construction.

To this end, the classification society designated by our customer customarily undertakes day-to-day supervision of the construction process via its surveyor ("classification surveyor") who works closely with our customer's representative as well as our management and project team at our shipyard as well as at the premises of our subcontractors and suppliers, where necessary. We are required to undertake or permit inspections and tests of the contract works to ensure compliance with the society's standards. The testing and commissioning as well as the sea trials for the vessels we construct are also undertaken with the attendance of the relevant classification surveyor.

Upon completion of the sea trial and for the purposes of delivery, we are required to furnish our customers with certificates issued by the designated classification society ("delivery documents") including, amongst other things, the classification certificate.

Requirements of the regulatory authorities

Vessels we construct must also comply with the rules for vessels of their type and size promulgated by a number of relevant regulatory authorities that may comprise maritime authorities of the country of registry and of nations to which she is likely to trade or transit, such as the Panama and Suez canals. In such cases, our shipbuilding contract will stipulate that the classification surveyor issue us the necessary certificates, including Panama tonnage certificates and Suez tonnage certificates as part of the delivery documents.

In addition, vessels must also meet the requirements of various conventions adopted by IMO (the United Nations agency for maritime safety and the prevention of marine pollution by ships). IMO was established in 1948 to provide the mechanism for cooperation among various governments in respect of regulations affecting safety of shipping, efficiency of navigation and the prevention and control of maritime pollution by ships. To that end, the IMO has developed a body of international convention, codes and recommendations (the "IMO regulations") for implementation by signatory countries. These requirements vary depending on the type of vessel involved as well as the expected nature and range of her trading activities.

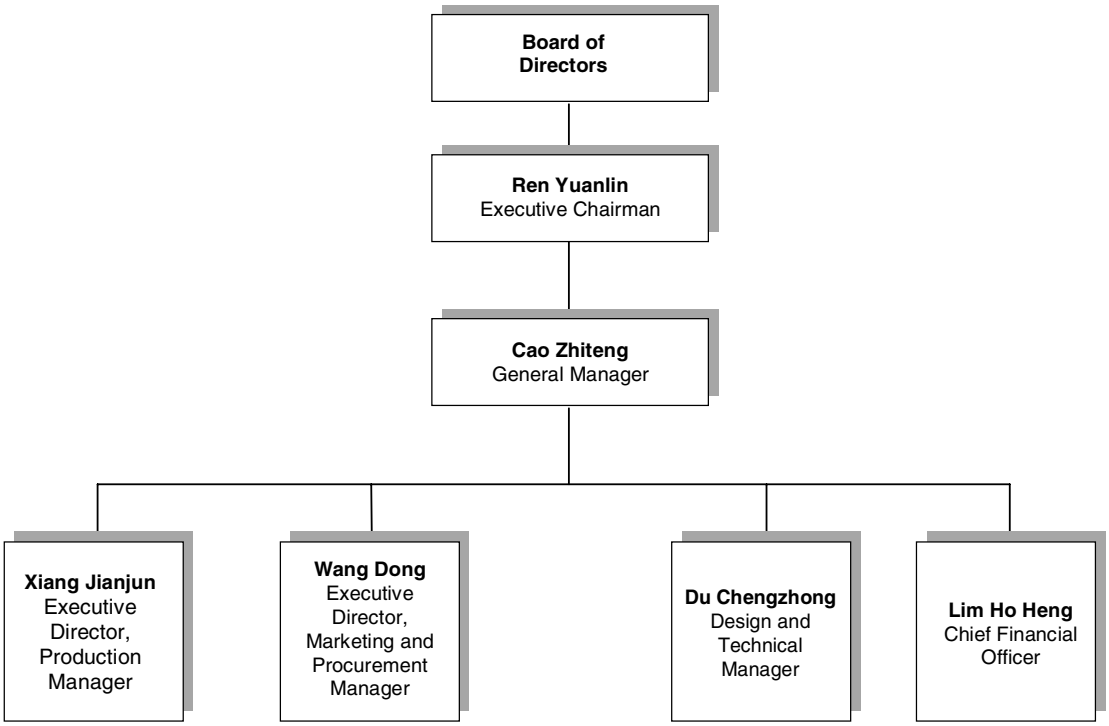
AWARDS

JYS has received the following awards and certifications:

Year of Award	Award/Certification	Awarding Entity
2006	Enterprise with Credible Management of Nanjing Customs 南京关区诚信管理企业	Nanjing Customs of the People's Republic of China 中华人民共和国南京海关
2004	Top 100 Best Business Enterprises of Wuxi Municipality 无锡市百家最佳企业	Wuxi Municipal Commission of the Communist Party, People's Government of Wuxi Municipality 中共无锡市委、无锡市人民政府
2004	Top 100 Strongest Business Enterprises of Wuxi Municipality 无锡市百家最强企业	Wuxi Municipal Commission of the Communist Party, People's Government of Wuxi Municipality 中共无锡市委、无锡市人民政府
2004	"Double Excellent" Foreign Investment Enterprise in China 全国外商投资"双优"企业	China Association of Enterprises with Foreign Investment 中国外商投资企业协会
2004	Top 10 Profitable Enterprises 十佳效益型企业	Wuxi Municipal Commission of the Communist Party, People's Government of Wuxi Municipality 中共无锡市委、无锡市人民政府
2003	Top 100 Industrial Enterprises 工业百强企业	Wuxi Municipal Economic and Trade Commission, Wuxi Statistic Bureau, and Wuxi Jiaqiang Enterprise Evaluation and Consultation Co., Ltd. 无锡市经济贸易委员会、无锡市统计局、无锡市佳强企业评价咨询有限公司
2001	Two Star Enterprise 二星级企业	Jiangyin Municipal Commission of the Communist Party, People's Government of Jiangyin Municipality 中共江阴市委、江阴市人民政府

Year of Award	Award/Certification	Awarding Entity
2000	Top 100 Industrial Enterprises of Wuxi Municipality 无锡工业百强企业	Wuxi Municipal Economic and Trade Commission, Wuxi Statistic Bureau, and Wuxi Enterprise Evaluation Centre 无锡市经济贸易委员会、无锡市统计局、无锡市企业评价中心
2000	Advanced Worker's Award 先进工作者	Jiangyin Municipal Commission of the Communist Party, People's Government of Jiangyin Municipality 中共江阴市委、江阴市人民政府
2000	Self-supporting Enterprise with more than US$ Ten Million Export Value for 2000年自营出口超千万美元的企业	Jiangyin Municipal Commission of the Communist Party, People's Government of Jiangyin Municipality 中共无锡市委、无锡市人民政府
2000	Star Enterprise 明星企业	Jiangyin Municipal Commission of the Communist Party, People's Government of Jiangyin Municipality 中共无锡市委、无锡市人民政府

MANAGEMENT REPORTING STRUCTURE



DIRECTORS

Our Board of Directors is entrusted with the responsibility for our overall management and direction. The Board meets on a quarterly basis at least, or more frequently as required, to review and monitor our financial position and operations. Our Articles of Association provide that our Board of Directors will consist of not fewer than two Directors.

The following table sets forth information regarding our Directors.

Name	Age	Address	Occupation
Ren Yuanlin	53	Xiangye Road Lane 177 Unit 9, Jiangyin City, Jiangsu Province, PRC	Executive Chairman
Wang Dong	48	Yijian Road Qianxi Park 22–303, Jiangyin City, Jiangsu Province, PRC	Executive Director, Marketing and Procurement Manager
Xiang Jianjun	47	88 South Street Lane 2 Unit 302, Jiangyin City, Jiangsu Province, PRC	Executive Director, Production Manager
Teo Yi-dar[(1)]	35	33 Bishan St 11, #25-10, Singapore 579820	Non-Executive Director
Ong Sie Hou Raymond	36	2 Ewe Boon Road, #07-02 Singapore 259313	Lead Independent Director
Teo Moh Gin.	47	12 Stirling Road, #27-08, Queens Singapore 148955	Independent Director

(1) Teo Yi-dar is an Investment Partner with SEAVI Advent Corporation Limited, a fund management company. Teo Yi-dar was appointed as our Non-Executive Director pursuant to the terms of the Investment Agreement.

None of our Directors are related to each other or to our Executive Officers and substantial Shareholders.

Certain information on the business and working experience of our Directors is set out below:

Ren Yuanlin is our Executive Chairman. He is the founder of our Group and is currently responsible for the overall management and operations of our Group. He is also the Chairman of the Board of Directors of JYS. Mr Ren has over 30 years of experience in the shipbuilding industry, and has worked within our Group and our Group's predecessors in various positions since the 1970s. In 1973, Mr Ren joined Jiangyin Shipbuilding Factory as a worker involved in cold works. From 1976 to 1982, he held the positions of vice-head and head of the ship body workshop. From 1982 to 1984, he was the department head of the process technology department. From 1984 to 1985, he held the position of Assistant Shipbuilding Supervisor. During the period between 1985 and 1997, inclusive of the time when Jiangyin Shipbuilding Factory was changed to Jiangsu Yangzijiang Shipbuilding Factory, he concurrently held the positions of Assistant Factory Supervisor and Supervisor of a shipbuilding subfactory. From 1997, Mr Ren has held the concurrent positions of Factory Supervisor and Chairman of the board of directors in Jiangsu Yangzijiang Shipbuilding Factory (which has since been changed into JYS in 1999). Mr Ren has also been appointed as a secretary to the central branch of the Communist Party of China since 1997. Mr Ren was awarded the Outstanding Factory Supervisor (Management) award (优秀厂长(经理)) for two consecutive years by the Jiangyin Municipal Commission of Communist Party, People's Government of Jiangyin Municipality in 2000 and 2001. He also holds a Diploma in Economics from Jiangsu Television Broadcasting University (江苏广播电视大学) which he was conferred in 1986.

Wang Dong is our Executive Director and Marketing and Procurement Manager. Mr Wang has nearly 30 years of experience in the shipbuilding industry. He first joined Jiangyin Shipbuilding Factory in 1977 as a workshop welder. Thereafter in 1985, he was transferred to the administrative management department. In 1988, he was promoted to the position of Assistant Sales Supervisor of Jiangyin Shipbuilding Factory. Between 1992 and 1997, he held the position of assistant factory supervisor of Jiangyin Shipbuilding Factory (which was changed to Jiangsu Yangzijiang Shipbuilding Factory in 1992), where he was in charge of the daily operations of the factory. Thereafter, he became the Deputy General Manager of Jiangsu Yangzijiang Shipbuilding Factory (which has since been changed to JYS in 1999), a position which he still holds today, and he is one of the personnel in charge of the sales and procurement of materials for the shipbuilding processes. Mr Wang holds a high school certificate from Jiangyin City High School (江阴市高级中学) which he was conferred in 1975.

Xiang Jianjun is our Executive Director and Production Manager. Mr Xiang has more than 25 years of experience in the shipbuilding industry. He joined Jiangyin Shipbuilding Factory in 1978, and worked in the workshop for about a year. In May 1979, he became a Loftsman, and since then, he has worked in various positions within Jiangyin Shipbuilding Factory (which was changed to Jiangsu Yangzijiang Shipbuilding Factory in 1992 and finally JYS in 1999). He was promoted to Production Process Department Section Head in 1985. From January 1992 to December 1994, Mr Xiang was the Technical Department Section Head of Jiangsu Yangzijiang Shipbuilding Factory. Between 1995 and 1998, he served in various positions including the Head of the Production Process, Technical Quality Control Department and Assistant Shipyard Supervisor of Jiangsu Yangzijiang Shipbuilding Factory. In January 1999, he became the Deputy Shipyard Supervisor of JYS. From December 1999 till present, has been the Deputy General Manager of JYS and was also appointed in May 2005, the Deputy General Manager of JNYS. Mr Xiang holds a Diploma in Ship Engineering from Wuhan School of Transport by Water (武汉水运学院) which was conferred in 1991.

Teo Yi-dar is our Non-Executive Director. Mr Teo is an Investment Partner with SEAVI Advent Corporation Ltd, the Asian affiliate of Boston-based Advent International private equity group. He manages direct investments in China and South East Asia, and focuses on the electronics, chemical, engineering and technology segments. Prior to joining SEAVI Advent, he was with Keppel Corporation Ltd, conducting business development activities for Keppel's marine and offshore businesses. Mr. Teo started his career as an Engineer in SGS-Thomson Microelectronics. Mr. Teo holds two Masters' degrees; Master of Science Degree in Industrial and Systems Engineering (1998) and Master of Science Degree in Applied Finance (2000) from the National University of Singapore. He graduated from the same university with a Bachelor of Electrical Engineering (Honours) in 1996. He was awarded the Chartered Financial Analyst by the Association for Investment Management and Research in 2001.

Ong Sie Hou Raymond is our Lead Independent Director. He is currently a partner of Rajah & Tann, a firm of advocates and solicitors in Singapore and has been with the firm since May 2002. From 1998 to 2001, Raymond Ong was an Associate Lawyer at Colin Ng & Partners. Prior to that, he was practicing at Joseph Tan Jude Benny & Scott between 1997 and 1998 and Chong Yeo & Partners between 1996 and 1997. He graduated from the National University of Singapore with a Bachelor of Law Degree in 1995 and was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1996. His main area of practice is in litigation and international arbitration in commercial, banking, transportation and shipping matters in particular, he represents shipyards and shipowners in building and repair, negotiations and disputes in Singapore, China and the region.

Teo Moh Gin is our Independent Director. He is currently a director of Vive Capital Pte. Ltd., where he is involved in investment-related work. Between March 2006 and January 2007, he was the Chief Corporate Officer of RichLand Group Limited, where he oversaw the finance, business development, mergers and acquisition activities as well as the corporate affairs of RichLand Group Limited. From 2005 to 2006, Mr. Teo was the Managing Director of Global Business Insights Pte Ltd. From 1994 to 2005, Mr. Teo also held various senior management positions in leading organisations such as GKE International Limited, Transworld Carnival Corporation, SESAMi Inc, System Access Limited, Credit Suisse, Veno Technologies (S) Pte Ltd. From 1990 to 1993, Mr. Teo was the Senior Investment Officer with Government of Singapore Investment Corporation Private Limited. From 1983 to 1989, he was the Head of Business Consulting Division in Arthur Andersen Associates. Mr. Teo was the Executive Vice President of GKE International and was responsible for mergers and acquisitions and business development for the logistics company. He handled many of the mergers and acquisitions activities, implementation of business development plans in locations such as China, Malaysia and the Middle East. Mr. Teo was the Chief Executive Officer of Transworld Carnival Corporation. His responsibility included the execution of the company's mobile amusement fairs. Mr. Teo also held the positions of Senior Vice President in corporate development and Chief Financial Officer in SESAMi Inc., and System Access Limited. He oversaw all the financial functions of the respective companies including financial planning and analysis, financial control, business opportunities and investments. Mr. Teo graduated from the National University of Singapore in 1983 with a Bachelor of Accountancy (Honours) and obtained a Post-Graduate Diploma in Business Administration jointly awarded by the University of Manchester and University of Wales in 2001. He has been a CPA member of the Institute of Certified Public Accountants of Singapore since 1989 and was admitted as a Fellow of ICPAS in 2004.

Present and past principal directorships of our Directors

The present and past directorships held by our Directors in the last five years preceding the Latest Practicable Date (excluding those held in our Company), are as follows:

Name	Present Directorship	Past Directorship
Ren Yuanlin	Group Companies	Group Companies
	JYS JNYS	Nil
	Other Companies	Other Companies
	Newyard Worldwide Holdings Ltd Runhua Tech Tianyuan Zhangjiagang	Sumeida YZJ Ship Engrg
Wang Dong	Group Companies	Group Companies
	JYS JNYS	Nil
	Other Companies	Other Companies
	Lido Point Investments Ltd.	Nil
Xiang Jianjun	Group Companies	Group Companies
	JYS	JNYS
	Other Companies	Other Companies
	Jiangsu Xiandai Shipbuilding Technical Co., Ltd （江苏现代造船技术有限公司） Newyard Worldwide Holdings Ltd	Runzhou
Teo Yi-dar	Group Companies	Group Companies
	JNYS	Nil
	Other Companies	Other Companies
	China Yuanbang Property Holdings Limited DC (Suzhou) Polymer Co., Ltd Dynamic Colours Pte Ltd. I'M Technologies Limited Leader Environmental Technologies Pte. Ltd. Sunvic Chemical Holdings Limited Suzhou S.L. Packaging Co., Ltd. V-Zone Technologies Pte. Ltd.	Teng Long Enterprise Pte. Ltd. S.L. Packaging Industries Pte. Ltd.

Name	Present Directorship	Past Directorship
Ong Sie Hou Raymond . .	Group Companies	Group Companies
	Nil	Nil
	Other Companies	Other Companies
	Sunvic Chemical Holdings Limited	Hengxin Technology Ltd.
Teo Moh Gin.	Group Companies	Group Companies
	Nil	Nil
	Other Companies	Other Companies
	China Sun Bio-Chem Technology Group Company Ltd Fortuna Capital Management Pte. Ltd. Vive Capital Pte. Ltd.	Abecha Pte Ltd Mercu Learning Point Pte Ltd Sesami (Singapore) Pte Ltd Richland Capital Pte. Ltd. Richland Fuyang (s) Pte. Ltd.

Interests in Shares

Shares held by our Directors do not carry different voting rights from the Offering Shares. For further details as to our Directors' interests in Shares, see "Share capital and Shareholders — Interests in Shares".

Term of office

Our Directors do not currently have a fixed term of office. Each Director is required to retire from office once every three years and for this purpose, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) is required to retire from office by rotation. A retiring Director is eligible for re-election.

The Directors who are required to retire each year are those, subject to retirement by rotation, who have been longest in office since their last re-election or appointment.

SERVICE AGREEMENTS

On 16 March 2007, our Company entered into Service Agreements with our Executive Directors, Ren Yuanlin, Wang Dong and Xiang Jianjun for an initial period of three years commencing with effect from the listing of our Company on the SGX-ST. The Service Agreements may be terminated by either our Company or the Executive Director by giving six months notice in writing. We may terminate their respective Service Agreements in the event any of the Executive Directors commit certain events of default described in their respective Service Agreements; including being convicted of any seizeable criminal offence, becoming a bankrupt, and being guilty of any default, misconduct or wilful neglect in the discharge of his duties. None of the Executive Directors are entitled to any benefits upon the termination of their respective Service Agreements.

The Service Agreements also contain non-competition undertakings by each of the Executive Directors, which are effective throughout the term of their employment with our Company and for a period of 12 months after their employment with our Company ceases. The Service Agreements provide that, during the continuance of the Executive Directors' employment with our Company, each of them shall, *inter alia*, devote his whole time and attention to the business of our Company and shall not engage in any other business or be concerned or interested, whether for reward or gratuitously, in any capacity in any trade or business or occupation other than that of or with our Group or of a similar nature to or competitive with that carried on by our Company.

Save for the Service Agreements, the Profit-Sharing Scheme and the discretionary bonuses that are provided for in the letters of employment with our Executive Officers and employees, there are no other bonus or profit-sharing plans or any other profit-linked agreements or arrangements between our Company and any of our Directors or Executive Officers.

Save as disclosed above, there are no existing or proposed service contracts entered into or to be entered into by our Company or any of our subsidiaries with any of our Directors or Executive Officers which provides for compensation in the form of stock options, or pension, retirement or other similar benefits, or other benefits, upon the termination of employment.

CORPORATE GOVERNANCE

Our Directors recognise the importance of corporate governance and the maintenance of high standards of accountability to our Shareholders.

The SGX-ST Code of Corporate Governance recommends that the roles of executive chairman and chief executive officer be separated, to ensure an appropriate balance of power and increased accountability to shareholders. The roles of both chairman and chief executive officer are currently held by Ren Yuanlin.

Our Board believes that Ren Yuanlin should continue to lead our Group as executive chairman and chief executive officer. Ren Yuanlin will manage the day-to-day operations of our Group and will be responsible for charting the strategic direction and growth of our Group.

The SGX-ST Code of Corporate Governance notes that where the chairman and chief executive officer is the same person, we may appoint an independent non-executive director to be the lead independent director. The lead independent director should be available to shareholders where they have concerns which contact through the normal channels of the chairman or chief executive officer has failed to resolve or for which such contact is inappropriate. Our Board has appointed Mr Ong Sie Hou Raymond, an independent non-executive director, to be the lead independent director for this purpose.

The Board has established three committees: (i) the Audit Committee; (ii) the Nominating Committee; and (iii) the Remuneration Committee.

Audit Committee

The Audit Committee comprises Teo Moh Gin, Teo Yi-dar and Ong Sie Hou Raymond. The Chairman of the Audit Committee is Teo Moh Gin. The Audit Committee is required to meet periodically to perform the following functions:

(i) assisting our Board in the discharge of its responsibilities on financial and accounting matters;

(ii) reviewing the audit plans, scope of work and results of our audits compiled by our internal and external auditors;

(iii) reviewing the co-operation given by our officers to the external auditors;

(iv) nominating external auditors for re-appointment;

(v) reviewing the integrity of any financial information presented to our Shareholders;

(vi) reviewing interested person transactions, if any;

(vii) reviewing potential conflicts of interest, if any;

(viii) approving and reviewing all hedging policies and instruments to be implemented by us, if any;

(ix) approving all investment instruments that are not principal protected;

(x) reviewing and evaluating our administrative, operating and internal accounting controls and procedures;

(xi) reviewing our risk management structure and any oversight of our risk management processes and activities to mitigate and manage risk at acceptable levels determined by our Board;

(xii) reviewing shipbuilding contracts entered into by JNYS to ensure that such contracts are within JNYS' scope of business as agreed between JYS and JNYS; and

(xiii) reviewing the repayment of entrusted loans monthly to ensure that the Group's financial performance and position are not compromised.

Apart from the duties listed above, the Audit Committee is required to commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on our results of operations and/or financial position. Each member of the Audit Committee must abstain from voting on any resolution in respect of matters in which he is interested.

Nominating Committee

Our Nominating Committee comprises Teo Moh Gin, Ong Sie Hou Raymond and Teo Yi-dar. The Chairman of the Nominating Committee is Ong Sie Hou Raymond. Our Nominating Committee is responsible for (i) re-nomination of our Directors having regard to the Director's contribution and performance, (ii) determining annually whether or not a Director is independent and (iii) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director. The Nominating Committee decides how the Board's performance is to be evaluated and proposes objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long-term Shareholders' value. The Board has implemented a process to be carried out by the Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board. Each member of the Nominating Committee is required to abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the Nominating Committee in respect of the assessment of his performance or re-nomination as director.

Remuneration Committee

Our Remuneration Committee comprises Ong Sie Hou Raymond, Teo Moh Gin and Teo Yi-dar. The Chairman of the Remuneration Committee is Ong Sie Hou Raymond. Our Remuneration Committee is responsible for recommending to our Board a framework of remuneration for the

Directors and key executives, and determining specific remuneration packages for each Director and the chief executive officer. The recommendations of our Remuneration Committee are submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind shall be covered by our Remuneration Committee. Each member of the Remuneration Committee is required to abstain from voting on any resolutions and making recommendations and/or participating in any deliberations of the Remuneration Committee in respect of his remuneration package.

EXECUTIVE OFFICERS

Our Executive Officers, together with our Executive Directors, are responsible for our day-to-day management and operations. The following table sets forth information regarding our Executive Officers.

Name	Age	Address	Occupation
Cao Zhiteng	48	No. 45 Yingkou Road, Lane 789 Room 602, Yangpu District, Shanghai	General Manager
Lim Ho Heng	45	Blk 337 #12-46 Clementi Ave 2 Singapore 120337	Chief Financial Officer
Du Chengzhong . . .	38	Dingbo Xinchun Lane 20 Unit 602, Jiangyin City, Jiangsu Province	Design & Technical Manager

None of our Executive Officers are related to each other or to our Directors and substantial Shareholders. None of our Executive Officers owns any Shares in our Company.

Information on the business and working experience of our other Executive Officers is set out below:

Cao Zhiteng is our General Manager. His responsibilities includes exercising the powers as the Group's general manager, in particular, he is engaged in the management's decision making, in managing the company, financial management and the motivation, supervision and inspection at the operations level. Mr Cao has more than 20 years of experience in the shipbuilding industry. After his graduation from Shanghai Jiaotong University in 1982, he joined Hudong-Zhonghua Shipbuilding (Group) Co., Ltd., a shipbuilding enterprise in the PRC, where he spent more than 20 years working in various appointments until February 2003. He started as an Assistant Engineer and other appointments held include, among others, the Assistant Manager of the Design Department, Assistant Chief Engineer and finally the Assistant General Manager before he left the company. As a result of his various appointments, he is familiar with the production aspects as well as the product management aspects of the shipbuilding industry. Thereafter, he joined China Shipbuilding Trading Co., Ltd. in February 2003 as its Deputy General Manager and held the position until he joined our Group in February 2007. Mr Cao graduated from Shanghai Jiaotong University in 1988 with a Bachelor's Degree in Ship and Offshore Engineering. In 1998, he was accredited as a Senior Engineer (Researcher level) by China State Shipbuilding Head Company (中国船舶工业总工司) and in 2000, he further obtained a Master of Business Administration from Shanghai Jiaotong University.

Lim Ho Heng Is our Chief Financial Officer. He is responsible for overseeing our Group's financial and management accounting, compliance, taxation and company secretarial matters. Mr Lim is a Certified Public Accountant and has more than 15 years of working experience encompassing a wide spectrum of accounting functions in various corporations, including public listed companies. Between April 1996 and May 2001, Mr Lim was an Accountant in Lum Chang Holdings Limited, a

company listed on the SGX Mainboard, where he was involved in group management reporting, financing, tax, internal audit and corporate secretarial work. Thereafter between May 2001 and September 2005, he was a Financial Controller in PSL Holdings Limited, a company listed on the SGX SESDAQ, where his work involved financial reporting and management, as well as assisting in business development. He joined Universal Navigation Pte Ltd as the Head of Finance and Administration in September 2005 where he did consultancy work for ship financings and did the financial reporting for an initial public offering exercise. Thereafter in February 2006, he joined Vantage Corporation Limited, another company listed on the SGX Mainboard as its Finance Manager, where he was responsible for consolidating the group's accounts. Before joining us, Mr Lim was the Chief Financial Officer of Jolion E & E Pte. Ltd. between June 2006 and February 2007. During his employment there, he assisted in an initial public offering exercise on a consulting basis. Mr Lim holds a Bachelor of Commerce degree from Murdoch University in Australia which he was conferred in 1990. He has been a member of the Institute of Certified Public Accountants of Singapore since 1999.

Du Chengzhong is our Design and Technical Manager. Mr Du has more than 10 years of experience in the shipbuilding industry. In July 1991, he started as a trainee in the turbine workshop of the then Jiangyin Shipbuilding Factory. In July 1992, he became a technician in the same workshop where he held the position till December 1996. During the period between January 1997 and December 2001, he worked as a construction staff in the Production Department of JYS. In January 2002, he was promoted to the position of Deputy Head of Engineering Department of JYS and served in the position till December 2004. Thereafter, between January 2005 and December 2005, he held concurrent positions as Assistant General Manager cum Head of Technical Preparation Department. From January 2006, he has been the Deputy General Manager and Head of Quality Control Department in JYS and JNYS, where he is also responsible for the technical and quality aspects of the operations in JYS and JNYS. Mr Du holds a Bachelor's Degree in Mathematics and Engineering from Harbin Shipbuilding Engineering Institute (哈尔滨船舶工程学院) which he was conferred in 1991. He was accredited as an Engineer by the Wuxi City Human Resource Bureau (无锡市人事局) in 1998.

Present and past principal directorships of our Executive Officers

The present principal and past directorships held by our Executive Officers in the five years preceding the Latest Practicable Date (excluding those held in our Company) are as follows:

Name	Present Directorship	Past Directorship
Cao Zhiteng	Group Companies	Group Companies
	Nil	Nil
	Other Companies	Other Companies
	Nil	Nil
Lim Ho Heng	Group Companies	Group Companies
	Nil	Nil
	Other Companies	Other Companies
	Nil	PSL Ventures Pte. Ltd.
Du Chengzhong	Group Companies	Group Companies
	JNYS	Nil
	Other Companies	Other Companies
	Shunyuan	Nil

Employment agreements

The terms of our Group's employment agreements with our Executive Officers entitle them to a monthly salary, a discretionary variable bonus and benefits in accordance with their respective employment agreements.

Arrangement or Understanding

None of our Directors or Executive Officers has any arrangement or understanding with any of our substantial Shareholders, customers or suppliers or other person pursuant to which such Director or Executive Officer was appointed as a Director or as an Executive Officer.

Compensation

The compensation paid or payable to our Directors and Executive Officers for services rendered to us in all capacities on an aggregate basis and in remuneration bands in 2005 and 2006 (being the last two most recent completed financial years) and the current financial year, excluding incentive bonus pursuant to the Service Agreements, are as follows:

Directors and Key Officers in each remuneration band:

	2005[(1)]	2006	Estimated 2007[(2)]
Directors			
Ren Yuanlin	A	A	A
Wang Dong*	A	A	A
Xiang Jianjun*	A	A	A
Teo Yi-dar**	N.A.	N.A.	A
Ong Sie Hou Raymond	N.A.	N.A.	A
Teo Moh Gin	N.A.	N.A.	A
Executive Officers			
Cao Zhiteng	N.A.	N.A.	A
Lim Ho Heng	N.A.	N.A.	A
Du Chengzhong	A	A	A

* Wang Dong and Xiang Jianjun were appointed as Directors in March 2007. Their remuneration in 2005 and 2006 was for services rendered in their capacity as executive officers of the Group.

** Appointed in 2006 and directors' fees were nil in 2006.

(1) Band A : compensation of between S$0 to S$250,000 per annum
N.A. : not applicable

(2) Compensation includes benefit in kind. The estimated amount of compensation payable in 2007 excludes any bonus or profit-sharing plan or any other profit-linked agreement or arrangement.

We have not set aside or accrued any amounts for our Directors to provide for pension, retirement or similar benefits, save for CPF in Singapore and social security contributions (or the equivalent) in the PRC.

Profit-sharing scheme

As a performance incentive, we have a profit-sharing scheme pursuant to which certain of our Executive Directors and Executive Officers, namely Ren Yuanlin, Wang Dong, Xiang Jianjun, Cao Zhiteng and Du Chengzhong (the "PSS Officers"), are each entitled, subject to the approval of our Remuneration Committee, to a shared performance bonus (the "Performance Bonus Pool") in respect of each financial year commencing from FY2007, which is calculated based on the PBT as follows:

PBT Attained	Performance Bonus Pool
Where the PBT does not exceed RMB600.0 million	NIL
Where the PBT exceeds RMB600.0 million but does not exceed RMB700.0 million	0.5% of PBT
Where the PBT exceeds RMB700.0 million but does not exceed RMB800.0 million	0.75% of PBT
Where the PBT exceeds RMB800.0 million	1.0% of PBT

For this purpose,"PBT" refers to the consolidated profit before tax of our Group before adjustments for the Performance Bonus Pool and excluding gains on exceptional items and extraordinary items.

The applicable Performance Bonus Pool for each financial year will be apportioned between Ren Yuanlin, Wang Dong, Xiang Jianjun, Cao Zhiteng and Du Chengzhong depending on their involvement, role, responsibility and performance in the Group, subject to an annual review by our Remuneration Committee. Where the employment of any of the PSS Officers is not for a full financial year, his share of the applicable Performance Bonus Pool will be pro rated accordingly.

INTERESTED PERSON TRANSACTIONS

In general, transactions between our Group (when used in this section, our "Group" refers to our Company, its subsidiaries and its associated companies as at the Latest Practicable Date) and any of our interested persons (namely, our Directors, Chief Executive Officer or controlling Shareholders or the associates (as defined in the Listing Manual) of such Directors, Chief Executive Officer or controlling Shareholders) ("interested persons" and each, an "interested person") would constitute interested person transactions.

The following discussion sets out the past, present and ongoing transactions between our Group and interested persons that are material in the context of the Offering for 2004, 2005 and 2006 and up to the Latest Practicable Date. In line with the rules set out in Chapter 9 of the SGX-ST Listing Manual, a transaction with a value of less than S$100,000 is not considered material in the context of the Offering and is not taken into account for the purposes of aggregation in this section.

Save as disclosed below, and in "The Restructuring Exercise" none of our interested persons was or is interested, directly or indirectly, in any transaction undertaken by our Group which is material in the context of the Offering within 2004, 2005 and 2006 and up to the Latest Practicable Date.

The following persons or companies are considered interested persons for the purposes of this section of this document:

Interested Persons	Relationship with our Group
Changjiang	A PRC company, the shareholders of which are Ren Jinhua (55.0%), Chu Jianjian (25.0%) and Zhu Qing (20.0%). Ren Jinhua is our controlling Shareholder through his 70.0% in Almond Beach Resources Corporation. Changjiang is an associate of Ren Jinhua.
Lido Point	A BVI company, the shareholders of which are Wang Dong (70.7%), Yu Kebing (20.0%) and Xie Lijun (9.3%). Wang Dong is our Executive Director and controlling Shareholder. Lido Point is an associate of Wang Dong.
Ren Jinhua	A controlling Shareholder.
Ren Yuanlin	Our Executive Chairman and a controlling Shareholder.
Runhua Tech	A PRC company, the shareholders of which are Changjiang (60.5%), Ren Yuanlin (10.0%), Liu Yifang (10.0%) and eight other natural persons who are unrelated third parties. Ren Jinhua holds approximately 55.0% of the shareholding interest in Changjiang and is deemed to be interested in the shares which Changjiang holds in Runhua Tech. Runhua Tech is an associate of Ren Jinhua.
Tianyuan	A PRC company, the shareholders of which are Ren Yuanlin (71.5%) and Ren Letian (28.5%), who is the son of Ren Yuanlin.
Tongbao (HK)	A Hong Kong company, the shareholders of which are Yu Kebing (60.0%) and Xie Lijun (40.0%). Yu Kebing is our controlling Shareholder. Tongbao (HK) is an associate of Yu Kebing.

Interested Persons	Relationship with our Group
Tongbao (Shanghai)	A PRC company which is 60.0% held by Yu Kebing. Tongbao (Shanghai) is an associate of our controlling Shareholder Yu Kebing.
Wang Dong	Our Executive Director and a controlling Shareholder.
Xiang Jianjun	Our Executive Director and a controlling Shareholder.

PAST TRANSACTIONS WITH INTERESTED PERSONS

Details of the past interested person transactions for 2004, 2005 and 2006 are as follows:

(1) **Advances to Changjiang**

In 2005, our subsidiary, JYS, made two advances of RMB48.0 million and RMB15.0 million to Changjiang ("Changjiang Advances") for its working capital purposes. The advances were interest-free and unsecured. The aggregate amount of the Changjiang Advances of RMB63.0 million was fully repaid in April 2006. The Changjiang Advances were not carried out on an arm's length basis and we do not intend to make any other advances to Changjiang in the future.

The aggregate amount due from Changjiang to JYS as at the end of each of the last three financial years ended 31 December 2006, the largest amount due from Changjiang to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Changjiang Advances	—	45,000	—	—	63,000

(2) **Advance to Wang Dong**

In 2005, our subsidiary, JYS, made a one-time advance of RMB33.9 million to our Executive Director Wang Dong ("Director Advance"), which was interest-free and unsecured. The Director Advance was fully repaid in June 2006. The Director Advance was not carried out on an arm's length basis and we do not intend to provide any other advances to Wang Dong in the future.

The amount due from Wang Dong to JYS as at the end of each of the last three years ended 31 December 2006, the largest amount due from Wang Dong to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Director Advance . .	—	33,900	—	—	33,900

(3) **Advances to Runhua Tech**

From time to time, our subsidiary, JYS, has extended advances to Runhua Tech ranging from RMB1.8 million to RMB30.0 million for its working capital purposes ("Runhua Advances"), which were interest-free and unsecured. The Runhua Advances were fully repaid in September 2006. These Runhua Advances were not carried out on arm's length basis and we do not intend to extend any other advances to Runhua Tech in the future.

The aggregate amount due from Runhua Tech to JYS as at the end of each of the last three years ended 31 December 2006, the largest amount due from Runhua Tech to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Runhua Advances. .	30,038	4,272	—	—	48,238

(4) **Loans to Runhua Tech and Changjiang**

(a) *Loan to Runhua Tech*

Pursuant to an entrusted loan agreement dated 27 April 2006, JYS made a loan of RMB30.0 million to Runhua Tech through the Jiangyin Branch of Shanghai Pudong Development Bank as an agent bank, for its working capital purposes ("Runhua Loan"). The Runhua Loan, bore an interest at the rate of 6.0% per annum and the term of the loan was for one year ending 27 April 2007. The loan was secured by a pledge of shares in JNYS by Changjiang ("Runhua Loan Security"). The Runhua Loan was fully repaid on 4 December 2006. The Runhua Loan was carried out on arm's length basis. We do not intend to provide any loans to Runhua Tech in the future.

The aggregate amount due from Runhua Tech to JYS as at the end of each of the last three years ended 31 December 2006, the largest amount due from Runhua Tech to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Runhua Loan. . . .	—	—	—	—	30,000

(b) *Loan to Changjiang*

Pursuant to an entrusted loan agreement dated 27 April 2006, JYS made a loan of RMB20.0 million to Changjiang through the Jiangyin Branch of Shanghai Pudong Development Bank as an agent bank for its working capital purposes ("Changjiang Loan"). According to the terms of the entrusted loan agreement, the Changjiang Loan had an interest rate of 6.0% per annum and the term of the loan was for one year ending 27 April 2007. The loan was secured by the pledge of shares in JNYS Changjiang ("Changjiang Loan Security"). The value of the Changjiang Loan Security is agreed by JYS to be equivalent to RMB20.0 million, being equivalent to the value of the Changjiang Loan. The Changjiang Loan was fully repaid on 4 December 2006. The Changjiang Loan was carried out on arm's length basis. We do not intend to provide any loans to Changjiang in the future.

The aggregate amount due from Changjiang at the end of each of the last three financial years ended 31 December 2006, the largest amount due from Changjiang to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Changjiang Loan .	—	—	—	—	20,000

(5) **Transactions with Tongbao (Shanghai)**

(a) *Advances to Tongbao (Shanghai)*

In 2003, JYS made an advance of RMB2.5 million to Tongbao (Shanghai) and in 2005, JYS made another advance of RMB2.5 million (the "Tongbao Advances"), which were interest-free and unsecured. The aggregate amount due from Tongbao (Shanghai) to JYS as at the end of each of the last three years ended 31 December 2006, the largest amount due from Tongbao (Shanghai) to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for Tongbao Advances	2,625	5,035	—	—	5,037

The Tongbao Advances were fully repaid as at 31 December 2006. The Tongbao Advances were not transacted on an arm's length basis and we do not intend to provide any other advances to Tongbao (Shanghai) in the future.

(b) *Services provided by Tongbao (Shanghai)*

Tongbao (Shanghai) provided JYS with custom clearance services in 2004, 2005 and 2006 ("Tongbao Services"). In consideration for the Tongbao Services, JYS was required to pay Tongbao (Shanghai) RMB426,480, RMB324,322 and RMB34,488 in 2004, 2005 and 2006, respectively. The aggregate consideration of RMB785,290 payable by JYS to Tongbao (Shanghai) in 2004, 2005 and 2006 was offset from the Tongbao Advances.

The aggregate amount set off against the Tongbao Advances for each of the last three years ended 31 December 2006 and the amount set off from 31 December 2006 to the Latest Practicable Date were as follows:

RMB('000)	FY2004	FY2005	FY2006	From 1 January 2007 to the Latest Practicable Date
Aggregate consideration for the Tongbao Services	426	324	34	—

The transactions with Tongbao (Shanghai) were not transacted on an arm's length basis and we do not intend to engage Tongbao (Shanghai) for such services in the future.

(6) **Payment on Behalf of Tongbao (HK)**

In 2005, our subsidiary, JYS, made a one-time payment of RMB1.2 million to Jiangsu Zhongji Materials Co., Ltd. (江苏中基材料有限公司) on behalf of Tongbao (HK) for purchases made by Tongbao (HK) from Jiangu Zhongji Materials Co., Ltd. ("Tongbao Payment"). The Tongbao Payment was fully repaid in April 2006. The Tongbao Payment was not carried out on an arm's length basis and we do not intend to make any other payments on behalf of Tongbao (HK) in the future.

The amount due from Tongbao (HK) to JYS as at the end of each of the last three years ended 31 December 2006, the largest amount due from Tongbao (HK) to JYS during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Tongbao Payment . .	—	1,200	—	—	1,200

(7) **Provision of consultancy services by ICH Capital**

On 21 December 2005, our Company and the Vendors entered into a consultancy agreement ("Consultancy Agreement") with ICH Capital appointing ICH Capital as our Company's financial consultant in relation to the proposed listing of our Company on the SGX-ST. Toe Teow Heng is a director and shareholder of ICH Capital and was also a director of our Company for the purpose of incorporation. On 28 November 2006, Toe Teow Heng resigned as a Director of our Company.

Under the terms of the Consultancy Agreement, ICH Capital agreed to provide consultancy and related services in connection with the proposed listing of our Company on the SGX-ST, including but not limited to, assisting in the preparations for our admission to the Official

List of the SGX-ST, assisting in the introduction of strategic investors and assisting in liaising and coordinating with the professionals.

Pursuant to the terms of the Consultancy Agreement, in consideration for the consultancy services provided by ICH Capital in relation to the Offering:

(a) our Company is required to pay to ICH Capital a commission of US$680,000 (the "ICH Commission") for assisting in the investment by the Strategic Investors in our Company; and

(b) our Company and the Vendors are required to pay to ICH Capital (i) a consultancy fee of RMB1,180,000 (the "Consultation Fee") and (ii) an advisory fee of 1.0% of the gross proceeds of the Offering, in each case payable in the proportion in which the total number of Offering Shares offered by each of them in the Offering bears to the total number of Offering Shares.

As at the Latest Practicable Date, we have paid to ICH Capital US$340,000 of the ICH Commission, and RBM800,000 of the Consultation Fee. The Consultancy Agreement was carried out on an arm's length basis.

We intend to pay the balance of the Commission and the Consultation Fee, as well as our portion of the Advisory Fee not later than three business days after the Listing Date.

PRESENT AND ON-GOING TRANSACTIONS WITH INTERESTED PERSONS

Details of the present and on-going interested person transactions for 2004, 2005 and 2006 are as follows:

(1) **Loan from Lido Point Investments Ltd.**

Pursuant to the Investment Agreement, our Directors, Ren Yuanlin, Wang Dong, Xiang Jianjun and Ren Jinhua, agreed to arrange a loan amounting to US$5.0 million. In order to fulfil their obligations under the Investment Agreement, Lido Point Investments Ltd. ("Lido Point") entered into a loan agreement dated 13 June 2006 with our Company ("Lido Loan Agreement") pursuant to which Lido Point extended a loan of US$5.0 million to our Company ("Lido Loan") to fund, in part, the acquisition of JYS by the Company.

The Lido Loan is interest-free and unsecured. There is no fixed repayment date but the Lido Loan is repayable after the Listing Date. Although the Lido Loan is not an arm's length transaction, our Directors are of the view that the Lido Loan is not detrimental to the interests of our Company. The Lido Loan is a one-time transaction and we do not intend to enter into any other loan arrangements with Lido Point Investments Ltd. in the future. The loan will be fully repaid using the proceeds from the Offering.

The amount due from JYS to Lido Point as at the end of each of the last three years ended 31 December 2006, the largest amount due from JYS to Lido Point during this period and the amount outstanding as at the Latest Practicable Date were as follows:

US$ ('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the Lido Loan	—	—	5,000	5,000	5,000

(2) **Loans from our Executive Directors, Ren Yuanlin, Xiang Jianjun and Wang Dong**

On 10 July 2006, the Old Shareholders (save for YZJ Union and Runhua Tech) entered into separate loan agreements ("OSS Loan Agreements") with our Company and JYS pursuant to which they agreed to loan to JYS (collectively, the "OSS Loans") the consideration received by them (after deducting any and all applicable taxes, assessments and other sums payable) pursuant to the sale of their equity interests in JYS as part of the Restructuring Exercise. The OSS Loans extended by Ren Yuanlin, Xiang Jianjun and Wang Dong amounted to approximately RMB34,791,679, RMB2,402,682 and RMB2,826,834, respectively.

The OSS Loans are interest-free, unsecured and repayable on the Listing Date. The OSS Loans will be repaid from the working capital of the Company. The OSS Loans are only to be used for JYS's working capital purposes or for interest-free loans to JNYS, and cannot not be used for any other purposes without the prior consent of the Old Shareholders (except Runhua Tech) and Ren Jinhua. Although the OSS Loans are not arm's length transactions, our Directors are of the view that the OSS Loans are not detrimental to the interests of our Company. The OSS Loans are part of a one-time arrangement and we do not intend to enter into any other loan arrangements with Ren Yuanlin, Xiang Jianjun and Wang Dong in the future.

The aggregate amount due from JYS to Ren Yuanlin, Xiang Jianjun and Wang Dong as at the end of each of the last three years ended 31 December 2006, the largest aggregate amount due from JYS to Ren Yuanlin, Xiang Jianjun and Wang Dong during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the OSS Loan.	—	—	40,022	40,022	40,022

(3) **Loan from Ren Jinhua**

On 10 September 2006, Ren Jinhua entered into a loan agreement with our Company and JYS ("RJH Loan Agreement"), pursuant to which he loaned RMB19,764,803.20 (the "RJH Loan") to JYS.

The RJH Loan is interest-free, unsecured and repayable on the Listing Date. The RJH Loan will be repaid from the working capital of the Company. The RJH Loan can only be used for JYS's working capital purposes or as an interest-free loan to JNYS, and cannot be used for other purposes without the prior consent of Ren Jinhua. Although the RJH Loan is not an arm's length transaction, our Directors are of the view that the RJH Loan is not detrimental to the interests of our Company. We do not intend to extend the term of the loan. The RJH Loan is part of a one-time arrangement and we do not intend to enter into any other loan arrangements with Ren Jinhua in the future.

The amount due from JYS to Ren Jinhua as at the end of each of the last three years ended 31 December 2006, the largest amount due from JYS to Ren Jinhua during this period and the amount outstanding as at the Latest Practicable Date were as follows:

RMB('000)	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at the Latest Practicable Date	Largest amount outstanding
Outstanding amounts for the RJH Loan.	—	—	19,765	19,765	19,765

(4) **Shareholders' loan from Tianyuan**

Pursuant to a shareholders' loan agreement dated 16 March 2007 (the "MI Loan Agreement)" between JNYS and the JNYS Minority Shareholders, the JNYS Minority Shareholders agreed to provide an interest free loan in the aggregate amount of S$60.0 million to JNYS to finance the completion of the construction of the New Yard and for the working capital of JNYS.

The MI Loan is conditional on the listing of our Company on the Main Board of the SGX-ST. The MI Loan will also be convertible, at the option of each of the JNYS Minority Shareholders (subject to the requisite approvals being obtained from the relevant PRC authorities), into new equity interest in the registered capital of JNYS. The amount of equity interests that will be issued upon conversion will be determined by dividing the RMB equivalent of the converted loan by the conversion price of RMB2.00 or such other price determined by an independent valuer, in accordance with PRC laws.

GUIDELINES AND REVIEW PROCEDURES FOR FUTURE INTERESTED PERSON TRANSACTIONS

Review By Audit Committee

The Audit Committee is responsible for reviewing and approving all interested persons transactions to ensure that they are on arm's length basis; that is, the transactions with the interested person are transacted on terms and prices not more favourable to the interested person than if they were transacted with a third party and that our Company has not been disadvantaged in any other way. Our Company will be required to prepare relevant information to assist the Audit Committee in its review. Before any agreement or arrangement that is not in the ordinary course of business of our Group is transacted, prior approval must be obtained from the Audit Committee. In the event that a member of the Audit Committee is interested in any of the interested person transactions, he will abstain from reviewing that particular transaction. Any decision to proceed with such agreement or arrangement will be recorded for review by the Audit Committee.

Review procedures

All future transactions with interested persons (as defined in the SGX-ST Listing Manual) are required to comply with the requirements of the SGX-ST Listing Manual. As required by the SGX-ST Listing Manual, our Company has adopted a set of new Articles of Association that requires a director to abstain from voting in any contract or arrangement in which he has a personal material interest.

In addition, our Directors will be required to ensure that all future business dealings between us and our interested persons will be at arm's length by undertaking, among others, the procedures set out below.

When purchasing from an interested person, our Directors must take into account, where available, the prices and terms of at least two other comparable offers from third parties, contemporaneous in time. The purchase price must not be higher than the more competitive price of these two other quotations. In determining the most competitive price, all pertinent factors, including but not limited to quality, delivery time and track record will be taken into consideration. When selling to an interested person, our Directors must take into account, where available, the prices and terms of at least two other successful sales to third parties, contemporaneous in time. The sale price must not be lower than the lower sale price of these two other sale transactions.

The considerations above will allow for variation from the prices and terms of the comparable offers or sales provided the volume of trade, creditworthiness of the buyer, differences in service, reliability or other relevant factors justify the variation and provided the contemporaneous comparable offer or sale incorporates modifications that account for volatility of the market for the goods and services in question.

The above procedures do not constitute a shareholders' mandate as we will comply with the provisions of the SGX-ST Listing Manual in respect of all future interested person transactions and, if required under the SGX-ST Listing Manual, we will seek our Shareholders' approval (where necessary) for such transactions.

Our Board of Directors will be required to ensure compliance with all disclosure requirements on related party transactions, including those of prevailing legislation, the SGX-ST Listing Manual and applicable accounting standards. In addition, these transactions will also require shareholders' approval if the SGX-ST Listing Manual so requires.

Requirements of Chapter 9 of the Listing Manual

Our Company will be required to comply with the provisions in Chapter 9 of the Listing Manual ("Chapter 9") in respect of all future interested person transactions and, if required under the Listing Manual or the Securities and Futures Act, our Company must seek Shareholders' approval for such transactions.

Under Chapter 9, where a listed company proposes to enter into a transaction with interested persons, Shareholders' approval and/or an immediate announcement is required in respect of that transaction if its value is equal to or exceeds certain financial thresholds.

In particular, Shareholders' approval is required where:

(1) the value of such transaction is equal to or exceeds the Threshold; or

(2) the value of such transaction, when aggregated with other transactions entered into with the same interested persons during the same financial year. However, a transaction which has been approved by the Shareholders, or is the subject of aggregation with another transaction that has been approved by the Shareholders, need not be included in any subsequent aggregation.

Under Chapter 9:

(a) an "interested person" is defined as a director, chief executive officer or controlling Shareholder of the listed company or an associate of any such person;

(b) an "associate":

(i) in relation to a controlling Shareholder (being an individual), means:

(aa) his/her spouse, child, adopted child, step-child, sibling and parent (his "immediate family");

(bb) his/her trustees of any trust of which he/she or his/her immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and

(cc) any company in which he/she and his/her immediate family together (directly or indirectly) have an interest of 30.0% or more; or

(ii) in relation to a substantial Shareholder or a controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more;

(c) "control" means the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of a company;

(d) "Threshold" means 5.0% of the latest audited net tangible assets of the listed company.

POTENTIAL CONFLICTS OF INTERESTS

SEAVI Advent Asia Investments (III) Ltd is one of our Strategic Investors and a Shareholder. SEAVI Advent Corporation Limited is a fund management company that manages SEAVI Advent Asia Investments (III) Ltd. Our Non-Executive Director, Teo Yi-dar is a partner of SEAVI Advent Corporation Limited. SEAVI Advent Corporation Limited is also the investment advisor or fund manager to other funds and may, from time to time, invest in companies that carry on similar businesses or deal in similar products as our Group, or which compete with the business of our Group.

In the event of any potential conflict of interest between our Group and any company in which the funds managed by SEAVI Advent Corporation Limited has an investment, Mr Teo will (to the extent that he is aware of such conflict and is not able to act in the best interests of our Company as a result of such conflict) disclose the situations of conflict to our Board and abstain from voting or participating in the decision-making process in relation to those matters.

Our Board will, in the discharge of their fiduciary duty to our Company, ensure that it will not involve Mr Teo in any management or board discussions on the decision-making process in relation to any transactions to which a potential conflict of interest arises.

Save as disclosed in the section, "Interested Person transactions and conflicts of interests" of this document, during the past three financial years:

(a) None of our Directors, Executive Officers, controlling Shareholders or any of their Associates has any interest, direct or indirect, in any material transactions to which our Company was or is to be a party;

(b) None of our Directors, Executive Officers, controlling Shareholders or any of their Associates has any interest, direct or indirect, in any company carrying on the same business or a similar trade which competes materially and directly with the existing business of our Group; and

(c) None of our Directors, Executive Officers, controlling Shareholders or any of their Associates has any interest, direct or indirect, in any company that is our customer or supplier of goods and services.

SHARE CAPITAL OF OUR COMPANY

Our Company (Registration No. 200517636Z) was incorporated in Singapore on 21 December 2005 under the Singapore Companies Act as a private limited company under the name of Yangzijiang Shipbuilding (Holdings) Pte. Ltd. On 15 March 2007, we changed our name to Yangzijiang Shipbuilding (Holdings) Ltd. in connection with our conversion into a public company limited by shares. As at the Latest Practicable Date, our issued and paid-up share capital was S$14,670,421 comprising 10,000 ordinary shares.

Pursuant to written resolutions dated 12 March 2007, our Shareholders approved, among other things, the following:

(a) the sub-division of every one ordinary share in the share capital of our Company into 251,000 Shares;

(b) the conversion of our Company to a public limited company and the change of name from "Yangzijiang Shipbuilding (Holdings) Pte. Ltd." to "Yangzijiang Shipbuilding (Holdings) Ltd.";

(c) the adoption of a new set of Articles of Association;

(d) the allotment and issue of 128,700,000 ordinary shares in the share capital of our Company pursuant to the Conversion;

(e) the allotment and issue of the New Shares which are the subject of the Offering. The New Shares, when allotted, issued and fully paid-up, will rank *pari passu* in all respects with the existing Shares; and

(f) that authority be given pursuant to Section 161 of the Singapore Companies Act to the Directors to allot and issue shares and/or convertible securities (where the maximum number of shares to be issued upon conversion is determinable at the time of the issue of such securities) in our Company (whether by way of rights, bonus, or otherwise) at any time and from time to time thereafter to such persons and on such terms and conditions for and such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed 50.0 per cent. of the issued share capital of our Company, of which the aggregate number of shares and/or convertible securities to be issued other than on a pro rata basis to existing Shareholders shall not exceed 20.0 per cent. of the issued share capital of our Company (the percentage of issued share capital being based on the issued share capital at the time such authority is given after adjusting for new shares arising from the conversion of any convertible securities or employee share options in issue at the time such authority is given and any subsequent consolidation or subdivision of shares) and unless revoked or varied by our Company in general meeting and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of our Company is required by law to be held, whichever is the earlier.

As at the Latest Practicable Date, there is only one class of Shares in the capital of our Company. There are no outstanding options for our Shares and we have not issued any founder, management or deferred Shares. The rights and privileges attached to our Shares are stated in the Articles of Association of our Company.

As at the date of this document, the total issued and paid-up capital of our Company is S$45,228,421 comprising 2,638,700,000 Shares. Upon the issue of the New Shares after the completion of the Offering (assuming the Over-allotment Options are not exercised), the issued and paid-up share capital of our Company will increase to S$674.3 million comprising 3,300,897,000 Shares.

Details of the changes in our issued and paid-up capital in the three years prior to the Latest Practicable Date and up to the date of this document and the resultant issued and paid-up share capital immediately after the Offering (assuming that the Over-allotment Options are not exercised) are as follows:

Date	Purpose of issue	Issue price per share (S$)	Number of Shares	Resultant issued share capital (S$)
21 Dec 2005	Issue of shares following incorporation of our Company	1	1	1
10 Nov 2006	Issue of new ordinary shares to the Founder Companies (other than Lido Point Investments Ltd.)	1	7,272	7,273
10 Nov 2006	Issue of new ordinary shares to Lido Point Investments Ltd.	Approx. 5,377	2,727	14,670,421
			10,000	14,670,421
12 March 2007 . . .	Sub-division	—	2,510,000,000	14,670,421
17 March 2007 . . .	Issue of new ordinary shares pursuant to the Conversion	0.2374	128,700,000	45,228,421
17 March 2007 . . .	Pre-Offering share capital	—	2,638,700,000	45,228,421
18 April 2007	New Shares issued pursuant to the Offering	0.95	662,197,000	674,315,571[(1)]

(1) Assuming that the 662,197,000 New Shares are issued at the Maximum Offering Price of S$0.95 each.

Our Company has only one class of Shares. The rights and privileges of our Shares are stated in the Articles of Association of our Company. There are no option, founder, management or deferred Shares. The Shares owned by our Directors and Substantial Shareholders are not entitled to any different voting rights from the New Shares.

There has not been any public take-over by a third party in respect of our Shares or by our Company in respect of the shares of another corporation which has occurred between the beginning of the most recent completed financial year and the Latest Practicable Date.

INTERESTS IN SHARES

Our Shareholders and their respective shareholdings in our Company, both direct and deemed, immediately before the Offering (as at the Latest Practicable Date) and immediately after the Offering are set out below:

	Before the Offering (as at the Latest Practicable Date)				After the Offering[1] (assuming the Over-allotment Options are not exercised)				After the Offering[2] (assuming the Over-allotment Options are fully exercised)			
	Direct Interest		Deemed Interest		Direct Interest		Deemed Interest		Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Directors												
Ren Yuanlin[3]	—	—	972,123,000	36.8	—	—	911,123,000	27.6	—	—	883,668,000	26.7
Wang Dong[5]	—	—	684,477,000	25.9	—	—	564,477,000	17.1	—	—	510,466,000	15.4
Xiang Jianjun[6]	—	—	972,123,000	36.8	—	—	911,123,000	27.6	—	—	883,668,000	26.7
Substantial Shareholders other than Directors												
Ren Jinhua[4]	—	—	401,600,000	15.2	—	—	251,600,000	7.6	—	—	184,086,000	5.6
Alexandrian Worldwide Incorporated[7]	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6	—	—
Almond Beach Resources Corporation[8]	401,600,000	15.2	—	—	251,600,000	7.6	—	—	184,086,000	5.6	—	—
Keytone Assets Investment Inc.[9]	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6	—	—
Lido Point Investments Ltd.[10]	684,477,000	25.9	—	—	564,477,000	17.1	—	—	510,466,000	15.4	—	—
Mediterranean Success Group Inc.[11]	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6	—	—
Newyard Worldwide Holdings Ltd[12]	972,123,000	36.8	—	—	911,123,000	27.6	—	—	883,668,000	26.7	—	—
Yu Kebing[13]	—	—	684,477,000	25.9	—	—	564,477,000	17.1	—	—	510,466,000	15.4
Liu Yifang[14]	—	—	401,600,000	15.2	—	—	251,600,000	7.6	—	—	184,086,000	5.6
Cai Zhengshun[15]	—	—	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6
Gao Qiang[16]	—	—	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6
Yu Weiping[17]	—	—	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6
Huang Jialu[18]	—	—	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6
Su Pinhua[19]	—	—	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6
Wang Wenzhen[20]	—	—	150,600,000	5.7	—	—	150,600,000	4.6	—	—	150,600,000	4.6
Strategic Investors												
SEAVI[22]	90,090,000	3.4	—	—	90,090,000	2.7	—	—	90,090,000	2.7	—	—
Asean China Investment Fund L.P.[23]	25,740,000	1.0	—	—	25,740,000	0.8	—	—	25,740,000	0.8	—	—
Gemini Asia[24]	12,870,000	0.5	—	—	12,870,000	0.4	—	—	12,870,000	0.4	—	—
Public	—	—	—	—	993,197,000	30.0	—	—	1,142,177,000	34.6	—	—
Total	2,638,700,000	100.0[21]			3,300,897,000	100.0			3,300,897,000	100.0		

(1) Assuming the Over-allotment Options are not exercised and do not include any Offering Shares that our Shareholders may subscribe for and/or purchase in the Offering.

(2) Assuming the Over-allotment Options are exercised and assuming that none of our existing Shareholders subscribes for and/or purchases any Offering Shares in the Offering.

(3) Ren Yuanlin is deemed to be interested in the Shares held by Newyard Worldwide Holdings Ltd.

(4) Ren Jinhua is deemed to be interested in the Shares held by Almond Beach Resources Corporation.

(5) Wang Dong is deemed to be interested in the Shares held by Lido Point Investments Ltd.

(6) Xiang Jianjun is deemed to be interested in the Shares held by Newyard Worldwide Holdings Ltd.

(7) Shareholders of Alexandrian Worldwide Incorporated are Su Pinhua (50.0%) and Wang Wenzhen (50.0%).

(8) Shareholder of Almond Beach Resources Corporation are Ren Jinhua (70.0%) and Liu Yifang (30.0%).

(9) Shareholders of Keytone Assets Investments Inc. are Cai Zhengshun (50.0%) and Gao Qiang (50.0%).

(10) Shareholders of Lido Point Investments Ltd. are Wang Dong (70.7%), Yu Kebing (20.0%) and Xie Lijun (9.3%).

(11) Shareholders of Mediterranean Success Group are Yu Weiping (50.0%) and Huang Jialu (50.0%).

(12) Shareholders of Newyard Worldwide Holdings Ltd are Ren Yuanlin (70.0%) and Xiang Jianjun (30.0%).

(13) Yu Kebing is deemed to be interested in the Shares held by Lido Point Investments Ltd.

(14) Liu Yifang is deemed to be interested in the Shares held by Almond Beach Resources Corporation.

(15) Cai Zhengshun is deemed to be interested in the Shares held by Keytone Assets Investments Inc.

(16) Gao Qiang is deemed to be interested in the Shares held by Keytone Assets Investments Inc.

(17) Yu Weiping is deemed to be interested in the Shares held by Mediterranean Success Group.

(18) Huang Jialu is deemed to be interested in the Shares held by Mediterranean Success Group.

(19) Su Pinhua is deemed to be interested in the Shares held by Alexandrian Worldwide Incorporated.

(20) Wang Wenzhen is deemed to be interested in the Shares held by Alexandrian Worldwide Incorporated.

(21) This column does not add up to 100.0% due to rounding.

(22) SEAVI, a Strategic Investor, is a collective investment holding company incorporated in the BVI on 24 May 2006 for the purpose of investing in our Company. As at the Latest Practicable Date, it is beneficially owned by SEAVI Advent Equity IV Fund Limited Partnership, SEAVI Advent Asia Fund GmbH & Co. Parallel-KG, Fortis Private Equity Asia N.V., Shun Hing Private Equity Limited, DBS Nominees Pte Ltd, Airject Auto-Care Pte. Ltd. and Prospect Investment Pte Ltd. SEAVI Advent Equity IV Fund Limited Partnership, SEAVI Advent Asia Fund GmbH & Co. Parallel-KG, Fortis Private Equity Asia N.V. and Shun Hing Private Equity Limited are private equity funds managed by SEAVI Advent Corporation Limited. DBS Nominees Pte Ltd, Airject Auto-Care Pte. Ltd. and Prospect Investment Pte Ltd are co-investors in SEAVI Advent Asia Investments (III) Ltd.

(23) Asean China Investment Fund L.P., a Strategic Investor, is an exempted partnership established in the Cayman Islands on 15 May 2003 to make privately negotiated equity-related investments in the Asean-China growth corridor. As at the Latest Practicable Date, the sponsors of the fund are Asian Development Bank, the China Development Bank, the State Secretariat of Economics Affairs of Switzerland, the United Overseas Bank Group, the Japan Asia Investment Co., Ltd and Proparco (the French Investment and Promotion Company for Economic Cooperation). The general partner is UOB Capital Partners LLC which has engaged UOB Venture Management Pte. Ltd. as the investment adviser to Asean China Investment Fund L.P.

(24) Gemini Asia Growth Inc. is a private equity fund incorporated in the BVI and its main shareholders are Toe Teow Heng and Toe Teow Teck who are also directors and shareholders of our financial adviser, ICH Capital.

There is no relationship between our Directors, Executive Officers and substantial Shareholders. Save as disclosed above, none of our Executive Officers and employees has 5.0% or more in the issued and paid-up share capital of our Company after the Offering.

Save as disclosed above, our Company is not directly or indirectly owned or controlled by another corporation, any government or other natural or legal person whether severally or jointly.

On 13 June 2006, pursuant to an investment agreement between (i) our Company, (ii) the Strategic Investors, and (iii) the Key Persons, we issued an aggregate of US$20 million of redeemable convertible notes to the Strategic Investors. On 16 March 2007, the redeemable convertible notes were converted into an aggregate of 128,700,000 Shares (see "— Interests in Shares" for further details). On 16 March 2007, the Founder Companies agreed to make certain cash payments to the Strategic Investors in the event that the market value of the 128,700,000 Shares held by them, based on the Offering price which will be determined on the Price Determination Date (the "IPO Value"), is less than S$50.93 million. The amount of cash payments will be the difference between S$50.93 million and the IPO Value. They have also agreed to make certain other cash adjustments which will be calculated with reference to the average US dollar/RMB exchange rate for the period of five days up to and including the Price Determination Date.

Shares held by our Directors and substantial Shareholders do not carry different voting rights from the Offering Shares.

None of our Directors or Executive Officers intends to subscribe for and/or purchase more than 5.0% of the Offering Shares.

SIGNIFICANT CHANGES IN PERCENTAGE OF OWNERSHIP

Except as disclosed below and in "The Restructuring Exercise", there were no changes in the percentage ownership of our Company held by our Directors and substantial Shareholders since the date of incorporation and up to the Latest Practicable Date.

VENDORS

Details of the existing Shareholders who will be selling Vendor Shares in the Offering are set out below:

		Shares Offered			Before the Offering[1]		After the Offering[2]	
Name	Material Relationship with our Company	Number of Shares	% of issued share capital as at the date of this document	% of issued share capital after the Offering	Number of Shares	%	Number of Shares	%
Almond Beach Corporation[3] .	Substantial Shareholder	150,000,000	5.7	4.5	401,600,000	15.2	251,600,000	7.6
Lido Point Investments Ltd.[4]	Substantial Shareholder	120,000,000	4.5	3.6	684,477,000	25.9	564,477,000	17.1
Newyard Worldwide Holdings Ltd[5]	Substantial Shareholder	61,000,000	2.3	1.8	972,123,000	36.8	911,123,000	27.6

(1) Based on the pre-Offering issued share capital of 2,638,700,000 Shares as at the date of this document.

(2) Based on the post-Offering issued share capital of 3,300,897,000 Shares and assuming the Over-allotment Options are not excercised.

(3) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholder of Almond Beach Resources Corporation consisted of Ren Jinhua (70.0%) and Liu Yifang (30.0%).

(4) Lido Point Investments Ltd. is a BVI company and our Executive Director Wang Dong owns 70.7% of its issued capital and the balance is held by Yu Kebing (20.0%) and Xie Lijun (9.3%).

(5) On 10 November 2006, the date on which our Founder Companies subscribed for new Shares in our Company, the shareholders of Newyard Worldwide Holdings Ltd consisted of Ren Yuanlin (70.0%) and Xiang Jianjun (30.0%).

CHANGE IN CONTROL OF THE COMPANY

To our knowledge, our Company will not be owned or controlled by any corporation (other than as described in "— Interests in Shares") immediately after the completion of the Offering. Other than as described in "— Interests in Shares", our Company is not owned or controlled by any government or other natural or legal person.

We are not currently aware of any arrangements, the operation of which may at a subsequent date result in a change of control of our Company.

SINGAPORE TAXATION

The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of the Shares. It is a discussion of certain tax matters arising under the current tax laws and announced 2007 Budget changes in Singapore and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as at the Latest Practicable Date, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion is limited to a general description of certain tax consequences in Singapore with respect to ownership of the Shares by Singapore investors, and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the Shares.

Prospective investors of the Shares should consult their own tax advisors regarding Singapore tax consequences and other tax consequences of owning, and disposing of, the shares. It is emphasised that neither our Company, the Directors nor any other persons involved in this Offering accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Shares.

Scope of tax

The following discussion describes the material Singapore income tax, capital gains tax, stamp duty, estate duty and GST consequences of the subscription for, ownership, and disposal of the Shares.

Individual income tax

An individual is a tax resident in Singapore in a year of assessment if, in the preceding year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he resides in Singapore.

The following income received in Singapore by non-resident individuals is exempt from Singapore income tax:

(i) all foreign-sourced income; and

(ii) certain Singapore-sourced investment income from financial instruments.

For individual tax residents of Singapore, the income specified in (i) and (ii) above is exempt from tax except where such income is derived through a partnership in Singapore or is derived through carrying on of a trade, business or profession.

Thus, an individual taxpayer is only subject to Singapore income tax on income (other than certain investment income and one-tier dividends which are exempt from tax) accrued in or derived from Singapore, irrespective of whether that person is a resident or non-resident of Singapore.

The tax rate for a resident individual varies according to the individual's circumstances, but is subject to a maximum rate of 20.0%. A non-resident individual is taxed at the tax rate of 20.0%, except that Singapore employment income is taxed at a flat rate of 15.0% or at resident rates, whichever yields a higher tax.

Corporate income tax

A corporate taxpayer is regarded as resident for Singapore tax purposes if its business is controlled and managed in Singapore (for example, if the board of directors meets and conducts the company's business in Singapore).

A Singapore resident corporate taxpayer is subject to Singapore income tax on income accrued in or derived from Singapore, and on foreign-sourced income received or deemed received into Singapore. However, foreign sourced dividends, branch profits and foreign sourced service income received in Singapore by a Singapore resident company are exempt from Singapore tax if certain conditions are met. In addition, one-tier tax exempt dividends received by a resident company are also exempt from Singapore income tax.

A non-resident corporate taxpayer, with certain exceptions, is subject to income tax only on income that is accrued in or derived from Singapore, and on foreign sourced income received in Singapore, subject to certain exceptions. One-tier tax exempt dividends received by a non-resident Singapore company are also exempt from Singapore income tax. There is no withholding tax on dividends paid by a Singapore resident company to non-resident shareholders.

The corporate tax rate is 18.0% with effect from year of assessment 2008 as announced in the 2007 Budget. In arriving at a company's chargeable income, 75.0% of the first S$10,000 of chargeable income (excluding Singapore franked dividends) and 50.0% of up to the next S$290,000 (as announced in the 2007 Budget) are exempt from corporate tax. The remaining chargeable income will be fully taxable at the corporate tax rate of 18.0%.

Dividend distributions

Singapore has replaced its imputation tax system with a one-tier corporate tax system with effect from 1 January 2003, subject to certain transitional rules. The transitional period will end on 31 December 2007 and with effect from 1 January 2008, all companies will be on the one-tier corporate tax system. Under the one-tier corporate tax system, the tax paid by a company is a final tax and the after-tax profits of our Company can be distributed to shareholders as one-tier tax exempt dividends.

If our Company is under the one-tier corporate tax system, our Company may distribute one-tier tax exempt dividends to shareholders. The dividends will be exempt from Singapore income tax in the hands of the shareholders.

Gains on disposal of Shares

Singapore does not impose tax on capital gains. However, gains may be construed to be of an income nature and subject to Singapore income tax if they arise from activities which the Inland Revenue Authority of Singapore (the "IRAS") regards as the carrying on of a trade on business in Singapore.

As such, any profits from the disposal of the Shares, if regarded as capital profit, are not taxable in Singapore unless the seller is regarded by the IRAS as having derived these profits from carrying on a trade or business of dealing in shares in Singapore, in which case, the disposal profits would be taxable as trading profits.

Stamp duty

There is no stamp duty payable on the subscription of the Shares.

In the event that a register of shares is kept in Singapore and where an instrument of transfer is executed in respect of shares registered in such register, stamp duty may be payable on such instrument of transfer at the rate of S$2.00 for every S$1,000 or any part thereof, computed on the consideration or market value of the shares, whichever is higher.

The purchaser is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

The above stamp duty is not applicable to electronic transfers of our Shares through the Central Depository system.

Estate duty

Singapore estate duty is imposed on the value of immovable property situated in Singapore and on movable property, wherever it may be, owned by individuals who are domiciled in Singapore, subject to specific exemption limits. Singapore estate duty is imposed on the value of most immovable property situated in Singapore owned by individuals who at the time of death (on or after 1 January 2002) were not domiciled in Singapore, subject to specific exemption limits. This means that all Singapore movable assets of such persons will be exempt from Singapore estate duty.

Singapore estate duty is payable to the extent that the value of the Shares aggregated with any other dutiable assets exceeds S$600,000. Unless other exemptions apply to the other assets, for example, the separate exemption limit for residential properties, any excess beyond S$600,000 will be taxed as follows:

First S$12,000,000	5.0%
Excess over S$12,000,000	10.0%

Individuals, whether or not domiciled in Singapore, should consult their own tax advisers regarding the Singapore estate duty consequences of their ownership of our Shares.

Goods and services tax ("GST")

The sale of shares to Singapore investors or through SGX-ST is exempt from GST. However, this exemption does not apply to related share transaction costs such as brokerage commissions and clearing fees. Brokerage commissions charged by a GST–registered broker and clearing fees arising from shares traded through SGX-ST will be subject to 5.0% GST (7.0% with effect from 1 July 2007 as announced in the 2007 Budget) in respect of transactions undertaken by Singapore investors and is subject to GST at zero rate in respect of transactions undertaken by overseas investors.

UNITED STATES FEDERAL INCOME TAXATION

The following is a description of the principal US federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of Offering Shares. This description addresses only the US federal income tax considerations of holders that are initial purchasers of Offering Shares pursuant to this Offering and that will hold the Offering Shares as capital assets. Except to the extent set forth below, this description does not address tax considerations applicable to holders that are subject to special tax rules, such as, insurance companies, tax-exempt entities, grantor trusts, holders that hold Offering Shares through partnerships or other pass-through entities, certain financial institutions, dealers or traders in securities or currencies, real estate investment trusts, regulated investment companies, persons that have a "functional currency" other than the US dollar, persons who hold Offering Shares as a position in a "straddle" or as part of a "hedging" or "conversion" transaction for US federal income tax purposes, certain former citizens or long-term residents of the United States, persons who receive Offering Shares as compensation for the performance of services, and holders owning (actually or constructively) ten percent or more (by voting power or value) of the stock of the Company. Moreover, this description does not address the US federal estate and gift or alternative minimum tax consequences of the acquisition, ownership or disposition of Offering Shares.

This description is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the "Code"), existing, proposed and temporary US Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this document. All of the foregoing are subject to change (possibly with retroactive effect) which could affect the tax consequences described herein.

For purposes of this discussion, a "US Holder" is a beneficial owner of Offering Shares, that for US federal income tax purposes is (i) an individual citizen or resident of the United States, (ii) a corporation, or other entity taxable as a corporation for US federal income tax purposes, created in or organised under the laws of the United States or any state or political subdivision thereof, (iii) an estate the income of which is subject to US federal income taxation regardless of its source, or (iv) a trust if such trust validly elects to be treated as a US person for US federal income tax purposes or if (x) a court within the United States is able to exercise primary supervision over its administration and (y) one or more US persons have the authority to control all of the substantial decisions of such trust.

A "Non-US Holder" is a beneficial owner of Offering Shares that is neither a US Holder nor a partnership or other entity that is treated as a partnership for US federal income tax purposes.

If a partnership (or any other entity treated as a partnership for US federal income tax purposes) holds Offering Shares, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to its consequences.

Each prospective purchaser should consult its own tax advisor with respect to the US federal, state, local and foreign tax consequences of acquiring, owning or disposing of Offering Shares.

Internal Revenue Service Circular 230 Disclosure

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to US federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the US Internal Revenue Code. Such description was written to support the marketing of the Offering Shares. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Distributions

Subject to the discussion below under "— Passive foreign investment company considerations", the gross amount of any distribution by the Company of cash or property (other than certain distributions, if any, of Offering Shares distributed pro rata to all shareholders of the Company) with respect to Offering Shares will be includible in income by a US Holder as dividend income to the extent such distributions are paid out of the current or accumulated earnings and profits of the Company as determined under US federal income tax principles. Certain non-corporate US Holders, including individuals, generally may be taxed on such dividends at the lower rates applicable to long-term capital gains for taxable years beginning on or before December 31, 2010 (that is, gains from the sale of capital assets held for more than one year). Eligibility for such preferential rate is also subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the Offering Shares. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate US Holders. Subject to the discussion below under "— passive foreign investment company considerations", to the extent, if any, that the amount of any distribution by the Company exceeds the Company's current and accumulated earnings and profits as determined under US federal income tax principles, it will be treated first as a tax-free return of the US Holder's adjusted tax basis in the Offering Shares and thereafter as capital gain. The Company does not maintain calculations of its earnings and profits under US federal income tax principles. US Holders should therefore assume that any distribution by the Company with respect to the Offering Shares will constitute ordinary dividend income.

Any dividend paid in Singapore dollars (or any currency other than the US dollar) will be included in the gross income of a US Holder in an amount equal to the US dollar value of the Singapore dollar (or, if not in Singapore dollars, the currency in which the dividend was paid) amount on the date of receipt, regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on the date of receipt, a US Holder generally should not be required to recognise foreign currency gain or loss. A US Holder generally will have foreign currency gain or loss if it subsequently disposes of the Singapore dollars (or any currency other than the US dollar). Such foreign currency gain or loss will be ordinary income or loss and US-source income or loss for foreign tax credit purposes. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

Dividends received by a US Holder with respect to the Offering Shares will be treated as foreign source income, which may be relevant in calculating such holder's foreign tax credit limitation. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific categories of income. For this purpose, for taxable years beginning before 1 January 2007, dividend income with respect to your Offering Shares should generally constitute "passive income", or in the case of certain US Holders, "financial services income", and, for taxable years beginning after 31 December 2006, such dividend income should generally constitute "passive category income", or in the case of certain US Holders, "general category income". Further, in certain circumstances, if you have held our Offering Shares for less than a specified minimum period during which you are not protected from risk of loss; or are obligated to make payments related to dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividend income with respect to our Offering Shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances. US Holders should consult their tax advisors regarding the availability of, and limitation on, any such foreign tax credit.

Subject to the discussion below under "— Backup withholding tax and information reporting requirements", a Non-US Holder of Offering Shares generally will not be subject to US federal income or withholding tax on dividends received on Offering Shares, unless such income is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States.

Sale or other disposition of Offering Shares

Subject to the discussion below under "— Passive foreign investment company considerations", a US Holder generally will recognise a gain or loss on the sale or other disposition of Offering Shares equal to the difference between the amount realised on such sale or other disposition and the US Holder's adjusted tax basis in the Offering Shares. Such gain or loss will be a capital gain or loss. In the case of a non-corporate US Holder, including an individual, the maximum marginal rate applicable to such gain will be lower than the maximum marginal rate applicable to ordinary income (other than certain dividends) if such US Holder's holding period for such Offering Shares exceeds one year (that is, such gain is long-term capital gain). Gain or loss, if any, recognised by a US Holder generally will be treated as US source income or loss, as the case may be, for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

The initial tax basis of the Offering Shares to a US Holder will be the US dollar value of the Singapore dollar denominated purchase price. If the Offering Shares are treated as traded on an "established securities market settlement", a cash basis US Holder (or, if it elects, an accrual basis US Holder) will determine the US dollar value of the cost of such Offering Shares by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of US dollars to Singapore dollars and the immediate use of that currency to purchase Offering Shares generally will not result in a foreign currency taxable gain or loss for a US Holder.

With respect to the sale or other disposition of Offering Shares, the amount realised generally will be the US dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis US Holder and (ii) the date of disposition in the case of an accrual basis US Holder. If the Offering Shares are treated as traded on an "established securities market", a cash basis US Holder (or, if it elects, an accrual basis US Holder) will determine the US dollar value of the amount realised by translating the amount received at the spot rate of exchange on the settlement date of the sale. Any subsequent disposition of Singapore dollars (or any currency other than the US dollar) received on the sale or disposition of Offering Shares will be ordinary income or loss and US-source income or loss for foreign tax credit purposes.

Subject to the discussion below under "— Backup withholding tax and information reporting requirements", a Non-US Holder generally will not be subject to US federal income or withholding tax on any gain realised on the sale or exchange of Offering Shares unless (i) such gain is effectively connected with the conduct by such Non-US Holder of a trade or business in the United States or (ii) in the case of any gain realised by an individual Non-US Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive foreign investment company considerations

A non-US corporation is a "passive foreign investment company" (a "PFIC") for US federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) at least 75 percent of its gross income is "passive income" or (ii) at least 50 percent of the gross value of its assets is attributable to assets that produce "passive income" or are held for the production of "passive income". Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. If the stock of a foreign corporation is publicly traded for the taxable year, the asset test is applied using the fair market

value for purposes of measuring such foreign corporation's assets. For purposes of the PFIC asset test, the aggregate fair market value of the assets of a publicly traded foreign corporation is generally treated as being equal to the sum of the aggregate value of the outstanding stock and the total amount of the liabilities of such corporation (the "Market Capitalisation".)

Based on certain estimates of the gross income of the Company, the nature of the Company's business, the expected use for the proceeds of the offering of the Shares and the anticipated Market Capitalisation of the Company, the Company does not believe it will be a PFIC for the taxable year ending 31 December 2007. However, the Company's status in the current and future years will depend on the Company's assets and activities in those years and the actual Market Capitalisation of the Company as determined on the end of each calendar quarter.

The Company has no reason to believe that its assets, activities or Market Capitalisation will change in a manner that would cause it to be classified as a PFIC, but there can be no assurance that the Company will not be considered a PFIC for any taxable year. If the Company were a PFIC, a US Holder of Offering Shares generally would be subject to imputed interest charges and other disadvantageous tax treatment (including the denial of the taxation of dividends at the lower rates applicable to long-term capital gains, as discussed above under "— Distributions") with respect to any gain from the sale or other disposition of, and certain distributions with respect to, the Offering Shares.

Qualified electing fund election and mark-to-market election

Where a company that is a PFIC meets certain reporting requirements, a US Holder can avoid certain adverse PFIC consequences described above by making a "qualified electing fund" ("QEF") election to be taxed currently on its proportionate share of the PFIC's ordinary income and net capital gains. However, the Company does not intend to comply with the necessary accounting and record keeping requirements that would allow a US Holder to make a QEF election with respect to the Company. If the Offering Shares are "regularly traded" on a "qualified exchange," a US Holder may make a mark-to-market election with respect to the Offering Shares. If a US Holder makes the mark-to-market election, for each year in which we are a PFIC, the holder will generally include as ordinary income the excess, if any, of the fair market value of the Offering Shares at the end of the taxable year over their adjusted tax basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted tax basis of the Offering Shares, over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a US Holder makes the election, the holder's tax basis in the Offering Shares will be adjusted to reflect the amount of any such income or loss. Any gain recognised on the sale or other disposition of Offering Shares will be treated as ordinary income. The Company believes that the SGX-ST is a "qualified exchange".

Backup withholding tax and information reporting requirements

US backup withholding tax and information reporting requirements generally will apply to certain payments to non-corporate holders of Offering Shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Offering Shares made within the United States, or by a US payor or US middleman, to a holder of Offering Shares (other than an "exempt recipient", including a corporation, a payee that is not a US person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of the proceeds from the sale or other disposition of Offering Shares, or dividends paid with respect to the Offering Shares, within the United States, or by a US payor or US middleman, to a holder (other than an "exempt recipient") if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such backup withholding tax requirements. The backup withholding tax rate is 28

percent for taxable years through 2010. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against the holder's US federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

The above description is not intended to constitute a complete analysis of all tax consequences relating to ownership of Offering Shares. Prospective investors should consult their own tax advisors concerning the tax consequences of their particular situations.

THE OFFERING

The Offering consists of: (i) the Placement to investors, including institutional and other investors in Singapore and (ii) the Public Offer in Singapore. The indicative size of the Public Offer is 19,864,000 Shares. The closing of the Placement is conditional upon the closing of the Public Offer and vice versa. Shares may be reallocated between the Placement and the Public Offer for example in the event of excess applications in one and a deficit of applications in the other.

The International Underwriters, the Vendors, our Company, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing and Xie Lijun are expected, upon agreement of the Offering Price between the Global Co-ordinator, the Vendors and our Company, to enter into the purchase agreement on or about the Price Determination Date (the "Purchase Agreement"). The Singapore Underwriters, the Vendors, our Company, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing and Xie Lijun have entered into an offer agreement dated 9 April 2007 (the "Offer Agreement") relating to the Public Offer. Subject to the terms and conditions contained in the Purchase Agreement and the Offer Agreement, our Company and the Vendors have agreed (in respect of the Offering Shares under the Offer Agreement) and are expected to agree (in respect of the Offering Shares under the Purchase Agreement) to issue or sell to the Underwriters, and the Singapore Underwriters have agreed (in respect of the Offering Shares under the Offer Agreement) and the International Underwriters are expected to agree (in respect of the Offering Shares under the Purchase Agreement) to subscribe or purchase and/or procure the subscription or purchase of the Offering Shares set forth opposite its name below:–

Singapore Underwriters	Number of Offering Shares under the Offer Agreement
UBS AG, acting through its business group UBS Investment Bank	15,891,200
DBS Bank Ltd.	3,972,800
Total	19,864,000

International Underwriters	Number of Offering Shares under the Purchase Agreement
UBS AG, acting through its business group UBS Investment Bank	826,666,400
DBS Bank Ltd.	146,666,600
Total	973,333,000

Prior to the Offering, there has been no public market for the Offering Shares. The Offering Price will be determined following a book-building process by agreement between our Company, the Vendors and the Global Co-ordinator on the Price Determination Date, which date is subject to change. If for any reason, the Offering Price is not agreed between the Global Co-ordinator, the Vendors and our Company, the Placement and the Public Offer will not proceed. The factors that will be considered in such determination include:

- the indications of interest, in terms of price and quantity, received from institutional investors;
- prevailing market conditions;
- our historical performance;
- estimates of our business potential and earning prospects;
- the market valuation of publicly traded shares of comparable companies; and
- current state of our industry and economy as a whole.

Notice of the Offering Price will be published in one or more major Singapore newspapers, such as *The Straits Times, The Business Times and Lianhe Zaobao*, not more than two calendar days after the Price Determination Date. Neither our Company nor the Vendors can provide you with any assurance that an active trading market will develop for the Offering Shares or that the Offering Shares will trade in the public market after the Offering at or above the Offering Price.

The closing of the Offering is conditional upon certain events including the fulfilment, or waiver by the SGX-ST, of all conditions contained in the letter of eligibility from the SGX-ST for the listing and quotation of our Shares (including the Offering Shares) on the Main Board of the SGX-ST.

Each of our Company and the Vendors will proportionately pay the Underwriters, as compensation for their services in connection with the Offering, a combined underwriting and selling commission (the "Commission") amounting to 2.75% of the total gross proceeds of the Offering (the "Offering Proceeds"). Assuming the Over-allotment Options are not exercised and the Offering Price is the Maximum Offering Price, the Commission will be, on a per Offering Share basis, S$0.03. The amount of the Commission will be less than the amount mentioned above if the Offering Price is lower than the Maximum Offering Price. The Commission will be borne by our Company and the Vendors in the proportion in which the number of Offering Shares offered by each of us and the Vendors pursuant to the Offering bears to the total number of Offering Shares. Our Company and the Vendors may also pay the Global Co-ordinator a discretionary incentive fee. The Financial Adviser will also be paid a fee of 1.0% of the gross proceeds from the Offering and a fee of RMB1,180,000 which will be borne by the Vendors and the Company in the proportion in which the number of Offering Shares offered by each of them pursuant to the Offering bears to the total number of Offering Shares.

Purchasers of our Shares, other than those in the Public Offer, will be required to pay to the Underwriters a brokerage fee of up to 1.0% of the Offering Price, stamp taxes and other similar charges in accordance with the laws and practices of the country of purchase, at the time of settlement.

The Placement

Upon agreement of the Offering Price between the Global Co-ordinator, the Vendors and our Company, the International Underwriters, the Vendors, our Company, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing and Xie Lijun are expected to enter into the Purchase Agreement, under which the International Underwriters are expected to agree, subject to the terms and conditions set forth in that agreement, to subscribe or purchase, and/or procure the subscription or purchase of, Offering Shares being offered in the Placement. The Purchase Agreement may be terminated pursuant to the terms thereof, at any time prior to delivery of the Offering Shares pursuant to the terms of the Purchase Agreement, upon the occurrence of certain events, including, amongst other things, certain *force majeure* events. The International Underwriters are offering the Offering Shares, subject to prior sale, when, as and if issued or sold to and accepted by them, subject to certain conditions precedent including the receipt by the International Underwriters of officer's certificates and legal opinions. The International Underwriters reserve the right to withdraw, cancel or modify such offers and to reject orders in whole or in part. The Global Co-ordinator may make sub-underwriting arrangements in respect of its obligations under the Purchase Agreement, upon such terms and conditions as it deems fit.

Our Company, each of the Vendors, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing and Xie Lijun will agree to indemnify the International Underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the International Underwriters may be required to make in respect of those liabilities. Our Company and each of the Vendors will also agree to reimburse the International Underwriters for certain expenses incurred in connection with the Offering.

The Public Offer

In the Offer Agreement, the Singapore Underwriters have agreed, subject to the terms and conditions set forth in that agreement, to subscribe or purchase and/or procure the subscription or purchase of Offering Shares being offered pursuant to the Public Offer. The Offer Agreement will be terminated upon termination of the Purchase Agreement. The Public Offer is conditional upon the conditions to the Placement set out in the Purchase Agreement being satisfied.

Our Company, each of the Vendors, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing and Xie Lijun have agreed to indemnify the Singapore Underwriters against certain liabilities, including liabilities under the Securities and Futures Act, and to contribute to payments the Singapore Underwriters may be required to make in respect of those liabilities.

Over-allotment Options

In connection with the Offering, our Company, Almond Beach Resources Corporation, Lido Point Investments Ltd. and Newyard Worldwide Holdings Ltd will grant to UBS, on behalf of the International Underwriters, Over-allotment Options exercisable in whole or in part by UBS on one or more occasions from the Listing Date until the earlier of (i) the date falling 30 days from the Listing Date, or (ii) the date when UBS AG, acting through its business group, UBS Investment Bank or its appointed agent has bought, on the SGX-ST, an aggregate of 148,980,000 Shares, representing 15.0% of the total Offering Shares, to undertake stabilising actions, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price, to purchase the Additional Shares (representing not more than 15.0% of the total Offering Shares) at the Offering Price, solely to cover the over-allotment of the Offering Shares, if any.

PRICE STABILISATION

In connection with the Offering, UBS, the Stabilising Manager (or persons acting on behalf of UBS), may over-allot Shares or effect transactions that stabilise or maintain the market price of our Shares at levels that might not otherwise prevail in the open market. Such transactions consist of bids or purchase to peg, fix or maintain the price of the Shares. If the Stabilising Manager creates a short position in the Shares in connection with the Offering, that is, if they sell more than 148,980,000 Offering Shares, the Stabilising Manager may reduce that short position by purchasing Shares in the open market. The Stabilising Manager may also elect to reduce any short position by exercising all or part of the Over-allotment Options described above. Purchases of a security to stabilise the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of these purchases. Such transactions may be effected on the SGX-ST and in other jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulations, including the Securities and Futures Act and any regulations thereunder. The number of Shares that UBS (or persons acting on behalf of UBS) may buy to undertake stabilising action, shall not exceed an aggregate of 148,980,000 Shares representing not more than 15.0% of the total Offering Shares. However, there is no assurance that UBS will undertake stabilisation action. Such transactions may commence on or after the commencement of trading of the Shares on the SGX-ST and, if commenced, may be discontinued at any time and shall not be effected after the earliest of (i) the date falling 30 days from the commencement of trading of the Shares on the SGX-ST, (ii) the date when UBS has bought on the SGX-ST, an aggregate of 148,980,000 Shares representing not more than 15.0% of the total Offering Shares to undertake stabilising action, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price.

None of our Company, the Vendors or the Stabilising Manager makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Shares. In addition, none of our Company, the Vendors or the

Stabilising Manager makes any representation that the Stabilising Manager will engage in such transactions or that such transactions once commenced, will not be discontinued without notice.

SHARE LENDING

In connection with settlement and stabilisation, UBS, as Stabilising Manager, is expected to enter into a share lending agreement (the "Share Lending Agreement") with Newyard Worldwide Holdings Ltd pursuant to which UBS may borrow up to 148,980,000 ordinary shares allowing UBS to settle over-allotments, if any, made in connection with the Offering. If the Stabilising Manager borrows ordinary shares pursuant to the Share Lending Agreement, it will return equivalent securities to Newyard Worldwide Holdings Ltd either through the purchase of Shares in the open market by the Stabilising Manager in the conduct of stabilisation activities or through exercise of the Over-allotment Options by the Stabilising Manager.

SHARES ARE NOT BEING REGISTERED UNDER THE SECURITIES ACT

The Underwriters, directly or through their affiliates, propose to offer the Offering Shares for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S under the Securities Act. The Underwriters will not offer or sell the Offering Shares except:

- within the United States to persons they reasonably believe to be both "qualified institutional buyers" (within the meaning of Rule 144A under the Securities Act) and "qualified purchasers" (within the meaning of Section 2(a)(51) of the Investment Company Act and the rules promulgated thereunder); or
- outside the United States, pursuant to offers and sales to non-US persons within the meaning of Regulation S.

In addition, until the expiration of 40 days after the commencement of this Offering, an offer or sale of the Offering Shares within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Shares sold pursuant to Regulation S may not be offered or resold within the United States or to US persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

Each purchaser of the Offering Shares will be deemed to have made the acknowledgements, representations and agreements as described under "Transfer Restrictions".

DISPOSALS IN THE LOCK-UP PERIOD

Our Company has agreed with the Underwriters that, from the date of the Offer Agreement until the date falling six months from the Listing Date, it will not:

- issue, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any Shares (or any securities convertible into or exercisable or exchangeable for Shares);
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares (or any securities convertible into or exercisable or exchangeable for Shares);

- deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or
- publicly announce any intention to do any of the above,

without the prior written consent of the Global Co-ordinator (which consent shall not be unreasonably withheld or delayed).

Each of Alexandrian Worldwide Incorporated, Almond Beach Resources Corporation, Keytone Assets Investment Inc., Lido Point Investments Ltd., Mediterranean Success Group Inc. and Newyard Worldwide Holdings Ltd (each a "Founder Company" and together the "Founder Companies") has agreed with the Underwriters that from the date of the Offer Agreement until the date falling six months from the Listing Date, will not, without the prior written consent of the Global Co-ordinator:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any of our Shares (or any securities convertible into or exercisable or exchangeable for Shares);
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our Shares (or any securities convertible into or exercisable or exchangeable for Shares);
- deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or
- publicly announce any intention to do any of the above.

This restriction shall apply to all Shares (or any interest therein) held by the foregoing persons as at the date of the Offer Agreement.

Each of Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Cai Zhengshun, Gao Qiang, Yu Weiping, Huang Jialu, Su Pinhua, Wang Wenzhen, Yu Kebing and Xie Lijun (each a "Founder" and together, the "Founders") has agreed with the Underwriters that from the date of the Offer Agreement until the date falling six months from the Listing Date, he/she will not, without the prior written consent of the Global Co-ordinator:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any of his/her shares (or any securities convertible into or exercisable or exchangeable for shares) in a Founder Company;
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of his/her shares in a Founder Company (or any securities convertible into or exercisable or exchangeable for Shares);
- deposit any of his /her shares (or any securities convertible into or exchangeable for shares or which carry rights to subscribe or purchase shares) in a Founder Company in any depository receipt facilities; or
- publicly announce any intention to do any of the above.

This restriction shall apply to all shares (or any interest therein) held by a Founder in a Founder Company as at the date of the Offer Agreement.

Each of SEAVI Advent Asia Investments (III) Ltd., Asean China Investment Fund L.P., Gemini Asia Growth Inc. has agreed with the Underwriters that it, from the date of the Offer Agreement until the date falling six months from the Listing Date, will not, without the prior written consent of the Global Co-ordinator:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, hypothecate or encumber or otherwise transfer or dispose of, directly or indirectly, any of our Shares (or any securities convertible into or exercisable or exchangeable for Shares);
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our Shares (or any securities convertible into or exercisable or exchangeable for Shares);
- deposit any Shares (or any securities convertible into or exchangeable for Shares or which carry rights to subscribe or purchase Shares) in any depository receipt facilities; or
- publicly announce any intention to do any of the above.

The restrictions above do not apply:

- to disposals which are made with the prior written consent of the Global Co-ordinator (which consent may be refused at their absolute discretion);
- (in the case of the Vendors) in respect of the Additional Shares that are sold pursuant to the Over-allotment Options granted by the Vendors to UBS, on behalf of the International Underwriters; and
- to the transfer of Shares by Newyard Worldwide Holdings Ltd as contemplated under the Share Lending Agreement provided that these lock-up restrictions will apply to the Shares returned to Newyard Worldwide Holdings Ltd pursuant to the Share Lending Agreement.

OUR CORPORATE INVESTORS

The corporate placing

We have entered into placing agreements with four investors (the "Corporate Investors") for an aggregate subscription of approximately S$183.2 million of our Offering Shares at the Offering Price. Assuming the Offering Price is the Maximum Offering Price, the total number of Offering Shares subscribed by the Corporate Investors would be 192,819,000 which is approximately 5.8% of the Shares outstanding after the Offering (assuming the Over-allotment Options are not exercised). A S$0.01 decrease from the Maximum Offering Price would increase the number of Offering Shares subscribed by 2,051,000 Offering Shares. Each of the Corporate Investors is independent from our Company.

The Offering Shares to be subscribed by each of the Corporate Investors will not be affected by any reallocation of the Offering Shares from the Placement to the Public Offer in the event of excess applications in the Public Offer.

Our Corporate Investors

We set out below a brief description of our Corporate Investors:

Silver Union Limited

Silver Union Limited has agreed to subscribe for such number of Offering Shares (rounded down to the nearest 1,000) which may be purchased for S$76,325,000 at the Offering Price. Assuming the Offering Price is the Maximum Offering Price, the total number of Offering Shares that Silver

Union Limited would subscribe for would be 80,342,000 Offering Shares, which is approximately 2.4% of the Shares outstanding upon completion of the Offering (assuming the Over-allotment Options are not exercised).

Silver Union Limited is a British Virgin Islands company which was incorporated on 14 January 2004 under the laws of the British Virgin Islands. It was established for investment in offshore portfolio. Silver Union Limited is ultimately owned by GZ Trust Corporation as trustee of a discretionary trust set up for the benefit of Joseph Lau, Luen-hung and certain members of his family.

Lee Kian Soo

Lee Kian Soo has agreed to subscribe for such number of Offering Shares (rounded down to the nearest 1,000) which may be purchased for S$30,530,000 at the Offering Price. Assuming the Offering Price is the Maximum Offering Price, the total number of Offering Shares that Mr Lee would subscribe for would be 32,136,000 Offering Shares, which is approximately 1.0% of the Shares outstanding upon completion of the Offering (assuming the Over-allotment Options are not exercised).

Mr Lee is the Executive Chairman and founder of Ezra Holdings Limited, an integrated offshore support solutions provider for the oil and gas industry, which is listed on the SGX-ST.

Lyndhurst Gain Limited

Lyndhurst Gain Limited has agreed to subscribe for such number of Offering Shares (rounded down to the nearest 1,000) which may be purchased for $$45,795,000 at the Offering Price. Assuming the Offering Price is the Maximum Offering Price, the total number of Offering Shares that Lyndhurst Gain Limited would subscribe for would be 48,205,000 Offering Shares, which is approximately 1.5% of the Shares outstanding upon completion of the Offering (assuming the Over-allotment Options are not exercised).

Lyndhurst Gain Limited is a company incorporated in the British Virgin Islands and is a subsidiary of Kerry Holdings Limited, both of which are members of Kuok Group, the group of companies owned and controlled by Kuok Hock Nien and/or interests associated with him.

Vervain Equity Investment Limited

Vervain Equity Investment Limited has agreed to subscribe for such number of Offering Shares (rounded down to the nearest 1,000) which may be purchased for S$30,530,000. Assuming the Offering Price is the Maximum Offering Price, the total number of Offering Shares that Vervain Equity Investment Limited would subscribe for would be 32,136,000 Offering Shares, which represents approximately 1.0% of the Shares outstanding upon the completion of the Offering (assuming the Over-allotment Options are not exercised).

Vervain Equity Investment Limited is a company incorporated in the British Virgin Islands and is directly owned by Chen Wai Wai Vivien.

Conditions precedent

The subscription obligation of each Corporate Investor is conditional only upon: (i) the Offer Agreement and the Purchase Agreement being entered into and becoming unconditional by no later than the date and time specified in those agreements and (ii) none of the Offer Agreement and the Purchase Agreement having been terminated.

Restrictions on disposals by the Corporate Investors

Each Corporate Investor and its respective investor parent (if any) has agreed that, without the prior written consent of the Global Co-ordinator, it will not, whether directly or indirectly, at any time during the period of three months following the Listing Date, dispose of any Offering Shares (or any Shares or other securities of our Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation) subscribed pursuant to the Offering (or any interest in any company or entity holding any of the Offering Shares), other than transfers to another company which is and will remain wholly owned by the Corporate Investor or its investor parent or, in certain cases, its holding company, such transfer only to be made when the transferee agrees to be subject to the same restrictions on disposals imposed on the Corporate Investor.

OTHER RELATIONSHIPS

The Underwriters and their respective affiliates engage in transactions with, and perform services for, us, the Vendors and the affiliates of the Vendors and may trade in our securities, in the ordinary course of business and have engaged, and may in the future engage, in commercial banking and investment banking transactions with the Vendors and us, for which they have received, and may in the future receive, customary compensation.

Save as disclosed above, we do not have any material relationship with the Underwriters.

PERSONS INTENDING TO PURCHASE IN THE OFFERING

We are not aware of any person who intends to purchase and/or subscribe for more than 5.0% of the Offering Shares pursuant to the Offering.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Offering Shares being offered outside Singapore, or the possession, circulation or distribution of this document or any other material relating to us or the Offering Shares in any jurisdiction where action for the purpose is required. Accordingly, the Offering Shares may not be offered or sold, directly or indirectly, and neither this document nor any other offering material or advertisements in connection with the Offering Shares may be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

DISTRIBUTION

The distribution of this document or any offering material and the offering, sale or delivery of our Shares is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this document or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This document may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

SELLING RESTRICTIONS

Hong Kong

Each of the Underwriters has represented, warranted and agreed, severally and not jointly, that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Offering Shares other than to "potential investors" as defined in the Securities and Futures Ordinance, or in circumstances which do not result in the document being a "prospectus" as

defined in the Companies Ordinance (Cap. 32) of the Laws of Hong Kong of which do not constitute an offer to the public within the meaning of that Ordinance, and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Offering Shares which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted under the securities laws of Hong Kong) other than with respect to the Offering Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong and any rules made under that Ordinance.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of Offering Shares described in this document may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offering Shares that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of Offering Shares may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offering Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offering Shares, as the expression may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The sellers of the Offering Shares have not authorised and do not authorise the making of any offer of Offering Shares through any financial intermediary on their behalf, other than offers made by the Underwriters with a view to the final placement of the Offering Shares as contemplated in this document. Accordingly, no purchaser of the Offering Shares, other than the Underwriters, is authorised to make any further offer of the Offering Shares on behalf of the sellers or the Underwriters.

In connection with this Offering, the Stabilising Manager may over-allot or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the stabilising manager to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

United Kingdom

This document is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Italy

Each Underwriter acknowledges and agrees that the Offering has not been cleared by the Italian Securities Exchange Commission (Commissione Nazionale per le Società la Borsa, the "CONSOB") pursuant to Italian securities legislation and, accordingly, acknowledges and agrees that the Offering Shares may not and will not be offered, sold or delivered, nor may or will copies of the offering document or any other documents relating to the Offering Shares or the offering document be distributed in Italy other than to professional investors (investitori professionali), as defined in Article 31, paragraph 2 of CONSOB Regulation No. 11522 of July 1, 1998, as amended ("Regulation No. 11522") or pursuant to another exemption from the requirements of Articles 94 and seq. of Legislative Decree No. 58 of February 24, 1998 (the "Italian Finance Law") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999 ("Regulation No. 11971") as amended.

Each Underwriter acknowledges and agrees that any offer, sale or delivery of the Offering Shares or distribution of copies of the offering document or any other document relating to the Offering Shares or the offering document in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be:

- made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Legislative Decree No. 385 of September 1, 1993, as mended (the "Italian Banking Law"), the Italian Finance Law, as amended, the Regulation No. 11522, and any other applicable laws and regulations; and
- in compliance with any other applicable notification requirement or limitation which may be imposed upon the offer of shares by CONSOB or the Bank of Italy.;

Any investor purchasing the Offering Shares in the Offering is solely responsible for ensuring that any offer or resale of the Offering Shares it purchased in the Offering occurs in compliance with applicable laws and regulations.

This document and the information contained in this document are intended only for the use of its recipient and are not to be distributed to any third party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this document may rely on it or its content.

In addition to the above (which should continue to apply to the extent not inconsistent with the implementing measures of the Prospectus Directive in Italy), after the implementation of the Prospectus Directive in Italy, the restrictions, acknowledgments and agreements set out under the heading "— European Economic Area" above shall apply to Italy.

Switzerland

The Offering Shares have not been offered or sold, and will not be offered or sold, to any invetors in Switzerland other than on a non-public basis. This document does not constitute a prospectus within the meaning of Article 652a and Article 1156 of the Swiss Code of Obligations (Schweizerisches Obligationenrecht), and neither the Offering nor the Offering Shares has been or will be approved by any Swiss regulatory authority.

Australia

This document does not constitute a prospectus or other disclosure document under the Corporations Act 2001 (Cth) (Australian Corporations Act) and does not purport to include the information required of a disclosure document under the Australian Corporations Act. Any offer in Australia of the Offering Shares under this document may only be made to persons who are "sophisticated investors" (within the meaning of Section 708(8) of the Australian Corporations Act), to "professional investors" (within the meaning of Section of 708(11) of the Australian Corporations Act) or otherwise under exemptions in Section 708 of the Australian Corporations Act, so that it is lawful to offer the Offering Shares without disclosure to investors under Part 6D.2 of the Australian Corporations Act.

Any offer of Offering Shares for on-sale that is received in Australia within 12 months after their issue by the Company or their sale by the Vendors may need prospectus disclosure to investors under Part 6D.2 of the Australian Corporations Act, unless such offer for on-sale in Australia is conducted in reliance on a prospectus disclosure exemption under Section 708 of the Act or otherwise. Any persons acquiring Offering Shares should observe such Australian on-sale restrictions.

United Arab Emirates

Each Underwriter will be deemed to have represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Offering Shares in the United Arab Emirates, except:

- such Offering Share as approved for listing by the Emirates Securities and Commodities Authority, or any other authorized and competent authority appointed with the sole or ancillary role of regulating the financial markets in the UAE, as the case may be;
- in compliance with all applicable laws and regulations of the United Arab Emirates; and
- through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates.

Japan

The Offering Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, no Offering Shares have, directly or indirectly, been offered or sold, and may, directly or indirectly, be offered or sold in Japan or to or for the account of any resident of Japan, except that the Offering Shares may be offered and sold (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (ii) in compliance with the Securities and Exchange Law and any other applicable requirements of Japanese law. As used in this paragraph, "resident of Japan" means any person residing in Japan including any corporation or other entity organised under the laws of Japan.

Due to the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Shares offered and sold in reliance on Rule 144A or Regulation S under the Securities Act.

The Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Underwriter has agreed that, except as permitted by the purchase agreement, it will not offer or sell Shares being offered in this Offering (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the closing date (the "Distribution Compliance Period"), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Shares (other than a sale pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Shares within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Offering Shares are being offered and sold outside of the United States to non-US persons in reliance on Regulation S. The Purchase Agreement provides that the International Underwriters may directly or through their respective United States broker-affiliates arrange for the offer and resale of Offering Shares within the United States only to persons they reasonably believe to be both "qualified institutional buyers" (within the meaning of Rule 144A under the Securities Act) and "qualified purchasers" (within the meaning of Section 2(a)(51) of the Investment Company Act and the rules promulgated thereunder).

In addition, until the expiration of the Distribution Compliance Period, an offer or sale of Shares within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer is made otherwise than pursuant to Rule 144A or another exemption from registration under the Securities Act.

RULE 144A RESTRICTIONS

Each purchaser of Shares in reliance on Rule 144A, by its acceptance of this document and of Shares, will be deemed to have acknowledged, represented to and agreed with the Company, the Vendors and the Underwriters as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) It (A) is both a qualified institutional buyer within the meaning of Rule 144A and a qualified purchaser within the meaning of Section 2(a)(51) of the Investment Company Act and the rules promulgated thereunder, (B) is aware, and each beneficial owner has been advised, that the sale of Shares to it is being made in reliance on Rule 144A and (C) is acquiring such Shares for its own account or for the account of another person who is both a qualified institutional buyer and a qualified purchaser with respect to which the purchaser exercises sole investment discretion, as the case may be.

(2) It understands and agrees that such Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (A) (i) to a person that it and any person acting on its behalf reasonably believes is both a qualified institutional buyer and a qualified purchaser purchasing for its own account or for the account of another person who is both a qualified institutional buyer and qualified purchaser with respect to which it exercises sole investment discretion, as the case may be, in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act or (iii) pursuant

to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available) and (B) in accordance with all applicable securities laws of the States of the United States.

(3) It understands that it may only sell, transfer, assign, pledge, or otherwise dispose of such Shares purchased in the Offering in compliance with the Securities Act and other applicable securities laws (a) within the United States or to a US person if the transferee (i) is a qualified institutional buyer and a qualified purchaser and (ii) prior to any such transaction, executes a US Purchaser's Letter in the form of Appendix H to this document and delivers such letter to us, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, or (b) outside the United States in an offshore transaction complying with the provisions of Regulation S (including, for the avoidance of doubt, a bona fide sale on the SGX-ST); provided that such transferor will notify any subsequent transferee or executing broker, as applicable, of the restrictions that are applicable to the Shares being sold.

(4) It understands that such Shares (to the extent they are in certificated form), unless otherwise determined by us in accordance with applicable law, will bear a legend substantially to the following effect:

THESE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THE COMPANY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US INVESTMENT COMPANY ACT 1940, AS AMENDED (THE "US INVESTMENT COMPANY ACT"). THESE SHARES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHO CERTIFIES IN WRITING IN A FORM ACCEPTABLE TO THE COMPANY THAT (A) IT IS BOTH A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE US SECURITIES ACT (A "QIB") AND A QUALIFIED PURCHASER (WITHIN THE MEANING OF THE US INVESTMENT COMPANY ACT AND THE RULES PROMULGATED THEREUNDER (A "QP"); (B) NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS; AND NOT AN EMPLOYEE BENEFIT, PENSION, PROFIT SHARING OR OTHER RETIREMENT PLAN OR TRUST FUND, IN EACH CASE IN WHICH THE BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE; (C) IT IS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE COMPANY; (D) IT IS ACQUIRING THE SHARES FOR ITS OWN ACCOUNT AS PRINCIPAL, OR FOR THE ACCOUNT OF ONE OR MORE PERSONS WHO ARE ABLE TO MAKE THE REPRESENTATIONS UNDER CLAUSES (A) AND (B) ABOVE AND IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT; (E) IT IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A, OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN; (F) IT DOES NOT INVEST MORE THAN 40% OF ITS TOTAL ASSETS IN THE COMPANY; (G) ITS SHAREHOLDERS, PARTNERS OR OTHER HOLDERS OF EQUITY OR BENEFICIAL INTERESTS ARE NOT ABLE TO DECIDE INDIVIDUALLY WHETHER OR NOT TO PARTICIPATE, OR TO DETERMINE THE EXTENT OF THEIR PARTICIPATION, IN THE INVESTMENT IN THE COMPANY, AND IT IS NOT A DEFINED CONTRIBUTION OR OTHER SIMILAR BENEFIT PLAN THAT ALLOWS PARTICIPANTS TO DETERMINE WHETHER OR HOW MUCH WILL BE INVESTED IN INVESTMENTS ON THEIR BEHALF AND (H) IF IT IS RELYING UPON THE EXCLUSIONS FROM THE DEFINITION OF "INVESTMENT COMPANY" PROVIDED FOR IN SECTION 3(c)(1) OR SECTION 3(c)(7) OF THE US INVESTMENT COMPANY ACT AND WAS NOT FORMED ON OR BEFORE APRIL 30, 1996, IT HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS AS REQUIRED BY THE US INVESTMENT COMPANY ACT, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE US SECURITIES ACT FOR RESALE OF THESE SHARES.

THE COMPANY AND ITS AGENTS SHALL NOT BE OBLIGATED TO RECOGNISE ANY SALE, RESALE OR OTHER TRANSFER OF THIS SECURITY MADE OTHER THAN IN COMPLIANCE WITH THESE RESTRICTIONS. THE COMPANY AND ITS AGENTS MAY REQUIRE ANY PERSON WITHIN THE US OR ANY US PERSON WHO IS REQUIRED UNDER THESE RESTRICTION TO BE A QP BUT WHO IS NOT A QP AT THE TIME IT ACQURIES THIS SECURITY, TO TRANSFER THIS SECURITY IMMEDIATELY TO (1) A PERSON OR ENTITY THAT IS WITHIN THE US OR THAT IS A US PERSON AND IN EACH CASE WHO IS ALSO A QP OR (2) A NON-US PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S.

Prospective purchasers are hereby notified that sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A.

REGULATION S RESTRICTIONS

Each person who purchases Shares outside the United States in reliance on Regulation S under the Securities Act, and each purchaser of such Shares in subsequent resales prior to the end of the Distribution Compliance Period, by its acceptance of this document and of Shares, will be deemed to have acknowledged, represented to and agreed with our Company, the Vendors and the Underwriters as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) It acknowledges (or if it is a broker-dealer, its customer has confirmed to it that such customer acknowledges) that such Shares have not been and will not be registered under the Securities Act.

(2) (A) it is, or at the time such Shares are purchased pursuant to Regulation S will be, the beneficial owner of such Shares, and (i) it is not a US person and it is located outside the United States (within the meaning of Regulation S under the Securities Act) and (ii) it is not an affiliate of our Company or a person acting on behalf of such an affiliate, or (B) it is a broker-dealer acting on behalf of its customer, and its customer has confirmed to it that (i) such customer is, or at the time such Shares are purchased will be, the beneficial owner of such Shares, (ii) such customer is not a US person and it is located outside the United States (within the meaning of Regulation S under the Securities Act) and (iii) such customer is not an affiliate of our company or a person acting on behalf of such an affiliate.

(3) Prior to the expiration of the Distribution Compliance Period, it will not offer, sell, pledge or otherwise transfer such Shares except (A) (i) to a person that it and any person acting on its behalf reasonably believe is a qualified institutional buyer purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A or (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S and (B) in accordance with all applicable securities laws of the States of the United States.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognised by our Company.

Each purchaser of Shares offered in reliance on Regulation S will also be deemed to have represented that it is aware that the SGX-ST is a not "designated offshore securities market" within the meaning of Regulation S.

In addition, each prospective purchaser of Shares, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with our Company, the Vendors and the Underwriters as follows:

(1) that none of our Company, the Vendors, the Underwriters or any person representing our Company, the Vendors or the Underwriters has made any representation or provided any

information to it with respect to our Company, the Vendors or the Offering or sale of the Shares, other than the information contained or incorporated by reference in this document, which document has been delivered to it and upon which it is relying in making its investment decision with respect to the Shares; and it has had access to such financial and other information concerning our Company and the Shares as it has deemed necessary in connection with its decision to purchase the Shares.

(2) that our Company, the Vendors and the Underwriters and others will rely upon the truth and accuracy of the acknowledgments, representations and agreements contained under this section of the document entitled "Transfer Restrictions" and agrees that, if any of the acknowledgments, representations or agreements deemed to have been made by it through its purchase of the Shares are no longer accurate, it shall promptly notify our Company, the Vendors and the J Underwriters; and if it is acquiring any Shares as fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Clearance and settlement

A letter of eligibility has been obtained from the SGX-ST for the listing and quotation of our Shares on the Main Board of the SGX-ST. For the purpose of trading on the SGX-ST, a board lot for our Shares will comprise 1,000 Shares. Upon listing and quotation on the SGX-ST, our Shares will be traded under the book-entry settlement system of the CDP, and all dealings in and transactions of our Shares through the SGX-ST will be effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

The CDP, a wholly-owned subsidiary of the Singapore Exchange Limited, is incorporated under the laws of Singapore and acts as a depository and clearing organisation. The CDP holds securities for its accountholders and facilitates the clearance and settlement of securities transactions between accountholders through electronic book- entry changes in the securities accounts maintained by such accountholders with the CDP.

Our Shares will be registered in the name of the CDP or its nominees and held by the CDP for and on behalf of persons who maintain, either directly or through depository agents, securities accounts with the CDP. Persons named as direct securities account holders and depository agents in the depository register maintained by the CDP, rather than the CDP itself, will be treated, under the Singapore Companies Act and our Articles of Association, as our members in respect of the number of our Shares credited to their respective securities accounts.

Persons holding our Shares in a securities account with the CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will not, however, be valid for delivery pursuant to trades transacted on the SGX-ST, although they will be prima facie evidence of title and may be transferred in accordance with our Articles of Association. A fee of S$10.00 for each withdrawal of 1,000 Shares or less and a fee of S$25.00 for each withdrawal of more than 1,000 Shares will be payable upon withdrawing our Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of S$2.00 (or such other amounts as our Directors may decide) will be payable to our share registrar for each share certificate issued, and stamp duty of S$10.00 is also payable where our Shares are withdrawn in the name of the person withdrawing our Shares, or S$0.20 per S$100.00 or part thereof of the last-transacted price where our Shares are withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on the SGX-ST must deposit with the CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of the CDP, and have their respective securities accounts credited with the number of our Shares deposited before they can effect the desired trades. A fee of S$20.00 is payable upon the deposit of each instrument of transfer with the CDP.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of our Shares sold and the buyer's securities account being credited with the number of our Shares acquired. No transfer stamp duty is currently payable for the transfer of our Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in our Shares on the SGX-ST is payable at the rate of 0.05% of the transaction value, subject to a maximum of S$200.00 per transaction. The clearing fee, instrument of transfer deposit fees and share withdrawal fee are subject to GST of 5.0%

Dealings in our Shares will be carried out in Singapore dollars and will be effected for settlement in the CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the following day. The CDP holds securities on behalf of investors in securities accounts. An investor may open a direct securities account with the CDP or a securities sub-account with a depository agent. A depository agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

Legal matters

Certain legal matters in connection with this Offering will be passed upon for us and the Vendors by White & Case with respect to matters of US federal law. The validity of the Offering Shares and certain legal matters in connection with this Offering will be passed upon for us and the Vendors by Rodyk & Davidson LLP with respect to matters of Singapore law. Certain matters as to PRC law will be passed upon for us and the Vendors by Jingtian & Gongcheng. In rendering its opinion, White & Case may rely as to all matters of Singapore law on Rodyk & Davidson LLP and all matters of PRC law on Jingtian & Gongcheng.

Certain legal matters in connection with this Offering will be passed upon for the Underwriters by Shearman & Sterling LLP, with respect to matters of US federal law and by WongPartnership with respect to matters of Singapore law.

Each of White & Case, Shearman & Sterling LLP, Rodyk & Davidson LLP, WongPartnership and Jingtian & Gongcheng does not make, or purport to make, any statement in this document and is not aware of any statement in this document which purports to be based on a statement made by it, and it makes no representation, express or implied, regarding, and takes no responsibility for, any statement in or omission from this document.

Independent Auditors and Reporting Auditors

Our consolidated financial statements as at and for the three years ended 31 December 2004, 2005 and 2006 included in this Prospectus have been audited by, PricewaterhouseCoopers as stated in their report appearing in this Prospectus. Their separate Report of Examination on the Unaudited Proforma Financial Statements dated 19 March 2007 for the financial year ended 31 December 2006, appearing herein states that they did not audit and do not express an opinion on the unaudited proforma financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in the light of the limited nature of the procedures applied.

For the purposes of complying with the Securities and Futures Act only, PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of, and all references to (i) its name, (ii) its auditor's report dated 19 March 2007 with respect to our consolidated financial statements as at and for the years ended 31 December 2004, 2005 and 2006 (the "Report"), and (iii) its Report on Examination of the Unaudited Proforma Financial Statements dated 19 March 2007 for the financial year ended 31 December 2006 in the form and context which they are respectively included in this Prospectus. A written consent under the Securities and Futures Act is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the Securities Act, which is applicable only to transactions involving securities registered under the Securities Act. As our Shares in the Offering have not and will not be registered under the Securities Act, PricewaterhouseCoopers has not filed a consent under Section 7 of the Securities Act.

For the purposes of offers and sales outside the United States in reliance on Regulation S under the Securities Act, PricewaterhouseCoopers has acknowledged the inclusion herein of, and all references to (i) its name, (ii) its auditor's report dated 19 March 2007 with respect to our consolidated financial statements as at and for the years ended 31 December 2004, 2005 and 2006 (the "Report"), and (iii) its Report on Examination of the Unaudited Proforma Financial Statements dated 19 March 2007 for the financial year ended 31 December 2006 in the form and context which they are respectively included in this Prospectus.

Our Directors currently have no intention of changing the auditors of the various companies in our Group after the listing of our Company on SGX-ST.

INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. None of our Directors or Executive Officers is or was involved in any of the following events:

   (i) during the last 10 years, an application or a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within two years from the date he ceased to be a partner;

   (ii) during the last 10 years, an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within two years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;

   (iii) any unsatisfied judgments against him;

   (iv) a conviction of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;

   (v) a conviction of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware of) for such breach;

   (vi) during the last 10 years, judgment entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part;

   (vii) a conviction in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;

   (viii) disqualification from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;

   (ix) the subject of any order, judgment or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity;

   (x) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of

      (a) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere;

      (b) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere;

      (c) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or

(d) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere,

in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust; and

(xi) the subject of any current or past investigation or disciplinary proceedings, or been reprimanded or issued any warning, by the Authority or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere.

2. Save for the Over-allotment Options, as at the Latest Practicable Date, no person (including a Director or Executive Officer) has been, or is entitled to be, given an option to subscribe for any Shares in or debentures of our Company.

SUBSIDIARIES AND ASSOCIATED COMPANIES

The details of our Group's subsidiaries and associated companies are as follows:

Name	Date and Place of Incorporation/ Principal Place of Business	Principal Activities	Effective Ownership Interest	Issued and Paid up/ Registered Capital
JYS[(1)]	22 December 1999, PRC/No. 38 Shiyugang Road, Jiangyin City (江阴市鲥鱼港路38号)	Shipbuilding	100.0%	RMB110,000,000
JNYS[(2)]	12 May 2005, PRC/Jingjiangyuan District, Jiangyin Economic Development Zone (江阴经济开发区靖江园区)	Shipbuilding	50.2%	RMB518,000,000

(1) The business licence of JYS expires on 7 March 2016.

(2) The business licence of JNYS expires on 11 May 2025.

SHARE CAPITAL

1. Save as disclosed below and in the section on "Share capital and Shareholders", there were no changes in the issued and paid-up capital of our Company and its subsidiaries within the three years preceding the Latest Practicable Date.

Date of Issue	Purpose of Issue and Consideration	Resultant Issued Share Capital (S$'000)
Our Company		
16 March 2007	Conversion of US$20.0 million of convertible notes	45,228

Date of Issue	Purpose of Issue and Consideration	Resultant Registered Capital (RMB'000)
JYS		
22 December 1999	Establishment of JYS	35,733

Date of Issue	Purpose of Issue and Consideration	Resultant Registered Capital (RMB'000)
14 September 2000	First capital increase of the registered capital	80,000
8 March 2004	Second capital increase of the registered capital	110,000
JNYS		
12 May 2005	Establishment of JNYS	242,800
11 May 2006	First capital increase of JNYS	518,000

2. Save as disclosed under "Share capital and Shareholders" and "The Restructuring Exercise", no Shares or debentures were issued or were agreed to be issued by our Company for cash or for a consideration other than cash during the last three years preceding the Latest Practicable Date.

MATERIAL CONTRACTS

The following contracts not being contracts entered into in the ordinary course of business have been entered into by our Company and our subsidiaries within the two years preceding the date of lodgement of this document and are or may be material:

(1) share transfer agreements dated 3 April 2006 between our Company and each of YZJ Union, Runhua Tech, Ren Yuanlin, Wang Dong, Xiang Jianjun, Cai Zhengshun, Huang Jialu, Su Pinhua, Yu Weiping, Gao Qiang by which our Company acquired approximately 72.7% of the equity interest of JYS by our Company for an aggregate consideration of US$24,905,559.77;

(2) share transfer agreement dated 3 April 2006 as supplemented by a supplemental agreement dated 1 July 2006 between our Company and Tongbao (HK) ("Tongbao Agreement") relating to the acquisition of approximately 27.3% of the equity interest of JYS by our Company for a consideration of 2,727 new Shares ("Tongbao Shares") issued to Lido Point Investments Ltd., who is the nominee nominated by Tongbao (HK) to hold the Tongbao Shares, pursuant to the terms of the Tongbao Agreement;

(3) loan agreement dated 13 June 2006 between our Company and Lido Point Investments Ltd., in relation to a loan of US$5.0 million from Lido Point Investments Ltd. to our Company for the purposes of the Restructuring Exercise;

(4) investment agreement dated 13 June 2006 as supplemented by a supplemental agreement dated 16 March 2007 between our Company, Ren Yuanlin, Wang Dong, Xiang Jianjun, Ren Jinhua and the Strategic Investors, pursuant to which SEAVI Advent Asia Investments (III) Ltd., Asean China Investment Fund L.P. and Gemini Asia Growth Inc. subscribed for 20,000,000 convertible notes at US$1.00 per convertible note in the amounts of US$14 million, US$4 million and US$2 million respectively;

(5) loan agreements dated 10 July 2006 between our Company, JYS and Ren Yuanlin, Wang Dong, Xiang Jianjun, Cai Zhengshun, Huang Jialu, Su Pinhua, Yu Weipingand Gao Qiang (the "Lenders") in relation to an aggregate loan amount of US$7,143,568.31 to JYS;

(6) loan agreement dated 10 September 2006 between our Company, JYS, YZJ Union and our Company in relation to a loan of US$15,271,435.48 from YZJ Union to JYS;

(7) loan agreement dated 10 September 2006 between our Company, JYS and Ren Jinhua in relation to a loan of RMB19,764,803.20 from Ren Jinhua to JYS;

(8) (i) entrusted loan agreement dated 27 April 2006 between JYS, Jiangyin Branch of Shanghai Pudong Development Bank and Runhua Tech in relation to the lending of an entrusted loan of RMB30.0 million, (ii) agency agreement dated 27 April 2006 between JYS and Jiangyin

Branch of Shanghai Pudong Development Bank and (iii) share pledge agreement dated 27 April 2006 between Changjiang and Jiangyin Branch of Shanghai Pudong Development Bank;

(9) (i) entrusted loan agreement dated 27 April 2006 between JYS, Jiangyin Branch of Shanghai Pudong Development Bank and Changjiang in relation to the lending of an entrusted loan of RMB20.0 million, (ii) agency agreement dated 27 April 2006 between JYS and Jiangyin Branch of Shanghai Pudong Development Bank and (iii) share pledge agreement dated 27 April 2006 between Changjiang and Jiangyin Branch of Shanghai Pudong Development Bank;

(10) (i) two entrusted loan agreements dated 16 August 2005 and 9 January 2006 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jingjiang City Yuanhang Ship Components Factory in relation to the lending of two entrusted loan of RMB1.0 million each, (ii) agency agreement dated 15 August 2005 between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (iii) master agency agreement dated 9 January 2006 between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (iv) undated master agreement between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (v) personal guarantee agreement dated 15 August 2005 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, Zhao Zhengrong, Shao Huihua and Jiang Wenwei and (vi) property mortgage agreement dated 15 August 2005 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Zhao Zhengrong;

(11) (i) two entrusted loan agreements dated 23 December 2005 and 12 June 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin Jiangyin City Changlong Chemical Fibre Co., Ltd. in relation to the lending of two entrusted loans of RMB5.0 million each, (ii) two agency agreements dated 23 December 2005 and 12 June 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank, (iii) undated personal guarantee agreement between JYS and Jotun Coatings (Hong Kong) Co., Ltd. and (iv) personal guarantee agreement dated 23 December 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin Longyi Recycled Plastics Co., Ltd.;

(12) (i) two entrusted loan agreements dated 26 April 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Shanghai Changliang Investment Development Co., Ltd. in relation to the lending of an entrusted loan of RMB13.0 million and RMB7.57 million respectively and (ii) two property mortgage agreements dated 24 April 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Chang Liang;

(13) (i) entrusted loan agreement dated 14 April 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin City Wufeng Metal Products Co., Ltd. in relation to the lending of an entrusted loan of RMB1.5 million, (ii) agency agreement dated 14 April 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) property mortgage agreement dated 13 April 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development bank and Chen Wenda;

(14) (i) four entrusted loan agreements dated 27 December 2005, 10 April 2006, 12 July 2006 and 14 September 2006 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jingjiang City Fukeda Property Development Co., Ltd. in relation to the lending of four entrusted loans of RMB36.0 million, RMB4.0 million, RMB10.0 million and RMB30.0 million respectively, (ii) four agency agreements dated 27 December 2005, 10 April 2006, 12 July 2006 and 15 September 2006 between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (iii) two master agency agreements dated 27 December 2005 and 10 April 2006 between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank (iv) property mortgage agreement dated 1 September 2006 between Jingjiang Industrial Park Branch of the Shanghai Pudong

Development Bank and Jingjiang City Fukeda Property Development Co., Ltd. (v) two share pledge agreements dated 24 December 2005 and 27 December 2005 between JYS and Lou Jianwen, and Lou Jianwen and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank respectively and (vi) two personal guarantee agreements dated 24 December 2005 and 27 December 2005 between JYS and Lou Jianwen, and JYS, Lou Jianwen and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank respectively;

(15) (i) two entrusted loan agreements dated 8 April 2005 and 8 June 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin City Hualong Plastics Co., Ltd. in relation to the lending of an entrusted loan of RMB5.0 million and RMB3.0 million respectively, (ii) two agency agreements dated 8 April 2005 and 8 June 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) two property mortgage agreements dated 8 April 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin City Hualong Plastics Co., Ltd;

(16) (i) entrusted loan agreement dated 23 January 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Lianyungang Yuhang Shipping and Transport Co., Ltd. in relation to the lending of an entrusted loan of RMB5.0 million, (ii) agency agreement dated 23 January 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank, (iii) property mortgage agreement dated 23 January 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Lianyungang Yuhang Shipping and Transport Co., Ltd. and (iv) personal guarantee agreement dated 23 January 2006 between Sun Junhua, Chen Yongliang and JYS;

(17) (i) entrusted loan agreement dated 12 October 2005 between JYS, Suzhou Branch of China Everbright Bank and Jiangsu Shagang Group Co., Ltd. in relation to the lending of an entrusted loan of RMB200.0 million and (ii) undated master agreement between JYS, Suzhou Branch of China Everbright Bank, Jiangsu Shagang Group Co., Ltd. and the shareholders of Jiangsu Shagang Group Co., Ltd.;

(18) (i) two entrusted loan agreements dated September 2005 and 18 April 2006 between JYS, Suzhou Branch of China Everbright Bank and Nanjing Steel Co., Ltd. in relation to the lending of two entrusted loans of RMB200.0 million and RMB100.0 million respectively, (ii) undated share pledge agreement between JYS and Nanjing Steel Co., Ltd., (iii) counter guarantee agreement dated 16 December 2005 between the Old Shareholders and Nanjing Steel Co., Ltd., (iv) undated master agreement between JYS, Nanjing Steel Co., Ltd., Nanjing Steel Group Co., Ltd. and Suzhou Branch of China Everbright Bank, (v) supplemental agreement dated 28 October 2005 between JYS and Nanjing Steel Co., Ltd. and (vi) supplemental master agreement dated April 2006 between JYS, Nanjing Steel Co., Ltd., Nanjing Steel Group Co., Ltd. and Suzhou Branch of China Everbright Bank;

(19) (i) entrusted loan agreement dated 1 June 2006 between JYS, Taizhou Branch of the China Construction Bank and Taizhou City Development Investment Group Co., Ltd. in relation to the lending of an entrusted loan of RMB200.0 million, (ii) agency agreement dated 1 June 2006 between JYS and Taizhou Branch of the China Construction Bank, (iii) undated supplemental entrusted loan agreement between JYS Taizhou Branch of the China Construction Bank and Taizhou City Development Investment Group Co., Ltd. and (iv) two property mortgage agreements dated 1 June 2006 between JYS and Taizhou City Development Investment Group Co., Ltd.;

(20) (i) three entrusted loan agreements dated 26 December 2005, 16 January 2006 and 8 March 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Zhangjiagang Tax Free Area Zhongyou Taifu Petroleum Co., Ltd. in relation to the lending of three entrusted loans of RMB20.0 million, RMB10.0 million and RMB10.0 million respectively and (ii) three agency agreements dated 26 December 2005, 16 January 2006 and 8 March 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank;

(21) (i) entrusted loan agreement dated 26 July 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin Hongxiang Property Development Co., Ltd. in relation to the lending of an entrusted loan of RMB2.0 million, (ii) agency agreement dated 26 July 2005 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) two property mortgage agreements dated 26 July 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin Hongxiang Property Development Co., Ltd.;

(22) (i) entrusted loan agreement dated 15 April 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin City Kaifeng Plastics Co., Ltd. in relation to the lending of an entrusted loan of RMB5.0 million, (ii) agency agreement dated 15 April 2005 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) property mortgage agreement dated 15 April 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin City Kaifeng Plastics Co., Ltd.;

(23) (i) entrusted loan agreement dated 14 June 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Zhou Yan in relation to the lending of an entrusted loan of RMB6.5 million, (ii) agency agreement dated 14 June 2005 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) property mortgage agreement dated 14 June 2005 between JYS, Zhou Yan and Jiangyin Branch of the Shanghai Pudong Development Bank;

(24) (i) entrusted loan agreement dated 1 August 2005 between JYS, Jiangyin Branch of the China Construction Bank and Jiangsu Changbo Group Co., Ltd. in relation to the lending of an entrusted loan of RMB20.0 million, (ii) agency agreement dated 1 August 2005 between JYS and Jiangyin Branch of the China Construction Bank, (iii) share pledge agreement dated 28 July 2005 between JYS, Guo Shunhua and Xu Zhongjie and (iv) personal guarantee agreement dated 28 July 2005 between JYS, Guo Shunhua and Xu Zhongjie and Jiangyin Branch of the Shanghai Pudong Development Bank;

(25) (i) entrusted loan agreement dated 28 April 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangsu Asian Star Anchor Chain Co., Ltd. in relation to the lending of an entrusted loan of RMB50.0 million, (ii) agency agreement dated 28 April 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) share pledge agreement dated 28 April 2006 between Tao Anxiang and Jiangyin Branch of the Shanghai Pudong Development Bank;

(26) (i) entrusted loan agreement dated 29 April 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Maanshan Properties Co., Ltd. in relation to the lending of an entrusted loan of RMB40.0 million, (ii) agency agreement dated 29 April 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) share pledge agreement dated 29 April 2006 between Liantong and Jiangyin Branch of the Shanghai Pudong Development Bank;

(27) (i) entrusted loan agreement dated 27 July 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin Kangrui Stainless Steel Products Co., Ltd. in relation to the lending of an entrusted loan of RMB5.0 million, (ii) agency agreement dated 27 July 2005 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank, and (iii) personal guarantee agreement dated 27 July 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and the guarantors, Jiangyin Yunting Investment Co., Ltd., Zhu Wei and Li Li;

(28) (i) entrusted loan agreement dated 10 August 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Jiangyin City Chengzhen Construction Development Co., Ltd. in relation to the lending of an entrusted loan of RMB30.0 million, (ii) supplemental entrusted loan agreement dated 10 August 2005 between JYS and Jiangyin City Chengzhen Construction Development Co., Ltd., (iii) entrusted loan agreement dated 17 August 2005 between JYS, Jiangyin Branch of the China Construction Bank and Jiangyin City

Chengzhen Construction Development Co., Ltd. in relation to the lending of an entrusted loan of RMB30.0 million, (iv) agency agreement dated 10 August 2005 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank, (v) two personal guarantee agreements dated 10 August 2005 and 15 August 2005 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Xu Cailiang and (vi) share pledge agreement dated 15 August 2005 between JYS and Xu Cailiang;

(29) (i) entrusted loan agreement dated 29 September 2005 between JYS, Jingjiang City Jingya Property Development Co., Ltd. and Jiangyin Branch of the Shanghai Pudong Development Bank in relation to the lending of an entrusted loan of RMB30.0 million, and (ii) agency agreement dated 29 September 2005 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank and (iii) supplemental property mortgage agreement dated 26 September 2005 between JYS, Jingjiang City Jingya Property Development Co., Ltd. and Jiangyin Branch of the Shanghai Pudong Development Bank;

(30) (i) entrusted loan agreement dated 31 July 2005 between JNYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jiangsu Huajing Assets Management in relation to the lending of an entrusted loan of RMB40.0 million, (ii) supplemental entrusted loan agreement dated 18 August 2005 between JNYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jiangsu Huajing Assets Management, (iii) second supplemental entrusted loan agreement dated 10 November 2005 between JNYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jiangsu Huajing Assets Management, (iv) agency agreement dated 31 July 2005 between JNYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (v) master agency agreement dated 31 July 2005 between JNYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (vi) four undated property mortgage agreements between JNYS and Jingjiang Ferry Management Office, (vii) mortgage agreement dated 31 July 2005 between JNYS and Jingjiang Ferry Management Office, (viii) guarantee agreement dated 31 July 2005 between JNYS, Jingjiang City Natural Water Co., Ltd. and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and (ix) guarantee agreement dated 10 November 2005 between JNYS, Jingjiang City Finance Bureau and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank;

(31) (i) entrusted loan agreement dated 8 December 2006 between JYS, Jiangsu YangGuang Car Co., Ltd. and Jiangyin Branch of the Shanghai Pudong Development Bank in relation to the lending of an entrusted loan of RMB40.0 million, (ii) agency agreement dated 8 December 2006 between JYS and Jiangyin Branch of the Shanghai Pudong Development Bank, (iii) two property mortgage agreements dated 8 December 2006 between JYS, Jiangsu YangGuang Car Co., Ltd. and Jiangyin Branch of the Shanghai Pudong Development Bank and (iv) personal guarantee agreement dated 8 December 2006 between JYS, Jiangyin Branch of the Shanghai Pudong Development Bank and Zhou Yan;

(32) (i) entrusted loan agreement dated 29 November 2006 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jiangsu Zhongrui Roads and Bridges Construction Co., Ltd. in relation to the lending of an entrusted loan of RMB20.0 million, (ii) agency agreement dated 29 November 2006 between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (iii) undated master agency agreement between JYS and Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank, (iv) property mortgage agreement dated 29 November 2006 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Jiangyan City Traffic Construction Investment and Development Co., Ltd. and (v) personal guarantee agreement dated 29 November 2006 between JYS, Jingjiang Industrial Park Branch of the Shanghai Pudong Development Bank and Ge Zhong;

(33) four share transfer agreements dated 1 April 2006 between JYS and JIC in relation to JYS's divestment of its entire equity interests in Sumeida, Zhangjiagang, Runzhou and YZJ Ship Engrg respectively to JIC for an aggregate consideration of RMB24,727,857.95;

(34) Equity Transfer Agreement dated 16 March 2007 between our Company and SEAVI Advent Asia Investments (III) Ltd in relation to the acquisition by our Company of 25.0% of the shareholding interests of JNYS held by SEAVI Advent Asia Investments (III) Ltd;

(35) Consultancy Agreement dated 21 December 2005 between our Company and our Financial Adviser, ICH Capital Pte. Ltd., for the provision of consultancy services in relation to our Group's admission to the Official List of the SGX-ST;

(36) Shareholders' Loan Agreement dated 16 March 2007 between our Company and JNYS in relation to an aggregate loan amount of S$180 million from our Company to JYNYS with an option to our Company to convert the loan to equity in JNYS; and

(37) Shareholders' Loan Agreement dated 16 March 2007 between JNYS and Tianyuan, Shunyuan and Liantong ("MI") in relation to an aggregate loan amount of S$60 million from the MI to JNYS with an option for them to convert the loan to equity in JNYS.

MISCELLANEOUS

1. No expert is employed on a contingent basis by our Company or any of our subsidiaries, has a material interest, whether direct or indirect, in the shares of our Company or our subsidiaries, or has a material economic interest, whether direct or indirect, in our Company, including an interest in the success of the Offering.

2. Save as disclosed under "Note 41 — Events occurring after the balance sheet date" of the Consolidated Financial Statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries for the financial years ended 31 December 2004, 2005 and 2006, the Directors are not aware of any event which has occurred since 31 December 2006 and up to the Latest Practicable Date, which may have a material effect on the financial position and results of our Group.

3. Except as disclosed under "Industry", "Risk factors" and "Management's discussion and analysis of financial condition and results of operations", our financial condition and operations are not likely to be affected by any of the following:

   - known trends or demands, commitments, events or uncertainties that will result in or are reasonably likely to result in our liquidity increasing or decreasing in any material way;
   - material commitments for capital expenditure;
   - unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from operations; and
   - known trends or uncertainties that have had or that we reasonably expect will have a material favorable or unfavorable impact on our revenues or operating income.

   Our Directors are not aware of any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on net sales or revenues, profitability, liquidity or capital resources, or that would cause financial information disclosed in this document to be not necessarily indicative of our future operating results or financial condition.

CONSENTS

1. UBS as the Global Co-ordinator, Sole Bookrunner, Joint Lead Manager, Issue Manager and Underwriter has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references in the form and context which it appears in this document and to act in such capacity in relation to this document.

2. DBS Bank as the Joint Lead Manager and Underwriter has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references in the form and context which it appears in this document and to act in such capacity in relation to this document.

3. Jiangyin Jiyang Certified Public Accountants Co., Ltd. of No. 111 West Wenhua Road, Jiangyin City, this Jiangsu Province, PRC has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references in the form and context which it appears and the inclusion herein of the statements in the "Restructuring Exercise" section in the form and context which they appear in this document and to act in such capacity in relation to this document.

4. Sallmanns (Far East) Limited of 22nd Floor, Shui On Centre, 188 Lockhart Road, Wanchai, Hong Kong have given and have not withdrawn its written consent for the issue of this document with the inclusion herein of its name and references in the form and context which it appears and the inclusion herein of the statements in the "Restructuring Exercise" section in the form and context in which they appear in this document and to act in such capacity in relation to this document.

5. Jingtian & Gongcheng, our legal adviser as to PRC law, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references in the form and context which it appears and the inclusion herein of its opinions in the sections "Business — Properties and fixed assets — Coastline use rights" and "Business — Applicable laws and regulations — PRC laws and regulations" in the form and context in which they are included in this document and to act in such capacity in relation to this document.

6. Clarkson Research Services Limited of St. Magnus House, 3 Lower Thames Street, London, EC3R 6HE, England, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references in the form and context which it appears and the inclusion herein of the section "The International Shipbuilding Industry" in the form and context in which they appear in this document and to act in such capacity in relation to this document.

7. PricewaterhouseCoopers as Independent Auditors and Reporting Auditors has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and references in the form and context which it appears and inclusion of its reports on the consolidated financial statements of the Group and the consolidated financial statements of the Group for the financial years ended 31 December 2004, 2005 and 2006 in Appendix E of this document and the examination of the unaudited proforma financial statements of the Group and the unaudited proforma financial statements of the Group for the year ended 31 December 2006 in Appendix F of this document, in the form and context in which they appear in this document and to act in such capacity in relation to this document.

8. Each of the Underwriters, the Share Registrar and Share Transfer Office, Legal Advisers to our Company as to United States federal law, Legal Advisers to our Company as to Singapore law, Legal Advisers to the Underwriters as to United States federal law, Legal Advisers to the Underwriters as to Singapore law, the Principal Banker and the Receiving Bank does not make, or purport to make, any statement in this document or any statement upon which a statement in this document is based and, to the maximum extent permitted by law, expressly disclaim and take no responsibility for any liability to any person which is based on, or arises out of, the statements, information or opinions in this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at our registered office at 80 Raffles Place #32-01 UOB Plaza 1, Singapore 048624 during normal business hours for a period of six months from the date of registration of this document by the Authority:

(i) the Memorandum and Articles of Association of our Company;

(ii) the material contracts referred to in "— Material contracts";

(iii) Independent Auditors' Report on the Consolidated Financial Statements of the Group and the Consolidated Financial Statements of the Group for the financial years ended 31 December 2004, 2005 and 2006;

(iv) Reporting Auditor's Report on examination of the unaudited proforma financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries and the unaudited proforma financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries for the year ended 31 December 2006;

(v) the letters of consent referred to in paragraphs 1 to 8 in "— Consents";

(vi) Service Agreements referred to in "Management — Service Agreements";

(vii) the valuation reports of Jiangyin Jiyang Certified Public Accountants Co., Ltd. referred to in "The Restructuring Exercise";

(viii) the valuation report of Sallmanns (Far East) Limited referred to in "The Restructuring Exercise";

(ix) the report of Clarkson Research referred to in "Industry";

(x) the audited financial statements of JYS for FY2004, FY2005 and FY2006; and

(xi) the audited financial statements of JNYS for FY2005 and FY2006.

Summary of certain differences between SFRS and US GAAP

The consolidated financial statements and the unaudited proforma financial information of our Group included elsewhere in this document have been presented in accordance with SFRS. Certain differences exist between SFRS and US GAAP that may be material to the financial information herein. The following is a general summary of certain differences between SFRS and US GAAP as applicable to our Group.

The Company is responsible for preparing the summary below. The Company has not prepared a complete reconciliation of the consolidated financial statements and the unaudited proforma financial information and related footnote disclosures between SFRS and US GAAP and has not quantified such differences. This summary should not be construed as exhaustive. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented in the consolidated financial statement and the unaudited proforma financial information. Additionally, no attempt has been made to identify future differences (i.e. differences for standards mandatorily effective after the latest balance sheet in this document) between SFRS and US GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate SFRS and US GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between SFRS and US GAAP that may affect the consolidated financial statement and the unaudited proforma financial information as a result of prescribed changes in accounting standards mandatorily effective from the latest balance sheet in this document. We believe that the application of US GAAP to the consolidated financial statement and the unaudited proforma financial information would or could have a material effect and significant impact upon the financial information as reported under SFRS. In making an investment decision, investors must rely upon their own examination of our Group, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between SFRS and SUS GAAP and how these differences might affect the financial information herein.

CONSOLIDATION

SFRS

Under SFRS, consolidated financial statements should include all subsidiaries and in determining whether a parent/subsidiary relationship exists, the focus is on the concept of the power to control. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Companies acquired (disposed of) are included in (excluded from) consolidation from the date on which control passes. Presently exercisable potential voting rights are also considered in determining whether to consolidate an entity. SFRS requires consolidation of special purpose entities, or SPEs, where the substance of the relationship indicates that an entity controls the SPE.

US GAAP

Under US GAAP, a dual consolidation decision model is required since the issuance of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", or FIN 46, in January 2003, as amended by FIN 46-R in December 2003. All consolidation decisions (including the consolidation of SPEs) should be evaluated under the variable interest and traditional consolidation models. Variable interest entities ("VIEs") in which a parent does not have a controlling voting interest but the parent absorbs the majority of the VIE's expected losses or returns also must be consolidated. Since the introduction of FIN 46 more entities are subject to consolidation than under pre-existing consolidation guidance. Specific criteria exist for the transfer of financial assets to an SPE that is not consolidated.

BUSINESS COMBINATIONS

(a) Cost of acquisition

SFRS

Under SFRS, shares issued as consideration are recorded at their fair value as at the date of the exchange — the date on which the acquirer obtains control over the acquiree's net assets and operations. The published price of a share at the date of exchange is the best evidence of fair value in an active market.

US GAAP

Under US GAAP, shares issued as consideration are measured at their market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The date for measuring the value of marketable securities is not influenced by the need to obtain shareholder or regulatory approval.

(b) Presentation of acquisition

SFRS

Under SFRS, for acquisitions accounted for using the purchase method, SFRS requires the disclosure of names and description of combining entities, date of acquisition, cost of combination, summary of fair values and pre-acquisition values of assets and liabilities acquired, and impact on results and financial position of the acquirer.

US GAAP

US GAAP requires the same disclosures, plus additional disclosures regarding the reasons for the acquisition and the details of the basis for determining the fair value of any shares issued as consideration, as well as the purchase price allocation. Public companies may be required to present unaudited proforma income statement information, as if the acquisition occurred at the beginning of the comparative period.

(c) Intangible asset

SFRS

Under SFRS, an intangible asset is recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Revaluation of intangible assets is permitted under the revaluation model.

US GAAP

An intangible asset is recognised separately from goodwill if it represents contractual or legal rights or is capable of being separated or divided and sold, transferred, licensed, rented or exchanged. Included in the Appendix of FAS 141, "Business Combinations", are examples of intangible assets that meet the criteria for recognition apart from goodwill: marketing-related, customer-related, artistic-related, contract-based or technology-based. Such intangible assets may or may not be recognised under SFRS. Revaluation of intangible assets is not permitted.

(d) **Goodwill/Negative Goodwill**

SFRS

Under SFRS, goodwill represents the excess of the cost of the acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities. Negative goodwill arises when the cost of acquisition is less than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is tested at least annually for impairment or whenever there is an indication that goodwill may be impaired. Negative goodwill is recognised immediately in the income statement.

US GAAP

Under US GAAP, goodwill is recognised as the difference between the cost of the acquisition and the fair value of identifiable assets, liabilities and contingent liabilities. Depending on the potential differences in the cost of acquisition and the fair values of identifiable assets and liabilities as described in items (b) and (c) above, the quantum of recognised goodwill may differ. Goodwill is not amortised but reviewed for impairment at the reporting unit level, at least annually or whenever events or changes in circumstances indicate that the recoverability of the carrying amount should be assessed

If negative goodwill exists after an entity has determined that all acquired assets and assumed liabilities have been identified and properly valued, all acquired assets are then subjected to pro rata reduction, except for (1) financial assets other than investments accounted for by equity method, (2) assets to be disposed of by sale, (3) deferred taxes, (4) prepaid assets relating to pension and other retirement benefit plans, and (5) any other current assets. If all eligible assets are reduced to zero, there is no contingent consideration and an amount of negative goodwill still remains, the remaining unallocated negative goodwill must be recognised immediately as an extraordinary gain.

(e) **Minority interests at acquisition**

SFRS

Under SFRS, where an investor acquires less than 100% of a subsidiary, the minority (non-controlling) interest is stated on the investor's balance sheet at the minority's proportion of the net fair value of acquired assets, liabilities and contingent liabilities assumed.

US GAAP

Under US GAAP, the minority interest is valued at its historical book value. Fair values are assigned only to the parent company's share of the net assets acquired.

MINORITY INTEREST

SFRS

Under SFRS, the portion of profit and loss attributable to the minority interest is separately disclosed on the face of the income statement. Minority interest is presented in the consolidated balance sheet within equity, separately from the equity holders.

US GAAP

Under US GAAP, the portion of profit and loss attributable to the minority interest is presented as a component of net income or loss. Minority interest is not considered as part of the stockholder's equity.

IMPAIRMENT OF ASSETS, OTHER THAN GOODWILL AND INDEFINITE-LIVED INTANGIBLES

SFRS

Under SFRS, assets (other than goodwill and indefinite-lived intangibles) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. If there is such an indication, the asset must be tested for impairment. The impairment loss is the difference between the asset's carrying amount and its recoverable amount. The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. Value in use is the future cash flows to be derived from the particular asset, discounted to present value using a pre-tax market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset. Impairment of long-lived assets are charged to the profit and loss account as an expense unless the impairment reverses a previous revaluation increase, in which case, it is charged directly against any revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item. Any excess will be charged to the profit and loss account. Reversals of impairment losses are allowed if and only if there has been a change in the estimates used to determine the recoverable amount.

US GAAP

US GAAP requires an impairment loss to be recognised for long-lived assets, including property, plant and equipment where a triggering event occurs and the carrying amount of the asset exceeds the future undiscounted cash flows expected to result from use and eventual disposal of the asset. If it is determined that the asset is impaired, the impairment loss recognised is the difference between the carrying amount of the asset and its fair value, being either market value or the sum of future discounted cash flows. Once such impairments have been recorded, subsequent recoveries are not allowed.

FOREIGN CURRENCY TRANSLATION

SFRS

Under SFRS, the financial statements of all foreign operations are translated into the presentation currency using period-end, period-average and historical rates, respectively, for assets and liabilities, income and equity accounts. Exchange differences arising on translation are recorded in the currency translation reserve accounts.

US GAAP

Under US GAAP, the functional currency of each entity in the Group is determined. If the books and records are not maintained in the functional currency, all transactions denominated in a currency other than the functional currency are first "remeasured" into the functional currency before translating the financial statements of that entity into the currency used to present the financial statements ("reporting currency"). In the remeasurement process, monetary assets and liabilities are translated at the period-end exchange rate, non-monetary assets and liabilities are translated at historical exchange rates and income accounts are translated at period-average exchange rates. Exchange differences on remeasurement are recorded in the income statements. If the reporting currency differs from the functional currency, a further translation is required under US GAAP. The functional currency financial statements are translated into the reporting

currency using period-end, period-average and historical exchange rates, respectively, for assets and liabilities, income and equity accounts. Exchange differences arising on translation are recorded in the currency translation adjustment account.

CONVERTIBLE BONDS AND CONVERTIBLE NOTES

SFRS

Under SFRS, convertible bonds and notes that can be converted to share capital at the option of the holder are accounted for as compound financial instruments, net of attributable transactions costs. "Split accounting" is used whereby the proceeds of issuing debt are allocated between the two components: the equity conversion rights (recognised in equity); and the liability, recognised at fair value calculated by discounting at a market rate for a non-convertible debt (recognised in liabilities).

US GAAP

Under US GAAP, these instruments are recorded as liabilities. For conventional convertible debt, the instrument is treated as one unit and recorded as a liability in its entirety (no recognition is given to the equity component), unless the instrument contains a beneficial conversion feature that requires separation. A conversion option will only be separated from the debt instrument if it meets certain FAS 133 and EITF 00-19 criteria. However, the intrinsic value of a beneficial conversion feature ("BCF") may still need to be recorded in certain circumstances if the conversion option is not required to be separated from the debt instrument.

BORROWING COSTS

SFRS

Under SFRS, specific and general borrowing costs can be capitalised. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset when they are incurred. The choice must be applied consistently. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use or sale. The amount of borrowing costs eligible for capitalisation should be determined in accordance with FRS 23 "Borrowing Costs". To the extent that funds are borrowed specifically for the purpose of obtaining the asset, the amount of borrowing costs eligible for capitalisation should be determined as the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining the asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

US GAAP

Under US GAAP, interest attributable to the construction of fixed assets for the company's own use or for sale or lease must be capitalised during the construction or acquisition period. Interest is capitalisable both on borrowings related to the relevant fixed assets and on borrowings that could have been avoided if expenditures for the assets had not been made. The amount of interest capitalised is determined by applying an interest rate (the capitalisation rate) to the average amount of accumulated expenditures for the asset during the period. The capitalisation rates used shall be based on the rates applicable to the borrowings outstanding during the

period; which may not be specific in nature. Income earned from temporary investment of funds pending their expenditure cannot be offset against the interest capitalised.

DEFERRED TAXES

SFRS

Under SFRS, deferred income taxes are required to be provided in full using the liability method on temporary differences arising between the tax base of an asset or a liability and its carrying amount in the financial statements at any point in time. Deferred tax assets and liabilities arising from temporary differences need to be measured at the rates enacted or substantially enacted by the balance sheet date. Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

US GAAP

Under US GAAP, deferred tax assets and liabilities are recognised for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. A valuation allowance is provided to reduce the amount of deferred tax assets if, in the opinion of management, it is considered more likely than not that some portion of, or all of, the deferred tax asset will not be realised in the future.

INVENTORIES

SFRS

Under SFRS, inventories are carried at the lower of cost or net realisable value. Reversal (limited to the amount of the original write-down) is required for a subsequent increase in value of inventory previously written down.

US GAAP

Under US GAAP, inventories are carried at the lower of cost or net realisable value. Reversal of a write-down is prohibited, as a write-down creates a new cost basis.

DIVIDENDS

SFRS

Under SFRS, final dividends are recorded in the financial period in which the dividends are approved by the shareholders.

US GAAP

Under US GAAP, dividends are recorded as of the date of declaration by the board of directors.

GOVERNMENT GRANTS

SFRS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with attached conditions. Government grants relating to costs, are deferred and taken to the income statements over the period necessary to match them with the costs they are intended to compensate. Government

grants relating to assets are included in non-current liabilities as deferred income and are taken to the income statements on a straight-line basis over the expected useful lives of the related assets.

US GAAP

Similar to SFRS, except when there are conditions attached to the grant. Revenue recognition is delayed until such conditions are met under US GAAP. Contribution of long-lived assets or for the purchase of long-lived assets are reported in the period received.

REVENUE RECOGNITION FOR CONSTRUCTION CONTRACTS

SFRS

Under SFRS, FRS 11 applies to construction contract. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use. The percentage-of-completion method is required for recognising revenue and expenses if the outcome can be measured reliably.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are expected to be recovered. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

SFRS provides limited guidance on the use of estimates and the completed contract method is not permitted.

US GAAP

Under US GAAP, the scope is not limited to construction-type contracts and is also applicable to unit-price and time-and-materials contracts.The percentage-of-completion method is preferred, but the completed contract method can be used in rare circumstances, when the extent of progress towards completion is not reasonably measurable. US GAAP provides detailed guidance on the use of estimates. In the application of the percentage-of-completion method, two different approaches (the revenue approach and gross-profit approach) are allowed. Losses are recognised when incurred or when the expected contract costs exceed the expected contract revenue, regardless of which accounting method is used.

OTHER COMPREHENSIVE INCOME

SFRS

Under SFRS, items of gains and losses that are recognised directly in the shareholders' equity instead of the profit and loss account (e.g. unrealized revaluation gains or losses on land and buildings and foreign exchange translation difference) can be presented either in the notes or separately highlighted within the primary statements of changes in equity.

US GAAP

Under US GAAP, SFAS No. 130 "Reporting Comprehensive Income", requires the reporting of comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements.

Comprehensive income is composed of two subsets: net income and other comprehensive income ("OCI"). Items reported should be accumulated in a separate "accumulated OCI" component of shareholders' equity. Accumulated OCI comprises foreign currency cumulative translation adjustment, unrealized gains (losses) on available for sale securities, minimum pension liability and the effective portion of the change in the fair value of cash flow and net investment hedge under SFAS No. 133 related to other comprehensive income items. Items reported should be accumulated.

PERFORMANCE GUARANTEES

SFRS

Under SFRS, performance guarantees are treated as contingent liabilities and disclosed in the financial statements as it is not anticipated that material liabilities will arise from the contingent liabilities.

US GAAP

Under US GAAP, a guarantor is required to recognise, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

RELATED PARTIES

SFRS

Under SFRS, parties are considered to be related if one party has the ability, directly or indirectly, to exercise significant influence over the party in making financial and operating decisions. Related parties may be individuals or other entities. Parties are also considered to be related if they are subject to common control or common significant influence. Disclosure requirements under SFRS include the relationship, the amounts involved in a transaction, as well as the balances for each major category of related parties.

The compensation of key management personnel is disclosed in total and by category of compensation.

US GAAP

Under US GAAP, there are broader related party relationships disclosure requirements, and the definition of a related party under US GAAP may include some entities that would be not be considered related parties under SFRS, such as principal owners of an enterprise and members of their immediate families.

Disclosure of compensation of key management personnel is not required.

CASH FLOW STATEMENT

SFRS

Under SFRS, interest paid and received and dividends received shall be classified in a consistent manner from period to period as operating, investing or financing cash flows. Under SFRS, the indirect method of presenting the statement of cash flows reconciles profit after tax and after share of results of associated companies, to cash flows from operating activities. Cash and cash equivalents include bank overdrafts.

US GAAP

Under US GAAP, interest paid and interest and dividends received are classified as operating activities. Under US GAAP the reconciliation of cash flows from operating activities under the indirect method begins with net income. Bank overdrafts are not included in cash and cash equivalents and, accordingly, changes in balances of overdrafts are classified as financing cash flows.

NON-GAAP MEASURES

SFRS

There is no specific guidance or prohibition under SFRS regarding the disclosure of non-GAAP measures. In addition, other non-GAAP measures may be disclosed in this document.

US GAAP

Under US GAAP, non-GAAP measures that are not specifically permitted by applicable accounting standards may not be presented in financial statements or related notes. Non-GAAP measures may be presented in financial information accompanying financial statements if the non-GAAP measure is reconciled to the appropriate GAAP measure and disclosure is added explaining the purpose and reason for its inclusion.

"ABS"	:	American Bureau of Shipping
"ACRA"	:	Accounting and Corporate Regulatory Authority
"Act" or "Singapore Companies Act"	:	The Companies Act, Chapter 50, of Singapore (as amended and supplemented from time to time)
"Additional Shares"	:	An aggregate of 148,980,000 Shares that UBS may, pursuant to the Over-allotment Options, purchase from the Vendors
"Application Forms"	:	The printed application forms to be used for the purpose of the Offering and which forms part of the Singapore Prospectus
"Articles of Association"	:	Articles of association of our Company
"Associate(s)"	:	(a) in relation to any director, chief executive officer, controlling or substantial Shareholder (being an individual) means:– (i) his immediate family; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any corporation in which he and his immediate family together (directly or indirectly) have an interest of 30.0% or more; (b) in relation to a substantial or a controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more
"Associated company"	:	In relation to an entity, means: (a) any corporation, other than a subsidiary of the entity, in which: (i) the entity or one or more of its subsidiaries or subsidiary entities has; (ii) the entity, one or more of its subsidiaries and one or more of its subsidiary entities together have; (iii) the entity and one or more of its subsidiaries together have; (iv) the entity and one or more of its subsidiary entities together have; or

(v) one or more of the subsidiaries of the entity and one or more of the subsidiary entities of the entity together have, a direct interest in voting shares of not less than 20.0% but not more than 50.0% of the total votes attached to all voting shares in the corporation; or

(b) any corporation, other than a subsidiary of the entity or a corporation which is an associated company of the entity by virtue of paragraph (a), the policies of which:

(i) the entity or one or more of its subsidiaries or subsidiary entities;

(ii) the entity together with one or more of its subsidiaries and one or more of its subsidiary entities;

(iii) the entity together with one or more of its subsidiaries;

(iv) the entity together with one or more of its subsidiary entities; or

(v) one or more of the subsidiaries of the entity together with one or more of the subsidiary entities of the entity,

is or are able to control or influence materially

"ATM"	:	Automated teller machine of a Participating Bank
"ATM Application"	:	Applications for Offering Shares made through the ATMs of any of the Participating Banks in accordance with the terms and conditions of the instructions booklet entitled "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore"
"Audit Committee"	:	The audit committee of our Company
"Authority or MAS"	:	The Monetary Authority of Singapore
"Bloomberg"	:	Bloomberg L.P.
"Board" or "Board of Directors"	:	Our Company's board of directors
"BV"	:	Bureau Veritas
"BVI"	:	British Virgin Islands
"Carisbrooke Shipping"	:	Carisbrooke Shipping Limited
"CCS"	:	China Classification Society (中国船级社)
"CDP"	:	The Central Depository (Pte) Limited

"Changjiang"	:	Jiangyin Changjiang Investment Group Co., Ltd. (江阴长江投资集团有限公司), a company established in the PRC
"Chongqing Iron and Steel Co., Ltd."	:	重庆钢铁股份有限公司
"Clarkson Research"	:	Clarkson Research Services Limited
"Closing Date"	:	The closing date of the Offering
"Code of Corporate Governance"	:	Code of Corporate Governance 2005 issued in July 2005 by the Ministry of Finance of Singapore
"Commission"	:	The combined underwriting and selling commission to be paid to the Underwriters
"Company" or "YZJ Holdings"	:	Yangzijiang Shipbuilding (Holdings) Ltd. The terms "we", "our", "our Company", or "us" have correlative meanings
"controlling Shareholder"	:	In relation to a corporation, means a person who: (a) holds directly or indirectly 15.0% or more of the nominal amount of all voting shares in the corporation; or (b) in fact exercises control over the corporation
"Conversion"	:	The conversion of the Convertible Notes into 128,700,000 Shares issued to the Strategic Investors on the terms and conditions set out in the Investment Agreement, details of which are set out in the "The Restructuring Exercise" section of this document
"Convertible Notes"	:	The redeemable convertible notes with a face value of US$1.00 each which our Company issued to the Strategic Investors pursuant to the Investment Agreement
"Corporate Investors"	:	Silver Union Limited, Lee Kian Soo, Lyndhurst Gain Limited and Vervain Equity Investment Limited
"CPF"	:	The Central Provident Fund
"DBS Bank"	:	DBS Bank Ltd
"Directors"	:	Our Company's directors as at the date of this document
"DNV"	:	Det Norske Veritas
"Electronic Applications"	:	Applications for the Offering Shares made through ATMs or the IB websites of the relevant Participating Banks in accordance with the terms and conditions of the instructions booklet entitled "Terms, Conditions and Procedures for Application for and Acceptance of the Offering Shares in Singapore"

"entrusted loans"	:	Loans granted to third party enterprises through agent banks. See "Management's Discussion And Analysis Of Financial Condition and Results Of Operations — Entrusted Loans" for further details
"EPS"	:	Earnings per Share
"Executive Directors"	:	The executive Directors of our Group as at the date of this document
"Executive Officers"	:	The executive officers of our Group as at the date of this document
"Existing Yard"	:	The shipyard owned and operated by our subsidiary, JYS, located at 38 Shiyugang Road, Jiangyin City, Jiangsu Province (江苏省江阴市鲥鱼港路38号) of the PRC, on the southern bank of the lower reaches of the Yangtze river upstream from the Jiangyin Changjiang Bridge
"Founder Companies"	:	(i) Alexandrian Worldwide Incorporated, (ii) Almond Beach Resources Corporation, (iii) Keytone Assets Investment Inc., (iv) Lido Point Investments Ltd., (v) Mediterranean Success Group Inc., and (vi) Newyard Worldwide Holdings Ltd, each a "Founder Company"
"Founders"	:	Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Cai Zhengshun, Gao Qiang, Yu Weiping, Huang Jialu, Su Pinhua, Wang Wenzhen, Yu Kebing and Xie Lijun
"FY"	:	Financial year ended or ending 31 December, as the case may be
"Gemini Asia"	:	Gemini Asia Growth Inc.
"GL"	:	Germanisher Lloyd
"Global Co-ordinator"	:	UBS
"Gross Operating Profit"	:	Total revenue less operating expenses, as defined in the relevant management agreement
"Group"	:	Our Company, its subsidiaries and its associated companies
"GST"	:	Singapore goods and services tax
"Hansa"	:	Hansa Shipping Gmbh & Co. KG
"Hudong Heavy Machinery Co., Ltd."	:	沪东重机股份有限公司
"IACS"	:	International Association of Classification Societies
"IB"	:	Internet banking

"ICH Capital" or "Financial Adviser"	:	ICH Capital Pte. Ltd.
"IMO"	:	The International Maritime Organisation
"Independent Directors"	:	The independent Directors of our Company as at the date of this document
"Interested Persons"	:	Our interested persons (namely our directors, chief executive officer or controlling shareholders or the associates (as defined in the Listing Manual) of such directors, chief executive officer or controlling shareholders)
"Investment Agreement"	:	The investment agreement dated 13 June 2006, as amended by the supplemental agreement dated 16 March 2007 between our Company, the Strategic Investors and the Key Persons pursuant to which our Company issued 20,000,000 Convertible Notes to the Strategic Investors on the terms and conditions set out therein, details of which are described in the section titled "The Restructuring Exercise" of this document
"IRAS"	:	Inland Revenue Authority of Singapore
"International Underwriters"	:	DBS Bank and UBS
"JECC"	:	Jiangyin City Xinglong Environmental Cleanliness Engineering Co., Ltd. (江阴市兴隆环境洁净工程有限公司)
"Jiangyin Jiyang Certified Public Accountants Co., Ltd."	:	江阴暨阳会计师事务所有限公司
"JIC"	:	Jiangyin Zezhou Investment Co., Ltd. (江阴泽舟投资有限公司)
"Jintai Steel"	:	Jiangsu Jintai Steel Structure Co., Ltd. (江苏金泰钢结构有限责任公司)
"JNYS"	:	Jiangsu New Yangzi Shipbuilding Co., Ltd. (江苏新扬子造船有限公司)
"JNYS Minority Shareholders"	:	The current shareholders holding the remaining 49.8% shareholding of JNYS, namely Liantong (7.7%), Shunyuan (28.6%) and Tianyuan (13.5%)
"Joint Lead Managers"	:	UBS and DBS Bank
"JYS"	:	Jiangsu Yangzijiang Shipbuilding Co., Ltd. (江苏扬子江船厂有限公司)

"JYS Vendors"	:	Runhua Tech, YZJ Union, Ren Yuanlin, Wang Dong, Xiang Jianjun, Cai Zhengshun, Huang Jialu, Su Pinghua, Gao Qiang and Yu Weiping
"Latest Practicable Date"	:	9 March 2007, being the latest practicable date prior to the lodgment of the Singapore Preliminary Prospectus with the Authority
"Liantong"	:	Jiangyin Liantong Industries Co., Ltd. (江阴联通实业有限公司), a company established in the PRC
"Lido Point"	:	Lido Point Investments Ltd.
"Listing Date"	:	The date of commencement of dealing in our Shares on the SGX-ST
"Listing Manual"	:	Listing manual of the SGX-ST
"LR"	:	Lloyd's Register Society
"Market Day"	:	A day on which the SGX-ST is open for trading in securities
"Maximum Offering Price"	:	S$0.95 for each Offering Share
"Memorandum"	:	Memorandum of association of our Company
"Nanjing Iron & Steel Co., Ltd."	:	南京钢铁股份有限公司
"NAV"	:	Net Asset Value
"New Shares"	:	662,197,000 New Shares offered by our Company in the Offering
"New Yard"	:	The new shipyard currently being constructed within the Jiangyin Economic Development District in Jingjiang city, Jiangsu province of the PRC, on the northern bank of the Yangtze river upstream from the Jiangyin Changjiang Bridge and to be owned and operated by our subsidiary, JNYS, upon completion
"Ningbo Clear Commodity Co., Ltd."	:	宁波清源物资有限公司
"NK"	:	Nippon Kaiji Kyokai
"nm"	:	Not meaningful
"Nominating Committee"	:	The nominating committee of our Company
"Non-Executive Directors"	:	Our Company's non-executive directors
"NTA"	:	Net tangible asset after deduction of minority interests

"Offer Agreement"	:	The offer agreement made between our Company, the Vendors, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing, Xie Lijun and the Singapore Underwriters dated 9 April 2007
"Offering"	:	The Placement and the Public Offer
"Offering Price"	:	The offering price for each Offering Share, which will be determined following a book building process by agreement between the Global Co-ordinator, our Company and the Vendors
"Offering Shares"	:	331,000,000 Shares offered by the Vendors and 662,197,000 Shares offered by our Company
"Old Shareholders"	:	YZJ Union, Runhua Tech, Tongbao (HK), Ren Yuanlin, Wang Dong, Xiang Jianjun, Cai Zhenshun, Huang Jialu, Su Pinhua, Gao Qiang and Yu Weiping
"Over-allotment Options"	:	The options granted to UBS, on behalf of the International Underwriters by the Vendors, exercisable in whole or in part by UBS on one or more occasions from the Listing Date until the earlier of (i) 30 days from the commencement of trading of the Shares on the SGX-ST, or (ii) the date when UBS AG, acting through its business group, UBS Investment Bank or its appointed agent has bought, on the SGX-ST, an aggregate of 148,980,000 Shares, representing 15.0% of the total Offering Shares, to undertake stabilising actions, or (iii) the date falling 30 days after the date of adequate public disclosure of the Offering Price, to purchase up to an aggregate of 148,980,000 Shares (representing not more than 15.0% of the total Offering Shares) at the Offering Price, solely to cover the over-allotment of the Offering Shares, if any
"p.a."	:	per annum
"Participating Banks"	:	DBS Bank (including POSBank), Oversea-Chinese Banking Corporation Limited ("OCBC") and United Overseas Bank Limited and its subsidiary, Far Eastern Bank Limited (the "UOB Group")
"PBT"	:	Profit before tax
"PER"	:	Price earnings ratio
"per cent." or "%"	:	Per centum or percentage
"Perseveranza"	:	Perseveranza SpA di Navigazione
"Peter Döhle"	:	Peter Döhle Schiffahrts KG

"Placement"	:	The international placement of Offering Shares to investors, including institutional and other investors in Singapore
"PRC" or "China"	:	The People's Republic of China, excluding Hong Kong Special Administrative Regions ("SAR"), Macau SAR and Taiwan for the purposes of this document
"Price Determination Date"	:	The date currently expected to be 12 April 2007 on which the Offering Price will be determined following a book-building process by agreement between the Global Co-ordinator, our Company and the Vendors
"Profit-Sharing Scheme"	:	A profit sharing scheme involving certain of our Executive Directors and Executive Officers. See "Management — Executive Officers — Profit-Sharing Scheme"
"Prospectus"	:	The prospectus dated 9 April 2007 circulated to investors in connection with the Public Offer
"Public Offer"	:	An offering to the public in Singapore
"Purchase Agreement"	:	The purchase agreement expected to be entered into between our Company, the Vendors, Ren Yuanlin, Ren Jinhua, Wang Dong, Xiang Jianjun, Liu Yifang, Yu Kebing, Xie Lijun and the International Underwriters
"Receiving Bank"	:	DBS Bank Ltd
"Record Date"	:	The date as at the close of business on which the Shareholders must be registered in order to participate in any dividends, rights, allotments or other distributions
"Regulation S"	:	Regulation S under the Securities Act, amended, modified and supplemented from time to time
"related corporation"	:	In relation to a corporation, where a corporation: (a) is the holding company of another corporation; (b) is a subsidiary of another corporation; or (c) is a subsidiary of the holding company of another corporation, that the first mentioned corporation and that other corporation shall be related to each other In relation to an entity (not being a corporation), means a corporation which is: (a) a subsidiary of the entity; (b) the holding company of the entity; or (c) a subsidiary of the holding company or holding entity of the entity

"Remuneration Committee"	:	The remuneration committee of our Company
"Restructuring Exercise"	:	The restructuring exercise undertaken by our Group as described in the section titled "The Restructuring Exercise" of this document
"Rickmers"	:	Reederei B. Rickmers GmbH
"RINA"	:	Registro Italiano Navale
"RMB"	:	The lawful currency of the People's Republic of China
"Rule 144A"	:	Rule 144A of the United States Securities Act of 1933
"Runhua Tech"	:	Jiangsu Runhua Technology Investment Co., Ltd. (江苏润华科技投资有限公司), a company established in the PRC
"Runzhou"	:	Jiangsu Province Jiangyin Economic Development Zone Jingjiang Park Runzhou Steel — Structure Engineering Co., Ltd. (江苏省江阴经济开发区靖江园区润舟钢结构工程有限公司), a company established in the PRC
"S$", "Singapore dollars" or "Singapore cents"	:	The lawful currency of the Republic of Singapore
"SAFE"	:	State Administration of Foreign Exchange
"SARS"	:	Severe acute respiratory syndrome
"SCCS"	:	Securities Clearing & Computer Services (Pte) Ltd
"Seaspan"	:	Seaspan Corporation
"SEAVI"	:	SEAVI Advent Asia Investments (III) Ltd
"Securities Account"	:	Securities account maintained by a Depositor with CDP
"Securities Act"	:	United States Securities Act of 1933, as amended
"Securities and Futures Act" or "SFA"	:	The Securities and Futures Act, Chapter 289 of Singapore, as amended, modified or supplemented from time to time
"Service Agreements"	:	The service agreements entered into between our Company and our Executive Directors, namely Ren Yuanlin, Wang Dong and Xiang Jianjun as described in "Management — Service Agreements" of this document
"SFRS"	:	Singapore Financial Reporting Standards
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"Shanghai Sangang Thin Plates Co., Ltd."	:	上海三钢薄板有限责任公司

"Share Split"	:	The sub-division of every one (1) share in the share capital of our Company into 251,000 Shares
"Shareholders"	:	Shareholders holding ordinary shares in the capital of our Company
"Shares"	:	Ordinary shares in the capital of our Company
"Shunyuan"	:	Jiangyin Shunyuan Investment Development Co., Ltd. (江阴顺元投资发展有限公司), a company established in the PRC
Singapore Underwriters	:	DBS Bank and UBS
"SOLAS"	:	The International Convention for Safety Of Life At Sea, 1974
"sq ft"	:	Square feet
"sq m"	:	Square metres
"Strategic Investors"	:	SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P. and Gemini Asia Growth Inc. and, each a "Strategic Investor"
"substantial Shareholder"	:	A person who has an interest or interests in one or more voting shares in our Company and the total votes attached to that share, or those shares, is not less than 5.0% of the total votes attached to all the voting shares of our Company
"Sumeida"	:	Jiangsu Sumeida Ship Engineering Co., Ltd. (江苏苏美达船舶工程有限公司), a company established in the PRC
"Tianyuan"	:	Jiangyin Tianyuan Investment Development Co., Ltd. (江阴市天元投资发展有限公司), a company established in the PRC
"Tongbao (HK)"	:	Tongbao (Hong Kong) Shipping Co., Ltd. (统宝(香港)船务有限公司), a company established in the Hong Kong, PRC
"Tongbao (Shanghai)"	:	Shanghai Tongbao Shipping Co., Ltd. (上海统宝船务有限公司), a company established in the PRC
"UBS"	:	UBS AG, acting through its business group, UBS Investment Bank
"Underwriters"	:	International Underwriters and Singapore Underwriters
"USA"	:	The United States of America

"Vendors"	:	Almond Beach Resources Corporation, Lido Point Investments Ltd., and Newyard Worldwide Holdings Ltd
"Vendor Shares"	:	331,000,000 Shares offered by the Vendors
"YZJ Ship Engrg"	:	Jiangyin Yangzijiang Ship Engineering Co., Ltd. (江阴扬子江船舶工程有限公司), a company established in the PRC
"YZJ Union"	:	Jiangsu Yangzijiang Shipbuilding Co., Ltd. Labour Union (扬子江船厂有限公司工会), the labour union of JYS
"Zeppenfeld"	:	Reederei Horst Zeppenfeld GmbH & Co. KG
"Zhangjiagang"	:	Zhangjiagang Yangzi Ship Dismantling Co., Ltd. (张家港扬子拆船有限公司), a company established in the PRC

Glossary of Technical Terms

To facilitate a better understanding of our business, the following glossary provides a description of some of the technical terms and abbreviations commonly found in our industry. The terms and their assigned meanings may not correspond to standard industry or common meanings, as the case may be, or usage of these terms:

"Aframax"	:	An American Freight Rate Association term indicating the maximum tanker size for African ports which is usually between 80,000 to 105,000 DWT
"AHTS vessels"	:	Anchor Handling Tug Supply vessels, an offshore supply vessel specially designed to provide anchorhandling services and to tow offshore platforms, barges and production modules/vessels
"berth"	:	A place alongside a quay where a vessel may load or discharge its cargo
"CGT"	:	Compensated gross tons. This measure refers to the comparative work content inherent in building the ship. It is based on the gross tonnage, which is modified by a compensation factor relating to the complexity of the building process
"Chemical tankers"	:	A vessel designed to transport chemicals in bulk
"classification society"	:	Worldwide non-governmental, experienced and reputable organisations or groups of professionals, ship surveyors and representatives of offices that promote the safety and protection of the environment of vessels and offshore structures. To do so, such societies set technical rules, confirm that designs and calculations meet these rules, survey vessels and structures during the process of construction and commissioning, and periodically survey vessels to ensure that they continue to meet the rules. Some of these classification societies which are members of IACS includes ABS, BV, CCS, DNV, GL, LR, NK and RINA
"Containerships"	:	Containerships are cargo ships that carry all of their load in truck-size containers, in a technique called containerization
"dock"	:	An enclosed basin surrounded by quays used for berthing and unberthing vessels
"DWT" or "deadweight tonnes"	:	One DWT equals to 1,000 kilogrammes and is a measure of the total load which a vessel can carry, including its cargo, provisions, fuel, stores, bunker, crew and spares

"FPSO vessels"	:	Floating Production, Storage and Offloading vessels, a type of floating tank system used by the offshore oil and gas industry and designed to take all of the oil or gas produced from a nearby platform (s), process it, and store it until the oil or gas can be offloaded onto waiting tankers, or sent through a pipeline
"freeboard"	:	The vertical distance between the top of the hull of a vessel and the waterline
"GT"	:	Gross tons or formerly known as 'gross registered tons'. It refers to the volume enclosed by the ship's hull and superstructure in hundreds of cubic feet
"keel"	:	A structural keel is a large beam around which the hull of a ship is built. The keel runs in the middle of the ship, from the bow to the stern, and serves as the foundation or spine of the structure, providing the major source of structural strength of the hull. The keel is generally the first part of a ship's hull to be constructed
"keel-laying"	:	The placing the keel in the cradle in which a vessel will be built
"kW"	:	Kilowatt, a unit of electrical measure equal to 1,000 watts
"launching"	:	Operation of transferring a vessel from dry land to the water
"LNG"	:	Liquified natural gas
"LPG"	:	Liquified petroleum gas
"Lifting vessels"	:	Vessels which are designed for providing heavy lift capability
"Lighters"	:	Vessels which are designed to unload larger ships when the harbour is too shallow for them to dock
"m.dwt"	:	metric DWT
"MPCV"	:	Multi Purpose Cargo Vessels. A type of ship that is designed to handle and freight different types of mixed cargo such as containers, reefer containers, project cargo, heavy lift cargo, pipes, grain, bulk cargo and dangerous goods
"Panamax"	:	Ships classified as Panamax are of the maximum dimensions that will fit through the locks of the Panama Canal, each of which is 1,000 ft long by 110 ft wide and 85 ft deep. Accordingly, a Panamax ship will usually have dimension of close to 965 ft long (294m), 106 ft wide (32.3m) and a draft of 39.5 ft (12.04m)

"Post-Panamax"	:	Ships larger than Panamax, which do not fit in the Panama Canal
"Rescue and salvage vessels"	:	Ships which are designed for debeaching stranded vessels, providing heavy lift capability from ocean depths, towing other vessels, and manned diving operations
"slipway"	:	A ramp on the shore used for building and repairing ships. They also serve as a means to launch vessels that has been built on the slipway
"TEU"	:	A unit of measurement of the cargo carrying capacity of a containership or carrier. A standard shipping containership is 20 ft long, and therefore equal to one TEU
"tonnage"	:	A measure of the size or cargo capacity of a ship, and a "tonne" or "ton" is a unit of such measure
"VLCC"	:	Very Large Crude Carrier

EXCHANGE CONTROLS

The discussion below is not intended to constitute a complete analysis of all exchange control consequences relating to our operations or business in Singapore and the PRC. Prospective purchasers of our Shares should consult their own legal advisers concerning the exchange control consequences of their particular situations. This description is based on laws, regulations and interpretations now in effect and available as of the date of this document. The laws, regulations and interpretations, however, may change at any time and any change can be retroactive. These laws and regulations are also subject to various interpretations and the relevant authorities or the courts can later disagree with the explanations or conclusions set out below.

Singapore

There are no Singapore governmental laws, decrees, regulations or other legislation that may affect the following:

(a) the import or export of capital, including the availability of cash and cash equivalents for use by our Group; and

(b) the remittance of dividends, interest or other payments to non-resident holders of our Company's securities.

PRC

A summary of the relevant PRC laws and regulations relating to foreign exchange controls is in "Appendix D — Description of relevant PRC laws and regulations".

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Appendix B

DESCRIPTION OF OUR SHARES

The following statements are brief summaries of the rights and privileges of shareholders conferred by the laws of Singapore and the Articles of Association (the "Articles") of our Company. These statements summarise the material provisions of the Articles but are qualified in entirely by reference to the Articles.

Ordinary Shares

All of our Shares are in registered form. We may, subject to the provisions of the Act and the rules of the SGX-ST, purchase our own Shares. However, we may not, except in circumstances permitted by the Act, grant any financial assistance for the acquisition or proposed acquisition of our Shares.

New Shares

New Shares may only be issued with the prior approval in a general meeting of the shareholders of our Company in a general meeting. The aggregate number of Shares to be issued pursuant to such approval may not exceed 50.0% (or such other limit as may be prescribed by the SGX-ST) of our issued share capital for the time being, of which the aggregate number of Shares to be issued other than on a pro-rata basis to our shareholders may not exceed 20.0% (or such other limit as may be prescribed by the SGX-ST) of our issued share capital for the time being. The approval, if granted, will lapse at the conclusion of the annual general meeting following the date on which the approval was granted or the date by which the annual general meeting is required by law to be held, whichever is the earlier. Subject to the foregoing, the provisions of the Act and any special rights attached to any class of shares currently issued and all new Shares are under the control of the board of Directors who may allot and issue the same with such rights and restrictions as it may think fit.

Shareholders

Only persons who are registered in the register of shareholders of our Company and, in cases in which the person so registered is CDP, the persons named as the depositors in the depository register maintained by CDP for the Shares, are recognised as shareholders of our Company. Our Company will not, except as required by law, recognise any equitable, contingent, future or partial interest in any Share or other rights for any Share other than the absolute right thereto of the registered holder of that Share. We may close the register of shareholders for any time or times if we provide the SGX-ST at least ten clear market days' notice. However, the register may not be closed for more than 30 days in aggregate in any calendar year. We typically close the register to determine shareholders' entitlement to receive dividends and other distributions.

Transfer of Shares

There is no restriction on the transfer of fully paid Shares except where required by law or the listing rules or the rules or by-laws of any stock exchange on which our Company is listed. The board of Directors may decline to register any transfer of Shares which are not fully paid Shares or Shares on which we have a lien. Shares may be transferred by a duly signed instrument of transfer in a form approved by any stock exchange on which our Company is listed. The board of Directors may also decline to register any instrument of transfer unless, among other things, it has been duly stamped and is presented for registration together with the Share certificate and such other evidence of title as they may require. We will replace lost or destroyed certificates for Shares if we are properly notified and if the applicant pays a fee which will not exceed $2 and furnishes any evidence and indemnity that the board of Directors may require.

General Meeting of Shareholders

We are required to hold an annual general meeting every year. The Board of Directors may convene an Extraordinary General Meeting whenever it thinks fit and must do so if Shareholders representing not less than 10.0% of the total voting rights of all Shareholders request in writing that such a meeting be held. In addition, two or more Shareholders holding not less than 10.0% of total number of issued shares of our Company (excluding treasury shares) may call a meeting. Unless otherwise required by law or by the Articles, voting at general meetings is by ordinary resolution, requiring an affirmative vote of a simple majority of the votes cast at the meeting. An ordinary resolution suffices, for example, for the appointment of directors. A special resolution, requiring the affirmative vote of at least 75.0% of the votes cast at the meeting, is necessary for certain matters under Singapore law, including voluntary winding up, amendments to the Memorandum of Association and the Articles, a change of the corporate name and a reduction in the share capital. Our Company must give at least 14 days' notice in writing for every general meeting convened for the purpose of passing an ordinary resolution. Special resolutions generally require at least 21 days' notice in writing. The notice must set forth the place, the day and the hour of the meeting and, in the case of special business, the general nature of that business.

Voting Rights

A Shareholder is entitled to attend, speak and vote at any general meeting in person or by proxy. Proxies need not be a Shareholder. A person who holds Shares through the SGX-ST book-entry settlement system will only be entitled to vote at a general meeting as a Shareholder if his name appears on the depository register maintained by CDP 48 hours before the general meeting. Except as otherwise provided in the Articles, two or more shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under the Articles, on a show of hands, every Shareholder present in person and by proxy shall have one vote, and on a poll, every shareholder present in person or by proxy shall have one vote for each Share which he holds or represents. A poll may be demanded in certain circumstances, including by the chairman of the meeting or by any shareholder present in person or by proxy and representing not less than 10.0% of the total voting rights of all shareholders having the right to attend and vote at the meeting or any two shareholders present in person or by proxy and entitled to vote.

Dividend

Our Company may, by ordinary resolution of our Shareholders, declare dividends at a general meeting, but may not pay dividends in excess of the amount recommended by the Board of Directors. We must pay all dividends out of our profits. The Board of Directors may also declare an interim dividend without the approval of our Shareholders. All dividends are paid pro rata among our Shareholders in proportion to the amount paid up on each shareholder's Shares, unless the rights attaching to an issue of any Share provides otherwise. Unless otherwise directed, dividends are paid by cheque or warrant sent through the post to each shareholder at his registered address. Notwithstanding the foregoing, the payment by our Company to CDP of any dividend payable to a Shareholder whose name is entered in the depository register shall, to the extent of payment made to CDP, discharge us from any liability to that Shareholder in respect of that payment.

Bonus and Rights Issues

The Board of Directors may, with approval of our Shareholders at a general meeting, capitalise any reserves and distribute the same as bonus shares credited as paid-up to our Shareholders in proportion to their shareholdings. The Board of Directors may also issue rights to take up additional Shares to Shareholders in proportion to their shareholdings. Such rights are subject to any conditions attached to such issue and the regulations of any stock exchange on which we are listed.

Takeovers

The Securities and Futures Act (Chapter 289) of Singapore and the Singapore Code on Takeovers and Mergers regulate the acquisition of ordinary shares of public companies and contain certain provisions that may delay, deter or prevent a future takeover or change in control of our Company. Any person acquiring an interest, either on his own or together with parties acting in concert with him, in 30.0% or more of the voting shares in our Company must extend a takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Code on Takeovers and Mergers. "Parties acting in concert" include a company and its related and associated companies, a company and its directors (including their relatives), a company and its pension funds, a person and any investment company, unit trust or other fund whose investment such person manages on a discretionary basis, and a financial advisor and its client in respect of shares held by the financial advisor and shares in the client held by funds managed by the financial advisor on a discretionary basis. An offer for consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or parties acting in concert with the offeror within the preceding six months. A mandatory takeover offer is also required to be made if a person holding, either on his own or together with parties acting in concert with him, between 30.0% and 50.0% of the voting rights acquires additional voting shares representing more than 1.0% of the voting shares in any six month period.

Liquidation or Other Return of Capital

If our Company liquidates or in the event of any other return of capital, holders of Shares will be entitled to participate in any surplus assets in proportion to their Shareholdings, subject to any special rights attaching to any other class of shares.

Limitations on Rights to Hold or Vote on Shares

Except as described in "Voting Rights" and "Takeovers" above, there are no limitations imposed by Singapore law or by the Articles on the rights of non-resident Shareholders to hold or vote on Shares.

Minority Rights

The rights of minority shareholders of Singapore-incorporated companies are protected under Section 216 of the Act, which gives the Singapore courts a general power to make any order, upon application by any of our Shareholders, as they think fit to remedy any of the following situations:

(a) the affairs of our Company are being conducted or the powers of the board of Directors are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the Shareholders; or

(b) our Company takes an action, or threatens to take an action, or the Shareholders pass a resolution, or propose to pass a resolution, which unfairly discriminates against, or is otherwise prejudicial to, one or more of the shareholders, including the applicant.

Singapore courts have wide discretion as to the reliefs they may grant and those reliefs are in no way limited to those listed in the Act itself. Without prejudice to the foregoing, Singapore courts may:

(a) direct or prohibit any act or cancel or vary any transaction or resolution;

(b) regulate the conduct of the affairs of our Company in the future;

(c) authorise civil proceedings to be brought in our name, or on our behalf, by a person or persons and on such terms as the court may direct;

(d) provide for the purchase of a minority Shareholder's Shares by the other Shareholders or by our Company and, in the case of a purchase of Shares by our Company, a corresponding reduction of our share capital;

(e) provide that the Memorandum of Association or the Articles be amended; or

(f) provide that our Company be wound up.

Appendix C

SUMMARY OF OUR MEMORANDUM AND ARTICLES OF ASSOCIATION

Our Company is registered with the Accounting and Corporate Regulatory Authority (ACRA) under the registration number 200517636Z.

Memorandum of Association

The Memorandum of Association of our Company states, among others, that the liability of members of our Company is limited.

Our Memorandum of Association sets out the objects for which our Company was formed, including acting as a holding and investment company.

Articles of Association

Reproduced below are extracts from the Articles of Association of our Company relating to, inter alia, the rights, preferences and restrictions on the transferability of our shares and the voting and other rights of our Shareholders, and the borrowing and other powers of our Directors. We have also included provisions from our Articles of Association pertaining to changes in the capital of our Company. The extracts only provide a summary of the above matters, and are qualified in their entirety by our Memorandum and Articles of Association, a copy of which is available for inspection at the registered office of our Company in accordance with paragraph 46 of the section, "General and Statutory Information" of this document.

Provisions relating to transferability of our Shares

Article 28

(1) There shall be no restriction on the transfer of fully paid up shares (except where required by law, the listing rules of any stock exchange upon which the shares of the Company may be listed or the rules and/or bye-laws governing any stock exchange upon which the shares of the Company may be listed) but the Directors may in their discretion decline to register any transfer of shares upon which the Company has a lien and in the case of shares not fully paid-up, PROVIDED ALWAYS THAT in the event of the Directors refusing to register a transfer of shares, they shall within ten market days beginning with the day on which the application for a transfer of shares was made, serve a notice in writing to the applicant stating the facts which are considered to justify the refusal as required by the Statutes.

(2) The Directors may in their sole discretion refuse to register any instrument of transfer of shares unless:

   (a) such fee not exceeding $2.00 as the Directors may from time to time require, is paid to the Company in respect thereof;

   (b) the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid;

   (c) the instrument of transfer is deposited at the Office or at such other place (if any) as the Directors may appoint accompanied by a certificate of payment of stamp duty (if any), the certificates of the shares to which the transfer relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of the person to do so; and

   (d) the instrument of transfer is in respect of only one class of shares.

(3) The provisions in these Articles relating to the transfer of shares shall not apply to any transactions affecting book-entry securities (as defined in the Act).

Article 29

Every transfer shall be in writing in the form approved by the Directors and in the event of the Company being listed on the Singapore Exchange, by the Singapore Exchange. Every instrument of transfer must be in respect of only one class of shares and must be duly stamped in accordance with any applicable law for the time being in force relating to stamp duty and shall be left at the Office accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer.

Article 30

The instrument of transfer of any share shall be executed by or on behalf of both the transferor and the transferee and be witnessed, PROVIDED ALWAYS THAT the Depository shall not be required to sign, as transferee, any transfer form relating to the transfer of shares to it and PROVIDED FURTHER THAT, at the discretion of the Directors, the signature of any other transferee may be dispensed with. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members in respect thereof.

Article 31

The Company shall be entitled to charge a fee not exceeding $2.00 for each instrument of transfer or in the event of the Company being listed on the Singapore Exchange, such other sum as may from time to time be prescribed by the Singapore Exchange on the registration of every transfer.

Article 32

(1) The Directors may decline to register any transfer unless all the preceding requirements are fully complied with. All instruments of transfer which are registered may be retained by the Company.

(2) The Company shall be entitled to destroy all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof, all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof and all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof. It shall conclusively be presumed in favour of the Company that every entry in the Register of Members purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and every share certificate so destroyed was a valid and effective certificate duly and properly cancelled and every other document hereinbefore mentioned so destroyed was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company, Provided always that:–

(a) the provisions aforesaid shall apply only to the destruction of a document in good faith without any notice of any claim (regardless of the parties thereto) to which the document may be relevant;

(b) nothing herein contained shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstances which would not attach to the Company in the absence of this Article; and

(c) references herein to the destruction of any document include references to the disposal thereof in any manner.

Article 33

The registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine; PROVIDED ALWAYS THAT such registration shall not be suspended for more than thirty days in any year.

Provisions relating to voting rights of our Shareholders

Article 65

(1) Subject to any rights or restrictions for the time being attached to any class or classes of shares, and to Article 5, every Member, except the Company as holder of Treasury Shares, present in person and each proxy and each attorney shall have one vote on a show of hands and on a poll, every Member present in person or by proxy shall have one vote for each share which he holds or represents PROVIDED THAT a Depositor shall only be entitled to attend any general meeting and to speak and vote thereat if his name appears on the Depository Register forty-eight hours before the general meeting as a Depositor on whose behalf the Depository holds shares in the Company, the Company being entitled then to deem each such Depositor as holding such number of shares as is actually credited to the Securities Account of the Depositor as at such time, according to the records of the Depository as supplied by the Depository to the Company, or where a Depositor has appointed a proxy, such proxy as representing such number of shares.

(2) Where the shares of the Company are of different monetary denominations, a unit of capital in each such class of shares shall, when reduced to a common denominator, carry the same voting power when such right is exercisable.

Article 66

On a poll a Member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

Article 67

In the case of joint holders of shares, any one of such persons may vote, but if more than one of such persons is present at a meeting, the person whose name stands first on the Register of Members shall alone be entitled to vote.

Article 68

A person of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other legal curator and such last-mentioned persons may give their votes either personally or by proxy.

Article 69

No Member shall be entitled to vote at any general meeting unless all calls presently payable by him in respect of shares held by him in the Company, whether in his own name or in a Securities Account, and whether alone or jointly with any other person, have been paid.

Article 70

(1) A Member may appoint not more than two proxies to attend and vote at the same general meeting. A proxy shall be entitled to vote on a show of hands on any matter at any general meeting.

(2) Where the Member appoints more than one proxy to attend and vote at the same general meeting he shall specify on each instrument of proxy the number of shares in respect of which the appointment is made, failing which, the appointment shall be deemed to be in the alternative.

(3) No instrument appointing a proxy of a Depositor shall be rendered invalid merely by reason of any discrepancy between the Depositor's shareholding specified in the instrument of proxy, or where the same has been apportioned between two proxies the aggregate of the proportions of the Depositor's shareholding they are specified to represent, and the true balance standing to the Securities Account of the Depositor as appears on the Depository Register forty-eight hours before the general meeting. In the event of such discrepancy, the Directors shall be entitled to deem such Proxy to represent the true balance standing to the Securities Account of the Depositor as appears on the Depository Register forty-eight hours before the general meeting, or where two proxies have been appointed by such Depositor, to apportion the said number of shares standing to his Securities Account between the two proxies in the same proportion as specified by the Depositor in appointing the proxies.

(4) A proxy or representative need not be a Member.

(5) The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.

Article 71

The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority shall be deposited at the Office or at such other place in Singapore as is specified for that purpose in the notice convening the meeting not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid PROVIDED THAT the Directors shall be entitled to reject any instrument of proxy lodged by any Depositor whose name does not appear on the Depository Register as a Depositor on whose behalf the Depository holds shares in the Company forty-eight hours before the general meeting at which the proxy is to act.

Article 72

An instrument appointing a proxy or representative shall be in writing in the common form or any other form approved by the Directors and:

(1) in the case of an individual, shall be signed by the appointor or by his attorney; and

(2) in the case of a corporation, shall be either under its common seal or signed by its attorney or by an officer on behalf of the corporation.

Article 73

In the event that forms of proxy are sent to Members of the Company together with any notice of meeting, the accidental omission to include the form of proxy to, or the non-receipt of such form of proxy by any person entitled to receive a notice of meeting shall not invalidate any resolution passed or any proceeding at any such meeting.

Article 74

Any corporation which is a Member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company and such corporation shall for the purposes of these Articles (but subject to the Act) be deemed to be present in person at any such meeting if a person so authorised is present.

Provisions relating to the dividend rights of our Shareholders

Article 35

A person entitled to a share by transmission shall be entitled to receive, and may give a discharge for, any dividends or other moneys payable in respect of the share, but he shall not be entitled in respect of it to receive notice of or to attend or vote at meetings of the Company or, save as aforesaid, to exercise any of the rights or privileges as a Member unless and until he shall become a Member in respect of the share.

Article 109

Subject to any preferential or other special rights for the time being attached to any special class of shares, the profits of the Company which it shall from time to time determine to distribute by way of dividend shall be applied in payment of dividends upon the shares of the Company in proportion to the number of shares held otherwise than in advance of calls, but where shares are partly paid, all dividends must be apportioned and paid proportionately to the amounts paid or credited as paid on the partly-paid shares, and all dividends must be apportioned and paid proportionately to the amounts so paid or credited as paid during any portion or portions of the period in respect of which the dividend is paid, and PROVIDED THAT where a Member is a Depositor, the Company shall be entitled to pay any dividends payable to such Member to the Depository and, to the extent of the payment made to the Depository, the Company shall be discharged from any and all liability in respect of that payment.

Article 110

Subject to the Act, the Directors may, with the sanction of a general meeting, from time to time declare dividends, but no such dividend shall be payable except out of the profits of the Company. The Directors may, if they think fit, from time to time declare and pay to the Members such interim dividends as appear to them to be justified by the position of the Company, and may also from time to time if in their opinion such payment is so justified, pay any preferential dividends which by the terms of issue of any shares are made payable on fixed dates. No higher dividend shall be paid than is recommended by the Directors, and the declaration of the Directors as to the amount of the net profits shall be conclusive.

Article 111

The Directors may deduct from any dividend payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.

Article 112

Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any other company or in any one or more of such ways, and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue

fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

Article 113

The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves, which shall at the discretion of the Directors be applicable for meeting contingencies, or for repairing or maintaining any works connected with the business of the Company, or for equalising dividends, or for distribution by way of special dividend or bonus, or may be applied for such other purposes for which the profits of the Company may lawfully be applied as the Directors may think expedient in the interests of the Company, and pending such application the Directors may employ the sums from time to time so set apart as aforesaid in the business of the Company or invest the same in such securities, other than the shares of the Company, as they may select. The Directors may also from time to time carry forward such sums as they may deem expedient in the interests of the Company.

Article 114

All dividends unclaimed for more than one year after having been declared may be invested or otherwise used by the Directors for the benefit of the Company until claimed, and all dividends unclaimed for at least six years after having been declared may, by resolution of the Directors, be forfeited for the benefit of the Company. If the Depository returns any such dividend or moneys to the Company, the relevant Depositor shall not have any right or claim in respect of such dividend or moneys against the Company if a period of at least six years has elapsed from the date of the declaration of such dividend or the date on which such other moneys are first payable.

Article 115

Every dividend warrant may, unless otherwise directed, be sent by post to the last registered address of the Member entitled thereto, and the receipt of the person, whose name at the date of the declaration of the dividend appears on the Register of Members as the owner of any share or, in the case of joint holders, of any one of such joint holders, shall be a good discharge to the Company for all payments made in respect of such share. No unpaid dividend or interest shall bear interest as against the Company.

Provision relating to the right of our Shareholders to share in our Company's profits

Article 116

(1) The Company in general meeting may at any time and from time to time pass a resolution:–

(a) That any sum not required for the payment or provision of any fixed preferential dividend, and (i) for the time being standing to the credit of any reserve of the Company, including premiums received on the issue of any debentures of the Company, or (ii) being undivided net profits in the hands of the Company, be capitalised, and that such sum be appropriated as capital to and amongst the ordinary shareholders in the proportions in which they would have been entitled thereto if the same had been distributed by way of dividend on the ordinary shares, and in such manner as the resolution may direct, and such resolution shall be effective; and the Directors shall in accordance with such resolution apply such sum in paying up in full any new shares or debentures of the Company on behalf of the ordinary shareholders aforesaid, and appropriate such shares or debentures and distribute the same credited as fully paid up to and amongst such shareholders in the proportions aforesaid in satisfaction of the shares and interests of such shareholders in the said capitalised sum or shall apply such sum or any part thereof on behalf of the shareholders aforesaid in paying up the whole

or part of any uncalled balance which shall for the time being be unpaid in respect of any issued ordinary shares held by such shareholders or otherwise deal with such sum as directed by such resolution.

(b) To issue bonus shares for which no consideration is payable to the Company to the persons registered as holders of shares at the close of business on (i) the date of the ordinary resolution (or such other date as may be specified therein or determined as therein provided), or (ii) in the case of an ordinary resolution passed pursuant to Article 12(2), such other date as the Directors may determine.

(2) In addition to and without prejudice to the power provided for by Article 116(1), the Directors shall have power to issue bonus shares for which no consideration is payable and to capitalise any undivided profits or moneys of the Company not required for the payment or provision of any dividend on any shares entitled to fixed cumulative or non-cumulative dividends (including profits or moneys carried and standing to any reserve or reserves) and to apply such profits or moneys in paying up in full new shares, in each case on terms that such shares shall, upon issue, be held by or for the benefit of participants of any share incentive or option scheme or plan implemented by the Company and approved by the Company in General Meeting and on such terms as the Directors shall think fit.

(3) Where any difficulty arises in respect of any such distribution or bonus issue, the Directors may settle the same as they think expedient, and in particular they may issue fractional certificates, fix the value for distribution of any fully paid-up shares or debentures, make cash payments to any shareholders on the footing of the value so fixed in order to adjust rights, and vest any such shares or debentures in trustees upon such trust for the persons entitled to share in the appropriation and distribution as may seem just and expedient to the Directors. Where deemed requisite a proper contract for the allotment and acceptance of any shares to be distributed as aforesaid shall be delivered to the Registrar of Companies for registration in accordance with the Act and the Directors may appoint any person to sign such contract on behalf of the persons entitled to share in the appropriation and distribution and such appointment shall be effective.

Provision relating to the right of our Shareholders to share in any surplus in the event of liquidation

Article 125

If the Company shall be wound up, the liquidators may, with the sanction of a special resolution, divide among the Members in specie any part of the assets of the Company and any such division may be otherwise than in accordance with the existing rights of the Members, but so that if any division is resolved on otherwise than in accordance with such rights the Members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to Section 306 of the Act. A special resolution sanctioning a transfer or sale to another company duly passed pursuant to the said Section may in like manner authorise the distribution of any shares or other consideration receivable by the liquidators amongst the Members otherwise than in accordance with their existing rights, and any such determination shall be binding upon all the Members subject to the right of dissent and consequential rights conferred by the said Section.

Provisions relating to the liability of our Shareholders to further capital calls by our Company

Article 19

No Member shall be entitled to receive any dividend or to exercise any privilege as a Member until he shall have paid all calls for the time being due and payable on every share held by him and whether alone or jointly with any other person, together with interest and expenses (if any).

Article 20

The Directors may, subject to the provisions of these Articles, from time to time make such calls upon the Members in respect of all moneys unpaid on their shares as they think fit; PROVIDED ALWAYS THAT fourteen days' notice at least is given of each call and each Member shall be liable to pay the amount of every call so made upon him to the persons, by the instalments (if any) and at the times and places appointed by the Directors.

Article 21

A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.

Article 22

The joint holders of a share shall be jointly and severally liable to pay all calls and instalments in respect thereof.

Article 23

If before or on the day appointed for payment thereof a call or instalment payable in respect of a share is not paid, the person from whom the same is due shall pay interest on the amount of the call or instalment at such rate as the Directors shall fix from the day appointed for payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part.

Article 24

Any Member may pay to the Company and the Directors may, if they think fit, receive from any Member willing to advance the same, all or any part of the monies for the time being remaining uncalled on his shares but the monies so paid in advance shall not, whilst carrying interest, confer a right to participate in the profits of the Company.

Article 25

In respect of any monies paid in advance of any call, or so much thereof as exceeds the amount for the time being called up on the shares in respect of which such advance has been made, the Directors may pay or allow such interest as may be agreed between them and such Member, in addition to the dividend payable upon such part of the share in respect of which such advance has been made as is actually called up.

Article 26

Any sum which by the terms of allotment of a share is made payable upon allotment or at any fixed date, shall, for all purposes of these Articles, be deemed to be a call duly made and payable on the date fixed for payment, and in case of non-payment the provisions of these Articles as to payment of interest and expenses, forfeiture and the like, and all the relevant provisions of these Articles, shall apply as if such sum were a call duly made and notified as hereby provided.

Article 27

The Directors may, from time to time, make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and in the time of payment of such calls.

Provision relating to the Company's right of repurchase of its Shares

Article 4

Subject to the provisions of the Act, the Company may purchase or otherwise acquire ordinary shares issued by it on such terms as the Company may think fit and in the manner prescribed by the Act. Unless as permitted under Article 5 hereof, all shares repurchased shall be deemed to be cancelled on purchase or acquisition by the Company. In the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with, the Act.

Provisions relating to the right of our Company to issue shares with preferred, deferred or other special rights or restrictions

Article 6

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine; PROVIDED ALWAYS THAT the total value of issued preference shares shall not at any time exceed the total value of issued ordinary shares of the Company or such other limit as the Listing Manual of the SGX-ST or law may prescribe.

Article 7

Subject to the Act, any preference shares may be issued on the terms that they are, or at the option of the Company are, liable to be redeemed. The Company shall also have the power to issue further preference shares ranking equally with or in priority to any preference shares already issued.

Article 8

(1) Holders of preference shares shall have the same rights as ordinary shareholders as regards receiving notices, reports and balance sheets, and attending general meetings of the Company. They shall have the right to vote at any meeting convened for the purpose of reducing the capital or winding up or sanctioning a sale of the undertaking, or where the proposition to be submitted to the meeting directly affects their rights and privileges, or when the dividends on the preference shares are in arrears of more than six months.

(2) The repayment of preference capital other than redeemable preference capital, or any alteration of preference shareholders' rights, may only be made pursuant to a special resolution of the preference shareholders concerned; PROVIDED ALWAYS THAT where the necessary majority for such a special resolution is not obtained at the meeting, consent in writing, if obtained from the holders of three-fourths of the preference shares concerned within two months of the meeting, shall be as valid and effectual as a special resolution carried at the meeting.

Article 9

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

Provision relating to the modification of the rights of our Shareholders

Article 52

Subject to the provisions of Section 74 of the Act, all or any of the rights, privileges or conditions for the time being attached or belonging to any class of shares for the time being forming part of the share capital of the Company may from time to time be modified, affected, varied, extended or surrendered in any manner with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the Members of that class To any such separate meeting all the provisions of these Articles as to general meetings of the Company shall *mutatis mutandis* apply, but so that the necessary quorum shall be Members of the class holding or representing by proxy one-third of the share capital paid or credited as paid on the issued shares of the class, and every holder of shares of the class in question shall be entitled on a poll to one vote for every such share held by him.

Provisions relating to the voting rights of our Directors

Article 78

Any Director may from time to time and at any time appoint any person (not disapproved by a majority of the other Directors for the time being and who shall not be a person who is already a Director of the Company and who is not already an alternate Director of the Company) to be alternate Director of the Company, and may at any time remove the alternate Director so appointed by him from office. An alternate Director so appointed shall be entitled to receive remuneration from the Company and to receive notices of and attend all meetings of the Directors, and to vote as a Director at any such meeting at which the Director appointing him is not present, and generally in the absence of his appointor to perform all the functions of his appointor as a Director. Any fee paid by the Company to the alternate Director shall be deducted from the remuneration payable to his appointor. All appointments and removals of alternate Directors made by any Director in pursuance of the provisions of this Article shall be in writing under the hand of the Director making the same and left at the Office. The nomination of an alternate Director shall be valid if made by cable or telegram; PROVIDED ALWAYS THAT such nomination shall be confirmed within three months from the date of such cable or telegram by a written nomination complying with the abovementioned requirements, and any act done by the alternate Director nominated in such cable or telegram between the date thereof and the date of the receipt within the prescribed period by the Company of the written nomination shall be as valid and effectual as if such alternate Director had been duly appointed in the first instance, whether such written nomination shall be received by the Company within the prescribed period or not.

Article 82

The Directors may from time to time elect one of their body to be Chairman of the Company, another of their body to be Deputy Chairman of the Company and another of their body to be Vice-Chairman of the Company in each case for a fixed term not exceeding five years or without any limitation as to the period for which any such Director is to hold the office to which he is appointed and on such terms as they think fit. Without prejudice to any claim a Director so appointed to any one of these offices may have for damages for breach of any contract of service between him and the Company, his appointment shall be subject to determination *ipso facto* if he ceases from any cause to be a Director, or if the Directors resolve that his term of office be determined. A Director holding any such office as aforesaid shall receive such remuneration as the Directors may determine but shall not under any circumstances be remunerated by a commission on or percentage of turnover.

Article 83

The Directors may from time to time and at any time appoint one or more of their body to be Managing Director or Managing Directors (or the equivalent) for a term not exceeding five years upon such terms and at such remuneration (whether by way of salary or commission (although such commission shall not be based on the turnover of the Company) or participation in profits, or by any or all of these modes or otherwise) as they may think fit, and a Director so appointed shall not, during his initial term of engagement as Managing Director (or the equivalent), be subject to retirement by rotation and he shall not be taken into account in determining the rotation of retirement of Directors or the number of Directors to retire, but he shall, subject to the provisions of any contract between him and the Company, be subject to the same provisions as to resignation and removal as the other Directors of the Company, and if he ceases to hold the office of Director he shall ipso facto and immediately cease to be a Managing Director (or the equivalent). A Managing Director (or a person holding an the equivalent position) shall at all times be subject to the control of the Board of Directors.

Article 84

The Directors may from time to time and at any time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit, and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

Article 89

A Director may contract with and be interested in any transaction or proposed contract transaction with the Company and shall not be liable to account for any profit made by him by reason of any such contract; PROVIDED ALWAYS THAT the nature of the interest of the Director in any such contract be declared at a meeting of the Directors as required by the Act. No Director shall vote as a Director in respect of any contract, proposed contract or arrangement in which he has a personal material interest, whether directly or indirectly, although he shall be counted in the quorum present at the meeting.

Article 99

The Directors may meet together for the despatch of business adjourn, and otherwise regulate their meetings, as they think fit. The quorum necessary for the transaction of business may be fixed by the Directors, and unless so fixed shall be two. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality of votes the Chairman shall have a second or casting vote except when only two Directors are present and form a quorum or only two are competent to vote on the question at issue.

Article 100

The meetings of Directors shall be presided over by the Chairman and in his absence by the Deputy Chairman or in the absence of both the Chairman and the Deputy Chairman by the Vice-Chairman. If at any meeting the Chairman, the Deputy Chairman and the Vice-Chairman shall not be present within fifteen minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.

Provision relating to the borrowing powers of our Directors

Article 85

The Directors may borrow or raise from time to time for the purposes of the Company or secure the payment of such sums as they may think fit, and may secure the repayment or payment of any such sums by mortgage or charge upon all or any of the property or assets of the Company or by the issue of debentures or otherwise as they may think fit.

Provisions relating to the remuneration of our Directors

Article 57

All business shall be deemed special that is transacted at an extraordinary general meeting, and also all that is transacted at an annual general meeting, with the exception of declaring a dividend, the consideration of the accounts, balance sheets, and the reports of the Directors and Auditors, and any other documents annexed to the balance sheets, the election of Directors in the place of those retiring and the fixing of the remuneration of the Directors and the appointment and fixing of the remuneration of the Auditors.

Article 79

Fees payable to the Directors shall from time to time be determined by the Company in general meeting and such fees shall not be increased except pursuant to an ordinary resolution passed at a general meeting where notice of the proposed increase shall have been given in the notice convening the meeting. Unless otherwise directed by the said ordinary resolution, such fees shall be divided among the Directors in such proportions and manner as they may agree and in default of agreement equally, except that if a Director has held office for part only of the period in respect of which such fees are payable, such a Director shall be entitled only to that proportion of the fees as is related to the period during which he has held office. Fees payable to non-executive directors shall be by a fixed sum and not by way of commission on or percentage of profits or turnover. Salaries payable to executive directors may not include a commission on or percentage of turnover. The Directors shall also be paid such travelling, hotel and other expenses as may reasonably be incurred by them in the execution of their duties including any such expenses incurred in connection with their attendance at meetings of Directors. If by arrangement with the other Directors any Director shall perform or render any special duties or services outside his ordinary duties as a Director, the Directors may pay him special remuneration, in addition to his ordinary remuneration, and such special remuneration may be by way of salary, commission, participation in profits or otherwise, as may be arranged.

Provision relating to the retirement or non-retirement of a director

Article 83

The Directors may from time to time and at any time appoint one or more of their body to be Managing Director or Managing Directors (or the equivalent) for a term not exceeding five years upon such terms and at such remuneration (whether by way of salary or commission (although such commission shall not be based on the turnover of the Company) or participation in profits, or by any or all of these modes or otherwise) as they may think fit, and a Director so appointed shall not, during his initial term of engagement as Managing Director (or the equivalent), be subject to retirement by rotation and he shall not be taken into account in determining the rotation of retirement of Directors or the number of Directors to retire, but he shall, subject to the provisions of any contract between him and the Company, be subject to the same provisions as to resignation and removal as the other Directors of the Company, and if he ceases to hold the office of Director he shall *ipso facto* and immediately cease to be a Managing Director (or the equivalent). A Managing Director (or the equivalent) shall at all times be subject to the control of the Directors.

Article 94

(1) An election of Directors shall take place at every annual general meeting of the Company. All Directors except the Managing Director (or the equivalent) and any Director appointed to fill a casual vacancy pursuant to Article 95 are subject to retirement by rotation as prescribed in Article 94(2) below.

(2) At such annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number rounded up to the nearest one-third shall retire from office. PROVIDED ALWAYS THAT all Directors, including the Managing Director (or the equivalent) after his initial term of engagement as Managing Director (or the equivalent), shall retire at least once every three years.

(3) A retiring Director shall be eligible for re-election.

(4) The Directors to retire in every year shall be those who have been longest in office since the last election, but as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree amongst themselves) be determined by lot.

Provision relating to the share qualification of a director

Article 77

A Director shall not be required to hold any share qualification in the Company.

Limitation on the right to own or vote on shares

There are no limitations imposed by Singapore law or by our Articles of Association on the rights of Shareholders to own, or exercise voting rights in respect of, our Shares.

Provisions relating to changes in capital

Article 3

(1) No shares shall be issued by the Directors without the prior approval of the Company in general meeting or except as permitted under the listing rules of the Singapore Exchange but subject thereto and to any special rights attached to any shares for the time being issued.

(2) Subject as aforesaid, the Directors may allot or grant options over or otherwise deal with or dispose of the same to such persons, at such times, and generally on such terms as they think proper.

Article 4

Subject to the provisions of the Act, the Company may purchase or otherwise acquire ordinary shares issued by it on such terms as the Company may think fit and in the manner prescribed by the Act. Unless as permitted under Article 5 hereof, all shares repurchased shall be deemed to be cancelled on purchase or acquisition by the Company. In the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with, the Act.

Article 5

The Company may hold or deal with its Treasury Shares in the manner authorised by, or prescribed pursuant to, the Act. The Treasury Shares shall have no voting rights and shall not be entitled to any dividend or other distribution (whether in cash or otherwise) of the Company's assets (including any distribution of assets to members on a winding up) that may be made by the Company.

Article 12

(1) Subject to any direction to the contrary that may be given by the Company in general meeting, or, in the event of the Company being listed on the Singapore Exchange, as permitted under the Singapore Exchange's listing rules, all new shares of whatever kind shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the number of the existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined and, after the expiration of that time or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article.

(2) Approval of the Company's shareholders referred to in Article 12(1) is not required if the shareholders have by ordinary resolution in a general meeting given a general mandate to the Directors of the Company, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to issue (a) shares; (b) convertible securities; (c) additional convertible securities arising from adjustments made to the number of convertible securities issued in the event of rights, bonus or capitalisation issues (notwithstanding that the general mandate may have ceased to be in force at the time the securities are issued) provided that adjustment does not give the holder a benefit that a shareholder does not receive; or (d) shares arising from the conversion of the securities in (a) and (c) (notwithstanding that the general mandate may have ceased to be in force at the time the shares are issued), provided that the aggregate number of shares to be issued pursuant to the ordinary resolution (including shares to be issued in pursuance of instruments made or granted pursuant to the ordinary resolution) shall be subject to such limits and manner of calculation as may be prescribed by the Singapore Exchange.

Article 49

The Company may by ordinary resolution:

(1) consolidate and divide all or any of its shares;

(2) sub-divide its existing shares, or any of them, subject, nevertheless, to the provisions of the Statutes and so that as between the resulting shares, one or more of such shares may by the resolution by which such subdivision is effected be given any preference or advantage as regards dividend, capital, voting or otherwise over the others or any other of such shares; or

(3) subject to the provisions of these Articles and the Statutes, convert any class of shares into any other class of shares.

Article 50

(1) The Company may from time to time by special resolution reduce its issued share capital in any manner and subject to any incident authorised and consent required by law. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to these Articles, the number of issued shares of the Company shall be diminished by the number of shares so cancelled, and, where any such cancelled share was purchased or acquired out of the capital of the Company, the amount of issued capital of the Company shall be reduced accordingly.

(2) The Company may, subject to and in accordance with the Act, purchase or otherwise acquire its issued shares on such terms and in such manner as the Company may from time to time think fit. If required by the Act, any share which is so purchased or acquired by the Company shall, unless held as Treasury Shares in accordance with the Act, be deemed to be cancelled immediately on purchase or acquisition by the Company. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire. In any other instance, the Company may hold or deal with any such share which is so purchased or acquired by it in such manner as may be permitted by, and in accordance with, the Act.

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Appendix D

DESCRIPTION OF RELEVANT PRC LAWS AND REGULATIONS

1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10 June 1981, the Supreme People's Court has the power to issue general interpretations on the application of laws in judicial proceedings in addition to its power to issue specific interpretations in specific cases. The State Council and its ministries and commissions are also vested with the power to issue interpretations of the rules and regulations promulgated by itself. At the regional level, the power to issue interpretations of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry the force of law.

2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the People's Local Courts, military courts and other special People's Courts. The People's Local Courts are divided into three levels, namely, the basic People's Courts, intermediate People's Courts and higher People's Courts. The basic People's Courts are divided into civil, criminal, administrative and economic divisions. The intermediate People's Courts have divisions similar to those of the basic People's Courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of People's Courts at lower levels are subject to supervision of People's Courts at higher levels. The People's procuratorates also have the right to exercise legal supervision over the proceedings of People's Courts of the same or lower

levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the People's Courts of all levels.

The People's Court adopts a 2-tier appeal system. At first instance a party may, before a judgment or order takes effect, appeal against the judgment or order of a Local People's Court to the People's Court of the next higher level. Judgments or orders at the second instance of the same level of the People's Court or at the next higher level of the People's Court are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a People's Court of a higher level finds an error in a final and binding judgment of any People's Court of a lower level which has taken effect, or the presiding judge of a People's Court finds an error in a final and binding judgment which has taken effect in a court over which he presides, a retrial of the case may be ordered according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9 April 1991. The Civil Procedure Law governs the institution of a civil action, the jurisdiction of the People's Courts, the procedures for the conduct of a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's country of domicile. The jurisdiction may also be selected by express agreement of the contractual parties provided that the jurisdiction of the People's Court so selected is connected with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or performed in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. In respect of litigation, a foreign national or foreign enterprise is accorded the same rights and subject to the same obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a People's Court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the People's Court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a People's Court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the People's Courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the People's Court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. Arbitration and enforcement of arbitral awards

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure

Law. Where the parties have by an agreement provided for arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party may apply to the People's Court for enforcement of the arbitral award. A People's Court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities in the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. Foreign exchange control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, with the authorisation of the State Council, issued on 28 December 1993 the Notice on the Further Reform of the Foreign Exchange Control System (中国人民银行关于进一步改革外汇管理体制的通知) and on 26 March 1994, the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理暂行规定), which came into effect on 1 April 1994, respectively. On 29 January 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1st April 1996 and was revised on 14 January 1997. On 20 June 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1 July 1996. On 25 October 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business (关于停办外汇调剂业务的通知) which stated that from 1 December 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies. In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transactions, the approval of the foreign exchange administration authority is still required before a PRC enterprise may take a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation in April 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1 December 1998, enterprises with foreign investment may, at their own choice, enter into exchange transactions through Swap Centre or through designated PRC banks. From 1 December 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

Save as disclosed above, we have not experienced any legal, financial or economic restrictions on the ability of our subsidiaries to transfer funds to our Company in the form of cash dividends, loans or advances.

5. Taxation

(i) Income tax on foreign investment enterprises

The applicable income tax laws, regulations, notices and decisions (collectively referred to as "Applicable Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors include, without limitation to, the following:

(a) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises Regulations (中华人民共和国外商投资企业和外国所得税法) adopted by the NPC on 9th April 1991.

(b) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法实施细则) promulgated by the State Council, which came into effect on 1 July 1991.

(c) Notice Relating to Taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (国家税务总局关于外商投资企业/外国企业和外籍个人取得股票(股权)转让收益和股息所得收问题的通知) promulgated by State Tax Bureau on 21 July 1993.

(d) Pursuant to the Notice on Reduction of Income Tax of Interest within Mainland China for Foreign Enterprises (关于外国企业来源于我国境内的利息等所得减征所得税问题的通知) issued by the State Council on 18 November 2000, from 1 January 2000 onwards, the interest, rent, franchise fee or other income obtained by foreign enterprises without any setups or worksites within Mainland China or with some setups or worksites within Mainland China that are not related with the aforesaid incomes at all shall be levied enterprise income tax at the reduced rate of 10.0%.

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) are required to pay a national income tax at a rate of 30.0% of their taxable income and a local income tax at a rate of 3.0% of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than 10 years shall be exempted from income tax for the first two profit making years and a 50.0% reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15.0%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income tax at a reduced rate of 24.0%.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profit distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20.0% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law

(ii) Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例) promulgated by the State Council came into effect on 1 January 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例实施细则), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13.0% or 17.0% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17.0% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(iii) Business tax

With effect from 1 January 1994, businesses that provide services (except entertainment businesses), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3.0% to 5.0% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

6. Environmental protection regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from

production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate any losses or damages suffered as a result of such environmental pollution.

7. Coastline use rights

Water Law of the People's Republic of China (中华人民共和国水法) (the "Water Law") was promulgated by Standing Committee of the National People's Congress on 29 August 2002 and effective on 1 October 2002. Flood-prevention Law of the People's Republic of China (中华人民共和国防洪法) (the "Flood-Prevention Law") was promulgated by Standing Committee of the National People's Congress on 29 August 1997 and effective on 1 January 1998. According to the Water Law and the Flood-Prevention Law, any projects across or adjacent to rivers are required to be approved by the related water resources authorities. In addition, construction projects involving Coastline Use Right in Jiangsu Province will be required by Jiangsu Province Water Authorities to obtain an Occupying Certificate of Riverway Construction Project (the "Certificate").

Both the Water Law and the Flood-Prevention Law stipulate the provisions in connection to remedy and penalty measures. If any projects across or adjacent to rivers are/were constructed without the relevant water resources authorities, the relative water resources authorities have the power and authorization:

(i) to cease the illegal activities and make up the corrective procedures within a given time limit;

(ii) to enjoin to demolish the illegal projects if the law-breaker refuses to take the corrective procedures or the corrective procedures is not approved; and

(iii) to demolish the illegal projects with force at the expenses of the law-breaker, plus a fine varying from RMB10,000 to RMB100,000, if the law-breaker refuses to demolish.

8. Development plans for the shipping industry

As approved by the State Council (国务院) in September 2006, the National Development and Reform Commission (国家发展和改革委员会) and the Commission of Sciences Technology and Industry for National Defense (国防科学技术工业委员会) jointly formulated the Long-term and Mid-term Development Plan for Shipbuilding Industry (船舶工业中长期发展规划) (the "New Plan"). According to the New Plan, for new shipyard in the form of Sino-foreign joint venture to be built, the Chinese party will require to hold at least 51.0% of the equity interests. The New Plan further states that acquisition of domestic shipyards by offshore

companies, wholly foreign-owned enterprises and joint ventures controlled by the foreign party will be deemed as building new shipyard joint ventures.

Moreover, the New Plan sets ups higher threshold entrance to large-scale shipyards. According to the New Plan, the total investment for newly-built construction facilities will be at least RMB2,000,000,000, of which the capital contribution will be at least 40.0% of the total investment in fixed assets.

9. Laws relating to provision of loans

The General Rules of Loans (贷款通则) was promulgated on 28 June 1996 by the People's Bank of China (中国人民银行). A lender is defined by the General Rules of the Loans as licenced financial institutions incorporated under the laws of the PRC, while a borrower refers to corporate entities and individuals who receive loans from a lender.

The General Rules of the Loans does not allow enterprises that are not licensed financial institutions to undertake financial services such as lending and deposit-taking. Lending and borrowing activities must be conducted through a financial institution. Inter-company lending and borrowing activities are prohibited. In the event of a breach, the lendor can be subject to a fine of up to five times the illegal revenue received pursuant to the General Rules of Loans.

10. New M&A Provisions

On August 8, 2006, MOC, SASAC, SAT, SAIC, CSRC and SAFE jointly promulgated. *The Provisions on Acquisition of Domestic Enterprises by Foreign Investors* (外国投资者并购境内企业规定) (the "New M&A Provisions") which became effective on September 8, 2006. The New M&A Provisions requires that, among others, application shall be made to MOC for examination and approval of the acquisition of any company inside China affiliated to a Domestic Company (as defined therein), enterprise or natural person, which is made in the name of an overseas company lawfully established or controlled by such Domestic Company, enterprise or natural person. Jingtian & Gongcheng, our PRC legal adviser, has advised us that the acquisition of JYS as described in "The Restructuring Exercise" was completed in accordance with applicable PRC laws and regulations prior to 8 September 2006 and accordingly, we do not require any further approval under the New M&A Provisions from any PRC authority, including the MOC and the CSRC, for the acquisition of JYS or the listing of our Group on the SGX-ST.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.
(Incorporated in Singapore)
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

(Incorporated in Singapore)

AND ITS SUBSIDIARIES

FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

Contents

	Page
Statement by Directors	**E-3**
Auditor's Report	**E-4**
Consolidated Income Statements	**E-6**
Consolidated Balance Sheets	**E-7**
Consolidated Statements of Changes in Equity	**E-9**
Consolidated Cash Flow Statements	**E-10**
Notes to the Consolidated Financial Statements	**E-12**

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

(Incorporated in Singapore)

AND ITS SUBSIDIARIES

STATEMENT BY DIRECTORS

For the financial years ended 31 December 2004, 2005 and 2006

In the opinion of the directors,

(a) the consolidated financial statements set out on pages E-6 to E-79 are drawn up so as to give a true and fair view of the state of affairs of the Group at 31 December 2004, 2005 and 2006 and of the results of the business, changes in equity and cash flows of the Group for the financial years ended 31 December 2004, 2005 and 2006; and

(b) at the date of this statement, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

On behalf of the directors

REN YUANLIN
Director

TEO YI-DAR
Director

19 March 2007

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD.

The Board of Directors
Yangzijiang Shipbuilding (Holdings) Ltd.
80 Raffles Place
#32-01 UOB Plaza 1
Singapore 048624

19 March 2007

Dear Sirs,

We have audited the accompanying consolidated financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages E-6 to E-79, for the financial years ended 31 December 2004, 2005 and 2006, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements of the Group are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to present fairly, in all material respects, the state of affairs of the Group at 31 December 2004, 2005 and 2006, and the results, changes in equity, and the cash flows of the Group for the financial years ended on those dates.

This Report has been prepared for inclusion in the prospectus (the "Prospectus") in connection with the initial public offering of the ordinary shares of the Company ("the Offering").

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Singapore

Partner-in-charge: Tham Tuck Seng

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

	Notes	The Group		
		2004	2005	2006
		RMB'000	RMB'000	RMB'000
Revenue	6	988,829	1,532,572	2,324,984
Cost of sales	9	(794,223)	(1,228,104)	(1,828,533)
Gross profit		194,606	304,468	496,451
Other income	7	10,714	52,774	75,819
Other gains/(losses) — net	8	7,489	(5,857)	15,128
Expenses				
— Administrative	9	(24,828)	(34,644)	(57,995)
— Finance	11	(17,611)	(17,586)	(10,538)
Share of profit of associated companies		46	29	—
Profit before income tax		170,416	299,184	518,865
Income tax expense	12	(12,692)	(15,805)	(65,650)
Net profit		**157,724**	**283,379**	**453,215**
Attributable to:				
Equity holders of the Company		156,046	283,510	454,344
Minority interest		1,678	(131)	(1,129)
		157,724	**283,379**	**453,215**
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)				
— Basic	13	6.22	11.30	18.10
— Diluted	13	6.22	11.30	17.60

The accompanying notes form an integral part of these financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As at 31 December 2004, 2005 and 2006

	Notes	The Group 2004	2005	2006
		RMB'000	RMB'000	RMB'000
ASSETS				
Current assets				
Cash and cash equivalents	14	138,013	188,863	215,592
Restricted cash	15	78,915	349,174	447,625
Financial assets, available-for-sale	16	7,484	5,505	300
Trade and bills receivables	17	186,783	269,590	294,214
Other receivables, prepayments and other current assets	18	591,134	1,257,628	2,229,642
Due from customer for construction contracts	19	476,806	452,658	140,973
Loan receivables from third parties	20	580,379	460,780	241,570
Inventories	21	116,016	63,589	75,939
		2,175,530	3,047,787	3,645,855
Non-current assets				
Property, plant and equipment	22	125,822	159,920	659,457
Lease prepayment	23	—	—	140,938
Intangible assets	24	—	—	168
Deferred income tax assets	31	—	—	5,130
Investment in associated companies	25	4,852	39,758	—
Loan receivables from third parties	20	—	436,000	664,000
		130,674	635,678	1,469,693
Total assets		**2,306,204**	**3,683,465**	**5,115,548**

The accompanying notes form an integral part of these financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As at 31 December 2004, 2005 and 2006

	Notes	The Group 2004	2005	2006
		RMB'000	RMB'000	RMB'000
LIABILITIES				
Current liabilities				
Trade and bills payables	26	302,044	157,906	144,260
Accruals, other payables and other current liabilities	27	212,162	293,318	894,193
Due to customer for construction contracts	19	684,117	1,839,228	3,137,945
Current income tax liabilities	12	33,667	49,369	86,045
Borrowings	28	597,971	559,299	229,366
Convertible loans	29	—	—	155,814
Derivative financial instruments	30	305	—	246
		1,830,266	2,899,120	4,647,869
Non-current liabilities				
Borrowings	28	50,000	90,351	—
Deferred income tax liabilities	31	—	58	—
		50,000	90,409	—
Total liabilities		**1,880,266**	**2,989,529**	**4,647,869**
NET ASSETS		**425,938**	**693,936**	**467,679**
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital		110,000	110,000	110,037
Other reserves	33	25,120	44,801	(109,035)
Retained earnings		284,926	533,419	209,124
		420,046	688,220	210,126
Minority interests		5,892	5,716	257,553
Total equity		425,938	693,936	467,679

The accompanying notes form an integral part of these financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial years ended 31 December 2004, 2005 and 2006

	Notes	Attributable to equity holders of the Company				
		Share capital	Other reserves	Retained earnings	Minority interest	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2004#		**80,000**	**11,512**	**147,366**	**6,268**	**245,146**
Fair value loss, net of tax		—	(878)	—	(440)	(1,318)
Net profit for the financial year		—	—	156,046	1,678	157,724
Total recognised gains and losses for the financial year		**—**	**(878)**	**156,046**	**1,238**	**156,406**
Issue of shares		30,000	—	—	—	30,000
Profit appropriation	33	—	14,486	(14,486)	—	—
Interim dividends declared		—	—	(4,000)	(1,614)	(5,614)
Balance at 31 December 2004#		**110,000**	**25,120**	**284,926**	**5,892**	**425,938**
Balance at 1 January 2005#		**110,000**	**25,120**	**284,926**	**5,892**	**425,938**
Fair value gain, net of tax		—	1,164	—	581	1,745
Net profit for the financial year		—	—	283,510	(131)	283,379
Total recognised gains for the financial year		**—**	**1,164**	**283,510**	**450**	**285,124**
Profit appropriation	33	—	18,517	(18,517)	—	—
Interim dividends declared		—	—	(16,500)	(626)	(17,126)
Balance at 31 December 2005#		**110,000**	**44,801**	**533,419**	**5,716**	**693,936**
Balance at 1 January 2006 #		110,000	44,801	533,419	5,716	693,936
Fair value (loss), net of tax		—	(286)	—	(142)	(428)
Net profit for the financial year		—	—	454,344	(1,129)	453,215
Total recognised gains and losses for the financial year		**—**	**(286)**	**454,344**	**(1,271)**	**452,787**
Adjustment arising from reverse acquisition (note 2.2 & 3)		37	(200,689)	—	—	(200,652)
Acquisition of subsidiary		—	—	—	258,597	258,597
Disposal of subsidiaries		—	—	—	(5,489)	(5,489)
Profit appropriation	33	—	47,139	(47,139)	—	—
Interim dividends declared		—	—	(731,500)	—	(731,500)
Balance at 31 December 2006		**110,037**	**(109,035)**	**209,124**	**257,553**	**467,679**

Share capital and reserves prior to the date of reverse acquisition represented that of Jiangsu Yangzijiang Shipbuilding Co., Ltd., the legal subsidiary who is considered the acquirer in connection with the reverse acquisition for accounting purposes.

The accompanying notes form an integral part of these financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

	Notes	2004	2005	2006
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Net profit		157,724	283,379	453,215
Adjustments for:				
Tax		12,692	15,805	65,650
Depreciation on property, plant and equipment		14,006	14,048	16,483
Impairment charge on property, plant and equipment		—	3,141	—
Amortisation of land use rights		—	—	1,382
Loss/(gain) on disposal of property, plant and equipment		(136)	126	(166)
Loss on disposal of subsidiaries		—	—	268
Loss on disposal of associates		—	1,091	459
Loss/(gain) on disposal of available-for-sale financial assets		604	2,702	(1,532)
Share of loss of associated companies		(46)	(29)	—
Excess of fair value of net assets over cost of acquisition		—	—	(602)
Interest expense		17,611	20,293	20,070
Interest income		(9,195)	(51,255)	(75,819)
Unrealised exchange gains		—	(2,707)	(9,532)
Operating cash flow before working capital change		193,260	286,594	469,876
Change in operating assets and liabilities:				
Inventories		(75,842)	52,427	(16,638)
Due from/(to) customers for construction contracts		308,850	1,178,976	1,610,979
Trade and bills receivable, net		(20,863)	(82,807)	(37,964)
Other receivables, prepayment and other current assets		(187,126)	(667,076)	(770,628)
Trade and bills payable		103,912	(154,162)	4,570
Accruals, other payables and other current liabilities		84,350	88,355	244,653
Restricted cash		(61,822)	(270,259)	(98,451)
Cash generated from operations		344,719	432,048	1,406,397
Interest paid		(17,611)	(20,293)	(20,070)
Income taxes paid		(1,856)	(103)	(34,104)
Net cash provided by operating activities		**325,252**	**411,652**	**1,352,223**

The accompanying notes form an integral part of these financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

	Notes	2004	2005	2006
		RMB'000	RMB'000	RMB'000
Cash flows from investing activities				
Proceeds from sales of property, plant and equipment		1,074	10	3,643
Proceeds from sales of investment in associates		—	1,392	11,299
Proceeds from sales of financial assets, available-for-sale		12,207	39,051	23,093
Proceeds from sales of investment in subsidiaries		—	—	5,703
Loans granted to third parties		(580,379)	(700,180)	(604,070)
Loans repayments received from third parties		5,000	383,779	635,280
Interest received		6,385	51,838	75,819
Dividend received		—	140	—
Purchase of property, plant and equipment		(10,396)	(41,117)	(399,446)
Acquisition of subsidiary in a reverse acquisition	2.2	—	—	(200,652)
Acquisition of subsidiary, net of cash acquired	14	—	—	(163,238)
Acquisition of available-for-sale financial assets		(19,612)	(37,971)	(16,842)
Acquisition of associates		—	(37,500)	—
Acquisition of land use right		—	—	(18,000)
Acquisition of intangible assets		—	—	(168)
Net cash used in investing activities		**(585,721)**	**(340,558)**	**(647,579)**
Cash flows from financing activities				
Proceeds from increase in paid-in capital		30,000	—	—
Proceeds from convertible loans		—	—	156,060
Proceeds from borrowings		630,971	633,807	139,015
Repayments of borrowings		(290,800)	(629,421)	(556,124)
Dividends paid to equity holders		(3,815)	(16,137)	(423,023)
Dividends paid to minority shareholders		(1)	(3,223)	—
Net cash provided by/(used in) financing activities		**366,355**	**(14,974)**	**(684,072)**
Net increase in cash and cash equivalents		105,886	56,120	20,572
Cash and cash equivalents at the beginning of the financial year		32,205	138,013	188,863
Effects of exchange rate changes on cash and cash equivalents		(78)	(5,270)	6,157
Cash and cash equivalents at the end of the financial year	14	**138,013**	**188,863**	**215,592**

The accompanying notes form an integral part of these financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company was incorporated in Singapore on 21 December 2005 as a private limited company under the name of Yangzijiang Shipbuilding (Holdings) Pte. Ltd. (Company Registration No. 200517636Z). On 15 March 2007, the Company was converted into a public company and changed its name to Yangzijiang Shipbuilding (Holdings) Ltd.

The Company is domiciled in Singapore and the address of its registered office is 80 Raffles Place #32-01 UOB Plaza 1 Singapore 048624.

The principal activity of the Company is that of investment holding. The principal activities of the legal subsidiaries are described in note 44.

Pursuant to the reverse acquisition of the Company by Jiangsu Yangzijiang Shipbuilding Co., Ltd ("JYS"), entered into on 3 April 2006 (note 2), the consolidated financial statements of the Group is prepared and presented as a continuation of JYS, which is considered the acquirer for reverse acquisition accounting purposes. The accounting for reverse acquisition is further described in note 3.

2. Restructuring of the Group

2.1 Increase in equity interest in Jiangsu New Yangzi Shipbuilding Co., Ltd ("JNYS")

Pursuant to equity transfer agreements dated 3 April 2006 between JYS and 2 shareholders of JNYS, JYS acquired an additional interest of 15.8% of the then registered capital of JNYS (RMB 242.8million) for a total consideration of RMB 38.4 million. Concurrently, the registered capital of JNYS was increased from RMB 242.8 million to RMB 518.0 million and JYS invested an additional RMB 193.6 million pursuant to the capital increase and its shareholding in JNYS was increased from 11.53% to 50.19%.

2.2 Reverse acquisition of the Company (the "Acquisition")

The Company was founded by the shareholders of JYS as a holding company to acquire the entire equity interest in JYS.

The Company acquired an aggregate of 72.7% equity interest in JYS from Jiangsu Runhua Technology Investment Co., Ltd, Jiangsu Yangzijiang Shipbuilding Co., Ltd Labour Union and 8 individual shareholders (collectively the JYS "Vendors"), pursuant to various equity transfer agreements dated 3 April 2006. The aggregate consideration paid to the JYS Vendors was US$24.9 million, based on a valuation of the assets and liabilities of JYS as at 28 February 2006 by Jiangyin Jiyang Certified Public Accountants Co., Ltd, an independent valuer appointed for the purpose of the acquisition.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

2. Restructuring of the Group *(cont'd)*

2.2 Reverse acquisition of the Company (the "Acquisition") (cont'd)

Separately, the Company also acquired the remaining 27.3% equity interest in JYS held by Tongbao (HongKong) Shipping Co., Ltd, pursuant to an equity transfer agreement dated 3 April 2006 between the Company and Tongbao (HongKong) Shipping Co., Ltd (which was amended by a supplemental agreement dated 1 July 2006). The consideration was US$9.4 million based on a valuation of the asset and liabilities of JYS as at 28 February 2006. The consideration is satisfied by the issuance of 2,727 new ordinary shares of the Company to Lido Point Investments Ltd., as nominee of Tongbao (HongKong) Shipping Co., Ltd.

Following the completion of the above acquisitions in JYS equity interests, JYS became the wholly-owned subsidiary of the Company.

2.3 Investment by Strategic Investors and the Conversion

On 13 June 2006, our Company entered into an investment agreement (the "Investment Agreement") with SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P. and Gemini Asia Growth Inc. (collectively, the "Strategic Investors") and Ren Yuanlin, Wang Dong and Xiang Jianjun, and Ren Jinhua. Under the Investment Agreement, the Strategic Investors subscribed for an aggregate of US$20 million of redeemable convertible notes issued by the Company. The proceeds from the investment by the Strategic Investors were utilized by the Company to fund the Acquisition as described in note 2.2. On 16 March 2007, the US$20 million of redeemable convertible notes were converted into an aggregate of 128,700,000 Shares, based on an issue price of S$0.2374 for each new share.

2.4 Ancillary loans in connection with the acquisition of JYS.

Pursuant to a loan agreement dated 13 June 2006 between the Company and Lido Point Investments Ltd., Lido Point Investments Ltd. extended a loan of US$5 million to the Company. The loan is interest-free, unsecured and repayable after the listing on SGX-ST (the "Listing"). The loan from Lido Point Investments Ltd. is used to finance part of the purchase consideration of the Acquisition as described in note 2.2.

At the request of the Strategic Investors, the JYS Vendors (except for Jiangsu Runhua Technology Investment Co., Ltd) extended an aggregate of RMB 156.8 million in loans to JYS for its working capital purposes.

2.5 Divestment by JYS of four companies

Pursuant to four equity transfer agreements dated 1 April 2006 between the Company and Jiangyin Zezhou Investment Co., Ltd, JYS transferred its entire equity interest in the following companies to Jiangyin Zezhou Investment Co., Ltd for a total consideration of RMB 24.7 million. The disposal was completed in June 2006.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

2. Restructuring of the Group *(cont'd)*

2.5 Divestment by JYS of four companies (cont'd)

Name of companies	Equity Interest
Jiangyin Yangzijiang Ship Engineering Co., Ltd	66.7%
Jiangyin Sumeida Ship Engineering Co., Ltd	75%
Jiangsu Province Jiangyin Economic Development Zone Jingjiang Park Runzhou Steel-Structure Engineering Co., Ltd	38.3%
Zhangjiagang Yangzi Ship Breaking Co., Ltd	20%

2.6 Acquisition of additional interest in subsidiary, JNYS

On 28 January 2007, SEAVI Advent Asia Investments (III) Ltd ("SEAVI") acquired an aggregate of 25.0% equity interest from the JYS minority shareholders for US$33.3 million (approximately RMB 259.0 million), based on an independent valuation conducted by Sallmanns (Far East) Limited, which was used as a reference to determine the consideration (the "SEAVI Acquisition"). Subsequently, the Company and SEAVI entered into an equity transfer agreement dated 16 March 2007 to acquire SEAVI's 25.0% interest in JNYS for the same consideration paid by SEAVI in the SEAVI Acquisition.

This equity transfer agreement is conditional, among other things, upon the listing of the Company on the SGX-ST and the receipt of the relevant approvals from the PRC authorities, and when completed, the Company's interest in JNYS would increase to 75.2%. The Company intend to fund the acquisition out of the net proceeds from the Offering.

3. Accounting for the business combination between the Company and JYS

3.1 At Group level

The Acquisition as described in note 2.2 has been accounted for as a reverse acquisition in the consolidated financial statements of the Group. JYS, which is the legal subsidiary, is considered the acquirer for accounting purposes. Accordingly, the consolidated income statements, balance sheets, statements of changes in equity and cash flow statements of the Group for the financial years ended 31 December 2004, 2005 and 2006 have been prepared as a continuation of JYS's financial statements.

Since such consolidated financial statements represent a continuation of the financial statements of the legal subsidiary, JYS,

(a) The assets and liabilities of JYS are recognised and measured in the consolidated balance sheet at their pre-combination carrying amounts;

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

3. Accounting for the business combination between the Company and JYS *(cont'd)*

3.1 At Group level (cont'd)

(b) The retained earnings and other equity balances recognised in the consolidated financial statements are the retained earnings and other equity balances of JYS immediately before the business combination; and

(c) The amount recognised as issued equity in the consolidated financial statements is determined by adding to the issued equity of JYS immediately before the business combination the cost of the acquisition deemed to have been incurred by JYS in the reverse acquisition of the Company. The cost of the acquisition by JYS of the Company is RMB 37,000. However, the equity structure appearing in the consolidated financial statements (i.e. the number and the type of equity issued) reflect the equity structure of the Company, being the legal parent, to effect the combination.

(d) Comparative information presented in the consolidated financial statements are those of JYS.

4. Significant accounting policies

4.1 Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements by the Group for the financial years ended 31 December 2004, 2005 and 2006 are set out below. These policies have been consistently applied to all the years presented.

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

4.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from construction contracts

Please refer to the paragraph "Construction Contracts" for the accounting policy for revenue from construction contracts.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.2 Revenue recognition (cont'd)

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues amortising the discount as interest income on the recoverable amount.

4.3 Group accounting

(a) Subsidiaries

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

The acquisition of JYS had been accounted for in the consolidated financial statements as a reverse acquisition as described in note 3.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. Please refer to the paragraph "Intangible assets — Goodwill" for the accounting policy on goodwill on acquisition of subsidiaries. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.3 Group accounting (cont'd)

(a) Subsidiaries (cont'd)

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority in a subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are attributed to the equity holders of the Company, unless the minority has a binding obligation to, and is able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are attributed to the equity holders of the Company until the minority's share of losses previously absorbed by the equity holders of the Company has been recovered.

Changes in the Group's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for by adjusting the carrying amount of minority interest to reflect the change in the Group's interest in the subsidiary's net assets. The difference between the amount of adjustment to minority interest and the fair value of the consideration paid or received, if any, is brought to equity.

(b) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheet includes goodwill (net of accumulated amortisation) identified on acquisition. Please refer to the paragraph "Intangible assets — Goodwill" for the Group's accounting policy on goodwill.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other long term unsecured receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.3 Group accounting (cont'd)

(b) Associated companies (cont'd)

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

4.4 Property, plant and equipment

(a) Measurement

All property, plant and equipment ('PPE') are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(b) Components of costs

The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

(c) Depreciation

Depreciation is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives, as follows:

Buildings	8–20 years
Machinery	5–10 years
Vehicles	5–12 years
Furniture, fittings and equipment	5 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the income statement for the financial year in which the changes arise.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.4 Property, plant and equipment (cont'd)

(d) Construction-in-progress

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

(e) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repair and maintenance expense in the income statement during the financial year in which it is incurred.

(f) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

4.5 Intangibles

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries or associated companies over the fair value of the Group's share of the identifiable net assets of the acquired subsidiaries, joint ventures or associated companies at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associated companies is included in the carrying amount of investments in associated companies.

Goodwill recognised separately as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of the subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.5 Intangibles (cont'd)

(b) Computer software

Acquired computer software licences are initially capitalized at cost which includes the purchase price (net of any discounts and rebates) and other directly attributed cost of preparing the asset for its intended use. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense as incurred.

Capitalised computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over their estimated useful life of three to five years.

4.6 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is only included in contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.6 Construction contracts (cont'd)

The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

At the balance sheet date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts.

Progress billings not yet paid by customers and retentions are included within "trade and bills receivables".

4.7 Impairment of non-financial assets

Goodwill

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units (CGU) expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in the income statement and is not reversed in a subsequent period.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.7 Impairment of non-financial assets (cont'd)

Property, plant and equipment
Investments in associated companies

Property, plant and equipment and investments in associated companies are reviewed for impairment whenever there is any indication or objective evidence that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The impairment loss is recognised in the income statement.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement.

4.8 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is irrevocable.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.8 Financial assets (cont'd)

(a) Classification (cont'd)

(i) Financial assets, at fair value through profit or loss

This category has two sub-categories: "financial assets held for trading" and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance are evaluated on a fair value basis, in accordance with a documented Group's investment strategy. Derivatives are also categorised as "held for trading" unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

(ii) Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified within "Trade and bill receivables; other receivables, prepayments and other current assets".

(iii) Financial assets, available-for-sale

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

(b) Recognition and derecognition

Regular purchases and sales of investments are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the income statement. Any amount in the fair value reserve relating to that asset is also taken to the income statement.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.8 Financial assets (cont'd)

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit and loss are recognised in the income statement.

(d) Subsequent measurement

Financial assets, available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets, at fair value through profit or loss', including interest and dividend income, are presented in the income statement within 'other gains — net' in the financial year in which the changes in fair values arise.

Changes in the fair value of monetary assets denominated in a foreign currency and classified as available-for-sale are analysed into translation differences resulting from changes in amortised cost of the asset and other changes. The translation differences are recognised in the income statement, and other changes are recognised in the fair value reserve within equity. Changes in fair values of other monetary and non-monetary assets that are classified as available-for-sale are recognised in the fair value reserve within equity.

Interest on financial assets, available-for-sale, calculated using the effective interest method, is recognised in the income statement. Dividends on available-for-sale equity securities are recognised in the income statement when the Group's right to receive payment is established. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in the fair value reserve within equity are included in the income statement as "gains and losses from investment securities".

(e) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.8 Financial assets (cont'd)

(e) Impairment (cont'd)

(i) Loans and receivables

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance for impairment is recognised in the income statement within "Administrative expenses".

(ii) Financial assets, available-for-sale

In the case of an equity security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that has been recognised directly in the fair value reserve is removed from the fair value reserve within equity and recognised in the income statement. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in income statement.

Impairment losses on debt instruments classified as available-for-sale financial assets are reversed through the income statement. However, impairment losses recognised in the income statement on equity instruments classified as available-for-sale financial assets are not reversed through the income statement.

4.9 Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings. These guarantee are financial guarantee contracts as they require the Company to reimburse the banks if the debtors fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair values plus transaction costs.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.9 Financial guarantees (cont'd)

Financial guarantee contracts are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount.

In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

4.10 Borrowings

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

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

Borrowings which are due to be settled within 12 months after the balance sheet date are presented as current borrowings even though the original term was for a period longer than 12 months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. Other borrowings due to be settled more than 12 months after the balance sheet date are presented as non-current borrowings in the balance sheet.

4.11 Convertible loan

A convertible loan is regarded as hybrid instrument, consisting of an embedded derivative, the economic characteristic and risks of which are not closely related to that of the host instrument, the loan.

At inception, the embedded derivative is bifurcated from the host instrument and recorded as liability in accordance with FRS 39 — Financial Instruments: Recognition and Measurement. For embedded derivative which fair value cannot be determined reliably, the fair value of the embedded derivative is the difference between the fair value of the hybrid instrument and the fair value of the host contract.

4.12 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.13 Derivative financial instruments

A derivative financial instrument is initially recognised at fair value on the date the contract is entered into and is subsequently carried at their fair value.

Fair value changes for derivative instruments that do not qualify for hedge accounting are included in the income statement in the financial year when the changes arise.

4.14 Fair value estimation

The carrying amounts of current financial assets and liabilities, carried at amortised cost, approximate their fair values.

The fair values of financial instruments traded in active markets (such as trading and available-for-sale securities) are based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair values of forward currency contracts are determined using actively quoted forward currency rates at the balance sheet date.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as estimated discounted cash flows, are also used to determine fair value for the financial instruments.

The fair values of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest that are available to the Group for similar financial liabilities.

4.15 Operating leases

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

Contingent rents are recognised as an expense in the income statement in the financial year in which they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.16 Inventories

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

4.17 Income taxes

Current income tax liabilities for current and prior periods are recognised at the amounts expected to be paid to the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax assets/liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets/liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred income tax assets and liabilities are measured at:

(i) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date; and

(ii) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income tax are recognised as income or expenses in the income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax on temporary differences arising from the fair value gains and losses on available-for-sale financial assets are charged or credited directly to equity in the same period the temporary differences arise. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.18 Provisions

Provisions for asset dismantlement, removal or restoration, warranty, and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The Group recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on past historical experience of the level of repairs and replacements.

The Group recognises the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets. This provision is estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration time value.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the income statement as interest expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement for the period the changes in estimates arise except for asset dismantlement, removal and restoration costs, which are adjusted against the cost of the related property, plant and equipment unless the decrease in the liability exceeds the carrying amount of the asset or the asset has reached the end of its useful life. In such cases, the excess of the decrease over the carrying amount of the asset or the changes in the liability is recognised in profit or loss immediately.

4.19 Employee compensation

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund and the social security plan in People's Republic of China (the"PRC"). The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.19 Employee compensation (cont'd)

(i) Defined contribution plans (cont'd)

In accordance with the relevant regulations in the PRC, the premiums and welfare benefit contributions borne by the Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are capitalized as production costs and included in the construction cost or expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

Basic pension insurance	20%
Basic medical insurance	9%
Unemployment insurance	2%
Maternity fund	0.6%
Accident insurance	0.6%
Housing fund	6%

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

4.20 Foreign currency translation

(i) Functional and presentation currency

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

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.20 Foreign currency translation (cont'd)

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance date are recognised in the income statement, except for currency translation differences on the net investment in foreign operations and borrowings in foreign currencies, which are included in the currency translation reserve within equity in the consolidated financial statements.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed into currency translation differences on the amortised cost of the securities, and other changes. Currency translation differences on the amortised cost are recognised in the income statement, and other changes are recognised in fair value reserve within equity.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items, whereby the gain or loss are recognised in the income statement, such as equity investments held at fair value through profit or loss, are reported as part of the fair value gain or loss in "other gains/losses — net". Currency translation differences on non-monetary items whereby the gains or losses are recognised directly in equity, such as equity investments classified as available-for-sale financial assets are included in the fair value reserve.

(iii) Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rates at the date of the balance sheet;

(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) All resulting exchange differences are taken to the currency translation reserve within equity.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.20 Foreign currency translation (cont'd)

(iv) Consolidation adjustments

On consolidation, currency translation differences arising from the net investment in foreign operations and borrowings in foreign currencies, are taken to the currency translation reserve. When a foreign operation is sold, such currency translation differences recorded in the currency translation reserve are recognised in the income statement as part of the gain or loss on sale.

4.21 Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting segment, and the geographical segments as the secondary reporting segment.

4.22 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less.

4.23 Paid-in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted against share capital account.

4.24 Dividend

Interim dividends are recorded in the financial year in which they are declared payable.

Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

4. Significant accounting policies *(cont'd)*

4.25 Government grants

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

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

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

4.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements, if any, when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

5. Critical accounting estimates and judgments

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Deferred income tax

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Group's management determines the deferred income tax based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred income tax expense are settled. Management will revise the assumptions and profit projections at each balance sheet date.

If the actual effective tax rate for year 2006 differs by 10% from management's estimates, the Group would need to:

– increase the deferred tax assets and decrease income tax expense by RMB 513,005, if favourable; or

– decrease the deferred tax assets and increase income tax expense by RMB 513,005, if unfavourable.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

5. Critical accounting estimates and judgments *(cont'd)*

5.1 Critical accounting estimates and assumptions (cont'd)

(iii) Impairment of trade receivable

The Group's management determines the provision for impairment of accounts receivable. This expected future cash flow is based on the credit history of its customers and the current market conditions. Management will reassess the provision for impairment at each balance sheet date. The management had assessed that as at 31 December 2006, no provision for impairment is required.

(iv) Stage of completion of construction contracts

The Group uses the percentage-of-completion method in accounting for its construction contracts, which requires the Group to estimate the stage of completion of a contract by determining the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting period. If the proportion that contract costs incurred to date to the estimated total contract costs differed by 10% from management's estimates, the amount of revenue recognised in the year would increased by RMB 157,314,774 if the proportion performed was increased, or would be decreased by RMB 291,670,616 if the proportion performed was decreased.

5.2 Critical judgements in applying the entity's accounting policies

(i) Impairment of available-for-sale financial assets

The Group follows the guidance in FRS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment has been less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

6. Revenue

	The Group		
	2004	**2005**	**2006**
	RMB'000	**RMB'000**	**RMB'000**
Contract revenue	988,829	1,532,572	2,324,984

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

7. Other income

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Interest income on entrusted loans	6,177	31,760	48,874
Interest income on loans from third parties	952	14,862	19,516
Interest income on cash and cash equivalents	2,066	4,633	7,429
Subsidy income	1,519	1,519	—
	10,714	52,774	75,819

8. Other gains/(losses) — net

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Non-performance penalty charges to supplier	—	—	11,250
Gain/(loss) on disposal of property, plant and equipment	136	(126)	166
Provision for impairment of property, plant and equipment (note 22)	—	(3,141)	—
(Loss)/gain on disposal of available-for-sale financial assets	(604)	(2,702)	1,532
Derivative financial instruments	(305)	305	—
Loss on disposal of associates	—	(1,091)	(459)
Loss on disposal of subsidiaries	—	—	(268)
Excess of fair value of net assets acquired over cost (note 14)	—	—	602
Guarantee fee received	3,990	830	—
Sales of metal structure	3,680	—	2,077
Others	592	68	228
	7,489	(5,857)	15,128

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

9. Expenses by nature

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Raw materials and consumables used	597,863	927,582	1,189,086
Outsourcing and processing fee	105,005	174,145	424,630
Other project-related fees and charges	26,955	51,387	112,494
Commission expense	25,582	35,418	64,549
Employee benefit expense (Note 10)	30,418	31,614	44,164
Depreciation charges	14,006	14,048	16,483
Amortisation expense	—	—	1,382
Utilities	10,289	11,536	12,548
Professional fees	—	—	6,506
Foreign exchange loss	78	5,270	201
Transportation charges	1,803	2,275	2,732
Operating lease for land use right	1,519	1,519	1,519
Operating lease for coast line right	—	164	164
Others	5,533	7,790	10,070
Total cost of sales and administrative expenses	819,051	1,262,748	1,886,528

10. Employee benefits

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Salaries, wages and bonuses	16,827	16,373	15,375
Welfare, medical and other benefits	9,334	10,617	25,083
Contributions to pension plans	4,257	4,624	3,706
	30,418	31,614	44,164

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

10. Employee benefits *(cont'd)*

The employees of the Group who are employed in the PRC participate in a defined contribution retirement benefit plan organised by the relevant provincial government. For the year ended 31 December 2006, the Group is required to make monthly defined contribution to these plans at 38.2% (2004: 37.1%, 2005: 37.1%), of the employees' monthly salaries and wages as stipulated by local rules and regulations. These pension contributions are expensed as incurred.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in this note.

11. Finance costs

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	17,611	20,293	20,070
Net foreign exchange gains	—	(2,707)	(9,532)
	17,611	17,586	10,538

12. Income tax

The Group is subject to income tax on an entity basis on profit arising or derived from the tax jurisdiction in which the Group is domiciled and operates. Under the relevant People's Republic of China (the"PRC") income tax law, except for certain preferential treatment available to the Group, the Group is subject to corporate income tax at 24% of taxable income.

Pursuant to the applicable income tax laws and regulations of the PRC, a new foreign invested manufacturing enterprise is entitled to preferential tax rates (tax holidays): two years' exemption and three years' 50% reduction in the income tax rate. In accordance with the approval from the relevant PRC tax authority, the Group's subsidiary, Jiangyin Sumeida Ship Engineering Co., Ltd. was granted an income tax exemption for 2000 and 2001 and a 50% reduction in the income tax rate for the three years from 2002 to 2004, Jiangyin Yangzijiang Ship Engineering Co., Ltd. was granted an income tax exemption for 2003 and 2004 and a 50% reduction in the income tax rate for the three years from 2005 to 2007, JYS was granted an income tax exemption for 2004 and 2005 and a 50% reduction in income tax rate for the three years from 2006 to 2008. The determination of current and deferred income tax assets/liabilities is based on the enacted tax rates.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

12. Income tax *(cont'd)*

(a) Income tax expense

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Income tax expense attributable to profit is made up of:			
Current income tax	12,692	15,805	70,780
Deferred income tax	—	—	(5,130)
	12,692	15,805	65,650

The tax on the Group's profit before tax differs from the amount that would arise using the PRC income tax rate applicable to profit of the main operating legal subsidiaries in PRC due to the following:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Profit before tax	170,416	299,184	518,865
Less: Share of results of associates	(46)	(29)	—
	170,370	299,155	518,865
Tax calculated at the statutory tax rate of 24%	40,889	71,798	124,528
Expenses not deductible for tax purpose	—	—	54
Effect of tax holiday for Jiangsu Yangzijiang Shipbuilding Co., Ltd.	(26,805)	(55,691)	(58,932)
Effect of tax holiday for Jiangyin Sumeida Ship Engineering Co., Ltd.	(25)	—	—
Effect of tax holiday for Jiangyin Yangzijiang Ship Engineering Co., Ltd.	(1,367)	(302)	—
	12,692	15,805	65,650

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

12. Income tax *(cont'd)*

(b) Movements in current income tax liabilities

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
At beginning of the financial year	22,831	33,667	49,369
Income tax paid	(1,856)	(103)	(34,104)
Current financial year's tax expense on profit	12,692	15,805	70,780
At end of the financial year	33,667	49,369	86,045

(c) Business tax ("BT") and related taxes

The subsidiaries of the Group are subject to BT at 5% of service fee income received and receivable. In addition, the subsidiaries are subject to an education surcharge ("ES") at 1% of BT payable.

(d) Value-added tax ("VAT") and related taxes

The sales of the Group are subject to Value Added Tax (VAT). The applicable tax rate for domestic sales is 17%. The Group has been approved to use the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 17%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

13. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	The Group		
	2004	2005	2006
Net profit attributable to equity holders of the Company (RMB'000)	156,046	283,510	454,344
Weighted average number of ordinary shares in issuefor basic earnings per share ('000) (note (i), (ii) and (iii))	2,510,000	2,510,000	2,510,000
Basic earnings per share (RMB cents)	6.22	11.30	18.10

(i) In calculating the weighted average number of ordinary shares outstanding during 2006 in which the reverse acquisition occurs:

(1) the number of ordinary shares outstanding from 1 January 2006 to the acquisition date shall be deemed to be the number of ordinary shares issued by the Company to the shareholders of the legal subsidiary; and

(2) the number of ordinary shares outstanding from the acquisition date to the 31 December 2006 shall be the actual number of ordinary shares of the Company outstanding during the year.

(ii) The earnings per share for the comparative period before the acquisition date is calculated based on the net profit of JYS and the number of ordinary shares issued by the Company to the shareholders of the legal subsidiary in the reverse acquisition.

(iii) The earnings per share for the years ended 31 December 2004, 2005 and 2006 had been adjusted to take into account the subdivision of ordinary shares in the capital of the Company on 12 March 2007.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

13. Earnings per share *(cont'd)*

(b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares: convertible loans.

The convertible bonds are assumed to have been converted into ordinary shares.

Diluted earnings per share attributable to equity holders of the Company is calculated based on the following data:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Net profit attributable to equity holders of the Company (RM'000)	156,046	283,510	454,344
Weighted average number of ordinary shares in issue for basic earnings per share ('000) (note (i), (ii) and (iii))	2,510,000	2,510,000	2,510,000
Adjustments for assumed conversion of convertible loans ('000)	—	—	71,226
	2,510,000	2,510,000	2,581,226
Diluted earnings per share (RMB cents)	6.22	11.30	17.60

14. Cash and cash equivalents

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	123,013	150,856	185,592
Short term bank deposits	15,000	38,007	30,000
	138,013	188,863	215,592

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

14. Cash and cash equivalents *(cont'd)*

The carrying amounts of cash and cash equivalents approximate their fair values and are denominated in the following currencies:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
RMB	127,671	163,298	185,307
United States Dollar	10,258	16,982	29,735
Euro	84	8,583	315
Singapore Dollar	—	—	235
	138,013	188,863	215,592

(i) The weighted average effective interest rate on short-term bank deposits, with a maturity date of 7 days, was 1.26% (2004: 1.69%,2005: 1.69%).

(ii) The Group's cash denominated in RMB is deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies is subject to the foreign exchange control rules and regulations promulgated by the PRC Government.

Acquisition and disposal of subsidiaries

On 30 April 2006, pursuant to equity transfer agreements dated 3 April 2006, the Group increased its equity interest in Jiangsu New Yangzi Shipbuilding Co., Ltd. ("JNYS") from 11.53% to 50.19% through a cash injection of RMB 232,000,000 (See note 2.1). Following the increase in equity interest in JNYS became a subsidiary of the Group. Since JNYS is still in pre-operation status for the year ended 31 December 2006, the acquired business had no contribution of revenues to the Group for the period from 30 April 2006 to 31 December 2006. It contributed net loss of RMB 2,097,288 to the Group for the period from 30 April 2006 to 31 December 2006. Since JNYS's property, plant and equipment were under construction for the year ended 31 December 2006, the fair value of net assets acquired approximates the book value. The assets and liabilities acquired as at 30 April 2006 are shown below.

The Group also disposed two subsidiaries, Jiangyin Yangzijiang Ship Engineering Co., Ltd ("JYSE") and Jiangyin Sumeida Ship Engineering Co., Ltd ("JSSE") in 2006.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

14. Cash and cash equivalents *(cont'd)*

Acquisition and disposal of subsidiaries (cont'd)

	Acquisition		Disposal	
	At fair values	Carrying amounts in acquiree's books	Carrying amount — JYSE	Carrying amount — JSSE
	RMB'000	RMB'000	RMB'000	RMB'000
Identifiable assets and liabilities				
Cash and cash equivalents	68,762	68,762	(4,668)	(3,076)
Trade and other receivables	206,714	206,714	(5,109)	(13,560)
Inventories	—	—	(3,829)	(459)
Property, plant and equipment (Note 22)	136,042	136,042	(13,671)	(1,794)
Lease prepayments (Note 23)	97,992	97,992	—	—
Loan from third parties — current portion	20,000	20,000	—	—
Loan from third parties — non current portion	20,000	20,000	—	—
Total assets	549,510	549,510	(27,277)	(18,889)
Trade and other payables	(30,311)	(30,311)	19,021	7,941
Total liabilities	(30,311)	(30,311)	19,021	7,941
Identifiable net assets	519,199	519,199	(8,256)	(10,948)
Less: Minority interests	(258,597)	(258,597)	2,752	2,737
Identifiable net assets acquired /(disposed)	260,602	260,602	(5,504)	(8,211)
Excess of the fair value of Group's share of the identifiable net assets over the cost of acquisition	(602)			
Cash consideration paid	260,000			
Less: Investment in associate	(28,000)			
Less: Cash and cash equivalents in subsidiary acquired	(68,762)			
Net cash outflow on acquisition	163,238			

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

14. Cash and cash equivalents *(cont'd)*

The aggregate cash inflows arising from the disposal of JYSE and JSSE were as follows:

	JYSE	JSSE	Total
	RMB'000	RMB'000	RMB'000
Identifiable net assets disposed (as above)	5,504	8,211	13,715
Loss on disposal (Note 8)	(216)	(52)	(268)
Cash proceeds from disposal	5,288	8,159	13,447
Less: Cash and cash equivalents in subsidiaries disposed	(4,668)	(3,076)	(7,744)
Net cash inflow on disposal	620	5,083	5,703

15. Restricted cash

The restricted cash was held in designated bank accounts under the name of the company as deposits for performance guarantee, letters of credits and notes payable.

Restricted cash are denominated in the following currencies:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
RMB	78,915	273,642	362,278
United States Dollar	—	46,442	78,022
Euro	—	29,090	7,325
	78,915	349,174	447,625

The weighted average effective interest rate on restricted cash, with a maturity of 180 days, was 2.12% (2004: 1.72%, 2005: 1.52%).

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

16. Financial assets, available-for-sale

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Beginning of financial year	2,000	7,484	5,505
Additions	19,612	37,971	16,842
Fair value (loss)/gain recognised in equity	(1,318)	1,803	(486)
Disposal	(12,810)	(41,753)	(21,561)
End of financial year	7,484	5,505	300

At the balance sheet date, available-for-sale financial assets included the following:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Investment in listed securities at fair value	7,184	5,205	—
Unlisted equity investments, at cost	300	300	300
	7,484	5,505	300

Investment in listed securities represents the investments in listed shares in certain joint stock limited liability companies in the PRC, which are traded in active markets and are valued at market value at the close of business on the year end date by reference to the stock exchange bid prices.

There is no active market for the unlisted equity investments. As such, it is not practicable to determine reliably the fair value of the unlisted equity investments.

17. Trade and bill receivables

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Trade receivables	183,126	266,590	294,214
Bill receivables	3,657	3,000	—
	186,783	269,590	294,214

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

17. Trade and bill receivables *(cont'd)*

Concentrations of credit risk with respect to trade and bills receivable are limited due to the Group's limited numbers of customers, who are mostly internationally dispersed. In addition, payment guarantees are provided by the customers' banks.

Due to these factors, management believes that there is no significant credit risk in the Group's trade and bill receivables and provision for impairment is not required.

The carrying amounts of trade and bill receivables approximate their fair values and are denominated in RMB.

18. Other receivables, prepayments and other current assets

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Due from previous shareholders of subsidiary (note 38)	34,615	79,779	—
Due from previous associated companies and other related parties (note 38)	6,977	42,185	7,050
Others	5,987	35,012	64,479
Tax recoverable	4,906	29,295	68,755
Deposits for lease of land use right	—	—	200,000
Advances to agents	2,450	9,228	239,928
Advances to suppliers	536,199	1,062,129	1,649,430
	591,134	1,257,628	2,229,642

The amounts due from previous shareholders of subsidiary, previous associated companies and other related parties are unsecured and interest free.

The carrying amounts of other receivables, prepayments and other current assets approximate their fair values and are denominated in the following currencies:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
RMB	559,186	1,238,879	2,157,932
United States Dollar	31,948	13,473	56,441
Euro	—	5,276	15,269
	591,134	1,257,628	2,229,642

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

19. Due from/(to) customers for construction contracts

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Cost incurred	849,534	874,138	889,212
Attributable profit	208,326	203,842	121,987
	1,057,860	1,077,980	1,011,199
Progress billings	(1,265,171)	(2,464,550)	(4,008,171)
	(207,311)	(1,386,570)	(2,996,972)
Represented by:			
Due from customers for construction contracts	476,806	452,658	140,973
Due to customers for construction contracts	(684,117)	(1,839,228)	(3,137,945)
	(207,311)	(1,386,570)	(2,996,972)

20. Loans receivables from third parties

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Current			
Entrusted loans (note (i))	251,000	225,500	237,570
Entrusted investments (note (ii))	50,000	—	—
	301,000	225,500	237,570
Loans to third parties	279,379	235,280	4,000
	580,379	460,780	241,570
Non-current			
Entrusted loans (note (i))	—	436,000	664,000
	580,379	896,780	905,570

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

20. Loans receivables from third parties *(cont'd)*

(i) The Group provided loans to third parties entrusted through banks and the entrusted loans bear interest at rate from 6% to 10% per annum (2004: 8% to 9%, 2005: 6.88% to 10%).

(ii) The entrusted investment was disposed of in 2005.

(iii) The carrying amounts of the loans receivables from third parties approximate their fair values and are denominated in RMB.

21. Inventories

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Raw materials and spare parts	116,016	63,589	75,939

Raw materials mainly consist of metal steel products and fuel which are used in the Group's shipbuilding activities. The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB 1,189,086,223 in 2006 (2004: RMB 637,121,271, 2005: RMB 927,582,433).

22. Property, plant and equipment

The Group

	Buildings	Machinery	Vehicles	Furniture, fixtures and equipments	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2004	114,954	94,032	6,287	2,956	2,955	221,184
Additions	7	1,033	484	4	8,869	10,397
Transfers	1,233	361	92	—	(1,686)	—
Disposals	(576)	(2,670)	(237)	(78)	—	(3,561)
At 31 December 2004	115,618	92,756	6,626	2,882	10,138	228,020

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

22. Property, plant and equipment *(cont'd)*

	Buildings	Machinery	Vehicles	Furniture, fixtures and equipments	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation						
At 1 January 2004	(34,946)	(49,636)	(4,550)	(1,651)	—	(90,783)
Depreciation	(6,774)	(6,492)	(351)	(420)	—	(14,037)
Disposals	247	2,126	180	69	—	2,622
At 31 December 2004	(41,473)	(54,002)	(4,721)	(2,002)	—	(102,198)
Net book value						
At 31 December 2004	74,145	38,754	1,905	880	10,138	125,822

The Group

	Buildings	Machinery	Vehicles	Furniture, fixtures and equipments	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2005	115,618	92,756	6,626	2,882	10,138	228,020
Additions	3,494	3,136	3,648	55	40,810	51,143
Transfers	8,726	1,266	26	—	(10,018)	—
Disposals	—	(628)	(885)	(127)	(3)	(1,643)
At 31 December 2005	127,838	96,530	9,415	2,810	40,927	277,520
Accumulated depreciation						
At 1 January 2005	(41,473)	(54,002)	(4,721)	(2,002)	—	(102,198)
Depreciation	(7,084)	(6,022)	(332)	(327)	—	(13,765)
Impairment loss	(3,141)	—	—	—	—	(3,141)
Disposals	—	538	858	108	—	1,504
At 31 December 2005	(51,698)	(59,486)	(4,195)	(2,221)	—	(117,600)
Net book value						
At 31 December 2005	76,140	37,044	5,220	589	40,927	159,920

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

22. Property, plant and equipment *(cont'd)*

The Group

	Buildings	Machinery	Vehicles	Furniture, fixtures and equipments	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2006	127,838	96,530	9,415	2,810	40,927	277,520
Additions from acquisition of subsidiary (note 14)	—	5	375	32	135,656	136,068
Additions	379	3,195	534	640	394,749	399,497
Transfers	31,752	4,208	—	818	(36,778)	—
Disposal of subsidiaries	—	(7,963)	—	(134)	(10,212)	(18,309)
Disposals	(9,636)	(1,864)	(904)	(218)	—	(12,622)
At 31 December 2006	150,333	94,111	9,420	3,948	524,342	782,154
Accumulated depreciation						
At 1 January 2006	(51,698)	(59,486)	(4,195)	(2,221)	—	(117,600)
Acquisition of subsidiary (note 14)	—	—	(26)	—	—	(26)
Depreciation	(9,346)	(6,279)	(1,175)	(260)	—	(17,060)
Disposal of subsidiaries	—	2,815	—	29	—	2,844
Reversal of impairment loss	3,141	—	—	—	—	3,141
Disposals	3,638	1,668	553	145	—	6,004
At 31 December 2006	(54,265)	(61,282)	(4,843)	(2,307)	—	(122,697)
Net book value						
At 31 December 2006	96,068	32,829	4,577	1,641	524,342	659,457

The impairment loss of RMB 3,141,615 for the financial year ended 31 December 2005 relates to the warehouse, workshop and assembly areas located in the Company's premises. The carrying amounts of these assets were reduced to their recoverable amounts. Such loss has been included in "other gains/(losses)-net" in the income statement for the year ended 31 December 2005. These assets were disposed in year 2006.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

23. Lease prepayments

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Land use rights			
Cost			
At the beginning of the financial year	—	—	—
Acquisition of subsidiary	—	—	98,155
Additions	—	—	44,328
At end of the financial year	—	—	142,483
Accumulated amortisation			
At the beginning of the financial year	—	—	—
Acquisition of subsidiary	—	—	(163)
Amortisation charge	—	—	(1,382)
At the end of the financial year	—	—	(1,545)
Net book value at the end of the financial year	—	—	140,938

The Group's interest in land use rights in the PRC are held on leases for 50 years.

24. Intangible assets

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Computer Software			
Cost			
At the beginning of the financial year	—	—	—
Additions	—	—	168
At end of the financial year	—	—	168
Accumulated amortisation			
At the beginning of the financial year	—	—	—
Amortisation charge	—	—	—
At the end of the financial year	—	—	—
Net book value at the end of the financial year	—	—	168

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

25. Investment in associated companies

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
At beginning of the financial year	4,806	4,852	39,758
Addition	—	37,500	—
Disposal	—	(2,483)	(11,758)
Carrying value of associated company reclassified to investment in subsidiary	—	—	(28,000)
Dividend received/receivable	—	(140)	—
Share of profits, net of tax	46	29	—
At end of the financial year	4,852	39,758	—

A summary of the financial information of the Group's interest in associates in aggregate is as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Total assets	7,274	48,831	—
Total liabilities	2,574	9,272	—
Revenues	605	496	—
Other gains/(losses), net	(14)	(3)	—
Operating profit	—	1	—
Profit for the year	68	42	—

Goodwill amounting to RMB 160,000 was included in the carrying amount of investments in associated companies as at 31 December 2004 and 2005.

The particulars of the Group's associates are set out in note 44.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

26. Trade and bills payables

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Trade payables	172,044	97,906	116,260
Bills payables	130,000	60,000	28,000
	302,044	157,906	144,260

Bills payable are bills of exchange with average maturity dates of less than 6 months. The carrying amounts of trade and bills payables approximate their fair values and are denominated in the following currencies:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
RMB	302,044	157,906	137,022
United States Dollar	—	—	7,238
	302,044	157,906	144,260

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

27. Accruals, other payables and other current liabilities

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Due to previous shareholders of subsidiary (note 38)	6,333	6,783	106,857
Due to previous associated companies (note 38)	—	36,388	—
Due to ultimate shareholders (note 38)	—	—	72,613
Due to related parties (note 38)	11,645	—	—
Welfare payable	13,443	20,738	34,806
Other tax payable	1,959	4,502	7,399
Accrued expenses	38,001	56,302	42,750
Dividends payable to previous shareholders of subsidiary (note 38)	1,029	1,392	245,620
Dividends payable to minority interest equity holders	9,145	6,548	—
Dividends payable to ultimate shareholders (note 38)	—	—	64,249
Advances from customers	2,712	7,248	15
Due to agents	120,271	145,059	250,302
Other payables	7,624	8,358	69,582
	212,162	293,318	894,193

The amounts due to previous shareholders of subsidiary, previous associated companies, ultimate shareholders, related parties and agents are unsecured and interest free.

The carrying amounts of the accruals, other payables and other current liabilities approximate their fair values and are denominated in the following currencies:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
RMB	212,612	293,318	888,127
Singapore Dollar	—	—	6,066
	212,612	293,318	894,193

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

28. Borrowings

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Non-current			
Bank borrowings	50,000	90,351	—
Current			
Short-term bank borrowings	22,096	—	—
Long-term bank borrowings — current portion	575,875	559,299	190,351
Loan from ultimate shareholders (note 38)	—	—	39,015
	597,971	559,299	229,366
Total borrowings	647,971	649,650	229,366
Representing:			
— unguaranteed	22,096	—	39,015
— guaranteed	625,875	649,650	190,351
Total borrowings	647,971	649,650	229,366
Analysed as follows:			
— wholly repayable within five years	647,971	649,650	229,366

The loans were guaranteed by the following third parties:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Guaranteed by:			
China National Machinery and Equipment Import and Export Company	284,492	196,316	—
Industrial Bank Co., Ltd. Nanjing Branch	—	276,843	90,351
Anhui Technology Import and Export Company	—	—	100,000
Guangdong Machinery and Equipment Import and Export Company	180,000	—	—
Jiangsu Ruimin Steel Products Company	41,383	176,491	—
China Ship Building Industry Company	120,000	—	—
Total	625,875	649,650	190,351

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

28. Borrowings *(cont'd)*

An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
RMB			
— at fixed rates	525,000	460,000	150,000
Euro			
— at fixed rates	7,096	—	—
United States Dollar			
— at fixed rates	74,492	189,650	40,351
— at floating rates	41,383	—	—
	115,875	189,650	40,351
Total borrowings	647,971	649,650	190,351

Loan from ultimate shareholder amounting to US$5,000,000 (approximatel RMB 39,015,000) is interest free, unsecured and repayable after the Listing.

The weighted average effective interest rates at the respective balance sheet dates were as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Bank borrowings			
— RMB	3.10%	2.79%	3.33%
— Euro	4.31%	—	—
— United States Dollar	4.52%	4.63%	5.43%

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

28. Borrowings *(cont'd)*

The maturity of the group's total borrowings at the respective balance sheet dates was as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Bank borrowings repayable			
— within one year	597,971	559,299	190,351
— in the second year	50,000	90,351	—
	647,971	649,650	190,351

The exposure of the Group's borrowings to interest rate risks are categorised by the earlier of contractual repricing dates or maturity dates as follow.

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
— Six months or less	232,096	188,246	90,351
— Six months to one year	365,875	371,053	100,000
— One to two years	50,000	90,351	—
	647,971	649,650	190,351

The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

28. Borrowings *(cont'd)*

The carrying amounts and fair values of non-current bank borrowings are as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Carrying amounts	50,000	90,351	—
Fair value	48,513	88,288	—

The fair values of non-current borrowings are estimated based on the discounted cash flow approach using the prevailing market rates of interest available to the Group of 5.76% in 2005 (2004: 5.76%) for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

29. Convertible Loans

	2006
	RMB'000
Principal amount	156,060
Amount classified as derivative (note 30)	(246)
Carrying amount of liability	155,814

On 13 June 2006, our Company entered into a investment agreement (the "Investment Agreement") with SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P and Gemini Asia Growth Inc. (collectively, the "Strategic Investors") and Ren Yuanlin, Wang Dong and Xiang Jianjun, and Ren Jinhua. Under the Investment Agreement, the Strategic Investors subscribed for an aggregate of US$20 million (RMB 156,060,000) of redeemable convertible notes issued by the Company. The convertible loans are unsecured and repayable within 18 months or earlier under certain circumstances as described in the Investment Agreement.

In the event that the Company is not successfully listed on the SGX-ST within 18 months from 13 June 2006, compensation costs at a rate of 6% per annum on the principal amount of the convertible loans is payable by the Company to the Strategic Investors.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

29. Convertible Loans *(cont'd)*

In the event that the Company qualifies for an Initial Public Offering but chooses not to do so, compensation costs at a rate of 15% per annum on the principal amount of the convertible loans is payable by the Company to the Strategic Investors.

In the event that the Company breaches the Investment Agreement, compensation costs at a rate of 20% per annum on the principal amount of the convertible loans is payable by the Company to the Strategic Investors.

As the fair value of the embedded derivative cannot be reliably measured, the fair value of the embedded derivative is calculated as the difference between fair value of the whole instrument and the fair value of the host debt. The value of the conversion right of RMB 246,000, being the difference between the principal amount of the convertible loans of RMB 156,060,000 and its present value of RMB 155,814,000, discounted at an estimated market interest rate of 6%, has been separately accounted as a derivative. (See note 30).

Pursuant to the shareholders' resolution subsequent to year ended 31 December 2006 (note 41), 128,700,000 ordinary shares were issued pursuant to the conversion of the convertible loan, resulting in an increase of RMB 156,060,000 in the share capital of the Company and a corresponding decrease of RMB 156,060,000 in total liabilities.

30. Derivative financial instruments

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Forward foreign exchange contracts	305	—	—
Conversion right (note 29)	—	—	246
	305	—	246

The notional principal amounts of the outstanding forward exchange contracts as at 31 December 2004 is USD10,300,000.

The Group's derivatives do not qualify for hedge accounting.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

31. Deferred income tax

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Deferred tax asset	—	—	(5,130)
Deferred tax liabilities	—	58	—
	—	58	(5,130)

Movements in deferred income tax asset during the year are as follow:–

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
As at 1 January	—	—	—
Credited to income statement	—	—	5,130
As at 31 December	—	—	5,130

Movements in deferred income tax liabilities during the year are as follow:–

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
As at 1 January	—	—	58
Charged directly to equity	—	58	(58)
As at 31 December	—	58	—

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The principal components of deferred income tax assets are the provision for warranties. Deferrred tax liabilities arise from fair value gains from financial assets available for sale.

The deferred income tax assets are expected to be settled within 12 months.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

32. Share capital

	Company	
	No. of shares	Amount
	Issued share capital	Share capital RMB'000
Balance as at date of incorporation and 1 January 2006	1	—*
Issued during the financial year	9,999	74,820
Balance as at 31 December 2006	10,000	74,820

* — Amount less than RMB 1,000.

All issued shares are fully paid.

33. Other reserve

	Statutory surplus reserve (note (i))	Statutory public welfare reserve (note (i))	Reserve fund (note (ii))	Enterprise expansion fund (note (ii))	Revaluation of financial assets, available-for-sale	Reserve on Reverse Acquisition	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2004	7,675	3,837	—	—	—	—	11,512
Revaluation — gross	—	—	—	—	(878)	—	(878)
Profit appropriation	—	—	7,243	7,243	—	—	14,486
Balance at 31 December 2004	7,675	3,837	7,243	7,243	(878)	—	25,120
Balance at 1 January 2005	7,675	3,837	7,243	7,243	(878)	—	25,120
Revaluation — gross	—	—	—	—	1,164	—	1,164
Profit appropriation	—	—	9,258	9,259	—	—	18,517
Balance at 31 December 2005	7,675	3,837	16,501	16,502	286	—	44,801
Balance at 1 January 2006	7,675	3,837	16,501	16,502	286	—	44,801
Revaluation — gross	—	—	—	—	(286)	—	(286)
Adjustment arising from reverse acquisition (note 2.2 &3)	—	—	—	—	—	(200,689)	(200,689)
Profit appropriation	—	—	47,139	—	—	—	47,139
Balance at 31 December 2006	7,675	3,837	63,640	16,502	—	(200,689)	(109,035)

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

33. Other reserve *(cont'd)*

(i) Statutory surplus reserve and statutory public welfare reserve

In accordance with the Company Law and the articles of association of the Group's subsidiaries, the subsidiaries shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve fund reaches 50 percent of each entity's share capital, any further appropriation is optional. The statutory surplus reserve can be utilized to offset prior years' losses or to increase capital with the appropriate approval. However, except for offsetting prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such usage.

The Group's subsidiaries, JYS and JNYS, also appropriate 5% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory public welfare reserve account.

After JYS became a sino-foreign equity joint venture in May 2004, JYS no longer appropriate net profit to these two reserve account.

(ii) Reserve fund and enterprise expansion fund

In accordance with the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" and the Articles of Association of the Group's subsidiaries, JYS and JNYS, appropriations from net profit should be made to the Reserve Fund and Enterprise Expansion Fund, after offsetting accumulated losses from prior years, and before profit distribution to the investors. The subsidiaries, JYS and JNYS, are required to appropriate 5% to each of the reserve fund and enterprise development fund for the year ended 31 December 2004 and 2005 upon the approval of the Board of Directors.

JYS became a wholly foreign invested company pursuant to equity transfer in April 2006. In accordance with the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" and JYS's Articles of Association, appropriation from net profit should not be less than 10% of profit after tax. JYS is required to appropriate 10% to reserve fund for the year ended 31 December 2006 upon approval of the Board of Directors.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

34. Financial guarantee contracts

As at 31 December 2004, 2005 and 2006, the Group provided guarantees in respect of loan facilities granted by certain bank to certain companies. These companies are the agents and related parties of the Group. Pursuant to the terms of the guarantees, upon default in loan payments by those companies, the Group is responsible to repay the outstanding loan principal together with accrued interest and penalty owed by those companies to the bank. The amounts of these guarantees as at the respective balance sheet dates are listed as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within 1 year	30,000	147,500	71,544
1 to 2 years	81,553	91,383	—
	111,553	238,883	71,544

35. Contingent liabilities

The Group has contingent liabilities in respect of guarantees arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

(a) Guarantees provided to agents for the performance guarantees

The Group has acted as the guarantor for the agents in respect of performance guarantee provided by the bankers to the Company's customers. The amounts and maturities of these guarantees as at the respective balance sheet dates are set out as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
1 to 2 years	—	163,099	285,420
2 to 3 years	167,268	188,175	379,800
Over 3 years	63,646	165,634	549,420
	230,914	516,908	1,214,640

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

35. Contingent liabilities *(cont'd)*

(b) Performance guarantees

The Group is contingently liable to its bankers in respect of performance guarantees provided by the bankers to the Group's customers. The amounts and maturities of the guarantees as at the respective balance sheet dates are follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Within 1 year	87,897	2,889	393,130
1 to 2 years	47,100	10,179	842,042
2 to 3 years	47,100	193,776	473,402
Over 3 years	—	199,884	—
	182,097	406,728	1,708,574

36. Commitments

(a) Capital commitments

Capital expenditure contracted for at balance sheet date but not yet incurred are as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	—	—	347,992

(b) Letters of credit

The Group's bankers had issued several letters of credit for the import of parts by the Group. As at 31 December 2006, RMB 79,927,564 (2004: RMB 12,454,535; 2005: RMB 13,851,451) was outstanding under these letters of credit.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

36. Commitments *(cont'd)*

(c) Operating lease commitments

The Group leases land use right and port line use right under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
No later than 1 year	—	1,701	6,471
Later than 1 year and no later than 5 years	—	6,805	11,999
Later than 5 years	—	7,203	5,501
	—	15,709	23,971

37. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

(a) Credit risk

Concentration of credit risk with respect to the accounts receivable is limited due to the Group's customers, who are mostly internationally dispersed. The Group has policies in place to ensure that sales of products are made to customers with appropriate guaranteed letters of credit from registered banks of the customers' home countries. The directors are of the opinion that the Group has no significant concentrations of credit risk.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

37. Financial risk management *(cont'd)*

(b) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings. The interest rates and terms of repayment of borrowings are disclosed in Note 28. Other financial assets and liabilities do not have material interest rate risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and/or the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Foreign exchange risk

The Group sells to customers around the world and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US dollars and the Euro. The Group uses occasionally foreign currency forward contracts transacted with domestic and overseas registered banks, to manage its exposure to foreign currency risk in connection with the Renminbi.

38. Related party transactions

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, during the year and balances arising from related party transactions for the years ended 31 December 2004, 2005 and 2006.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

38. Related party transactions *(cont'd)*

(a) Related party transactions

The Group had the following significant transactions with the following related parties.

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Transactions with previous shareholders of subsidiary			
Payment on behalf			
The Labour Union of the Company	1,480	—	—
Employee Equity Association	2,268	1,715	—
Tongbao (Hongkong) Shipping Co., Ltd.	—	1,200	—
Entrusted loan to			
Jiangsu Runhua Techology Investment Co., Ltd	—	—	30,000
Interest income			
Jiangsu Runhua Technology Investment Co., Ltd	—	—	1,049
Advance to			
Jiangsu Runhua Technology Investment Co., Ltd	21,800	—	6,762
Miao Weiqun	—	37,000	—
Wang Dong	—	33,900	—
Transactions with previous associated companies			
Payment on behalf			
Zhang Jiagang Yangzi Ship-breaking Co., Ltd.	353	663	—
Advance to			
Jiangsu New Yangzi Ship Building Co., Ltd	3,300	—	—
Transactions with other related parties			
Payment on behalf			
Jiangyin Liantong Industry Co., Ltd.	—	55,500	—
Advance to			
Tongbao (Shanghai) Shipping Co., Ltd.	—	2,500	—
Service provided by			
Tongbao (Shanghai) Shipping Co., Ltd	426	324	34
Transactions with ultimate shareholders			
Loans and advances from			
Ren Jinhua	—	—	19,765
Ren Yuanlin	—	—	34,792
Wang Dong	—	—	2,829
Xiang Jianjun	—	—	2,402
Cai Zhengshun	—	—	2,185
Huang Jialu	—	—	2,178
Su Pinhua	—	—	2,024
Gao Qiang	—	—	1,745
Yu Weiping	—	—	1,741
Lido Point Investments Ltd	—	—	41,968

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

38. Related party transactions *(cont'd)*

(b) Related party balances

The Group had the following balances with related parties:

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Balances with previous shareholders of subsidiary			
Other receivables			
The Labour Union of the Company	1,480	1,300	—
Miao Weiqun	—	37,000	—
Wang Dong	—	33,900	—
Tongbao (Hongkong) Shipping Co., Ltd.	—	1,200	—
Employee Equity Association	3,097	2,107	—
Jiangsu Runhua Technology Investment Co., Ltd.	30,038	4,272	—
Other payables, accruals and other current liabilities			
The Labour Union of the Company	6,333	6,783	106,857
Dividends payable			
Jiangsu Runhua Technology Investment Co., Ltd.	160	160	22,560
The Labour Union of the Company	869	1,232	139,060
Tongbao (Hongkong) Shipping Co., Ltd[(1)]	3,233	470	84,000
Balances with previous associated companies			
Other receivables			
Jiangsu New Yangzi Ship Building Co., Ltd	3,300	—	—
Zhang Jiagang Yangzi Ship-breaking Co., Ltd.	1,052	615	—
Other payables, accruals and other current liabilities			
Jiangsu New Yangzi Ship Building Co., Ltd	—	36,388	—
Balances with other related parties			
Other receivables			
Tongbao (Shanghai) Shipping Co., Ltd.	2,625	5,035	—
Jiangyin Liantong Industry Co., Ltd.	—	36,535	7,050
Other payables			
Jiangyin Liantong Industry Co., Ltd.	11,645	—	—

(1) Dividend payable to Tongbao (Hongkong) Shipping Co., Ltd as at 31 December 2004 and 2005 relates to dividend arising from its minority interest in Jiangyin Yangjiang Ship Engineering Co., Ltd.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

38. Related party transactions *(cont'd)*

(b) Related party balances (cont'd)

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Balances with ultimate shareholders			
Other payables			
Lido Point Investments Ltd	—	—	2,953
Ren Jinhua	—	—	19,765
Ren Yuanlin	—	—	34,791
Wang Dong	—	—	2,829
Xiang Jianjun	—	—	2,402
Cai Zhengshun	—	—	2,185
Huang Jialu	—	—	2,178
Su Pinhua	—	—	2,024
Gao Qiang	—	—	1,745
Yu Weiping	—	—	1,741
Borrowings			
Lido Point Investments Ltd	—	—	39,015
Dividend payables			
Ren Yuanlin	—	—	44,800
Wang Dong	—	—	3,640
Xiang Jianjun	—	—	3,094
Cai Zhengshun	—	—	2,814
Huang Jialu	—	—	2,805
Su Pinhua	—	—	2,606
Gao Qiang	—	—	2,247
Yu Weiping	—	—	2,243

Jianyin Liantong Industry Co., Ltd. is a company owned by a previous shareholder, and a minority shareholder of JNYS.

Tongbao (Shanghai) Shipping Co., Ltd. is a company owned by one of the ultimate shareholders.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

38. Related party transactions *(cont'd)*

(c) Key management personnel compensation

Key Management personnel compensation is analysed as follow:–

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Directors			
Basic salaries	92	137	69
Contributions to pension plans	96	128	74
Discretionary bonuses	206	260	161
Senior management			
Basic salaries	82	137	193
Contributions to pension plans	85	132	203
Discretionary bonuses	183	272	437
	744	1,066	1,137

39. Dividends

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Ordinary dividends			
Interim dividends declared in respect of current year	4,000	16,500	731,500

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

40. Segment information

(a) Business segments

For the financial year ended 31 December 2004	Shipbuilding	Entrusted loans and loans to third parties	Total
	RMB'000	RMB'000	RMB'000
Revenue	988,829	7,129	995,958
Segment result	194,606	7,129	201,735
Other income			3,585
Other gains/(losses) -net			7,489
Unallocated costs			(24,828)
Finance expense			(17,611)
Share of profit of associated companies			46
Profit before income tax			170,416
Income tax expense			(12,692)
Net profit			157,724
Other segment items			
Capital expenditure:			
— property, plant and equipment	10,397	—	10,397
Depreciation	14,037	—	14,037
Segment assets	1,658,554	580,379	2,238,933
Unallocated assets			67,271
Total assets			2,306,204
Segment liabilities	1,109,144	—	1,109,144
Unallocated liabilities			771,122
Total liabilities			1,880,266

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

40. Segment information *(cont'd)*

(a) Business segments (cont'd)

For the financial year ended 31 December 2005	Shipbuilding	Entrusted loans and loans to third parties	Total
	RMB'000	RMB'000	RMB'000
Revenue	1,532,572	46,622	1,579,194
Segment result	304,468	46,622	351,090
Other income			6,152
Other gains/(losses) -net			(5,857)
Unallocated costs			(34,644)
Finance expense			(17,586)
Share of profit of associated companies			29
Profit before income tax			299,184
Income tax expense			(15,805)
Net profit			283,379
Other segment items			
Capital expenditure:			
— property, plant and equipment	51,143	—	51,143
Depreciation	13,765	—	13,765
Impairment loss	3,141	—	3,141
Segment assets	2,555,151	896,780	3,451,931
Unallocated assets			231,534
Total assets			3,683,465
Segment liabilities	2,149,441	—	2,149,441
Unallocated liabilities			840,088
Total liabilities			2,989,529

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

40. Segment information *(cont'd)*

(a) Business segments (cont'd)

For the financial year ended 31 December 2006	Shipbuilding	Entrusted loans and loans to third parties	Total
	RMB'000	RMB'000	RMB'000
Revenue	2,324,984	68,390	2,393,374
Segment result	496,451	68,390	564,841
Other income			7,429
Other gains/(losses) -net			15,128
Unallocated costs			(57,995)
Finance expense			(10,538)
Profit before income tax			518,865
Income tax expense			(65,650)
Net profit			453,215
Other segment items			
Capital expenditure:			
— property, plant and equipment	535,565	—	535,565
— lease prepayments	142,483	—	142,483
— intangible assets	168	—	168
Depreciation	17,086	—	17,086
Amortisation	1,545	—	1,545
Segment assets	3,864,004	905,570	4,769,574
Unallocated assets			345,974
Total assets			5,115,548
Segment liabilities	3,532,522	—	3,532,522
Unallocated liabilities			1,115,347
Total liabilities			4,647,869

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

40. Segment information *(cont'd)*

(a) Business segments (cont'd)

For the three years ended 31 December 2004, 2005 and 2006, the Group is organised into two main business segments:

(i) Shipbuilding

(ii) Entrusted loans and loans to third parties

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, lease prepayments, intangible assets, inventories, trade and bills receivables, advances to agents and suppliers, due from customers from construction contracts, loan receivables from third parties and cash, and exclude other receivables, deferred tax assets and other investments. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities, bank borrowings, convertible loans. Capital expenditure comprises additions to property, plant and equipment, lease prepayment and intangible assets, including those acquired through business combinations.

(b) Geographical segments

The Group's sales, based on the customers' location, are mainly in countries such as Germany, China, Singapore and other European countries.

	The Group		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Germany	859,959	1,168,543	1,662,321
Other European Countries	53,945	193,034	260,748
Singapore	—	170,992	232,847
China	74,925	3	169,068
	988,829	1,532,572	2,324,984

The Group's assets are located in the People's Republic of China.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

41. Events occurring after balance sheet date

(a) On 12 March 2007, the shareholders passed resolutions to approve, among other things, the following:–

(i) the subdivision of every one ordinary share in the share capital of the Company into 251,000 shares;

(ii) the conversion of the Company to a public limited company and the change of name from "Yangzijiang Shipbuilding (Holdings) Pte Ltd" to "Yangzijiang Shipbuilding (Holdings) Ltd.";

(iii) the adoption of a new set of Articles of Association;

(iv) the allotment and issue of 128,700,000 ordinary shares in the share capital of the Company pursuant to the conversion of the convertible loans;

(v) the allotment and issue of the New Shares which are the subject of the Offering. The New Shares, when allotted, issued and fully paid-up, will rank pari passu in all respects with the existing Shares; and

(vi) that authority be given pursuant to Section 161 of the Singapore Companies Act to the Directors to allot and issue shares and/or convertible securities (where the maximum number of shares to be issued upon conversion is determinable at the time of the issue of such securities) in our Company (whether by way of rights, bonus, or otherwise) at any time and from time to time thereafter to such persons and on such terms and conditions for and such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed 50.0 per cent. of the issued share capital of our Company, of which the aggregate number of shares and/or convertible securities to be issued other than on a pro rata basis to existing Shareholders shall not exceed 20.0 per cent. of the issued share capital of our Company (the percentage of issued share capital being based on the issued share capital at the time such authority is given after adjusting for new shares arising from the conversion of any convertible securities or employee share options in issue at the time such authority is given and any subsequent consolidation or subdivision of shares) and unless revoked or varied by our Company in general meeting and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of our Company is required by law to be held, whichever is the earlier.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the financial years ended 31 December 2004, 2005 and 2006

41. Events occurring after balance sheet date *(cont'd)*

(b) Acquisition of additional interest in subsidiary, JNYS

On 28 January 2007, SEAVI Advent Asia Investments (III) Ltd ("SEAVI") acquired an aggregate of 25.0% equity interest from the JYS minority shareholders for US$33.3 million (approximately RMB259.0 million), based on independent valuation conducted by Sallmanns (Far East) Limited, which was used as a reference to determine the consideration (the "SEAVI Acquisition"). Subsequently, the Company and SEAVI entered into an equity transfer agreement dated 16 March 2007 to acquire SEAVI's 25.0% interest in JNYS for the same consideration paid in SEAVI in the SEAVI Acquisition.

This equity transfer agreement is conditional, among other things, upon the listing of the Company on the SGX-ST and the receipt of the relevant approvals from the PRC authorities, and when completed, the Company's interest in JNYS would increase to 75.2%. The Company intend to fund the acquisition out of the net proceeds from the Offering.

42. New accounting standards and FRS interpretations

Certain new standards, amendments and interpretations to existing standards have been published and they are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

FRS 107, *Financial Instruments: Disclosures, and a complementary Amendment to FRS 1, Presentation of Financial Statements — Capital Disclosures*

The Group has adopted FRS 107 on 1 January 2007, which is the effective date of the Standard.

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk (including sensitivity analysis to market risk). It replaces the disclosure requirements in FRS 32, *Financial Instruments: Disclosure and Presentation.*

The amendment to FRS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Group has assessed the impact of FRS 107 and the amendment to FRS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of FRS 1.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

43. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Yangzijiang Shipbuilding (Holdings) Ltd on 19 March 2007.

44. Listing of significant companies in the Group

Name	Place and date of establishment	Paid-in capital (RMB'000)			Attributable equity interests			Principal activities
		2004	2005	2006	2004	2005	2006	
Subsidiaries								
Jiangsu Yangzijiang Shipbuilding Co., Ltd	Jiangyin the PRC, 22 December 1999	110,000	110,000	110,000	—	—	100%	Building, repair, dismantling of vessels with tonnage of 55,000 tons or less; Production and processing of large scale steel structures, belt transportation machinery; Production of oxygen and nitrogen; Sale and provision of technical consultancy services and after sales service with regards to products produced by the company.
Jiangsu New Yangzi Ship Building Co., Ltd.	Jiangyin the PRC, 12 May 2005	—	242,800	518,000	—	11.53%	50.19%	Ship manufacturing, maintenance and breaking; Large-scale steel structure products processing and manufacturing; Sale of self-manufactured products and after-sale service; Import & Export business for various merchandise and technologies.
Jiangyin Sumeida Ship Engineering Co., Ltd.	Jiangyin, the PRC 24 May 2000	1,000	1,000	—	75%	75%	—	Producing, processing and selling ship outfitting products and large-scale steel structure products
Jiangyin Yangzijiang Ship Engineering Co., Ltd.	Jiangyin, the PRC 30 April 2003	1,200	1,200	—	66.67%	66.67%	—	Producing environmental, purification equipment, ship outfitting products and supplying related technology and installation services.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the financial years ended 31 December 2004, 2005 and 2006

44. Listing of significant companies in the Group *(cont'd)*

Name	Place and date of establishment	Paid-in capital (RMB'000)			Attributable equity interests			Principal activities
		2004	2005	2006	2004	2005	2006	
Associated companies								
Zhang Jiagang Yangzi Ship-breaking Co., Ltd	Zhang Jiagang the PRC, 3 June 1999	10,000	10,000	—	20%	20%	—	Ship breaking and maintenance; Steel structure manufacturing
Jiangsu Province Jiangyin Economic Development Zone Jinjiang Park Runzhou Steel-Structure Engineering Co., Ltd.	Jiangyin the PRC, 25 April 2005	—	28,843	—	—	32.94%	—	Producing and selling steel structure products
Jiangyin Ulstein Yangzijiang Ship Building Co., Ltd.	Jiangyin the PRC, 28 April 2003	6,208	—	—	40%	—	—	Developing, designing producing and selling ships for marine operation and the related parts

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REPORTING AUDITOR'S REPORT ON THE EXAMINATION OF THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

The Board of Directors
Yangzijiang Shipbuilding (Holdings) Ltd.
80 Raffles Place
#32-01 UOB Plaza 1
Singapore 048624

19 March 2007

Dear Sirs,

This Report has been prepared for inclusion in the Prospectus (the "Prospectus") in connection with the initial public offering of the ordinary shares in Yangzijiang Shipbuilding (Holdings) Ltd. (the "Company") (the "Offering").

We report on the Unaudited Pro Forma Financial Statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries (referred to collectively as "the Group") set out on pages F-3 and F-67 of the Prospectus, which have been prepared for illustrative purposes only, in accordance with the provisions set out in the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 and are based on certain assumptions after making certain adjustments to show what: –

(a) the financial results of the Group for the financial year ended 31 December 2006, would have been if the initial acquisition of additional interest in Jiangsu New Yangzi Ship Building Co., Ltd during the year ended 31 December 2006 (the "Initial Acquisition"), the acquisition of additional interest in Jiangsu New Yangzi Ship Building Co., Ltd subsequent to the year ended 31 December 2006 (the "Additional Acquisition") (as described in Note 2.1 and 2.6 to the Unaudited Pro Forma Financial Statements of the Group) and the conversion of convertible loans (Note 30) (the "Conversion") had occurred on 1 January 2006;

(b) the financial position of the Group as at 31 December 2006 would have been if the Initial Acquisition, Additional Acquisition and Conversion had occurred on 31 December 2006; and

(c) the changes in equity, and the cash flows of the Group for the financial year ended 31 December 2006 would have been if the Initial Acquisition, Additional Acquisition and Conversion had occurred on 1 January 2006.

The Unaudited Pro Forma Financial Statements, because of their nature, may not give a true picture of the Group's actual financial results, financial position, changes in equity and cash flows.

The Unaudited Pro Forma Financial Statements are the responsibility of the directors of Yangzijiang Shipbuilding (Holdings) Ltd. (the "Directors"). Our responsibility is to express an opinion on the Unaudited Pro Forma Financial Statements based on our work.

It should be noted that the Unaudited Pro Forma Financial Statements was not prepared in connection with an offering registered with the United States Securities and Exchange Commission (SEC) under the Securities Act and consequently is not compliant with the SEC's rules on presentation of pro forma financial statements. Furthermore, our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it has been carried out in accordance with those standards. As such, a US investor should not place reliance on the Unaudited Pro Forma Financial Statements included in the Prospectus.

We carried out procedures in accordance with Singapore Statement of Auditing Practice ("SSAP") 24: "Auditors and Public Offering Documents". Our work, which involved no independent examination of the underlying financial statements, consisted primarily of comparing the Unaudited Pro Forma Financial Statements to the financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. (or where information is not available in these financial statements, to accounting records), considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Statements with the Directors.

In our opinion:

(a) the Unaudited Pro Forma Financial Statements have been properly prepared:

  (i) in a manner consistent with the accounting policies of the Group, and

  (ii) on the basis set out in Note 4 to the Unaudited Pro Forma Financial Statements of the Group; and

(b) each material adjustment set out in Note 5 made to the information used in the preparation of the Unaudited Pro Forma Financial Statements is appropriate for the purpose of preparing such financial statements.

Yours faithfully

PricewaterhouseCoopers
Certified Public Accountants
Singapore

Partner-in-charge: Tham Tuck Seng

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

UNAUDITED PRO FORMA INCOME STATEMENT

For the financial year ended 31 December 2006

	Notes	The Group 2006 RMB'000
Revenue	8	2,324,984
Cost of sales	11	(1,828,533)
Gross profit		496,451
Other income	9	78,729
Other gains — net	10	15,128
Expenses		
— Administrative	11	(59,705)
— Finance	13	(10,538)
Profit before income tax		520,065
Income tax expense	14	(65,650)
Net profit		**454,415**
Attributable to:		
Equity holders of the Company		454,722
Minority interest		(307)
		454,415
Earnings per share attributable to equity holders of the Company (expressed in RMB cents per share)		
— Basic	15	17.23
— Diluted	15	17.23

The accompanying notes form an integral part of these unaudited pro forma financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

UNAUDITED PRO FORMA BALANCE SHEET

As at 31 December 2006

	Notes	The Group 2006 RMB'000
ASSETS		
Current assets		
Cash and cash equivalents	16	—
Restricted cash	17	447,625
Financial assets, available-for-sale	18	300
Trade and bills receivables	19	294,214
Other receivables, prepayments and other current assets	20	2,229,642
Due from customer for construction contracts	21	140,973
Loan receivables from third parties	22	241,570
Inventories	23	75,939
		3,430,263
Non-current assets		
Property, plant and equipment	24	659,457
Lease prepayment	25	140,938
Intangible assets	26	168
Deferred income tax assets	32	5,130
Loan receivables from third parties	22	664,000
		1,469,693
Total assets		4,899,956
LIABILITIES		
Current liabilities		
Trade and bills payables	27	144,260
Accruals, other payables and other current liabilities	28	937,601
Due to customer for construction contracts	21	3,137,945
Current income tax liabilities	14	86,045
Borrowings	29	229,366
		4,535,217
NET ASSETS		364,739
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital		266,097
Other reserves	34	(109,035)
Retained earnings		80,059
		237,121
Minority interests		127,618
Total equity		364,739

The accompanying notes form an integral part of these unaudited pro forma financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

UNAUDITED PRO FORMA STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2006

		Attributable to equity holders of the Company				
		Share capital	Other reserves	Retained earnings	Minority interest	Total equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006 #		110,000	44,801	533,419	5,716	693,936
Fair value (loss), net of tax		—	(286)	—	(142)	(428)
Net profit for the financial year		—	—	454,722	(307)	454,415
Total recognised gains and losses for the financial year		—	**(286)**	**454,722**	**(449)**	**453,987**
Adjustment arising from reverse acquisition (note 2.2 &3)		37	(200,689)	—	—	(200,652)
Acquisition of subsidiary		—	—	(129,443)	127,840	(1,603)
Disposal of subsidiaries		—	—	—	(5,489)	(5,489)
Profit appropriation	34	—	47,139	(47,139)	—	—
Interim dividends declared		—	—	(731,500)	—	(731,500)
Issue of ordinary shares pursuant to the conversion of convertible loan		156,060	—	—	—	156,060
Balance at 31 December 2006		**266,097**	**(109,035)**	**80,059**	**127,618**	**364,739**

Share capital and reserves prior to the date of reverse acquisition represented that of Jiangsu Yangzijiang Shipbuilding Co., Ltd., the legal subsidiary who is considered the acquirer in connection with the reverse acquisition for accounting purposes.

The accompanying notes form an integral part of these unaudited pro forma financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

UNAUDITED PRO FORMA CASH FLOW STATEMENT

For the financial year ended 31 December 2006

	Notes	2006 RMB'000
Cash flows from operating activities		
Net profit		454,415
Adjustments for:		
Tax		65,650
Depreciation on property, plant and equipment		16,483
Amortisation of land use rights		1,545
Gain on disposal of property, plant and equipment		(166)
Loss on disposal of subsidiaries		268
Loss on disposal of associates		459
Gain on disposal of available-for-sale financial assets		(1,532)
Excess of fair value of net assets over cost of acquisition		(602)
Interest expense		20,070
Interest income		(78,729)
Unrealised exchange gains		(9,532)
Operating cash flow before working capital change		468,329
Change in operating assets and liabilities:		
Inventories		(16,638)
Due from/(to) customers for construction contracts		1,610,979
Trade and bills receivable, net		(37,964)
Other receivables, prepayment and other current assets		(770,628)
Trade and bills payable		4,570
Accruals, other payables and other current liabilities		288,061
Restricted cash		(98,451)
Cash generated from operations		1,448,258
Interest paid		(20,070)
Income taxes paid		(34,104)
Net cash provided by operating activities		**1,394,084**
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment		3,643
Proceeds from sales of investment in associates		11,299
Proceeds from sales of financial assets, available-for-sale		23,093
Proceeds from sales of investment in subsidiaries		5,703
Loans granted to third parties		(604,070)
Loans repayments received from third parties		635,280
Interest received		78,729
Purchase of property, plant and equipment		(399,446)
Acquisition of subsidiary in a reverse acquisition	2.1	(200,652)
Acquisition of subsidiary, net of cash acquired		(422,238)
Acquisition of available-for-sale financial assets		(16,842)
Acquisition of land use right		(18,000)
Acquisition of intangible assets		(168)
Net cash used in investing activities		**(903,669)**

The accompanying notes form an integral part of these unaudited pro forma financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

UNAUDITED PRO FORMA CASH FLOW STATEMENT

For the financial year ended 31 December 2006

	Notes	2006 RMB'000
Cash flows from financing activities		
Proceeds from convertible loans		156,060
Proceeds from borrowings		139,015
Repayments of borrowings		(556,124)
Dividends paid to equity holders		(423,023)
Dividends paid to minority shareholders		—
Net cash used in financing activities		**(684,072)**
Net decrease in cash and cash equivalents		(193,657)
Cash and cash equivalents at the beginning of the financial year		188,863
Effects of exchange rate changes on cash and cash equivalents		6,157
Proforma adjustment		(1,363)
Cash and cash equivalents at the end of the financial year		—

The accompanying notes form an integral part of these unaudited pro forma financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company was incorporated in Singapore on 21 December 2005 as a private limited company under the name of Yangzijiang Shipbuilding (Holdings) Pte. Ltd. (Company Registration No. 200517636Z). On 15 March 2007, the Company was converted into a public company and changed its name to Yangzijiang Shipbuilding (Holdings) Ltd.

The Company is domiciled in Singapore and the address of its registered office is 80 Raffles Place #32-01 UOB Plaza 1 Singapore 048624.

The principal activity of the Company is that of investment holding. The principal activities of the legal subsidiaries are described in note 45.

Pursuant to the reverse acquisition of the Company by Jiangsu Yangzijiang Shipbuilding Co., Ltd ("JYS"), entered into on 3 April 2006 (note 2), the unaudited pro forma financial statements of the Group is prepared and presented as a continuation of JYS, which is considered the acquirer for reverse acquisition accounting purposes. The accounting for reverse acquisition is further described in note 3.

2. Restructuring of the Group

2.1 Increase in equity interest in Jiangsu New Yangzi Shipbuilding Co., Ltd ("JNYS")

Pursuant to equity transfer agreements dated 3 April 2006 between JYS and 2 shareholders of JNYS, JYS acquired an additional interest of 15.8% of the then registered capital of JNYS (RMB 242.8million) for a total consideration of RMB 38.4 million. Concurrently, the registered capital of JNYS was increased from RMB 242.8 million to RMB 518.0 million and JYS invested an additional RMB 193.6 million pursuant to the capital increase and its shareholding in JNYS was increased from 11.53% to 50.19%.

2.2 Reverse acquisition of the Company (the "Acquisition")

The Company was founded by the shareholders of JYS as a holding company to acquire the entire equity interest in JYS.

The Company acquired an aggregate of 72.7% equity interest in JYS from Jiangsu Runhua Technology Investment Co., Ltd, Jiangsu Yangzijiang Shipbuilding Co., Ltd Labour Union and 8 individual shareholders (collectively the JYS "Vendors"), pursuant to various equity transfer agreements dated 3 April 2006. The aggregate consideration paid to the JYS Vendors was US$24.9 million, based on a valuation of assets and liabilities of JYS as at 28 February 2006 by Jiangyin Jiyang Certified Public Accountants Co., Ltd, an independent valuer appointed for the purpose of the acquisition.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

2. Restructuring of the Group *(cont'd)*

2.2 Reverse acquisition of the Company (the "Acquisition") (cont'd)

Separately, the Company also acquired the remaining 27.3% equity interest in JYS held by Tongbao (HongKong) Shipping Co., Ltd, pursant to an equity transfer agreement dated 3 April 2006 between the Company and Tongbao (HongKong) Shipping Co., Ltd (which was amended by a supplemental agreement dated 1 July 2006). The consideration was US$9.4 million, based on a valuation of the assets and liabilities of JYS as at 28 February 2006. The consideration is satisfied by the issuance of 2,727 new ordinary shares of the Company to Lido Point Investments Ltd., as nominee of Tongbao (HongKong) Shipping Co., Ltd.

Following the completion of the above acquisitions in JYS equity interests, JYS became the wholly-owned subsidiary of the Company.

2.3 Investment by Strategic Investors and the Conversion

On 13 June 2006, the Company entered into a investment agreement (the "Investment Agreement") with SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P. and Gemini Asia Growth Inc. (collectively, the "Strategic Investors") and Ren Yuanlin, Wang Dong and Xiang Jianjun, and Ren Jinhua. Under the Investment Agreement, the Strategic Investors subscribed for an aggregate of US$20 million of redeemable convertible notes issued by the Company. The proceeds from the investment by the Strategic Investors were utilized by the Company to fund the Acquisition as described in note 2.2. On 16 March 2007, the US$20 million of redeemable convertible notes were converted into an aggregate of 128,700,000 shares, based on an issue price of S$0.2374 for each new share.

2.4 Ancillary loans in connection with the acquisition of JYS.

Pursuant to a loan agreement dated 13 June 2006 between the Company and Lido Point Investments Ltd., Lido Point Investments Ltd. extended a loan of US$5 million to the Company. The loan is interest-free, unsecured and repayable after the listing on SGX-ST (the "Listing"). The loan from Lido Point Investments Ltd. is used to finance part of the purchase consideration of the Acquisition as described in note 2.2.

At the request of the Strategic Investors, the JYS Vendors (except for Jiangsu Runhua Technology Investment Co., Ltd) extended an aggregate of RMB 156.8 million in loans to JYS for its working capital purposes.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

2. Restructuring of the Group *(cont'd)*

2.5 Divestment by JYS of four companies

Pursuant to four equity transfer agreements dated 1 April 2006 between the Company and Jiangyin Zezhou Investment Co., Ltd, JYS transferred its entire equity interest in the following companies to Jiangyin Zezhou Investment Co., Ltd for a total consideration of RMB 24.7 million. The disposal was completed in June 2006.

Name of companies	Equity Interest
Jiangyin Yangzijiang Ship Engineering Co., Ltd	66.7%
Jiangyin Sumeida Ship Engineering Co., Ltd	75%
Jiangsu Province Jiangyin Economic Development Zone Jingjiang Park Runzhou Steel-Structure Engineering Co., Ltd	38.3%
Zhangjiagang Yangzi Ship Breaking Co., Ltd	20%

2.6 Acquisition of additional interest in subsidiary, JNYS

On 28 January 2007, SEAVI Advent Asia Investments (III) Ltd ("SEAVI") acquired an aggregate of 25.0% equity interest from the JYS minority shareholders for US$33.3 million (approximately RMB 259.0 million), based on an independent valuation conducted by Sallmanns (Far East) Limited, which was used as a reference to determine the consideration (the "SEAVI Acquisition"). Subsequently, the Company and SEAVI entered into an equity transfer agreement dated 16 March 2007 to acquire SEAVI's 25.0% interest in JNYS for the same consideration paid by SEAVI in the SEAVI Acquisition.

This equity transfer agreement is conditional, among other things, upon the listing of the Company on the SGX-ST and the receipt of the relevant approvals from the PRC authorities, and when completed, the Company's interest in JNYS would increase to 75.2%. The Company intend to fund the acquisition out of the net proceeds from the Offering.

3. Accounting for the business combination between the Company and JYS

3.1 At Group level

The Acquisition as described in note 2.2 has been accounted for as a reverse acquisition in the Unaudited Pro Forma Financial Statements of the Group. JYS, which is the legal subsidiary, is considered the acquirer for accounting purposes. Accordingly, the unaudited pro forma income statements, unaudited pro forma balance sheets, unaudited pro forma statements of changes in equity and unaudited pro forma cash flow statements of the Group for the financial year ended 31 December 2006 have been prepared as a continuation of JYS's financial statements.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

3. Accounting for the business combination between the Company and JYS *(cont'd)*

3.1 At Group level (cont'd)

Since such Unaudited Pro Forma Financial Statements represent a continuation of the financial statements of the legal subsidiary, JYS,

(a) The assets and liabilities of JYS are recognised and measured in the unaudited pro forma balance sheet at their pre-combination carrying amounts;

(b) The retained earnings and other equity balances recognised in the Unaudited Pro Forma Financial Statements are the retained earnings and other equity balances of JYS immediately before the business combination; and

(c) The amount recognised as issued equity in the Unaudited Pro Forma Financial Statements is determined by adding to the issued equity of JYS immediately before the business combination the cost of the acquisition deemed to have been incurred by JYS in the reverse acquisition of the Company. The cost of the acquisition by JYS of the Company is RMB 37,000. However, the equity structure appearing in the Unaudited Pro Forma Financial Statements (i.e. the number and the type of equity issued) reflect the equity structure of the Company, being the legal parent, to effect the combination.

4. Basis of presentation and compilation of the Unaudited Pro Forma Financial Statements

4.1 The Unaudited Pro Forma Financial Statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries (the "Group") have been prepared for illustrative purposes only and are based on certain assumptions after making certain adjustments to show what: –

(a) the financial results of the Group for the financial year ended 31 December 2006, would have been if the initial acquisition of additional interest in Jiangsu New Yangzi Ship Building Co., Ltd during the year ended 31 December 2006 (the "Initial Acquisition") and the acquisition of additional interest in Jiangsu New Yangzi Ship Building Co., Ltd subsequent to the year ended 31 December 2006 (the "Additional Acquisition") (as described in Note 2.1 and 2.6 to the Unaudited Pro Forma Financial Statements of the Group) and the Conversion of convertible loans (Note 30) (the "Conversion") had occurred on 1 January 2006;

(b) the financial position of the Group as at 31 December 2006 would have been if the Initial Acquisition, Additional Acquisition and Conversion had occurred on 31 December 2006; and

(c) the changes in equity, and the cash flows of the Group for the financial year ended 31 December 2006 would have been if the Initial Acquisition, Additional Acquisition and Conversion had occurred on 1 January 2006.

4.2 The Unaudited Pro Forma Financial Statements of the Group, because of their nature, may not give a true picture of the Group's actual financial results, financial positions, changes in shareholder's equity and cash flows. The Unaudited Pro forma Financial Statements of the Group is not necessarily indicative of results of the operations, related effects on the financial position, changes in equity and reserves or cash flows that would have been attained had the acquisitions as noted in note 2.1 and 2.6 actually occurred earlier. Hence the Unaudited Pro Forma Financial Statements are for illustrative purposes only.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

4. Basis of presentation and compilation of the Unaudited Pro Forma Financial Statements *(cont'd)*

4.3 The Unaudited Pro Forma Financial Statements have been prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are expressed in RMB. They have been compiled based on the audited consolidated financial statements of Yangzijiang Shipbuilding (Holdings) Ltd. and its subsidiaries for the financial year ended 31 December 2006 which were prepared in accordance with Singapore Financial Reporting Standards and audited by PricewaterhouseCoopers, Certified Public Accountants, in accordance with Singapore Standards on Auditing. The auditor's report on the financial statements does not contain any qualification.

4.4 The following key adjustments and assumptions were made for the preparation of the Unaudited Pro Forma Financial Statements.

(a) The Initial Acquisition during the year

(i) The initial acquisition of 38.66% interest in JNYS, as noted in 2.1, are assumed to be acquired at a purchase consideration based on the net assets of JNYS as at 31 December 2006, which is different from the net assets as at 30 April 2006, the date of completion of the acquisition.

(b) The Additional Acquisition subsequent to year end

(i) The proceeds and the change in capital structure arising from the Offering, which happen after the registration date of the Prospectus, has not been taken into consideration in the preparation of the Unaudited Pro Forma Financial Statements.

(ii) The additional 25% interests in JNYS, as noted in note 2.6, are acquired at a purchase consideration of RMB 259,000,000.

(iii) The net assets acquired are assumed to be based on the net assets of JNYS as at 31 December 2006, which may be different from the net assets as at the actual date of acquisition.

(iv) The cash consideration for the acquisition is financed by its existing cash resource, without taking into account of the proceeds from the Offering. The remaining consideration which is not financed by the cash is reflected as other payables in the unaudited pro forma balance sheet.

(v) JNYS is assumed to enjoy tax holiday with effect from the financial year ended 31 December 2006 as JNYS became a foreign invested manufacturing enterprise with the acquisition by the Company.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

5. Statement of adjustments

5.1 Unaudited Pro Forma Income Statement for the year ended 31 December 2006

The following adjustments have been made in arriving at the Unaudited Pro Forma Income Statement for the financial year ended 31 December 2006:

	Per audited consolidated income statement of Yangzijiang Shipbuilding (Holdings) Ltd and its subsidiaries for the year ended 31 December 2006	Pro forma adjustments (a)	Pro forma adjustments (b)	Unaudited Pro forma Income Statement for the year ended 31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,324,984	—	—	2,324,984
Cost of sales	(1,828,533)	—	—	(1,828,533)
Gross profit	496,451	—	—	496,451
Other income	75,819	2,910	—	78,729
Other gains/(losses) — net	15,128	—	—	15,128
Expenses				
— Administrative	(57,995)	(1,710)	—	(59,705)
— Finance	(10,538)	—	—	(10,538)
Profit before income tax	518,865	1,200	—	520,065
Income tax expense	(65,650)	—	—	(65,650)
Net profit	**453,215**	**1,200**	**—**	**454,415**
Attributable to:				
Equity holders of the Company	454,344	—	378	454,722
Minority interest	(1,129)	—	822	(307)
	453,215	**—**	**1,200**	**454,415**

(a) Being adjustment for the income statement contribution of JNYS from 1 January 2006 to 30 April 2006 (date of completion of acquisition) to reflect the full year impact.

(b) Being adjustment for the additional equity interest acquired in respect of the Initial Acquisition and Additional Acquisition.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

5. Statement of adjustments *(cont'd)*

5.2 Unaudited Pro Forma Balance Sheet as at 31 December 2006

The following adjustments have been made in arriving at the Unaudited Pro Forma Balance Sheet as at 31 December 2006:

	Per audited consolidated balance sheet of Yangzijiang Shipbuilding (Holdings) Ltd and its subsidiaries as at 31 December 2006	Pro forma adjustments (a)	Pro forma adjustments (b)	Unaudited Pro forma Balance Sheet as at 31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Current assets				
Cash and cash equivalents	215,592	(215,592)	—	—
Restricted cash	447,625	—	—	447,625
Financial assets, available-for-sale	300	—	—	300
Trade and bills receivables	294,214	—	—	294,214
Other receivables, prepayments and other current assets	2,229,642	—	—	2,229,642
Due from customer for construction contracts	140,973	—	—	140,973
Loan receivables from third parties	241,570	—	—	241,570
Inventories	75,939	—	—	75,939
	3,645,855	(215,592)	—	3,430,263
Non-current assets				
Property, plant and equipment	659,457	—	—	659,457
Lease prepayment	140,938	—	—	140,938
Intangible assets	168	—	—	168
Deferred income tax assets	5,130	—	—	5,130
Loan receivables from third parties	664,000	—	—	664,000
	1,469,693	—	—	1,469,693
Total assets	5,115,548	(215,592)	—	4,899,956

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

5. Statement of adjustments *(cont'd)*

5.2 Unaudited Pro Forma Balance Sheet as at 31 December 2006 (cont'd)

	Per audited consolidated income statement of Yangzijiang Shipbuilding (Holdings) Ltd and its subsidiaries for the year ended 31 December 2006	Pro forma adjustments (a)	Pro forma adjustments (b)	Unaudited Pro forma Balance Sheet as at 31 December 2006
	RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES				
Current liabilities				
Trade and bills payables	144,260	—	—	144,260
Accruals, other payables and other current liabilities	894,193	43,408	—	937,601
Due to customer for construction contracts	3,137,945	—	—	3,137,945
Current income tax liabilities	86,045	—	—	86,045
Borrowings	229,366	—	—	229,366
Convertible loans (note 30)	155,814	—	(155,814)	—
Derivative financial instruments (note 31)	246	—	(246)	—
	4,647,869	43,408	(156,060)	4,535,217
NET ASSETS	467,679	(259,000)	156,060	364,739
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	110,037	—	156,060	266,097
Other reserves	(109,035)	—	—	(109,035)
Retained earnings	209,124	(129,065)	—	80,059
	210,126	(129,065)	156,060	237,121
Minority interests	257,553	(129,935)	—	127,618
Total equity	467,679	(259,000)	156,060	364,739

(a) Being adjustment for the additional equity interest acquired subsequent to year end as noted in note 2.6. The acquisition is financed by its exisitng cash resource with the remaining reflected as other payables in the unaudited pro forma balance sheet.

(b) Being adjustment for the conversion of convertible loans (note 30)

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

6. Significant accounting policies

6.1 Basis of preparation

The principal accounting policies adopted in the preparation of the Unaudited Pro Forma Financial Statements by the Group for the financial year ended 31 December 2006 are set out below. These policies have been consistently applied to all the years presented.

The Unaudited Pro Forma Financial Statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The Unaudited Pro Forma Financial Statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of Unaudited Pro Forma Financial Statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Unaudited Pro Forma Financial Statements are disclosed in Note 7.

6.2 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from construction contracts

Please refer to the paragraph "Construction Contracts" for the accounting policy for revenue from construction contracts.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues amortising the discount as interest income on the recoverable amount.

6.3 Group accounting

(a) Subsidiaries

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

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.3 Group accounting (cont'd)

(a) Subsidiaries (cont'd)

The acquisition of JYS had been accounted for in the Unaudited Pro Forma Financial Statements as a reverse acquisition as described in note 3.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. Please refer to the paragraph "Intangible assets — Goodwill" for the accounting policy on goodwill on acquisition of subsidiaries. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority in a subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are attributed to the equity holders of the Company, unless the minority has a binding obligation to, and is able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are attributed to the equity holders of the Company until the minority's share of losses previously absorbed by the equity holders of the Company has been recovered.

Changes in the Group's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for by adjusting the carrying amount of minority interest to reflect the change in the Group's interest in the subsidiary's net assets. The difference between the amount of adjustment to minority interest and the fair value of the consideration paid or received, if any, is brought to equity.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.3 Group accounting (cont'd)

(b) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheet includes goodwill (net of accumulated amortisation) identified on acquisition. Please refer to the paragraph "Intangible assets — Goodwill" for the Group's accounting policy on goodwill.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other long term unsecured receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

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

6.4 Property, plant and equipment

(a) Measurement

All property, plant and equipment ('PPE') are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.4 Property, plant and equipment (cont'd)

(b) Components of costs

The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

(c) Depreciation

Depreciation is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives, as follows:

Buildings	8–20 years
Machinery	5–10 years
Vehicles	5–12 years
Furniture, fittings and equipment	5 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the income statement for the financial year in which the changes arise.

(d) Construction-in-progress

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

(e) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repair and maintenance expense in the income statement during the financial year in which it is incurred.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.4 Property, plant and equipment (cont'd)

(f) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement.

6.5 Intangibles

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries or associated companies over the fair value of the Group's share of the identifiable net assets of the acquired subsidiaries, joint ventures or associated companies at the date of acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associated companies is included in the carrying amount of investments in associated companies.

Goodwill recognised separately as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of the subsidiaries and associated companies include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Acquired computer software licences are initially capitalized at cost which includes the purchase price (net of any discounts and rebates) and other directly attributed cost of preparing the asset for its intended use. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense as incurred.

Capitalised computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over their estimated useful life of three to five years.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.6 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is only included in contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

At the balance sheet date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts.

Progress billings not yet paid by customers and retentions are included within "trade and bills receivables".

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.7 Impairment of non-financial assets

Goodwill
Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units (CGU) expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised in the income statement and is not reversed in a subsequent period.

Property, plant and equipment
Investments in associated companies

Property, plant and equipment and investments in associated companies are reviewed for impairment whenever there is any indication or objective evidence that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The impairment loss is recognised in the income statement.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.8 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is irrevocable.

(i) Financial assets, at fair value through profit or loss

This category has two sub-categories: "financial assets held for trading" and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance are evaluated on a fair value basis, in accordance with a documented Group's investment strategy. Derivatives are also categorised as "held for trading" unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

(ii) Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified within "Trade and bill receivables; other receivables, prepayments and other current assets".

(iii) Financial assets, available-for-sale

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

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.8 Financial assets (cont'd)

(b) Recognition and derecognition

Regular purchases and sales of investments are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the income statement. Any amount in the fair value reserve relating to that asset is also taken to the income statement.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit and loss are recognised in the income statement.

(d) Subsequent measurement

Financial assets, available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets, at fair value through profit or loss', including interest and dividend income, are presented in the income statement within 'other gains — net' in the financial year in which the changes in fair values arise.

Changes in the fair value of monetary assets denominated in a foreign currency and classified as available-for-sale are analysed into translation differences resulting from changes in amortised cost of the asset and other changes. The translation differences are recognised in the income statement, and other changes are recognised in the fair value reserve within equity. Changes in fair values of other monetary and non-monetary assets that are classified as available-for-sale are recognised in the fair value reserve within equity.

Interest on financial assets, available-for-sale, calculated using the effective interest method, is recognised in the income statement. Dividends on available-for-sale equity securities are recognised in the income statement when the Group's right to receive payment is established. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in the fair value reserve within equity are included in the income statement as "gains and losses from investment securities".

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.8 Financial assets (cont'd)

(e) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) Loans and receivables

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance for impairment is recognised in the income statement within "Administrative expenses".

(ii) Financial assets, available-for-sale

In the case of an equity security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that has been recognised directly in the fair value reserve is removed from the fair value reserve within equity and recognised in the income statement. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in income statement.

Impairment losses on debt instruments classified as available-for-sale financial assets are reversed through the income statement. However, impairment losses recognised in the income statement on equity instruments classified as available-for-sale financial assets are not reversed through the income statement.

6.9 Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings. These guarantee are financial guarantee contracts as they require the Company to reimburse the banks if the debtors fail to make principal or interest payments when due in accordance with the terms of their borrowings.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.9 Financial guarantees (cont'd)

Financial guarantee contracts are initially recognised at their fair values plus transaction costs.

Financial guarantee contracts are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount.

In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

6.10 Borrowings

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

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

Borrowings which are due to be settled within 12 months after the balance sheet date are presented as current borrowings even though the original term was for a period longer than 12 months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. Other borrowings due to be settled more than 12 months after the balance sheet date are presented as non-current borrowings in the balance sheet.

6.11 Convertible loan

A convertible loan is regarded as hybrid instrument, consisting of an embedded derivative, the economic characteristic and risks of which are not closely related to that of the host instrument, the loan.

At inception, the embedded derivative is bifurcated from the host instrument and recorded as liability in accordance with FRS 39 — Financial Instruments: Recognition and Measurement. For embedded derivative which fair value cannot be determined reliably, the fair value of the embedded derivative is the difference between the fair value of the hybrid instrument and the fair value of the host contract.

6.12 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost, using the effective interest method.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.13 Derivative financial instruments

A derivative financial instrument is initially recognised at fair value on the date the contract is entered into and is subsequently carried at their fair value.

Fair value changes for derivative instruments that do not qualify for hedge accounting are included in the income statement in the financial year when the changes arise.

6.14 Fair value estimation

The carrying amounts of current financial assets and liabilities, carried at amortised cost, approximate their fair values.

The fair values of financial instruments traded in active markets (such as trading and available-for-sale securities) are based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair values of forward currency contracts are determined using actively quoted forward currency rates at the balance sheet date.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as estimated discounted cash flows, are also used to determine fair value for the financial instruments.

The fair values of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest that are available to the Group for similar financial liabilities.

6.15 Operating leases

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

Contingent rents are recognised as an expense in the income statement in the financial year in which they are incurred.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.16 Inventories

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

6.17 Income taxes

Current income tax liabilities for current and prior periods are recognised at the amounts expected to be paid to the tax authorities, using the tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax assets/liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets/liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred income tax assets and liabilities are measured at:

(i) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date; and

(ii) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income tax are recognised as income or expenses in the income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax on temporary differences arising from the fair value gains and losses on available-for-sale financial assets are charged or credited directly to equity in the same period the temporary differences arise. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.18 Provisions

Provisions for asset dismantlement, removal or restoration, warranty, and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The Group recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on past historical experience of the level of repairs and replacements.

The Group recognises the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets. This provision is estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration time value.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the income statement as interest expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement for the period the changes in estimates arise except for asset dismantlement, removal and restoration costs, which are adjusted against the cost of the related property, plant and equipment unless the decrease in the liability exceeds the carrying amount of the asset or the asset has reached the end of its useful life. In such cases, the excess of the decrease over the carrying amount of the asset or the changes in the liability is recognised in profit or loss immediately.

6.19 Employee compensation

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund and the social security plan in People's Republic of China (the"PRC"). The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.19 Employee compensation (cont'd)

(i) Defined contribution plans (cont'd)

In accordance with the relevant regulations in the PRC, the premiums and welfare benefit contributions borne by the Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are capitalized as production costs and included in the construction cost or expensed as incurred. The applicable percentages used to provide for insurance premium and welfare benefit funds are listed below:

Basic pension insurance	20%
Basic medical insurance	9%
Unemployment insurance	2%
Maternity fund	0.6%
Accident insurance	0.6%
Housing fund	6%

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

6.20 Foreign currency translation

(i) Functional and presentation currency

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

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.20 Foreign currency translation (cont'd)

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance date are recognised in the income statement, except for currency translation differences on the net investment in foreign operations and borrowings in foreign currencies, which are included in the currency translation reserve within equity in the consolidated financial statements.

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed into currency translation differences on the amortised cost of the securities, and other changes. Currency translation differences on the amortised cost are recognised in the income statement, and other changes are recognised in fair value reserve within equity.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items, whereby the gain or loss are recognised in the income statement, such as equity investments held at fair value through profit or loss, are reported as part of the fair value gain or loss in "other gains/losses — net". Currency translation differences on non-monetary items whereby the gains or losses are recognised directly in equity, such as equity investments classified as available-for-sale financial assets are included in the fair value reserve.

(iii) Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rates at the date of the balance sheet;

(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) All resulting exchange differences are taken to the currency translation reserve within equity.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.20 Foreign currency translation (cont'd)

(iv) Consolidation adjustments

On consolidation, currency translation differences arising from the net investment in foreign operations and borrowings in foreign currencies, are taken to the currency translation reserve. When a foreign operation is sold, such currency translation differences recorded in the currency translation reserve are recognised in the income statement as part of the gain or loss on sale.

6.21 Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting segment, and the geographical segments as the secondary reporting segment.

6.22 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less.

6.23 Paid-in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted against share capital account.

6.24 Dividend

Interim dividends are recorded in the financial year in which they are declared payable.

Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

6. Significant accounting policies *(cont'd)*

6.25 Government grants

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

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

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

6.26 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements, if any, when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

7. Critical accounting estimates and judgments

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

7.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Deferred income tax

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Group's management determines the deferred income tax based on the enacted or substantially enacted tax rates and laws and best knowledge of profit projections of the Group for coming years during which the deferred income tax expense are settled. Management will revise the assumptions and profit projections at each balance sheet date.

If the actual effective tax rate for year 2006 differs by 10% from management's estimates, the Group need to:

– increase the deferred tax assets and decrease income tax expense by RMB 513,005, if favourable; or

– decrease the deferred tax assets and increase income tax expense by RMB 513,005, if unfavourable.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

7. Critical accounting estimates and judgments *(cont'd)*

7.1 Critical accounting estimates and assumptions (cont'd)

(iii) Impairment of trade receivable

The Group's management determines the provision for impairment of accounts receivable. This expected future cash flow is based on the credit history of its customers and the current market conditions. Management will reassess the provision for impairment at each balance sheet date. The management had assessed that as at 31 December 2006, no provision for impairment is required.

(iv) Stage of completion of construction contracts

The Group uses the percentage-of-completion method in accounting for its construction contracts, which requires the Group to estimate the stage of completion of a contract by determining the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting period. If the proportion that contract costs incurred to date to the estimated total contract cost differs 10% from management's estimates, the amount of revenue recognised in the year would increased by RMB 157,314,774 if the proportion performed was increased, or would be decreased by RMB 291,670,616 if the proportion performed was decreased.

7.2 Critical judgements in applying the entity's accounting policies

(i) Impairment of available-for-sale financial assets

The Group follows the guidance in FRS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment has been less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

8. Revenue

	2006
	RMB'000
Contract revenue	2,324,984

9. Other income

	2006
	RMB'000
Interest income on entrusted loans	51,206
Interest income on loans from third parties	19,516
Interest income on cash and cash equivalents	8,007
	78,729

10. Other gains — net

	2006
	RMB'000
Non-performance penalty charges to supplier	11,250
Gain on disposal of property, plant and equipment	166
Gain on disposal of available-for-sale financial assets	1,532
Loss on disposal of associates	(459)
Loss on disposal of subsidiaries	(268)
Excess of fair value of net assets acquired over cost (note 16)	602
Sales of metal structure	2,077
Others	228
	15,128

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

11. Expenses by nature

	2006
	RMB'000
Raw materials and consumables used	1,189,086
Outsourcing and processing fee	424,630
Other project-related fees and charges	112,494
Commission expense	64,549
Employee benefit expense (Note 12)	44,164
Depreciation charges	16,483
Amortisation expense	1,545
Utilities	12,548
Professional fees	6,506
Foreign exchange loss	201
Transportation charges	2,732
Operating lease for land use right	1,519
Operating lease for coast line right	164
Others	11,617
Total cost of sales and administrative expenses	1,888,238

12. Employee benefits

	2006
	RMB'000
Salaries, wages and bonuses	15,375
Welfare, medical and other benefits	25,083
Contributions to pension plans	3,706
	44,164

The employees of the Group who are employed in the PRC participate in a defined contribution retirement benefit plan organised by the relevant provincial government. For the year ended 31 December 2006, the Group is required to make monthly defined contribution to these plans at 38.2% of the employees' monthly salaries and wages as stipulated by local rules and regulations. These pension contributions are expensed as incurred.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed in this note.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

13. Finance costs

	2006
	RMB'000
Interest on bank borrowings	20,070
Net foreign exchange gains	(9,532)
	10,538

14. Income tax

The Group is subject to income tax on an entity basis on profit arising or derived from the tax jurisdiction in which the Group is domiciled and operates. Under the relevant People's Republic of China (the"PRC") income tax law, except for certain preferential treatment available to the Group, the Group is subject to corporate income tax at 24% of taxable income.

Pursuant to the applicable income tax laws and regulations of the PRC, a new foreign invested manufacturing enterprise is entitled to preferential tax rates (tax holidays): two years' exemption and three years' 50% reduction in the income tax rate. In accordance with the approval from the relevant PRC tax authority, JYS was granted an income tax exemption for 2004 and 2005 and a 50% reduction in income tax rate for the three yeares from 2006 to 2008. JNYS is assumed to be granted an income tax exemption for 2006 and 2007 and a 50% reduction in income tax rate for the three years from 2008 to 2010 as it became a foreign invested manufacturing enterprise with the Additional Acqusition. The determination of current and deferred income tax assets/liabilities is based on the enacted tax rates.

(a) Income tax expense

	2006
	RMB'000
Income tax expense attributable to profit is made up of:	
Current income tax	70,780
Deferred income tax	(5,130)
	65,650

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

14. Income tax *(cont'd)*

(a) Income tax expense (cont'd)

The tax on the Group's profit before tax differs from the amount that would arise using the PRC income tax rate applicable to profit of the main operating legal subsidiaries in PRC due to the following:

	2006
	RMB'000
Profit before tax	520,065
Tax calculated at the statutory tax rate of 24%	124,816
Expenses not deductible for tax purpose	54
Effect of tax holiday for Jiangsu New Yangzi Ship Building Co., Ltd	(288)
Effect of tax holiday for Jiangsu Yangzijiang Shipbuilding Co., Ltd.	(58,932)
	65,650

(b) Movements in current income tax liabilities

	2006
	RMB'000
At beginning of the financial year	49,369
Income tax paid	(34,104)
Current financial year's tax expense on profit.	70,780
At end of the financial year	86,045

(c) Business tax ("BT") and related taxes

The subsidiaries of the Group are subject to BT at 5% of service fee income received and receivable. In addition, the subsidiaries are subject to an education surcharge ("ES") at 1% of BT payable.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

14. Income tax *(cont'd)*

(d) Value-added tax ("VAT") and related taxes

The sales of the Group are subject to Value Added Tax (VAT). The applicable tax rate for domestic sales is 17%. The Group has been approved to use the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 17%. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable.

15. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2006
Net profit attributable to equity holders of the Company (RMB'000)	454,722
Weighted average number of ordinary shares in issue for basic earnings per share (note (i), and (ii))	2,638,700
Basic earnings per share (RMB cents)	17.23

(i) In calculating the weighted average number of ordinary shares outstanding during 2006 in which the reverse acquisition occurs:

(1) the number of ordinary shares outstanding from 1 January 2006 to the acquisition date shall be deemed to be the number of ordinary shares issued by the Company to the shareholders of the legal subsidiary; and

(2) the number of ordinary shares outstanding from the acquisition date to the 31 December 2006 shall be the actual number of ordinary shares of the Company outstanding during the year.

(ii) The earnings per share had been adjusted to take into account the subdivision of ordinary shares in the capital of the Company on 12 March 2007 and the conversion of the convertible loans into 128,700,000 ordinary shares in the capital of the Company on 16 March 2007.

(b) Diluted earnings per share is the same as basic earnings per share. The Convertible loans are assumed to have been converted on 1 January 2006 for the purpose of proforma.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

16. Cash and cash equivalents

Acquisition and disposal of subsidiaries

For the year ended 31 December 2006, the Group increased its share interest in JNYS from 11.53% to 75.19% (See Note 2.1 and 2.6). The Group also disposed two subsidiaries, Jiangyin Yangzijiang Ship Engineering Co., Ltd ("JYSE") and Jiangyin Sumeida Ship Engineering Co., Ltd ("JSSE") in 2006.

	Acquisition		Disposal	
	At fair values	Carrying amounts in acquiree's books	Carrying amount — JYSE	Carrying amount — JSSE
	RMB'000	RMB'000	RMB'000	RMB'000
Identifiable assets and liabilities				
Cash and cash equivalents	97,666	97,666	(4,668)	(3,076)
Trade and other receivables	167,710	167,710	(5,109)	(13,560)
Inventories	8,059	8,059	(3,829)	(459)
Property, plant and equipment	518,294	518,294	(13,671)	(1,794)
Lease prepayments	140,937	140,937	—	—
Loan from third parties — current portion	20,000	20,000	—	—
Loan from third parties — non current portion	20,000	20,000	—	—
Total assets	972,666	972,666	(27,277)	(18,889)
Trade and other payables	(455,565)	(455,565)	19,021	7,941
Total liabilities	(455,565)	(455,565)	19,021	7,941
Identifiable net assets	517,101	517,101	(8,256)	(10,948)
Less: Minority interests	(128,277)	(128,277)	2,752	2,737
Identifiable net assets acquired/ (disposed)	388,824	388,824	(5,504)	(8,211)
Excess of the fair value of Group's share of the identifiable net assets over cost of acquisition	(602)			
Excess of cost of acquisition over the fair value of Group's share of the identifiable net assets	129,500			
Cash consideration paid	517,722			
Less: Investment in associate	(28,000)			
Less: Cash and cash equivalents in subsidiary acquired	(97,666)			
Proforma adjustment	30,182			
Net cash outflow on acquisition	422,238			

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

16. Cash and cash equivalents *(cont'd)*

The aggregate cash inflows arising from the disposal of JYSE and JSSE were as follows:

	JYSE	JSSE	Total
	RMB'000	RMB'000	RMB'000
Identifiable net assets disposed (as above)	5,504	8,211	13,715
Loss on disposal (Note 10)	(216)	(52)	(268)
Cash proceeds from disposal	5,288	8,159	13,447
Less: Cash and cash equivalents in subsidiaries disposed	(4,668)	(3,076)	(7,744)
Net cash inflow on disposal	620	5,083	5,703

17. Restricted cash

The restricted cash was held in designated bank accounts under the name of the company as deposits for performance guarantee, letters of credits and notes payable.

Restricted cash are denominated in the following currencies:

	2006
	RMB'000
RMB	362,278
United States Dollar	78,022
Euro	7,325
	447,625

The weighted average effective interest rate on restricted cash, with a maturity of 180 days, was 2.12%.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

18. Financial assets, available-for-sale

	2006
	RMB'000
Beginning of financial year	5,505
Additions	16,842
Fair value loss recognised in equity	(486)
Disposal	(21,561)
End of financial year	300

At the balance sheet date, available-for-sale financial assets included the following:

	2006
	RMB'000
Unlisted equity investments, at cost	300

There is no active market for the unlisted equity investments. As such, it is not practicable to determine reliably the fair value of the unlisted equity inrestments.

19. Trade and bill receivables

	2006
	RMB'000
Trade receivables	294,214

Concentrations of credit risk with respect to trade and bills receivable are limited due to the Group's limited numbers of customers, who are mostly internationally dispersed. In addition, payment guarantees are provided by the customers' banks.

Due to these factors, management believes that there is no significant credit risk in the Group's trade and bill receivables and provision for impairment is not required.

The carrying amounts of trade and bill receivables approximate their fair values and are denominated in RMB.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

20. Other receivables, prepayments and other current assets

	2006
	RMB'000
Due from previous associated companies and other related parties (note 39)	7,050
Others	64,479
Tax recoverable	68,755
Deposits for lease of land use right	200,000
Advances to agents	239,928
Advances to suppliers	1,649,430
	2,229,642

The amounts due from previous associated companies and other related parties are unsecured and interest free.

The carrying amounts of other receivables, prepayments and other current assets approximate their fair values and are denominated in the following currencies:

	2006
	RMB'000
RMB	2,157,932
United States Dollar	56,441
Euro	15,269
	2,229,642

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

21. Due from/(to) customers for construction contracts

	2006
	RMB'000
Cost incurred	889,212
Attributable profit	121,987
	1,011,199
Progress billings	(4,008,171)
	(2,996,972)
Represented by:	
Due from customers for construction contracts	140,973
Due to customers for construction contracts	(3,137,945)
	(2,996,972)

22. Loans receivables from third parties

	2006
	RMB'000
Current	
Entrusted loans (note (i))	237,570
Loans to third parties	4,000
	241,570
Non-current	
Entrusted loans (note (i))	664,000
	905,570

(i) The Group provided loans to third parties entrusted through banks and the entrusted loans bear interest at rate from 6% to 10% per annum.

(ii) The carrying amounts of the loans receivables from third parties approximate their fair values and are denominated in RMB.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

23. Inventories

	2006
	RMB'000
Raw materials and spare parts	75,939

Raw materials mainly consist of metal steel products and fuel which are used in the Group's shipbuilding activities. The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB 1,189,086,223 in 2006.

24. Property, plant and equipment

The Group

	Buildings	Machinery	Vehicles	Furniture, fixtures and equipments	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2006	127,838	96,530	9,415	2,810	40,927	277,520
Additions from acquisition of subsidiary	—	5	375	32	135,656	136,068
Additions	379	3,195	534	640	394,749	399,497
Transfers	31,752	4,208	—	818	(36,778)	—
Disposal of subsidiaries	—	(7,963)	—	(134)	(10,212)	(18,309)
Disposals	(9,636)	(1,864)	(904)	(218)	—	(12,622)
At 31 December 2006	150,333	94,111	9,420	3,948	524,342	782,154
Accumulated depreciation						
At 1 January 2006	(51,698)	(59,486)	(4,195)	(2,221)	—	(117,600)
Acquisition of subsidiary	—	—	(26)	—	—	(26)
Depreciation	(9,346)	(6,279)	(1,175)	(260)	—	(17,060)
Disposal of subsidiaries	—	2,815	—	29	—	2,844
Reversal of impairment loss	3,141	—	—	—	—	3,141
Disposals	3,638	1,668	553	145	—	6,004
At 31 December 2006	(54,265)	(61,282)	(4,843)	(2,307)	—	(122,697)
Net book value						
At 31 December 2006	96,068	32,829	4,577	1,641	524,342	659,457

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

24. Property, plant and equipment *(cont'd)*

An impairment loss of RMB 3,141,615 for the financial year ended 31 December 2005 was provided. This relates to the warehouse, workshop and assembly areas located in the Company's premises. The carrying amounts of these assets were reduced to their recoverable amounts. Such loss has been included in "other gains/(losses)-net" in the income statement for the year ended 31 December 2005. These assets were disposed in year 2006, leading to the reversal of the provision of impairment loss.

25. Lease prepayments

	2006
	RMB'000
Land use rights	
Cost	
At the beginning of the financial year	—
Acquisition of subsidiary	98,155
Additions	44,328
At end of the financial year	142,483
Accumulated amortisation	
At the beginning of the financial year	—
Acquisition of subsidiary	(163)
Amortisation charge	(1,382)
At the end of the financial year	(1,545)
Net book value at the end of the financial year	140,938

The Group's interest in land use rights in the PRC are held on leases for 50 years.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

26. Intangible assets

	2006
	RMB'000
Computer Software	
Cost	
At the beginning of the financial year	—
Additions	168
At end of the financial year	168
Accumulated amortisation	
At the beginning of the financial year	—
Amortisation charge	—
At the end of the financial year	—
Net book value at the end of the financial year	168

27. Trade and bills payables

	2006
	RMB'000
Trade payables	116,260
Bills payables	28,000
	144,260

Bills payable are bills of exchange with average maturity dates of less than 6 months. The carrying amounts of trade and bills payables approximate their fair values and are denominated in the following currencies:

	2006
	RMB'000
RMB	137,022
United States Dollar	7,238
	144,260

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

28. Accruals, other payables and other current liabilities

	2006
	RMB'000
Due to previous shareholders of subsidiary (note 39)	106,857
Due to ultimate shareholders (note 39)	72,613
Welfare payable	34,806
Other tax payable	7,399
Accrued expenses	42,750
Dividends payable to previous shareholders of subsidiary (note 39)	245,620
Dividends payable to ultimate shareholders (note 39)	64,249
Advances from customers	15
Due to agents	250,302
Other payables	112,990
	937,601

The amounts due to previous shareholders of subsidiary, ultimate shareholders, and agents are unsecured and interest free.

The carrying amounts of the accruals, other payables and other current liabilities approximate their fair values and are denominated in the following currencies:

	2006
	RMB'000
RMB	931,535
Singapore Dollar	6,066
	937,601

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

29. Borrowings

	2006
	RMB'000
Current	
Long-term bank borrowings — current portion	190,351
Loan from ultimate shareholder (note 39)	39,015
	229,366
Total borrowings	229,366
Representing:	
— unguaranteed	39,015
— guaranteed	190,351
Total borrowings	229,366
Analysed as follows:	
— wholly repayable within five years	229,366

The loans were guaranteed by the following third parties:

	2006
	RMB'000
Guaranteed by:	
Industrial Bank Co., Ltd. Nanjing Branch	90,351
Anhui Technology Import and Export Company	100,000
Total	190,351

An analysis of the carrying amounts of the Group's bank borrowings by type and currency is as follows:

	2006
	RMB'000
RMB	
— at fixed rates	150,000
United States Dollar	
— at fixed rates	40,351
Total borrowings	190,351

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

29. Borrowings *(cont'd)*

Loan from ultimate shareholder amounting to US$5,000,000 (approxiamately RMB 39,015,000) is interest free, unsecured and repayable after the Listing.

The weighted average effective interest rates as at 31 December 2006 were as follows:

	2006
	RMB'000
Bank borrowings	
— RMB	3.33%
— United States Dollar	5.43%

The Group's total borrowings at the respective balance sheet dates repayable within one year.

The exposure of the Group's borrowings to interest rate risks are categorised by the earlier of contractual repricing dates or maturity dates as follow.

	2006
	RMB'000
— Six months or less	90,351
— Six months to one year	100,000
	190,351

The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

30. Convertible Loans

	2006
	RMB'000
Principal amount	156,060
Amount classified as derivative (note 31)	(246)
Carrying amount of liability	155,814

On 13 June 2006, our Company entered into a investment agreement (the "Investment Agreement") with SEAVI Advent Asia Investments (III) Ltd, Asean China Investment Fund L.P and Gemini Asia Growth Inc. (collectively, the "Strategic Investors") and Ren Yuanlin, Wang Dong and Xiang Jianjun, and Ren Jinhua. Under the Investment Agreement, the Strategic Investors subscribed for an aggregate of US$20 million (RMB 156,060,000) of redeemable convertible notes issued by the Company. The convertible loans are unsecured and repayable within 18 months or earlier under certain circumstances as described in the Investment Agreement.

In the event that the Company is not successfully listed on the SGX-ST within 18 months from 13 June 2006, compensation costs at a rate of 6% per annum on the principal amount of the convertible loans is payable by the Company to the Strategic Investors.

In the event that the Company qualifies for an Initial Public Offering but chooses not to do so, compensation costs at a rate of 15% per annum on the principal amount of the convertible loans is payable by the Company to the Strategic Investors.

In the event that the Company breaches the Investment Agreement, compensation costs at a rate of 20% per annum on the principal amount of the convertible loans is payable by the Company to the Strategic Investors.

As the fair value of the embedded derivative cannot be reliably measured, the fair value of the embedded derivative is calculated as the difference between the fair value of the whole instrument and the fair value of the host debt. The value of the conversion right of RMB 246,000, being the difference between the principal amount of the convertible loans of RMB 156,060,000 and its present value of RMB 155,814,000, discounted at an estimated market interest rate of 6%, has been separately accounted as a derivative. (See note 31).

Pursuant to the shareholders' resolution subsequent to year ended 31 December 2006 (note 42), 128,700,000 ordinary shares were issue pursuant to the conversion of the convertible loan, resulting in an increase of RMB156,060,000 in the share capital of the Company and a corresponding decrease of RMB156,060,000 in total liabilities.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

31. Derivative financial instruments

	2006
	RMB'000
Conversion right (note 30)	246

32. Deferred income tax asset

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profit is probable. The principal components of deferred income tax assets are the provision for warranties.

The deferred income tax assets are expected to be settled within 12 months.

33. Share capital

	Company Share capital
	RMB'000
Balance as at date of incorporation and 1 January 2006	—*
Issued during the financial year	74,820
Assumed conversion of the convertible loans	156,060
Balance as at 31 December 2006	230,880

* — Amount less than RMB 1,000.

All issued shares are fully paid.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

34. Other reserve

	Statutory surplus reserve (note (i))	Statutory public welfare reserve (note (i))	Reserve fund (note (ii))	Enterprise expansion fund (note (ii))	Revaluation of financial assets, available-for-sale	Reserve on Reverse Acquisition	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	7,675	3,837	16,501	16,502	286	—	44,801
Revaluation — gross	—	—	—	—	(286)	—	(286)
Adjustment arising from reverse acquisition (note 2.2 &3)	—	—	—	—	—	(200,689)	(200,689)
Profit appropriation	—	—	47,139	—	—	—	47,139
Balance at 31 December 2006	7,675	3,837	63,640	16,502	—	(200,689)	(109,035)

(i) Statutory surplus reserve and statutory public welfare reserve

In accordance with the Company Law and the articles of association of the Group's subsidiaries, the subsidiaries shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve fund reaches 50 percent of each entity's share capital, any further appropriation is optional. The statutory surplus reserve can be utilized to offset prior years' losses or to increase capital with the appropriate approval. However, except for offsetting prior years' losses, such statutory surplus reserve must be maintained at a minimum of 25% of share capital after such usage.

The Group's subsidiaries, JYS and JNYS, also appropriate 5% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory public welfare reserve account.

After JYS became a sino-foreign equity joint venture in May 2004, JYS no longer appropriate net profit to these two reserve account.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

34. Other reserve *(cont'd)*

(ii) Reserve fund and enterprise expansion fund

In accordance with the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" and the Articles of Association of the Group's subsidiaries, appropriations from net profit should be made to the Reserve Fund and Enterprise Expansion Fund, after offsetting accumulated losses from prior years, and before profit distribution to the investors.

JYS became a wholly foreign invested company pursuant to equity transfer in April 2006. In accordance with the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" and JYS's Articles of Association, appropriation from net profit should not be less than 10% of profit after tax. JYS is required to appropriate 10% to reserve fund for the year ended 31 December 2006 upon approval of the Board of Directors.

35. Financial guarantee contracts

As at 31 December 2006, the Group provided guarantees in respect of loan facilities granted by certain bank to certain companies. Those companies are the agents and related parties of the Group. Pursuant to the terms of the guarantees, upon default in loan payments by those companies, the Group is responsible to repay the outstanding loan principal together with accrued interest and penalty owed by those companies to the bank. The amounts of those guarantees as at 31 December 2006 are listed as follows:

	2006
	RMB'000
Within 1 year	71,544

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

36. Contingent liabilities

The Group has contingent liabilities in respect of guarantees arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

(a) Guarantees provided to agents for the performance guarantees

The Group has acted as the guarantor for the agents in respect of performance guarantee provided by the bankers to the Company's customers. The amounts and maturities of these guarantees as at 31 December 2006 are set out as follows:

	2006
	RMB'000
1 to 2 years	285,420
2 to 3 years	379,800
Over 3 years	549,420
	1,214,640

(b) Performance guarantees

The Group is contingently liable to its bankers in respect of performance guarantees provided by the bankers to the Group's customers. The amounts and maturities of the guarantees as at 31 December 2006 are follows:

	2006
	RMB'000
Within 1 year	393,130
1 to 2 years	842,042
2 to 3 years	473,402
	1,708,574

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

37. Commitments

(a) Capital commitments

Capital expenditure contracted for at balance sheet date but not yet incurred are as follows:

	The Group 2006
	RMB'000
Property, plant and equipment	347,992

(b) Letters of credit

The Group's bankers had issued several letters of credit for the import of parts by the Group. As at 31 December 2006, RMB 79,927,564 was outstanding under these letters of credit.

(c) Operating lease commitments

The Group leases land use right and port line use right under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006
	RMB'000
No later than 1 year	6,471
Later than 1 year and no later than 5 years	11,999
Later than 5 years	5,501
	23,971

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

38. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

(a) Credit risk

Concentration of credit risk with respect to the accounts receivable is limited due to the Group's customers, who are mostly internationally dispersed. The Group has policies in place to ensure that sales of products are made to customers with appropriate guaranteed letters of credit from registered banks of the customers' home countries. The directors are of the opinion that the Group has no significant concentrations of credit risk.

(b) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings. The interest rates and terms of repayment of borrowings are disclosed in Note 29. Other financial assets and liabilities do not have material interest rate risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and/or the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Foreign exchange risk

The Group sells to customers around the world and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US dollars and the Euro. The Group uses occasionally foreign currency forward contracts transacted with domestic and overseas registered banks, to manage its exposure to foreign currency risk in connection with the Renminbi.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

39. Related party transactions

For the purpose of these unaudited pro forma financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, during the year and balances arising from related party transactions for the years ended 31 December 2006.

(a) Related party transactions

The Group had the following significant transactions with the following related parties.

	2006
	RMB'000
Transactions with previous shareholders of subsidiary	
Entrusted loan to	
Jiangsu Runhua Technology Investment Co., Ltd.	30,000
Interest income to	
Jiangsu Runhua Technology Investment Co., Ltd.	1,049
Advance to	
Jiangsu Runhua Technology Investment Co., Ltd.	6,762
Transactions with other related parties	
Services provided by	
Tongbao (Shanghai) Shipping Co., Ltd	34
Loans and advances from	
Ren Jinhua	19,765
Ren Yuanlin	34,792
Wang Dong	2,829
Xiang Jianjun	2,402
Cai Zhengshun	2,185
Huang Jialu	2,178
Su Pinhua	2,024
Gao Qiang	1,745
Yu Weiping	1,741
Lido Point Investments Ltd	41,968

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

39. Related party transactions *(cont'd)*

(b) Related party balances

The Group had the following balances with related parties:

	2006
	RMB'000
Balances with previous shareholders of subsidiary	
Dividends payable	
Jiangsu Runhua Technology Investment Co., Ltd.	22,560
The Labour Union of the Company	139,060
Tongbao (Hongkong) Shipping Co., Ltd	84,000
Other payables, accruals and other current liabilities	
The Labour Union of the Company	106,857
Balances with other related parties	
Other receivables	
Jiangyin Liantong Industry Co., Ltd.	7,050
Balances with ultimate shareholders	
Other payables	
Lido Point Investments Ltd	2,953
Ren Jinhua	19,765
Ren Yuanlin	34,791
Wang Dong	2,829
Xiang Jianjun	2,402
Cai Zhengshun	2,185
Huang Jialu	2,178
Su Pinhua	2,024
Gao Qiang	1,745
Yu Weiping	1,741
Borrowings	
Lido Point Investments Ltd	39,015

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

39. Related party transactions *(cont'd)*

(b) Related party balances (cont'd)

	2006
	RMB'000
Balances with ultimate shareholders	
Dividend payables	
Ren Yuanlin	44,800
Wang Dong	3,640
Xiang Jianjun	3,094
Cai Zhengshun	2,814
Huang Jialu	2,805
Su Pinhua	2,606
Gao Qiang	2,247
Yu Weiping	2,243

Jiangyin Liantong Industry Co., Ltd is a company owned by a previous shareholder, and a minority shareholder of JNYS.

Tongbao (Shanghai) Shipping Co., Ltd is a company owned by one of the ultimate shareholders.

(c) Key management personnel compensation

Key Management personnel compensation is analysed as follow:–

	2006
	RMB'000
Directors	
Basic salaries	69
Contributions to pension plans	74
Discretionary bonuses	161
Senior management	
Basic salaries	193
Contributions to pension plans	203
Discretionary bonuses	437
	1,137

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

40. Dividends

	2006
	RMB'000
Ordinary dividends	
Interim dividends declared in respect of current year	731,500

41. Segment information

(a) Business segments

For the financial year ended 31 December 2006	Shipbuilding	Entrusted loans and loans to third parties	Total
	RMB'000	RMB'000	RMB'000
Revenue	2,324,984	70,722	2,395,706
Segment result	496,451	70,722	567,173
Other income			8,007
Other gains/(losses) -net			15,128
Unallocated costs			(59,705)
Finance expense			(10,538)
Profit before income tax			520,065
Income tax expense			(65,650)
Net profit			454,415
Other segment items			
Capital expenditure:			
— property, plant and equipment	535,565	—	535,565
— lease prepayments	142,483	—	142,483
— intangible assets	168	—	168
Depreciation	17,086	—	17,086
Amortisation	1,545	—	1,545

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

41. Segment information *(cont'd)*

(a) Business segments (cont'd)

For the financial year ended 31 December 2006	Shipbuilding	Entrusted loans and loans to third parties	Total
	RMB'000	RMB'000	RMB'000
Segment assets	3,648,672	905,570	4,554,242
Unallocated assets			345,714
Total assets			4,899,956
Segment liabilities	3,532,522	—	3,532,522
Unallocated liabilities			1,002,695
Total liabilities			4,535,217

For the year ended 31 December 2006, the Group is organised into two main business segments:

(i) Shipbuilding

(ii) Entrusted loans and loans to third parties

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, lease prepayments, intangible assets, inventories, trade and bills receivables, advances to agents and suppliers, due from customers from construction contracts, loan receivables from third parties and cash, and exclude other receivables, deferred tax assets and other investments. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities, bank borrowings, convertible loans. Capital expenditure comprises additions to property, plant and equipment, lease prepayment and intangible assets, including those acquired through business combinations.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

41. Segment information *(cont'd)*

(b) Geographical segments

The Group's sales, based on customers' location, are mainly in countries such as Germany, China, Singapore and other European countries.

	2006
	RMB'000
Germany	1,662,321
Other European Countries	260,748
Singapore	232,847
China	169,068
	2,324,984

The Group's assets are located in the People's Republic of China.

42. Events occurring after balance sheet date

(a) On 12 March 2007, the shareholders passed resolutions to approve, among other things, the following:–

(i) the subdivision of every one ordinary share in the share capital of the Company into 251,000 shares;

(ii) the conversion of the Company to a public limited company and the change of name from "Yangzijiang Shipbuilding (Holdings) Pte Ltd" to "Yangzijiang Shipbuilding (Holdings) Ltd.";

(iii) the adoption of a new set of Articles of Association;

(iv) the allotment and issue of 128,700,000 ordinary shares in the share capital of the Company pursuant to the conversion of the convertible loans;

(v) the allotment and issue of the New Shares, which are the subject of the Offering. The New Shares, when allotted, issued and fully paid-up, will rank pari passu in all respects with the existing Shares; and

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS
For the financial year ended 31 December 2006

42. Events occurring after balance sheet date *(cont'd)*

(vi) that authority be given pursuant to Section 161 of the Singapore Companies Act to the Directors to allot and issue shares and/or convertible securities (where the maximum number of shares to be issued upon conversion is determinable at the time of the issue of such securities) in our Company (whether by way of rights, bonus, or otherwise) at any time and from time to time thereafter to such persons and on such terms and conditions for and such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed 50.0 per cent. of the issued share capital of our Company, of which the aggregate number of shares and/or convertible securities to be issued other than on a pro rata basis to existing Shareholders shall not exceed 20.0 per cent. of the issued share capital of our Company (the percentage of issued share capital being based on the issued share capital at the time such authority is given after adjusting for new shares arising from the conversion of any convertible securities or employee share options in issue at the time such authority is given and any subsequent consolidation or subdivision of shares) and unless revoked or varied by our Company in general meeting and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of our Company is required by law to be held, whichever is the earlier.

(b) Acquisition of additional interest in subsidiary, JNYS

On 28 January 2007, SEAVI Advent Asia Investments (III) Ltd ("SEAVI") acquired an aggregate of 25.0% equity interest from the JYS minority shareholders for US$33.3 million (approximately RMB259.0 million), based on independent valuation conducted by Sallmanns (Far East) Limited, which was used as a reference to determine the consideration (the "SEAVI Acquisition"). Subsequently, the Company and SEAVI entered into an equity transfer agreement dated 16 March 2007 to acquire SEAVI's 25.0% interest in JNYS for the same consideration paid in SEAVI in the SEAVI Acquisition.

This equity transfer agreement is conditional, among other things, upon the listing of the Company on the SGX-ST and the receipt of the relevant approvals from the PRC authorities, and when completed, the Company's interest in JNYS would increase to 75.2%. The Company intend to fund the acquisition out of the net proceeds from the Offering.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

43. New accounting standards and FRS interpretations

Certain new standards, amendments and interpretations to existing standards have been published and they are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

FRS 107, *Financial Instruments: Disclosures, and a complementary Amendment to FRS 1, Presentation of Financial Statements — Capital Disclosures*

The Group has adopted FRS 107 on 1 January 2007, which is the effective date of the Standard.

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk (including sensitivity analysis to market risk). It replaces the disclosure requirements in FRS 32, *Financial Instruments: Disclosure and Presentation.*

The amendment to FRS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Group has assessed the impact of FRS 107 and the amendment to FRS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of FRS 1.

44. Authorisation of unaudited pro forma financial statements

These unaudited pro forma financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Yangzijiang Shipbuilding (Holdings) Ltd on 19 March 2007.

YANGZIJIANG SHIPBUILDING (HOLDINGS) LTD. AND ITS SUBSIDIARIES

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS

For the financial year ended 31 December 2006

45. Listing of significant companies in the Group

Name	Place and date of establishment	Paid-in capital (RMB'000)	Attributable equity interests	Principal activities
		2006	2006	
Subsidiaries held by the Company				
Jiangsu Yangzijiang Shipbuilding Co., Ltd	Jiangyin the PRC, 22 December 1999	110,000	100%	Building, repair, dismantling of vessels with tonnage of 55,000 tons or less; Production and processing of large scale steel structures, belt transportation machinery; Production of oxygen and nitrogen; Sale and provision of technical consultancy services and after sales service with regards to products produced by the company.
Jiangsu New Yangzi Ship Building Co., Ltd.	Jiangyin the PRC, 12 May 2005	518,000	75.19%*	Ship manufacturing, maintenance and breaking; Large-scale steel structure products processing and manufacturing; Sale of self-manufactured products and after-sale service; Import & Export business for various merchandise and technologies.

* — taking into account the additional 25% interest acquired subsequent to year end as noted in note 2.6.

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Appendix G

CERTAIN INFORMATION RELATING TO OUR ORDER BOOK

No.	Vessel Type	TEU	DWT	CGT	Purchaser	Contractual Delivery	Yard at which vessel is expected to be constructed
1.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2010	New Yard
2.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2010	New Yard
3.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2010	New Yard
4.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2010	New Yard
5.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2009	New Yard
6.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2009	New Yard
7.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2009	New Yard
8.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2009	New Yard
9.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2009	New Yard
10.	Bulk Carrier	—	92,500	21,527	D'Amato di Nav.	2009	New Yard
11.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2008	Existing Yard
12.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2008	Existing Yard
13.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2009	Existing Yard
14.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2009	Existing Yard
15.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2009	Existing Yard
16.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2009	Existing Yard
17.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2009	Existing Yard
18.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2009	Existing Yard
19.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2010	Existing Yard

No.	Vessel Type	TEU	DWT	CGT	Purchaser	Contractual Delivery	Yard at which vessel is expected to be constructed
20.	Fully Cellular Container	2,500	33,000	18,755	Seaspan Container	2010	Existing Yard
21.	Fully Cellular Container	1,350	17,350	13,821	Rickmers Reederei	2008	Existing Yard
22.	Fully Cellular Container	1,350	17,350	13,821	Rickmers Reederei	2008	Existing Yard
23.	Fully Cellular Container	1,350	17,350	13,821	Rickmers Reederei	2008	Existing Yard
24.	Fully Cellular Container	1,350	17,350	13,821	Rickmers Reederei	2008	Existing Yard
25.	Fully Cellular Container	1,350	17,350	13,821	Rickmers Reederei	2007	Existing Yard
26.	Fully Cellular Container	1,350	17,350	13,821	Rickmers Reederei	2007	Existing Yard
27.	Fully Cellular Container	4,250	53,500	25,551	Rickmers Reederei	2009	New Yard
28.	Fully Cellular Container	4,250	53,500	25,551	Rickmers Reederei	2009	New Yard
29.	Fully Cellular Container	4,250	53,500	25,551	Rickmers Reederei	2009	New Yard
30.	Fully Cellular Container	4,250	53,500	25,551	Rickmers Reederei	2009	New Yard
31.	Fully Cellular Container	1,350	17,350	13,821	Peter Dohle Schiff.	2010	Existing Yard
32.	Fully Cellular Container	1,350	17,350	13,821	Peter Dohle Schiff.	2010	Existing Yard
33.	Fully Cellular Container	1,350	17,350	13,821	Peter Dohle Schiff.	2009	Existing Yard
34.	Fully Cellular Container	1,350	17,350	13,821	Peter Dohle Schiff.	2009	Existing Yard
35.	Fully Cellular Container	1,350	17,350	13,821	Peter Dohle Schiff.	2009	Existing Yard
36.	Fully Cellular Container	1,350	17,350	13,821	Peter Dohle Schiff.	2009	Existing Yard
37.	Fully Cellular Container	1,574	19,500	13,245	Peter Dohle Schiff.	2007	Existing Yard
38.	Fully Cellular Container	1,574	19,500	13,245	Peter Dohle Schiff.	2007	Existing Yard
39.	Fully Cellular Container	1,574	19,500	13,245	Peter Dohle Schiff.	2007	Existing Yard

No.	Vessel Type	TEU	DWT	CGT	Purchaser	Contractual Delivery	Yard at which vessel is expected to be constructed
40.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	New Yard
41.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	New Yard
42.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	New Yard
43.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	New Yard
44.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	New Yard
45.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	New Yard
46.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2007	Existing Yard
47.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2009	Existing Yard
48.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	Existing Yard
49.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	Existing Yard
50.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2007	Existing Yard
51.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2007	Existing Yard
52.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2008	Existing Yard
53.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2009	Existing Yard
54.	Fully Cellular Container	2,500	33,800	18,755	Peter Dohle Schiff.	2009	Existing Yard
55.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2009	New Yard
56.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2009	New Yard
57.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2009	New Yard
58.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2009	New Yard
59.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2010	New Yard

No.	Vessel Type	TEU	DWT	CGT	Purchaser	Contractual Delivery	Yard at which vessel is expected to be constructed
60.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2010	New Yard
61.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2010	New Yard
62.	Fully Cellular Container	4,250	53,500	25,551	Peter Dohle Schiff.	2010	New Yard
63.	Fully Cellular Container	1,350	17,350	13,821	Hansa Treuhand	2008	Existing Yard
64.	Fully Cellular Container	1,350	17,350	13,821	Hansa Treuhand	2007	Existing Yard
65.	Multi-Purpose	—	7,600	6,749	Peter Dohle Schiff.	2007	Existing Yard
66.	Multi-Purpose	—	13,000	9,531	Peter Dohle Schiff.	2007	Existing Yard
67.	Multi-Purpose	—	13,000	9,531	Peter Dohle Schiff.	2007	Existing Yard
68.	Multi-Purpose	—	13,000	9,531	Peter Dohle Schiff.	2008	Existing Yard
69.	Multi-Purpose	—	13,000	9,531	Peter Dohle Schiff.	2008	Existing Yard
70.	Multi-Purpose	375	8,000	6,749	Carisbrooke Shipping	2008	Existing Yard
71.	Multi-Purpose	350	7,600	6,749	Carisbrooke Shipping	2007	Existing Yard
72.	Multi-Purpose	375	8,000	6,749	Carisbrooke Shipping	2008	Existing Yard
73.	Multi-Purpose	350	7,600	6,749	Carisbrooke Shipping	2008	Existing Yard
74.	Multi-Purpose	350	7,600	6,749	Carisbrooke Shipping	2008	Existing Yard
75.	Multi-Purpose	375	8,000	6,749	Carisbrooke Shipping	2009	Existing Yard
76.	Multi-Purpose	375	8,000	6,749	Carisbrooke Shipping	2009	Existing Yard
77.	Multi-Purpose	375	8,000	6,749	Carisbrooke Shipping	2008	Existing Yard
78.	Multi-Purpose	375	8,000	6,749	Carisbrooke Shipping	2008	Existing Yard
79.	Multi-Purpose	600	12,600	9,721	Carisbrooke Shipping	2009	Existing Yard

No.	Vessel Type	TEU	DWT	CGT	Purchaser	Contractual Delivery	Yard at which vessel is expected to be constructed
80.	Multi-Purpose	600	12,600	9,721	Carisbrooke Shipping	2009	Existing Yard
81.	Multi-Purpose	600	12,600	9,721	Carisbrooke Shipping	2009	Existing Yard
82.	Multi-Purpose	600	12,600	9,721	Carisbrooke Shipping	2009	Existing Yard
83.	Multi-Purpose	600	12,600	9,721	Carisbrooke Shipping	2009	Existing Yard
84.	Multi-Purpose	600	12,600	9,721	Carisbrooke Shipping	2009	Existing Yard
	Total CGT			**1,387,920**			
	Total Contracted Amount (US$)			**2,995,103,574**			

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Appendix H

US PURCHASER'S LETTER

Yangzijiang Shipbuilding Holdings Pte Ltd
38 ShiYuGang Road, Jiangyin Jiangsu China
Postal Code 214431

UBS Investment Bank
5 Temasek Boulevard #18-00
Suntec Tower 5
Singapore 38985

DBS Bank Ltd
6 Shenton Way #36-00
DBS Building Tower One
Singapore 068809

Ladies and Gentlemen:

This letter (a "US Purchaser's Letter") relates either (a) to the issuance of ordinary shares (the "Shares") of Yangzijiang Shipbuilding Holdings Pte Ltd (the "Company") or (b) to the subsequent transfer of such Shares. In either case, this letter is to be delivered on behalf of the person acquiring beneficial ownership of the Shares.

We make the representations set forth below on behalf of ourselves, and, if applicable, on behalf of each account for which we are acting.

1. We hereby confirm that:
   (i) we are a "qualified institutional buyer" ("QIB") as defined in Rule 144A ("Rule 144A") under the US Securities Act of 1933, as amended (the "US Securities Act") and a "Qualified Purchaser" ("QP") within the meaning of Section 2(a)(51) and related rules of the US Investment Company Act of 1940, as amended (the "US Investment Company Act");
   (ii) we are not a broker-dealer which owns and invests on a discretionary basis less than US$25 million in securities of unaffiliated issuers;
   (iii) we are not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan;
   (iv) we do not invest more than 40% of our total assets in the Company;
   (v) our shareholders, partners or other holders of equity or beneficial interests are not able to decide individually whether or not to participate, or to determine the extent of their participation, in our investment in the Company, and we are not a defined contribution or other similar benefit plan that allows participants to determine whether or how much will be invested in investments on their behalf; and
   (vi) if we are relying upon the exclusions from the definition of "investment company" provided for in Section 3(c)(1) or Section 3(c)(7) of the US Investment Company Act, we fall within one of the categories indicated below:
      (A) none of the beneficial owners of our outstanding securities (other than short-term paper) acquired such securities on or before April 30, 1996; or
      (B) we have obtained the consent to our treatment as a "qualified purchaser" under the US Investment Company Act from the appropriate owners of our outstanding securities to the extent required by Section 2(a)(51)(C) and Rule 2a51-2 under the US Investment Company Act.

2. We hereby confirm that: (i) we were not formed for the purpose of investing in the Company; and (ii) we are acquiring an interest in the Shares for our own account as principal, or for the account of one or more other persons who are able to and who shall be deemed to make all of the representations and agreements in this US Purchaser's Letter and for whom we exercise sole investment discretion.

3. We understand and acknowledge that the Shares have not been and will not be registered under the US Securities Act and accordingly may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined below) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act.

4. We understand and acknowledge that the Company has not registered, and does not intend to register, as an "investment company" (as such term is defined under the US Investment Company Act and related rules) and that the Company has imposed the transfer and offering restrictions with respect to persons in the United States and US persons (as defined below) described herein so that the Company will qualify for the exemption provided under Section 3(c)(7) of the US Investment Company Act and will have no obligation to register as an investment company.

5. We agree that (i) our Shares may only be sold, transferred, assigned, pledged or otherwise disposed of in compliance with the US Securities Act and other applicable securities laws (a) within the United States to a person that is both a QIB and a QP and that executes a US Purchaser's Letter substantially in the form hereof and delivers such letter to the Company, in reliance on the exemption from the registration requirements of the US Securities Act provided by Rule 144A, or (b) outside the United States in an offshore transaction complying with the provisions of Regulation S under the US Securities Act ("Regulation S'") (including, for the avoidance of doubt, a bona fide sale on the Singapore Stock Exchange) that has not been pre-arranged with any counterparty thereto. The terms "US person," and "offshore transaction" have the meanings set forth in Regulation S. We understand that the transfer restrictions will remain in effect until the Company determines, in its sole discretion, to remove them. We further agree to cause to be delivered any US Purchaser's Letter required in connection with transfers of our Shares to the Company prior to, or at the time of, any resale, transfer, assignment, pledge, or other disposal of our Shares.

6. We understand that, subject to certain exceptions, to be a QP entities must in the aggregate own and invest on a discretionary basis not less than US$25 million in "investments", as such term is defined in Rule 2a51-1 of the US Investment Company Act.

7. We agree, upon a proposed transfer of our Shares, to notify any purchaser of such Shares or the executing broker, as applicable, of the transfer restrictions that are applicable to the Shares being sold.

8. We understand and acknowledge that (i) the Company and its agents shall not be obligated to recognise any sale, resale or other transfer of the Shares represented thereby made other than in compliance with the restrictions set forth in this US Purchaser's Letter; (ii) the Company and its agents may require any US person or any person within the United States who is required under these restrictions to be a QP but is not a QP at the time it acquires a beneficial interest in the Shares, to transfer the Shares within 30 days (a) to a person or entity who is within the United States or is a US person, in each case who is a QP, or (b) to a non-US person in an offshore transaction complying with the provisions of Regulation S; and (iii) if the obligation to transfer the Shares is not met within this 30 day period, such person shall be deemed to have forfeited its Shares and the Company shall be irrevocably

authorized, without any obligation, to dispose of such Shares on such terms as the Company shall think fit with or without the repayment to US of all or any part of the amount previously paid on such Shares.

9. We agree that neither we, nor any of our affiliates, nor any person acting on our or their behalf, will make any "directed selling efforts" as defined in Regulation S under the US Securities Act in the United States with respect to the Shares.

10. We agree that the Company and the Underwriters identified in the Prospectus for the Shares and their respective affiliates and others may rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

11. We understand and acknowledge that if any Shares are issued to us in certificated form they will bear a legend to the following effect. In addition, we understand that the legend shall not be removed from the Shares unless the Company agrees, in its sole discretion, to remove the legend.

    THESE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND THE COMPANY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US INVESTMENT COMPANY ACT 1940, AS AMENDED (THE "US INVESTMENT COMPANY ACT"). THESE SHARES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHO CERTIFIES IN WRITING IN A FORM ACCEPTABLE TO THE COMPANY THAT (A) IT IS BOTH A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE US SECURITIES ACT (A "QIB") AND A QUALIFIED PURCHASER (WITHIN THE MEANING OF THE US INVESTMENT COMPANY ACT AND THE RULES PROMULGATED THEREUNDER (A "QP"); (B) NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS; AND NOT AN EMPLOYEE BENEFIT, PENSION, PROFIT SHARING OR OTHER RETIREMENT PLAN OR TRUST FUND, IN EACH CASE IN WHICH THE BENEFICIARIES OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE; (C) IT IS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE COMPANY; (D) IT IS ACQUIRING THE SHARES FOR ITS OWN ACCOUNT AS PRINCIPAL, OR FOR THE ACCOUNT OF ONE OR MORE PERSONS WHO ARE ABLE TO MAKE THE REPRESENTATIONS UNDER CLAUSES (A) AND (B) ABOVE AND IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT; (E) IT IS NOT A PLAN REFERRED TO IN PARAGRAPH (a)(1)(i)(D) OR (a)(1)(i)(E) OF RULE 144A, OR A TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(F) OF RULE 144A THAT HOLDS THE ASSETS OF SUCH A PLAN; (F) IT DOES NOT INVEST MORE THAN 40% OF ITS TOTAL ASSETS IN THE COMPANY; (G) ITS SHAREHOLDERS, PARTNERS OR OTHER HOLDERS OF EQUITY OR BENEFICIAL INTERESTS ARE NOT ABLE TO DECIDE INDIVIDUALLY WHETHER OR NOT TO PARTICIPATE, OR TO DETERMINE THE EXTENT OF THEIR PARTICIPATION, IN THE INVESTMENT IN THE COMPANY, AND IT IS NOT A DEFINED CONTRIBUTION OR OTHER SIMILAR BENEFIT PLAN THAT ALLOWS PARTICIPANTS TO DETERMINE WHETHER OR HOW MUCH WILL BE INVESTED IN INVESTMENTS ON THEIR BEHALF AND (H) IF IT IS RELYING UPON THE EXCLUSIONS FROM THE DEFINITION OF "INVESTMENT COMPANY" PROVIDED FOR IN SECTION 3(c)(1) OR SECTION 3(c)(7) OF THE US INVESTMENT COMPANY ACT AND WAS NOT FORMED ON OR BEFORE APRIL 30, 1996, IT HAS RECEIVED THE NECESSARY CONSENT FROM ITS BENEFICIAL OWNERS AS REQUIRED BY THE US INVESTMENT COMPANY ACT, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE US SECURITIES ACT FOR RESALE OF THESE SHARES.

THE COMPANY AND ITS AGENTS SHALL NOT BE OBLIGATED TO RECOGNISE ANY SALE, RESALE OR OTHER TRANSFER OF THIS SECURITY MADE OTHER THAN IN COMPLIANCE WITH THESE RESTRICTIONS. THE COMPANY AND ITS AGENTS MAY REQUIRE ANY PERSON WITHIN THE US OR ANY US PERSON WHO IS REQUIRED UNDER THESE RESTRICTION TO BE A QP BUT WHO IS NOT A QP AT THE TIME IT ACQURIES THIS SECURITY, TO TRANSFER THIS SECURITY IMMEDIATELY TO (1) A PERSON OR ENTITY THAT IS WITHIN THE US OR THAT IS A US PERSON AND IN EACH CASE WHO IS ALSO A QP OR (2) A NON-US PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S.

Where there are joint applicants, each must sign this US Purchaser's Letter. Applications from a corporation must be signed by an authorized officer or be completed otherwise in accordance with such corporation's constitution (evidence of such authority may be required).

Very truly yours,

[NAME OF PURCHASER]

By:

Name:

Title:

Address:

Date:





Yangzijiang Shipbuilding (Holdings) Ltd.

80 Raffles Place #32-01, UOB Plaza 1
Singapore 048624